Management Discussion & Analysis

MACRO ECONOMY: REVIEW AND OUTLOOK

FY18 was one of the better years for global economy and markets. Accelerating growth, easy liquidity, and contained inflation resulted in strong rally in risk assets with low volatility. This was in sharp contrast to FY17, which sprang many surprises such as Brexit, US elections etc.

Global economy continued to build on the cyclical turnaround which started in FY17. Economic growth became more broad-based, resulting in an improvement in global trade, industrial activity, global PMIs and business confidence. However, of late, the rising trade protectionism is coming to fore again. While FY17 saw more of political rhetoric on trade protectionism, some policy action was seen during FY18 and any aggressive steps towards this can undermine global growth.

For India as well, FY18 was a more eventful year with reforms continuing to take place and an improving export performance. The much awaited GST was finally rolled out in the year and though the implementation did lead to initial hiccups, things are settling down and getting better now. Apart from this, RERA finally became a reality, bringing in the much desired discipline in the real estate industry.

Indian trajectory will remain strong with reforms like GST, IBC and RERA

The improvement in India's rank of ease of doing business and sovereign rating upgrade (first in last 14 years) is again an effect of continued reforms. This should over time yield benefits in terms of higher FDI and lower cost of capital.

As far as business cycle conditions are concerned, things are on the improving path. Inflation remains benign and broadly speaking, fiscal also remains comfortable. The rise in crude oil prices, however, does pose some downside risk to India's macro environment. In terms of flows in FY18, FDI flows continued to remain stable at ~$36 billion and portfolio flows have remained strong at ~$22 billion, significantly higher than ~$8 billion in FY17.

On the monetary side, RBI maintained its neutral stance throughout the year. Hence, it cut rates only by 25bps, despite FY18 CPI being ~3.5%, 50bps lower than its medium term target. Lower CPI, in fact, resulted in real interest rates being higher in FY18. INR remained strong during most of the year, with average FY18 INR/USD rate at 64.50 compared to FY17 average of 67.00. However, recent strengthening of USD is again impacting rupee.

Overall Outlook

Overall the macro-fundamentals of the economy remain in comfortable zone albeit with increasing risk from rising crude oil prices. Economic conditions have improved amid rebound in exports and government's push towards infrastructure spending.

Going ahead we believe growth trajectory will remain strong and improve further based on stabilisation of GST regime and other reforms. Rural economy should also get a fillip with IMD forecasting FY19 to be the third consecutive year of normal monsoon. Most importantly, we expect Banking sector NPA problems, which have been haunting the economy for last 7 years, to finally near an end owing to a quicker resolution of stressed assets and PSU bank recapitalisation.

INDUSTRY STRUCTURE AND DEVELOPMENTS

Commercial Credit Markets

After a subdued growth in Indian banking sector in FY17 (non-food credit at sub 5% levels), credit growth started to improve in FY18 with non-food credit at 11% levels.

To tackle the issue of Non-Performing Assets (NPAs), Insolvency & Bankruptcy Code (IBC) was implemented, large NPA accounts were identified and prioritised and action was taken to resolve the NPA problem. Re-capitalisation funds of ₹2.1 trillion were allocated to meet up the requirement of capital deficient PSU banks. Given the magnitude of the asset quality issue in banks, the government has pro-actively worked with RBI on the resolution of stressed assets. RBI also increased its monitoring of asset classification of stressed accounts at all the banks in FY18.

Now that banks have started providing adequately for distressed assets and IBC has come in play, resolution and turnaround should happen over the next couple of years and credit growth should also improve in FY19.

NBFC Industry

While commercial banks continued to remain dominant source of credit in India, the NBFC sector has been steadily gaining systemic importance with increase in assets from less than 11% of banking assets in FY09 to over 14% now. Though the banking sector was beset with worsening asset quality in FY18, NBFCs could restrict the impact of delinquencies in their portfolios due to their ability to respond quickly owing to effective risk management policies followed by them.

The early part of the fiscal year saw an interim blip in their performance following demonetisation, but recovery following that has also been swift and the situation is back to normal. The growing relevance of the NBFCs also highlights the emphasis of risk management in the sector. Going ahead, comfortable capital adequacy, control on asset quality and conservative liquidity management practices will continue to provide comfort to the credit profile of NBFCs.

Retail Finance

While corporate growth continued to be under pressure, retail segment continues its momentum. Most of the NBFCs and HFCs continue to scale up their portfolio focusing on housing finance, Loans against Property (LAP), Small and Medium Enterprises (SMEs) finance and consumer finance. Within these segments housing continues to do well and also entails huge potential given a) government/regulator thrust, and b) supporting demographic factors etc.

The other scalable area is SME finance. Looking at Indian market, SMEs continue to be under-banked and NBFCs are increasingly turning towards this sector. Thus, the potential for NBFCs and HFCs to scale up their business remains significant.

Asset Reconstruction Industry

Asset Reconstruction Industry has come a long way since its inception and has evolved from a recovery oriented agency mechanism to an attractive investment business for revival of financially broken but potentially viable business entities and earn a reasonable risk adjusted return.

Recent initiatives like IBC and regulatory changes by RBI and Government of India have made Asset Reconstruction Company (ARCs) more effective and efficient in their business of reviving such assets and re-orient themselves as turnaround specialists. ARCs would increasingly become participator of a multi-platform business model with co-investors/large fund houses also bringing in funds.

ARCs will re-orient themselves as turnaround specialists

Wealth Management

Due to various economic reforms, structurally low interest rates and increased investment choices, the focus of investment by Indian public is shifting from hard assets and savings to investing in financial assets. This is clearly visible in the inflows in the equity markets and other capital market investments during FY18. At the same time, the Ultra High Networth Individuals (UHNIs) and Affluent clients are increasingly looking at sophisticated investment strategies and turning towards more personalised and focused investment advisory services in their quest for higher yields. This is creating immense opportunities for wealth management industry. As per our estimates, the assets under advice of the industry continue to grow briskly and now stand at over ₹15 trillion.

