“Edelweiss Financial Services Limited Q2 FY'23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to 2nd Quarter FY23 Earnings Conference Call of Edelweiss Financial Services Limited.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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 Group. Thank you and over to you Ma'am!

Priyadeep Chopra: Good afternoon, everyone and a very warm welcome to our results call. Today I have with us on the call Mr. Rashesh Shah - Chairman & MD of Edelweiss Group; Mr. Himanshu Kaji - Executive Director and Group COO; Ms. Ananya Suneja – Chief Financial Officer, Edelweiss Financial Services Limited and Mr. Ashish Kehair – MD & CEO – Nuvama Wealth Management.

We hope you have had a chance to review the Investor Presentation as well as the addendum on the Wealth Management that we filed with the exchanges yesterday. During the discussion, we will be making references to it.

Please do take a moment to review the Safe Harbor statement in our presentation. We will be making some statements today that maybe forward looking in nature and hence may involve certain risks and uncertainties.

With that around hand over to Rashesh to begin the proceedings of the call. Thank you and over to you Rashesh.

Rashesh Shah: A very good afternoon to all of you and a warm welcome on Earnings Call for the Quarter ended September '22. First of all, I think we must apologize for having this call on the day that India has a match going on. But truly thankful, because I think our Board meeting schedule and the Analyst call was fixed a long time ago. So, truly very thankful that all of you have taken time to be on this call. I hope you and your families all are keeping well.

And I think this is an important point because we are halfway through this year and this has been a I think a very interesting year. Global geopolitical events, inflation, the liquidity raised by the Fed, even things from a larger economic perspective, things like what's happening in the crypto world. I think there has been a lot of volatility, but amidst that volatility I think India has been reasonably, relatively more stable and though our inflation still remains elevated and RBI has been raising rates and liquidity has come down. But I think our equity market performance, the Rupee performance, all of that has given some confidence that India is more balanced in our ability to weather this storm.

And if we look at India today, both from the macro and the micro perspective, we are actually almost like a golden era where both the macro parameters and the micro parameters. And when I say the micro parameters, I look at companies balance sheet and companies growth plans and all of that. Currently at a micro level things look very good. I think companies are restructured, there has been a reduction of debt, companies have become more efficient and at a macro level government balance sheet all of that is very strong. The only macro issue is the inflation. But overall, I think one of the few phases in India where both the macro and micro look very good.

At Edelweiss our focus has been on building strength and resilience. In the last five years, we have spent a lot of time in building this more and more. And our increased focus now going is we have built enough strength and resilience now we want to focus on growth and profitability.

Just to recap the last five years, I think the key things we have been grappling with one obviously the post IF&FS NBFC issue and the liquidity drying up and all, then came COVID. And in the middle of that we also voluntarily had changed the architecture of the Edelweiss Group in that sense. Earlier, we were one integrated company with a lot of common services, common finance, governance, administration, all of that. We have now truly moved to eight independent businesses, legal entities, ring fenced capital, ring fenced people. So, we don't have people working, are employed in one company working in another company. So, that we have cleaned up, entities are not shared all entities they belong to a particular business unit.

So, last actually four years that has been probably more than half of our focus, if about 50% of focus was on managing the NBFC related liquidity issues. And if half the focus was on managing COVID, that half was one half and the other half was changing our architecture. And I think changing our architecture has been one of the most important changes we have made, because this has truly propelled us into a platform where we can actually play the growth in each of the eight individual businesses.

And I think the our ability to potentially capture the growth in this has increased manifold. I think, in the old structure even if growth opportunity was then in India, our architecture was a stumbling block. Now I think our org architecture, our leadership architecture, our business architecture, all of them have fallen in place. Of course, all this came at a cost, there has been a loss of growth and profitability in the last four or five years. And hence, I said now that we have built strength and resilience via this change in architecture, and I think managed COVID and managed the post IF&FS issues, we are now getting ready to focus on growth and profitability in the coming years.

I think the first half has been a good indicator that it has shown healthy profitability across the business. Since our ex-Insurance profit is now for the quarter back Rs. 236 crores for the half year, and Rs. 133 crores for the quarter. So, 18% growth for the quarter but 36% growth for the half year.

Our consolidated PAT is also healthy at about Rs. 93 crores, of course, we have a long way to go, our return on equity, we need to restore it to good range and all that because as I said last few years we have lost growth and profitability. But the change in architecture gives us a lot of confidence that we are now geared to be able to capture that.

