EDELWEISS – INVESTOR DAY 2018

Nitin Jain: I think Rashesh touched upon the fact that India household wealth has been growing, is growing. And I'm just looking at the financial assets, we are not talking about the overall wealth; currently, it stands at around $3 trillion of assets. If you look at a 14-15% kind of CAGR, assuming a 12% kind of a nominal GDP growth, it can easily go to around $8 trillion of wealth in 2025. What is more interesting though is we try to triangulate numbers in many ways. The total amount of advised wealth where actually a formal advisor is actually helping rich people or affluent people on their wealth is actually only 10%, so out of $3 trillion, only $300 billion of capital is today advised. So assuming a slightly higher penetration from 10% to maybe 15%, this number can easily go 4x, globally in China, this number is around 25-30%; in US, this number is close to 70-80%, advised wealth as a percentage of total household wealth in US is 70-80%. Demand is not a constraint, the point being - can we grow at 25%, 30%, 35% in the industry, we don’t know, but the key question that we are asking ourselves is demand is there, can we execute, and I think the proof of the pudding is there.

In the last 7-8 years, we have been continuously clocking a 50-60% growth. The first 3-4 years if you see, as Rashesh mentioned, we started the business in 2010 and we took 4-5 years to build the platform, even then we were growing at 40-50% but on a very small base. But one of the interesting highlight of this growth has been that we found very little competition, very little competition, actually if you think about it, if it's such exciting opportunity, if we are saying that it's a profitable business, if it's a growing business (globally, if you see there are so many large players like Charles Schwab, Morgan Stanley, UBS Credit Suisse) then why are not people jumping into this business and why is there not enough competition in this business and that is a question that has baffled us internally a lot that why are we not facing a lot of competition, a lot more competition than what we should be. And the answer to that question actually stuck us maybe a couple of years back, the most dominant players in Indian Financial Services by margin today are banks. If you go in a branch in a bank today, outside of the private bank or upwards of let’s say a crore kind of a client branch, you are actually banned to sell a mutual fund. Are you guys aware of this? Why? As a RM, you cannot sell a mutual fund because you will be cannibalizing your CASA. CASA is 2.5-3% kind of subsidized deposit to the bank. If the bank starts to incentivize the relationship managers to help the clients, move their money to wealth products, it will destroy their CASA franchise, and the largest number of advisers are sitting in the banks, so no bank actually is interested in building a wealth management business. For every bank, this is actually just a cross-sell opportunity. So, if you are a rich customer with the bank and you are reasonably aware of the markets, at the end of the month, if I see some surplus amount in your salary account, I might call you and say, sir, would you like to buy an insurance policy or a high margin mutual fund or something like that, but genuinely if any of you are bank customers, you would struggle to find a wealth relationship manager.

There are very couple of, handful of players I would say like IIFL, Edelweiss, who have a platform which can deliver value to customers and are committed to this franchise and that is the huge advantage that you have today plus it's an opportunity which is well established globally. And we have seen operating leverage having started to kick in. Couple of years back, we were at 90% cost to income, today we are around 65%. As we grow, as we scale up the assets, we think it can easily come down to 55%. What we track very closely is PAT yield on assets. At around Rs. 10,000,000 crores or sorry at around Rs. 1,00,000 crore, we are tracking around 15 basis point. We are hoping that we should double our assets over the next 3 years and hopefully we should be closer to 25 basis point of PAT yield.

What is the differentiator? Like every business that I think we have talked today, more platform led than people led, more Charles Schwab than a Merrill or a UBS or a Credit Suisse, big difference being clients are more married to the platform, more value is delivered through the platform than through the relationship manager. A lot of people know about our ultra high net-worth practice where we have around Rs. 75,000 crores of assets, but a very interesting part of our business is our affluent business which is around Rs. 20,000-22,000 crore of assets, smaller assets, higher yield, higher profitability. A lot of clients who have ESOPS, a lot of people like us with Rs. 5-10 crores kind of net worth which has got created by working in financial services, working in companies like ITC, Reliance Industries, wealth has got really now more and more democratized vis-à-vis earlier days and these people seriously lack advice because they don't have anybody who has reached out to them. Most of the wealth office today are still very, very focused on people upwards of Rs. 25-30-40 crores of net worth.

Technology has played a huge role. I will again focus on one of the solutions that we have really specialized on is the ESOP Desk, now this is very interesting. We are a financial services firm but we compete on actually eSOP services solution. So we actually go to HR, not as a financial services firm but as a technology services firm and request them to try our ESOP Desk, which basically means who can administer stock options plan to their employees. Why? Because once they install this application for their clients, for their people, basically we have all the information about every employee who has stock options in their company. And we have around 15 to 16 thousand such employees who are our clients through this application. These are all million dollar or a lot of them are million dollar plus kind of clients. We have invested 2 years in building this technology platform. We are probably the best service providers of ESOP on the administration side today.

