Edelweiss Financial Services Limited

Q1 FY27 Earnings Conference Call

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Moderator: Ladies and gentlemen, good afternoon, and welcome to the First Quarter FY27 Earnings Conference Call of Edelweiss Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Priyadeep Chopra, President, Edelweiss Financial Services Limited. Thank you, and over to you, ma'am.

Priyadeep Chopra: Thank you very much, Renju, and good afternoon, everyone. A very warm welcome to our earnings call today. We have on the call with us Rashesh Shah, Chairman of Edelweiss; Ananya Suneja, the Chief Financial Officer of Edelweiss Financial Services; and Amit Agarwal, who's the CEO of Alternative Asset Management business.

We hope you've all had a chance to review the investor presentation that we filed. This quarter, we've also filed a deep, in-depth presentation on our Alternative Asset Management business. And during the discussion, we will be making references to it. Please do take a moment to review the Safe Harbor statements in our presentation. We will be making some statements today that may be forward-looking in nature and hence may involve some risks and uncertainties.

With that, I'll hand over the call to Rashesh to begin the proceedings. Thank you all, and over to you, Rashesh.

Rashesh Shah: Priya, thank you, and good afternoon to all of you on this quarterly earnings call. There is a lot of excitement going on in India, and I'm sure all of you have a very busy schedule, but the fact that all of you have joined on this call, you know, a few times in the past also and have come today, we are very thankful and thank you once again and a warm welcome.

I'll just kick off by saying there's not much to speak about the external environment. The last one year, there has been volatility, but within that volatility, there has been stability. I think India has obviously also been affected by the global volatility, oil price, you know, the Iran war. But within that, our markets have been stable, our economy has been stable, the government and RBI has done great work.

So I won't speak too much about that. I think India continues the way it has continued for many years now. But coming to Edelweiss, we have had a good quarter. Our consolidated profit after minority interest has grown by 83% on a Y-o-Y. We are at INR122 crores profit after tax consolidated for the quarter.

The key highlights for the business have been, first of course is our Alternative Asset Management business, EAAA. The CEO of EAAA, Amit Agarwal, is also on this call. And after I finish, maybe he'll say a few words and then we will start on the Q&A. So Alternative Asset Management business, where we are one of the leaders, continues to grow well.

Our fee-paying AUM, which is a most important metric, has grown by 27% to INR48,623 crores. Quarterly profit has grown by 45%. For the first quarter, we clocked INR81 crores PAT for the business, and we are currently at a 29% ROE on this business. Afterwards, Amit will say a couple of words. We are, obviously, working towards an IPO for this business, so there's only so much we can say, given the DRHP and all, but it's a very exciting phase for that business for us.

Our other Asset Management Business, the mutual fund business, has also grown equity AUM by 32%. We are -- at the end of June, we were at INR96,000 crores equity AUM. After that, obviously, we have crossed that in the month of July. But again, it also has had a good growth clip going on. Our Zuno business, the general insurance, has also had a good quarter. Our GWP increased by 58%. And we are very focused on the motor side, and the motor insurance has been growing pretty well.

The other good news is that on the wholesale book, ECL Finance, we have been winding down the wholesale book, the SRs that we have had, and we are now down to INR600 crores from a peak of INR18,000 crores. So the project on wholesale wind-down is almost over. I think at INR600 crores, we are very comfortable that in the next few quarters, this will go to zero, but what was INR18,000 crores a few years ago is zero. So I think our wholesale scale-down has been a good clip on this quarter.

Our Edelweiss Asset Reconstruction Company also has started growing again. We are acquiring assets, we are seeing a lot of NPAs in the banking and the NBFC system. So we are seeing good growth. That business also achieved the 13% annualized ROE for the quarter. So our focus on that business has been on ROE. As you know, we've been clipping along at 10% to 11% ROE, but we want to be at 14%, 15% ROE in that business, and the ROE improvement was also observed.

And lastly, the most important one, both our insurance businesses continue to be on the path to breakeven. We should be breakeven for the year FY27. A few of you had asked us whether breakeven will be by the fourth quarter or it will be for the year FY27. We are on path to our stated target of breakeven in the year FY27.

So along with that, we continue to grow our customer franchise. Our total customer reach has now become 14 million people. It's grown by 30% Y-o-Y. And we have a total customer assets of INR2.8 trillion. So that has also grown by 23% on a Y-o-Y basis. I think all our businesses continue to be well capitalized, good capital adequacy, good solvency in the insurance business.

On the strategic areas that we continue to remain focused on, one is EAAA listing. It is on track. We expect to do the IPO by the third quarter of this year. The Carlyle investment in Nido is progressing. We are in process of getting all the regulatory approval. We expect to close this in the next 4 weeks. Scaling up of the profit after tax in asset management businesses. Both of them have had a good growth. EAAA profit has grown by 45% and mutual fund profit has grown by 33%.

Our insurance businesses are on the path to breakeven. And our credit businesses have started scaling up very carefully. Housing finance AUM has grown by 14% Y-o-Y, and our MSME

AUM has increased by 94% Y-o-Y. It's still a small book. Our AUM is only INR1,700 crores, but our disbursement for the first quarter have tripled Y-o-Y basis.

