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November 16, 2016

National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (E),
Mumbai - 400 051.

Dear Sirs,

Ref.:- Symbol - EDELWEISS

Sub: Transcript of Conference Call

Please find enclosed the transcript of the Conference Call held on November 11, 2016.

Kindly take the same on record.

Thanking you,

For Edelweiss Financial Services Limited

B. Renganathan
Executive Vice President & Company Secretary

encl: as above

Edelweiss Financial Services Limited
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"Edelweiss Financial Services Ltd. Unaudited Q2 FY17 Conference Call"

November 11, 2016

MANAGEMENT: MR. RASHESH SHAH – CHAIRMAN, EDELWEISS GROUP
MR. HIMANSHU KAJI – EXECUTIVE DIRECTOR, EDELWEISS FINANCIAL SERVICES LIMITED
MR. S. RANGANATHAN – CHIEF FINANCIAL OFFICER, EDELWEISS FINANCIAL SERVICES LIMITED
MR. SALIL BAWA – EDELWEISS FINANCIAL SERVICES LIMITED.

Moderator: Good Day, Ladies and Gentlemen and Welcome to the Edelweiss Financial Services Unaudited Second Quarter FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Salil Bawa of Edelweiss Financial Services. Thank you and over to you, sir.

Salil Bawa: Thank you, Margaret. Good Afternoon to all of you and thank you for joining us today as we discuss Edelweiss Financial Services Limited reviewed unaudited financial results for Q2 and H1 FY17.

Speaking with you today are Rashesh Shah – Chairman, Edelweiss Group; Himanshu Kaji – Executive Director and S. Ranganathan – Chief Financial Officer.

Following the reading of Safe Harbor provision, I will first turn over the call to Rashesh for his opening remarks, thereafter S. Ranganathan will take you through an overview of our business performance and the financial numbers, this will be followed by the Q&A Session.

Our Press Release, Financial Statements and Investor Presentation for H1 FY17 have been circulated and are also available on our website, www.edelweissfin.com

Certain statements that may be made or discussed at this conference call maybe forward-looking statements, that maybe tentative. These need to be reviewed in conjunction with the risks and uncertainties that the company faces. We have outlined these risks and uncertainties in the last slide of our Investor Presentation, which has been circulated and is also on our website. Investors are requested to please refer to that slide. I will now hand the call over to Rashesh.

Rashesh Shah: Thank you, Salil, and Good Afternoon to all of you. I want to start off by thanking each and every one of you for being on this call.

All of you would have got a chance to see the results and the investor presentation that we have put out. Just to recap, it has been a good quarter overall from a financial performance point of view but also from the balance sheet and organization strengthening point of view; all our businesses have scaled up well, we have invested in strengthening the balance sheet as well as infrastructure strengthening both the technological infrastructure and the physical infrastructure.

With this quarter, we now have 20-quarters of consistent growth in profitability because as you remember we reengineered the business model between 2008 and 2012 and from '12 onwards we are now executing what we call, "Broad-Based Diversified Financial Services Model" and in that we have approximately 30% CAGR over 5-years and 36% CAGR in the last 4-years. So it has been a good consistent 20-quarters of profitability. For the first half of this year, we have shown total revenues of Rs.3,080 crores which is a growth of 27% and profit after tax is Rs.284 crores for the first half of this year which is a growth of 52% over the same half year last year.

Excluding Insurance, our profit after tax for the half year is about Rs.321 crores which is 39% growth over last year. So though we have been clocking at 30% for 5-years CAGR and 36% for 4-years CAGR, this half year has been even higher than that in terms of 39% for ex-Insurance and 52% for cum-Insurance. Our ROE has also improved significantly; the ex-Insurance ROE is now 19.9%, we are just wee short of 20 which has been one of the aspirational ROE we wanted to hit and I am hoping that we should hit that very soon. If you remember last year for second quarter this was about 17.4%. We now have Rs.35,800 crores asset base for our entire balance sheet size and in this quarter we have also borrowed a lot of long-term funds and also diversified our sources of fund including international offering of our Masala Bonds. We also increased our liquidity cushion. As we all know, liquidity conditions are fairly benign and by using this environment, we have also increased our liquidity cushion to Rs.3,300 crores. So we continue to make sure that we have overall good long-term borrowings but also have ample liquidity cushion for any needs.

Our approach remains the same, Diversified Financial Services Model very similar to a bank and we do believe that the kind of growth that is there in India there is a lot of opportunity, we also have the Credit and the Non-Credit part of the business because unlike a normal NBFC which is focused on only Credit side of the opportunity we have the Non-Credit side which is Asset Management, Wealth Management, Capital Markets which are Fee-based high ROE businesses where you also see there will be a much more growth and this combination of Credit, Non-Credit allows us to have non-linear growth. For the last five years, our profits have grown at about 1.5x the growth of assets. So for every 10% growth in asset, we should be able to grow the profit by 1.5x of that, largely because of the Non-Credit part of the business. Again, we have a multi-line model. So any particular business area whether Credit or Non-Credit if it is either going through a cyclical downturn or it is not giving the right risk/return opportunity, we feel confident that we can hold it back, we can scale it back and that is only possible because we have a multi-line business model.