A lot of our non-credit businesses, Asset Management like for example, alternatives AUM we are now one of the leaders in alternative Asset Management in India. And our AUM has now crossed Rs. 40,000 crore and we had a 70% growth in the quarterly gross premium for the general Insurance business. So, I think our alternative Asset Management business, our Mutual Fund business, our Insurance businesses have continued to show strong growth including even our Wealth Management from client addition to top-line, to profit as you would have seen in the Investor Presentation.

Our customer assets now stand at almost Rs. 4 lakh crores, Rs. 3.9 lakh crores which is a 20% increase. And as we moved to an asset light, capital efficient model, we want to focus more on customer assets and advisory cum third party AUMs and all that. And that has been growing healthily at about 20% a year. So, you will have seen our balance sheet is shrinking, but our customer assets are growing.

The balance sheet is strong, very well capitalized. All businesses have capital adequacy which is much higher than the required norms. And we continue to focus on our key priorities, which I will talk about as we go along.

So, I just want to give you some color on the full five key highlights for this quarter. And these five highlights have been:

i) Our approach to profit growth
ii) Our approach to business growth
iii) Our customer franchise
iv) Our balance sheet
v) And the update on progress of the key priorities.

A lot of this information you would have had in the investor presentation, but we thought we would just highlight some of them and give you more color on that.

On the profit side, I think as I said last three to four quarters we have seen a consistent increase in profit. We still have some way to go to get back to the earlier highs. But I think the trend is starting to look promising. Even in the credit business, in which we have degrown significantly, the first half PAT is grown to Rs. 67 crores from Rs. 8 crores last year.

Our Asset Management now is starting to grow. Our Asset Management profit after tax for first half has been Rs. 64 crores as compared to Rs. 37 for the last year. So, almost 100% growth is in the Asset Management business, profit.

Our ARC business also has shown about 17% growth for the first half, last year was Rs. 120 crore for the first half it's now Rs. 140 crore. So, a lot of our businesses are showing profit growth and you would have seen that at a consol level also.

On business growth also there is a lot of, I spoke about alternative Asset Management business where we are one of the leaders in that. Not only our alternative AUM has crossed Rs. 40,000 corrodes the invested amount, because out of Rs. 40,000 crores only Rs. 20,000 crores is invested, other Rs. 20,000 crores is dry powder which we intend to invest over the next between two to two and a half years. So, two years ago, invested funds in the alternative was about Rs. 11,000 so we got from Rs. 11,000 crores to Rs. 20,000 crores of invested and what you call fee being the, and that has grown 40% on a YoY basis.

I think along with Asset Management, Mutual Fund has also grown and we are among the fastest growing Mutual Fund in India. We are, I think, ranked 13th largest Mutual Fund in India, have shown 30% YoY growth, this has not been a good year for Mutual Fund industry as a whole. And we are leaders in many segments of the Mutual Fund market like the passive debt and the debt ETFs and all. And our Equity AUM in Mutual Fund has also shown a 27% growth YoY. Both our Insurance business, General and Life have grown. Our LI business has grown at 90% five year CAGR as we go along.

And lastly, our Wealth Management we have an addendum on that because that is a business that is now getting ready to be demerged and spun off and we will be I think very soon listed in the market. Wealth Management has shown 28% growth in top-line revenue. AUA growth has been 22%. But more importantly, the profit growth for the first half has been Rs. 138 crores. The profit for Wealth Management for the first half is Rs. 138. Q2 profit has been Rs. 85 crores. So, that has been a good growth sign. And we remain very bullish on the business. And we do think a lot of Edelweiss shareholders after demerger who will become direct shareholders in that will also get a chance to understand more about the business and the addendum that we have presented.

And lastly, our Credit business has also started growing as we have adopted the asset light colending credit approach, both in Housing and MSME credit, we will continue to grow. Wholesale business continues to degrow because that is part of our strategy. We want to wind down the Wholesale book. And as you will have seen in the last three years, there is a significant reduction on that.

The third focus area for the highlight has been our customer franchise, which has been the heart of our growth in the last few year. We have not been as focused on balance sheet growth, we have been more focused on our customer reach. And we now have a customer reach of close to 6 million customers, which is a growth of 25% YoY. Our Mutual Fund, Retail folios have grown at 32%. And we have now more than 1 million Mutual Fund investors. Our Wealth business has grown 32%. And we have close to a million customers. So, almost all businesses except Credit, our customer reach and truly Retailization of Edelweiss businesses is also happening. And a lot of this is happening by focusing on innovative products, partnership, customer experience. And we do obsess a lot about all that because we operate in these businesses in a very competitive world. And we do feel that understanding customers, coming out with the right products for the customer can give us an edge. And we have shown that in our Mutual Fund business, alternative Asset Management business and the Insurances businesses.

