Edelweiss Financial Services Limited Q3FY15 Results

Total Income ₹ 967 cr & Profit after Tax ₹ 83 cr

Edelweiss Financial Services Limited (Edelweiss), India's leading diversified financial services company, declared its unaudited, consolidated results for the third quarter of Financial Year 2014-15 ended December 31, 2014 today.

Q3FY15 Highlights:

* **Total Revenue ₹ 967 cr** (₹ 648 cr for Q3FY14), **up 49%**
* **Profit After Tax (PAT) ₹ 83** (₹ 58 cr for Q3FY14), **up 43%**
* **PAT ex-ins ₹ 98 cr** (₹ 68 cr for Q3FY14), **up 45%**
* Group Gross Networth ₹ 3,381 cr
* Tangible Equity ex-ins ₹ 2,481 cr
* **Return on Tangible Equity ex-ins 15.8%**

9MFY15 Highlights:

* **Total Revenue ₹ 2,697 cr** (₹ 1,856 cr for 9MFY14), **up 45%**
* **PAT ₹ 240 cr** (₹ 160 cr for 9MFY14), **up 51%**
* **PAT ex-ins ₹ 278 cr** (₹ 199 cr for 9MFY14), **up 39%**

Edelweiss has always consciously and strategically focused on synergistic diversification in adjacent spaces to become a large and respected firm with presence in all growth areas in the financial services sector. The diversification of businesses, asset classes, markets, client segments and geographies has helped Edelweiss de-risk its business model, moderate volatility and improve business sustainability. Since the completion of the diversification phase over two years ago, our focus has been on scaling up businesses, improving efficiency and enhancing productivity, strengthening our balance sheet, risk management and compliance, upgrading technology, building leadership for future growth and instilling customer-centricity. As a result, **Edelweiss has recorded consistently improved financial and business performance across the cycles of our industry, which makes the company stable and growth ready.**

Speaking on the occasion, Mr. Rashesh Shah, Chairman and CEO, Edelweiss said:

"The unexpected rate cut by the RBI and its positive commentary indicates an early return of rate easing cycle which augurs well for Indian economy. The indication that RBI believes that the inflation has come down and is here to stay lower is positive. As growth comes back, all asset classes should do well and reinforce the positive momentum.

We continue to focus on de-risking our business model through long-term strategy of diversifying across businesses, asset classes and client segments. This is also improving sustainability in our performance as our profits are now being increasingly contributed by multiple businesses.

In the third quarter of FY15 we continued the trend of recording a consistent growth in our profitability post the completion of diversification phase in FY12. Our net profit for 9MFY15 is ₹ 240 cr (compared to ₹ 220 cr in FY14) and is up 51% over the corresponding period last year. *Our return on tangible equity ex-insurance for 9MFY15 has improved to 15.4% compared to 12.1% for 9MFY14. Our current focus areas continue to be improving capital and operating efficiency, achieving scale in retail businesses, improving sustainability in our performance, strengthening balance sheet, risk and compliance, upgrading technology, nurturing leadership and building a customer-centric culture for future growth."*

Q3FY15 Financial Highlights:

* **Fund based income** is ₹ 757 cr for Q3FY15 (₹ 528 cr in Q3FY14), **up 44%**. This income stream includes income from credit including Retail finance business, commodities business and Balance Sheet Management operations.

* **Fee & Commission income** is ₹ 160 cr for Q3FY15 (₹ 86 cr in Q3FY14), **up 85%**. This income stream includes income from corporate finance advisory, broking, asset management, wealth advisory businesses and fees from credit business. Broking income constitutes 5.8% of the total revenue for the quarter.

* **Gross Premium income** from **Life Insurance business** is ₹ 42 cr for Q3FY15 (₹ 26 cr in Q3FY14), **up 61%**.

The **diversified revenue mix** has successfully helped us in achieving improvement in our performance on a sustained basis despite volatile economic environment.

Balance Sheet, ALM and Liquidity Management:

* Our Balance Sheet Management Unit actively manages the Balance Sheet, Asset Liability position and liquidity in a way similar to that of the treasury of a commercial bank.

* The focus of Balance Sheet Management unit continues to be on maintaining adequate liquidity, reducing our dependence on short-term market borrowings, diversifying our sources of borrowings and maintaining a matched ALM profile.

* **The total Networth of the Group now stands at ₹ 3,381 cr with Tangible Equity ex-ins and ex-minority at ₹ 2,481 cr.**

* The aggregate borrowings at the end of this quarter are higher at ₹ 19,669 cr compared to ₹ 15,017 cr as at the end of the previous quarter. Excluding back to back borrowings, our Net Gearing is 4.7x compared to 3.7x at the end of the previous quarter.