So, so basically on all fronts, whatever was our plan, we continue to execute on that. The other news in alternative asset management is that we achieved the full exit in our first Infra Yield Fund, EYIP1. It is now a full exit. All the money has been returned to investors. And the other is we continue to strengthen our operating asset management platform called Sekura, because as Amit will explain, in EAAA, Sekura is a very important part of the platform of managing assets.

So, other than that, there is a lot of details in our presentation. All mutual fund continues to grow. ARC acquired INR300 crores of retail assets in this quarter, and we recovered INR304 crores in the quarter. Housing finance AUM is now INR4,900 crores. Housing finance, we have had to readjust the strategy because the co-lending model that we were working on has undergone a change as per the new RBI rules. So we have recalibrated the strategy in that business.

In the ELI, Edelweiss Life Insurance, we have a gross premium of INR287 crores for the quarter. We issued 9,363 policies for the quarter. And most important, our embedded value now is at INR2,306 crores in that business. We still continue to remain focused on PAR and non-PAR products in the insurance business.

So with that, I think I would sum up and maybe just hand it over to my colleague, Amit Agarwal, CEO of EAAA, to say a few words, and then we can open it up for questions. Over to you, Amit.

Amit Agarwal: Thank you, Rashesh. Hi everyone. Edelweiss Alternatives is a journey which we have started in 2011. A journey that we are truly proud of. And a journey that has actually made us one of the leader Alternative Asset Management platforms with INR48,600 crores plus of fee-paying AUM, with a PAT margin of 24% plus and nearly a 29% ROE.

Alternative Asset Management is still in a very nascent stages in India with a very low penetration of nearly 3% as compared to nearly 25% plus in the US on GDP basis. We do think that this business is an interesting cross-section of rising private wealth in the country and the rising need for getting yield and income on that wealth.

Yield and income is one of the verticals that we have focused upon and that has been the fastest growing segment of the Alternatives business. We are quite excited about this journey and we are, as Rashesh said, we can say only so much given our current DRHP filings. But we have put out an agenda which gives a lot more details about this business and happy to take any questions on that. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question comes from the line of Jeel Lunagaria with Equirus Securities. Please go ahead.

Jeel Lunagaria: Yes, thank you. So I had multiple questions. So sir, firstly you mentioned about the EAAA IPO that you are planning it in the third quarter of FY27. So looking at the current improved market condition, is there any possibility that we can expect it earlier?

Rashesh Shah: So I'll get Amit to answer that. We have started our roadshows and all that, or sorry, we are about to start our roadshows and all, and we want to do a good marketing and all. So I think as per now, October looks like a good time for us to achieve that. So I think August and September, we want to make sure we have time for the investor roadshows. But Amit, you want to add something?

Amit Agarwal: No Rashesh, I think this is perfect. We are following the process and we do think that given the current state of process, October seems like a good timeline.

Jeel Lunagaria: Okay. So, when can we expect the RHP?

Rashesh Shah: The DRHP is already filed. The RHP will be filed, Amit, by when?

Amit Agarwal: So, I think it is filed as close to the listing date as possible. So we are with the bankers and they are guiding us and there are counsels, Rashesh, who are guiding us. And we will do it in an appropriate time for the listing.

Jeel Lunagaria: Okay, understood. Secondly, wanted to understand regarding the products and strategy...

Rashesh Shah: But I just want to add. We have already filed the DRHP and it is already approved by SEBI.

Jeel Lunagaria: Okay, understood. And secondly, I wanted to understand regarding the products and strategy. So could you tell us more about the economics of yield and income strategies of EAAA? And additionally, with the eight strategies that are currently across these verticals, how do you see the product suite evolving going forward?

And also you recently launched the private equity funds. So are there any other alternate asset categories that you are exploring to enter? And also could you share the target fee-paying AUM mix in the medium term?

Rashesh Shah: Amit, do you want to answer that?

Amit Agarwal: So we cannot make any forward-looking statements or any target AUMs on this business. What we can tell you that is currently we have these 8 lines of businesses, private equity being the latest line of business that we have recently added. And our current total income yield as you see for this quarter is around 2.89%, which is also mentioned, and our PAT yields are 0.69%. So this is the data. More data is available in our DRHP and it is in those lines that we are continuing to have.

This is a very sustainable business model and it focuses on generating superior risk-adjusted returns for our clients, and that is why you see yield in this business also very strong because as Rashesh mentioned, we are focused on creating alpha through our operating capabilities inside Sekura and looking at building those assets on a superior risk-adjusted return basis. Thank you.

Rashesh Shah: I would just add in -- one parameter to look at in this is the PAT yield. So if you look at most of the mutual funds in India, the PAT yield varies from 20 basis point of AUM to 40, 45 basis point of AUM at the very upper end. I think in alternatives for most of the businesses, if you look at there are others like 360 One and others, the PAT yield is usually between 50 basis points to 100 basis points of the fee-paying AUM.

Jeel Lunagaria: Okay, understood. And coming to my last question, regarding the listing of Edelweiss AMC. So over the past year, we have seen multiple AMCs listing, with SBM Mutual Fund as the latest one. So, is listing Edelweiss AMC something you would consider over the medium term and how should we think about the long-term capital market strategy for this business?

