Edelweiss
Ideas create, values protect

Dear Investors,

I hope you and your families are safe and well in the backdrop of the on-going third Covid wave.

It has now been more than 20 months since COVID-19 first emerged in the country, however, we continue to grapple with its impact as it stands and are yet to return to complete normalcy. The good thing is that while the Omicron case count has seen an upsurge, the severity of the infection has been limited. It has been heartening to see that with vaccination in full swing (and the initiation of booster doses now), increase in medical facilities, constant testing and a strategy of localized containments, the country is much better prepared to cope up with the new wave as has been seen in the hospitalization and mortality numbers. Preliminary indications also suggest that economic impact will be limited.

We announced our quarter ended December financial results on 31st January and this letter gives us an opportunity to reach out to you to share our perspective on the quarter gone as well as our long-term thinking. The detailed investor presentation can be found here.

India – A Decadal Story

At Edelweiss, we have always been strong believers and proponents of the India story. The recent trends, be it GST collections, the rapid improvement in the manufacturing and services PMI, rise in exports, infra capex plans by the government, amongst others are cornerstones to the start of this story. We are now seeing recoveries in earnings across all sectors. The MSME sector is also seeing a positive impact through adoption of digital. The confidence in the India story is also evident from PE, VC investments which jumped to an all-time high of $77bn in 2021. Indian businesses and industries are better prepared to limit the impact of the fresh wave of Covid-19 and have remained functional during the current wave. The mix of improved efficiencies, debt deleveraging, rising demand, and low-interest rates are fueling the economy. While there are some concerns around inflation, we feel in the current state, we are much better positioned to absorb the impact of such changes.

Financial services in India will continue to be the driver of this structural growth story. The financial ecosystem is witnessing strong collaboration between Banks, NBFCs and fintech which in turn will spur innovations around operational processes and customer experience. This collaboration along with overall economic traction will also aid in scaling up credit growth in the future. We are poised for a long-term growth cycle, and credit will play a key role in driving this.

Quarter ended Dec-21

Key Highlights:

PAT (ex Ins)	NET WORTH	CUSTOMER ASSETS
INR 127 Cr	INR 8,663 Cr	INR 3,47,400 Cr

Our business clusters are seeing healthy profitability and steady performance with an **Ex-Insurance PAT of INR 127 Cr** for the quarter even as our strong balance sheet acts as a shield for any short-term disruptions.

Our customer base is now at ~5 million, aided by the transition to digital modes of doing business and our robust digital platforms. Our customer assets which stand at INR 3.4 trillion have seen a **30% YoY growth for the past two years.** Our customer reach has nearly tripled over the last two years, and this is a testimony to the trust our customers have in us as well as the robustness of our platforms.

We continue to maintain **strong and well-capitalized balance sheets.** Capital adequacy levels continue to be very strong at 27.7% for our NBFC, 26.2% for HFC and 37.6% for ARC. Our operating companies have robust liquidity of INR 4,800 Cr. Deleveraging has been a key focus and as a result, our borrowings have declined by ~INR 12,200 crores over the last two years resulting in a consolidated D/E of 2.0x today from 3.0x in Dec 21. We have always believed in being conservative and our credit assets are consistently provided higher than IRAC norms. All this has resulted in a strong balance sheet which will be foundational for future growth.

Business Performance:

ASSET MANAGEMENT	ASSET RECONSTRUCTION	INSURANCE	CREDIT	WEALTH MANAGEMENT

Asset Management

Our Asset management cluster comprising of AMC and Alternative businesses today has a combined AUM of INR 112,100 Cr; grew by 2.2x over the past two years. Equity AUM in **our Mutual Fund business grew 2.4x YoY** to INR 19,200 Cr. Inflows continue to be strong in Mutual Fund business with net total inflows of ~INR 11,900 Cr and net equity inflows of INR 2,300 Cr in quarter ended Dec 21. Our retail folios have grown 2.5x in the last year and today stand at ~1 million. This quarter also saw us establishing leadership in debt passives with AUM crossing ~INR 50,000 Cr in Dec 21. The business continued its digital journey and enabled/enhanced its CRM, distribution transaction portal, E-invest mobile app and other digital assets. Our **Alternatives business** was the **only Indian Alternative Manager** to feature in **top 100 global fund raisers in Private Debt**. Deployment nearly doubled QoQ at INR 1,440 Cr in the quarter & INR 2,900 Cr YTD Dec 21. During this quarter we also launched 2 new funds - ISAF III and Credit Plus fund.

Asset Reconstruction

ARC business had robust recoveries of ~INR 2,500 Cr with ~INR 200 Cr from its retail portfolio. The share of Retail Assets witnessed strong growth by 4x YoY, and currently stands at 11% of capital employed in Dec 21. The quarter also saw acquisition of assets worth INR 1,200 Cr with AUM now at INR 41,800 Cr.