Our overall Credit book has done well; there is a 23% growth in that but in that the Retail Credit book has scaled up very well; we have shown 47% YoY growth in Retail Credit which is now Rs.8,000 crores. What is also interesting in that is in our LAP book, the LTV is about 44% which is much lower than the industry average which is about 65%. Our average size of the loan is about Rs.36 lakhs which is also about a third of what is the industry size. So we have still been more conservative on LTV as well as the loan size of the LAP book and we are seeing still good opportunities, very calibrated, very-very carefully selected opportunities are there. On the Credit book, we have NIM of 6.9% and we operate with the cost-income ratio of 41%. As we get scale, we hope that the cost-income ratio should inch down as we go along.

On our ARC business also, it has been a fairly good quarter. Our total ARC portfolio is now Rs.31,000 crores of AUM and the capital we have deployed in that is Rs.3,511 crores, close to 11% is the capital that we have deployed in the AUM. The reason for this is because ARC continues to be an LP–cum-GP model. So there is an AUM part of the business and there is your own capital deployed part of the model. This combination of LP-GP is what makes ARC very unique and what gives us opportunities and as a result of that we have been able to build a market leader business which is fairly unique in its characteristics.

In this quarter, we also announced CDPQ deal where we have announced a partnership with the Canadian Pension Fund CDPQ. They are going to take 20% stake in our ARC and they also are giving us about Rs.5,000 crores of assets to be managed in the distress asset space which will effectively be co-invested with us or invested to our funds in that. So because we think that going forward, the kind of cleanup that is going to be happening in the NPA space, capital is going to be very-very important. Up till now we have supported the growth through Edelweiss balance sheet but now we have the Edelweiss balance sheet and we have the CDPQ funds which gives us a lot more ammunition and dry powder to go and capitalize on that.

Lot of people have been asking us about the ARC stake that CDPQ is buying. What are the contours of that? They are going to buy 20% stake. We have applied through RBI for approval. Once we get the approval, the funds will come in. So they will own 20% of the company. They will also have a board seat and on the investment committee of the ARC. For this 20%, they will invest up to Rs.500 crores, out of which Rs.300 crores will come now and the balance will come as per the performance of the next three years. So effectively, this company is valued at about Rs.2,500 crores on a post money basis.

The other business we feel very great about is our Wealth Management business. In the Wealth Management business, we have grown fairly well; in almost the last four years, we have had 5x growth of assets under advice and we now have close to Rs.44,000 crores of assets under advice, taking us one of the large wealth managers in India. In that we have a good lease of products and the Advisory business and we are currently catering to what we see an emerging (OPDO) Market which is Owner, Promoter, Director, Officer market. We are also investing a lot in this business because we think though the normal cost-income ratio in this business on a long-term basis steady state should be about 65-70%, we currently continue to operate at 85-95% because we are investing and hiring more relationship managers, more officers and all, and that investment is showing in growth in AUA and our current focus is in growth of AUA and then harvesting profitability maybe after 18-months or so when we have a reasonably large size.

The other business that has also done well is our Asset Management business; we now have close to almost Rs.7,000 crores of asset in that, out of which one- third is on the Mutual Fund side and two-thirds is on the alternative side. We have got approvals for integration of the JP Morgan Schemes which we expect to happen in this quarter and in this last quarter we also acquired the Ambit AIF which is also currently awaiting approvals from SEBI. So Asset Management I think our idea is to now catch up and grow the market share that we have, because we have a very small market share and the opportunity is very large and we think in the next couple of years with this business has also hit its inflection point and should do well.

Our Capital Markets business also continues to do well; this has been a good quarter on that both Investment Banking, Equity Capital Markets and Capital Markets which is also growing very well and we are one of the leaders in that. Overall, we expect that capital markets over the next couple of years should have a good upsurge of both on the equities and the bond side.

Insurance business also does well; we have grown our gross premium by 57% YoY and we have had a gross premium of Rs.145 crores for the first half. In the last year, Tokio Marine also infused another Rs.527 crores to increase the stake to 49%. We expect this business to continue to grow steadily; we are seeing a lot of client interests coming back in the Insurance business both on the ULIP side and on the traditional policy side, and we are fairly well positioned in that and our agency force that we have has one of the high productivity standards both in terms of agent productivity and branch productivity.

We continue to invest in Agri Services business including the agri value chain to just we make sure that we build that base to build our Agri Credit business which we think is also exciting growth areas as we go forward.

We have invested in technology in this quarter. As you know, for every financial services company, technology is a very big investment that will continue to happen.

We have also been honored with a few awards in this quarter including the Agency Foundation has got the "Best Financial Inclusion Award by CNBC-TV18." We were also named in India by Wealth and Finance International as the "Best Leading Diversified Financial Services Company." Our "Olympic Campaign" also won a few awards in the last year.

