

“Edelweiss Financial Services Limited Q2 FY24 Earnings Conference Call”

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**Management: Mr. Rashesh Shah – MD & CEO, Edelweiss**

**Ms. Priyadeep Chopra – President, Edelweiss Financial Services Limited**

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**Ms. Radhika Gupta – MD & CEO, Edelweiss Asset Management Limited**

**Moderator:** Ladies and gentlemen, good day, and welcome to Second Quarter FY '24 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 this conference call, 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, ma'am.

**Priyadeep Chopra:** Thank you, Neerav, and a very good afternoon everyone, and wish everyone on the call a very Happy Dhanteras. A very warm welcome to our results call.

Today, we have on the call with us, Mr. Rashesh Shah – Chairman and MD of Edelweiss; Ms. Ananya Suneja – Chief Financial Officer, Edelweiss Financial Services Limited; and Ms. Radhika Gupta – MD and CEO of Edelweiss Asset Management Limited.

We hope you have all had a chance to review the Investor Presentation as well as the business update on the mutual fund business that we filed earlier with the exchanges today. During our discussion today, we will be making references to these. Please do take a moment and review the Safe Harbor statements in our presentations. We will be making some statements today that may be forward-looking in nature, and hence, may involve certain risks and uncertainties.

With that, I will hand over the call to Mr. Rashesh Shah to begin the proceedings for the call. Thank you all, and over to you, Rashesh.

**Rashesh Shah:** Hello. Thank you, Priya, and good afternoon to all of you, and a warm welcome to our Earnings Call for the quarter ended September 2023. First of all, wish all of you a very happy and prosperous Diwali. Do hope that you and your families have a very prosperous coming year also.

I think as we look forward is going to be an exciting one year from this Diwali to the next Diwali, because the global environment is very uncertain. It's dominated by news of war, recession. However, India also has some events, especially the main elections coming up next year.

But on the economic front, as all of you know, I think all of us read the papers. India is doing pretty well. I mean, relatively and absolutely, we are in a good place. I think our GDP growth of about close to 6.5 is what is expected. With the inclusion of the government bonds into the JP Morgan Index, there will be more inflows coming into India.

So, overall, I think things seem to be going pretty well for India. Having been in the business for so many years, there are always some pockets of worry, but on the whole, this is as good and benign an economic environment that we have.

In this, for our reporting to you about our quarter, the quarter ended September 23, we had a consolidated PAT of 76 crores, but if you remove insurance, because we are still making a loss, which is in investment phase in insurance, our ex-insurance PAT after minority interest is 153 crores. This is a PAT number we look at very closely, the ex-insurance PAT, which is up about 15% on a Y-o-Y basis.

But what has happened in the last one year in the various businesses that have been very exciting, - our alternative asset management. We are one of the leaders in alternative asset management business. That AUM has grown by 25%. We have now reached 50,000 crores. So, alternative's AUM of 50,000 crore is very, very encouraging. In this 50,000, as you know, friends, that fee-paying AUM is only the amount that we deploy. So, the fee-paying AUM is about 27,000 crores. So, we have another 23,000 crore, which is not fee-paying AUM, which also as and when we deploy the money, the AUM meter will start earning money on that.

Our mutual fund also has shown more than 25% growth Y-o-Y and our AUM is now 1,14,000 crores in the mutual fund, out of which more encouraging has been equity area. As you know, we have Bharat bond, which is about half of the mutual fund AUM, but out of the other half, which is close to about 55,000 crore, almost 34,000 is equity AUM, which has grown 30% Y-o-Y. And in both these businesses, now we have hit that inflection point. So, there is healthy growth in profitability, and mutual fund also has shown good growth and profitability.

We also have Radhika on the call today. She will be happy to take questions on mutual fund business, and give our perspective. We have every quarter added one business update for our investors for the analyst. So, in this quarter, we have added the mutual fund business, and Radhika is also there. She will be very happy to give you more color on that business, and how we are taking it forward.

Our ARC business acquired debt of 1,300 crore. They also had good recoveries in this quarter. The general insurance business grew by 18%, and the gross return premium for the quarter is 191 crores. Even the life insurance business had a good quarter, 18% Y-o-Y growth.

So, overall, I think all businesses have done well. Credit businesses are now seeing a fairly major uptick. Our housing finance saw an uptick in disbursement, which is 300 crore disbursed for the quarter which is a fairly healthy growth over the same quarter last year. MSME book also has seen good growth in this quarter in disbursements. So, both MSME and housing, which we are doing under the co-lending formula with our partner banks has also seen good update.

And lastly, the wholesale book deduction is on track. We are on track as per the 50% deduction, and we are now at 4,350, and we expect to continue to reduce the wholesale book, but the trend will continue. And all you would have seen the trend we have had in the last two years on the wholesale book reduction.

