"Edelweiss Financial Services Limited Q4 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Fourth Quarter FY23 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, please signal an operator by pressing "*" then "0" on your touchtone 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.

Priyadeep Chopra: Thank you, Yashashri. Good afternoon, everyone, and a very warm welcome to our earnings call. Today, I have with us on the call Mr. Rashesh Shah – Chairman and Managing Director of Edelweiss; Ms. Ananya Suneja – Chief Financial Officer, Edelweiss Financial Services Limited; and Mr. Ashish Kehair – MD and CEO of Nuvama Wealth Management.

We hope you've had a chance to review the investor presentation as well as the agenda on the demerger of our wealth management business that we filed with the exchanges on Friday. During the discussion, we will be making references to it. Please do take a moment and review the safe harbor statements in our presentation. We will also be making some statements today that may be forward-looking in nature and, hence, may involve certain risks and uncertainties.

With that, I now hand over to Rashesh Shah to begin the proceedings of the call. Thank you, and over to you, Rashesh.

Rashesh Shah: Thank you. Thank you, Priya, and a warm welcome to all of you who are on this Earnings Call for the 4th Quarter and Year-Ended March 23. It's good to get one more opportunity to interact with all of you.

As you know, we have always found this very useful. Your inputs, your questions, your feedback has always been a very important input for us as we go around thinking about Edelweiss in the coming years and executing on that. So, always grateful for this opportunity, and thank you to each and every one of you who has taken the time out to be on this call.

First of all, I think, obviously, I'm supposed to speak about India, but I think most of you know how well India is doing at the moment from an economic point of view. I think after last 2, 3 years, after COVID and everything, India seems to be a bright spot amongst the global economies. There is a global recession on, but India seems to be much, much, much stronger because of our local demand, our own cycle, and our cadence is slightly different from the global demand. So, there are certain aspects of our economy, which are connected to the global economy, but a large part of India is fairly unconnected as well as the Financial Services sector, which is what we are concerned about. So, I think in my long career, I've not seen as good an environment as I'm seeing now. India, whether from macroeconomic point of view or from a microeconomic point of view, is very well placed.

And the same thing goes with the financial services industry if you look at the credit environment, if you look at stress, if you look at bank balance sheets, how strong they are, corporate balance sheet how strong they are. And overall, I think we expect that even the Capex cycle should start this year. So, overall, FIIs are also back investing in April and May, especially foreign investment has been very strong. So, I think Financial Services sector as a whole is very well poised.

You must have seen our results for FY23, we had an ex-insurance PAT (because insurance is still in the investment phase) of Rs. 610 crores for the year. Of course, this includes our share of the profit from the Nuvama Wealth Management business, which will go away from FY24. So, the share of Nuvama Wealth Management is something that will not continue going forward. The current year profit ex-insurance of Rs. 610 crores includes the Nuvama profit. But we are very confident that given the growth in other businesses and given the reduction in borrowing, and I'll speak about that, we should be able to bridge this gap in earnings that will automatically happen because of the demerger.

So, friends, first of all, FY23, again, a very interesting year for us. It's been an inflection year because we are still changing our architecture. We are still pivoting from the old Edelweiss, which was one unified company with multi businesses and with NBFC as the core of that. We are basically pivoting to an investment company with some great stories in insurance, asset management, retail credit, ARC and also wealth, which is getting spun off. So, I think we have changed the architecture. We are still in the midst of that, and I'll speak about it.

But first talking about FY23, there are a lot of pluses. And obviously, as happens with all of us, a few things were not as per our expectation and were slower; I will highlight those also to you. But first, I think what we are happy about, the pluses, there is continuous reduction in borrowing. That borrowing is now close to Rs. 16,000 crores at the start of April, and it will go down even further in this quarter or it's already going down.

So, if you remember, friends, at the peak, we were almost close to Rs. 50,000 crores at a consolidated borrowing. So, we have almost reduced Rs. 35,000 crores of borrowing in the last 4 years, which has been a herculean task. It has come as some cost of earnings and some cost of not having a large balance sheet. But I think, overall, it has made the company stronger. It has made our balance sheet stronger. And it has allowed us to really position ourselves for the growth opportunities that we already have in our businesses.

The second important plus this year is the Nuvama demerger, which has gone as per schedule. And as you will have seen, we will be allotting the shares to the shareholders of Edelweiss after the record date on June 2. So, I think the Nuvama demerger was a complicated one. And you would have seen in the presentation, there were many steps that have gone into that. It is almost a 30-month effort to get this from start to finish. I'm happy we are close to the last mile on that. And thank you to all of you for being patient with that. It's been a long journey to get the Nuvama demerger out there. My colleague, Ashish, also out there and a lot of the shareholders of Edelweiss will also automatically become shareholders of the Nuvama Wealth Management business. So, he is also there to give more color on the business and answer any questions that you may have.

The third important achievement this year is we're continuing to work on wholesale book reduction. So, as you know, we have been growing and degrowing at the same time for the last few years. Last 4 years, we have grown in asset management, wealth management, ARC, insurance, all of that. But in the credit business, we've been degrowing because we wanted to reduce the wholesale book because the way wholesale book and the wholesale credit business is panning out, to do this in an NBFC, is just unnecessary posing a lot of ALM and credit risk to an NBFC. It may be a good business to do in a fund where there is no ALM issue and where ability to structure and ability to hold is much higher. So, this reduction in wholesale book has been going on, which was the large part of Edelweiss. If you look at 5 years ago, a large part of our profits came from NBFC and the wholesale credit business. So, we've been degrowing on that, but we've been growing on the other parts.

And the last, this year also, we have continued to grow in insurance and in asset management. Especially in asset management, our alternate asset business has had a very strong year, both from growth and profitability point of view. And we do think this business is at a take off stage now. A lot of strategies. We have quite a few credit strategies in our alternate asset business. We are one of the leading players in private credit market in India. We have quite a few strategies. And a lot of these strategies are now in their Fund-II, Fund-III stage. And we are now starting to see the carry income, and the size of Fund-II, Fund-III are much larger. The track record is established. The performance has been good.