Business Highlights:

Operations of Edelweiss are organised around **five broad business groups** – **Credit including Housing & Retail Finance, Commodities, Financial Markets, Asset Management** and **Life Insurance**.

Brief highlights of our business performance are as under:

* **Credit:**

  Edelweiss offers **Retail Finance and Corporate Finance**. Total credit book stands at ₹ 11,178 cr at the end of this quarter compared to ₹ 9,789 cr at the end of the previous quarter, a QoQ growth of 14%.

  Retail Finance business offers **housing mortgages including small-ticket housing loans**, rural finance, SME fiancé and loans against property. As at the end of this quarter it has a book size of ₹ 2,595 cr compared to ₹ 2,487 cr at the end of the previous quarter. Its assets under management are ₹ 2,886 cr at the end of this quarter. It has a client base of over 37,200 in 29 cities and ~750 villages.

  The corporate finance collateralised loan book is adequately secured with an average **collateral cover** of 2.6 times at the end of this quarter.

  The **asset quality** of the overall credit book continued to remain under control with Gross NPLs at 1.39% and Net NPLs at 0.21% indicating a **Provision Coverage Ratio (PCR) on Non Performing Loans of 85%**. Including the general loan loss provision that we make on our standard assets, the PCR is 106%. We continue to focus on risk management and achieving growth in the book without diluting risk standards.

  Our NBFC subsidiary **ECL Finance Limited** is well placed to grow its asset book with confidence. Its Capital Adequacy Ratio is 17.26% with a standalone networth of ₹ 1,675 cr as at the end of this quarter.

  Fixed Income Advisory business continued to be among leading debt arrangers in the country and recorded significant growth in business in Q3FY15 on the back of improving market sentiments.

  * We handled a total of 30 transactions across NCD placements and fixed income debt advisory transactions in this quarter including Public Debt issues for SREI Infrastructure Finance and IFCI.
  * Total number of transactions handled this year so far has significantly risen to 69 compared to 38 in the corresponding period last year.
  * Our market share in Q3FY15 debt raising activity has appreciably improved to over 20%.
  * Our clients included large public and private sector corporates such as REC, PFC, SAIL, PGC, Konkan Railway Corp, IDFC, Exim Bank, Oriental Bank, Vijaya Bank, Aditya Birla Finance, ICICI Home Fin, Canfina Home Fin, Mahindra Finance and Fullerton India among others during this quarter.

* **Commodities:**

  Edelweiss set up its commodities business over 6 years ago in order to diversify across adjacent asset classes. The expected financialisation of commodities markets in India will act as a growth driver for this strategically important business. This business sources, distributes and deals in agri commodities and precious metals.

  We see agri business as a significantly large and untapped opportunity in India. The business is working on an agri value chain model including procurement of commodities through our infrastructure and intermediary network, making credit available to the participants, warehousing and distribution. The business is also scaling up international sourcing and procurement model for key commodities like pulses and oilseeds. A state-of-the-art precious metals refinery is set up in Ahmedabad as a part of our precious metals business. We continue to invest in infrastructure, people strategy, technologies, inventory & collateral risk management and processes to strengthen the business as well as to diversify into other parts of the agri value chain.

* **Financial Markets:**

  Markets consolidated in the third quarter of this year undergoing a few corrections on the back of global cues. At the same time, FII inflows are good and we are seeing green shoots for return to capital raising by corporates. As a result, our Financial Markets businesses recorded a strong uptick in their performance in this quarter.

  * **Institutional Broking** business continued to be among the market leaders and perform in line with the industry. Our **Research** covers 206 stocks across 24 sectors representing over 75% of market capitalization.

  * **Corporate Finance & Advisory** activity continued at a brisk pace in this quarter with the business handling five transactions including marquee transactions like the IPO of Monte Carlo and stake sale in HDFC Standard Life to Azim Premji Trust. With this, the business has handled a total of 14 transactions this year compared to six in the corresponding period last year.

  * **Retail Financial Market** business continued to scale up its market share with a total retail client base of 4,45,000 at the end of this quarter. This includes over 1,32,000 online clients. The AuAs of the Wealth business are now around ₹ 9,200 cr. Our customized research for retail clients covers 52 Indian companies across 11 sectors.

  * The **online trading portal** www.edelweiss.in for retail clients continued to be one of the most popular sites with the cumulative number of unique visitors crossing 1.3 cr with 16.5 cr page views over 10 cr visits till December 31, 2014. Our alternate channel for trading is via **Edelweiss Mobile Trader app** which is among the highest rated apps on Google Play Store with a Review Rating of 4.2 out of 5.