Asset Management

The asset management industry in India consists of growing mutual funds and alternative investment funds (AIFs). Similar to wealth management, asset management is also immensely benefitting from the shift of household savings to financial assets resulting in huge inflows in mutual funds along with a record increase in SIPs during FY18.

Mutual Funds' AuMs recorded significant growth of ~22% to stand at ₹21.36 trillion as on March 31, 2018 compared to ₹17.55 trillion a year ago with huge inflows into Equity schemes. Total number of folios in mutual funds stand at 71 million and the number of SIP accounts are 21 million as on March 31, 2018 indicating greater penetration. AuMs under PMS and AIFs, continuing their own growth, have crossed ₹2 trillion as at the end of FY18 as per our estimates.

Alternative assets funds in the structured credit, distressed assets and real estate space also saw higher inflows of ~$4.5 billion during the year compared to ~$2 billion in FY17 and their AuMs stand at ~$27 billion at the end of this year as per our estimate.

Thus the asset management inflows have gained traction which bodes well for the industry.

Capital Markets

As FY18 was a good year for equity markets, both the indices – Nifty and Sensex reached their all time highs. However, re-introduction of long term capital gain tax on gains from listed equities in Union budget along with rising policy action towards global trade protectionism did create some panic towards the fag end of the fiscal year, resulting in a just 10% Nifty return in FY18 compared to 19% in FY17. Equity raising by corporates was also robust this year.

Shift in household savings to investments will benefit wealth and asset management

As regards debt markets, the regulatory push towards the development of the bond markets continues. However, despite various reforms undertaken by RBI and government in the recent past, FY18 turned out to be a tumultuous year for the bond market due to a sharp turnaround in sentiments driven by a host of factors which pushed the sovereign bond yields by ~150 bps in the latter half of the year. This resulted in a lacklustre activity in debt market and amount of debt raised through public issues in FY18 fell steeply to ₹52 billion compared to ₹295 billion in FY17. Similarly, private placement of bonds in FY18 was also lower at ₹4,526 billion compared to ₹4,932 billion in FY17. Many of these concerns have softened of late and as the market gains confidence and yields stabilise, activity in both primary and secondary debt markets should again pick up.

Life Insurance

Life insurance sector in India suffers from low level of penetration at ~2.72% and per capita insurance density of only USD 46.50 while global insurance penetration stands at ~3.47% with density of USD 353 (source IRDA report 2017). The year FY18 was a better year as the Individual APE growth of the industry was higher at ~19% touching ~₹635 billion compared to ~₹532 billion for FY17. However, within this, private sector life insurers recorded a higher growth at ~24%. With this, the private insurers increased their Individual APE market share from ~54% in FY17 to ~56% in FY18.

The industry fared well this year given strong equity markets, improving persistency and expense efficiency. However, significant scope still exists for margin expansion by a possible shift in product mix towards higher protection, morbidity and longevity (annuities) products from savings and investments. Similarly, development of proprietary channels, direct and agency, can also aid the process.

General Insurance

The General Insurance industry is witnessing increased need for asset and liability protection solutions and health Insurance in India.

However, despite this ever growing potential, the penetration of the General Insurance Industry in India remains much below global averages: 0.77% of GDP (source: Swiss Re Sigma) compared to the global average of 2.81%. Thus, the Indian Industry has significant growth potential which is being demonstrated by the robust 10-year CAGR of 17% in the industry. The private general insurers have grown even faster at a CAGR of 20%. In terms of future growth as well, Munich Re Economic Research estimates that India will be the fastest growing Property & Casualty Insurance market in the world and is expected to achieve inflation adjusted CAGR of 8.7% during the period 2017-25.

EDELWEISS OVERVIEW

A FULLY DIVERSIFIED FINANCIAL SERVICES GROUP

Edelweiss was founded in November 1995 with an aspiration to building a quality organisation which would be guided by our values and beliefs and to create something for the long-haul. Twenty two years hence, it gives us immense pleasure to share with you that Edelweiss group today is a 10,000+ strong army. Together, we have created one of India's largest diversified financial services platform, helping over 1.2 million customers in the far reaches of the country fulfil their dreams and aspirations.

EDELWEISS STRATEGY

From initially providing advisory and investment banking services, Edelweiss has grown consciously and strategically by investing in expanding services in existing areas as well as in adjacent markets to become a bank-like diversified financial services group today.

Edelweiss has come a long way since inception and knowledge, research and innovation have been the key drivers of the company's growth. We believe that we must add significant value by providing cutting edge products and services by focusing on six key vectors in our journey – **people management, cost management, risk management, technology, simplicity and customer obsession**. At the broader level, our strategy and key business tenets continue to be to improve or build **profitability, scalability, sustainability, management quality** and **governance**.

Over the years, Edelweiss has also demonstrated its ability to reinvent itself at the turn of each economic and business cycle. This element of adaptability and flexibility adds significant tail winds to our strategy implementation and growth efforts.

EDELWEISS FINANCIAL SERVICES LTD. (EFSL) FINANCIAL PERFORMANCE HIGHLIGHTS

Over the last 22 years, we have experienced various growth phases in our journey – right from our birth pangs up to FY2000 to hyper growth from FY05 - FY08. This was followed by the painful consolidation of the post-crisis era till FY12 and then to the balanced and mature growth phase. We are now in the midst of the scale-up phase.

In continuation of our long-term growth trajectory, our Consolidated Profit after Tax (PAT) is up 46% YoY to ₹8.90 billion and we have seen a CAGR of 38% in PAT over the last 28 quarters, making us one of the fastest growing financial services companies. This growth has been on the back of our sustained efforts towards building a bank-like diversified financial services model. As our rank among companies in India improves gradually, we are grateful to all our stakeholders for helping us build this robust platform.