The fourth highlight I would like to give is on the balance sheet. Our balance sheet as I said all businesses are very well capitalized. As we have degrowth, the balance sheet has become stronger, because we have more than Rs. 8000 crores of equity, but a much smaller balance sheet. We have reduced our borrowing by Rs. 7100 crores over the last two years. And our net D/E now stands at 2.1 which was 3.3 a year ago and which was at peak about 5.2. So, we have come down from 5.2 about four years ago to 2.1 now. And we carry comfortable liquidity, though part of that acts as earning drag, but after the experience of the last four years, we and our stakeholders are very convinced that holding good liquidity is also buying good Insurance in that sense. So, as you will have seen a lot of our businesses have capital adequacy of 34% in the credit business and we have very well capitalized Insurance businesses.

And the last item I want to give the update on are the key priorities, which are three. 1) Demerger of the Wealth Management which has been renamed as Nuvama Wealth Management. And Nuvama is a new name of the Edelweiss Wealth Management, because we are now getting ready for getting that business listed after the demerger. The Phase-II demerger is over, it was a three-phase demerger. I don't want to go into the technical aspects of that. But as you know, these are very complex processes. So, there were three phases. Phase-II is over, we got an NCLT order the Phase-III demerger is going on right now. And we expect to complete demerger and get the shares listed around March ‘23.

I hope you get a chance to look at the business update of Wealth Management. And we have Ashish also on this call. Ashish Kehair is the MD & CEO of Wealth Management; he has done a lot of work to strengthen the business. The growth you are seeing in the business is all kudos to him and the management team along with him. So, he will be also happy to give you more color on the business if you so desire.

We are scaling down the Wholesale loan book we have reduced 30% in the last two years. We further expect almost about 60% to 65% reduction from here in the next two years. And after two years, we expect the Wholesale book to be between Rs. 2000 to Rs. 3000 crores. And we continue to monitor if there is any further impairment, we are very convinced there is no more impairment required. We have already taken the impairment, all of you would have seen last two to three years we have taken a significant amount of impairment on that book. We have written it off, we chose to accelerate the impairment and the provisioning on that business, because we wanted to take the pain first. And now we are reducing the book. And as we reduce the book, a lot of liquidity gets released, a lot of equity gets released, which we can redeploy in other growth areas as we go along. I think the Wholesale business in NBFCs, we have continued to say is not well suited for that. So, we want to continue to wind down that book.

So, I think along with that the final comment I would give is, I think, all the internal things we had said to you about six months ago and what we had said a year ago, a lot of that on the report card. We keep our report card saying what we are saying to our stakeholders and what we have achieved. I think we have made significant progress on that. We had been focused on liquidity and balance sheet strength and I think that we have come a long way. We now have to focus and that is after two quarters and after four quarters when we chat again, you should hold us to account on that is on profitability, growth and business growth and increased Retailzation and the Edelweiss Wealth Management demerger, these are things we are working on, and we hope to continue to show progress on that in a significant way.

So, thanks a lot for all your support. Thanks a lot for being on this call. And with that we can now open it up for questions, if any are there. Thank you very much once again.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Mahavir Jain from Astrum Advisor. Please go ahead.

Mahavir Jain: I just had one question that we have done a very good job on reduction of our Wholesale exposure so far. But the planned reduction which is from Rs. 8500 crores to Rs. 2900 crores seems sizable. So, what are we planning to do differently going ahead?

Rashesh Shah: If you see our Wholesale book continues to fall by between Rs. 2000 crores to Rs. 2500 crores and as you would have seen a lot of this is real estate housing projects. So, as the real estate market has improved and a lot of the projects which were stuck are getting completed, the loans are getting repaid. And since we are not doing any fresh disbursement in this book, in the Wholesale credit, real estate book, we will continue to get about between Rs. 2500 crores to Rs. 3000 crores 3000 crores of repayment every year. And we also getting some of them refinanced, there's a lot of interest that has come into the real estate market as you know prices are going up, the demand is strong and the demand supply equation in real estate is truly improved. With anecdotal data that we are seeing, the experiential data we are seeing even in Bombay, South Bombay and Central Bombay prices are up between 8% to 10% to 15% to 20% in the last one year. So, as prices are improving, a lot of these projects also starting to get completed. So, Rs. 8500, we should see about Rs. 3000 reduction in the next year and maybe another Rs. 3000 in the year after that about Rs. 2500. And this Rs. 8500 is currently over almost 70 projects. So, there are multiple projects, we evaluate this project by project, we look at every project what is the cash flow expected? What is the NPV of that cash flow? How much we have provided? Are our marks on that correct? We do a quarterly exercise on that and we revise our cash flows every quarter. Based on the current cash flows that we are seeing we are confident that between Rs. 2500 crores to Rs. 3000 crores reduction every year in this book will happen. In a way in three to three and a half years the book should go to zero because we are winding down. We are running down this business. This is actually a non-continuing business for us the Wholesale real estate book.

