Edelweiss Financial Services Limited

Q2 FY26 Earnings Conference Call

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Moderator: Ladies and gentlemen, good afternoon, and welcome to the Second Quarter FY '26 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 call, please signal an operator by pressing star then zero on your touch-tone 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, Rio, and a very good afternoon to every one of you. A warm welcome to our earnings call today. I have with us on the call Mr. Rashesh Shah, Chairman and MD of Edelweiss; and Ms. Ananya Suneja, Chief Financial Officer, Edelweiss Financial Services Limited.

We hope you've all had a chance to review the investor presentation that we filed with the exchanges earlier today. During our discussion, we will be making references to it. Please take a moment to review the Safe Harbor statement in our presentation. We will today be making statements that may be forward-looking in nature and, hence, may involve certain risks and uncertainties.

With that, I will hand over the call to Rashesh to begin the proceedings. Thank you all for being here once again. Over to you, Rashesh.

Rashesh Shah: Thank you, Priya, and a very good afternoon to all of you, and a very warm welcome to our earnings call for this quarter and for this half year ended September. In India, I think all quarters are important, all half years are important. But I think in this year, there has been a lot of upheaval, a lot of changes globally, India slowdown, then the recent GST-led growth starting to come back. But I think India is showing that amidst all the ups and downs and drama that goes on every day, India is pretty steady.

In Indian economy, first quarter was a good growth, 7.8%. Inflation is down. In my career of 36 years, I've never seen inflation being so low and so much under control for a long time. So that is in India, always very good news, especially for our insurance companies and all, but low inflation is always a good thing. Government capex is still the driver. We all know GST has led to some growth coming back, GST reforms. But obviously, corporate capex is low. Export demand is starting to slow down because of the U.S. trade.

We hope that once the Bihar election results are done, the U.S. trade deals should also get closed. A lot of people in the political circles feel that it is waiting because of the U.S. -- because of the Bihar elections. And India will stay the course. I mean we will never be crazily growing at a very crazy rate nor are we going to slump down as a lot of people were afraid a few months ago.

So India, over the last so many years, we have seen, there is a steady-state growth. And along with that, I think on Edelweiss also, a lot of our updates are on BAU, strategic priorities, business growth. But before we go into the business growth and the update, just a small recap of the 3 key priorities that we've been always speaking about.

One is the scale up of the profit of the underlying business. And we see this as one bucket of our earnings and value creation because the value in Edelweiss is created by the underlying companies and their growth and the franchise and what they are building. So the underlying businesses for this first half have grown at a 15% Y-o-Y with a profit of INR295 crores for the 6 months. So if you just annualize it, I think the underlying businesses are currently about INR600 crores profit after tax, which is the one chunk of our earnings.

So you see Edelweiss has got 2 parts. One is the underlying business and one is the corporate. Now in the underlying business, we have always said that we want to grow between 20% to 30%. So the first one, 15% is okay. But over the last 2 years, our underlying PAT businesses or the PAT has grown at 24% CAGR, which is what is as per our plan. We want to make sure the underlying businesses collectively as an aggregate are growing at 20% to 30% a year. And we think we are on track for that.

A few businesses will have 1 quarter up and down, which is part and parcel. But aggregate, collectively, this growth should continue. And this has been the focus area for the last 3 years. Our insurance businesses are on track to breakeven by FY27. As you can see, half year, there has been an improvement and both the businesses are on track.

And the third priority we have always said is to reduce the corporate debt, the net debt in corporate. It has reduced by 10% over the last 2 years. We want to bring it down. As you know, the levers we have are property and investments we have, which are about INR3,000 crores, which we can keep because a lot of them are yielding or we can reduce, up to us.

We expect dividends from the businesses to be at a rate of about INR500 crores a year. So that should give us about INR1,500 crores over the next 3 years. And we have said we will do stake sale in mutual fund and EAAA. And now we may also be exploring a stake sale in our housing finance business.

So we think over the next 6 to 8 months, we will do a stake sale with a JV partner in our housing finance business. So these 3 businesses are amenable to us doing a stake sale and raising some capital to reduce our debt. However, our overall corporate debt has also gone up a little bit because of the merger of ECL and ERFL. We had 2 NBFCs.

ECL Finance was doing wholesale and ERFL, which was Edelweiss Retail Finance Limited was doing retail and MSME business. 2 years ago, after speaking with RBI, we decided to merge the 2. The approval has come. It's been a 2-year process. We got all the approvals. The merger has been done.

But as a result of the merger, some of our stake in ERFL got merged and in a way, for accounting Ind AS reasons, our corporate debt has gone up by INR200 crores. Effectively, it has ended up by us having a higher capital inside the NBFC and our corporate debt going up by INR200 crores. But that is an accounting outcome because of the merger.