So, after the businesses, on the balance sheet side continues to be very strongly capitalized. We have more capital than required in most of the business as you would have seen from the capital adequacy and other details we have given. We have more than 36% capital adequacy across all our credit entities. So, capitalization is good. Liquidity has improved. We have 3,300 crores of liquidity on hand. And our borrowing is coming down. So, on the whole, I think the liquidity as percentage of borrowing is also very healthy.

We have also continued to reduce our debt. Currently, the net debt is about 15,220 crores. It's come down by almost 2,700 crores in the last one year. And as you may remember, maybe some of you, our peak debt was 40,000 crores, which has now come down to 15,000 crore. So, we have repaid almost 25,000 crores of debt over the last 5 years.

Lastly, an update on our priorities. 18 months ago, we had put down some priorities in our Investor Presentation. One was to complete the unlocking value of Nuvama. We are very happy to see the entire process of demerger and the subsequent listing has gone through smoothly.

The listing was done on September 26. The stock has got fairly well listed. They have their Quarter 2 results also coming out, which are also very encouraging. And as you know about 30% of the equity of the company was distributed to Edelweiss shareholders. Edelweiss continues to own around 15% balance of the equity in our hands. So, overall, we still have economic interest with our shareholders and us in the business, but on the whole, I think spinning of that business, getting it listed has been a very, very gratifying outcome that we have seen.

The second objective is to scale up our asset management business. As you have seen, we have made good progress on that on both alternative asset management and on the AMC side.

Third objective was, third priority was to reduce our wholesale book, which also we continue to do as we go along.

As we have got some of these priorities underway, our going forward in this Investor Presentation, you will have seen we have set out new priorities for the next 18 months. And just to enumerate them, we now want to scale up the profitability in the alternative mutual fund business. I think they both have got critical mass. Now we are at a stage where we can start scaling up profitability, get economies of scale in that business.

The second priority is to grow the retail book through the co-lending model. We have set a target of AUM growth of 20% minimum for the next two to three years. And again, we can grow faster, but as we have learned in credit business, it is actually better to grow in a calibrated, in a very stable manner, which we think a 20% growth is good for that.

Our third is to build profitability in the insurance business to reach break-even by 2027. Both our life and general insurance business between '26 and '27 will reach breakeven, hopefully earlier with the new IFRS guidelines coming because IFRS guidelines are more friendly to the insurance business profitability than the current guidelines, but on the current guidelines, we expect to be profitable by '26-'27 in both the insurance business.

And fourth, we continue to focus on reduction of debt. We want to reduce our debt by 20 odd percent every year in the next two years and continue on that. And that will bring our debt down to very, very, very easy level. It's already come down at a very comfortable level, but we want it to become even more robust, our balance sheet.

So, to sum up, our work on balance sheet is largely complete. We still have somewhere to go, but we will continue to plug away at that. The key task now is to work on profitability, especially in asset management business, get the insurance businesses to break even, and increase our co-lending disbursements in credit, in MSME and housing.

And again, overall, we are very happy with how the businesses have grown. All the businesses have strong management teams. Our unbundling focus of making each business standalone, independent with their own governance, with their own capital base, with their own operating responsibility has worked well. We continue to do that.

This has made our structure very simple, and it has been easier to monitor the businesses, but at the same time, this unbundling has created a phenomenal amount of ownership, and the leadership unbundling that has happened has been even more gratified. So, we will continue to work on this path. We have done unlocking of the Nuvama. Over the next few years, we would want to create value and unlock value in all our other businesses.

So, I think with that, we will now open up to questions because I am sure a lot of you have questions, feedback, color on what we are doing, and we will be happy to hear that. As I always say, these interactions we have with all of you is something we find very useful, we find very gratifying. So, once again, thank you all of you for being part of this and being here with us. Over to you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of SiddharthPurohit from YES Securities. Please go ahead.

**Siddharth Purohit:** So, I have broadly three questions. The first one is on the alternative business. So, we see that there have been new funds in the Infra Yield and Private Debt. So, do the economics of these new categories work similar to the private debt in terms of say fee earnings and yields? So, this is first. Second is, will we see any further diversification in terms of product offerings like private equity as well? And the third question is, currently, approximately 50% of your AUM is deployed. So, going ahead, will we see increased deployments? Does the management have any specific timeline to deploy these drivers? These are the three questions.

**Rashesh Shah:** Thank you. I think these are good questions. We are launching new funds, but almost all the funds, actually all the funds, not almost all the funds. All the funds have a fee which is between 1% to 2%, and they have a carry. The carry changes from some are onshore funds, some are offshore funds, some are with a hurdle rate. But usually, there is on an average, there is a hurdle rate of about 8%, and then a full catch-up carry on an average.

But as I said, this changes from fund to fund. Our internal expectation is to make about 2% to 3% as annual fees, fees plus carry. On the fund strategies we have, carry comes obviously very backended while the fees come on as you deploy the money. So, on average, all our funds will have some carry if we hit the threshold level.