Rashesh Shah: So I think in the mutual fund, obviously, we remain focused on growth and innovation. To just make a general statement of all our businesses. At the right time, we would like to list all our businesses. We want to not exit the business, but we would like to get them listed by selling our IPO with a small stake or even looking at demergers and all that.

Because we have found that being listed gives a lot of strength to a business, institutionalization, continuity, stability, governance, guardrails, all of those become stronger. Even on the Nuvama front after we spun off the business, we have seen how strong the growth has been, but how strong the platform has become.

So on all our businesses, insurance businesses, asset management business, at the right time, we want to make sure that the IPO timing, listing timing is right for the business, but eventually we would aspire that all our businesses should be listed independently on their own.

Jeel Lunagaria: Okay. Thank you so much. That was very helpful. That's it from my side.

Moderator: Thank you. Next question comes from the line of Rajiv Rangwani with HDFC Securities. Please go ahead. Mr. Rangwani, please go ahead.

Rajiv Rangwani: Yes, can you hear me?

Moderator: Yes, please go ahead.

Rajiv Rangwani: Sorry. So yes, my question is that, the ROE for EAAA has improved to 29% this quarter from around 26% in FY26. So as this platform continues to scale, how should we think about sustainable ROE over the medium term? Also, FP AUM and PAT also have shown very good growth in this quarter. So what are your aspirations for FP AUM and PAT growth over the next few years and what will be the key factors driving this trajectory?

Rashesh Shah: So again, it's hard to make any forward-looking statement on ROE, how it will grow, but our approach has been that this is like any other asset management company which will have fairly good dividend payout from the profits that it makes.

So our -- I think an ideal good asset management company should distribute say, 50% of their profits as dividend and the balance can be retained for growth and other, because in this business also you have to make some co-investments in your funds.

So I think given all of that, we do feel comfortable that the current ROE is pretty healthy. But a good asset management business should make about 30, I think between 25% to 35% ROE is a good target for an asset management business and our business will evolve. As you can see, we are clipping along.

For us, the most first most important parameter is the fee-paying AUM, which over the last few years has grown at about close to 25% if you see that, and we would be keen to maintain that growth. So I think fee-paying AUM if it grows, then most of the other economics is fairly automatic. So I think this is the good ROE on this business.

Rajiv Rangwani: Okay. And following the WestBridge transaction in the mutual fund business and the proposed listing of EAAA and ongoing transaction with Nido also, what are your plans to unlock value across the remaining businesses given that insurance business is also expected to breakeven this year? Are there any plans to pursue value unlocking in these businesses?

Rashesh Shah: So we continue to look at value unlocking. As you know, we have a two-pronged objective. One is to look at recycling our capital and also reducing the corporate debt. So you would have seen the corporate debt has come down in this quarter. We continue to bring it down.

We of course have assets like office building and property and all which can support the debt, but we want to bring down the debt. So with the with the Nido transaction, with the EAAA transaction, I think this year we will get into a comfortable zone for where we want to be on the corporate debt.

So our objective number one was obviously to use the capital for reducing corporate debt. Objective number two is as I said to unlock value, make these businesses independent and use that value to share with the shareholders of Edelweiss. And we continue to evaluate that.

We are in no hurry, because our businesses are growing pretty well as you would have seen last -- not just the last year but the last 3, 4 years, all our businesses have maintained a pretty good growth rate. So as long as the businesses are growing and we don't need to raise a lot of capital to reduce debt, we will do it for the business strengthening and the value unlocking perspective.

We keep on getting a lot of inquiries from many people on insurance and others and we just evaluate. We are very open-minded. We evaluate everything. We have learned the importance of having good investors in the individual businesses. So we'll continue to evaluate and now our focus is on Carlyle, Nido transaction and the EAAA IPO.

Rajiv Rangwani: Okay. Thanks. I'm done.

Moderator: Thank you. Next question comes from the line of Shriyansh Jain with IIFL Capital AMC. Please go ahead.

Shriyansh Jain: Hi. Thank you for the opportunity, sir. Just a couple of questions. Like Zuno delivered around 58% GWP growth this quarter, with the motor segment growing nearly 70% year-on-year. So it was significantly ahead of an industry growth. But could you please elaborate on the strategy on this side, like driving this strong performance and also beyond the motor insurance, which product categories do you see as the key growth drivers after this?

Rashesh Shah: Yes. If you know, on the Zuno, we are very focused on the motor insurance. As you know, the two large segments in insurance are motor and health. We have not focused on health, because we think the others with stronger advantages and a stronger network, and because we can only focus on what our strengths are, our focus has been on motor.

We have done a lot of work on innovation, database underwriting. We also have products like pay-as-you-drive and know-how-you-drive, and we focus a lot on telematics and just I think innovating products which meet the customer needs. Along with that, we also strengthen a lot of our OEM partnerships for getting distribution. And as you know, motor has been doing well for the last 2 quarters.

The car sales in India have improved, so that car sales have given us a tailwind, but our own innovation and the OEM partnerships we have has allowed us to have this growth. So in the business, I think on the car insurance we have maintained a 40% average growth for the last 4, 5 years. So we continue to be on that trajectory.

This quarter was exceptionally good because quite a few things fell in place at the same time. But overall, we have maintained on auto insurance about 40% to 41% growth over the last 5 years.

