Edelweiss
Ideas create, values protect

Chairman's Letter

The Lion Capital, Sarnath, Uttar Pradesh, c.1905

Bifocal Vision

Embracing the past.
Envisioning the future.

In the heart of Sarnath, Uttar Pradesh, stands the illustrious Lion Capital, a tribute to Ashoka's Mauryan dynasty from the third century BC. Crafted from gleaming sandstone, it depicts four lions regally seated atop an abacus, and today, this relic is enshrined in the sanctity of the Sarnath Museum. As India stepped into its republic era on January 26, 1950, this artifact, steeped in heritage, was chosen as our National Emblem, symbolising India's strength, unity, and undying legacy. Its depiction on our currency is a poignant reminder of our deep historical roots. Yet, as India strides into the digital age, pioneering in sectors like financial inclusivity and modernised payments, the Reserve Bank of India's unveiling of the Central Bank Digital Currency (CBDC) signifies a harmonious blend of our ancient ethos with modern innovation. Just as the emblematic lions stand sentinel across ages, the CBDC connects our revered past with a transformative financial horizon.

Chairman's Letter

FY23 was a year of whirlwind change and challenges for the global economy. We witnessed a series of significant events, starting with a global economic revival and the return to complete normalcy after recovering from the pandemic. This gave the world a glimmer of hope for a strong fiscal year ahead. However, this uptick remained short-lived and was overshadowed by the economic volatility that has characterised much of this fiscal period.

The Year Gone by – Volatility, War, Inflation and an Inverted Yield Curve

The global economic landscape experienced unprecedented volatility during FY23. The year began with the rallying of the US dollar to an all-time high, only to reverse all its gains by the end of the fiscal year. Gold prices reached record levels, bond yields remained elevated, and the yield curve was inverted. Most major advanced economies showed signs of a looming recession, with significant concerns over the Eurozone.

Amidst all these challenges in the global scenario, India emerged as a bright spot. According to World Bank's report, India's growth continues to be resilient despite macroeconomic headwinds and the country remains largely unaffected by the global environment. This decoupling can in parts be attributed to our local demand cycle which displays a slightly different cadence from global demand. During the year, India's composite Purchasing Managers' Index (PMI) reached a 13-year high, Consumer Price Index (CPI) touched an 18-month low and Wholesale Price Index (WPI) hit a 3-year low. The 10-year Government Securities yield has fallen below 7% after 13 months and Goods and Services Tax (GST) collections recorded the highest monthly collection in April.

India also entered the league of the top five global economies surpassing the United Kingdom and has defied all odds to become the fastest growing economy: a matter of immense pride for all of us. I can say that in my long career I have not seen a better economic environment in India as we are seeing now - A new dawn is on the horizon as India enters its Amrit Kaal, and is poised to become Vishwaguru.

> I can say that in my long career I have not seen a better economic environment in India as we are seeing now - India is poised for growth.

FY23 at Edelweiss – The Year Gone by and Where We Stand Today

At Edelweiss, the year was steady with its fair share of things that went well, and some things that require more work. This year has also been an inflection year as we continue our journey towards becoming more retail and asset-light with steadfast delivery on our key focus areas.

What went well...

Our first value unlock now stands complete! A process we began back in 2021, is now at the final leg of the journey. In the year, we received all necessary approvals to complete the demerger, subsequently allot Nuvama share to our Shareholders and now are at the cusp of listing. This was one of our key focus areas, given our strong belief in value creation and its subsequent unlocking at opportune moments. The process has now become a flagbearer of our value unlock philosophy which focusses on a principle of "win-win-win", for all stakeholders involved.

Nuvama

got fresh capital, focussed strategy, and flexibility to attract business-specific partners and investors.

Shareholders of Edelweiss

received the opportunity to directly participate in Nuvama's growth story in addition to Edelweiss' growth journey.

Edelweiss

enabling of strategic alignment towards creating and unlocking value as well as fresh capital for future investments.

This has been the year of significant growth and scale-up for our Asset Management business.