We are deploying new strategies in our current focus areas- private credit and real assets. So, we have launched a commercial real asset fund, commercial lending fund on the real estate side. We have a stressed asset special situations fund, structured credit fund. So, we are doing quite a few new strategies.

Overall, I think we have about seven or eight funds already in the current whatever AUM you are seeing, and our current focus is on private credit and real asset. We are not looking at private equity as of now, not because it is not good asset class. I think it's a great asset class, but there are already quite a few players out there, and we also want to stick to our focus.

We have been one of the early players in private credit and real assets in India, and we now have a 12-to-13-year track record in that. We want to continue to build on that. We think this is a large enough opportunity, but we continue to evaluate, adjust and strategise. And our long-term objective of the alternative asset management business is to be a multi-strategy fund house. So, we will be a multi-strategy fund house.

And on deployment, you are right. We have deployed about half the money. The other half is dry powder because couple of funds were raised. Usually, it takes about 3 years to fully deploy a fund after we raise it. So, when we raise, let us say, 8,000 crore, 9,000 crore AUM, it will get deployed over three years, and the fee will come as we deploy. We are currently targeting the deployment of about 10,000 crores to 12,000 crores every year. So, across all our strategies, we intend to deploy 10,000 crores to 20,000 crores. So, whatever is the undeployed funds in the AUM, we hope to complete this deployment in the next two years.

But also remember in the next two years, we will raise new funds also. So, there will always be an AUM to deploy gap that will always continue to be there because we would have raised for, first, you raise the money, then you deploy it. But I think, assuming a 50% to 60% on that is good enough, but the current 22,000 crore which is undeployed, as we deploy it, we start earning a fee for us.

**Moderator:** Thank you. Next question is from the line of Lalit Deo from Equirus Securities. Please go ahead.

**Lalit Deo:** So, I have two questions. So, first on the AMC business, the mutual fund business. So, we are looking to build on the retail third party distribution front, right. So, could you give us more color, like how are we looking to grow this business on the distribution front? Which are the partners, which are the channels where we are specifically focusing in the same?

**Rashesh Shah:** Yes, fortunately, we also have Radhika on this call. So, maybe, Radhika, do you want to give more color on this?

**Radhika Gupta:** Yes. Hi, and good afternoon to everyone, and wish all of you a very, very Happy Diwali So, over the last 5 years, I think we have looked out to build out an independent distribution franchise. And if you look at the distribution mix of AMC today, it is and I am talking about the retail distribution largely, the equity distribution, it is about 75% through distribution, of which MSDs and platforms are a very significant percent. Banks are actually a small percent. So, a predominant number, about 90% of that number is through MSDs and large platforms like NJ and Prudent.

I think, what we have realized over the last five years is because of a combination of three things, one is consistent product innovation. Second is, you know, really consistency in many of our funds, you know, not swinging Q1, Q2 performance, but long-term consistency of track record. And thirdly, deep ground outreach. Our market share and penetration in individual distribution pan India is only growing. We are also seeing that with partners like NJ and Prudent we were on boarded four five, years ago, our market shares are becoming increasingly more meaningful, and we expect that trend to continue.

So, I always believe that distribution is a journey or retail distribution is a journey that takes time, and we have made serious investments, and now you are seeing the dividends. In fact, if you look at our most recent NFO, which was the multicap NFO, we raised about almost 1,000 crores in that NFO, and largely retail distribution partners like NJ, Prudent plus more than 500 crores from MFDs. So, it's a process we have invested in, and we are beginning to see the dividends now, and I think it will only get better.

**Lalit Deo:** And sir, second question was that, so like we have been focusing on the debt reduction part. Now, we have done a reasonably good job over there, but in terms of the net debt profile, if you see, then the gross debt is increasing in the corporate side. So, that margin I think, so like how should we look at that segment as of now?

**Rashesh Shah:** So, on the corporate side as we are increasing debt, actually this quarter is a misnomer because we are also holding liquidity. You would have seen from last quarter to this quarter, our liquidity is also gone up. So, we are holding a little bit of liquidity because of some repayments in the next couple of quarters. So, that is we don't focus so much on gross debt only.

We look at the net debt because on a quarter-to-quarter basis, it will change. And so on that side, the corporate is not changed a lot, but corporate also owns, you know, 14% of Nuvama which we can liquidate over the next couple of years, and the corporate also has got a lot of assets like the office building and other stuff into which it is invested. So, we have a plan to manage the corporate debt, but part of the corporate debt increases because of liquidity that we are holding in hand.

So, the net debt may not show as much change, but 200, 300 crores here and there, they will keep on changing, but on a three-year basis, we plan to bring it down. As I said, we have 14%, 15% of, you know, Nuvama stock, which is valued at 1,300, 1,400 crores, which over two, three years plus we have a lot of other assets. We have investment in our funds, which will also come back to us over the next two, three years, which is another couple of 1,000 crores. So, I think it's fairly well-matched with assets which will come down.