Shriyansh Jain: Understood, sir. And sir, another thing, it was relatively soft quarter for Nido, with a small reported loss. So could you help us understand what was the main reason behind this?

Rashesh Shah: So, Nido, there were two things in this quarter. One was, as you know, the co-lending rules got changed in the last quarter by RBI. So as a result of that, we have recalibrated. So earlier we used to originate and sell down immediately, you know, the DA was immediately with your co-lending partner. Now we originate and we have to hold it on our books before we sell down.

So that has required some amount of more capital getting allocated to holding the assets on our business until 180 days are over, because we are still pursuing an asset-light model. So I think that co-lending change affected the business. Along with that, we are getting ready for an expansion post Carlyle investment.

So we have opened some new branches. We have recalibrated a lot of our processes on standardizing underwriting across branches and all that. So there has been a lot of organization building work that we've been doing on strengthening the business for growth in this quarter.

And that coupled with the with no co-lending income has resulted in this, but we remain confident that once we close the Carlyle deal, the additional capital comes in, the next innings of growth for this business will start.

Shriyansh Jain: Okay, great, sir. Thank you.

Moderator: Thank you. Next question comes from the line of Sidharth Shah with SRS Capital. Please go ahead.

Sidharth Shah: Yes, hi. I had 2 somewhat similar questions...

Moderator: Mr. Shah, sorry for interrupting. We cannot hear you. Can you speak a little louder?

Sidharth Shah: Hello.

Moderator: Yes, please go ahead.

Sidharth Shah: Yes, hi. I had 2 question on EAAA. I think in this quarter, FP AUM grew 27%, but our revenues grew 50%. And similarly, if we look at the EAAA presentation, over the last few years, revenue as a percent of FP AUM has gone from close to 2% to nearly 3% yield. So can you for both those instances help us understand what's driving that? Is it product mix change? Is it carry income or something else?

Rashesh Shah: Amit, do you want to answer that?

Amit Agarwal: So our business is obviously in a flywheel effect if you see this business build over a period of time. And across as we go along the path, we have more AUMs getting added and the margins are quite strong and robust. So this business actually scales up over a period of time very significantly.

Here also in this business, scale starts giving you a lot of what I would say advantage over a period of time. This has happened in the US over the last 30 years where Blackstone from INR3 billion has today become INR1 trillion plus sort of an asset manager. So this has happened over a period of time in the US in a very, very deep way.

So this is both a flywheel effect, a change in terms of the mix, the product, we have added private equity to the portfolio which is a small fund at this point of time, but our yield and income funds have also started becoming stronger franchise with the client, because we are in the third and fourth vintages now.

Vintages matter in this business a lot. Vintages also reflect the client confidence in the product and that all allows your revenues to grow steadily. We do think that the growth will continue, the momentum will continue, but at this point of time, we are also generating a lot of -- our carry is getting, our variable additional returns are getting materialized as well. So it's a combination of all the factors put together.

Sidharth Shah: Understood.

Rashesh Shah: I will just add, Sidharth, that what happens in alternative asset management, unlike a normal mutual fund or a normal NBFC, here when you exit a fund, you actually make a good return, because a lot of the carry comes in. And as I said, in this quarter we also exited our EYIP1 fund. And we now have a series of funds which we had raised 8 years ago, which are all now getting towards the closure exit mode and all that.

And we have 8 strategies. So every year, every quarter, there are some older funds which are exiting. So the best time for a business like alternatives is after 11, 12 years have passed where a lot of your older funds have now been proven, the exits have started happening. And in the Alts business, a lot of your especially in yield and income kind of strategies, a lot of your upside really comes from the second, third fund and when you exit the businesses. So it's a very back-ended business. We are now getting the tailwind benefit of this business being 14, 15 years old.

Sidharth Shah: Understood. That's very helpful. Thank you.

Moderator: Thank you. Next question comes from the line of Sujal Chandaliya with Wallfort PMS. Please go ahead.

Sujal Chandaliya: Hello. Thank you for the opportunity. I have a couple of questions from my side. Firstly, what is the current mix of domestic and offshore clients in alternative asset business and have recent geopolitical developments and market conditions impacted this mix? And are there plans to expand into new geographies? Additionally, how do you expect the mix of retail and institution investors to evolve over time?

Rashesh Shah: Yes, Amit, you'll take that?

Amit Agarwal: Yes. So as you see, we have provided this in addendum. We have nearly a 50/50 mix of institutional and non-institutional clients. And now we are actually spread across multiple geographies. So we have now North America, Canada, Europe, Australia, we have got multiple geographies and our clients are also spread across those geographies.

The important point for us is actually more repeat client AUM as well because that also showcases that the performance of the funds have been in line with the client's expectation for him to A, come into the same fund again as well as come across our product suite. So it's also deepening as well as broadening of the client base.

This is still a very small number of clients in the retail, sorry, I would say UHNI and HNI space, because this business is largely UHNI and family office business in India today. But going forward, the domestic institution capital will also start hopefully looking at this business. Globally, mostly institutions are invested into alternatives. In India, the exposure of institutions to alternative is still very, very low. So that will also is a mix thing which could potentially change the institutional and non-institutional mix.