On the other strategic update, our EAAA IPO, we want to do the EAAA IPO. We are on track to do that, but we're also seeing a fair amount of underlying growth. As you know, we had a leadership change. And in this quarter, the main focus has been on ensuring that the leadership scale up, the organization strengthening is going on, raising capital, as you will see, the first half has been good. We have raised INR5,000-odd crores in 6 months, which is 3x of what we had raised 1 year ago.

And we also launched a new fund -- energy transition fund, where we have an anchor investor by European Investment Bank. So that has been the highlights for this quarter. But -- so EAAA is going steady state. We would like to IPO the business, as we have said, for strategic reasons, also for stake sale, which gives us capital to reduce our debt, but also to ensure the business gets institutionalized and is a stand-alone listed company because we think the leadership that we have in alternatives and the growth that is there in alternatives is going to be very powerful.

The business continues to scale up, then we have been pioneering in what we call yield strategies and alternatives. So alternatives have got 2 kind of strategies, growth strategies, which are mainly things like private equity and all, and yield strategies, which are mainly private credit and real assets. We are focused on the yield strategies.

Our idea is that any strategy or a range of strategies will give you between 10% to 18% kind of return in an AIF structure has a lot of appetite and a lot of demand from the investors. Yes, all these are AIF funds, so there is a 3- to 5-year kind of closed-ended funds. But by willing to give up some kind of liquidity, investors can get some amount of upside, extra alpha that you get. And it has grown all over the world, this range of strategies, and we want to bring them to India.

We've been doing that. We want to grow that. In EAAA, we have more than 5,000-plus unique client relationships and more than 1,000 have been repeat clients who have invested in our multiple funds. And out of this 5,000 clients, about 12 clients have an AUM of more than $100 million across our funds. So there is a significant headroom for growth.

Over the last 15 years, this business has proven itself in a lot of our marquee funds, we are in the Vintage 3 and Vintage 4 now. And since last 5 years from FY '21, we have raised INR44,000 crores. we have deployed INR35,000 crores. But more importantly, we have also realized INR36,000 crores. And this realization is both return of capital and return on capital, even the returns that we make are also part of the realized.

So raising INR44,000 crores over 5 years, investing INR35,000 crores and realizing INR36,000 crores shows that there has been a consistent track record of being able to run these strategies in a very effective manner. In Q2, we raised INR2,000 crores. And in the first half, we have raised INR5,000 crores in EAAA. So fundraising momentum remains strong. All our strategies are now getting very proven. They are third vintage, fourth vintage. If you see in the alternatives world, getting the third, fourth, fifth vintage is very important.

There are some funds which are in the eighth vintage and ninth vintage. But in private credit and real estate, there are very few funds which are in the third vintage and the fourth vintage, and we are already crossing that mark. So AUM has grown in EAAA at 21% CAGR in the last 4 years and profit has grown at 68% CAGR in the same period last 4 years.

The strategic update number 2 is on the WestBridge Capital investment in Edelweiss Mutual Fund. As you know, WestBridge Capital is acquiring a 15% stake in Edelweiss Mutual Fund for a consideration of INR450 crores. This is all in secondary. So the capital will come to Edelweiss Financial Services, which will be used to reduce our debt.

I'm very happy to say today, we have got the SEBI approval. We have got all the approvals now, and we will start the process of closing the deal in the next couple of weeks. So good news on that. We are very happy to welcome WestBridge. As you know, WestBridge Capital is one of the most respected and one of the largest India-focused one, and they are truly long term.

And as a few of you who have known us in Edelweiss over some time, one thing that we really like is having a long-term focus because we know that in India, thinking long term and executing long term itself is a strategic advantage because India tries everybody's patience, things take a lot more time, but there is a lot of growth and reward at the end of it. So on the Edelweiss Mutual Fund stake sale, good progress. The update for the quarter, again, good growth in profit, 15% Y-o-Y growth.

Profit after tax has grown. As you would have seen, all the underlying businesses have grown. The one healthy thing that has been there in this quarter has been healthy growth in disbursements in NBFC and our housing finance. Our NBFC is now at a very important point because the wholesale book cleanup is over.

I think after the first quarter, we have internally concluded that the wholesale book cleanup, whatever last 3 years, intense effort has gone into that, that is behind us, and now we are starting to give growth momentum to our MSME credit business. Almost all the MSME credit we do is qualifies for CLM.

So there is a lot of opportunity to sell down these books to the banks and really earn a spread on that. Our MSME disbursement has grown by 2.5x Y-o-Y in this quarter. So this quarter, we are about 2.5x what we were in the same quarter last year. Of course, we should remember last year was a very muted quarter for MSME business because of the RBI order that has come on our NBFC. Housing finance disbursement has grown 2x Y-o-Y. And in this quarter, we did INR564 crores of disbursements. So housing finance is now clipping along at about INR2,000 crores.

