Edelweiss Financial Services Limited

Q2 FY27 Earnings Conference Call

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Moderator: Ladies and gentlemen, good afternoon and welcome to the Second Quarter FY27 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, Rayo, and a very good afternoon, everyone. A very warm welcome to our earnings call today. We have on the call with us Rashesh Shah, Chairman of Edelweiss, Ananya Suneja, CFO of Edelweiss Financial Services, and Shanai Ghosh, who is the CEO of our General Insurance Business.

We hope you have all had a chance to review the investor presentation that we filed earlier today. This quarter, we have also filed an in-depth presentation on Zuno General Insurance, and during the discussion, we will be making references to it.

Please do take a moment to review the safe harbor statements in our presentations. We will be making some statements today that may be forward-looking in nature and hence may involve some risks and uncertainties.

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

Rashesh Shah: Thank you, Priya, and a very good afternoon to all of you, and again, a warm welcome on this earnings call for the quarter and the six months ended September '26. Good to have you all back with us today.

First, a couple of words on India. Obviously, in the last quarter since we spoke, a lot has changed in India, though a couple of weeks ago, it looked like India was unfavorable, not a great global market to invest in.

But last two weeks have shown that India can come back, and when it comes back, it can come back pretty fast. Just keeping stock market aside, I think India economy has been doing well. The first half has been good for corporate earnings, for growth. We are seeing fairly robustness in the economy.

In spite of the high oil price and the monsoon and all, it just again reminds us that India is a very adaptive economy. It is very hard to say how we adapt, but when something is not working, like oil price went up, our import bill went up, but the gold imports came down, and somewhere the invisible adjustment keeps on happening.

So we, Edelweiss, call it an adaptive economy. I think India continues to adapt. We obviously still not growing at our full potential, which we think is at least 10%-11%, but I think maintaining

a 7%-7.5% growth looks very possible. I think the adaptive, resilient India allows us to do that. If we do some more effort and deregulate and take away the frictional things in our economy, I think we have an ability to grow even faster.

But in Edelweiss, we think even 7.5 is good enough. Not great, but good enough for all of us to continue to grow. A lot of Edelweiss future growth hypothesis is based on that. We think over the next 8, 10 years, India will maintain this growth.

We will be unfavorable at times, very favorable at times, but in the middle of it, our economy will keep on compounding away, plugging away in this very chaotic, adaptive manner. For Edelweiss, on Q2, we have moved forward on almost all the areas that we had promised.

Our consol PAT after minority has increased by 50% Y-o-Y to INR193 crores. Our operating businesses, we used to have seven operating subsidiaries. Now that Nido has stopped being an operating subsidiary, it is now because we have given away controlling stake to Carlyle, we now have six operating subsidiaries.

They continue to witness very healthy growth, led by asset management businesses. EAAA has grown by 27%, the profit at INR88 crores. Mutual fund has had a good growth. Their profit has more than doubled to INR37 crores.

Our insurance business, Zuno, has reported its first profitable quarter. We have my colleague, Shanai Ghosh, who is the MD and CEO of this business. She is also with us on this call. We have filed an addendum because a lot of the investors and analysts have expressed curiosity to understand more about this business.

After my opening remarks, I will hand over to her, and she will also speak a few words on the Zuno business and the GI opportunity as we see it. Obviously, she and I will answer all the questions that you have in the Q&A part of this call. Our customer franchise continues to grow.

Our total customer reach is now about 15 million customers, which has grown by 24% YoY. Our customer assets are about INR2.9 trillion now, which is also up 24%. In the last quarter, as we have done in the last few years, we have strengthened our balance sheet. All our businesses continue to be well capitalized.

One piece of very good news, which is very heartening, is the wholesale SR book in ECL Finance. ECL had some stressed assets. When they sold the stressed asset, they got the SR, the security receipt out of that. At one point, it was more than INR5,000 crores, and this was always the point of, it was dragging down their balance sheet and their P&L.

Happy to report that now that book has become zero, and the wholesale book, which was INR18,000 crores, is now also almost close to zero overall in ECL Finance. So ECL now today has become truly an MSME-led business, and we are growing pretty well on the MSME side, as you would have seen.

All our operating businesses have actually executed well. They have delivered well, thanks to our customers and all our stakeholders whose support we have had. We also completed two

important transactions, one in Q2 and one after Q2, but it is important, so we will speak about it.