Our Alternatives business recorded a **52% YoY growth** in its assets under management (AUM); maintaining and furthering its dominant position in the Indian Alternatives space. Our deployments **grew 75% YoY** leading to a **32% growth** in fee-paying assets under management (FPAUM). The business also saw new fund launches with our maiden privately-listed Energy InvIT and acquisition of road and transmission assets from L&T Infrastructure Development Projects, deepening our investment in real assets. The robust performance, scale and onset of operating leverage has led to its **PAT tripling** in the year.

Our Mutual Fund **business now ranks #12** with its AUM crossing the 1 lakh crore milestone to reach ₹1,05,000 crores. Market share also improved by 45 bps to 2.61%. The business has seen its AUM more than triple and its **folios nearly quadruple** in the past 3 years. The year also saw launches of some unique funds like our first-of-a-kind Gold and Silver ETF. We are positive that the Asset Management business is poised for a significant growth runway ahead and are on the path of being our key profitability drivers for the future.

Our Insurance business followed the lead, with their **collective premiums up 22% YoY.** Our Life Insurance business achieved an Embedded Value break-even, a year ahead of plan. This is a key milestone on the path to profitability. The business also saw its **individual APE cross the ₹500 crores mark**, a 20% YoY improvement. Our General Insurance business, now called Zuno General Insurance, recorded the highest gross direct premium income (GPDI) growth amongst GI players and saw consistent growth in focus segments of Motor & Health of 52% and 56% respectively.

What needs more work...

One of our key focus for the year was to **reduce our wholesale assets**. This year, we achieved a ~40% reduction in our ECLF wholesale assets to ₹5,700 crores. Although we exceeded the planned target, we feel there is scope to further increase the pace. We have been evaluating newer strategies to this end and will see them playing out going ahead. We are targeting to take this down to ₹3,000 crores, i.e., a ~50% reduction hereon, by FY24.

Along with reduction of wholesale credit, **scaling our retail credit businesses** is a priority. Our retail credit franchise focusses on MSME & Mortgages and is designed to be inherently asset-light. We are in the process of stabilising co-lending partnerships and emphasising the generation of a high-quality loan book. Although progress has been slower than anticipated, we remain committed to this strategic priority.

Being Bifocal

We discussed global macros earlier and saw the impact of increased volatility on the world at large. However, this isn't the first crisis nor is it the last. The world has the innate ability to emerge stronger, like we saw in the case of the pandemic as well. Hence, what's important is to view the current situation not only from a lens "short-term immediate impact" but extend the horizon and see "long-term eventual outcome view".

> *Someone is sitting in the shade today because someone planted a tree a long time ago.*
>
> - Warren Buffett

Being Bifocal means to have both the short and the long-term horizon in mind.

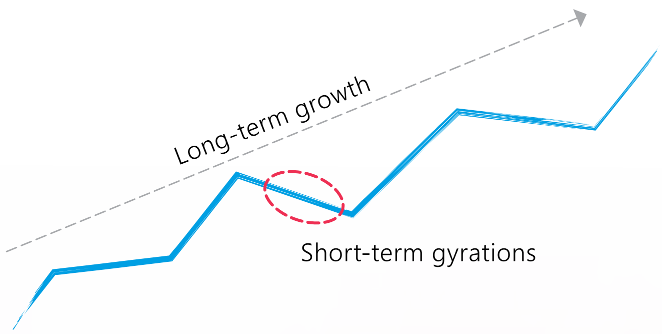
Economic uncertainty and crisis also require policymakers to address both the immediate effects of the crisis and the long-term issues that led to it. A bifocal view can ensure sustainable growth by avoiding excess emphasis on short-term gains that may lead to long-term instability.

The global economy is no stranger to volatility, uncertainty, and fear. Throughout history, we have witnessed cycles of prosperity and crisis, with each downturn paving the way for a stronger rebound. Notable instances like the crises of 1991, 1997, 2008, and 2020 underscore this phenomenon.