So, we continue with that, focus on profitability, scalability, sustainability, management quality and governance and continue to invest into an organization which is around people, leadership, customer centricity, risk and compliance.

We think the way the world is, India is in a very good place, India is in a very stable place in spite of all the upheaval going on in the world and India is a very unique economy. We have, the size, scale we have right now, and the way it is positioned in the world, in the sense that we are slightly inversely correlated to global environment. So when global environment becomes very bad, India actually benefits out of that because once oil prices come down and India has been a big importer of oil and oil price has put a lot of pressure on India over the years on our current account, on our inflation, all of that. So when oil prices come down, it is always good for India. The other thing that we import a lot is capital. As global economy remains weak, interest rates have been low, cost of capital also comes down for India. So we do benefit on both cost of capital and oil price coming down. We were hurt a little bit on the exports side. But on balance, we believe that with the weak global environment, India will be the net-net beneficiary of that and India continues to show that.

In India, we see Financial Services a big opportunity. We are at a very interesting point where credit is moving away, the market share is going down in PSU banks and coming more and more to private sector banks as well as NBFCs. We are also seeing global firms getting out of asset management, wealth management kind of businesses from India to focus on their home markets and even that is creating an opportunity, sort of home grown company like ours in the Asset Management, Wealth Management space. India continues to grow well and global capital is finding India more and more interesting. Last couple of years, lot of global large funds, for example, CDPQ also endorses that, that a lot of large insurance companies and pension funds are seeing India as a very exciting investment opportunity on a long-term basis and that is also beneficial to a company like ours. So global capital

coming here, India economy growing well, the PSU banks giving up the market share in credit, as well as global firms giving up market share in asset management, wealth management. All these are combining to present a very unique and exciting opportunity for us and we continue to invest in that and we think the next 8-10years will be very exciting.

Quite a few of you have been on this journey with us. So thank you very much for that. As usual, we continue to be open to inputs, questions and suggestions from all of you.

Now, I will hand over the call to my colleague, our CFO, S. Ranganathan, who will give more color on this quarter's performance.

S. Ranganathan: Thank you, Rashesh. I Welcome all the participants once again and thank everyone for joining us on this call that we are going to discuss Q2 and H1 FY17 Performance.

As usual, let me start with the "Financial Highlights" and then go on to give you "Business Update." Despite the challenging environment, this is the 20th quarter since 2012 that we have recorded a consistent growth in our performance. Our profitability is a proof of our long-term strategy of synergistic diversification. Our diversification across Credit, Non-Credit and Life Insurance businesses continue to do well and offer multi-line income streams thereby helping manage volatility over a long period. Ex-Insurance profit after tax grew at a CAGR of 36% for the last four years and our total revenue for H1 FY17 is Rs.3,080 crores, up 27% year-on-year. Our net profit for half year FY17 stands at Rs.284 crores, up 52% year-on-year. Ex-Insurance PAT at Rs.321 crores for H1 FY17 is up 39% YoY. Our operations and capital efficiency have improved and the ROE excluding Insurance for the quarter is 19.9% compared to 17.4% in Q2 FY17. The consolidated ROE for Q2 FY17 stands at 15.2%. We continue to strengthen our balance sheet by tapping into long-term liabilities and reducing our dependence on short-term borrowings, at the same time exploring newer lenders. Liquidity management, as Rashesh did mention, is a critical focus area for all of us and will continue to be so.

One of our subsidiaries, Edelweiss Housing Finance Limited, came out with a public issue of NCD this quarter which was oversubscribed on day one itself. Around 80% of the demand was in the 10-year bucket. For the first time, we raised funds from the international market through Masala Bonds this quarter. We have increased the liquidity cushion to over Rs.3300 crores, roughly 9% of our balance sheet as at the end of September 2016.

I am also proud to share that Edelweiss is now a Rs.35,800 crores asset company with group gross networth of over Rs.4800 crores.

Now, let us look at the individual heads of income: Our Fund-based income has grown 24% year-on-year to Rs.2453 crores in H1 FY17, reflecting a large scale growth in the Credit book. Agency Fee and Commission at Rs.411 crores in H1 FY17 is up 32% year-on-year. Our Life Insurance continues to be one of the fastest growing life insurance companies in India and recorded a gross premium of Rs.145 crores in H1 FY17, a growth of 57% year-on-year.

Looking at the cost, our headcount has gone up to 6,437 as on 30th of September 2016 as compared to 6,227 as at the end of FY16. The hiring will support our future growth aspirations as also scale up wealth, credit and insurance businesses. This has led to the higher employee cost, up by roughly 23% in the first half. Due to increased levels of operations as well as higher advertising, legal and rental costs, especially in the growing businesses like agri, value chain, retail, credit, life insurance, are often increased, but we are in line with the businesses. Borrowings have increased to Rs.30,974 crores from Rs.25,688 crores reflecting a case in our operations.