We are among the top, I think, 20 affordable housing finance companies in India. We're still relatively small. But even in spite of being small, we are already respected and known amongst the top 20 affordable housing finance companies. So here also, we want to see steady growth. I think the new turn in both our NBFC, MSME part and the housing finance is starting to happen.

The wholesale cleanup is behind us. As you know, in the NBFC, we are not going to do wholesale business. We have made that as discontinuing business. So focus on MSME and NBFC and affordable housing in -- no are the path going forward.

Insurance, as I've said, the profitability has improved in the sense have come down. And ARC also in last 5 years, we have consolidated. We have not acquired as much, but we've been resolving a lot. Even this quarter, there is a lot of realization that has happened. We have recovered INR1,225 crores in this quarter.

So we have been recovering between INR5,000 crores to INR10,000 crores every year from the old assets. But we do think now that we are starting to see acquisitions pick up. New NPAs are coming about. They are not those large corporate NPAs, but they are retail, housing, MSME and a lot of banks, a lot of NBFCs are selling small, small portfolios, but the ARC acquisition cycle for the industry is starting to pick up again.

We don't think for the next 3 years, it's going to be large corporate infrastructure loans like we had last time like steel and cement and power and road assets and all. But this will be mainly between INR20 crores to INR100 crores kind of assets and portfolios also between INR100 crores to INR200 crores retail portfolios. So those are the sizes of the deals that we will see.

I don't think we will see INR500 crores, INR1,000 crores, INR2,000 crores, INR5,000 crores deals in ARC acquisitions anymore for the industry as a whole. But in this quarter, in ARC, we acquired INR356 crores of retail assets. It has been one of the highest quarterly acquisitions we have done.

So we are acquiring retail assets. We'll also acquire small ticket corporate and MSME between INR20 crores to INR100 crores kind of loans. And we think there is a lot of availability of assets as we scan the market. Other than that, I think as I've spoken, we reduced the corporate net debt by INR2,200 crores, which has come down by 17% Y-o-Y.

Customer franchise continues to grow. We strengthened our balance sheet. Capital adequacy is pretty high, as you would see in one of the slides, and we have surplus liquidity. So with this, I will conclude my opening remarks. And as I have always seen, the question-and-answer session we have is always the more exciting part of this interaction.

So I'll stop here. There is a lot of information and data in the investor presentation that we sent out. You would have got a copy of that. I hope you have got a chance to go through it. And once again, thank you very much for participating in this, and we'll now open for questions from your side. Thank you very much.

Moderator: First question is from Hemant from YES Securities.

Hemant: I have a couple of questions. First set of question is on our general insurance business, sir. Given your low exposure to retail health in general insurance business, so is it fair to assume that recent GST rule change had a minimal impact? And if so, then are there any other factors for the losses, which remained flat Y-o-Y in Q2? And sir, pardon me, if I heard correct that we are on a track to breakeven in general insurance in FY '27?

Rashesh Shah: Yes. Thank you. You are absolutely right. As you know, our strategy in the GI business has been more focused towards automobile. It's a call we have made. Currently, obviously, last couple of years, retail health, especially post COVID, has grown a lot. It's very expensive. If you want to expand in retail health, we'll need more capital, which we don't want to spread ourselves well in. So our focus is on motor.

We have a group health part of the business. The recent GST changes don't affect our GI business in a meaningful way because a large part of that is auto. We do think over a 10-year period, we have a shot to be one of the leading auto insurance companies in India, and we are truly seeing this business for the next 10, 2035 and then 2047 when India is 100 years old.

And I know it looks like a big thing to talk about such long term. But if you look at most of the good insurance businesses, especially auto insurance like Geico and Progressive in the U.S., they've been built over 80 years, 70-80 years. So we are investing meaningfully in our motor insurance business.

The motor insurance business has slowed down in the first half. As you know, car sales were low. October has seen a significant pickup, and that is why growth and profitability is slightly more muted. Here, I must also add that overall also, I think we have shown good profitability.

We do think that first half, if you ask me, I would call overall, it's been a slightly muted profitability. We want to hope that the second half, our profits grow faster across the businesses in Edelweiss. And the second question you had was on profitability. Yes, we are pushing very hard, and we think we are on track to breakeven by FY '27.

Hemant: Sir, if I may ask another question on EAAA business side. So how is our EAAA business is uniquely positioned if we compare as compared to other peers in the industry? And in this quarter, your fundraise has tripled on the back of some innovative fund launches that you have mentioned in the PPT. And sir, going forward, are there any other strategies where we can see some innovation?

Rashesh Shah: So in EAAA, as I said, alternatives, so maybe I'll give a minute explanation of the alternatives have got 2 basic things, liquid and private market. Liquid alternative, you know all the AIF equity funds and even PMS is called alternatives. So there are a lot of liquid alternatives, which invest in the markets and equities and all that. And there are private markets.