In **1991**, India faced a severe **balance of payments crisis**. There were some immediate measures implemented to stabilise the economy which included financial assistance from the IMF, curbing of unnecessary imports, and devaluing the rupee. However, bold reforms like liberalisation of the economy, privatisation & deregulation of industry and implementing financial sector reforms kept the long-term horizon in mind. This combination led to an immediate economic stability coupled with long-term growth. We saw similar efforts during the **Asian Financial Crisis of 1997** and the **Global Financial Crisis of 2008**. India's diversified economy, robust domestic demand and continued economic reforms helped India quickly rebound and maintain its steady growth.

Most recently, the COVID-19 Pandemic in 2020 brought unprecedented challenges to India's economy. India took immediate steps like lockdowns and healthcare infrastructure measures to contain the spread. At the same time, it also swiftly started to look at a long-term solution which culminated into an indigenously developed vaccine and the world's largest vaccination drive. Not only did India leverage digital to ensure seamless access of vaccines to its billion people, but also provided the same to other countries: aiding the global efforts. Immediate healthcare measures amplified by efforts to boost manufacturing and long-term demand, led to a new digital India emerging on the global stage.

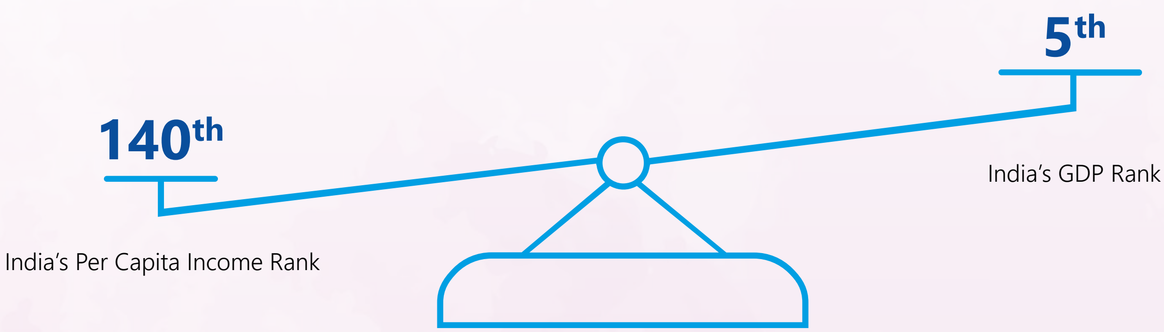
In capital markets, specifically in technical analysis, one well-known theory is the Elliott Wave Theory developed by Ralph Nelson Elliott (1871–1948). According to this theory, the market moves in repetitive patterns called waves, where a peak is followed by a trough, and this cycle repeats itself. Drawing a parallel to economic movements, it is observed that the economic scenario also seems to move in a similar wave-like pattern, oscillating between periods of prosperity and crisis. Just as in technical analysis, where analysts look at the long-term trend of the market and understand that the cycles lead to a long-term trend. In life as well, it is crucial to keep our long-term trend and trajectory upwards and not be deterred by short-term gyrations. With this understanding, every trough or downturn can be viewed as an opportunity rather than a setback.



> **India stands as a unique testament to the power of a bifocal view. It's a country that keeps both optimists and pessimists happy, thanks to its intriguing contradictions.**