The business is now almost 11, 12 years old, and we are now getting close to Rs. 50,000 crores of AUM, which itself is a fairly good size in the alternate asset business. And we do think that this business is now close to take off. We have seen this in other businesses. We saw that in wealth management about 3 to 3.5 years ago that after a lot of the foundation building, the business was taking off. So, I think alternate asset management business and the mutual fund both have had a good year, and we think they both have some significant growth runway ahead of them.

The other interesting achievement this year was our life insurance business achieved embedded value breakeven, which is a year ahead of plan schedule. We were supposed to get embedded value breakeven in 2024. We achieved it in 2023. And as quite a few of you know about the life insurance business, embedded value is the most important one, and getting embedded value breakeven is a precursor to getting cash breakeven, accounting breakeven. In fact, accounting breakeven is more around rules like if there was IFRS rules, which are applied to NBFC world, to be applied to insurance companies, a lot of insurance companies will achieve accounting breakeven a lot earlier under IFRS. But under the old rules, the insurance companies continue under the whole Indian GAAP. They have not yet adopted IFRS. So, under the old Indian rule, even the accounting breakeven is pushed out. We expect to get our accounting breakeven and cash breakeven in the next 3 years. But for us, embedded value breakeven was a very important step in that direction. So, I'm very happy about that.

Given that, what was a bit slow this year, our wholesale recoveries were slightly behind plan, partly because some of the NCLT cases are taking longer, plus the economy is doing well, but cash flows on a lot of projects are coming in a staggered way. So, though we expected almost Rs. 3,000 crores of recoveries from the real estate book, we were Rs. 300 crores, Rs. 400 crores short in our recoveries this year. We hope to make it up this year. We don't think this has created any credit quality issue. But I think from a cash flow point of view, we have had to hold extra cash because of that.

Our retail credit book scale-up has been slightly slower. Again, on the disbursements, I think we are about Rs. 400 crores, Rs. 500 crores lower than what we had planned for the year. We achieved almost Rs. 1,000 crores of disbursement between Housing Finance and SME, a large part in co-lending, but it is slightly behind schedule. We do hope to catch up on this in FY24 also. Our partnerships for co-lending are very strong, and they are getting stronger as we speak. The scale-up has been slightly behind schedule in the retail credit business.

Third, our profit and loss account still has some drags in that, partly because of the extra liquidity we are holding, partly because of the slower growth in the retail credit business. And we're also providing capital and liquidity to the retail credit business so that they can grow faster, and we are holding some cash for that. Our insurance investments continue.

And lastly, our architecture is still being changed because last few years, a lot of the costs were at the Edelweiss Financial Services entity level, which are slowly getting downstream. And as we are unbundling and as we are making the businesses stronger, there are some costs which are still attached in this year. We had the demerger, the Nuvama. Restructuring cost that also came in.

So, if you look at the business profits, they are very good. When you consolidate, there is some amount of complexity that creeps in, which is also reflected in the notes to accounts and all. But we expect that this is the last year of the change in architecture. And by the end of this year, our new architecture will be in place. And as a result of that, the EFSL P&L will be an automatic consolidation of the underlying P&L. Currently, EFSL has a lot of other costs like this restructuring and the extra liquidity and all that we are holding, that is still continuing, which we hope will go away. And we will also make up not only the P&L stronger as we have done with the balance sheet.

Last 4 years, I think the large effort has been to make the balance sheet very strong because obviously after the ILFS crisis and the liquidity crunch, it was very, very important that we focus on the balance sheet, the liquidity, the reduction in debt, the reduction in wholesale book. And as a result of that, there are some drags on the P&L, but we do expect that in the coming years. Those P&L drags also will go away.

In a way, we prioritize strengthening the balance sheet versus trying to optimize the P&L at the same time. So, as I said, and part of this also was because we were changing architecture and we were growing and degrowing at the same time. We have degrown our wholesale credit business, and we'll continue to degrow that while we continue to invest and grow our other businesses.

So, overall, I think all said and done. The balance sheet remains strong, as you have seen in one of the slides. Our businesses are very well capitalized. The capital adequacy for credit businesses are more than 30%. So, we have a fair amount of equity because we have not withdrawn equity. We have not used up equity. And because we have not grown, equity has accumulated and it's free. So, there is more than 30% capital adequacy in the credit businesses. Insurance business solvency also remain strong. And in the last 4, 5 years, in spite of all the challenges that have been there, I'm very happy that we continue to invest in our insurance and asset management business and made sure that our credit business was fairly well capitalized. The equity was strong in that business.

And lastly, our growth in customer franchise continues. We added ~15 lakh customers this year. We now have a customer reach of 6.7 million, 67 lakhs, which has grown by almost 5x in the last 5 years. So, the retailization of all our business is also underway. The total customer assets, including Nuvama has crossed Rs. 4 lakh crores. So, that's a big achievement.

So, just a few updates on the key priorities before we open up to the Q&A. On the Nuvama demerger, we have filed an addendum with some clarity. Ashish is there on the call, if you have any more questions. As I said, the important part is to unlock value because we believe that Edelweiss stands for creating value and also unlocking value for the shareholders of Edelweiss. So, the addendum has a lot of key data points and the entire structure and the reason for the demerger.

There have been many questions I've been asked about Nuvama. So, I think it is clear in the presentation, but just the 3 highlights are the shareholders of Edelweiss will get approximately 1 share for approximately 100 shares of Edelweiss. So, if you own 100 shares of Edelweiss, you will approximately get 1 share of Nuvama. Nuvama, Face Value, is Rs. 10 share, while Edelweiss is a Rs. 1 share. As you've seen, Nuvama has an EPS of Rs. 92 for this year and it has a book value of 643. And for the year ending March, Nuvama has a net worth of Rs. 2,259 crores and has a PAT of Rs. 305 crores. So, that is the value of Nuvama. From the financial parameters point of view, obviously, the qualitative side, the way it has grown the wealth management business, the team, the strategy, and the execution we have had has been also something that has been very encouraging.

But broad questions, financial questions on Nuvama are these 5 key parameters. Shareholders of Edelweiss will get 1 of the Nuvama share for approximately 100 of Edelweiss shares. Nuvama has made EPS of Rs. 92. It has grown at more than 20%, 25% in the last 3, 4 years. The book value is about Rs. 64, and it currently has an equity net worth of Rs. 2,259 crores and a profit after tax of Rs. 305 crores.