And the other debt are the business debt between ARC, housing, and NBFC, which is also managed with their own individual cash flow. We have been holding a lot of liquidity at the corporate. We continue to do that given the uncertain times and all. We always debate whether we should hold more or less liquidity, but I think we are comfortable with the current liquidity we have.

But our idea would be that the corporate debt as we have earlier said with maybe some stake sale, equity stake sale plus the assets which will get liquidated, should get close to maybe 1,000 crores or so in the next three to four years. That's the guidance we have given our investors and bankers.

**Moderator:** Thank you. Next question is from the line of Sanjay Pandit from 1729 Capital. Please go ahead.

**Sanjay Pandit:** We are very big fans of the intrinsic value approach to capital allocation you outlined in the AGM presentation and you know, suspect that given your discount to NAB, at some point, buying back stock would present a great use of capital. Edelweiss has built terrific businesses and wealth and alternative assets and AMC, wealth IPO very successfully, and we imagine that AMC and alternative can follow suit before too long. We are also very pleased with the pace of the wholesale book wind down.

My question relates to the sort of businesses that aren't yet at scale or profitable. Number one, can the newer co-lending businesses be expected to reach a certain ROE threshold in the next three years or so, say 15% ROE, is that realistic? And the second question is, might it make sense to get outside strategic or financial investors in the insurance businesses sort of to arrive at sort of a market driven NAV, this can also help with proper capital allocation going forward?

**Rashesh Shah:** Yes. Thank you, Sanjay. I think these are also good questions. So, I think as you said, we are also strong believers of intrinsic value, but we know that intrinsic value is also it is based on our assessment and all that. To answer your question first on the co-lending side, we do believe that eventually, if you look at a housing finance, they have about 800 odd crores of equity with some retain earnings over three years we expect, we don't expect to put in more equity in that we won't require. We expect the equity will reach maybe about, 1000 crores, 1,100 crores over the next couple of years.

And we do expect that under co-lending, all the modeling we have done, that if we can get to a disbursement of about 5,000 crores to 6,000 crores a year, we can get to about 150 to 200 crore PAT. So, about 15% to 20% PAT is what we would target, which we would get with a 6,000 crore disbursement. Currently, we are clipping along at about 1,500 crore disbursement in that business. But we were half of that a year ago and half of that a year ago, and the same thing is true with MSME.

Currently, we have about 500 crore equity allocation to that, but as the wholesale book is getting wound down, we will put another 500-crore equity allocation to that. So, both the co-lending businesses, the housing business and the MSME credit business in, let us say, '26 or so, I would expect that they would have about 1,000 odd crores of equity and should make 150 crores to 200 crores of PAT each.

And that is our internal target. 15 to 20 crores or 15 to 20% ROE is possible, and in both of them we are currently at about, in SME we are at about 1,100 crore, 1,200 crore annual disbursements, and in housing we are at about 1,500 crore, 1,600 crore annual disbursements.

We are clipping along well. So, if you see the growth rate, I think we should get to 5,000 crore to 6,000 crore annual disbursements by 2026, and at that time we should be able to make this level of profitability.

Your other question on insurance, we are always open to strategic partners. We do get overtures and all, and we do think India is getting to be a very interesting market for a lot of strategies, and even PE investors are getting interested in the insurance business. So, we will be open to, you know, having some conversations. We will look at it over the next two, three years, but as you can understand, we are fairly close to profitability, and the couple of catalysts we were waiting for, one is life insurance business, we have now hit EV break even. So, that was a good, you know, a very good milestone to achieve getting to EV break even.

I think we will get to accounting break even as per target. And if we are getting closer to that, I think it becoming an interesting business for PE investors as well as for strategic investors. And the same thing is true with general insurance industry. Both of them, we are not overcapitalizing it. We are not putting a lot more capital out there, but if you get a good partner with who you as you said can endorse the value of the business as well as help us grow the business even further with more capital, we will be open to that. We are not currently deviating from our path to break even on those business. We are very committed to the break-even plan we have for both those businesses, and we are confident with partner, without partner, we will get there.

**Moderator:** Thank you. Next question is from line of Praveen Agarwal, individual investor. Please go ahead.

**Praveen Agarwal:** I have two questions actually. So, the first question is regarding the insurance business. Just on the lines that you were just explaining achieving break even, can you give us little more color on…

So, the question is regarding the insurance business, sir, that you just mentioned regarding the EV break even coming in insurance. Could you please, you know, throw some light, are we on back for the as per the guidance given regarding break even in '26, '27? And will the revised EOM regulations have any impact on that anyway?

**Rashesh Shah:** I think we are on target on both the general insurance business and the life insurance business. In '26, '27, we will hit accounting break even under the current accounting guidelines. There is some talk about adopting IFRS and others. If that happens, it could happen faster. So, I think the two important things to watch out in the insurance, you know, business reported numbers, one will be IFRS, which will be positive. We are hopeful that IFRS will get introduced earlier. And the second is the risk-based solvency, (RBC) guidelines which will also be positive for people like us. It will release some capital and it will improve the solvency of the business. These two are important regulatory developments which can only impact the businesses positively.