Coming to our Balance Sheet: We have taken quite a few steps to strengthen in. Our consolidated capital adequacy at the end of September 2016 was 18.1%. We continue to have matching ALM and liquidity profile over the short and medium-term. New lenders from Insurance companies, pension funds, provident funds, in addition to the conventional banks, mutual funds, and retail subscribers have added to the diversification in the process of borrowing. As I mentioned, we have also raised money from international markets using the Masala Bond route. The overall debt-to-equity ratio stands at 6.3 and ex-treasury stands at 5.1x.

Turning to our Credit Businesses: The total Credit book stood at Rs.21,349 crores excluding the distress asset as at the end of H1 2017 compared to Rs.17,321 crores as at the end of H1 2016, growth of 23%. Edelweiss Asset Reconstruction Company has now become a subsidiary and the credit numbers reported in the balance sheet of Rs.24,860 crores includes a security receipt issued by the ARC business. The average collateral cover in the Credit book was 2.2x. We continue to enforce prudent risk management policies to ensure that our capital is always preserved. As a part of this policy, we avoid undue sector or industry concentration in this book. Our NIMs in the business is 6.9% for the year, which is 30 basis points higher as compared to the last year. Similarly, our spread is at 5.7% compared to 5.3% for the previous year. Cost-to-income ratio for the Credit business stands at 41%. The asset quality of the Credit book continues to be under control with the gross NPLs at the end of H1 ’17 at 1.46% and the net NPLs at 0.47%. Our provision cover including the provision for standard assets stands at 92%.

Our Retail Credit business continues to grow steadily; Retail Credit comprises of Housing Loan, Loans against Property, SME, Agri Finance, LAS and Rural Finance. At the end of September 2016, the book file of Retail Credit stood at Rs.8,043 crores which was Rs.5,475 crores at the end of H1 2016, up 47%. We have Rs.3,511 crores in the Distress Asset business.

Our ARC with a portfolio size of Rs.31,000 crores, continues to be the leading ARC in India. We are excited about the ARC opportunities as it helps in releasing productive assets to the nation’s economy and reduces the burden on commercial banks.

As Rashesh mentioned, we are happy to announce that we have partnered with CDPQ one of the North America’s largest pension fund managers and have earmarked close to Rs.5,000 crores over the next four years in the India’s stress assets and specialized sector along with Edelweiss.

Coming to the Non-Credit businesses: Wealth AUAs are around Rs.44,200 crores, up 122%. We have a good mix of products and advisory solutions for customized needs of our customers. As our Asset

Management business grows, we are happy to share that its AUM has grown 35% year-on-year from Rs.5,100 crores to Rs.6,900 crores as at September 2016. During this period, we have received approval for acquisition of JP Morgan Schemes from SEBI.

In yet another event, during the quarter we have acquired Ambit AIF which is subject to requisite approval.

On the booking side, our agency ADB for clients was over Rs.6,700 crores in H1 FY17. Our investment banking team handles 53 transactions in H1 FY17 and we continue to see a healthy pipeline of these.

The client base of Edelweiss Group across the diversified businesses is over 1 million at the end of H1 FY17. We currently manage total assets of over Rs.1 lakh crore.

In IPO distribution, we continue to hold the #1 position in the Retail and HNI categories.

Fixed Income Advisory business continues to rank #1 in public issues of bond in H1 FY17 being the leader in five out of six issues.

Our Insurance business continues to scale with a growth of 57% in the gross premium collected in H1 FY17. The focus of this business is to constantly improve performance in line with the need-based philosophy.

I am happy to inform that Edelweiss Tokio Funds is rated one of the top performance by Morningstar with all individual ULIP Funds rated Five Star as on 30th September 2016.

You may recall that during the year, Tokio Marine increased its stake in the Insurance JV to 49% by infusing Rs.527 crores or 23% stake.

To summarize, we continue to implement our core strategy of diversification in Financial Services while improving efficiency and productivity. We are confident that going forward, we will maintain our track record of consistent growth in profitability and improvement across business parameters.

I now open the floor for Questions:

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Vishal Modi from May Bank. Please go ahead.

Vishal Modi: Sir, my question is on the recent demonetization that the government announced. I know that our LTVs for LAP is much lower than the industry, but would like to hear your perspective on the LAP portfolio for the industry and if the property prices were to go down, then what is your outlook on the same?

Rashesh Shah: It is an important question I am sure already everybody is grappling with this. In a lot of this on the loans against real estate as an asset collateral, there are usually two aspects to that – one is the value of

the property, another is the cash flow. So what we at least as I said our LTVs are under 50% and when the stress in the portfolio fall in prices of 10, 20%, usually it does not affect so much the cash flow of the borrower. So what we expect is for the next 5-6-months, lot of the buying/selling of property will slow down in the last 3-4-days there has been a huge upsurge, so there is some preponing of that has happened, but over the next 5-6-months as the economy realigns itself, we expect that there will be some slowdown in the sale of that. So that adds to stressed asset on the cash flow basis, because the larger risk will come from the slowdown in cash flow. So if you have SME customer whom we have given LAP against his property, as long as this business is going on, he will be okay, because the value of the property going down is not going to affect him as much, as if there is a slowdown in the economy significantly where people start losing jobs or business volumes come down, which we think is very unlikely, it might be 3-4-months there will be slowdown as the economy readjust to the new paradigm with the swap happening and all. So we do not currently see a lot of problem, but idea is to be very careful and very watchful and watch cash flows much more closely than just asset prices.

