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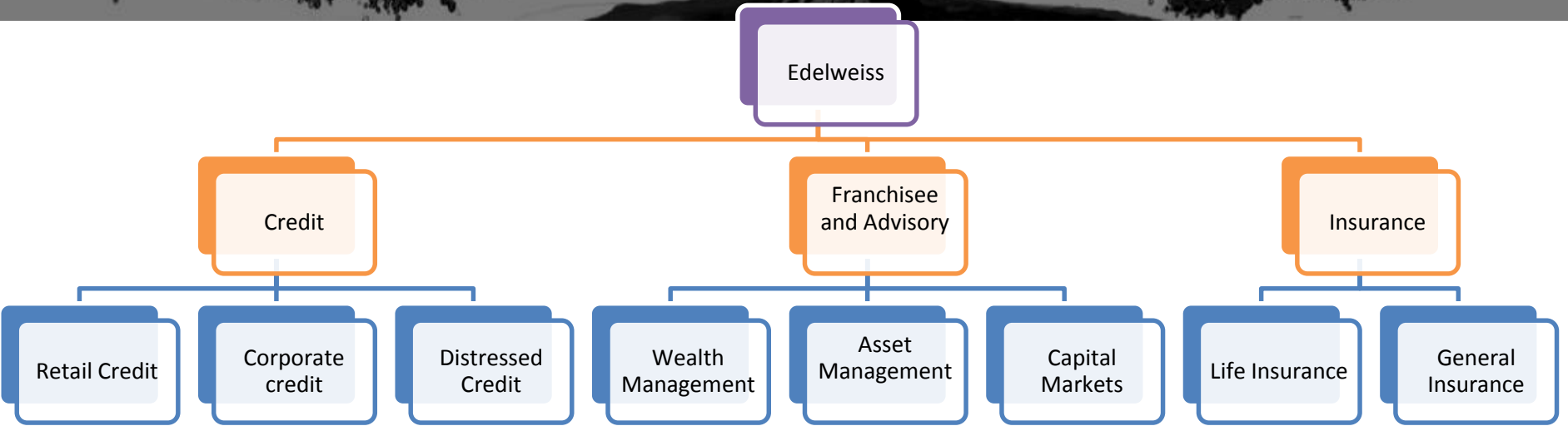


**Edelweiss – Bet on financialization of savings**

- ❖ 27 Quarters PAT CAGR of 38%
- ❖ Share price - 21% CAGR over 10 years



- ❖ Bank-like business model
- ❖ Truly Diversified financial services
- ❖ Multiple growth vectors
- ❖ Mix of exciting high growth and stable businesses



Business Segments	FY18 Pre MI PAT (INR Cr)	% Contribution
<b>Credit Business</b>		
Retail Mortgage	66	6%
LAS, SME, Agri and Business Loans	134	12%
Structured Collateralised Credit	159	14%
Wholesale Mortgage	180	16%
Distressed Credit	192	17%
<b>Franchise &amp; Advisory Business</b>		
Wealth Management & Asset Management	162	15%
Capital Markets	146	13%
<b>BMU, Corporate and Others</b>	83	7%
<b>Total Ex- Insurance</b>	<b>1,122</b>	<b>100%</b>





# Credit– The Bread and butter business of Edelweiss

Credit Business FY18 (INR Cr)	Total	Y-o-Y	Retail	Y-o-Y	Corporate	Y-o-Y	Distressed	Y-o-Y
EOP Capital Employed	42,010	52%	16,188	81%	19,525	41%	6,297	32%
EOP Equity	5,624	49%	1,574	68%	2,873	36%	1,177	61%
Net Interest Income	2,608	54%	661	54%	1,462	37%	485	141%
PAT	731	44%	200	64%	339	18%	192	98%
Net Interest Margin	7.7%		5.2%		9.4%		9.1%	
Cost to Income	34%		46%		31%		27%	
RoE	18.1%		15.8%		18.8%		20.0%	
RoA	2.2%		1.6%		2.2%		3.6%	