Outside of that, we are currently assuming as is where is basis status quo. We will hit break even in ‘26-27. We are committed to that, and we have got very clear execution plan for that.

New EoM guidelines actually will not affect us much. It does require some tinkering around in product mix, some tinkering in the strategy at the channel mix you have. But overall, we are confident we will meet the EoM guidelines which are there. We also hope that these EoM regulations will lead to more sanity and more clarity and more transparency in how the insurance commissions are paid. Overall, I'm personally pretty positive with what IRDA has done. These new EoM guidelines are pretty good. It will reduce the complexity, and it has put a cap on how much you can pay, which is a good thing because all of us will have to be efficient and manage the channel mix accordingly. But we have a clear road map and strategy on capitalizing per se.

**Praveen Agarwal:** Sir, the second question is regarding the listing of Nuvama. Firstly, many congratulations on the listing of Nuvama Wealth Management. The unlock was executed fairly well and as per the committed timelines. Going ahead, is the management thinking of any more transactions in the business?

**Rashesh Shah:** As I always say, we have to first create value, and then we have to talk about unlocking value. I think we are creating value. I think the road map for creating value is now asset management and mutual fund alternative because they are, as I said, we are very-very focused on getting economies of scale and improving profitability metrics as we increase our fee paying, EoM, and deploying capital and all. After that, I think, will come the retail credit businesses, both of them co-lending strategy that we have followed on MSME and housing. And after that will be insurance, as I said, in ‘26. Over the next 3-4 years, I would say asset management, then credit, and then insurance in terms of value creation. And as and when we think our business has reached a value creation point at which we can either spin off or IPO or demerge that, we will be very happy to do that. We are working on the plan. I think over the next 3 or 4 quarters, we should be able to come back to shareholders and inform them on what are the next value unlocking plans. But I think the next 1 year, as we have set out the new priorities, we are very-very focused on now creating value and scaling up value that is already there in the asset management businesses.

**Praveen Agarwal:** That's an interesting pipeline.

**Moderator:** The next question is from the line of Siddarth Shah, an individual investor. Please go ahead.

**Siddarth Shah:** Thank you for taking my questions. I had two on the alternatives and one on the NBFCs. 1) On the alternatives, if we look at the AUM versus fee paying AUM, it seems Real Assets has really done the heavy lifting in terms of deployment. Is anything holding back in the last year or a few quarters? 2) In the presentation, it seems that our deployments are lower than our realizations for the last 2 quarters at least. And if that is the case, how do we see the FPAUM scaling up in the alternatives business?

**Rashesh Shah:** I think one is the Real Assets. We have not yet closed the new fund so that the deployment of the old fund is almost over and completed. So, we don't have a lot of dry powder in the Real Assets. On the credit strategies, we just raised a couple of funds. If you know, we raised our ESOP fund a couple of years ago. That still has another 1 year to go for deployment. So, there is some dry powder on that. We raised our ISAF III fund in this year only, in the last year. That has still got a lot of dry powder. When you look at this, usually it is also about the vintage of the fund. When a fund is raised in the first year, you have only AUM but no deployment; in the second year, about a third is deployed; in 3rd year, another third is deployed. Then, the 100% is deployed. So, this varies from vintage of the fund to vintage of the fund and hence I think rather than look at only 1 quarter or 1 half, you should look at the 12-month average. A lot of our credit funds we've been getting back a lot of the old deployment because there is actually a good secondary market also now developing on some of the assets we have acquired and some of the loans we have acquired because a lot of those companies are doing well. There are large hedge funds and others who have come in the market. We have been opportunistic in that and we have exited wherever we could exit, even though there was a little bit of time left because we do believe that exits are as important. But overall, as I said, we will deploy about Rs. 10,000 crores to Rs. 12,000 crores a year on an average. Now, what happens is very often you have an investment committee approved pipeline which is not yet deployed because things are in document shape and stage and all. And at any point, we have about Rs. 5,000 crores to Rs. 6,000 crores of investment proposals which are approved, and which are in the document shape on stage with various clients across all our funds, not only in fund, but in the last couple of years, we have already seen that average about Rs. 5,000 crores to Rs. 6,000 crores is always in the pipeline. I think on a quarter-to-quarter basis, it can vary here and there by Rs. 1,000 crores to Rs. 2000 crores. But on an average, I think we are on track. We will always have more AUM than fee paying AUM because we’ll raise the fund and then deploy it. And in credit and Real Asset, the norm is that you get fees only on deployed capital unlike the private equity where sometimes you get it on committed capital. We also have a couple of funds where we also have charge committed capital, but largely our funds are where we get deployed capital. That is why the fee paying AUM is an important number. But the good news on that is there is a Rs. 23,000 crores undeployed amount on the AUM without any additional cost. As and when we deploy, it starts earning a fee for us.