  * Edelweiss continued to be among the largest distributors in public issues of equities and debt in this quarter. We were **ranked 1st in IPO distribution** in Retail & HNI categories with over 40% market share and were also ranked 1st in these categories in SREI Infrastructure Finance public issue of NCDs with a market share of over 20% in amount procured in this quarter.

* **Asset Management:**

  Global Asset Management business comprises four verticals as under:

  * **Alternative Asset Management** business manages five alternative funds with AuMs/AuAs of around ₹ 1,700 cr equivalent at the end of this quarter.

  * **Edelweiss Asset Reconstruction Company** continued to be a leading ARC in the country. We consider ARC business as an integral part of the efforts of banks to improve the asset quality as also to help in releasing productive assets for the nation's economy.

  * **Retail Asset Management** business managed 11 funds across Equity, Debt and Liquid schemes, with average AuMs of over ₹ 580 cr during this quarter. It had an active base of over 15,600 investors and a distributor base of over 3,300 at the end of this quarter. Our Mutual Fund has so far conducted 73 Investor Awareness programmes under the SEBI-AMFI initiative for enhancing investor awareness. Focus of this business continues to be on building investment capabilities and creating a track record.

  * **Liquid Alternatives Business** (Forefront Capital Management) manages alternative strategies across the PMS and AIF platforms, with AuMs/AuAs of over ₹ 390 cr at the end of this quarter. Forefront Alternative Equity Scheme, an absolute return equity fund launched in August 2014 is one of the best performing and fastest growing funds in the category. The focus of this business continues to be on building innovative liquid alternative products backed by consistent investment performance and building market leadership and distribution presence in this category.

* **Life Insurance:**

  Edelweiss expanded its addressable retail markets by launching Edelweiss Tokio Life Insurance (ETLI) in 2011. It was started in partnership with Tokio Marine of Japan, one of the oldest and largest Insurance companies globally.

  ETLI is one of the fastest growing life insurance companies in India. Winner of Rising Star Insurer Award in 2013, it continues to scale up its business with a focus on enhancing quality of business with a focus on the customer. Gross premium of the business was ₹ 42 cr in Q3FY15 compared to ₹ 26 cr in Q3FY14. The gross premium for 9MFY15 is ₹ 107 cr compared to ₹ 61 cr in the corresponding period last year.

  It continues to expand its distribution footprint across agency and alternate channels. Its presence is spread across 59 branches across 49 major cities in India. The agency channel force has also scaled up with the total number of Personal Financial Advisors crossing 9,000 by the end of this quarter compared to around 6,000 a year ago.

  ETLI offers 20 individual products designed to meet six key needs of customers viz. education funding, wealth accumulation, wealth enhancement, income replacement, impaired health and retirement funding. It also offers three group products, one each for life protection, credit protection and retirement savings. ETLI recently launched Cashflow Protection Plus, a product that offers long term guaranteed payouts and protection up to the age of 100, and MyLife+, which is a competitively priced online term plan which offers cover till the age of 80.

  ETLI funds have been rated top performers by Morningstar. 5 of 6 individual ULIP funds have been rated 5 Star as on December 31, 2014. Its focus on consistent top performance places it well to leverage the renewed customer interest in ULIP offerings.

* **Other Updates:**

  * From catering to a few hundred wholesale clients in 2008, the group now touches lives of over 545,000 clients from retail and wholesale segments across businesses. In addition, our Depository Participants maintain around 278,000 Demat accounts.

  * Edelweiss' presence covers 236 offices in 123 cities including seven international offices. Together with a strong network of nearly 4,800 Authorized Persons and Sub-brokers, Edelweiss presence covers almost all major towns and cities in India**.** The total number of employees at the end of the quarter stood at 5,275 compared to 4,739 at the end of the previous quarter as we continue to hire for future growth.

  * We continue to invest in strengthening compliance function, processes that enhance efficiencies, adopting new technologies and improving risk management. We are also focusing on building a customer-centric culture and nurturing leadership among our employees to prepare them for future responsibilities.

  * During the quarter, Edelweiss has won the prestigious "**EMC Transformers Award 2014"** for the strategy, planning and execution of the IT Server consolidation Project. The EMC Transformers Awards identify and recognise innovation in Indian enterprises through the smart and judicious use of IT.

  * **EdelGive Foundation,** the philanthropic initiative of Edelweiss Group, continued its multi-faceted activities with the mission to leverage its resources for empowering social entrepreneurs and organisations towards achieving systemic change.