Moderator: Thank you. The next question is from the line of Vinay from Equirus Capital. Please go ahead.

Vinay: You mentioned about the demerger, if you could throw some more highlights on the demerger process, where do we stand and if any approvals are pending? And how fast can we get it listed?

Rashesh Shah: So, as I said earlier, Vinay, we are in Phase-III of the demerger, it's an NCLT, we are getting the exchanges and the SEBI approvals because it's a Wealth Management, brokerage, investment banking business, so we need approval from SEBI and others. What I believe, the SEBI approval is in progress to get, after that we get NCLT approval. So, we expect NCLT approval somewhere around February, even accounting for the Christmas holidays at all. And it should take about four to six weeks after the NCLT approval for the listing to happen. And we have already seen demergers usually, after four to six weeks of demerger listing is happening. We have already prepared that. So, I think somewhere around March, we should get the listing done. And a demerger should happen about four to six weeks before that.

Vinay: You have one business it's already demerged, what are the other demerger plans you have in the subsidiaries you are holding, in terms of AMC, maybe Insurance, Housing Finance?

Rashesh Shah: I think our current approach is that we will build business. I think at Edelweiss now approach is we have this great eight businesses, well capitalized already the platforms are built each of these eight businesses we have been there for, except for the General Insurance business, which is about five years old, each of the business we have spent at least 8, 10 to 14 to 15 years in the businesses now. So, all these are very well-established, stable businesses, we want to grow them. And then we want to unlock value.

So, our approach is Vinay, create value, unlock value. Unlock value in a smart way like what we are doing in Wealth Management. So, currently I think the next two, three years, as I said, a lot of focus is on Asset Management and Insurance growth and all of that. So, we will continue to look at options on how to unlock value. We don't have any plans that we can announce as of now.

Moderator: Thank you. Next question is from the line of Pravin Agarwal, as an investor. Please go ahead.

Pravin Agarwal: Your alternative business has seen significant growth over the years and the leadership has been in private debt only. So, any plans of diversifying away from private debt into maybe private equity or anything?

Rashesh Shah: So, we keep on, I think evaluating it, but as you correctly said, we are seeing so much growth in private debt, like a lot of our funds are now on that third fund. And what happens in alternative business, as the vintage gets older, as you go from Fund 1 to Fund 2 to Fund 3, a lot of your investment capability, management team, everything has got baked. So, currently, I think we think private debt is a great differentiated opportunity.

As you know, private equity is a great opportunity in India, but it's also a very competitive space, there are a lot of private equity funds. In private debt, we are the leaders, we are one of the pioneers, and especially what happened in the last four years, with NBFCs and Mutual Funds, not able to do private credit, a lot of debt is slowly and steadily starting to move into the private credit space, structured credit, private credit, special situations, tactical opportunities, whatever you call them.

Private equity in India started about 20 years ago, while I think private credit in India started about three, four years ago. So, private credit is also a new emerging field, we are well established. Currently, we have no intention to expand. We are in the process of raising new funds in the private debt also.

Also in private debt it's not one category, we have almost four or five strategies, and we have about eight or nine funds. So, it's a fairly diversified, we are in infrastructure yield strategy, real estate credit strategy, distressed credit, performing credit. So, the private credit space also, it's a fairly large space with different strategies out there.

There are some significant entry barriers, maybe at a future date, when we have a review on that particular business we will add an addendum on that. But there are significant advantages we enjoy in scaling it up. And we have now only gone to Rs. 40,000 crores. We think the space is fairly large. And we have a lot of investors and we have some great fund management teams already baked. And we have the performance and the track record of the last 8, 10 years in that business.

Pravin Agarwal: So, also a follow up question Mr. Shah, since you mentioned the scale. Given this current scale, I have a feeling that the operating leverage would have already kicked in. Can you give us a sense of how do you see the profitability of the business, in terms of the scale and income streams? And any guidance on carry or when will this kick in?