**Siddarth Shah:** Just one clarification on the NBFC. I think we have wound it down to about Rs. 4,300 crores of wholesale assets. I just wanted to clarify because it seems the mix of those wholesale assets between loans and SRs has skewed towards the security receipts. If so, will that pose any kind of liquidity risk or challenge to the business going forward?

**Rashesh Shah:** No. I think, as you know, we have quite a bit of equity also in that. Whatever SRs we are holding, they have equity also, plus SRs also are getting resolved. We can always sell them down to other funds because a lot of these are restructured loans now. And as I said, we have taken whatever impairment we have to take. We currently don't see any further impairment on the wholesale book which includes SRs as well as the loans and we do an ALM matching on that. And wherever we think we need liquidity, we can always sell the SRs. There is a good secondary market. In the last 4 years, we have done asset sale deals also, which includes SRs also to people like Oaktree, to people like BlackRock, to funds like Merits. In the past, we have done that also, and that option is always available. We do an ALM planning on a 1-year-forward basis. At any point of time under very conservative estimates, we make sure we have enough liquidity for the next 1 year, and if we want to be on the safe side, we can always do asset sales, but even without that, even SRs the recoveries have been pretty good. In fact, if you want to get a proxy of that, you should look at the ARC part of the business. ARC in the first half of this year has had Rs. 5,000 crores of recoveries. Total recoveries ARC has made is Rs. 5,000 crores for the first half of this year. As the real estate market is improving, as the economy is also improving, I think recoveries are very easier in the SR. Some of the projects which have gone to NCLT, we are getting resolution, the money is coming in, and we have quite a few cases where stuck projects for years we’ve got paid back and all after they were in SR form. We do a detailed estimate and we are always very conservative on ALM so that on a rolling 12 months basis, we are always more than comfortable on liquidity is our approach.

**Moderator:** The next question is from the line of Anant from Prabhudas Lilladher. Please go ahead.

**Anant Dumbhare:** My first question is that we are seeing a lot of new entrants into the mutual fund industry. How do you see this industry evolving in the next, let's say, 3 to 5 years?

**Rashesh Shah:** I will invite Radhika to answer that. Radhika and we grappled with a lot. But she has got a lot of views on how the industry could evolve and how the competition will evolve. Radhika, over to you.

**Radhika Gupta:** I think the industry has always been a competitive place. There have been 40-45 players. And now you see you probably had 6 to 8 new entrants from a pipeline of 5 to 7 new entrants. Firstly, I always say that that is a sign that you are never too late to start in the AMC business. India is so early in its days mutual fund AUM to GDP is still about 16% in India when the global average is 80%. So, there's a lot of scope for penetration. And I think that is why you are seeing new entrants. And once you start building a book, it can become a very meaningful and profitable business. So, I think new entrants are always welcome. Most new entrants are actually adopting very different strategies. It's not that you can say the new entrants are only low cost, the new entrants are only active, or the new entrants are only passive. We really see new entrants come in all mixes. As far as our business is concerned, I think we have a laser eye on execution. What we have seen over the last 5 years in our industry and with our own business - some of the data is also in the addendum that we put out - is that there is a meaningful opportunity for a young player who's got their product and distribution proposition right to see disproportionate growth. I think that is what our journey from Rs. 8,000 crores to Rs. 1,15,000 crores that we are at today ourselves. We continue to be laser focused on product innovation, on the quality of performance in our funds, and deepening distribution depth. We do believe that, again, with where India is in penetration, there is more than enough room for everyone. But we continue to be laser focused on execution.

**Anant Dumbhare:** Just a follow-up question. Do you see any impact on the margins given the increasing competitiveness? Your current profitability seems a bit muted for the scale you operate at. What steps can we see in the near term to address the same?

**Radhika Gupta:** Let me answer it. There are two questions. One is our current profitability and second is margins in light of new players. Let me take both those questions a little bit separately. If you look at our trajectory over the last 5 years, you can break our AUM really into 2 parts. There is a BHARAT Bond AUM which was, I think, a customer acquisition exercise and there is what I call a core AMC AUM. We started out with disproportionate growth in fixed income. That has really helped us scale. But if you look at the non-BHARAT Bond or core AMC AUM, in the last 5 years, we've grown from about Rs. 8,000 crores to Rs. 52,000 crores, of which Rs. 35,000 crores is equity. And that is very meaningful. Our product mix continues to improve, and our margin profile continues to improve. In fact, if I look at the revenue yield of the core AMC, then it's about 30 basis points and it's well in line with many of our peers in the top next 7-8. It's very much in line. We, of course, don't have the advantage of a back book that some of the larger established players have. But as our focus on equity keeps growing and as equity AUM keeps growing, I think you will see operating leverage playing out; you're already seeing that. And PAT yields will continue to improve. That is on our current profitability. It's muted because of the large base. But if you look at our profitability on our core AUM, it's in line with our peers, and PAT yields will continue to get better. As far as how new players influence our margin profile, I really think it is about having discipline in how you raise money. We always focus on striking a balance between growth and profitability. We are not ones to do new fund offers at very-very razor thin margins. That's not something we want to do. And I think old players or new players, all kinds of players can do very-very attractive pricing tactics to raise money. For us, it's really about finding a balance and that's what we've tried to demonstrate over the last 5 years.