We are happy to share that Edelweiss completed a fund-raise of ~₹15.28 billion via a QIP in the third quarter of FY18. This is the first fund-raise at the parent company level since our IPO in 2007. This fund-raise saw the participation of several marquee foreign and domestic investors including CDPQ, HDFC MF, Kotak MF, Goldman Sachs, Nomura and Fidelity amongst others. With a comfortable capital position, we are well-placed to continue our growth momentum and focus on building a great institution.

Six key vectors– people, cost, risk, technology, simplicity and customer

CONSOLIDATED RESULT - FY18

A summary of consolidated FY18 financial performance of EFSL is as under:

Total Revenue
₹86.23 billion (₹66.34 billion for FY17), up 30%

Profit after Tax
₹8.90 billion (₹6.09 billion for FY17), up 46%

Profit after Tax ex-insurance
₹10.36 billion (₹7.19 billion for FY17), up 44%

Group Net worth
₹77.62 billion (₹52.88 billion for FY17), up 47%

Return on Equity ex-insurance 22.1%
(20.7% for FY17)

Return on Assets ex-insurance 2.6%
(2.4% for FY17)

Diluted EPS ₹9.80
(₹6.92 for FY17)
(FV ₹1)

Book Value per Share
₹72.89 (₹52.00 at the end of FY17) (FV ₹1)

38% PAT CAGR over the last 28 quarters

FINANCIAL HIGHLIGHTS

INCOME

Fund based revenue was ₹56.56 billion for FY18 (₹48.06 billion for FY17), up 18%. It mostly comes from interest on loans and credit substitutes, reflecting the scale up in credit book. Our Net Interest Income for FY18 was ₹15.45 billion (₹12.92 billion for FY17), up 20%.

Fee & Commission revenue was ₹21.34 billion for FY18 (₹12.48 billion for FY17), up 71%, on the back of scaling up of all our franchise businesses as well as our ARC becoming a subsidiary of our group during Q2FY17.

After deducting the finance cost, Net Revenue for FY18 was ₹50.93 billion (₹38.24 billion for FY17), up 33%.

Life insurance business recorded a net premium of ₹6.19 billion for FY18 (₹4.26 billion for FY17), a growth of 45%.

Our diversified revenue streams ensure our constant growth across cycles despite volatile environment.

EXPENSES

Total costs for FY18 was ₹72.00 billion (₹56.76 billion in FY17), up 27%. Within our total costs, operating expenses grew by 39% in FY18 as we continued to invest in scaling up our younger retail businesses.

Employee expenses grew by 23% in FY18 as we continued hiring to support our growing businesses. As the size of our operations grew and as we became ₹551 billion asset company, it was also imperative to strengthen the organisation and we have added people at all levels, including over 130 senior professionals. We added in all about 3,080 employees during FY18, a growth of 44%, taking the year end head count to 10,052 resulting in the employee expenses growth.

Interest expense growth was contained at 26% in FY18 despite our borrowings being higher at ₹473.23 billion compared to ₹333.79 billion a year ago with a growth of 42%. Our cost of funding came down to 9.3% in FY18 compared to 9.7% in FY17 helping us bring down the interest expense.

PROFIT AFTER TAX

Our PAT and Minority for FY18 was ₹8.90 billion compared to ₹6.09 billion for FY17, a growth of 46%, which was mainly due to 18% increase in Fund based income, 71% increase in Fee & Commission income and 45% increase in Premium from insurance business. Our Return on Equity (RoE) on consolidated basis for FY18 was 17.1%, up from 15.5% a year ago. Our RoE has improved in FY18 despite addition of ₹15.28 billion to our net worth during FY18 by way of QIP.

Our profits continue to be contributed by a diverse set of businesses eliminating cyclical volatility in our performance.

Profitability ex-insurance

Our life insurance business is relatively young and given the long gestation period of life insurance companies, it is still recording losses, which is as per the plan. Recently launched general insurance business will also continue to impact our consolidated profitability till it breaks even.

Excluding the impact of losses in insurance business, our net profit for FY18 is ₹10.36 billion compared to ₹7.19 billion in FY17, a growth of 44%. Our RoE ex-insurance comes to around 22.1% compared to 17.1% on consolidated basis for FY18.

Business-wise Analysis of Profitability

Operations of Edelweiss are organised around three broad business groups – **Credit business** including Retail Credit, Corporate Credit and Distressed Credit, **Franchise & Advisory business** including Wealth Management, Asset Management and Capital Markets, and **Insurance** including Life and General Insurance.

The business-wise financial data based on Management's estimates for FY18/as on March 31, 2018 is as under:

₹ in billion

	EoP Equity	PAT	RoE	RoA
Pre-Minority Total				
Credit	56.24	7.31	18.1%	2.2%
Franchise & Advisory	2.25	3.08	–	–
BMU, Corp & Others	6.18	0.83	9.7%	1.0%
Insurance	12.96	(2.60)	–	–
Less Minority	(10.89)	(0.28)	–	–
Total Consolidated	**66.73**	**8.90**	**17.1%**	**2.0%**
Total Ex-Insurance	59.44	10.36	22.1%	2.6%

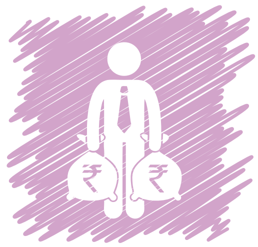
Notes: Numbers are Management Estimates
RoE is calculated on Average Equity

While the Credit business continues to be the significant driver of growth in profits, the Franchise & Advisory businesses have grown strongly during FY18, backed by our investment in these businesses over the last few years. No business in Edelweiss now contributes more than 20% to the overall profit, a testament to our strategy of diversification. This has helped us not only diversify our earnings base to be able to withstand any shocks in the market, it has also helped us establish leadership position in several emerging opportunities. Edelweiss businesses won 28 awards during this year highlighting their leadership in the industry.

With our current size, there is ample headway for growth in each of these businesses as the India growth story pans out.