After the Nuvama demerger, the other priority item has been reducing the wholesale assets, we have highlighted that. Our total wholesale assets were closer to Rs. 30,000 crores. We are now down to below Rs. 10,000 crores, including the loan book and the SR book and all put together. We do think we will reduce this by Rs. 3,000-odd crores every year. So, in the next 3 years, we are expecting the Wholesale Book to come down to 0. Hopefully, it will be faster than that.

The wholesale book currently has been provided for over the last 4 years. We have taken quite a bit of provisioning. The total impairment and provisioning are more than Rs. 4,500 crores now. And the remaining book value is now fairly well collateralized. Our asset cover, collateral cover on the wholesale book as on current book value is close to 1.4x. So, we are fairly well collateralized. And given that real estate prices are going up, the real estate market has come back very well, we do think that the collateral cover we have will ensure that from the current marking we have, we should not have any more impairments. If at all, there should be hopefully some upside, but that will be a function of how fast and how well we focus on recoveries going forward.

The third important item has been the reduction of debt. Our debt, as I said, has come down to close to Rs. 16,000 crores on a net basis. We will continue to scale this down. We expect another Rs. 3,000 crores to Rs. 4,000 crores reduction this year also. So, our idea has been to become asset-light to make the balance sheet stronger by reduction in borrowing and focus on the businesses, which are not using a lot of balance sheet but which allows you a much more ability to add value in an asset-light manner.

Lastly, I think liquidity, as of April 1, we had Rs. 2,900 crores of liquidity after the Nuvama demerger, which is approximately 15% of the gross debt that we have. For this year, we expect that between the outflows and a very conservative estimate of inflows, we should have a gap of about Rs. 900 crores. So, we have Rs. 2,900 crores. So, we're fairly well covered. We have planned some fresh borrowings; some have happened in this quarter also. So, on the whole, I think we will use fresh borrowings largely for new disbursements in our retail credit business in this coming year. Otherwise from liquidity on the wholesale book and all, we are fairly well covered.

We have been holding more liquidity than required, which has partly affected our earnings. I think we expect that last 3 or 4 years, the liquidity holding cost has cost us about close to Rs. 200 crores per year in earnings. We hope that after FY '24, as we reduce the debt, the need for holdings and that liquidity will come down and hence will allow us to at least not have this earning drag that has been there for the last few years.

And lastly, I think as I spoke earlier, asset management insurance continues to grow well. Our GI business has been rebranded. It is called Zuno. And it grew almost 53% in GDPI this year. It has been one of the fastest-growing general insurance business. We expect that to break even in FY26. The life insurance business, ETLI, achieved embedded value breakeven. APE has crossed Rs. 500 crores. So, we are strong on that.

So, I think going forward, we will continue to focus on the priorities, but I think there'll be extra focus. And as we speak through this year, we'll be able to give you more an update on the extra effort we're going to make on 3 items, focus on wholesale recoveries. We have done quite a bit of things internally, and also use our ARC platform to expedite the wholesale recoveries. The ARC platform has been very good on recoveries because they are the experts. They are the market leaders. On their own business, the ARC this year had recoveries of close to Rs. 7,500 crores. So, for our wholesale book, real estate book, we have aligned to get the ARC capabilities to also pitch in, in making sure the wholesale recoveries are robust and strong, and we continue as per plan.

Second, we will scale up the retail credit and the co-lending business this year. The last quarter, the fourth quarter was actually pretty good. So, we do think that now things are falling in place on the co-lending partnerships and all, and we should be able to grow that.

And lastly, reduce the P&L drag and the complexity that is there because of the architecture, restructuring and the Nuvama demerger. A lot of that will go away. So, these are 3 special focus items besides the items like reducing debt, growing asset management business and all of that.

So, to sum up, I think the balance sheet continues to become stronger. We have spent 4 years strengthening our balance sheet. That is actually one of the primary focus areas for us. Profitability is improving, will continue to improve. The businesses are taking off. And while we degrew on the credit business, if you look at the last 3, 4 years, the growth in mutual fund, the growth in Edelweiss alternate asset management business, the growth in insurance, growth in ERC, also has been fairly well balanced. So, while we did focus on NBFC business because of the environment, we did insulate and allow the other businesses to continue their growth path. And I think this year numbers and the results have highlighted that.

So, we'll continue to focus on that strengthened balance sheet, simplify the P&L, make it stronger. And I think, as I said, India continues to be in a very sweet spot. It has been one of the sweeter spots in our careers that we have seen. Inflation is down. Forex reserves are good. Government tax inflows are strong. The corporate balance sheets are strong. All of that is falling in place, so we do hope that we will be able to capitalize on that.

But with that, thank you all of you once again. And we'll now open up for questions.

Moderator: We will now begin the question-and-answer session.

Rashesh Shah: Priya, if you want to ping Ashish who's on the other line and he wants to add some comments while we are waiting for questions. But if the questions are there, we can go ahead with that.

Moderator: We have our first question from the line of Priten Vedant from Vedant Advisory. Please go ahead.

Priten Vedant: Sir, my question was with regard to the value unlocking of Nuvama that you mentioned. Can you give a brief overview on how the process was designed and what are the steps going ahead? Are we waiting for any approval or something at this point?

Rashesh Shah: No, I think the final approval from the Courts, NCLT and all has come. Now we will allot the shares, and then we have to only get it listed in the exchange, which will require the exchanges and the SEBI approval. But that's usually just a process because we need all the norms out there. And in fact, whenever you do a demerger of this kind, there is a SEBI rule, which says you have to list the shares because they don't want the minority shareholders to be stuck in an unlisted company.

So, the listing is the only last part. We started this journey about 30 months ago. And our first step was to capitalize the business. So, we have raised about close to Rs. 700 crores inside the Nuvama business. So, as a result of that, you can see the Nuvama is capitalized at close to Rs. 2,259 crores as of now. So, Nuvama, first, we said, let's capitalize the business well. Then Edelweiss sold a stake to PAG to get some liquidity for Edelweiss that we have used to repay our debt, and that has been used to also invest in our insurance business and others.