Insurance

Insurance cluster today has a **customer reach of ~3 million. Life Insurance** business saw a 15% YoY increase in gross premium with an 8% and 11% YoY increase in its active client and advisor base respectively. The business has seen a healthy Individual APE CAGR of 26% since FY17 against an industry growth of 13%. Our **General Insurance business** witnessed a **89% YoY growth in GDPI** vs industry growth of 8%. The business continues to focus on digitalizing the entire insurance value chain to enable higher efficiencies, better customer experience. Continuing its digital journey, partner integrations with Alliance Insurance Brokers, Tata Motors OEM, Paybhima.com amongst others went live during the quarter. Healthy adoption of video-based remote survey app (BOLT) was seen and stands at 34% YTD for motor claims.

Credit

Our **Credit cluster reported a PAT of INR 37 Cr.** Collections in Credit businesses are healthy with NBFC retail collections at 93% and Housing finance business collections at 98% in the quarter. With an aim of building a digital led asset light credit portfolio, our NBFC partnered with Indian Bank for a CLM partnership in addition to Central Bank with whom we are seeing ongoing steady disbursements. Our Housing finance business also partnered with Indian bank for CLM tie ups in addition to Standard Chartered Bank with whom disbursements are ongoing. The Housing finance business witnessed 33% QoQ increase in overall disbursements.

Wealth Management

The **Wealth Management business** continues delivering strong financial performance showcasing **Revenue growth at 47%.** AUA grew ~33% YoY with net new money for the quarter at over INR 3,300 Cr. During this quarter we also exercised our option to increase our stake in Edelweiss Wealth Management to ~44%.

Key Priorities: Update

At the start of FY22 we had called out our focus on three priorities:

Demerger and Listing of EWM	**Reduction in Wholesale Credit Assets**	**Scaling up Asset Management & Insurance**

Demerger and listing of Edelweiss Wealth Management (EWM): EWM demerger is progressing well. We expect the segregation of Edelweiss Wealth Management business after requisite regulatory approvals by quarter ending Mar 22 and the subsequent listing of EWM by quarter ending Dec 22. EWM today is in a strong position to capitalize the opportunities in India's rising financial wealth management market.

Reduction in Wholesale credit assets: We saw progress with successful workouts of over ~INR 3,000 Cr in the past 18 months. Wholesale credit assets are expected to further decline to INR 5,000 Cr by Dec 23. Our strategy of strengthening developer groups through addition or replacement of developers and syndicated interest for financing RE projects - both for takeover and completion financing, have enabled us to monetize non-core collaterals and enhance cash flow visibility. We expect inflows of ~INR 2,000 Cr over the next 6 months and remain on track to reduce the assets as per our stated plan

Scaling up Asset Management and Insurance businesses: We have scaled our Mutual Fund and Alternatives Asset Management franchise over the last decade. Like all our businesses, we spent time laying down strong foundations for these businesses and moving towards a strong growth trajectory in the last five-six years. Today these businesses are at an inflection point. The Asset Management cluster has seen its customer assets grow by ~7x over the past 5 years. Our efforts over the years to make the platforms for both our Asset Management businesses robust and tech backed is helping improve its efficiency and usability for all stakeholders. Our Mutual

Fund business has seen its customer reach increase by over 2x in the past two years, in addition to a ~12x increase in AUM in the past five years to INR 82,000 Cr as on Dec 21. The Alternatives Asset Management business has seen an AUM growth of 15x over the past seven years to INR 30,200 Cr as on Dec 21. As we have scaled, the annuity nature of this business has come to the fore with a recurring fee income built on the back of long-term customer assets. The well-established annuity is now being supplemented by the onset of operative leverage, as we scale up operations with limited incremental cost. Eventually, this business will be a cost-efficient annuity business with the upside optionality further enhanced by embedded carry, as and when it gets realized.

Our Life Insurance and the more nascent General Insurance franchisees are already amongst the fastest growing players in the industry and have many industry firsts to their credit. We feel confident that all these businesses are now poised for strong growth, and we will continue investing in and supporting these businesses in their journey of value creation.

Last quarter we provided addenda on our insurance businesses – we hope that helped give you a look into how we have created value in both our insurance businesses. In this quarter, we have provided addenda on our Asset Management cluster to give you a deeper insight into our Mutual Fund and Alternative Asset Management businesses.

Our story at Edelweiss has been closely aligned with the story of India and with India in a sweet spot, we are working towards leveraging these tailwinds to our benefit. We believe we are already seeing offshoots of the same as highlighted by the continued improvement in quarterly numbers of our retail businesses. While we remain optimistic, we are equally vigilant for potential short-term Covid induced disruptions that may emerge in the road ahead, where our robust balance sheet will help protect us.

I take this opportunity to reaffirm our appreciation to you, our stakeholders for your support and belief in us. We look forward to your continued support and would appreciate your thoughts, inputs, and feedback. Please do reach out to our Investor Relations team at ir@edelweissfin.com for any inputs or questions that you may have.

Thank you!

Rashesh Shah
Chairman – Edelweiss Group