The Indian Economic Paradox

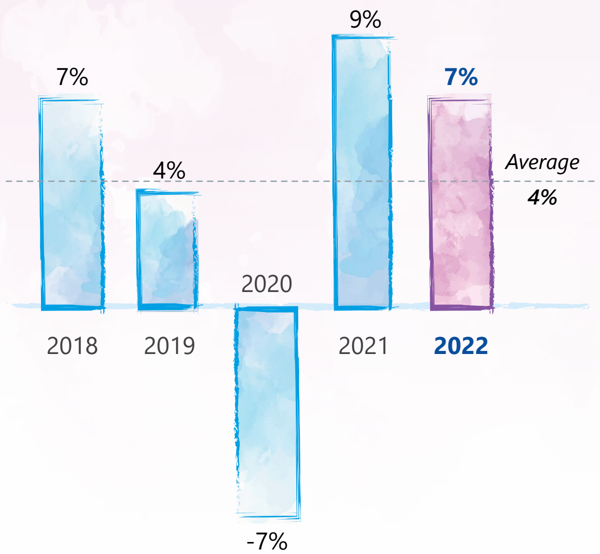
India ranks among the top economies in terms of GDP size, boasting immense scale and potential. However, it grapples with very low per capita income, revealing a stark inequality. A bifocal view demands policymakers address this disparity while harnessing the nation's economic prowess.



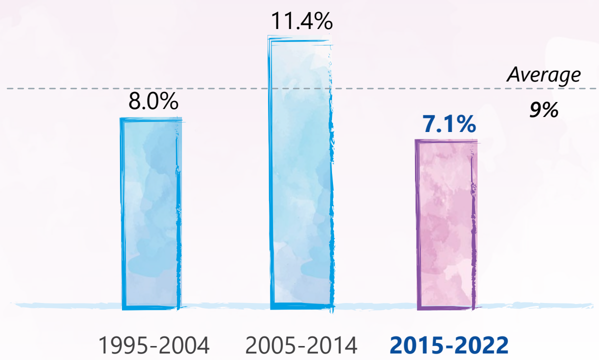
Short-term Volatility vs. Long-term Stability

India's economic landscape is characterised by short-term volatility, influenced by various internal and external factors. Yet, beneath the surface fluctuations, the country has displayed remarkable long-term stability; consistently progressing despite challenges.

GDP growth had been impacted in the recent times



Stable and predictable in the long term



Political maturity at 75 vs. Economic youth at 25

India's political landscape has matured over the years, with a robust democratic system. However, its economic journey is relatively young,

1947	1991	2023
"Universal Adult Franchise" right at its nascent years of democracy	Liberalisation, Privatisation & Globalisation to adopt free market approach	Politically-mature, Financially still young

Contradictions like these warrant us to keep a bifocal view. While we look at the short term, we must keep the long-term horizon in mind. As they say, "In India, things always work out in the Long Run – but never in the Short Run!"

Being Bifocal at Edelweiss - It All Boils Down to Choices

Strategy is about making choices, tradeoffs;
It's about deliberately choosing to be different.
- Michael Porter

At Edelweiss, adopting a bifocal perspective involved making certain strategic short-term choices that contribute to long-term resilience and quality growth.

In the past years, our focus has been on **becoming asset-light, scaling our portfolio** of businesses and marching toward **being truly diversified**. Our journey on these began in 2019, and we have made progress on many fronts. However, we still view this as work in progress.

Being **asset-light** is a key strategic priority for us. We believe it helps an organisation to maintain long-term financial resilience. We have made significant progress on this front since FY19. Our Balance Sheet size has reduced more than 50% over the past 4 years, chiefly driven by a 60% reduction in wholesale assets and a 55% reduction in our consolidated debt. Going ahead, the scale-up in our retail business will also follow our asset-light principles by adopting a co-lending-based partnership model to drive its AUM growth.

We have also been focussing on the growth of our portfolio of businesses. Our Asset Management AUM is 4x over FY19; driven by a 6x growth in our Mutual Fund AUM and 2.5x growth in our Alternatives AUM. Our Insurance businesses have also seen robust growth. Our Life Insurance premiums have doubled over FY19, and our General Insurance premiums are currently 5x over the same period.