And thirdly, we are allotting the shares, 30% of Nuvama will be allotted to the shareholders of Edelweiss. So, Nuvama is about 3.5 crores shares, so almost 1 crore shares will get allotted to the Edelweiss shareholders after June 2. So, we expect that if we do the allotment in the first week of June, it should take about between 30 to 45 days ideally for the listing to happen. And as we said, now we have all the parameters of Nuvama, EPS and all that. So, on that basis, I think after 2nd June, I expect Edelweiss shares to trade ex-Nuvama and Nuvama shares will get traded about 45 to 50 days after that.

Moderator: We have our next question from the line of Lalit Deo from Equirus Securities. Please go ahead.

Lalit Deo: Yes. Sir, like firstly was on the general insurance in the Housing Finance business. So, we see that we have rebranded this business to like need a home finance and Zuno General Insurance. So, should we see this as a preparation for like potential value unlock like in the coming years, like as you mentioned, like general insurance should achieve breakeven in the next 3 years? So, like those 3 years, like should we see there is a potential value unlock in these businesses? As well as also, like what is the rationale like for moving away from a central brand to a decentralized brand.

Rashesh Shah: So, actually, it's an interesting question and we debated a lot. But like, for example, the Zuno business, the general insurance business, we started 5 years ago. It's a very fintech, completely digital native kind of a business. And they obviously are in the market where there are a lot of other players like Go Digit and ACKO and all. So, for it to be continued to be called Edelweiss general insurance business did not really reflect the new agedness of that business. Edelweiss is fairly well known in the capital market space and all that. But I think for that kind of business, they have to compete. They needed to attract people, talent, customers and be well positioned for that.

Lastly, I think just one brand for all businesses when they all are indifferent. Like the other example you gave, Housing Finance. Housing, we are very much into affordable housing in basically Tier-2, Tier-3 stages. Now there also to be called Edelweiss Housing Finance, where there are so many other good quality Housing Finance companies who all have catchy brand names and all that. So, one is we realize that the business is by just giving Edelweiss to them was putting a lot of restrictions on how they position their businesses.

The second is if everybody is going to use Edelweiss name, then we will also have a lot of restrictions on what they can't do, what they can do, how the logo will be designed, what color code will be used, all of that. So, that also reduces the flexibility, the cost, approval time because we have to monitor because we are obviously the custodians of the Edelweiss brand. So, some holding of the Housing Finance company in Salem will also have to be approved by us. So, that also puts a lot of restrictions on that.

And in India, we have seen, everybody talks about it, but there have been so many companies which have had multiple brands, even Tata Group has got brands like Croma and Titan and Taj and we have seen that with Aditya Birla Group where they have Hindalco, Grasim, Ultratech. The Murugappa Group has got different names. So, there are advantages having one common name and there are disadvantages. So, we evaluated that. And on that basis, we have given a choice to all the businesses that can create their own branding.

Our approach has been to help the businesses grow. We want to create value. We want to handhold them. We want to give all the resources, so we provide capital. Like the general insurance business, we have given more than Rs. 500 crores of equity in the last 5 years while all this NBFC headwinds were going on. We were making sure that that business were well capitalized.

So, our idea has been that after we do that, after we help the businesses grow, they should be able to have their own entity, their own growth positioning. And if you have to unlock the value that will be good for us and the Edelweiss shareholders, plus it will also be good for the business because it will allow the business to use inorganic growth acquisition, opportunities to grow on their own.

And we see these businesses over a 20-30-40 years' horizon. So, we don't think the first 10 years is where everything in the business has happened. Like even in the Nuvama case, it's a 20-year-old business for us, but we do think there is a lot of growth over the next 20 years or so. So, by giving it independence, by giving it that spotlight focused independent balance sheet, allowing a currency has been good for the business while it has been good for Edelweiss and Edelweiss shareholders because we do have a lot of opportunities to continue to invest in the business. And since the only x amount of capital reallocating capital and by unlocking value is going to be an important part. We are not a holding company. We are not going to hold shares in the underlying companies forever.

We want to create value. We want to unlock that in a way that is good for the business, that is good for Edelweiss and the shareholders of Edelweiss because all of us are also shareholders of the company. So, we want to find that nice balance in our unlocking between what is good for business, what is good for Edelweiss and what is good for the shareholders of Edelweiss.

Moderator: We have our next question from the line of Pravin Agarwal, an individual investor. Please go ahead.

Pravin Agarwal: Thank you so much for the detailed discussion about the demerger. So, I have one more question about it. So, after the demerger and distribution of the Nuvama shares, as you rightly say, the EFSL will use the PAT of share in Nuvama. So, which businesses do you think will be filling up the gap in the loss of profitability? And after this, I have 1 more question, which is slightly on a different business.

Rashesh Shah: So, again, it's always hard to give any forward-looking statement. But as you've seen, the growth in our asset management profitability has been fairly significant. And as I said, a lot of the funds are now hitting their carry targets and all that. So, I think alternate asset management business, asset management, you would have seen the life insurance business also, the loss is coming down, so that will also be a help to the profitability because we don't expect any further increase in the insurance P&L hit that has been there. It will only come down.

Thirdly, the corporate part also, as we said, we have been holding liquidity, there was a demerger cost, restructuring demerger cost, all of that. So, even that should come down.

And fourth, I think NBFC, as you can see, the Housing Finance business and the NBFC total has a capital of close to Rs. 4,800 crores of equity. And currently, they are not even making 3%, 4% ROE. But as we degrow the wholesale business, ROE has come down, obviously. But as we grow the retail credit business with co-lending, we expect that profitability also to go up.

And the trend has been there in the last quarter also. So, we do hope that these are the 4, 5 drivers of growth in profitability. The retail credit scale up, the reduction in drag at a corporate level as our borrowings come down. And we don't hold as much excess liquidity as we've been holding, the insurance drag coming down and asset management growing. So, I think we have all the drivers in place.

Pravin Agarwal: One more question. Congratulations on the debt reduction part on the wholesale side. Can you also throw some more color on the key drivers driving that reduction? And what is the kind of asset quality do you see the underlying assets, which are there?

Rashesh Shah: So, as you see, a large part of the wholesale book now is real estate. And a lot of these are housing projects, mainly they are housing projects, which are, for some reason, some were struck, some counterparties were weak. They have the land, but they are not able to construct, those kind of cases. Some we have taken to NCLT, some we are getting some other refinancing, some new developers are coming in 5 cases in this year, a new stronger developer has come in and also repaid part of our loan, but also at least ensure that the project is getting completed and going forward and all.