Balance Sheet

The effective Balance Sheet size at the end of FY18 was ₹550.86 billion compared to ₹386.67 billion at the end of FY17, a growth of 42%. The asset side of the balance sheet includes credit book of ₹420.10 billion besides liquid assets like FDs and cash balances ₹44.84 billion and Government Bonds ₹41.16 billion for liquidity management and business requirement.



Distributed profits across businesses is testament to our diversification strategy

On the liability side, our total net worth was ₹77.62 billion as on March 31, 2018 compared to ₹52.88 billion as on March 31, 2017. Debt as on March 31, 2018 was ₹473.23 billion (₹333.79 billion as on March 31, 2017). However, as a part of our liquidity management, we hold liquid assets in our Treasury book and excluding such liquid treasury assets our Net Gearing Ratio stands at 4.9 times as on March 31, 2018. The Capital Adequacy Ratio (CAR) on consolidated basis was 17.04% at the end of FY18.

BUSINESS SEGMENT-WISE PERFORMANCE

Brief highlights of our business segment-wise performance in FY18 are as under:

CREDIT BUSINESS

Credit business of Edelweiss is a mix of diversified and scalable businesses. It consists of retail credit, corporate credit and distressed credit business. The retail credit segment offers Mortgages including Home Finance, Retail Construction Finance and Loan against Property, SME Finance, Agri & Rural Finance and Loans against Securities. Corporate credit business offers Structured Collateralised Credit to corporates and Real Estate Finance to developers. Distressed Credit business offers resolution of distressed assets including turnaround advisory services.

Total credit book stands at ₹420.10 billion at the end of this year compared to ₹276.08 billion at the end of previous year, a growth of 52%. The book comprises of retail credit ₹161.88 billion (39% of total book), corporate credit ₹195.25 billion (46%) and capital deployed of ₹62.97 billion in Distressed Credit business (15%). The book has grown at a CAGR of 59% since FY09. Credit business improved its NIM in FY18 to 7.7% compared to 7.2% in FY17.

Significant opportunity to tap the underfinanced SME sector

The **asset quality** of the overall credit book continued to remain under control with Gross NPLs at 1.75% and Net NPLs at 0.70% as on March 31, 2018 compared to 1.59% and 0.60% respectively a year ago. The Provision Coverage Ratio (PCR) on NPLs was 60% at the end of FY18. Our total provision cover including the provision on standard assets is 81% at the end of this year.

We have successfully managed the transition of recognising NPLs to 90+ days past due (DPD) norm during FY18 from 180+ DPD norm three years ago without any significant slippages in our asset quality. This was made possible due to our focus on risk management and achieving growth in the book without diluting risk standards.

RETAIL CREDIT BUSINESS

As a part of our long term strategy of synergistic diversification of asset classes and customer segments, Edelweiss offers Housing Finance, Retail Construction Finance, LAP, Rural Finance and Loans to SMEs under Retail Finance business.

This business operates through 132 branches in 118 cities and over 2,300 villages with a client base of ~362,000. We expanded our footprint in 63 new cities this year as part of our infrastructure build up for scaling up this business. This business had built a book of ₹92.12 billion at the end of FY18 compared to ₹53.76 billion at the end of FY17, up 71%. The loan to value ratio in its home loans and LAP portfolio remained at a comfortable level of ~45% with an average tenor of ~15 years.

SME Finance

SMEs account for a significant portion of India's economic output and employment. The sector is underfinanced and credit plays a crucial role in the growth of this sector. Our SME finance business currently operates in 88 major cities across 19 states, up from 17 branches in 11 states last year. This business had a book of ₹22.27 billion at the end of FY18 compared to ₹13.54 billion a year ago, a growth of 64%. Given the importance of SMEs to the Indian Economy, this business continues to present a significant opportunity to build a highly profitable and scalable business.

Agri Credit

Agri credit business is significantly large and untapped opportunity in India. Agri sector is a fragmented market compelling a client to go through multiple service providers to complete a single transaction. Edelweiss is one of the few organised players offering end to end services to meet a new emerging need for the economy by bridging the physical needs with the financial needs of the commodities market.

As a part of our endeavour, agri credit book scaled up during FY18 and stood at ₹8.85 billion compared to ₹4.63 billion at the end of FY17, a growth of 91%. We have 523 leased warehouses under our management with a storage capacity of around 1.8 million metric tons with tie-ups with around 19 banks for collateral management.

Thus our Retail Finance business (Retail Mortgages, SME and rural finance) has a book of ₹92.12 billion, and Agri credit along with loans against securities and other retail loans aggregate ₹69.76 billion at the end of FY18. Taken together, our total retail credit portfolio stands at ₹161.88 billion at the end of FY18 compared to ₹89.52 billion at the end of FY17, a growth of 81%. Retail credit accounted for 39% of total credit as at the end of FY18 compared to 33% a year ago. It continues to be our focus and we intend to increase its proportion in the total book to around 50% in the next two years.

DISTRESSED CREDIT BUSINESS

Edelweiss Distressed Credit business comprises Edelweiss Asset Reconstruction Company (EARC), Distressed Funds and Turnaround Advisory services.

EARC scaled up its business with AuM of ₹438 billion at the end of FY18 compared to ₹395 billion at the end of FY17. EARC has already created a track record of resolution of assets of over ₹261 billion by the end of FY18 through a combination of resolution strategies with revival and business turnaround being the foremost strategy. Its recoveries during FY18 were higher at ₹25.74 billion compared to ₹10.82 billion in FY17. Our acquisitions will continue to generally target EBIDTA positive operating assets which can be revived.

Edelweiss ARC has been able to maintain its market leadership with a market share of around 45-50%. We have been a pioneer in the industry in changing the perception of ARCs from a recovery oriented agency model to an attractive investment in business for revival of stressed businesses. We are the first ARC to have access to in-house turnaround team for improvements in the operations of stressed assets.