**Anant Dumbhare:** Can you throw some light on the evolving regulatory stand on commissions and TER? How are you seeing this impact on Edelweiss mutual funds?

**Radhika Gupta:** I think the noise about a revision in TER stance has been there for about 6 months. The regulator has had multiple rounds of consultation papers and taken a lot of data and feedback from the industry, and a final consultation or a final draft of regulations is yet to be out. So, we don't know the contours of that. However, from our perspective, in whatever drafts that we have seen, we don't see any adverse impact of that on an AMC of our scale and size. If anything, the impact could be marginally positive. The potential adverse impact would be on players that are large that have more than Rs. 1 lakh crores to Rs. 2 lakh crores of equity AUM. We don't see any adverse impact from the papers that we have seen so far.

**Moderator:** The next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

**Mona Khetan:** My question is on the NBFC. The capital adequacy for the NBFC remains on the higher side. Are there any plans of equity released and its redeployment as well? Given that the insurance business is nearing a break-even, any new lines of business that are being planned?

**Rashesh Shah:** As I said earlier, our current focus is for the next couple of years to focus on these 3 priorities - the asset management profitability up; get the retail disbursements up; and thirdly, get the insurance to break even. We are currently very-very laser sharp focused on that. We think it will take us up to March ‘25 to be extremely to have actually progressed a lot on this business that we can come back and say now this is done and we will now have new priorities. In our current priorities, there is no envisaging of starting new businesses because there is enough work we need to do in this. And it's exciting. The businesses are doing very well.

On the NBFC side, we have excess capital, but currently our priority is to reduce the wholesale book, and as the retail, especially MSME, disbursements scale up, if it needs more capital, we have more than enough capital. But as I said, on a long-term basis, by ‘26, we expect MSME business in NBFC to use about Rs. 1,000 odd crores of equity and housing finance to use about another thousand crores. Balance could be excess capital. We can see how to use it; maybe make an acquisition or maybe do other uses of that, but that we will decide only after March ‘25. From now to March ‘25, we want to reduce the wholesale book, reduce the debt, scale up the profitability, get the insurance to break even, and make sure that we are scaling up our retail disbursements both in MSME and housing. This remains our priority.

**Mona Khetan:** Just a related question. Given that the capital adequacy is so strong, why are we still going to the core lending model? Because, as I understand, it's more useful in a case where there are capital issues or thereabouts.

**Rashesh Shah:** Actually, co-lending is not because of capital or liquidity shortage. We do think co-lending is a new model. It will take some time, but as you know Edelweiss, we started ARC in 2008, and until 2013, ARCs did not take off. It took about 5 years. We started our private credit when nobody had heard of private credit. You must have seen in the last 3-4 years, private credit is a hot sector all over the world, not just in India, but we started this in 2011. So, if there is a problem, sometimes we are early with a trend. But we do think that co-lending is a standalone NBFC strategy. It's not like the own balance sheet lending, or you do co-lending when you don't have capital or liquidity; it is a standalone business. It's a different business than a normal NBFC which is lending money. That is what we also used to do. And there are various elements of that. Maybe in one of the future dates when we do an NBFC update, we can give a lot more color on this. But we do believe that even if we have liquidity, we want to follow co-lending. There the underwriting is a lot better, I think your overall capital returns are a lot better, and your discipline is a lot higher. When you have good partner banks…. I think there are 2 kinds of NBFCs which are there. One is NBFCs which will compete with banks, and the second is NBFCs which will partner with banks. You have to choose to be one or the other. You can't say I will compete, you can compete with banks. You can borrow from banks and still compete with them. That's the old model which also I think is a good model. It's a valid model, but it is a different model of being a balance sheet lender. When you are following what we call to be a partner with bank, you have made a decision, and you can’t flip-flop between the two and it is very hard to do both. Either you have to be NBFC which is using its own balance sheet to lend where you are borrowing from the bond market and banks, or you are saying we are partnered with banks and we put all our energies on working together with banks into developing underwriting models and making sure we are much stronger on origination and underwriting servicing in partnership with banks and not using balance sheet. And there are a lot of differences. Like in the first one, you first go and raise the liability, then you raise the asset. Here, you first raise the asset, and you have to keep the liability in mind because the asset is back-to-back linked to that. So, a lot of changes you make in your model, a lot of changes you make in your approach, and a lot of changes you make in your internal processes also, which we have done. So, we believe in co-lending. We want to do that. It is a little bit slow to take off because banks are also getting used to it. But we are very-very comfortable, and we think it will take time. This will become a very exciting business model within the NBFC space, but it will be different from what we have seen NBFC as a standalone using their own balance sheet.