	FY19	FY23	Growth
Mutual Fund AUM (₹ crores)	17,500	1,05,000	6x
Alternatives AUM (₹ crores)	19,600	46,500	2.5x
LI Premium (₹ crores)	885	1,676	2x
GI Premium (₹ crores)	104	552	5x

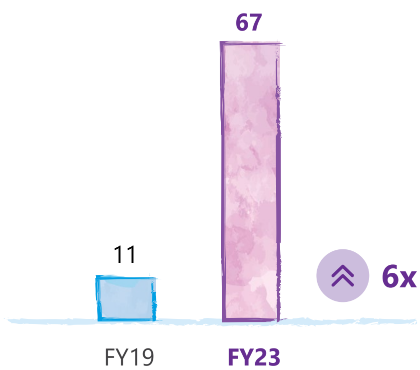
Our march towards becoming **truly diversified** began back in 2019. Although we were diversified even back then, our PAT was concentrated with nearly 60% coming from credit. Over time, we worked towards improving our earnings distribution. As we stand today, our credit concentration is down only to 20%, the remaining coming from our Asset Reconstruction, Mutual Fund and Alternatives businesses. **By FY26, we aim to have a well-diversified earnings pool with no business contributing more than 20% - 25% to our bottom line**; making us truly diversified and even more resilient. Our businesses have shown healthy profitability in recent years. Our ex-Insurance PAT grew 51% YoY on the back of a 164% YoY PAT growth in our Asset Management businesses, 26% in our Asset Reconstruction business and 38% in our Credit businesses. Going ahead, we see this momentum continuing.

Apart from the strategic focus areas mentioned above, a common theme that runs across is **retail orientation**. Going ahead, a strong retail portfolio is what we are working towards, and all our business pivots, strategic shifts and key focus areas lead us to it. Further, the retail contribution will also lead to more earnings predictability given its portfolio granularity. This retail orientation also means that we are focussed on **constant improvement in the quality** of the businesses we are building. To this end, we have prioritised on improving customer experience by innovating our offerings and increasing digitisation for a more seamless access to such offerings. As a case in point, our efforts have led to an improvement of our 13-month persistency in our Life Insurance business from the nearabout of 50% to 75% in the past 8 years. Significant digital issuance and overall customer satisfaction has also led to an improving NPS score in Insurance businesses to 58 in General Insurance and 54 for Life Insurance from the nearabout of 40 some years back. We have seen a similar phenomenon in our Mutual Fund business, which has seen an improvement in its rank from being # 20 in 2019 to # 12 today.

The rapid rise of our customer franchise is also a testament to the quality of our businesses and quality in their offerings & services. Our Customer Reach has grown nearly 6x over 2019 to nearly 7 million now. Key businesses contributing to this stupendous increase are General Insurance, Life Insurance and our Mutual Fund business – all wherein elements of innovation and digitisation had been implemented. In our Alternatives business, we saw upsizing by existing investors with more than a third being repeat customers, demonstrating their trust.

Going ahead, we shall continue our unwavering commitment towards building quality businesses and will keep updating you on the progress we've made at regular intervals.

Customer Reach (₹ lakhs)



Learning from the Past, Preparing for the Future

As we turn 28, we reflect on the past to learn from history; and create an evolved vision for the future.

In the past 28 years, we have demonstrated expertise in building businesses and creating value. Our ability to effectively allocate capital and efficiently organise management teams has led to building **India's top Wealth Management practice, India's dominant Alternative business** and **India's leading ARC.** Further, both our General Insurance and Mutual Fund business are top quartile performers in their industries and our Life Insurance business demonstrates franchise quality which surpasses the industry quality benchmarks at a similar vintage. As we go ahead, our steadfast focus will continue to be on creating more value for our shareholders, who have supported us in our journey that has nearly spanned three decades.

> Yet, I am learning
>
> *- Michelangelo at the age of 87.*

However, the beauty of life is that we never stop learning and as we progress, what we also learned is that it's not only important to build businesses. It is also equally important to make them independent and provide them with the wings they require to fly and further scale. **We learnt that the next level of business growth gets fuelled by providing the businesses with the flexibility to attract business-specific capital and the necessary partnerships** – **which became the basis for our win-win-win philosophy for value unlock!** Value unlocking is as important as value creation and we strive to execute it in a manner to benefit all the stakeholders involved – Shareholder, Business and Edelweiss.

