

Edelweiss to list 7 firms, slash debt

Anirudh Laskar & Satish John

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Edelweiss 3.0 is taking shape with plans to list seven businesses on stock exchanges, eliminate all debt, and kick off a new business venture, the eponymous financial services group's top executive said.

The plan will unbundle multiple entities and remove the "crisscrossing of spaghetti wires" across its subsidiaries, founder and chairman Rashesh Shah said, even as financial conglomerate remains under regulatory scrutiny over various violations highlighted in May.

This third phase of the group's journey, Shah said, will focus on efficiency and not chase "high growth". The first phase of 11-12 years focused on building capital, while the sec-



Rashesh Shah, founder and chairman, Edelweiss group.

ond was all about using that capital to build an NBFC (non-banking finance company), a housing finance firm, and an insurance company, among others, before building more capital-guzzling businesses.

"It allowed us to grow very fast, but it came at the cost of

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IPOs, zero debt, new business cooking: Edelweiss' Shah

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efficiency. I think it was a good move, but we didn't do it smartly," said Shah, adding that the group will now focus on smart capital allocation, execution and efficiency, and focus on investing in "building leaders".

Edelweiss 3.0 will move into execution mode in 2026 with the initial public offering (IPO) of its mutual fund arm (Edelweiss Asset Management Ltd) and its alternative asset management subsidiary (Edelweiss Alternate Asset Advisors Ltd), each at a \$1 billion-plus valuation.

Thereafter, the group will look to list its housing finance business (Nido Home Finance Ltd), the asset reconstruction business (Edelweiss Asset Reconstruction Co. Ltd), and the NBFC arms (ECL Finance Ltd and Edelweiss Retail Finance Ltd), said Shah.

The two insurance subsidiaries, Zuno General Insurance Ltd and Edelweiss Life Insurance Co. Ltd, will be listed last after they achieve profitability.

Justifying the need to list each business, Shah said Edelweiss has become more like a nuclear family, where each "kid" has its own apartment, house, kitchen.

"We have to build institutions now. We need leadership, culture, and capital efficiency processes at that level. I think this current plan is up to

2035," said Shah.

Aside from the seven listings, the group will repay its debts and enter a new business. This year, the group plans to sell stakes in various firms to pay off ₹6,000 crore of its ₹12,710 crore debt, Shah said.

Completing the plan will be a new business to be launched by March 2025, although Shah fights shy of sharing details, saying Edelweiss is "good at building (businesses) like the mutual fund and the alternative asset ones".

In May, the Reserve Bank of India (RBI) imposed business restrictions on two Edelweiss group entities, including its asset reconstruction company, after supervisory examinations unearthed several malpractices. The regulator RBI ordered ECL Finance and Edelweiss ARC to cease and desist from undertaking fresh activity with immediate effect pointing out evergreening, circumventing rules and lack of corrective action.

Shah said that Edelweiss group is moving away from a holding company structure to an investment company, whereby each business would be linked to what returns it is making for shareholders. Currently, the holding company of the group is Edelweiss Financial Services Ltd (EFSL).

"Edelweiss Group's approach focuses on lowering debt, enhancing asset quality and carefully fostering new



Edelweiss 3.0 will move into execution mode in 2026. MINT

business ventures, which has moderated its growth rate," said Rajendra Srivastava, executive director, Centre for Business Innovation, ISB.

Srivastava added that the group's strategy centered on sustainable growth and long-term value creation, and avoids the pitfalls of short-term profit chasing. "This careful advancement is essential for maintaining stability and remaining competitive in the unpredictable financial services industry," said Srivastava.

However, even as Edelweiss looks to move into a different gear, a few things are still messy, including certain restrictions by the banking regulator on two of its group companies.

CARE Ratings reported on 8 October that the group's ratings are on 'Rating Watch with

negative implications' due to restrictions imposed by RBI on two EFSL subsidiaries—ECL Finance Ltd or ECLF and Edelweiss Asset Reconstruction Co. or EARC—citing material supervisory concerns. The RBI will review these restrictions after corrective actions are taken.

The regulator has instructed ECLF, which is into MSME lending, to stop structured transactions related to wholesale exposures, except for normal repayments or account closures. It has also directed EARC, India's largest asset reconstruction firm, to "cease and desist from acquiring any financial asset" until further orders, including security receipts (SRs), and to refrain from reorganizing these into senior and subordinate tranches.

However, CARE Ratings said in its report that it does not expect a material impact on recovery efforts and resolution of the existing portfolio to be managed by EARC, which would continue normally. "As stated by the management, EARC has submitted remedial actions to the regulator; however, the latter's response is awaited. EARC mentioned that operations will be aligned with regulatory expectations, wherever needed," the rating agency said.

"These issues are being sorted out. The RBI inspection is going on. It takes about 5-6 months," said Shah, adding that the regulator has not said EARC can't continue recovery. "We can't buy more assets, but we've been anyway not buying," said Shah, terming ARC as a deeply cyclical business.

He said banks, which were burdened with NPAs seven years ago, no longer have too many bad assets. "Stressed bank assets are not available at the moment, and the next cycle of growth is yet to come," he said.

Shah said EARC has recovered about ₹58,000 crore in the past seven years, and ₹1,300 crore in this July-September quarter.

Shah believes the ARC business, whose AUM (assets under management) stands at ₹29,900 crore as of this June, and has a capital adequacy ratio of 64%, may continue to be in recovery mode now, and

the next growth cycle may come only after 3-4 years.

"People have cleaned up the past, but once the corporate capex cycle starts and all that, some NPAs would come in the market," said Shah.

Edelweiss focused on two kinds of assets for the ARC business. "One is where assets were very good, but the promoters were stressed. And the other, where assets were stressed but the promoters were not," said Shah, while

stating an example of one such account of Gautam Thapar-promoted Ballarpur Industries, the largest paper-maker company in India.

"...The banks had withdrawn the working capital. It had ₹3,000 crore of debt and zero Ebitda (earnings before interest, tax, depreciation and amortization). They were working at a capacity utilization of 18-20% only, just covering costs. We acquired the debt. There were some 18 banks. We also gave them additional working capital of ₹200 crore. The capacity utilization went up to 88% and the company is making an Ebitda of ₹1,500 crore," said Shah.

He expects EARC's profits, which are currently growing at 6%, to continue to grow.

At the same time, Shah said

Edelweiss's general insurance business is growing at about 40%, the life insurance arm, about 18%, mutual fund 25%, and the alternative asset management arm is growing at 28%. "Growth is not a challenge, but for us, efficiency matters more," said Shah.

While Edelweiss will list the mutual fund and alternative businesses first, it will wait for the housing finance arm to become big enough to be listed. "It's well capitalized, but

it's still a bit small," said Shah, adding that the business has about ₹3,000 crore in AUM now, and it can be spun off once the AUM is ₹8,000-10,000 crore, which will

take another three to four years.

Srivastava of ISB said that to reinforce its NBFC and emerging insurance subsidiaries, Edelweiss Group should focus on bolstering their financial backbone through strategic capital infusion and sophisticated risk management strategies, adding that Edelweiss should innovate their product lines to include more tech-driven solutions.

Even while planning a new business venture, which is likely to be digital-heavy, Shah intends to clear all the group debts fast.

Shah said the MF and alternatives businesses are now profitable and scaling, and will list in the next two years