Now in private markets, also there is -- there are growth strategies and yield strategies. Growth is usually private equity that we all know has been very robust in India. And yield is usually either owning real assets, which give you cash flow like office buildings and roads and on or owning or having private credit, which gives private credit loans to people, which also there a yield. So they are not equity led. They are yield-led kind of strategies.

So we currently are the leaders in the strategies in private market. And the reason is that the reason private markets exist is there's a lot of need for patient capital because not everything can be liquid every day, you can trade and do that. So a lot of private credit, a lot of real assets in an AI format can generate yield of 12%, 13%, 14%, 15%, 18% also depending on the strategy, and there is a huge appetite for that.

So the private equity in India started 30 years ago. I think private credit and real assets have started only 8, 10 years ago. So this is a new part of the alternatives business. We are the leaders in that. We started our first fund almost 15 years ago. So we've been focused on these yield strategies in alternative markets for 15 years.

We have scaled up. We are -- I think our AUM is one of the largest in India across the alternative industry. We have a lot of track record. And as I shared in the last 5 years also, we have raised -- because in this, there are 3 skill sets you need, ability to raise money, go to market and create funds and raise money, then ability to invest that, find the deals.

And third is also exit out of that because it's sometimes very easy to invest, but very hard to exit. Last 5 years from '21 to '25, if you see, we have done all 3 at scale. All 3 of them have actually had meaningful scale and we've been growing. And that -- as I showed, that business also is very back-ended profitable.

So after 8, 10 years is where the real profit starts coming in. So we have now hit that sweet spot. The other thing is a lot of -- in our strategies, it's not just investing money. We also need a lot of operating capabilities and workout capabilities. So we have a team. We have a whole company called Sekura. It's a differently branded 100% subsidiary. So Sekura is very good in operations management. We have people who have worked in 20 years, 30 years in power sector, in road sector who actually come and also operate and manage the assets that the funds acquired.

So we are -- it's not just a financial game. It's a financial operations game, and we have been one of the pioneers in that. And even today, we are the leaders in that. So that is why EAAA has been able to scale up. And we do hope that as this part of the industry becomes more well understood and well recognized, then obviously, there will be more competition, which has started coming.

You would have seen a lot of private credit funds have started in the last 3, 4 years in India. But along with that, there will also be a lot more awareness of this part of the industry, the alternative asset management, especially yield strategies in alternative asset management.

Moderator: The next question is from Kartikeya Mohata from Motilal Oswal Financial Services.

Kartikeya Mohata: So I have 2 set of questions, one for the AMC business and one for the life insurance business. So in AMC, so what do you see -- like is SIF can it basically disrupt the PMS business? That is one part of the question that I have. And with your equity book rising and your SIP book crossing a INR500 crores milestone, what are your future plans for expansion in this business? And will we see a better PAT yield in the AMC?

Rashesh Shah: Yes, absolutely. I think SIF is a new category. I don't think it will kill PMS because I mean, even ask the question that when there is a mutual fund available, why should somebody do a PMS because income tax-wise, the capital gains and all is much -- it's a lot more worse in a PMS structure than in a mutual fund structure. But I think different customers have different needs.

I think PMS, the need is always a very customized portfolio, very maybe concentrated portfolio, but also things assets are in my name. They are not getting pooled with anybody else. So it is my demat account, my assets. So even that itself is a big need. When we look at investments, even I for a long time used to look at all investment opportunities from 3 angles: risk, return and liquidity. as I've got older and I've got reasonably older in the last few years, I understood that there is a fourth angle to this also.

And the fourth angle is risk, return, liquidity and the fourth is also peace of mind because investments are also supposed to -- they are supposed to give you a return for a given level of risk and for a given level of liquidity, but they're also supposed to give you peace of mind. So things like PMS for the people who do that, PMS has a peace of mind element to that also, though it is worse from a capital gains point of view.

So I think it will continue. But SIF will start a new category. It will be -- and there will be some different strategies. It won't be the identical strategies to PMS or mutual funds. It will be a new category of strategies. There will be some new investors, but a lot of other investors, it will satisfy a different need. So I don't see AIF and mutual fund and PMS as just the same product in a different. I think they all cater to different needs for investors in different forms.

I do think SIF will grow. I think -- but it will grow over 8, 10 years. I think all these opportunities like even AIF started about 13, 14 years ago, InvIT and REIT are about 8, 10 years old. I remember the first InvIT came in 2015 or '16 or something. So a lot of these instruments will take 8, 10 years. Even now, we do think the awareness, even the research and everything on InvITs and REITs is still not very high. There are more and more REITs coming, more and more InvITs coming, but it's been 8, 10 years and still the awareness is at a very low level, which will grow. So the same way SIF will grow the way the alternative strategies have grown.