- Growth driven by our diversified credit book
- Scale up Corporate Credit opportunity through co-investment from Asset Management fund
- Focus on increasing Retail Credit book

As on 31 <sup>st</sup> March '18	Capital Employed (INR Cr)	% Share	
<b>Retail Credit</b>	<b>16,188</b>	<b>39%</b>	
Retail Mortgage	6,672	16%	Blend of loans to home owners and home buyers
SME & Business Loans	3,677	9%	Underserved and highly scalable, focus area for future
Loan against Securities	4,640	11%	Catering to Retail & Wealth Mgmt customers in Capital Markets
Agri and Rural Finance	1,199	3%	Large scalable opportunity with low competitive intensity
<b>Corporate Credit</b>	<b>19,525</b>	<b>46%</b>	
Structured Collateralised Credit	9,352	22%	Customized credit solutions with robust risk management systems
Wholesale Mortgage	10,173	24%	Developer financing for primarily residential properties
<b>Distressed Credit</b>	<b>6,297</b>	<b>15%</b>	Leading Asset Reconstruction Company in India
<b>Total Credit Book</b>	<b>42,010</b>	<b>100%</b>	

- ❖ Corporate credit book could be the biggest risk in Edelweiss.
- ❖ Distressed credit could be the dark horse and give non-linear returns.
- ❖ Increasing retail credit to 50% of total loan book – Management's stated aim for FY20

***Investing in Banking is all about betting on the Jockey – Management.***

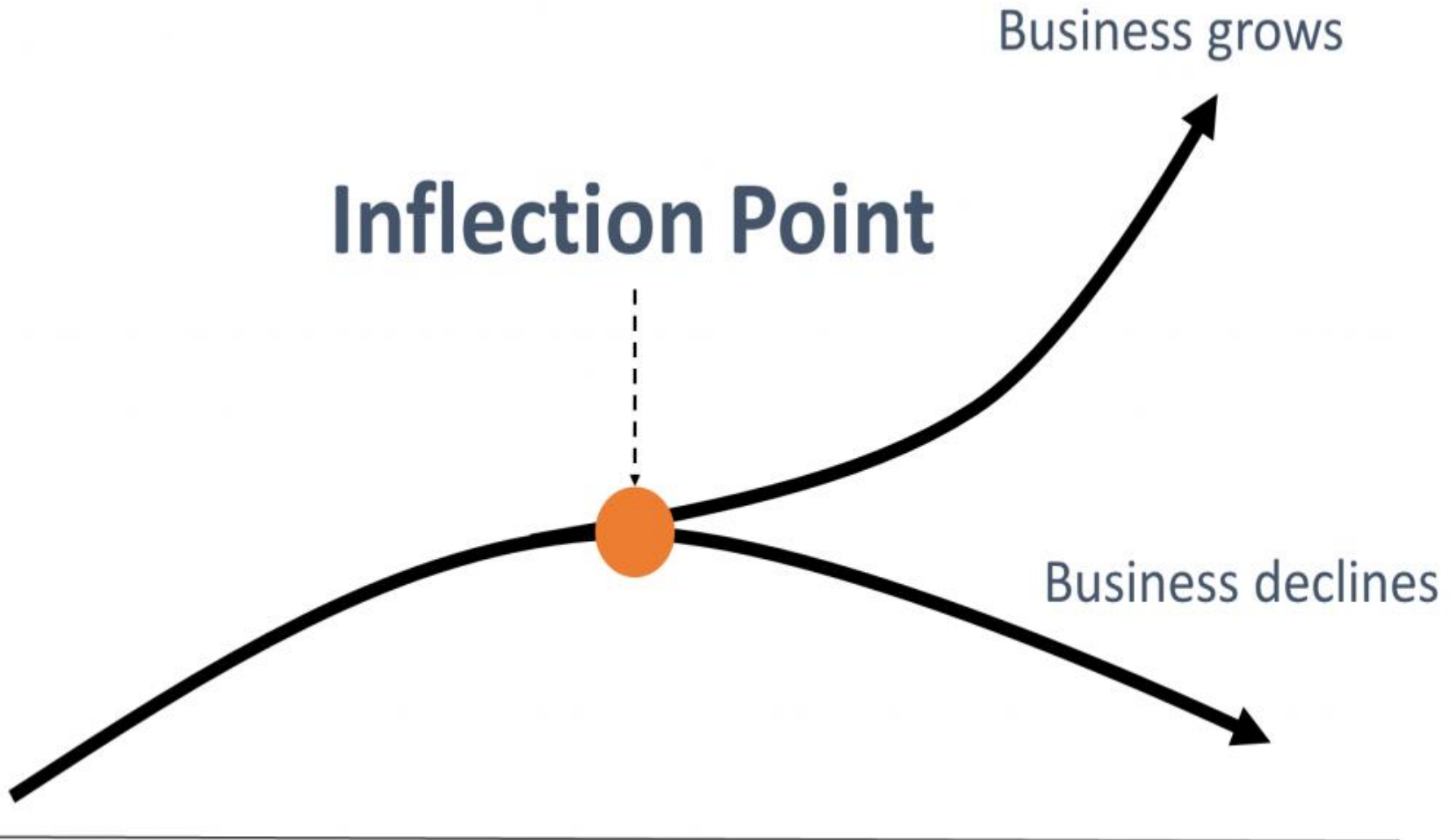
<b>Credit Business (INR Cr)</b>	<b>FY17</b>	<b>FY18</b>
Capital Employed	27,608	42,010
Average Interest Yield	16.2%	16.3%
Average Cost of Borrowing	10.3%	9.8%
Net Interest Margin	7.2%	7.7%
Net Revenue	1,695	2,608
Cost to Income	36%	34%
Provisions & Write Offs	319	616
PAT	447	645
RoE	18.2%	18.3%
RoA	2.1%	2.2%