Vishal Modi: Second is on the fee income. We had a very good quarter of growth of around 60%-odd and Rs.240 crores was the income. So sir, what are the major drivers and are we seeing wealth business now contributing significantly or is it now largely broking, IB, that is driving, what would be a steady state kind of growth that we see in this line?

Rashesh Shah: There has been some growth in the Agency businesses like Asset Management, Wealth Management and Capital Markets but the large increase you are seeing is also partly I think about more than two-thirds of the income is because of the subsidisation of the ARC because as you know ARC earns its income in both fee as well as interest. Since ARC was only 49% owned by us until the last quarter, what came from the ARC to us was only interest income because we used to give the capital to ARC. Now, the ARC's interest income as well as the fee income of ARC also gets automatically consolidated with us.

Vishal Modi: So if we have to exclude that for this quarter, what would be the growth if you have that ready or…?

S. Ranganathan: If you look at the fee income, about Rs.42 crores of the total incremental fee is because of the ARC getting consolidated.

Vishal Modi: So it would be around Rs.200 crores compared to Rs.148 crores last year?

S. Ranganathan: That is correct.

Moderator: Thank you. The next question is from the line of Ashwin Balasubramaniam from HSBC Asset Management. Please go ahead.

A Balasubramaniam: This is related to the recent demonetization measures. I had a couple of questions: One is basically do you foresee any pressure in terms of loans to developers given that potentially sales could take a hit for a while? Secondly, both on the SME LAP and in the Construction Finance portfolio, we are probably getting a little bit risk covers and as a result the sort of refinancing opportunity which the SMEs had or the developers had in the past, could that come down and that in itself put a little bit of

more pressure in terms of the liquidity, as a result of which potentially there could be some increase in delinquencies?

Rashesh Shah: I think on your first question, as I said, we have seen some increase in sales in the last week. So in a way, I think at least a few people have been telling us that the entire quarter sales have got done. So this quarter sales may not be such a big problem. I think maybe the next quarter sales may slow down a little bit. But we do not think this is the long-term problem, we do expect that maybe real estate prices will come down by 8, 10%, not more than that and a lot of our funding to developers have been in markets like Mumbai, Delhi and NCR region and all, which do not increasingly have as much cash component as maybe other regional markets like, for example, Gujarat has a lot more cash component, we are absent in that. So generally, lot of the real estate buying will get official and normalized, lot of the buying in Mumbai at least the segment we were operating in, lot of people who are buying it through home loans and all that, so there was a lot more officialization already there in that. So except for a quarter or so, we do not see a big problem and as I said the price sensitivity of 8%, 10% or even 10%, 15% does not affect the credit quality as much as the actual velocity of sales. We are hoping that if the price comes down faster, then the sales may actually pick up because lot of the money will come into the official system. If the prices come down, a lot of people are waiting to buy especially like in Mumbai, in the range of say Rs.1 crore to Rs.2 crores apartments, there is a huge appetite that is still there and we are seeing lot of offtake in that. So I think we should watch the Jan-Feb-March quarter very closely. In this quarter, we do not see a lot of issue. If the actual flow slows down, if the velocity slows down on a consistent basis going forward, then there will be a cause for concern. But the idea is to stress test the portfolio and currently we do not see a big problem if the prices fall by 10%, 15% and the sales velocity for the fourth quarter is slow, because on an overall basis, there is housing demand that will be there if the economy continues to do well, it should not be a problem. Same thing on the LAP portfolio and all. We see a slowdown if at all as you said if NBFCs are recalibrating and all that for maybe at best a quarter, not more than that. There will be disruption for 3-4-months and that could be either show up in growth numbers or in actual disbursements. But we do not expect unless there is economic slowdown as a result of demonetization. If there is truly the economy freezes out and paralyzes, then obviously there is a much larger risk to the system as a whole. But when we talk to people in Reserve Bank, government and all, the indications are that they are well aware of that and they will not allow that to happen.

A Balasubramaniam: Just one other question related to this; I think or correct me if I am wrong but one of the differentiating factors which NBFCs had over banks let us say in assessing the cash flows of the borrowers beyond let us say the reported incomes as such. So do you foresee that once a lot more of the SMEs come into the sort of banking system, then that sort of competitive advantage will go away and do you foresee banks becoming much more aggressive in that segment?