So, we saw a few of those also this year because as the real estate market is strong, a lot of this is coming back. So, I think our approach to recoveries wholesale is basically two-pronged. One is organic recovery as the projects are getting done, we have escrow and cash flow. We basically sweep the cash flow. It gets repaid. And the other is where we think that the project is good, the collateral is good, but it might need a little bit of holding power of, say, 18 months and all that.

Then instead of restructuring, we have ours to restructuring, doing onetime restructuring, giving any concessions to any of the developer if the underlying value of the collateral is there. Then we partner with some of the global funds, and we partner with them that they create structure, which creates holding power in an AIF or ARC structure which allows the project to get completed and us to not have to take any haircut, in fact, recover also a good amount of money.

So, we do both organic and inorganic. Our bias is organic because I think, as I said, we should get a Rs. 2,500 crores to Rs. 3,000 crores a year coming off from organic only. These are about 80-odd real estate projects, which are in the portfolio. About 30, 35 out of them have been doing well. So, that will come naturally. The others have got some issues or the other, which have all got restructured, new developers coming in, some new fund coming in, all of that is going on. But it's case to case. So, each one takes time.

A few of them, we are taking to NCLT because the underlying collateral is also very good, and we're getting a lot of offers in NCLT. So, there is an approach to recovery on this that basically, we don't like to do a onetime settlement and give a big haircut to the borrower if the underlying quality of the assets has been there. And in most of them, we have marked down take an impairment so that the current price is conservative. Our current holding price is conservative as compared to the recovery value that is there.

Then we focus on recovery because, as you know, we have an ARC also, we know how to recover. Our ARC in the last 5, 6 years has recovered more than Rs. 40,000 crores from the

NPAs of the banks that they acquired. So, we do understand the recovery process. Sometimes it takes time, but I think the underlying asset values are there.

Moderator: We have our next question from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: My question is related to Nuvama again. So, just wanted to understand what differentiates this entity Nuvama Wealth from its competition? And I mean, how are we seeing this differentiator contributing to profitability and growth going forward?

Rashesh Shah: Ashish, if you are there, do you want to make an attempt to answer this? Ashish?

Moderator: Mona, I'm sorry to interrupt. Can you please mute your line? The background noise coming from your line. Please go ahead, sir.

Ashish Kehair: Yes. So, essentially, what we have done over the last 7, 8 years have invested significantly in creating a differentiated platform on Wealth Management and this is on 2 fronts. One is the entire offering, which is given to the clients. So, we have the capabilities to execute on the exchange. We have a small NBFC which can give loans against securities and sales. We have a distribution business. We have advisory. And we also have our investment banking outlet which can help promote growth.

So, the universal platform, which can basically help the relationship manager to add value across the entire client wallet, which can include business and its revenue. Most of the competitors would normally operate only in the distribution line. And this is a monoline business where we distribute third-party products, and this can cover the pressure due to regulatory changes and so and so forth.

The second thing which we have done is also differentiated across the client segments. If you look at our peer group, they largely operate in a segment, which is called Ultra HNI, which in our in our industry, is typically Rs. 25 crore plus in terms of investable surplus. We have actually invested there, and we have built a very, very strong affluent HNI business, which is Rs. 5 crores to Rs. 25 crores, which we are talking now. And we've spent about 10 years.

That's a business which takes longer to build because it operates with lower cost relationship people, leverages technology more, and has physical presence across the length and breadth of the country. So, it's a longer breakeven business. But once you breakeven and you build the platform, the profitability is a very strong break-up, and we are in that part of the break-up.

Last 2, 3 years, both these businesses have grown more than 30% year-on-year. And even with the regulatory changes, tax changes which are there, maybe we will settle in the coming year and then the growth trajectory again starts.

Mona Khetan: So, when you mentioned this Rs. 5 crores to Rs. 25 crores client segment, this refers to their investable wealth.

Ashish Kehair: Yes. That's right.

Moderator: We have our next question from the line of Sumit Bhalotia from MK Ventures. Please go ahead.

Sumit Bhalotia: I wanted to have some more understanding on the Alternate Asset Management Business that you have. So, can you help with broad economy there in terms of what is the gross yield that we made and on an average, what is the carry structure there? And also, next 2, 3 years, what is the visibility in the growth front?

Rashesh Shah: So, as you would have seen in the presentation, on Alternative Asset Management, there are 2 numbers on AUM. One is obviously the AUM and one is the fee-paying AUM because a lot of in private credit the way it works, is that you get fees on only the capital that is deployed, not on what is AUM.

So, when you raise a Rs. 10,000 crore fund and in the first year, if you deploy only Rs. 3,000 crores, you earn fees only on Rs. 3,000 crores. So, there is a little bit of back-endedness to even the fee part of it. So, in the early years of a private credit fund, you end up losing money because you end up also paying distribution costs. Distribution costs usually can be approximately between 1.5% to 3% of the amount that you raise and a lot of that is accounted on a maybe amortized basis, but from a cash flow point of view, it's usually paid upfront.

So, the first 2-3 years usually are investment years because your fee starts kicking in. Then year 3, 4 is where you get fees which are more than cover your expense and there is a profit. And year 5, 6, 7 is where the carry income comes in. On average, if you make a 14%, 15% return, you should expect to make about 1%, 1.25% as fees and another 1%, 1.25% as carry. That is how this broadly works. Of course, each fund strategies are different, all of them.

So, as you can see, we have Rs. 46,000 crores of AUM Rs. 46,500 crores, half of it approximately, Rs. 23,000 crore is fee-paying. So, the other Rs. 23,000 crore is currently undeployed AUM that the moment we deploy, it will start paying fees to us. As you saw in the last quarter, we deployed about Rs. 1,000 crores. We expect to deploy about between Rs. 5,000 crores to Rs. 7,000 crores in a year across all the strategies. So, we are doing each deal is about Rs. 400 crores, Rs. 500 crores. So, this quarter, we did about 2 deals, but we usually do about the 3-odd deals every quarter. So, in a year across strategies, and again, this is not 1 fund, these are about 11, 12 funds across all the strategies, onshore, offshore, all of them.