Rashesh Shah: So, actually, I think operating leverage is a very important question, especially in private credit space, because you would have seen in the presentation, and what I was speaking earlier. Our AUM is Rs. 40,000 crores, but our fee-paying line is only half of that. So, the earning fee is only on Rs. 20,000 crore. The other 20 is not deployed yet. So, as you deploy that, you have no real increase in costs because it's the same management team, the same operating cost you have. And last one year, we would have deployed about Rs. 8,000 crores is what I would think.

So, we are now at a stage across strategies, we are deploying about a billion dollars a year. And as we deploy the dry powder, because out of 40 as I said only half is deployed, other half is dry powder. As we deployed that the fees on that should come in. So, that is one operating, without increasing cost you will get increase in fees and all, and part of the growth in the Asset Management profit you are seeing is coming out of that.

The other factor of profit growth is your carry, usually carry comes when a funded after 3, 4, 5 years old, when that carry starts coming in. A lot of our funds have been deployed, I mean, last three years, we would have deployed almost 75% of this, deployed Rs. 20,000 crore has been deployed in the last few years. So, I would think now, a lot of this will be three, four years and by the coming year, we will start seeing the carry upside also which would start coming in. Usually carry as your profit comes after three, four years of the fund. So, you should also look at the vintage of the funds.

So, I think the way to understand is how much is your AUM? How much is a fee paying AUM? How much of that fee paying AUM has been deployed for more than three years? And is there a carry that is coming into that? So, we think from the next year onwards, the carry income stream should also start kicking in, how much will be a function of the returns we make.

Moderator: Thank you. The next question is on the line of Prakhar Agarwal from Elara. Please go ahead.

Prakhar Agarwal: These couple of questions are for Ashish, so Ashish how is the Wealth Management different when you look at from competition perspective and some of your aspirations on that side of the business if you could highlight? And then I have a follow up question. I will probably ask it later.

Ashish Kehair: See, the way we look at it, there are a couple of dimensions on which business is actually built. So, the first dimension on which I think we are different is the whole Target Addressable Market, or TAM. Typically, most of our peer group operates in the Ultra HNI segment, except of course, banks, which are in Retail and affluent. But specialized standalone wealth managers like us are largely in the Ultra HNI segment, which has its own supply constraints, whereas we operate from Affluent ++ to Ultra HNI. That gives a much larger canvas for us to play, significantly lesser supply constraints, technology leverage, lower cost RMs and so on and so forth. And this also is a business which can't be built overnight, it takes a long gestation period, because of the whole granularity of it. But once you have built the platform, then ability to scale is significantly easier. So, that is one dimension.

Second, I think, where we have consciously focused and differentiated is building a more comprehensive product platform. So, when a client comes on any Wealth Management platform, I mean, there are a couple of needs, which the wealth manager can address, it could be investments, now investments can be on an exchange, it could be of a managed product. So, under our umbrella, actually the client can execute across the board. There are players where you can only buy, let's say, managed products, you can't do broking, or some can't do lending, we will have everything under the same umbrella, which basically allows the relationship person to add more value to the client, and therefore monetize the client more.

And third is we are very strongly supported by an Alternative Investment Management and Investment Banking business, which also helps at a promoter level. So, when you have an investment banking business, you not only are addressing the wealth and savings needs of the client, but you also work with them on their aspirations on the business side, which ultimately when they monetize you get the wealth business. So, it's really the platform synergy under TAM, which I think very heavily differentiates us from the rest of the competition.

Prakhar Agarwal: Some aspirations on that side of the business, if you could highlight , maybe over two years, three-year period, how do you aspire to do in that side of the growth?

Ashish Kehair: So, I think we are blessed with the sectoral tailwind and I have always maintained that the business is in a very nascent stage, not only for us, but for everybody. Basically, the way we look at it, there is a stock of wealth and there is a flow of wealth. So, stock of wealth basically compounds anywhere between 8% to 12%, given the combination of debt and equity, which you have. And the flow of wealth is the new money which gets added either by the new clients which you acquire, or the existing clients, which top-up or their incremental flows come in.

So, if you put the two together, I think, at a base level anywhere between 18% to 20% is where you will see the AUM or the money which gets managed to grow. And on top of it if you can innovate with some products or something, between 18% to 22% is the safe level of growth, which you can consider in the industry per se. And the better players will execute more, so I think we should aim for anywhere between 20% to 25%.