So I think we have to see all this from an 8-, 10-year horizon and then ask the question how they will grow. So I think they will grow a lot. I do think they will not replace PMS. And thirdly, on profitability, you are right. As our equity AUM is growing because one of the reasons our PAT yield is low is because of Bharat Bond, which was a great product, and we are very proud of it, but it was a low-yield product. It was a low profit yield product. In fact, it was almost under breakeven.

So -- but it did give us innovation. It did allow us to cater to a customer need, our distribution franchise. So now our equity AUM is growing. As you would have seen in the mutual fund, our equity AUM has grown from last year at about from INR59,400 crores to now INR77,000 crores. So equity AUM is the one that we are focusing a lot. It's grown 30% on a Y-o-Y basis. That is what we are very focused on, and that will improve profitably.

Kartikeya Mohata: Okay. Sir, also on the life insurance business, so your losses were flat year-on-year in Q2. So was this because of the GST rule change and the loss of input tax credit? Or -- and what is the estimated impact that we are expecting out of this GST exemption? And what are we doing to mitigate that impact?

Rashesh Shah: So yes, you're absolutely right. I think there was a GST impact on the PAT of that business. I think for the life insurance business, GST has been an impact. It will hit the bottom line of all the insurance companies, all the life insurance companies. We are doing a set of things to mitigate it. Maybe for the next 3, 4 quarters, we'll have to do a little bit. But we are working on a lot of drivers.

I don't want to at all the drivers that we are using in terms of things we are doing to mitigate the GST impact. I think the whole industry will have to look at everything from product portfolio to distribution cost to in-sourcing versus outsourcing, all of that to just offset the GST hit on to the life insurance companies. We will be big, and we are working on mitigants, and we are fairly confident that given our size and scale, we should be able to mitigate that in the next few quarters.

Kartikeya Mohata: So just squeezing in one little question. So are we still confident about breakeven by FY '27 for the life insurance business? Or will this get a little delay?

Rashesh Shah: Yes. Yes. We are still working on that and the management team and all are deeply committed to that. See, again, we should understand in the life insurance business, at this scale at which we are, part of the profitability is also a choice because it's also how much growth investment we are making, how much growth we are pursuing.

So calibrating that, we are not giving away growth. So our approach has been profitability for a certain level of growth. If you grow much faster, your profitability will get worse because insurance is an upfront cost. So for a given level of growth we have, we want to grow slightly faster than the industry growth rate and still get to profitability. That has been our internal stated target on that.

Moderator: Next question is from Rajiv Rangwani from HDFC Securities.

Rajiv Rangwani: For the corporate net debt reduction plan, which you have indicated, you have indicated expected inflows of around INR2,000 crores to INR3,000 crores from the stake sale in the next 3 years. So apart from EAAA or the mutual fund fees, any other businesses which you are considering for stake dilution? And if you could give some indication on how much you can expect from these transactions?

Rashesh Shah: Yes. So we are -- as I highlighted in my opening speech also, we are also looking at now bringing in a private equity investor in our housing finance business. So in the housing finance business also, we are -- because as you know, ours is affordable housing finance, we are currently disbursing about INR500 crores a quarter. That is what we did. So now as the U-turn is happening, I think that business can take a little bit of capital injection also, equity injection and getting a good partner investor will be a good thing.

So we are open to that. We think the right time for that will be post March of 2026 when this is very well established and the scale-up has happened. But we will definitely in the next 6 to 8 months, look to do some transaction in the home finance company also. So I think the INR3,000 crores we have indicated are currently being planned across these 3 businesses. We have optionality in other businesses also where we can sell stake and raise money. But currently, these are the 3 opportunities we will work on, EAAA, AMC and housing finance.

Rajiv Rangwani: And sir, in case for some reason, if the things get delayed or it doesn't materialize, then how does it affect our financials and the debt reduction target?

Rashesh Shah: So as you know, we have other levers. So like currently, we are selling only 15% in the mutual fund. We can always sell more. We have interest in our insurance companies also. So since it's a 3-year target, even ARC is now -- as you would have seen, ARCIL has filed for IPO and is going IPO, and it's almost the same size as ours. So we have options on that also. We can do an IPO, we can do a stake sale in ARC business also.

So we have options. We also have, as I've shown, INR3,000 crores of investments in office building and all. So even our own office building, only half is used by Edelweiss. Other half is now used by third parties. As we have unbundled a lot of our business we started with Nuvama, but even our insurance businesses don't operate from Edelweiss House.

And a lot of our -- as the unbundling has happened, a lot of our businesses don't feel the need to be in Edelweiss House and they can be either in a cheaper place or closer where they can get more space because there is also only so much space available for expansion in Edelweiss House.