FRANCHISE & ADVISORY BUSINESSES

Our **Franchise & Advisory businesses** include **Wealth Management, Asset Management and Capital Markets**.

WEALTH MANAGEMENT

The Wealth Management business provides advisory and investment services including broking services to UHNIs and Affluent clients with an emphasis on research and analytics. This business offers differentiated value proposition which is delivered through Specialist Financial Advisors and Digital platform.

Our efforts to scale up this business continue to yield results with the business ending FY18 with AuAs of over ₹901 billion compared to ₹603 billion at the end of FY17, a growth of 49%. The AuAs have recorded 63% CAGR growth in the last six years. This business is gaining market share by offering a multi-asset platform with structured customised solutions and is now one among the industry leaders. Its leadership position is truly reflected in various prestigious awards won during FY18 including **"Best Private Bank"** at the Asiamoney Best Bank Awards, 2018, **"Best Wealth Manager – Rising Star India"** by the Asset, Hong Kong, and **"Excellence in Wealth Management, India"** by Asian Private Banker, Hong Kong, 2017.

Wealth Management business caters to over 522,000 clients as at the end of March 2018.

ASSET MANAGEMENT

Asset Management business comprises of three businesses – **Alternative Asset Management, Mutual Funds** and **Multi Strategy Funds**.

Alternative Asset Management

Quest for yield, growing affluence and development of AIF platform are driving the growth of Alternative Asset Management industry. Our objective in this business is to offer innovative and differentiated products by combining Edelweiss platform with investment capabilities to drive consistent investment performance. We are present across asset classes in private debt space through this business. Our efforts to scale up this business also continue

EARC continues to target revivable EBIDTA positive operating assets to yield results with the AuM reaching ₹119.69 billion equivalent spread over eight funds at the end of FY18 compared to ₹87.80 billion at the end of FY17, a growth of 36%.

Multi Strategy Funds

Our Multi Strategy Funds business is focused on offering Liquid Alternative strategies to UHNIs and Affluent clients. This business has AuMs of ₹56.97 billion compared to ₹25.86 billion at the end of FY17, a growth of 120%.

Mutual Fund (Retail Asset Management)

Our Mutual Fund manages 30 schemes across Equity, Debt and Liquid categories with an AuM of ₹115.05 billion at the end of March 2018, compared to ₹68.34 billion in the last year, a growth of 68%. Around 69% of its AuM is in equity schemes. The business caters to around 117,800 unique investors, compared to 79,800 at the end of FY17.

The aggregate AuMs of our Asset Management business stand at ₹292 billion as at the end of FY18 and have grown more than 10x compared to the AuMs of ₹28 billion as at the end of FY15.

We are now one of the few asset managers in India with leadership position across full bouquet of product offering.

CAPITAL MARKETS

Our **Capital Markets** businesses offer **Investment Banking, Institutional Equities, Prime Broking services** and **Fixed Income Advisory services**. This business continues to show strong performance.

Edelweiss continues to be a leader in Investment Banking and has executed 23 transactions in FY18 compared to 18 transactions in FY17. This included record 20 transactions under Equity Capital Markets, highest ever for this business. Out of these 20 transactions, 8 were ₹10 billion+ transactions.

Our Fixed Income Advisory business closed 62 deals during FY18. In the public issue of debt and short term commercial paper (CP) segment, we retained number one position with a market share of around 80% and 23% respectively (Source: Prime Database). As already mentioned, bond market activity was subdued in second half of FY18 due to a substantial rise in the interest rates of benchmark government securities. During FY18, we also closed eight Debt Restructuring and eight Debt Syndication transactions.

Institutional Equities business provides equity and equity-derivatives sales and trading services to a large base of FIIs and DIIs. We continued to be among the largest Indian domestic Institutional Broking Houses with a market share of 4 to 4.5% by revenue. This business received the **"Best Broker Award"** from Finance Asia in 2017.

INSURANCE

Edelweiss expanded its addressable retail markets by entering into insurance business during 2011 with the launch of life insurance business. This year in Q4 we completed our offering in the insurance segment by launching general insurance business.

LIFE INSURANCE

Edelweiss launched Edelweiss Tokio Life Insurance Company in 2011 in partnership with Tokio Marine of Japan. It was launched with a capital of ₹5.50 billion – among the highest start-up capital for any Indian life insurer. Signifying our commitment to building a long-term value creator and a sustainable business, both the JV partners further infused capital of ₹6.70 billion during FY18 taking the total capital infused since inception to ₹19.97 billion. Edelweiss holds 51% equity in this JV with Tokio Marine holding the rest.

Edelweiss Tokio is one of the fastest growing life insurance companies in India in the last three years with significant improvement in operational metrics. Gross premium of this business in FY18 was ₹6.38 billion compared to ₹4.41 billion in the previous year, a growth of 45%. Collected Individual APE grew by 52% to ₹2.51 billion in FY18 with a CAGR of 37% since FY15 compared to 16% recorded by the industry. Overall 13th month persistency grew from 72% in FY17 to 80% in FY18 and Individual Claims Settlement Ratio improved from 93% in FY17 to 95% in FY18. The Indian Embedded Value of this business stands at ~₹16.35 billion as on March 31, 2018.

It continues to expand its distribution footprint across agency, partnership and direct channels. During FY18 Edelweiss Tokio expanded its branch

2018 marked our entry into the General Insurance space network to 121 branches in 93 major locations/cities in India. The agency channel force has also scaled up with the number of Personal Financial Advisors crossing 31,000 by the end of this year compared to ~21,000 a year ago.

It offers 30 individual products with eight rider options, designed to meet various needs of customers. It also offers five group insurance products.

It launched three new products in FY18 including ***Wealth Plus*** which is an award winning product and a one of its kind product in the market where 100% of the premium is invested with zero allocation and administration charge.

All the individual ULIP funds of Edelweiss Tokio Life Insurance are overall rated 4 or 5 Star and above by Morningstar, an independent entity, as on March 31, 2018, indicating consistent fund performance.