Prakhar Agarwal: And just one last bit from me. It is that transition, is completely from Edelweiss?

Ashish Kehair: There were multiple areas of transitioning, because we were actually joined at the hip. So, there was a technology transition, there was logistical transition like your emails. So, we have done most of it, I would say we are 90% done, the key, or the critical ones, like our trading servers, data centers, all that is now done. I think last mile remains about 5% to 10%, in other two months, that should get over.

The transition is actually the reason why some of us would have seen that the OPEX of the cost would have gone up this year, because that led to some duplication because we had to have overlap, because these are certain mission critical systems, you have to have fallback mechanisms. And these will all fall off in the next year. So, by December of this year, I think for all practical purposes, it will be completely independent. And by the time we list, I think whatever little remains will completely go out.

Moderator: Thank you. The next question is from the line of Vrushal Bhagwate from VB Consultancy. Please go ahead.

Vrushal Bhagwate: Half yearly PAT looks healthy. How do you think will this be sustained in the H2? And what will be your key drivers of profitability? And I have another question on the MF side, also where the PAT looks a little lower compared to the sizable AUM it has now. What will be your game plan to further enhance your profitability for MF business?

Rashesh Shah: So, I think, as you said, the first half PAT has been encouraging, we hope to maintain this, but as you know, I think a lot of this is coming from stable areas like Asset Management, Wealth Management, Mutual Fund. And as you see the credit business is also showing uptick because there is a co-lending model is starting to fall in place, as the Wholesale book is getting marked down.

So, we remain positive, I think, the last three, four quarters if you have seen there is a consistent trend that is inching up business by business. And I think that is why we have given actually each of the business profit after tax, you have to maintain that.

Mutual Fund, I think the two things, one is we are investing in the business. And maybe the first half was slightly affected because of some mark-to-market in our funds that we have, because we also have a little bit of investment in the funds --. So, there was a little bit of mark-to-market as interest rates went up. But largely, we continue to invest in that business and the AUM growth we are seeing is coming at a P&L cost, in that sense. And I think it will continue for another one year. And we are still not really harvesting the potential profitability of the Mutual Fund business or the AUM we have, because we would rather invest it back because now I think a lot of things our product strategies, our distribution strategy, all of that is starting to fall in place. So, we would like to continue the momentum of AUM growth and customer additions in the Mutual Fund business, which will have some P&L impact, and that is what you are seeing.

Moderator: Thank you. Our next question is from the line of Hitesh from Citibank. Please go ahead.

Hitesh: Just wanted to do a follow up on a point that you had mentioned in your AGM, that you will be looking at value unlocking in other businesses like Life Insurance and Housing Finance companies. Could you throw some light on what's the management thinking on these businesses?

And I have a follow up question on the Mutual Fund business, any plans for IPO for this business as well?

Rashesh Shah: So, currently, there are no plans for the Mutual Fund business that we want to, as I said, I think in the next two three years we want to continue to grow, that business is still relatively young in our eyes. And I think we need to continue to maintain the momentum we have. So, no plans on the Mutual Fund side for IPO.

On Life Insurance, we would like to do some partnership, which gets a distribution, as you know a lot of our current distribution is half is agency and other half is corporate agents and Banca and direct and online. We would like to increase and grow the Banca franchise and all. And now as you have seen, you may have seen IRDA has increased the number of Insurance partners, banks can have from three up to nine partners. So, we would like to capitalize on that, and look at some value unlocking by being stick to strategic investors who can bring us distribution. And we would think along those lines, it will take about a year for us to get something in place. But that is one way of unlocking value.

I think the Insurance businesses, we will wait until the profitability happens which is about 26 or so for the Insurance businesses, both the Life and General Insurance, before we think of listing them.

Housing Finance business, I think we are building a fairly unique co-lending model on the Affordable Housing. There are obviously others are there, we are not the only one but it's a fairly differentiated model. We have some early wins on that. We would like to spend the next year or 18 months on consolidating, proving that model before we even think of IPO strategic sale, in that business.

As you know that business is very well capitalized, capital adequacy is close to 30%. We want to get this co-lending, Affordable Housing business model strongly validated over four quarters before we look at that. But our idea would be as we have done the self finance bit either through IPO or spinoff or demerger, constantly look at, if that business is at a scale and size, where it can be listed on its own, and can also unlock value for Edelweiss and its shareholders, we are committed to that.

Moderator: Thank you. The next question is from the line of Salil Rajadhyaksha as a personal investor. Please go ahead.