Rashesh Shah: What we call underwriting by using proxies and surrogates has been there, but I think in the last five years, lot of the private sector banks were also anyway catching up on that and they were doing that. So lot of the advantage to NBFCs was not on that. The large part is the market is very large and growing fairly well and things like SME LAP or SME business loans and all, it is all a function of what is the origination strength, how fast you can underwrite, how well you can underwrite and a lot more analytics are required than just proxies or surrogates to be used and at least the markets in which

we operate, we never hugely depend on surrogates only, large part of our analytics goes assessing the overall credit worthiness as well as the overall future cash flows of that entity and obviously collateral because as you know we are largely collateral-led. I think lot more goes into that than just a small advantage the NBFCs have over banks because almost everything that NBFCs do, HDFC Bank does. What Bajaj Finance does, HDFC Bank does the same thing. What every microfinance company does, HDFC Bank does the same thing. What every gold loan does, HDFC Bank does the same thing. So if HDFC Bank can do it, all the other banks can also do it. So I do not think there was any such inherent structural advantages. It is just that the market has got very segmented. The Retail Credit market which is the new market, it has just grown in the last 10-12-years, is highly fragmented and it is a very heterogenous market and each one of us, there are about 14-15 NBFCs and there are maybe 7-8 banks who are all focusing on different segments of the market, there is a little bit of go-to-market strategy on that, there is a little bit of how you underwrite, what are your underwriting processes and all. Also, remember that this market is growing. The non-Wholesale market what we call the Retail and SME market is growing at 17-18% in terms of Credit growth in the economy.

Moderator: Thank you. The next question is from the line of Jyoti Khatri from Monarch Networth Capital. Please go ahead.

Jyoti Khatri: On the ARC, it is now a subsidiary from associate earlier. So in consol numbers, ARC's PAT would have been added above the PAT line, right, versus earlier below the PAT line?

S. Ranganathan: Yes, that would have come as a share of associates in the past, it is above the PAT line, but the effective date of consolidation is closer to September, so therefore the entire impact would not have come but that is how it is.

Jyoti Khatri: What is the PAT number for ARC for the quarter, if you are disclosing that?

Rashesh Shah: It is about Rs.43 crores for the half year, but the consolidation did not happen towards the end of the half year.

Jyoti Khatri: How do you see the AUMs growth in the ARC for the current fiscal and for the next fiscal as well?

Rashesh Shah: Like as I said earlier, we have about Rs.3500 crores of capital deployed in that business because our entire return comes out of how much capital you deploy, part of the return comes from your fees and part of the return comes from the interest income on that. So that is why we call it an LP-GP model. We expect to make about 18%-odd kind of return on the money that we deployed. We expect to add about Rs.1,000-1,500 crores of our money in that business every year going forward. We think opportunity is going to be much bigger than that and that is why we have CDPQ which also wants to put another Rs.1,000-1,500 crores every year. So we and CDPQ collectively now expect that we will put between Rs.2000-3000 crores every year in that business, half of which will come from Edelweiss and half will come from CDPQ.

Jyoti Khatri: Any positive development that has happened on the assets that you have purchased so far?

Rashesh Shah: Quite a few, we have done a lot of restructurings and I think almost what we bought before 2015, almost 85% of those companies we have completed the restructuring which is the first step because this entire ARC processes has four-five parts, first is the acquisition, then aggregation, then restructuring, then refinancing and then recovery. It usually takes about a year for aggregation then another about a year for the restructuring and then another two to three years for recovery. So I think we are seeing good positive momentum on both restructuring and there are some assets which had to be sold. So even on the asset sale and all there is good momentum happening.

Jyoti Khatri: On this 18% ROE which you mentioned on this ARC business, don't you think it is slightly underestimated since I think asset base is quite significant of Rs.30,000-odd crores and your network still is on a lower end?

Rashesh Shah: There are two things -- as I said, we expect an average yield of about 18% on the assets of the ARC. So in that sense, it is like any other NBFC and Credit business. There is some carry income that will come in the future, that is the asset management part of that if our recoveries are above a particular threshold, but we do not account for that. For this year, the average networth for the ARC should be about Rs.350-odd crores that will be pre-CDPQ investment because we started the year with a networth of about Rs.200 crores and we will end the year with a networth of about Rs.450 crores because we did some interim capital raise from the existing shareholders. So, on Rs.350 crores networth, we have done Rs.43 crores for the first half and assuming we do the same in the second half, even if we make Rs.100 crores our expectation is there should be 21-22% ROE. But the more important part to note in that is this has not been very heavily geared. Earlier when Edelweiss was giving the capital to the ARC, Edelweiss was giving it as unsecured loan, so their cost of capital was higher, as we get the CDPQ money, as we also now started being able to raise money directly into the ARC, maybe the cost of funding will go down, but we think ARC is 20-25% ROE business on a long-term basis.

Jyoti Khatri: A few data points: What will be the slippage number for the quarter…movement of the NPL that would have happened, how much is the addition to the NPLs for the quarter

Rashesh Shah: We have not calculated that, we can calculate that maybe in the coming quarters because like banks we do not calculate slippages, we just look at NPLs overall, but there has not been a large change in the portfolio, that I can tell you anecdotally is from what I know that there has not been any large movement in that. So large part of what you see the change is the actual thing, but we do not calculate the slippages.