So, our target is to raise about Rs. 10,000 crore to Rs. 15,000 crore every year of new AUM, which will be deployed gradually. The idea is to deploy about Rs. 6,000 crore, Rs. 7,000 crores in a year and exits will be about 4,000 to 5,000. As you saw in the last quarter, we exited Rs. 1,500 crores in the last quarter. So, that is how this business broadly works that AUM, fee-paying AUM, how much you deployed, how much you realized and there is a carry element to that. So, I think across our funds in the year, as the funds are getting in the year 4, 5, 6, 7, the carry starts coming in on that.

Sumit Bhalotia: So, broadly 1.25% of fee and 1.25% of carry over a period of time is what you are seeing. And this is net of the distribution cost, this number, 2.5% that you mentioned?

Rashesh Shah: So, yes. I think after you amortize the distribution cost, your net revenue will be about 100 to 125 basis points, out of which your expenses will be there. But usually, when you get to Fund-III, your expenses are covered in Fund-I, Fund-II, so Fund-III usually will have different economics than Fund-II, because it's the same management team that works on that.

So, it's actually very hard to see it fund by fund. At a business level, if you look at this, in this quarter, you would have seen we had a total net revenue of almost Rs. 400 crores this year on approximately Rs. 23,000 crores fee-paying revenue. So, that came to about 1.5% and then there were expenses and all on that. Out of this, I think revenue we expect going forward at a gross level, about Rs. 200 crores to Rs. 250 crores of carry will come in every year. But against carry, there is expense also. Usually, 1/3rd of the carry is paid to the fund managers. So, that also gets captured in this. So, when you get the carry, you also pay it to your fund managers accordingly.

So, what I look at is the profit after tax. What is the net PAT that you make on a fund. In a fund on an average over a 7-year period, you should make 7% of the corpus as your PAT, but the 7% is not linear as 1% every year. Usually, the first 2 years will be (-1%), (-1%) and the third year will be breakeven, and the fourth year onwards, you make 1% going up to 3%, 3.5% a year. So, that is how it works. It's a little bit different from a normal mutual fund business.

Sumit Bhalotia: So, I think that there's a little bit of volatility in terms of quarterly number that's why we wanted better understanding. So, sir, last quarter, you said you exited Rs. 1500 crores of assets and that's why even though you have done two deals but on a net basis, interest paying AUM has not moved up, which is largely flattish.

Rashesh Shah: Exactly. Because I think we had more exits again because we have to look at risk also. So, when the exit is right, we will also be exiting some of them. So, it's not a business. In fact, all of Edelweiss is not something you can look at on a quarter-to-quarter basis. I think increasingly, Edelweiss is becoming like something that can be looked annually. Because you might close a deal at the start of the quarter and on the fee for the whole quarter or you might close the deal, end of the quarter and not earn the fee, though it might show up as a fee-paying AUM.

So, I think overall, after 10 to 15 years, business parameters become stabilized and if you look at a lot of global firms like Blackstone and Apollo and others, I think usually about 1% of your AUM, it should be equal to PAT. Between 80 basis points to 100 basis points is what usually forms make after you have 3, 4, 5 funds in the same strategy one way because then you get fee, you get expenses which are definite over 3, 4 funds. So, I think by '24 onwards is where a lot of this will start stabilizing, there will be some idiosyncratic income because of carry and all that. But overall, we think Alternative Asset Management Business should make a PAT of about 80 basis points of your average fee-paying AUM.

Moderator: Thank you. We have our next question from the line of Vishal Kapoor from Vishal Enterprises. Please go ahead.

Vishal Kapoor: My question is about the AUM business. We have seen robust AUM growth in the past year. But your AUM is predominantly debt-based and it's more of a passive fund, which are lower. Is there any plan to change this proportion to what tended towards equity so that you earn a better margin and any guidance on the AMC profitability?

Rashesh Shah: Guidance on profitability will be hard to give. But yes, you're absolutely right. Basically, I think the bond ETF and all were great products and actually our signature product. We do think there is a huge opportunity in bond ETFs and all in India, especially what has happened and the way interest rates are and there is a lot of, I think, yield-seeking investments which are there. So, that will always remain part of that. But any mutual fund should have a robust equity business.

Our current equity as a percentage of AUM is about 22%. The industry’s average is about 35% to 40%. If you look at most of the mutual funds, equity AUM. So, instead of looking at how much is bond ETF or passive, I think the other way to look at it, the inverse we are looking at it is how much is equity as a percentage of total AUM. We are 22%, which is below the industry average, which I think is about 35% between 35 to 40. So, our endeavor will be to get to 35%. But as the AUM is also growing, then growing equity, along with that is harder work, but we are focused on that.

If you see in the last 4 years, and if you see the trend of equity as a percentage of total AUM, we are now about 22%. But our endeavor absolutely is going to be increased not because it is more profitable. I don't think we are guided by that. What we are have guided by is that we need to offer the entire range to our partners or distributors and actually, our equity funds have done pretty well.

Our small cap and mid-cap equity fund performance has been quartile 1 across the board. So, we are very enthused by that. And we do think that the way economy is coming back, interest in small cap, big cap is coming back, we would want to capitalize on that, but let us see. But you are right, not for profitable reason, but to complete our offering and are making sure that we are also around between 30% to 40% equity AUM as a percentage of total AUM is what our endeavor is and will be.

Moderator: We have our next question from the line of Sanjay Pandit from 1729 Capital. Please go ahead.

Sanjay Pandit: Congrats on a strong quarter. And we're especially sort of impressed with alternative assets and are looking forward to the Nuvama IPO. My question was on sort of net debt. If you look at it, your overall net debt has come down, which is obviously a positive, but it appears that at the parent company level, it's gone up this year versus, say, 12 months ago, and that's more than offset by at the subsidiary level, it's come down. So, how are we to think about that sort of moving forward in terms of coming up with NAV of the business. And also, a couple of months ago, you had a sum of parts valuation. Do you plan to update that at some point?

Rashesh Shah: So, I think on some of the parts, we did that at our AGM because I think even all the shareholders, including retail shareholders should get a complete view of the picture. And also, will work with the feedback from people like all of you, to do the sum of parts once a year and present it at the AGM every year so that investors get a view, and there is no point in doing it on a quarterly basis because we are looking at long-term intrinsic value.