However, this approach requires an important mindset shift, of not letting ownership get in the way of business growth or its need for further capital. This approach required a singular focus on continuous and ongoing value creation. The most recent example of how we've practised this philosophy was in the value unlock of Nuvama Wealth Management, which we have spoken at length in the past year and even earlier in the letter. We also exercised a similar outcome in our Insurance Broking business where we understood the business would derive more value going ahead with our partner, Arthur J Gallagher. Partnerships have always been a core tenet of the Edelweiss' growth journey.

Given, we identify value creation and value unlock as the key pillars to growing shareholder value in the long run, we would also need to evolve to ensure this cycle goes ahead effectively and efficiently. Our evolution would then be guided by becoming an enabling platform for driving future growth. The foundations of which lie in structural simplicity and financial resilience; areas which have been our key focus for the past couple of years. Going ahead, we see ourselves evolving from a parent of subsidiaries to an investor in a portfolio of companies. **We see ourselves evolving from being a holding company to an efficient capital allocator and value provider to its portfolio of companies** which are designed to fly from their nest and create their own destinies at opportune moments. This evolution resonates with our core philosophical tenets and enables us to focus and further our demonstrated strength of creating and opportunely unlocking such value which provides long-term growth.

India is also Learning from the Past and is Focussing on Creating the Right Business Environment

In the recent years, India has relooked at its past to create history! India has implemented wide-ranging reforms which will have compounding effects lasting decades. Key areas which these reforms have been targeted towards are – Technology & Innovation, Infrastructure, Capital Flow and Governance.

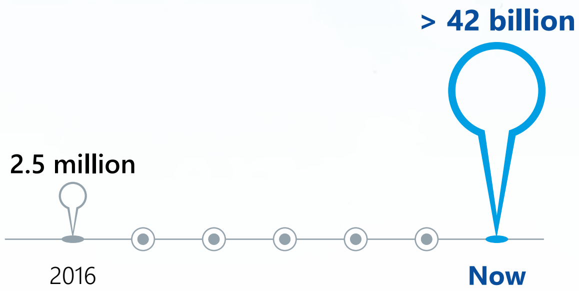
India has recognised the **power of technology innovations in the hands of relentless founders** who have the innate ability to organising resources to create disruptive and disproportionate impact on the lives of many.

Number of start-ups

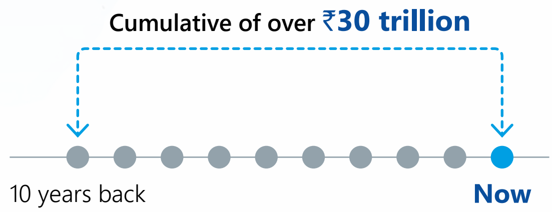
Number of incubators

The **use of technology has also been to improve delivery** of social benefits by using the India Stack. The implementation of the United Payment Interface has been revolutionary and has given the country a digitally-backed financial backbone, waiting to be disrupted.

UPI transactions (launched in 2016)

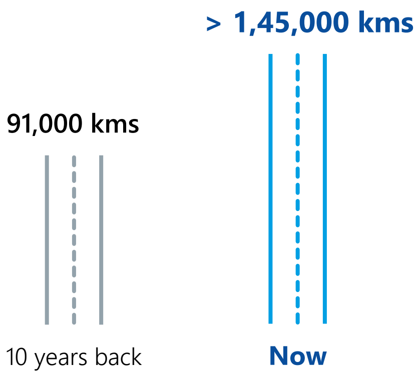


Direct benefit transfer

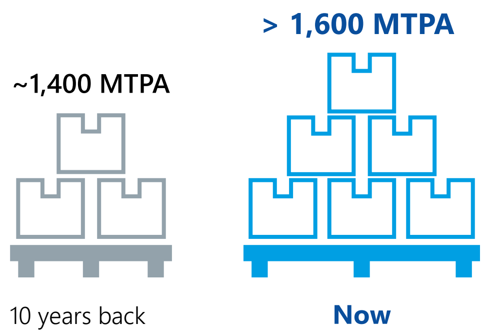


There also has been a **large capex investment to improve the infrastructure of the country**. India now has the second largest road network in the world. Various initiatives like National Infrastructure Pipeline, Bharatmala Programme amongst others have shown good results.