Jyoti Khatri: I think you have actually improved on the cost ratio considerably last one to two years, but it is still above 60% odd mark. Do you see any room for the improvement in the near one-term, if so then what will be driving that?

Rashesh Shah: When you look at the cost-income ratio, a) I think the short answer to your question is, yes, we think it will improve the way it has improved in the last two years, we would like to keep that momentum of improvement for the coming two years. The other color I would add is when you look at cost-income ratio of diversified financial services like ours, which has both agency businesses and credit

businesses unlike an NBFC which has only credit business, our cost-income ratio will always be slightly higher like the example I would give you is amongst banks, if you look at say an ICICI Bank or an HDFC Bank versus if you look at Kotak will always have a slightly higher cost-income ratio because of its other agency businesses that it has, asset management, wealth management, capital markets, brokerage, all of that. So usually agency-cum-capital NBFC will have 8-10 basis points higher cost-income ratio than the standalone credit NBFC. So our idea is that standalone credit NBFC should be closer to between 40% to 50% and Credit and Non-Credit business NBFC should be between 45% to 55% is the good range to be in.

Jyoti Khatri: For the next 2 to 4 quarters, still we can expect the cost ratios to come down?

Rashesh Shah: Yes, the way the momentum has been in the last 2-quarters they have come down, our accounts team has just given me the data on slippages for the Q1 to Q2, it is about Rs.10 crores is the slippage for this quarter.

Moderator: Thank you. The next question is from the line of Shekar Singh from Excelsior Capital. Please go ahead.

Shekar Singh: Just wanted to know like what is the total Real Estate exposure to your Credit business?

Rashesh Shah: On Page #22, our total Wholesale Mortgage business as we call it which is our funding for housing projects to developers is about Rs.5,800 crores and our Retail Mortgage business is about Rs.2,900 crores which has both Home Loan and LAP.

Shekar Singh: Secondly, for the Non-Credit business, can you give a breakup in terms of how much revenues came from your Brokerage, Investment Banking from Wealth Management from other businesses?

Rashesh Shah: We are currently not giving it on a quarter basis, but we will be giving it at the end of the year, but overall as I said, on things like wealth management, we have indicated what are the broad yields are there, asset management people know what is the fee yield are there. So I think it can be calculated but we plan to give this annually at the end of the year.

Shekar Singh: What was your NBFC margin for the Insurance business?

Rashesh Shah: We have not given it out in this. Even that we will give it annually but I think the product mix we have should be about 14-15%... I do not have it, we will calculate that and start sharing that because we also internally look at it only annually.

Moderator: Thank you. The next question is from the line of G Vivek from GS Investment. Please go ahead.

G Vivek: My query is about this new legislation which has come into the place, solvency law and other things, allowance of FDI into ARC business. But what is the reality on the ground and will these legislation meet the fate of DRT, BIFR or some differentiators are there. Second question was about our Insurance business. When do we expect to be in profit? Any plans of IPO and other things for that?

Rashesh Shah: I think on your first question, as the new bankruptcy code starts getting executed, DRT, BIFR powers of that will start moving to NCLT and the new bankruptcy code. We think SARFAESI will still remain because the bankruptcy process will be over and above the SARFAESI because with SARFAESI enforcement, we will go and acquire the assets which are already pledged with you while the bankruptcy is on a company as a whole. So they will both co-exist. I think it will make it easier to resolve at least about third of the cases we have now will get it easier to resolve if we had an NCLT kind of a process. So we are also waiting because all these will go into that. So in a way it will be a good way of clearing of the backlog of the NPL which are there. Along with that it will also be a lot faster. As I said, the average recovery period in India is about 5-6-years and the average recovery amount for the banks has been about 25% for the ARCs up till now has been about 35% of the gross amount in that sense. I personally think this will go to about 50% to 60% and the 5-years will come down to about 2.5-3-years.

G Vivek: How long will it take to get started? In terms of infrastructure, in terms of manpower and other things, are the things moving on the ground?

Rashesh Shah: Yes, they are starting to happen. I think they are getting formed, they are hiring people and I think our thing is from 1st April onwards, we will start seeing some cases being heard in that.

G Vivek: Second query was about the insurance business

Rashesh Shah: On the Insurance business, we will get embedded value breakeven by 2021 and we will get accounting breakeven by 2022-2023 in that business.

G Vivek: Coming to the sectors for which ARC in the biggest name which sectors are causing trouble, how is the situation in the steel, in power and other sectors which we are tackling?