So half of Edelweiss House is now also leased out to other third parties and all. So -- and we have that also. So we own Edelweiss House, we own, we count. So we have other assets also. We have other investments also. We have almost INR1,000-odd crores of investments in property. A few of these we did to give liquidity to NBFCs where we bought their assets, which are all fairly well priced, but there is a lot of liquidity that can come from there. So we have options, except that's how do we optimize also.

Moderator: Next question is from Aman from Dolat Capital.

Aman: I have 2 questions. First, in EAAA, while fundraising has surged, what's -- the ARR AUM has just grown 7% Y-o-Y. Could you help reconcile this difference and share your outlook on ARR AUM and PAT growth over the next 3 to 5 years? And second is in No, disbursements in Q2 have doubled Y-o-Y.

Can we expect this quarterly run rate to sustain? What is your guidance on disbursements in the medium term? We have earlier stated that you're planning to achieve double-digit ROE by March '26. Are you on track to meet the target? And what are some of the key metrics for profitability improvement in this business?

Rashesh Shah: Okay. So I think first on EAAA, it's a good question. We have raised money. But you should remember, not all the money we raise automatically goes into ARR. There are some strategies where we get paid only on deployment basis. So it starts earning money when it is deployed. Also, as you see, we also exit because in yield and this thing, our investors also want cash flow back. So these are not strategies which are liquid for 8, 9 years like a venture capital fund or a private equity fund, where there is no flow back to investors until 8, 9 years.

A lot of our funds, a lot of the interest coupons that we collect, the income from those assets and others that comes to the fund is also paid out to the investors. So we are paying it also every quarter our yield strategies, and that is what I was trying to explain in an earlier conversation, yield strategies also are important because investors want the money back. But yield strategy also means that your ARR AUM also goes down every time you repay the fund investors.

So we have -- obviously, given the liquidity conditions in India, first off, there have been a lot of exits. We are not unhappy about exits. I must say that exits are good because exits also give us confidence of getting back the money and getting the returns that so every time an exit happens, the ARR AUM comes down.

So our idea is to maintain growth in ARR AUM at about 20% or so and manage growth in profitability at about 25% and keep an ROE of about 30%. So that is what our internal target is. 20% growth in ARR AUM because even when we raise money, we also return money. So 30% growth in ARR, 25% growth in profit and 30% ROE is what we would like to target in that business.

Moderator: Aman, would that be all?

Aman: And in NIDO also, the second question.

Rashesh Shah: Yes, sorry. So NIDO, you are right. I think we are scaling up. Our current year target is between INR2,000 crores to INR2,500 crores of disbursements. But again, we'll be careful. We don't want to be -- become the victim of guidance we have given and disburse at any cost. We are hypersensitive to asset quality and the kind of business we want. Nido also needs a little bit of investment in technology and all as we scale up.

So we'll also prioritize those investments and if a little bit of disbursement scale up is muted, we will look to do that. We are looking at about INR1,500 kind of run rate on MSME credit. Both of this will be a good achievement if we can hit that run rate because the real growth is in FY '27 for both these businesses. Right now, we are in the U-turn mode. But once this U-turn happens, you can actually grow a lot more calibrated.

Moderator: Next question is from Prabhav Shah from Equirus.

Prabhav Shah: So my first question is on EAAA. So you have given a guidance that IPO will be around April 2026. So like when are we planning to refile the DRP? And what is the valuation range that we are targeting? And another way, like are we planning to do any placement...

Rashesh Shah: So, I don't want to do the job of good investors and good analysts. I want to leave it to them. So as you can see, our job is to grow the business. As you can see, the profitability on EAAA is also there for everybody to see. We are currently keeping along at about between INR65 crores to INR75 crores a quarter. So that is our current profitability, profit after tax for that business.

So you can impute you can extrapolate and say that for this kind of business with this kind of characteristics, asset management business to do a valuation. So I don't want to opine on that. We will obviously talk to our bankers and all that. But why us trying to speculate on that. I think all of you are very smart investors. We can calculate the range and see what we do.

On IPO, yes, we are aiming for April IPO still and all the work is in progress for that. We'll work back. As I said, the reason for April also was that we wanted to make sure our growth is not hampered. There is a lot of fundraising that happens in the fourth quarter. All our teams are out on the road. We're also doing exits.

So as I said, we are raising money, we are investing money, and we are also creating exit even the last quarter was very good on the exit front. And as I said, every time you exit your fee comes down. But every time we exit is also good for your investors because you have realized the investments that are there and money. And actually, that is what is very important. For those of you who follow the alternative industry, investors don't look at only IRR. They look at another thing called DPI, which is the distribution per investment.

How much money have we given that? If I give you 18% IRR, but I give you money after 8 years, it is a very different DPI. And if you ever talk to the investors in alternative funds, they are very unhappy DPI is low. We have strategies which have pretty high DPI. So we return money to investors also on an ongoing basis because these are all yield strategies, and that is why keep on reemphasizing that yield is actually very important. So I think a couple years, we will continue with that.