Road Network



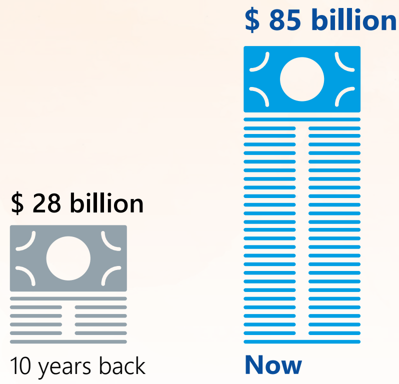
Port Capacity



The **flow of capital**, or rather the restriction on the same, was a big challenge for the country. Reforms made to ease the flow have had a great impact on the buoyancy and depth of the capital markets.

Sensex

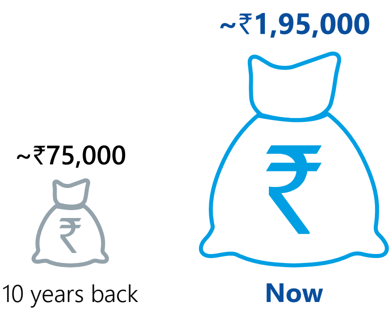
FDI Inflows



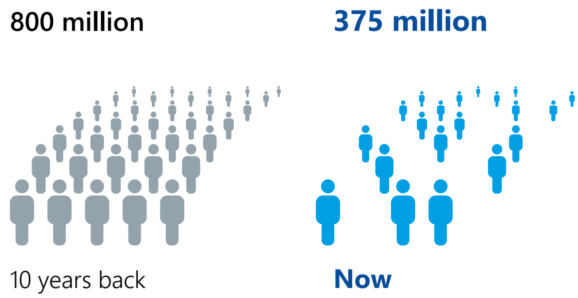
Governance was an area that needed attention. Today, there is a robust and simplified indirect tax system, improvements in the labour code and impetus on providing a domiciled manufacturing base for the country.

India has truly relooked at itself to redefine its growth trajectory. The outcome of the rapid progress and more inclusive development as evidenced in the rising per-capita income and declining below poverty line population.

Per Capita Income



Below Poverty Line Population

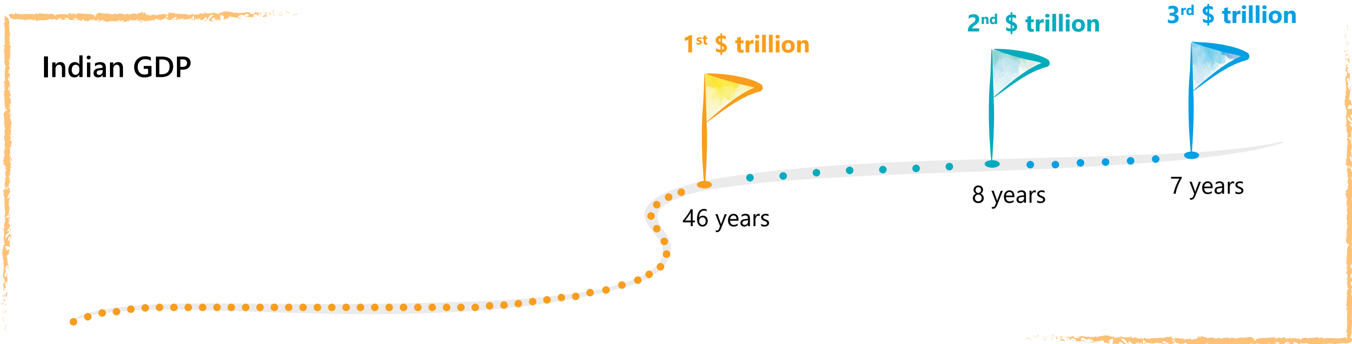


In addition to this, a big change was brought about for India's perception on the global stage. India's ease of business ranking improved from # 134 in 2014 to # 63 in 2020. India now ranks # 40 in the Global Innovation Index rankings (2022); a jump of 8 positions from 2020. **All in all, India has taken a good view in the past to recognise and redefine itself and is marching towards its future.**