Of course, there are assumptions in that. We will disclose the assumptions under which the intrinsic value is being worked on, and we constantly stress test it and talk to people in the private equity market, investment bankers to see whether our assumptions on intrinsic value are true or not. So, AGM every year, this is something we plan to make as part of the AGM event to do the sum of part intrinsic value. We internally follow an intrinsic value mechanism.

So, it is not for the stock price or anything, but it is to really tell our shareholders, our investors, what we think are the intrinsic value where we have created value, where maybe intrinsic value has come down like in a wholesale credit book, intrinsic value has come down over the last 4 years because of the environment and because of us degrowing that business.

So, we want to be transparent about it, and we will do that every year. So, that's the second answer to your second question. Your first one is important. I think we have been holding some amount of reserves at the HoldCo level, even with the Nuvama demerger, we wanted to make sure that any restructuring cost and all that. We have enough cushion out there. Also, we have continued to invest in our asset management and insurance business. So, though asset management is breakeven, when we deploy the capital, we also have to pump in the GP contribution. I'm sure, as you understand being a fund that there is always a GP contribution.

So, just think about it. If you have deployed Rs. 23,000 crores, an average GP contribution is about 4% to 5%. We have almost Rs. 1,000 crores that we have deployed as LP alongside the other LPs as our GP contribution. Our earlier funds used to have GP contribution of 15, 20, even going up to 25%. We are now down to about 5% GP contribution in most of our funds in the new funds. So, we also had to make some GP contribution in this year.

Also, we continue to invest in our insurance businesses, and we're also holding some liquidity that we have given to the retail credit businesses also so that they can ramp up their co-lending. Co-lending has usually a 3-month kind of cycle. So, there is short-term working capital required. And while all these changes have been going on, we're making the companies more independent. We wanted to make sure that another Rs. 500 crores, Rs. 600 crores of extra liquidity that we have, it just enables the growth. And as I said, from this year onwards, we are pushing all the businesses to do their own borrowing, to be on their own and use us as the last resort. But up till now, we have made sure that we are able to support them from the EFS level.

Moderator: We have our next question from the line of Sahej Mittal from HDFC Securities. Please go ahead.

Sahej Mittal: So, I have one question. So, as a shareholder, how should we be looking at the demerger? Should we see this as a value accretive deal in the long term? I would like to hear some comments how the management is seeing this.

Rashesh Shah: I would think so. I think that the reason to do the demerger is want to ensure that the Edelweiss shareholders directly participate in this exciting wealth management business we have. As we have said on a long-term basis, we don't want to be a holding company, where shareholders are very passive and they are a step away from enjoying the value that we create. So, I think it is part of that.

We do think if you look at the parameters that Edelweiss excluding Nuvama, after Nuvama goes away, we still will continue to have 7 businesses, which includes life insurance, general insurance, NBFC, Housing Finance, ARC, mutual fund and all types of business. Each of them, you have the information parameters on that. All of them have exciting growth ahead of them. The challenges on wholesale credit are largely behind us.

We have actually done everything that we were supposed to do and we continue to do that. So, that will ensure that the drag of the wholesale credit business goes away. And along with that, we keep on growing the other businesses. So, I think it is up to the market and the shareholders and investors to decide whether this is accretive or not. But our assumption is that this should be accretive because Edelweiss excluding Nuvama also has got a lot of growth businesses in that. While Nuvama itself with the kind of EPS and the growth that it had should get valued appropriately in the market by the shareholders. And a lot of the shareholders will be Edelweiss shareholders also.

And since it's stand-alone, I think one of the things we've been told is hard to value Edelweiss with all these businesses. It's a conglomerate of multiple businesses, which are all at different stages, which have different profitability drivers, all of that, which we understand.

So, that's why we try to do SOTP, and this value unlocking is also a way of saying that we are also putting some value directly in the hands of people. And I do think wealth management has a great growth opportunity in India, not just for us, but for the whole industry. So, I do hope that the Edelweiss shareholders will enjoy participating in that and enjoy the upside on that.

Moderator: We have our next question from the line of Rishikesh Oza from RoboCapital. Please go ahead.

Rishikesh Oza: Sir, my question is on the BMU and corporate debt of Rs. 6,300. Firstly, sir, why was it taken? And secondly, like when and how will it be paid? So, will it be like transferred to any operating company?

Rashesh Shah: No. I think out of this, as you saw the last time in the AGM, we had also given a detailed this thing. Currently, the corporate owns about investment assets and credit assets and all about Rs. 3,000 crores to Rs. 3,500 crores, which are all getting liquidated. As I explained, we have our LP investments. We have all of that. So, we've also given some group loans to our retail credit businesses and all. So, the corporate has about against the Rs. 6,000 odd loan, about Rs. 3,000 crore, Rs. 3,500 crore is the credit and investment portfolio, which will be self-liquidating. So, part of it will get paid out of that. A lot of that is also earning money. So, that earns money.

So, in a way, as I said, currently, we still have an investment portfolio because, historically, it was Edelweiss that was making all the investments that we're co-investing in the credit, some of the credit loans and all. So, that is one part of it. Along with that, the corporate also owns the office buildings and all. So, we have real estate and property worth another Rs. 1,500 crores. Again, will also be borrowed, but it's the Edelweiss house office building, Kohinoor house, all of that we have, a lot of the real estate is owned by a lot of our earlier, the fixed assets and all were owned by the corporate. So, we have that part also. So, that is also part of the loan, which we may continue or if you want to do a sale and leaseback, we can always use that for that.

So, that accounts for approximately Rs. 5,000 crores of the loan. Another Rs. 1,300 crores is the loan at the HoldCo level that we think either we can keep it permanently or we'll also be getting dividend from the businesses. Like in the wholesale credit NBFC business, we have a total of about close to Rs. 4,000 crores of equity, out of which Rs. 3,000 is currently allocated to the wholesale credit book.

As we run down the wholesale credit book, that Rs. 3,000 crores will become free so that we can dividend it up and take it out. So, we do think that if HoldCo after all this the property debt as well as the investment and the credit book debt, we'll have about Rs. 1,000 crores to Rs. 1,500 crores of debt that can always be paid off either by the income and dividend of the underlying businesses, the excess capital in the underlying businesses that we can stream up sales and/or we can do stake sale.