Edelweiss Tokio has also won several awards this year including:

- **"Best Product Innovation for Wealth Ultima"** at Fintelekt Insurance Awards 2017,
- **"Best Product Innovation – Wealth Plus"** at the ET Now – BFSI Awards 2018,
- **"Best Product Innovation for Wealth Ultima"** at the National Awards for Excellence in Insurance 2017,
- **"Golden Peacock Innovative Product / Service Award 2018"** for Wealth Plus &
- **"Best Product Innovation"** for Wealth Plus at the Golden Globe Tigers Awards 2018.

GENERAL INSURANCE

Edelweiss strengthened its retail foray and increased the breadth of solutions offered to customers, both corporate and individual, with the launch of general insurance business in February 2018 through its 100% owned subsidiary Edelweiss General Insurance Co. Ltd. (EGIL).

The opportunity for EGIL is underscored by the India opportunity, significant headroom for growth of general insurance and the Edelweiss group leverage model.

The Edelweiss group's customer base of 1.2 million plus across individuals and corporates, along with its diverse distribution channels, offers the general insurance business a strong platform to participate in the India general insurance growth story. Maximising this internal opportunity is one of the key strategic priorities for the business and in line with this, the first product launched, was a liability protection solution for the customers of our retail finance business.

The general insurance business intends to establish itself as a new age player willing to challenge category conventions to deliver a truly 'hassle free' experience to the customer. This will be delivered through technology enabled innovative products and digital processes. For products, consumer insight will drive innovation across the mainline categories of motor and health insurance together with niche opportunities in lifestyle protection.

BALANCE SHEET MANAGEMENT UNIT (BMU)

Balance Sheet Management

The BMU manages our group's liquidity in a way similar to that of Treasury of a commercial bank. As a part of this process, we have developed a set of **Balance Sheet Management Rules** to measure, monitor and change key metrics and positions to ensure a healthy Balance Sheet and these are benchmarked to international best practices.

Asset Liability Management Committee (ALCO)

Edelweiss ALCO manages **allocation of capital** among businesses along with **Asset Liability Management**. It also manages the group's **interest rate and liquidity risks** besides a host of other crucial functions.

Liquidity Cushion

BMU ensures that an adequate liquidity cushion is maintained to take care of immediate requirements while continuing to honour our commitments as a going concern. At the end of the year FY18, we enhanced our liquidity cushion to ₹52 billion, compared to ₹40 billion a year ago, which is around 9% of our balance sheet size. We continually evaluate the composition of our liquidity cushion through various instruments to ensure immediacy, relevance and cost efficiency.

We maintain adequate liquidity cushion and constantly strengthen our balance sheet

Maintaining Liabilities Profile in sync with Lengthening Assets Profile

Besides maintaining a liquid balance sheet, we continue to reduce dependence on market borrowings, diversify our sources of borrowings and increase liabilities in the medium to long term buckets. During FY18, we contracted around ₹180 billion of fresh medium to long term liabilities. These included maiden issue of Perpetual Bonds of ₹3 billion and the maiden issue of floating rate NCDs of ₹2.50 billion, through our NBFC subsidiaries. One of our NBFC subsidiaries, Edelweiss Retail Finance Limited issued retail bonds aggregating ₹5 billion for the first time during the year. With this, three of our subsidiaries have issued retail bonds. We also enhanced our total fund and non-fund based sanctioned bank lines of credit at the end of FY18 to ₹230 billion compared to ₹159 billion a year ago.

As a result of the pro-active steps taken by us, we just not have only a comfortably matched ALM profile, we have even improved it.

OPPORTUNITIES

The macro economic developments in India as well as the rest of the world detailed earlier augur well for growth of financial services in India for firms like Edelweiss and offer immense opportunities in FY19 and beyond as under:

- The projected growth in the Indian economy at 7%+ in FY19 would open up vast opportunities for us to grow our various diversified businesses.
- A welcome shift of access to credit from only large business houses to SMEs, MFIs, middle and low income groups has led to democratisation of credit opening up vast sections of eligible borrowers for credit. This together with the Government's push for affordable housing and "Housing for all by 2022" augurs well for companies like ours which have already secured a strong foothold in retail credit segment.
- The financialisation of Indian household savings is already presenting newer opportunities for financial services like asset management and wealth management which are two of our fastest growing businesses and are ready to capture a fair share of growth.
- Social, Mobility, Analytics and Cloud Computing (SMAC) are the emerging trends in technology. Government initiatives in respect of Digital India and move towards formal and cashless economy has also opened up new client segments which firms like ours can tap for future growth.

THREATS

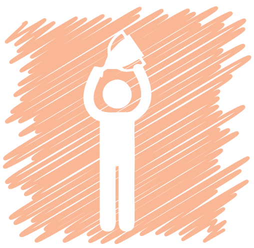
While the opportunities landscape is promising, the following threats could dampen the growth of financial services sector in India:

- Global economy could slip into turmoil if the current trade and tariffs war between USA and China intensifies.
- Slower than expected recovery of macro-economy, domestically as well as globally, increase in oil prices or delay in revival of capex cycle can impede growth.
- Impending Lok Sabha and a number of State elections could lead to uncertainties in the environment.
- While the monsoon is predicted to be normal this year, any unforeseen failure of the monsoon can hinder the recovery in rural economy.

OUTLOOK & STRATEGY

The Indian economy is back on the growth path and democratisation of credit, financialisation of assets and privatisation of the economy will together lead to a compounding effect, which in turn is expected to double India's GDP from USD 2.5 trillion in 2018 to USD 5 trillion in 2025. Financial services will continue to be a standout performer in this golden age of compounding, private financial services even more so.

In this significant growth scenario, Edelweiss is well-geared to take advantage of the unfolding opportunity with the multiple vectors of growth that we have. Our retail businesses have gained traction and franchise and advisory businesses have also built significant size and scale. With the foundation we have laid, we are well placed to achieve sustainable growth in the years to come by following our time tested strategy of focusing on key vectors in our journey in future – **people management, cost management, risk management, technology, simplicity and customer obsession**.