Looking Ahead - India, on its Ascent

India is on track to become the 3rd largest economy by 2030. India has truly entered its golden age of compounding and has 4 key factors working in its favour – its **significant size**, a **digital push, democratised entrepreneurship**, and **demographic dividend** which will keep creating momentum for decades to come!

It took India approximately 46 years to reach its 1st $ trillion in GDP; 8 years for its 2nd and 7 years for its 3rd (including a full brunt of the pandemic). History suggests, India takes approximately 7 to 9 years to double its GDP. Going by this trend, we would comfortably **be around the $ 40 trillion mark by 2040**, a target we all should contribute towards.



A growth rate above 6% in the current global cycle for a large economy like India is no easy feat. India is probably the only large country that has truly leveraged digital. The digital transformation is further amplified by data prices which are by far the cheapest in the world. Easily accessible affordable data has created an environment where everything today can be done on your smartphone; something not many countries can boast of!

In India, digital is big. We have over 1 billion cellular connections and ~700 million internet users. Digital initiatives are making transacting in India easier than ever before. **It's the sheer scale of India that makes India difficult, if not impossible, to ignore**. Indians are now ~14% of global internet users, ~18% of global population and our GDP is ~3.3% of the global GDP.

In all of India's progress, the one achievement that has my heart is the democratisation of entrepreneurship that we have seen in the recent years. As an entrepreneur, it gives me immense joy to see the burning entrepreneurial spirit in more Indians, specially beyond the metros. ~50% of all recognised start-ups in India are from tier II and tier III cities. It's a matter of great pride that once seen as the remote rural part of the country, is now becoming a hotbed for disruption. India's odyssey is a long one, augmented by its young demographics – India is amongst the only few large economies with more than 65% of its population in the working age.

~14%	~18%	~3.3%
global internet users	global population	global GDP

> *In all of India's progress, the one achievement that has my heart is the democratisation of entrepreneurship that we have seen in the recent years.*

We are Excited to Leverage the India Story at Edelweiss!

Like we discussed earlier, simplicity and resilience were key strategic focal points for us in the recent past. As we stand today, we are far simpler – our entity count has reduced by 30% from our peak of 2016 and is now at 24 entities. Our balance sheet remains robust with comfortable liquidity and well-capitalised businesses.

We see technology to be a big enabler for us, all our portfolio businesses are working towards incorporating technology to improve user experience and increase delivery efficiency – our digital lending platform in credit will help to improve underwriting efficiency, SWITCH app in general insurance enables customers to take control of their premiums.

Our Alternatives business, which is now well-scaled and capital-efficient, ties in well with India's growth story. India is currently making rapid development in infrastructure. Our focus on investing in high-yielding real assets provides a pathway as well as a platform for private capital towards such infrastructure needs. Our digital-first platforms in General Insurance, Life Insurance and Mutual Fund provide innovative products and offerings seamlessly at your fingertips. Additionally, we will focus on growing our retail businesses which serve and support India's demographics and their aspirations. Our credit businesses now fully focus on MSME and Affordable housing; themes we feel tie in with India's future needs. Staying true to our asset-light philosophy, we will spearhead the scale-up using a co-lending model with partners across the banking ecosystem. We have multiple industry firsts to our name and going ahead, we will continue our journey, sprinkled with innovation.

All in all, we are well poised to ride the tailwinds of the India growth story with our portfolio of retail-focussed businesses and will continue our value creation journey.

Yours sincerely,

Rashesh Shah

Rashesh Shah
Chairman & MD

Edelweiss
Ideas create, values protect

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