<b>At the end of</b>	<b>FY17</b>	<b>FY18</b>
Gross NPA (INR Cr)	362	624
Gross NPA %	1.59%	1.75%
Net NPA %	0.60%	0.70%
Outstanding Provision Held (INR Cr)	314	507
Total Provision Cover	87%	81%
Average Collateral cover on Corporate book	2.3X	2.1X
Average Loan-To-Value on Retail book	~45%	~45%

### Key monitarables in the credit business

- ❖ Credit costs in SME & corporate loan book
- ❖ Pressure on NIMs with rising bond yields
- ❖ Progress of IBC and ARC business
- ❖ Overall asset mix

# Inflection Point



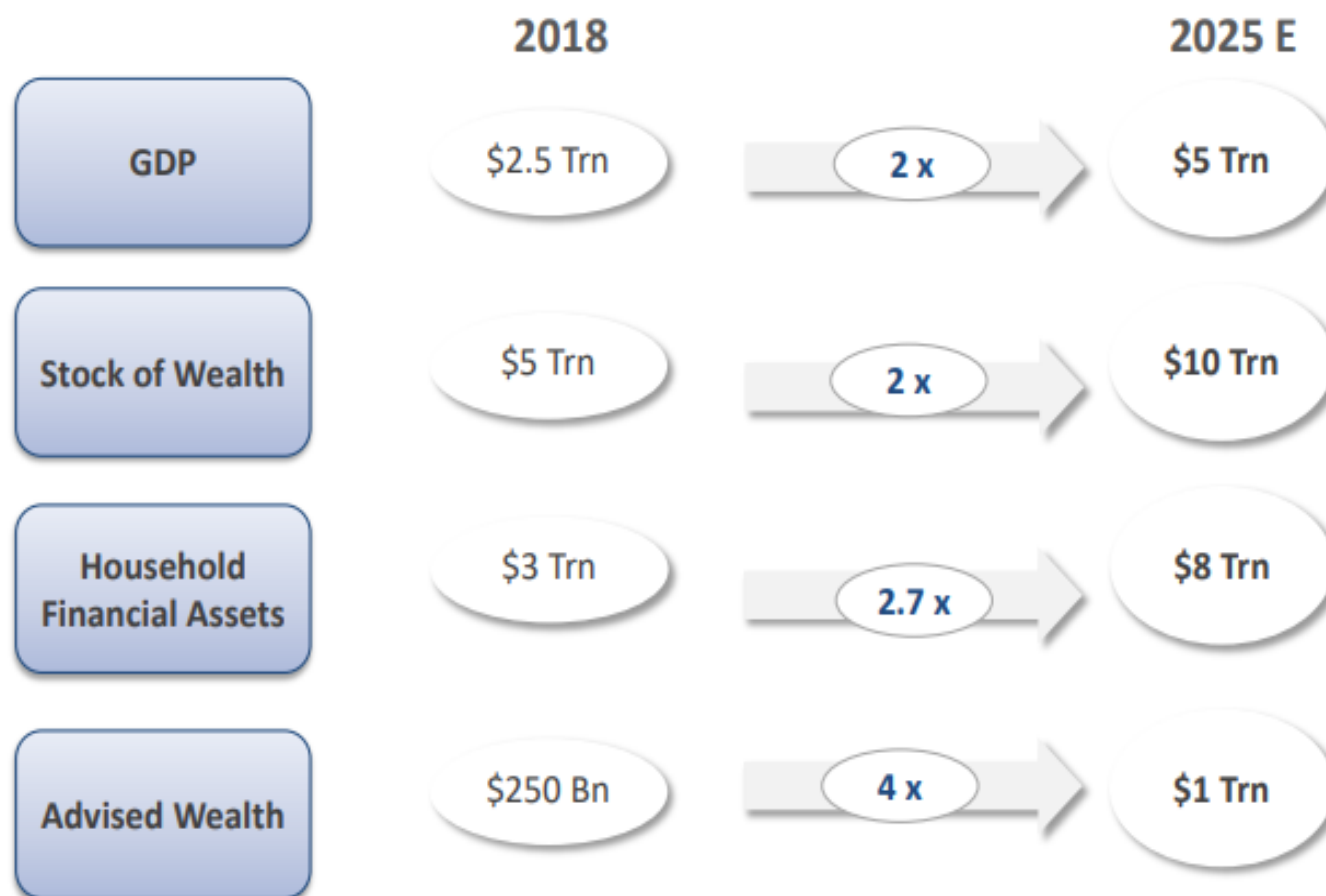
-- Only The Paranoid Survive by Andy Grove

**Franchise and Advisory Business –  
At an inflection point. Can scale up and deliver non-linear returns**



## How large is the opportunity?

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**Demand is NOT a constraint !**

## Wealth Management - Some key facts

- ❖ Wealth management – consists of distribution assets (74%) and advisory assets (26%)
- ❖ Wealth Management AUA increased 6x in 3 years
- ❖ Yield of ~70-80bps on AUA
- ❖ Declining cost to income ratio at 67% down from 90% in FY15
- ❖ INR 232 of AUA per rupee of total cost up from INR 126 in FY15
- ❖ 3<sup>rd</sup> largest wealth management co in India at INR 90,100 crore AuA (behind Kotak and IIFL Wealth)
- ❖ Industry highly focused on intensive dependence on Relationship Managers for UHNI and affluent clients. Differentiation of Edelweiss is focus on digitization of core and building a front end technology platform.

Franchise & Advisory (INR Cr)	FY17	FY18
Net Revenue	1,060	1,330
Cost to Income	73%	65%
PAT	193	308

# Asset Management business

## Mutual Funds Vs Alternatives

### Mutual Funds

Strategies constructed primarily utilizing public stocks and bonds.

#### Characterized by:

- Returns primarily driven by beta
- High correlation to markets
- Assets in public markets

### Alternatives

Investments that look to exploit inefficiencies in markets by focusing on non-traditional assets and investment strategies.