    EdelGive continued to support **Olympic Gold Quest** (OGQ) athletes **Mary J Kom, P V Sindhu** and **Ayonika Paul** who have brought glory to India by winning individual Medals in international events.

Edelweiss–one of the Best Managed Companies in India (second year in a row) and Winner of Best Corporate Governance Award!!

About Edelweiss Financial Services

Edelweiss is a leading Indian company that provides a broad range of financial products and services to a substantial and diversified client base that includes corporations, institutions and individuals. It offers products and services spanning across asset classes, consumer segments and geographies. Its businesses are broadly divided into **Credit including Retail Finance, Commodities, Financial Markets, Asset Management and Life Insurance.** The group's research driven approach and proven history of innovation has enabled it to foster strong relationships across all segments of clients. Life Insurance, Retail Finance including Housing Finance, Mutual Fund and Retail Financial Markets businesses have paved the way for Edelweiss to cater to the large retail client segment. Edelweiss' presence now covers 236 offices in 123 cities in India and abroad with 5,275 employees. Together with nearly 4,800 strong network of Authorized Persons and Sub-Brokers, Edelweiss group has presence across all major centers in India catering to over 545,000 clients under various businesses in retail and wholesale segments.

Edelweiss Financial Services trades under the symbols NSE: EDELWEISS, BSE: 532922, Bloomberg: EDEL.IN, Reuters: EDEL.BO. To learn more about the Edelweiss Group, please visit www.edelweissfin.com.

Edelweiss Financial Services Limited **Corporate Identity Number**: L99999MH1995PLC094641

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This document may contain certain forward - looking statements based on current expectations of the management of Edelweiss Financial Services Limited or any of its subsidiaries and associate companies ("Edelweiss"). The results in future may vary significantly from the forward-looking statements contained in this document due to various risks and uncertainties. These risks and uncertainties include, inter alia, the effect of economic and political conditions in India and outside India, volatility in interest rates and in the securities market, new regulations and Government policies that may impact the businesses of Edelweiss as well as its ability to implement the strategy. Edelweiss does not undertake any obligation to update these statements. The presentation relating to financial performance of various businesses of Edelweiss herein is based on Management estimates.

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Consolidated Financial Results for the quarter and nine months ended December 31, 2014

(₹ in crore)

		Quarter Ended			Nine Months Ended		Year Ended
	Particulars	**December**	**September**	**December**	**December**	**December**	**March**
		31, 2014	**30, 2014**	**31, 2013**	**31, 2014**	**31, 2013**	**31, 2014**
		(Unaud.)	**(Unaud.)**	**(Unaud.)**	**(Unaud.)**	**(Unaud.)**	**(Audited)**
	Part I						
1	**Income from operations**						
	(a) Fee and commission	159.67	127.50	86.12	392.95	255.94	355.63
	(b) Fund based activities	751.03	732.12	523.25	2,158.00	1,506.63	2,050.06
	(c) Premium from life insurance business	39.86	40.89	24.78	102.05	57.73	106.21
	(d) Other operating income	8.62	4.05	5.97	17.55	16.65	21.90
	Total income from operations	**959.18**	**904.56**	**640.12**	**2,670.55**	**1,836.95**	**2,533.80**
2	**Expenses**						
	(a) Employee benefits expense	169.91	170.93	122.16	484.71	328.20	458.02
	(b) Depreciation and amortisation expense	19.50	17.31	11.38	51.87	37.68	52.41
	(c) Change in life insurance policy liability - actuarial	27.46	29.11	13.12	70.43	31.04	60.87
	(d) Other expenses	165.37	151.89	108.62	452.10	301.53	422.06
	Total expenses	**382.24**	**369.24**	**255.28**	**1,059.11**	**698.45**	**993.36**
3	**Profit / (Loss) from operations before other income and finance costs (1-2)**	**576.94**	**535.32**	**384.84**	**1,611.44**	**1,138.50**	**1,540.44**
4	**Other income**	1.21	4.95	3.63	8.25	8.36	9.32
5	**Profit / (Loss) from ordinary activities before finance costs (3+4)**	**578.15**	**540.27**	**388.47**	**1,619.69**	**1,146.86**	**1,549.76**
6	**Finance costs**	445.79	422.28	309.10	1,253.81	911.97	1,210.67
7	**Profit / (Loss) before tax (5-6)**	**132.36**	**117.99**	**79.37**	**365.88**	**234.89**	**339.09**
8	**Tax expense**	57.40	44.96	29.92	146.05	88.56	134.61
9	**Net Profit / (Loss) after tax (7-8)**	**74.96**	**73.03**	**49.45**	**219.83**	**146.33**	204.48
10	**Share of profit / (Loss) of associates**	6.27	5.44	4.45	18.09	11.11	12.41
11	**Minority interest**	(1.63)	(0.77)	(3.90)	(2.43)	(2.11)	(3.35)
12	**Net Profit / (Loss) after taxes, minority interest and share of profit / (loss) of associates (9+10-11)**	**82.86**	**79.24**	**57.80**	**240.35**	**159.55**	**220.24**
13	**Paid-up equity share capital (Face Value of ₹ 1/- Per Share)**	78.76	77.76	76.90	78.76	76.90	76.90
14	**Reserves excluding Revaluation Reserves**						2,656.91
15	**Earnings Per Share (EPS) in Rupees (Face Value of ₹ 1/- Per Share)**						
	- Basic (Not annualised)	1.05	1.02	0.75	3.05	2.08	2.86
	- Diluted (Not annualised)	1.00	0.98	0.74	2.91	2.07	2.85