Aspire to be among the top 10 financial services companies in India

While the successful implementation of our diversification strategy has helped us achieve all round growth with enviable CAGR numbers as detailed earlier, we have set for ourselves even stiffer targets for future. In the next few years, we wish to aspire to be among the top 10 financial services companies in India, achieve PAT growth of 30%+ CAGR and exceed the expectations of all our stakeholders.

EDELWEISS BRAND – BeUnlimited

Edelweiss as a brand is resonant with being an "Enabler" which helps the consumers view financial products as a launch pad for their ambitions. Our value ethos is inspired by the **"BeUnlimited"** philosophy which empowers our customers to access a world of unlimited opportunities. It is a philosophy, a promise embedded at the very core of what we do and how we do it. BeUnlimited is going beyond incremental gains and efforts and is more an aspiration towards surmounting one's limitations and reaching for the stars. This is evident in the active support that we extend to sports as a cause and partnering with Indian Olympians.

Our Commitment to Sports

Edelweiss continues to be a sports evangelist. This year, Edelweiss group deepened and strengthened its commitment towards building a sporting nation. The Edelweiss group has inked a long-term partnership with the Indian Olympic Association (IOA) towards sponsorship of the Indian contingent for all games including Commonwealth Games 2018, Asian Games 2018, Tokyo Olympic Games 2020 and National Games 2019 and 2020. The group launched a campaign saluting the **#BeUnlimited** spirit of our athletes, aimed at garnering support for Team India for the 21st Commonwealth Games held in Gold Coast, Australia recently. Moreover, Edelweiss provided a life cover of ₹5 million to each of the athletes through the group company Edelweiss Tokio Life Insurance Ltd.

Edelweiss has also signed on India's female sporting legends – Dipa Karmakar (first ever Indian female gymnast to compete in the Olympics and attempt the Produnova) and Rani Rampal (Captain of Indian women's hockey team). This is in line with our ethos of BeUnlimited and we believe their journey and success will serve as inspiration for women across the country and for the next generation of Indian athletes. We have also signed on Sukant Kadam who is World #2 para badminton player.

RISK MANAGEMENT

Financial Services Industry has seen significant shifts in business practices in last one year with the digital revolution making the environment dynamic. Risk Management practices, therefore, require a dynamic, proactive and efficient approach to keep pace with the constant change.

The structural trends that are driving many of these significant shifts stem from multiple sources: digitisation of business decisions, public sentiment being less tolerant of any appearance of preventable errors and/or inappropriate business practices, rising customer expectations of holistic experience and environment where incidents of frauds are being reported frequently. Going forward, risk management will have to cope with many new risks in addition to the conventional risks.

Risk management has been core to Edelweiss since we began our journey. By embedding risk management into the DNA of the organisation, we ensure that the first line of defence starts from each individual.

Risk management is embedded in our DNA

Respect for Risk is central to every business decision at Edelweiss. Simple questions are to be answered before every decision, i.e., **"Is it worth it?"** and **"Can we afford it?"**. To support the risk strategy and effective risk management, we have built an in-house **"Eight-risk framework"** coupled with **"Four-tiered risk governance structure"** which protects Edelweiss and ensures that there are enough defences available to control all types of risk events. The four-tiered risk governance structure includes business level risk team, Global Risk Group at the Corporate Centre, Global Risk Committee and the Board Risk Committee which oversees the risk management at the apex level. As a pro-active measure, we are also working on establishing group wide Enterprise Risk Management framework to take risk management to even a higher level.

As a result of the focus on risk management, Edelweiss recently won the Risk Management team of the Year 2017 award at CRO Leadership Summit organised by UBS Transformance

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Internal Financial Controls

The Internal Control Framework of Edelweiss aims to strengthen the overall assurance practices, processes, controls, sharing of best practices, conducting periodic assessments, establishing and overseeing control dashboards and above all creating a "CARES" philosophy for the entire organisation as below:

- Control culture through training workshops, best practice sharing platform across SBUs.
- Assurance through oversight of internal audit function, preparedness of inspections by regulators, special assignments and deep dive in collaboration with other teams.
- Reliable internal controls framework through control reviews, Risk Control Self Assessment (RCSA)/Internal Financial Control review and mock audits.
- Effective and efficient processes through benchmarking with peers, automation of process controls, control dashboard and its monitoring.
- Standardisation through Standard Operating Procedures, frameworks, policies and practices.

The Corporate Controller team, which administers the Internal Control Framework, not only ensures that the businesses adhere to the standards defined but also keeps raising regularly the standards of performance and controls.

Internal Audit

Internal Audit follows Generally Accepted Audit Practices, Internal Audit Standards, analytical procedures etc. and ensures compliance with section 138 of the Companies Act 2013 read with Rule 13 of the Companies (Accounts) Rules, 2014.

The Internal Control System in Edelweiss is commensurate with the size, scale, nature and complexity of its operations. The group conducts its internal audit within the parameters of regulatory framework including preparation and execution of annual internal audit plan. The internal audit function includes assessing the adequacy, efficiency and effectiveness of internal control systems across the group. It conducts Risk Based Internal Audit across the group through external audit firms.

The Corporate Controller group assesses the efficacy of internal controls through external audit firms to provide an independent, objective and reasonable assurance on the adequacy and effectiveness of the organisation's risk management, control and governance processes to the Audit Committee.

Internal Control

Edelweiss has robust internal control system and RCSA system in place including monitoring compliance with relevant matters covered under section 134(5)(e) of the Companies Act 2013, delegation of powers, segregation of duties, third party confirmations, periodic reconciliations, RCSA, physical verification and checks on accuracy; completeness and timely update of records, compliance, risk and periodical financial statements.