#### Characterized by:

- Returns primarily driven by alpha
- Low correlation to markets
- Assets in private and public markets

■ Hedge Funds    ■ PIPE/Private Equity

■ Private Debt    ■ Real Assets

## **Asset Management - Some key facts (as at FY18 end)**

- ❖ Consists of Mutual Funds and Alternatives businesses
- ❖ Alternatives AUM at INR 17,700cr. Alternatives market AUM at INR 2 lac. crore
- ❖ Mutual MF AUM at INR 11,500 cr and MF Market AUM at INR 21 lac cr.
- ❖ Mutual funds have net yield of 60-70 bps with C/I ratio of 50-60 bps giving a net yield of 15-20bps.
- ❖ Alternatives have net yield of ~120 bps with C/I ratio of 25 bps giving a net yield of 50-60bps.
- ❖ 1 dollar of Alternatives = 3-4 dollar of Mutual funds.
- ❖ MF AUM consists of 71% Equity and 29% debt leading to higher yields.
- ❖ Alternatives AUM consists of Private Debt (65%), PIPE /PE (11%), PMS (11%) and Hedge Fund (13%)
- ❖ Largest player in Alternative Equity space – 8x growth in AUM from 1900 cr in FY15 to 17,700cr in FY18.

**Huge potential with long run-way ahead. Investment in Edelweiss is based on the immense growth potential of Asset Management.**

## Life Insurance – Key Financials

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### Edelweiss Tokio Life Insurance Company Limited (ETLI)

(INR Cr)	FY17	FY18
Net Premium Income	426	619
Investment Income and Other Income	151	163
<b>Total Business</b>	<b>577</b>	<b>782</b>
Profit After Tax	(216)	(233)
Minority	(106)	(114)
<b>Edelweiss' Share in PAT</b>	<b>(110)</b>	<b>(119)</b>
Net Worth	732	1,156
Indian Embedded Value (IEV)	1,081	1,635

Currently loss making but huge inherent value and long growth potential ahead.  
General Insurance business to be launched soon.



## Balance Sheet Strength

- ❖ Matched Asset liability profile – positive asset liability matching across durations
- ❖ Capital adequacy ratio at 17.04%
- ❖ Debt/Equity at 4.9 (excluding treasury assets)
- ❖ Diversified sources of borrowing
- ❖ Liquidity cushion at 9% of Balance sheet – Banking lines, FDs, Govt. Securities, MFs etc.
- ❖ Credit Ratings of CRISIL A1+ and CARE AA

## **Key Positives**

- ❖ Great management and team – most imp factor in for a Bank/NBFC
- ❖ Riding the financialization of savings theme in the Wealth Management and Asset management business
- ❖ Huge growth opportunity and strong appetite for growth
- ❖ Diverse set of businesses in financial services space

## **Key Negatives/Concerns**

- ❖ Cyclicalities in the wealth management, asset management and Capital markets business
- ❖ Some bets could misfire – distressed assets, Life Insurance
- ❖ Heavy regulation in MF, WM and Life Insurance business
- ❖ Credit deterioration in lending business
- ❖ Valuations

# Valuations

Valuation of Edelweiss for FY20					
INR Crore	FY18	FY20e	Multiple	Mkt Cap potential	Growth over FY18 nos.
Credit business Book Value	5,600	8,064	2.5	20,160	20% CAGR growth expected
Franchise and advisory business PAT	460	777	20	15,548	30% CAGR growth expected
Insurance	1300	1573	1.3	2,045	10% CAGR growth expected
Total				<b>37,753</b>	
Current Market cap				26,500	
Upside potential				<b>42%</b>	Absolute growth
CMP - 285. Target - 405				<b>19.36%</b>	CAGR growth expected

- ❖ Quality always *looks* expensive.
- ❖ Cyclical business – Views?
- ❖ How much should we pay for a good story? – Financialization of savings story.
- ❖ Management Quality

Thank you

Any Questions for me?