Part II - Select Information for the quarter and half year ended December 31, 2014

A	**PARTICULARS OF SHAREHOLDING**						
1	**Public shareholding**						
	- Number of shares	50,18,93,704	49,19,04,798	48,33,29,640	50,18,93,704	48,33,29,640	48,33,29,640
	- Percentage of shareholding	63.72%	63.26%	62.85%	63.72%	62.85%	62.85%
2	**Promoters & promoter group shareholding**						
	a) Pledged/ Encumbered						
	- Number of shares	14,91,83,000	2,76,83,000	1,61,83,000	14,91,83,000	1,61,83,000	1,61,83,000
	- Percentage of shares (as a % of total shareholding of promoter and promoter group)	52.21%	9.69%	5.66%	52.21%	5.66%	5.66%
	- Percentage of shares (as a % of total share capital of the company)	18.94%	3.56%	2.10%	18.94%	2.10%	2.10%
	b) Non-encumbered						
	- Number of shares	13,65,32,690	25,80,32,690	26,95,32,690	13,65,32,690	26,95,32,690	26,95,32,690
	- Percentage of shares (as a % of total shareholding of promoter and promoter group)	47.79%	90.31%	94.34%	47.79%	94.34%	94.34%
	- Percentage of shares (as a % of total share capital of the company)	17.34%	33.18%	35.05%	17.34%	35.05%	35.05%
B	**INVESTOR COMPLAINTS**				**Quarter ended December 31, 2014**		
	Pending at the beginning of the quarter				Nil		
	Received during the quarter				14		
	Disposed off during the quarter				14		
	Remaining unresolved at the end of the quarter				Nil		

Notes:

1 The consolidated and standalone financial results of Edelweiss Financial Services Limited ('EFSL' or 'the Company') for the quarter and nine months ended 31 December 2014 have been reviewed and recommended by the Audit Committee and approved by the Board of Directors at its meeting held on 23 January 2015.

2 The Company conducts its operations along with its subsidiaries and associates. The consolidated financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidated accounts as set out in the Accounting Standards (AS 21 and AS 23) prescribed by Companies (Accounting Standards) Rules, 2006.

3 As per the requirement of the Companies Act, 2013 (the Act), the Company has evaluated the useful lives of its fixed assets and has computed depreciation according to the provisions of Schedule II of the Act. Consequently, in the standalone financial results of the Company, the depreciation charge for the nine months ended 31 December 2014 is higher by ₹0.38 crores and an amount of ₹0.22 crores has been charged to the opening balance of the retained earnings in respect of assets whose remaining useful life has expired as at 1 April 2014. Also, in the consolidated financial results of the Company, the depreciation charge for the nine months ended 31 December 2014 is higher by ₹11.23 crores and an amount of ₹2.95 crores has been charged to the opening balance of the retained earnings in respect of assets whose remaining useful life has expired as at 1 April 2014.

4 Pursuant to the Buy-back programme of the Company which closed on 3 November 2014, an aggregate of 2,030,048 equity shares of the face value of ₹1 each have been bought back and extinguished.

5 During the quarter ended 31 December 2014, the Company has issued 10,396,963 equity shares of face value of ₹1 each to the employees on exercise of employee stock options.

6 The Board of Directors at its meeting dated 23 January 2015, has declared an interim dividend of ₹0.80 per equity share (on face value of ₹1 per share) for the financial year 2014-15.

7 The previous year/period figures have been regrouped/reclassified wherever necessary to conform to current period's presentation.

8 The standalone and consolidated results will be available on the Company's website - www.edelweissfin.com .

On behalf of the Board of Directors

Rashesh Shah

Chairman

Mumbai, 23 January 2015