Rashesh Shah: We are not very sector-focused to be honest with you because even in the same sector, the viability of one company will vary significantly from another company. So we are very account-oriented …which particular account and for the last two years lot of our focus has been on buying companies which are EBITDA positive but not enough cash flow to service interest and debt because they are the ones who require things like restructuring of the debt, converting part of the debt into equity, additional funding, bridge funding, last mile funding, we call it whatever, and there are a lot of such cases which are a company will have say Rs.4,000 crores of debt and has only about Rs.300-350 crores of EBITDA. So it has not got enough EBITDA to service the debt and as a result of that they are not getting extra credit from the banks working capital, so capacity utilization comes down. So there are a lot of companies which are operating at 40%, 50% capacity utilization and on Rs.3,000 crores debt will be making, Rs.250-300 crores EBITDA, lot of these companies if they get another Rs.300-400 crores of working capital can easily improve their EBITDA by another Rs.100-150 crores. These are the typical companies that in the last two years. There have been companies where it is a real estate project which is 80% done has become NPA and money has run out, they need another Rs.80-90 crores to complete the project at the end of it, all that the liquidity will come in. There is last mile funding where there is restructuring required. All these are the cases that we look at. We are fairly agnostic to sectors as such. We look at quality of promoter, quality of asset and we plan for resolving that asset.

G Vivek: Any exposure to the Jharkhand corporate alloy or Abhijeet Group?

Rashesh Shah: No.

G Vivek: Bharati Shipyard is doing okay sir?

Rashesh Shah: Bharati Shipyard is undergoing the restructuring. We have cleaned up quite a bit. There are still a lot of ships which are half done or 80% done which all have to be completed. They are almost 18 ships in various stages of completion and only when they get completed will you be able to realize some value out of that. So lot of effort is going on. All these are not easy cases, but I think we have bought it at a fairly good price and the asset is still very good, there is a lot of inventory work in process which has to be completed which needs funding management bandwidth and all of that.

G Vivek: Management bandwidth, do we have the sufficient management there to tackle so many cases in ARC?

Rashesh Shah: We are hiring people and we are also tying up with other agencies outside who provides us the support. We see our role as largely a coordinator and if required controller of the actions rather than the ones we actually implement the action.

G Vivek: So far the past has been really good. The future the concerns are coming in and in our particular business, this freezing of economy and demonetization, how long will it take for recovery, for people excessive worrying is happening and the things are okay?

Rashesh Shah: I do not think this demonetization will have that kind of an impact. I think as I said earlier, given what is going on in other parts of the world, India is in a very favorable position plus I do believe that a lot of the actions taken by the government in terms of the Bankruptcy Code, GST, Real Estate Bill, FDI opening up, all of that, we are seeing one of the highest FDI in India in this year and obviously that does give a spurt to the economy. So on the whole we are not worried. Something like this might cause a little bit of disruption for 3-4-months and that is what I said, we have to see how well this is managed because this is a transitionary problem of adjustment, I do not think it will derail the economy, we have to constantly see if there is anything that can derail the economy and freeze up the economy, currently, this does not look like that, the government and RBI has anticipated the issue and this is also received fairly positively, people have not become very anxious about it, businesses are fairly sanguine about it. On the whole it is a good thing.

Moderator: Thank you. The next question is from the line of Shekar Singh from Excelsior Capital. Please go ahead.

Shekar Singh: Just one follow-up. In the Non-Credit business, is it possible to reduce the amount of capital which is employed over there?

Rashesh Shah: Part of that capital is what we call the Balance Sheet Management unit. So if you go to Slide #41, it gives you the breakup of that because in a way we operate like a bank, we have got own treasury to manage our own liquidity. So maybe Rs.1,000 crores here and there we can manage, but some amount

we will have to keep like a bank has to keep its treasury, we also have to keep the liquidity cushion things like fixed assets, tax assets, all of that we need. So we will continue to have some amount of that, maybe Rs.1000 crores here and there, but if you have seen in the last quite a few years, our balance sheet management asset, BMU assets, as a percentage of total assets have come down, they used to be about 30%, then they came down to 21%, they are now at 17% and we think it will stabilize around 14-15% in the coming years.

Moderator: Thank you. The next question is from the line of G Vivek from GS Investment. Please go ahead.

G Vivek: Question was about the exposure to the steel sector and the real estate sector from our side for the loan specifically Bhushan and JP Group?

Rashesh Shah: It is hard to talk about individual accounts but I would say that not all of these names you have said we have an exposure to, but what I am saying is we are very collateralized and we are very conscious of the collateral we have and when we do underrating, we look at the counterparty collateral and the cash flow. There are some industries which are going through a downturn but we feel comfortable that we have enough collateral and the loan is getting serviced. If the loan is not getting serviced, it will show up in the NPLs because our loans which are in the NPL also we have the collateral but we see NPL classification different from recoverability and even in the banking sector if you see usually from NPA to recoverability expected is about 50-60%. So we do think that even where there is a stress and we call it NPA we will eventually recover because we have the collateral with us. So we are not unduly worried and wherever we see either servicing is a problem or collateral comes down significantly, we will classify it as NPA and start providing for it.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Salil Bawa for closing comments.

Salil Bawa: Thank you, Margaret. Thank you, everyone for joining this call. Please feel free to contact me for any questions or any of us for any question. We see greater optimism as we move to the second half. All in all, we are feeling reasonably confident and raring to build this business further as we go into the year and beyond. Thank you very much again, ladies and gentlemen.

Moderator: Thank you. On behalf of Edelweiss Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.