We are now starting to get recognized for what we have built over the last few years. Now, we have been ranked as the best private bank by Asiamoney, by **(BSN ? 9:33)**, by Asian Private Banker, some of the best known in the industry.

Asset Management

Venkat Ramaswamy: This is a business that got started in the 2008-2009 timeframe. At that time, mutual fund was reasonably established business where distribution played a large role and we decided to focus around alternatives, and in alternatives, typically clients needed some expertise that they were looking at the manager to provide and the primary expertise at that time because the stock markets were reasonably choppy, the primary expertise that Edelweiss had an established track **(inaudible 10:29)** was credit and so that is where we started our alternatives journey, which is in 2009, and our first fund was around $230 million, all institutional. And since then, we spent the next 5 years and that is not necessarily visible here, next 5 years actually building the platform. For the first 5 years, we were still very, very small business and while alternatives in India was Rs. 20,000 crore sort of business in 2013, it has grown almost 10x in the last 5 odd years. And if you look at the mutual fund business, mutual fund business is around Rs. 23-24 trillion, so it is about 8-9-10% of the overall asset management business. Of course, alternatives also has a whole bunch of international capital that comes in, which does not come in through AIFs and things of that kind, that is a similar number of another Rs. **(words overlap 11:44)**, yeah. If you look at market size and the profit pool, they are around 15% of the total assets is in alternatives globally, but the profit pool is almost 40%.

Nitin Jain: I can actually give an example of Blackstone and BlackRock here. So, Blackstone has probably around $400 odd billion of assets and the yearly profits is close to $3 billion, whereas BlackRock has around $5 trillion plus of assets and their profit is around $5 billion, so 10x the amount of assets but the profits are maybe slightly less than 2. But the more interesting part though is BlackRock has one of the larger alternate practice, so BlackRock also has around $100 billion of alternate assets and that alternate assets actually contribute 25% of their profitability. So whichever way you slice it, alternates globally as an asset manager has to be a very core part of your profit pool.

Venkat Ramaswamy: In India also, we do believe that over the next 7-8 years this industry to grow and it will from becoming a 10% of the overall assets under management, we expect it to go all the way up to 25% and profit pools will get to the 40-50% of the overall market.

What is the client need that we are fulfilling? So, Rashesh mentioned that we are capital surplus country. If you look at most of our clients overseas, for them yield has almost become impossible to find and we realized because we have shortage of equity capital in India, there is meaningful amount of yield available when you invest in any asset class and Rashesh mentioned and I'm not talking about the 10% upside, but there is 16% return available in distressed asset. In any performing credit, we believe that we can deliver 14-17% in real estate lending, in corporate lending, and that is basically the opportunity that we are providing or the need that we are serving for our overseas clients as well as our domestic clients.

Nitin Jain: Now, I think the key is that in India also, what we are starting to see now is on one hand, you have fixed deposits right, on fixed deposits, you get practically post-tax 4% or you have option of equities where you get 13%, 13.5%, 14%, but now again, after long-term capital gains, 12.5-13%, so you have this barbel, right, either you get risk free of 4% or you get 13-14% with a lot of volatility in equity and you can’t allocate a lot of money in equity and a lot of people are not very comfortable putting money in equity. So, if you go to a lot of customers, they want something in between and we were actually quite surprised by this need and our initial thesis was that India is a very risk averse market, very difficult to raise long-term money, this has been our belief. In fact, we started with this hypothesis that we cannot raise anything more than 3 years in India, so we only raised money offshore, so our whole strategy till now has been raise money offshore in private markets. We launched a fund called Yieldplus in India, in January 2018, which was basically buyout of operating assets and deliver a yield of 11-12% pre-tax, post-tax maybe 9-10%. We raised 2½ thousand crores in 3 months, 10-year money only through our own wealth channel. I don't think anybody in India has ever seen that kind of fund raise over a 10-year period. It just tells us the kind of demand that you have for something in this kind of a range. We have seen the same kind of demand in the hedge fund space, so we have a hedge Fund which actually delivers 14-15% pre-tax that is our expected return, we are not shooting for Big Alpha. Every month, we get Rs. 100-150 crores in that fund. I think there is again another hedge fund run by another firm, competing firm, they also raise similar kind of money every month. So there is a demand for yield in the market and there is a lot of money coming in from domestic clients in the alternatives.

Venkat Ramaswamy: The last point on this slide is, it is appropriate for today at least, asset management allows us to only manage especially in credit funds, only manage credit risk, we do not need to manage the liquidity risk because all this capital is in locked-in structures and there is no daily or monthly liquidity required in any of these structures.

Nitin Jain: So, over this last 3-4 years now, we have reached around Rs. 20,000 crore of alternate assets. What is important to **(VIDEO GETS CUT ABRUPTLY)**