Prabhav Shah: I have one more question on AMC business. Like first of all, congratulations on the deal with Capital. It is a great partner given its track record. So like how do you -- like you mentioned before as well, like how do you see them as value to the business? And if you can also share much more detail about future growth plans for this business? And are you planning to do any further stake sale in AMC?

Rashesh Shah: So again, on the stake, as I said, we have multiple levers that we put. We are trying to carry out a balancing act between the desire to reduce corporate debt, but also the desire not to try and sell stakes too prematurely and because we also want to create value the value created by our business.

So it's a balancing act. We have a broad agenda. We have broad objectives. And then as I said, within those broad objectives, we are fairly open between whether to do A or B, and we'll keep on tweaking that around. On the West Bridge front, good question. Best is actually even the price that we agreed, we were always very clear. And as a joke, I keep on telling West Bridge that this is a price only for them. They are truly a very high-quality investor.

As all of you know, they are not a very random investor who invest in 100 companies. They are very focused. They add a lot of value. Even up till now, interactions have shown us that they will add a lot of value. They understand this space. They are very long term. And they also don't want to a quarterly compromises just to show increase in valuation and exit and all that. They want to truly build the business.

So there is a huge overlap and of objective and cultural approach to building the business. Again, as I said, maybe it's -- I'm too old to say that. But all these businesses, the real enjoyment is when you build them over 20, 30 years. We should not forget that good businesses like HDFC Mutual Fund and all are more than 20 years old, they are 20 years old now. And even now they are creating enough value for all the stakeholders.

So I think businesses take time and having a partner like WestBridge who truly thinks also long term and we want to build the business. So they have said we'll not put any pressure on exit and all that. We'll exit when it is the right thing for all stakeholders, for business, for the investors, for all of that.

So all that has shown us that I think it will be a good partnership. And we are selling only 15%. So we still enjoy a lot of the growth there. And they will also add a lot of value to strategy thinking about the business. They also have invested in a wealth management business called Funds India, which could also strategically be a mutual fund going forward.

Moderator: The next question is from Shriyansh from IIFL Capital.

Shriyansh: So just a question that we have been hearing that there are some ongoing discussions for the stake sale of NIDO, which is in fairly advanced stages. So would you please share some details on it?

Rashesh Shah: No, I wouldn't say there are a lot of conversations in advanced stages. As you know, I mean, we know quite a few good quality investors, PE funds. A few of them have been speaking to us. We keep on interacting, exchanging. What I'm currently disclosing is our intention to do -- because we have always formally spoken about our intention to do a stake in the mutual fund and EAAA. We have not spoken about it. I think NIDO, we have an intention now to get a PE investor, get a partner who can help us grow the business, maybe increase some capital in the business. But it's still early days.

And as we have said, as and when anything is finalized, we'll immediately inform the shareholders and the investors. But we intend to do that. And we have -- I think there is a fair amount of interest that we have seen and we have interacted. So now we just have to go forward and get that to logical. But in the next 6 to 8 months, our desire, our intention is to also do stake sale in NIDO.

As I said, we are keeping our options open because amongst all the businesses we have, we have -- one part of our objective is to reduce debt and the other part of objective is to make sure that we are not randomly selling stakes, but we are getting in good investors who can help us build business and build really great value going forward.

Moderator: The next question is from Sanket Chheda from DAM Capital.

Sanket Chheda: So I had a couple of questions. First was on ARC. Despite slowdown in acquisition, you have managed to maintain a stable credit supported by recoveries. So what's your planned guidance going forward and any strategic initiatives that you plan to boost acquisition and diversify revenue streams?

Rashesh Shah: So as I said earlier, in ARC, the acquisition cycle is starting again for the industry, not just for us. And as you know, the last time the acquisition cycle started around '14, '15 and was on until '18, '19. Unfortunately or fortunately, ARC is a deeply cyclical business. It has 5, 7-year kind of cycle of acquiring assets and then 5, 7 years of dissolving assets. In a deeply cyclical business, you can't use a lot of borrowed money.

You have a lot of equity, which is how our business has been funded. If you can see a lot of equity, hardly any borrowing. So I think now we are starting to see acquisition. But again, the last time acquisitions were large corporate accounts between INR200 crores, INR300 crores exposure to 5,000, 10,000 even as large as Essar Steel, which was almost 40,000 exposure of the banks.

So I don't think we'll have large corporate NPAs, large account NPAs, which has a different go-to-market strategy, which has a different resolution strategy. The other part of the market is the retail market, which is where you buy portfolios. There, we have been pretty active. There also, we have focused mainly on the secured portfolio, home loans and others. We don't do a lot of unsecured part of that, which is also a different kind of business.