Sujal Chandaliya: Okay, sir, that's helpful. Sir, secondly, in your life insurance business, around 80% of premium is contributed by PAR and non-PAR products. What is the view on the future evolution of the product landscape and how are you thinking of aligning your medium-term product strategy accordingly?

Rashesh Shah: So our focus is on what we call savings product because we do believe that though there is an opportunity in things like unit-linked products and all, the margins are much better in the savings product. We also come from a very focused investment approach and earning a good return on investment on the corpus that has been there.

So our whole idea is that PAR and non-PAR is going to be remain the focus area. I think we would like to keep about 70%, 75% of our AUM in PAR and non-PAR. We do have ULIP and term and all, but those are not really very focused and high-growth areas. We do want to also focus on annuities and pension as we go along because those are also good savings product.

So our view is that insurance industry in India caters to a small need for risk, but a large need for savings to be converted into good long-term investment. So that is our focus, that has been our focus, and we have done pretty well. We have innovated a lot on the PAR and non-PAR products. The reason we are not very gung-ho on ULIP is because the margins are low and ULIP is also that need is also being catered by through the mutual fund industry.

While the long-term savings need is one where people really look to insurance. So that is our focus, that has been our focus, and we have done pretty well. We have innovated a lot on the PAR and non-PAR products.

Sujal Chandaliya: Okay, thank you. Thank you, sir, for your detailed answer. That's it from my side.

Moderator: Thank you. Next question comes from the line of Siddhesh Dharmadhikari with PL Capital. Please go ahead.

Siddhesh Dharmadhikari: Hi, thank you for the opportunity. Am I audible? Hello?

Moderator: Yes, you are. Please go ahead.

Siddhesh Dharmadhikari: So could you give us more details on the transaction with Nido with Carlyle, what is the current status of the transaction?

Rashesh Shah: So we I think all the all the agreements are signed, everything has been done. We have applied for final approval from RBI and NHB. The process is on, we've got a lot of clearances, and we should be able to close that deal in the next three to four weeks. As you remember, the contour of the transaction is that Carlyle will buy a portion from us in the as a secondary purchase, then they will invest another INR750 crores into the company now and they will invest another INR750 crores into the company in 18 months.

So they will put in INR1,500 crores into the company. They'll pay about INR630-odd crores to us to buy out the stake. Right now after the first tranche, we will be 45%, they will own 55%. After the second tranche, they will own 74%, we will end up owning 26%.

Siddhesh Dharmadhikari: Understood, sir. And like we have seen initial sense of growth in NBFC business with MSME disbursement tripling year-on-year, AUM nearly doubling and asset quality improving significantly. However, profitability has remained broadly stable. So as the portfolio continues to season, when do you expect this operating momentum to translate into stronger earnings? Also, if you can please share your outlook for the disbursement and AUM growth over FY27.

Rashesh Shah: So ECL Finance, we have -- we had pivoted to focus more on MSME, but to be honest with you until last year our focus was in reducing the wholesale book, which as I very happily reported, we are now down to only INR600 crores on the wholesale side of the business. So now we have a lot of elbow room for growing MSME.

We hired a new Managing Director, Ajay Khurana, about a year ago and he is building out a strong MSME business for us. As you can see, disbursements have grown almost tripled on a year-over-year basis. We are currently planning for a INR2,000 crores disbursement for year

FY27. To just give you a comparative figure, average for the last three years was about INR300 crores to INR500 crores per year.

We are currently looking at about a INR2,000 crores disbursement for this year. But we're also opening branches, strengthening the product portfolio we have. So I think the next two years we will see some uptick in in the profit after tax, but our focus is on growing branches, growing AUM, growing disbursement.

And once we get to say AUM of about INR4,000 crores to INR5,000 crores, which is about a couple of years away, is where we will really start seeing real ROE and profitability in this business. We have a fair amount of capital in this business. We have INR2,000 crores of equity, but as you can see, the current borrowing is pretty small.

We're geared around 1:1 only, which in NBFC business is very low, hard to really make good profits if you're geared only 1:1. But I think we have a lot of headroom for growth. We have quite a bit of equity. We have a strong management team. and the product range and the size we are in, we are we are still a very small player in MSME, so we have enough space for growth.

Siddhesh Dharmadhikari: Understood, sir. That's all from my side. Thank you.

Moderator: Thank you. Next question comes from the line of Rajesh Ganeshkumar with JMF. Please go ahead.

Rajesh Ganeshkumar: Hi, thank you for the opportunity. Am I audible?

Moderator: Yes, you are. Please go ahead.

Rajesh Ganeshkumar: I have three questions, but I'll quickly ask. The first question comes from the line of the equity AUM and the SIP SIF book. So equity AUM recently congrats it has crossed INR1 lakh crores and the SIP book has reached close to about INR700 crores.

Now, the question that comes to my mind is whether these were because -- solely because of fresh inflows or majorly driven by MTM and also as the franchisee continues to scale what are the long-term aspirations that the business has over the next three to five years and as AMCs have gradually expanded their product horizon beyond mutual funds and they've stepped into adjacent businesses such as PMSs, AIFs, and NPS. How do you think about broadening the product bouquet over the next three to five year time horizon?