**Moderator:** The next question is from the line of Vishal Sharma from Sharma Enterprises. Please go ahead.

**Vishal Sharma:** I have 2 questions; one with respect to lending only. You just explained the new trend that is setting in with respect to co-lending. I just wanted to understand what is your initial experience on the economics of the business with respect to yield, asset quality, and spread? How does the risk-reward equation work in these partnerships? Is it that the Edelweiss will only serve the book or it will be done by a partner? What about the processing fee? Will it be total income for you or will it be split with your partner?

**Rashesh Shah:** The way co-lending works is on a similar program because now there is a blended cost approach and we are not borrowing from banks and taking money on our balance sheet and managing the ALM on lending it to clients like you will do in a normal NBFC business. In co-lending what you are effectively doing is we originate the loan, we give the money to the client, and we give 80% of that we sell down to the bank like a lot of NBFCs do sell down portfolios to the banks as you would have seen in the direct assignment or the PTC structure, but usually that is done after 180 days because that's the minimum holding period. In co-lending, whatever loans you have given as per the program to your partner bank, you can actually offer 80% of that to the bank the next day morning. So, your money is churned over a lot faster. You are at 20, the bank is at 80, but now effectively the cost of fund is also your cost of fund on 20 and bank’s cost of fund on 80. On an average program, customers have a lower cost of about 100 to 125 basis points. So, there is a 100 to 125 basis points advantage to the customer in a co-lending product offering that we do. If we were not to do co-lending and we were to do on our own with our own balance sheet, usually the interest rate charged would be 100 to 125 basis points higher. On an average on an SME business loan if we are charging say 13% and banks are charging 10%, here, we will be able to do it for the customer at about 11% to 11.5% so the banks get slightly better, we get slightly better, and the customers get slightly better because now we have reduced the capital required on our balance sheet, we don't have the ALM risk, and we don't have to have the Treasury because when we borrow from banks and on-lended for 30-40 days, the money is idle in your hand. It also has a cost. When you add up all the costs, all three of you are better off. However, the co-lending because it's a partnership model, banks are still evolving and understanding, we are also understanding how banks think, plus the work involved is much higher because you have to originate a lot more.

So, the way I explain co-lending is that co-lending is about 50% better from returns and the efficiency of your capital point of view and efficiency of a risk point of view, but it is about twice the work. You will have to work almost 2x for 1.5x kind of a return, but your capital ROIs are better, your risk is better, you don't carry ALM risk because more than credit cost, it is the ALM risk that we all really worry about because our markets are still evolving and there could be IL&FS kind of disruptions. So, having a lighter balance sheet makes you more agile and makes you more efficient on an overall basis, but it does require more work. And it's like anything else. I think having a lot of capital on your balance sheet and deploying it versus raising money and deploying it in an asset management formula, it's much harder. Proprietary capital is always easier. In a similar vein, co-lending is a more execution intensive model but with much better returns. And it's still a new trend in India. We do think it will take another couple of years for it to really catch on, and there is a lead time of 2 to 2.5 years involved. And as I said, I give examples of private credit, MERC and all. All these businesses, we started early and we saw 3-4 years of the build-out phase before the business model became very obvious and very interesting from a scale point of view.

**Vishal Sharma:** I have one more question related to your retail credit business. Can you give us some guidance on the disbursal trends and any timelines for scaling up this business?

**Rashesh Shah:** As I said, we've been growing the disbursements in this business by 30% to 40% for the last couple of years on a small base, obviously, because effectively we have restarted this business. Both these businesses are like startups in the Edelweiss’ internal system. It's not that they are old businesses because this is a new model, the co-lending. We are currently at a disbursal rate of about Rs. 1,000 crores to Rs. 1,100 crores for the MSME annual disbursement, so slightly under Rs. 100 crores for the MSME business. And we are at about Rs. 1,500 crores for the housing finance business annual disbursements. Between both of them, we are at about Rs. 2,500 crores to Rs. 3,000 crores range in annual disbursement. Eventually our target is to be Rs. 11,000 crores to Rs. 12,000 crores annual disbursement; Rs. 5,000 crores to Rs. 6,000 crores in the MSME business and about Rs. 6,000 crores to Rs. 6,500 crores for the housing finance business. It will take us another 2 years to get there.

**Moderator:** Ladies and gentlemen, due to paucity of time, we need to conclude the call. I’ll hand the conference back to Ms. Priyadeep Chopra for closing comments.

**Priyadeep Chopra:** Thank you all very much for your time today. Please do write to us at Edelweiss Investor Relations for any questions or additional information that you may need. Once again, wish you all a Very Happy Diwali and a great weekend ahead.

**Rashesh Shah:** Thank you everybody. Thank you once again for being here with us.

**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.