Now the third category that is opening up, which is what I call the mid-market corporate or the SMEs, which is between INR5 crores, INR10 crores account to INR80 crores, INR100 crores exposure in that range. And that we are starting to see a fair amount of availability of assets in the market. your cost structure, your go-to-market, your regulation strategies are slightly different. We are rejigging our skill set. We have the core skill set, but we have to a little bit retrofit back to go to the market for that.

So I think by April we will have all the ingredients to start. I mean we're still acquiring we acquired retail portfolio. So I think the third category, the small ticket, mid-market as well as MSME is where we are seeing some amount of opportunity, and we will definitely want to capitalize on that.

Sanket Chheda: Sure. Perfect, sir. And the second question was on NBFCs. You mentioned in your opening remarks that disbursements in Q2 in MSME, I think has jumped 2.5x Y-o-Y. So just wanted to check this momentum continue? And what's the guidance on the disbursement policy business is taking a pivot from wholesale to retail. So how is the progress what are the key levers that shift?

Rashesh Shah: So NBFC, it's not a pivot. We have discontinued the wholesale business and only the old book is getting run down. The current focus is on growing MSME. So we have done a disbursement of INR168 crores for this quarter, which is the same time last year, we had done about 1/4 of that or 1/3 of that.

So there has been good growth in that. As I said, we are targeting about INR1,000 crores, INR1,500 crores kind of run rate by the end of the year. What we do is mainly PSL kind of MSME loans largely secured, 80% is secured, very small unsecured. We do it with co-lending. As you can see, we have a lot of capital adequacy in this business. The NBFC capital adequacy is now at 33.5%. Our borrowing is low. Debt to equity is only 1.2x. So we have a lot of capacity to grow. We are slowly doing it.

We have just -- on April 1, we had a new Managing Director of that business, Mr. Ajay Khurana. He was earlier ED of Bank of Baroda and has more than 40 years' experience in the banking industry. So now we are building that as an MSME. And there also our desire is to be one of the top 5 or 10 MSME NBFCs in the country. It will take time, but we have made the return. We are starting to make investments in that. We have equity for that, so we don't need to raise equity. And the wholesale part is behind us. The wholesale part was a drag.

So now the only drag in our whole structure is the corporate debt also, which we have spoken again and again, and we're also reducing that drag because I think the tailwind of growth is there with us. We have some drag factors which are there. And our idea is to reduce the factors so that the growth momentum and the tailwind can give us the full upside opportunity.

Moderator: We'll be able to take one last question. The last question is from Sujal Chandaliya from Wallfort PMS.

Sujal Chandaliya: Just a question from my side. We have observed FIs reducing exposure to Indian equities in favor of other emerging markets, while DIS have increased their holdings. We have also seen uptick in DIS shares, while a few of the FIs have somewhat pared down their stake. Could you please share your perspective on this trend?

Rashesh Shah: Yes. As you know, if you compare Indian markets to, let us say, even U.S. markets on the last 5-year basis on a dollar-adjusted basis, it's not that the Indian markets have done badly, it's that U.S. markets have done equally well. So we have seen a lot of money going back because investors are saying if the returns are identical, then why go to India, we can invest in the U.S. market. U.S. markets are doing well.

So FIs have been reducing, but we have a good counterbalance. I think our local money -- and by the way, in all equity markets across the world, largely, if they are driven by local money, they are very stable. If they are driven by foreign money, they are highly volatile. So as you know, our markets used to be very volatile when the foreigners in and out used to happen.

Now there is a counterbalance to the in and out, which is the local equity. There is a local household savings coming, SIPs and all have become pretty big. SIPs themselves will be almost INR4 lakh crores this year. So given all of that, I think there is a fair amount of stabilization coming in. It is a trend.

Of course, as emerging markets come back in fashion and as U.S. markets go out of fashion, this flow will come back. And it is actually good news. In fact, I'm in a way happy because our markets are exiting, I think, fairly well, fairly valued. There is -- all these IPOs are happening, they're getting a lot of capital.

So there is enough capital that is there. Too much capital chasing stocks from both India and foreign money could also lead to unnecessary bubbles and euphoria. So I think this is a good time. In India, I think the key thing to watch for is the earnings come back, corporate earnings.

We are starting to see some upgrades happening, which is good news. But we hope that FY '27 will be a growth back of corporate earnings in India and that corporate earnings on the back of that, then you should not care whether money is coming from India or overseas.

Moderator: We'll take that as the last question. I would now like to hand the conference back to Ms. Priyadeep Chopra for closing comments.

Priyadeep Chopra: Thank you all for your time today. It's been a joy to have you all and listen in to your insightful questions. Like we've always said, your questions and feedback always get us to think and plan forward. Please do write to us at Edelweiss Investor Relations for any other questions, feedback or any additional information you may need. Thank you all. Thank you, Rashesh. Have a great day.

Rashesh Shah: Thank you. Bye-bye.

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