Rashesh Shah: So, to answer your first question, and thank you, I think we are very excited when equity AUM has crossed INR1 lakh crores. Out there, I think our target has been to raise to get net new money. As you know, equity markets MTM growth has been fairly subdued in the last one year. I mean, it changes quarter to quarter, but on a year-to-year basis, there had not been much MTM growth because equity markets are flat.

So I think we are adding about currently at the current run rate, we are adding about INR18,000 crores, INR20,000 crores of new equity money every year. That is our current run rate that we are that we are maintaining. So I would say conservatively, INR15,000 crores, INR20,000 crores addition of new equity money every year is the is the current expectation that we will maintain. And if you look at first quarter, that is what we have maintained also.

Along with that, our MTM growth will happen if it happens for the industry as a whole. I think SIF has been a good product, we were able to innovate quite a bit on that. But our focus is on client needs. So if the client need can be served on the mutual fund platform, on the SIF platform, we will do that. We already have an AIF business in EAAA in any case, but if there is equity AIFs to be done, we will also explore that.

We have no really focus on product side, we are very focused on the client needs. So if there is a client need, we basically evaluate only two things: Is there a client need, and have we got an ability to innovate or cater to that client need in a in a strong manner? If we have that, then whether it's AIF, whether it's PMS, or whether it's SIF, or whether it's mutual fund, we'll explore all of that. Our mutual fund would largely remain focused on listed market and alternatives we are largely focus EAAA is largely focus on the private markets.

Rajesh Ganeshkumar: Thank you. Thank you. This was really helpful. Speaking of EAAA, the last phrase when you ended the answer, in the recent business update which has been filed for EAAA, there is a mention about the Asset Operating and Management Platform, Sekura. Right? Which honestly seems like a great comparative edge. Could you throw some light on what Sekura platform actually is and how does it compare with similar platforms which are offered by other market participants?

Rashesh Shah: Yes, I'm happy you're asking that. I think it's a good an excellent question. Amit, do you want to elaborate on that?

Amit Agarwal: Sure. So Sekura is our dedicated asset operating and management platform. This is a capability we have built over a decade. It has got people who are actually having domain knowledge and expertise in their respective areas. So the team member on the energy side would have would have been hired from an organization where he would have done almost 20 years of work only on building renewable energy and working on renewable energy.

Similarly, on the transport side, you will have people who would have done only roads. And this is nearly 60-member team now having capabilities across the asset classes that we own and operate. These are engineers, domain knowledge experts which are in-house and provide us across the portfolio access.

It also helps us in diligencing the asset even at the start of the investing process in a much more efficient and clean manner. It also helps us in adding what we think is the additional alpha which comes from improvement in processes, systems, using the right materials, ensuring that our operation costs are controlled. So these are very focused business people.

They supplement the investment team which is generating the returns and doing the transactions. But this is at the heart of the asset management. We have a fully automated what I would say a center or a control center where we analyze nearly terabytes of data on a very regular basis which allows us to improve our operations.

In the recent past, we have started using AI also on that data to ensure that we try and optimize even on how we generate electricity in some of our solar plants to allow for higher revenues. So all of this, this is very operational. It allows adding small bits to actually create a massive impact. So this is one of the most -- things we are proud of and that has been built over a period of time.

We do think it is a moat in this business. And this is something which global platforms have done in multiple other geographies. But in India, I think this is one of the most unique offerings that are sitting inside the EAAA platform.

Rashesh Shah: And I would just add that as Amit said, I think large players like Brookfield and Blackstone also built their own platforms, the operating platforms. A lot of the Indian asset managers have either outsourced or they partner, and there are good outsourcing companies available. You can outsource the asset management, you can partner with an operating partner.

But we have decided to do this in-house because as Amit said, it gives us an advantage at the due diligence stage. It gives us an -- on efficiency on operating management advantage and it gives us a lot more control. Because when you own a road for 20 years, or when you own a renewable plant for 25, 30 years, it's actually very good not to be dependent on outsiders for operating and managing and controlling that asset.

Rajesh Ganeshkumar: Understood. Thank you. Thank you for the detailed answer. This is a great initiative and I'm sure Sekura will continue to do very well. One last question before I get back in the queue is has the life insurance business taken the path on to achieving its break even this year and how do you see the next three or four quarters planning out if you could throw any light on that? I think that will be all from my end.

Rashesh Shah: Can you repeat that? Sorry, I didn't hear that.

Rajesh Ganeshkumar: The life insurance business. My question is whether the life insurance business is on the path to achieving its break even this year and with respect to the life insurance business, how do you see the next three quarters planning out?

Rashesh Shah: Yes, I think they are on path to break even for the year as a whole, not just in the fourth quarter. So the fourth quarter will be a much easier one, but we are on path for that. We have focused a lot on our productivity, efficiency, branch productivity, all of that. So I think the way we are on this current path, we remain confident of achieving break even in that business.

Rajesh Ganeshkumar: Done, thank you. Thanks a lot for answering all the questions patiently and I hope Edelweiss group grand success in all the products that they are launching and the financial spaces. Thank you once again. Thanks.

Moderator: Thank you. Next question comes from the line of Sarvesh Gupta with Maximal Capital. Please go ahead.