Salil Rajadhyaksha: My question is, with respect to the Wholesale book, you have done a lot of work to get it down to Rs. 8,500 crores. But you need three years more to get it down to Rs. 2,900 crores. That's a significant amount of time. And I was wondering whether there is a Wholesale way of solving the Wholesale book problem. Is there a way you can just sell that book entirely even if at a haircut of 10% or whatever, and release all that equity?

Rashesh Shah: Good question, Salil, I think we constantly evaluate, I think there are inorganic, so basically, what you are saying is you can organically reduce the book or you can do inorganic, or you can do a combination of both. I think our approach would be to do a combination of both, because a) I think the market doing just one shot, entire book sale will be very expensive.

To give you an idea, there are a lot of hedge funds and special situations funds, who are always looking for portfolios, but they would like a return of 20% to 25%. A lot of assets are good enough, which can make say 15%, 18%, 20% IRR also as these projects are going. So, the answer to your question would be where we see the cash flow coming in the next 18 months or two years, we would rather reduce it organically project by project. The ones where we think the cash flows are elongated so the IRR is there, so there is no impairment risk, but the cash flow is because that project has got Phase-2, Phase-3, Phase-4, those can we do it inorganically, we would be happy to do that though it might come at a slightly higher cost, because the return that the new buyer will want, will be slightly higher than the return the portfolio is earning. But it can shorten the release of cash for us. So, I think our approach would be organic plus inorganic.

One short answer is not really possible or always there because if you go for that, the cost is going to be too high. People will take the portfolio, keep the risk still with you by having covenants or a junior tranche and all that. So, you don't get anything, you just end up giving away a lot of value because remember, in this book of Rs. 8,500 crore, only Rs. 5,000 crore is borrowing, there is a notional Rs. 3,500 crore equity of ECL Finance. If you look at ECL Finance, and our NBFCs as equity capital of Rs. 3,900 crores, there is a Rs. 3,500 crore equity out there. So, that equity will still be trapped and we will end up paying a high cost. And will come back to us after two, three years. If we look at any Wholesale one stop kind of an answer. And it's not really a problem because this all projects are different. All projects have different management. We have a management team out there, which is overseeing this. And we think there is significant value.

Plus also remember as the real estate prices are improving, Salil not to be greedy, but there could be potential upsides also because we have taken impairment. But as the prices increase, maybe our recoveries will also be better. We have seen that in the past when Essar Steel was sold to ARC's and all that. And ultimately recoveries are good. So, where assets are good recoveries are good. You just need to be patient, and it's not really affecting us, it might be affecting some skeptics in the stock market about okay, Wholesale book is still a problem. But I think anybody who wants to understand and study, having seen this over the last three years, I think last year was trying, after IL&FS and the real estate market was down. And we have navigated that well.

So, having done all this, I don't know what I think advise a lot of our different stakeholders will have because at some time, some people will feel it's better to do one stock, maybe take Rs. 1,000 crore to Rs. 1,500 crore to Rs. 1,800 crore cost on that, the other is to do it on a very thoughtful manner.

And the third is just play it out and extract everything you can. I think our approach is more the middle one, don't be greedy, be thoughtful about it, but do it in a way. And by the way, we have done that, if you have seen in the last three years, we have done inorganic also, we have done about Rs. 4,000 crore to Rs. 5,000 crores of inorganic sales to AIFs and other hedge funds, of assets which required last mile funding, but this also required some holding power.

So, that's our approach we will continue with that. We feel confident that there is, the equity in this is can be released, there could be maybe upside if Indian economy does well, Indian market does well. And we also have ALM under control. So, if ALM is under control, if impairment is done, we just have to do our work and basically get capital released one by one. It might give a sense of relief if we just do one short answer to this, but it will come at a cost which can be anywhere between Rs. 1,000 to Rs. 2,000 crores of additional cost.

Moderator: Thank you. Next question is from the line of Mohit from MG Advisors. Please go ahead.

Mohit: We have seen a rapid growth in your General Insurance business. But given that you are a late entrant to this competitive space, what are you envisaging as your differentiator to continue a sustained growth?

Rashesh Shah: Actually, I am happy you are asking this question because I know we end up spending a lot of time on the NBFC business and maybe the Wealth Management, now Asset Management business, but Insurance business is also very important part of us and our future. And as you very correctly said Insurance is not where we are the natural players. There are large government owned companies like in Life Insurance, there is LIC then there is State Bank, then there is HDFC Bank, ICICI, Kotak, Bajaj, Tata, Birla, I mean it's a very competitive field. And still we have in our Life Insurance business grown at 23%.