As you know, we will own 14% of Nuvama. We own 100% of the general insurance business. We own 100% of the mutual fund business. We own 100% of the Alternate Asset Management Business. We own 100% of the Housing Finance business. So, if we sell stakes in those also, they will also come to the holding company, right? As we have done in the past, the holding companies.

Out of Rs. 6,000-odd crores, about Rs. 5,000 crores is very directly assigned to assets. The balance is about Rs. 1,000, Rs. 1,500 crores will be either earnings from businesses, dividend from business, excess capital for business or stakes sell from businesses. If you want to repay all the debt, I think at the HoldCo level, we are comfortable about Rs. 3000 cores, Rs. 3,500 crores of debt we can manage and sustain on an ongoing basis. Currently, it is about, as I always said, we have Rs. 2 crores, Rs. 3 crores of extra debt, Rs. 2,000 crores, Rs. 3,000 crores of extra debt at the HoldCo because over the years, we've been building liquidity, holding liquidity, all of that. So, part of that will get repaid in the next 2 to 3 years in a gradual way.

Rishikesh Oza: So, are we not looking to repay all of it because I think in earlier AGM slides, if I see for FY26, we're expecting to zero it down.

Rashesh Shah: So, that is the plan. And as I said, in that, you would have seen there is a stake sale also planned in insurance and Housing Finance in that AGM presentation we made. So, that answer was that if you want to go to 0, but this is how we will go to 0, the investment credit book will be run down, which will anyway be run down. That is not a choice but that is we are doing automatically.

The real assets we can continue to own or we can transfer to the businesses that are using it. because ultimately, all the office property is also used by businesses. They're paying us the rent for that, but we can transfer it to them. We have eight businesses; they can take whatever assets they are using. That is on the real estate side. After that, another 1,500 from either insurance stake sale or Housing Finance stake sale or sale selling asset management is what we can do.

We also expect to get some equity freed from the wholesale credit book that will come up. So, if you look at the AGM presentation, it outlines the plan on that. And as I said, every year in AGM we'll give you the update on the plan and where do we stand on the plan every year? We want to make this an annual exercise.

Rishikesh Oza: But just a follow-up on this only. Are we serious to paying it down or we are okay to keep it?

Rashesh Shah: No, we want to pay it down. I think see the history is the Edelweiss Financial Services was like a conglomerate holding company also. Now as per RBI rules, if you are a CIC, you can borrow 2.5x your net worth. So, for example, if the net worth is Rs. 8,000 crores, you can borrow up to Rs. 20,000 crores. So, at the peak, what you are currently referring is on Rs. 6,000 crore, debt was more than Rs. 11,000 crores debt. We brought it down to Rs. 6,000 crore even when we sold the stake to PAG in the wealth management business, we did pay down the debt. We have 14% of the Nuvama wealth management business also, which also is a liquidable asset.

So, we are very committed to paying it down. We want to pay down, whether we go to Rs. 0 or Rs. 1,000 crores is what we will see after 2, 2.5 years. But between now to the next 2.5 years, as we have said earlier, the EFSL, the corporate debt should come down because the corporate increasingly wants to fund itself is equity. We don't want to borrow. So, as I said, holding companies are allowed to borrow up to 2.5x. We had used that. We have decided to stop using that.

Moderator: We have our next question from the line of Sidharth Shah, an individual investor. Please go ahead.

Sidharth Shah: I just had 2. One, in the presentation, it shows that management shareholding has come down from 5.6% in the previous quarter to 2%. So, I just wanted to ask, is that just a reclassification? Or is it like an actual sale by them?

Rashesh Shah: Which slide are you referring to. This is a surprise to me because I don't think there has been any sale at all. So, which slide are you referring to, if you can show it to me

Sidharth Shah: Sure. It's Slide #54.

Rashesh Shah: One second. I'm going to open it. So, just give me a couple of minutes. Okay. So, these are basically employees who may have quit and basically, as you know, we had Rujan Panjwani, who was a long-standing employee. He turned 60 and retired this year. So, he's shareholding. As you know, over the years, we have given almost 18%, 20% of our shareholding to the management who are non-promoters. So, as a few of them would have retired, the main one would be Rujan Panjwani, and I think his shareholding pattern is also there in the actual filing of the shareholding.

So, I think part of the fall is because Rujan has been declassified as management because he is now retired from the company. So, the promoter have not sold shares. Some of the management may have sold shares for maybe exercising ESOPs or repaying loans. But a lot of that is reclassification I would think. Promoters have not sold any shares.

Sidharth Shah: I just had 1 more question. In the wholesale business, I think our wholesale assets quarter-on-quarter have reduced by about Rs. 2,000 crores from Rs. 7,800 crores to Rs. 5700 crores. But the debt reduction is much less at the NBFC. As is the kind of increase in liquidity, so just wanted to kind of bridge that gap because I see the assets have come down by about 2,000, but debt has only been reduced by 700 and liquidity has only increased by about Rs. 300 crores.

Rashesh Shah: I think part of it has also gone into growing the retail credit business, as I said, overall. Just to clarify on the earlier question, I just got the answer. The Nuvama employees were also earlier classified as management, they are no longer classified as management anymore. So, the reduction in management you are seeing is also the Nuvama employees no longer being classified as management, just to complete on that.

I don't have the triangulation of the reduction in wholesale book versus the debt, but it is actually in sync with that because we are using whatever we are getting to repay, either hold liquidity for future repayment or just repaying the debt. We are giving a little bit of money for the retail credit businesses. So, I don't know whether this is co-mingled with ARC or not because ARC also has been accumulating cash to repay.

But if you want, we can give you the triangulation offline. But I'm actually very confident because if we are reducing assets, then either we are getting cash or we are repaying debt, right? It could be either of the 2. So, we'll be happy. Ananya can give you the triangulation on that.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question for today. I now hand over the call back to Ms. Priyadeep Chopra for closing comments. Over to you.

Priyadeep Chopra: Thanks, Yashashri, and thank you very much, everyone, for your time today. Always lovely to listen to all of you and take your questions.

Please do write to us at Edelweiss Investor Relations for any further queries. Once again, thank you for your time and have a good day ahead. Thank you.

Rashesh Shah: Thank you, everybody.

Priyadeep Chopra: Thanks, Rashesh. Thanks Ashish. Thank you for joining the call.

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