Sarvesh Gupta: Hi, sir. Thank you for giving the opportunity. I had two questions. So one is on EAAA wherein you men -- I think a participant mentioned that the yields have actually moved up from 2% to almost 3%. And you also mentioned that there can be some lumpiness because of this carry income. So what is the expected steady-state yield for the revenues as well as PAT for EAAA? That is the first question.

Amit Agarwal: So, I think we should look at the FY26 number, which is the 2.45% income yield on the FP AUM, and the PAT yield is 0.68%. We think these businesses over a long period have a very steady-state yields on the income and on the PAT side.

The quarterly numbers might look a little because the FP AUM that you create is an average of the opening and the closing of each of those years. So I would say that the total income of yield of 2.45% and the PAT yield of 0.68% is more reflective of how an FP AUM yield for this business would look like. But these are very steady-state yields for these businesses.

Sarvesh Gupta: Understood. And secondly, Rashesh, I had one observation. So as we are looking to unlock the value of our subsidiaries through various investor inaction as well as through IPO at some point of time, the holding company discount that we will have to suffer with would be would become very substantial. It would probably become maybe 30%, 40%, 50% of our market cap. So how what is our thought on that?

And given that we have done a demerger and now we are on progress of some IPOs, how do we prevent this holding company discount? Because right now we have a corporate net debt of INR5,700 crores.

So till that point when it is paid, till that point everything is fine because the EV conversion to equity value will happen directly. But after this is paid down substantially this holding company discount will come into picture in a big way. So if you can give some thought process and color on that.

Rashesh Shah: So we are pretty clear that we are not a holding company. We are an investment company. And as a investment company, there are a lot of options we have. Basically you are asking how do you narrow the discount between intrinsic value and the market value. As about a couple of years ago, we did the demerger with Nuvama and the what we distributed to the Edelweiss shareholders in the Nuvama demerger is I think worth today more than USD1 billion.

So there are many ways of unlocking value and narrowing the discount between intrinsic value and the market value. And if you look at the discount in India, I think for a lot of investment companies, holding companies, the discount is anywhere from 10% to 50%. And I think yes, you correctly said 50% is very high.

But unlike others, we are not a holding company, so we don't need to hold stock forever in the underlying companies. And we showed in Nuvama that we can demerge and distribute and unlock value in that way also. We will have a lot of options, I mean, how to unlock value and narrowing the discount between intrinsic value and the market value.

And the good news is that we are all at a primary level we are shareholders. As you know, Edelweiss has a very strong ESOP culture, as you will see in the annual report also. A lot of our senior management even at EFSL, the holding company level, have quite a bit of ESOP. So I think equity price finding its right value is important for us.

See, we have basically two objectives after we reduce the corporate debt. One is to grow the value in the underlying business. That is and will remain the primary number one focus: how do we continue to build value via growth in the underlying business. That as you could have seen continues and we remain very, very focused on that.

After that, the second objective is after we have built that value and we continue to build the value, how do we unlock it? How do we make sure all the shareholders of Edelweiss also enjoy and participate in that value via market price or via distributions. And on that, we have quite a few options. And as we get there.

So I think next one year our focus will still be on stabilizing corporate debt and continue to grow the business. Because we do believe that growing the business is the harder work. I think unlocking the value, there is a lot of optionality available in that.

Sarvesh Gupta: Understood. And if I can ask one more, I think we had some property which you had mentioned around INR1,500-odd crores. So is there any specific reason why we are waiting to unlock or reduce our corporate debt by sell-off of those properties?

Rashesh Shah: No, so I think as we said, our current corporate debt is about INR5,700 crores. Out of that, once we close the Nido transaction and the EAAA IPO, we expect that our corporate debt will come down below INR4,000 crores. I think our property and investments we can sustain about INR2,500 crores to INR,3000 crores. Our property is worth 1,500 where even if we do a sale and lease back, we'll have a 8, 9% cost.

Currently we are borrowing at about 10% cost. So there is not much saving in in taking the property off the books and paying the, lease rental on that. So I think up to INR2000 crores, INR2,500 crores, INR3,000 crores debt, we don't really want to bother, and we are getting comfortable if it is against property and investments that we have in terms of our funds and all that.

So I think from INR5,700 crores, our current target is how do we get to we will get to under INR4,000 crores pretty quickly. And then once we get to INR3,000 crores is where we say that now it is earmarked against property and investments and now we can be more strategic about it.

But we have all the underlying businesses are there as we said, with the IPO of EAAA and all, and after that other businesses, we own 100% of Zuno, we own 85% of AMC, we own 83, 84% of ARC, all these are good powerful strong businesses where there is a fair amount of interest from investors either in the private market or through IPO that we can explore.

So I think our idea would be this as I said, a triangulation of reducing corporate debt first, growing the underlying value in the businesses first, and then looking at unlocking value and making sure the market price and the shareholders enjoy the real underlying value as close to the real value as possible.

So I think these three as we have said continues to remain our focus area. Of this, if you ask me, I would continue to say growing the value of the underlying business is the most important because that is forever, and everything else is financial engineering at a particular point of time.

Sarvesh Gupta: Thank you, sir. That was helpful.

Moderator: Due to time constraints, we take the last question from the line of Rishabh Jogani with Dolat. Please go ahead.

Rishabh Jogani: Hello. Am I audible, sir?