4 pronged strategy to manage Cybersecurity – Prevent, Detect, Respond and Recover

TECHNOLOGY

Technology today is a ubiquitous feature across businesses. A technological backbone is now a hygiene factor rather than a standout. With this in mind, Edelweiss uses technology as the cornerstone for driving and growing business. With Edelweiss entering a retail-centric growth phase and digital becoming the new norm, our focus has been to ***digitally transform businesses*** across customer lifecycle. Over the last one year several initiatives have been undertaken to implement **robust and scalable technology architecture** which will become the foundation for automated and integrated processes that will drive **organisational efficiency** and seamless **customer experience**.

Some of the initiatives are:

- **Customer On-boarding:** We have worked on creating a quick, seamless and paperless on-boarding experience for our retail customers which utilises digital workflow platforms.

- **AI/ML/Robotics:** The initiatives on artificial intelligence, machine learning and robotics process automation are now embedded in the business helping save time and resources, reduce errors and risk and automate decision making. During the year we introduced **Chatbots** using AI to help our web customers.

- **Data Enabled Decision Making:** Data and Analytics is increasingly playing a larger role in both our retail and corporate businesses. For corporates we are accessing data from external sources to understand their business trajectory. For retail customers we are using both internal and external data to support all aspects of decision making from customer on-boarding, credit appraisal, insurance underwriting and cross-sell/upsell.

- Cybersecurity threats are becoming more sophisticated and targeted. With an objective to protecting Edelweiss Data & IT infrastructure from unauthorised access and use, we use four pronged strategy to manage our Cybersecurity program:
  - Prevent – with multi-layered security controls and driving employee awareness
  - Detect – through 24x7 monitoring by Security Operations Centre (SOC) and Edelweiss Brand Protection initiatives
  - Respond – Continuously maturing Incident Response Management
  - Recover – Quick recovery of operations through Business Continuity Program

HUMAN RESOURCES

We set out on a long journey in 1996 with just a four member team and one ambition – building a quality organisation which would be guided by our values and beliefs. At that time, all we knew was that we wanted to create something for the long-haul. Twenty two years hence, it gives us immense pleasure to share that Edelweiss group is now a 10,000+ strong army. Nearly eight out of every ten employees are engaged in our fastest growing retail businesses: retail credit, wealth and asset management and insurance.

At Edelweiss we believe that our human capital is the major driver of our growth, efficiency and productivity. Edelweiss is a cross-cultural mosaic and our strength lies in our diversity everywhere, within teams and across businesses. This diversity makes us a stronger organisation by bringing in fresh ideas, perspectives, experiences and fostering a truly collaborative workplace.

One of the most important factors contributing to our success is the Edelweiss culture which is defined by attributes such as entrepreneurship,

A culture of entrepreneurship, risk management and leadership

Ensure a superlative experience for all our customer segments

risk management, creating leaders, attributes which will hold us in good stead in our journey. Culture is, thus, the most important aspect on our mind as we move ahead.

Leadership Development

In the ever changing environment, Edelweiss recognises the significance of change management and therefore attaches an emphasis to build leadership trait in its talent to manage change effectively. Year on year we continue to deepen our philosophy by investing in developing our talent and leadership through a series of well-designed measures.

The four-tiered Edelweiss Leadership Program, which was created in the backdrop of Edelweiss's rapid expansion and aspiration to grow further, continues to build upon its success. Now ~6% of our employees are a part of this Program, which runs across levels from emerging to business to senior leaders to Managing Committee members. Most of our leadership development is experience and exposure focused. The development playground is diverse and includes cross-functional projects at work and we provide opportunities for our leaders to be part of global programs both for education and exposure. Our current leaders also play an integral part in the development processes of our future leaders.

WE (Women Empowered) Platform

Women Empowered (WE) is an Edelweiss initiative which provides our women employees with opportunities to make the best of their individual talent with the objective of creating leaders of tomorrow amongst our women employees. We value diversity, not only in gender, where we are at 20%, but in all other aspects of thought and behaviour and foster a culture that is inclusive and embraces differences.

At the end of FY18 we had a total of 10,052 employees (6,972 as at the end of the previous year) spread across 448 offices in India and overseas.

CUSTOMER EXPERIENCE

The core to any business is its customers. Despite this, it is a maxim which is often ignored by many organisations, especially in Financial Services. However, at Edelweiss, Customer Experience (CX) is regarded as a key pillar of business success in true spirit. Traditionally, Edelweiss has taken a problem-solving based approach to improving CX across its businesses, focusing on:

- Who is the Customer?
- What is their Need?
- How can we address that Need in the best possible way?

This was captured in our motto **"Suno Samjho Suljhao"**, and complemented by an active measurement of **Net Promoter Score (NPS)** throughout the year.

With this motto in sight, we have continued to build a culture of customer-centric thinking across the group. To drive this agenda, we have also instituted wide ranging corporate structure changes across the group. Through these efforts, we are responding to **evolving customer needs**, and **institutionalising these processes across the organisation**, to ensure a superlative experience for all our customer segments, throughout the value chain.

Cautionary Statement

Statements made in this Annual Report may contain certain forward looking statements, which are tentative, based on various assumptions on the Edelweiss group's present and future business strategies and the environment in which we operate. Actual results may differ substantially or materially from those expressed or implied due to risks and uncertainties. These risks and uncertainties include the effect of economic and political conditions in India and internationally, volatility in interest rates and in the securities market, new regulations and Government policies that may impact the Company's businesses as well as the ability to implement its strategies. The information contained herein is as of the date referenced and Edelweiss does not undertake any obligation to update these statements. Edelweiss has obtained all market data and other information from sources believed to be reliable or its internal estimates, although its accuracy or completeness cannot be guaranteed. The discussion relating to business wise financial performance, financial statement, asset books and AuM/AuAs of Edelweiss and industry data herein is reclassified/regrouped based on Management estimates and may not directly correspond to published data. The numbers have also been rounded off in the interest of easier understanding.