The same thing is about General Insurance. The good thing about General Insurance, it's an industry which is getting disrupted very quickly. And you would have seen other digital players, insured players like Go-Digit and Acko and others, and there is a lot of excitement in that particular business.

Our differentiators have been product innovation. So, if you go to our site, or if you look at our Investor Presentations, the number of product awards our General Insurance business has been getting, has been outstanding. So, we do focus a lot on product innovation, and not just product innovation for the sake of product innovation, but product innovation that meets the customer needs. And being a late entrant in a field that is changing very fast and disrupting itself is also an advantage. We don't have any barriers to scale. So, even if a product gives us Rs. 40 crore to Rs. 50 crores of annual GWP, we are happy to try that product. In fact a large company may not really move the needle for you. For us, it allows us a lot of innovation. When IRDAI announced the Sandbox guidelines, we are one of the large players in that we have a lot of products in the Sandbox.

So, one is product innovation. Second is we work a lot on customer experience especially Health Insurance, and Motor Insurance. In Motor Insurance, about 18% to 20% of our customers who buy Insurance will have a claim. So, your claim experience matters a lot. Same thing goes for health, experience matters a lot. We all think a claim in a claim is a claim. A car Insurance is a car Insurance, car Insurance. Once you have made a claim, you realize that not all car Insurance is the same. So, we do work a lot on customer experience, customer insight, customer feedback, NPS scores and all, because that is our other edge.

And the third one that we have is we are very careful about how we use our capital. We have spent about close to about Rs. 500 odd crores in that business and reached the scale, because we have been also very efficient, I think you would have easily spent a lot more capital to reach the same place. So, I think in this three plays because then the capital we have, we are actually deploying it a lot smartly. And we have almost seen 80% to 83% growth in that business.

So, I think it is an exciting field, because we are five years old, to give you an idea because we were the late entrant. We were the first Insurance company in Asia to be Cloud native. We started on the Cloud, we had no architecture, which was not Cloud. Almost everything we do start with APIs in that business. So, being a late entrant gives you a lot of architectural flexibility, because you don't have the legacy bag and baggage also on that. So, we are very excited but then it's still early years, I would tell all our stakeholders that wait and watch for two, three years, we still have to prove ourselves in both the Insurance businesses.

But in the last four, five years, we have seen in spite of COVID, in spite of all the other upheaval was going on, both our Insurances businesses continue to add significant clients and growth in that. In fact, our General Insurance business now is close to about approximately three million customers. Yes, our total reach has now crossed four million customers in this business. So, there are four million people in India who bought our Insurance product though we are known more for capital market and Asset Management and others, even in Insurance, I think our business has made inroads into that. We are still small. And we have a long way to go.

Mohit: So, could we look at in JVs or strategic partners, and any guidance on breakeven for this business?

Rashesh Shah: On breakeven in Life Insurance, our next target is embedded value breakeven, which we should hit in the next four quarters, because EV breakeven is an important one. Accounting breakeven should be '26 or so, give or take a few quarters. The General Insurance business would also breakeven around '26. Our current gross rate and premium in General Insurance is about so we are averaging about Rs. 50 crores a month. So, that is the scale of the business, we want to continue to grow within the General Insurance business, the industry will grow at about 18% a year for the next four, five years. We want to grow with that and obviously weigh in some market share on that.

We own 100% of the General Insurance business. We are interested in strategic partners. We don't need partners for capital in that business, it's well capitalized. We need partners who give us either strategic inputs, either in distribution or in product and technology. So, large, global firms who are good in Digital Insurance and all that we will be happy to talk to them. We speak to them all the time. But when we find the right fit, we will obviously go forward on that.

On Life Insurance, as I said, I think a banking partner, Banca Channel is an important opportunity for us, especially given the changes that IRDAI has announced in how many partners a bank can have. So, we will also be looking at that, but both these businesses are well capitalized, and the capital is in place. So, we don't need to dilute for capital reasons in either of these businesses.

Moderator: Thank you. Ladies and gentlemen, due to the paucity of time that would be our last question for today. I now hand the conference over to Ms. Priyadeep Chopra for closing comments. Thank you and over to you, ma'am.

Priyadeep Chopra: Thank you very much, everyone, for your time today. Please do write into us at InvestorRelations@Edelweiss, for any questions and additional information that you may need from us. Once again, thank you for all your time, and we hope to keep in touch. Bye-bye.

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