Rashesh Shah: Yes, you're audible. Yes, yes. We can hear you.

Rishabh Jogani: Okay, sorry, sorry. So there are two questions. So you are in the process of listing your alternative asset arm. So can you give a brief color on the industry and what are what is the market size and how the growth trends have been for years for few years and can you compare it with developed markets like US and what growth trajectory you see going forward?

And second question is on corporate debt. So your debt declined to INR5,700 crores. You mentioned that you will go below INR4,000 crores very quickly. I so can -- what levels we can see for FY27 and what will contribute that debt reduction, from where the cash flow will come, and what percentage of what proportion you want to quantify for each driver? Yes, that's it.

Rashesh Shah: Okay, I'll ask Amit to first answer on EAAA.

Amit Agarwal: Sure. So as I said, asset management, especially the alternatives, also scales up as the economy goes to a larger level. The penetration in India is hardly 3.5% of GDP while in US it is nearly 27% of the GDP. So there is both broadening and the deepening of the market that is expected in India. Currently as we see, the alternative AUM is projected to move from INR166 billion to nearly almost INR276 billion in India, which is what we have mentioned.

But within that, the focus that we have is on the income and yield category and that category is expected to grow faster and that is going to expected to grow at nearly 18% CAGR at a industry level. And we do think that there are significant macro drivers both in terms of the rise in private wealth where the HNI and the UHNI population is expected to grow.

The wealth management penetration in the family offices is also expected to grow, which will in turn allow them to look for products with superior risk-adjusted returns with income and yield, and that will allow for the growth of the industry. And EAAA is a significant player in the industry and all these tailwinds will help EAAA.

And this is currently not considering all the capital that potentially domestic institutions will also look to put as they start getting more comfortable with this asset class. So again, in US, the AUM as US economy in the last 20 years from 2005 to 2025 moved nearly two and a half times, the AUM of a Blackstone moved almost 25 times in the same period.

The AUM of KKR moved and these are all public data, so the AUM is there moved also more than 30 times. So the industry is again, as I said, the it's a flywheel industry where vintage and track record and client repeatability makes a lot of difference and that will allow both the industry to grow and we do think that we will be beneficiaries of the tailwind.

Rashesh Shah: Yes, and I would just add that what we have seen in alternatives is because there is -- basically alternatives is ultimately a trade-off between higher return with some kind of illiquidity because you are in close-ended funds, you are in private markets.

And as you would have seen over the last 30 years in the US, a lot of the large insurance companies and pension funds and endowment slowly and the same thing is happening with HNI and the ultra HNI industry in India, it is same thing will happen with institutional investors in India where you will trade off some amount of your portfolio, maybe 3%, 4%, 5% of your portfolio into illiquid assets in AIFs and all, which will give you a higher yield.

Because if you get a 3% to 5% pick-up in yield over a strategy that has a four, five, six years, then a lot of people are now allocating capital more and more to this, especially in India, it is currently ultra HNI, but eventually we think insurance companies and others will also come in, insurance and pension funds and all.

And along with that, I think the awareness and SEBI has done a fabulous amount of work on that. And in AIFs there are actually two markets: one is a growth market which is mainly private equity, and the other is a yield market which is mainly infra and private credit and all of that. So I think private equity has grown, now yield market is also growing.

And a lot of insurance companies and pension fund people who don't want P&L volatility actually are more interested in income and yield strategies and that is where EAAA has focused on. We have seen this market how it has grown in the US over the last 30 years and we do think there are some similarities with the Indian market opportunity in that sense.

On the corporate debt side, as I said, from INR5,700 crores, we get to under INR4,000 crores by the end of this year. We have some investments that we can sell and keep on getting money. We have investment in our funds and we have investment in some wholesale assets that we had, which will all get liquidated.

So about INR500 crores to INR1,000 crores we do expect will come from there also. We also start to get dividend income from underlying companies as mutual fund and EAAA and ARC are profitable and throwing out free cash. As you can just add up, these three businesses have a free cash flow of between INR600 crores to INR800 crores per year.

So on that basis also, that cash that they throw out as dividend also helps us reduce our corporate debt. So I think our idea is get down to INR4,000 crores, then inch it back inch it to under INR3,000 crores, then regroup and decide whether debt should remain a priority or we should then focus on unlocking or using that money for more distribution to shareholders, distribution, spin-offs, demergers, I think I think look at all of those options also.

But next one year our focus will still be on stabilizing corporate debt and continue to grow the business. Because we do believe that growing the business is the harder work. I think unlocking the value, there is a lot of optionality available in that.

Rishabh Jogani: Thank you, sir. That was helpful.

Moderator: Thank you very much. We will take that as a last question. I would now like to hand the conference back to Ms. Priyadeep Chopra for closing comments.

Priyadeep Chopra: Thank you, Renju. And thank you all for your time today. We truly appreciate you taking the time out and joining us. Please do write in to us at Edelweiss Investor Relations for any other questions or feedback that you may have for us. Thank you, Rashesh, always a joy to listening to you, and thank you, Amit, very insightful to have you on the call today. Thank you all, have a great day ahead. Bye-bye.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Edelweiss Financial Services, that concludes this conference. Thank you for joining us. You may now disconnect your lines.