We first closed the Carlyle transaction with Nido, and now Carlyle has become the majority partner. They will infuse almost about INR1,400 odd crores into the business in two tranches. At the end of both the tranches, we will own 26%, and they will own 74%.

We remain very positive. The equity of the business will go up from INR800 crores to close to INR2,400 crores in the next 18 months. At INR2,400 crores, it will be a very well-capitalized affordable housing finance company. The other important transaction, our EAAA alternative asset management business got listed about a couple of weeks ago.

We got very strong response from institutional investors and quite a few marquee clients, both onshore and offshore. Both of them have actually allowed us to partly monetize our stake in that business, which we wanted to do to reduce our debt, but also allowed us to strengthen those businesses and institutionalize those businesses.

In Nido, with the strengthening of the balance sheet and the coming in of Carlyle, you will strengthen. There is a strong board. Even Aditya Puri has been a personal investor in that transaction.

We hope that with all that coming in, Nido will continue to grow. EAAA, along with listing and getting us the stake monetization objective, it will also allow EAAA to become more institutionalized. There will be an added level of governance to that, which will get added as a listed company.

Since we focus on managing third-party money, both HNI, Indian, as well as global institutional clients, that added oversight and added governance is a big plus for us. Both our insurance businesses remain on track to be profitable. Zuno has already turned profitable in the first half. ELI will also become profitable.

Overall, MSME continues to grow well. MSME AUM has doubled in the last one year. The MSME book size is now INR2,145 crores. We are slowly and steadily growing that business. There is a lot of detail about EAAA, fee paying, AUM, mutual fund. Our ARC business also has started growing again.

We are seeing some NPA which are getting sold by the banks. We have increased our retail percentage in the total assets in the first. In this quarter, we also acquired about INR600 crores of assets, which is pretty good, because that means an annual run rate of more than INR2,000 crores, which is a big step up.

ARC also started growing again. To sum up, basically, our first part of our P&L is our operating business PAT, which has grown pretty well, and which has been very heartening to see that. Our operating businesses PAT is the key engine for our future.

They are now, with the insurance businesses becoming profitable, the operating business cumulative PAT is going to be a strong engine for growth. Our consol PAT will grow along with

that. All our businesses have had healthy growth, as you would have seen in the presentation that we have put out.

The two important transactions got done. We continue to focus on the things that we are focused on the long term, which is growth, create value, but also build a very strong institutionalized platform where people can excel and also have fun. Because one of the part of our culture is that while we are creating value, we are also growing and having fun and helping each other grow and have fun also. That remains part of our culture.

I'll just hand over to Shanai Ghosh for speaking a few words on the Zuno Insurance and the GI market, and then we'll open it up for Q&A. Again, thank you, and over to you, Shanai.

Shanai Ghosh: Thank you, Rashesh. Good afternoon, everyone. Rashesh has already shared my big news, which was that we've turned profitable. I lead with that, and usually I would have led with the industry, but this is a very important milestone for us, so I lead with that. We've turned profitable. What's particularly heartening for us is that this has come on the back of very, very robust growth.

We've grown GDPI at the rate of 51% and GWP at the rate of 49%, which is in excess of 4x of the industry. The industry, if we look at the private GI industry, is growing at 12%. In addition to this, our growth has been particularly robust in our area of focus, which is motor. We've grown at 69%, while the industry has grown at about 12%.

Even if you look at OEM as one of our big channels, if you look at that, even in that, our numbers for new business growth is 37% against a 22% growth in sales. All in all, this profitability has come on the back of two big things is, one is growth. You all know that growth comes with a sort of penalty in the current accounting standard because the cost is upfront while the earning is amortized.

The second thing that I would like to highlight is that this growth, the turn towards profitability is also structural. We've seen a reduction in our COR, almost a 10 point reduction from about 128 last year the same time, 218.

A lot of this reduction has come on account of the expense and efficiency and the operating leverage that we believe the operating model, the digital operating model would deliver, and it is delivered, it's becoming visible in this year. It's also important to highlight that our EOM, which is a point of contention and it's a much debated topic, was 34.1 last year.

It's come down by another three, almost three percentage points to about 31.6. Obviously, it'll continue to improve as the volumes grow. This is a journey that we've taken from, which was about 46%, about four years ago, to almost 30. We closed last year 30.5. We've demonstrated the ability to deliver the operating leverage that we set, and that is what is playing out along with robust growth. This is about Zuno.

As far as the industry is concerned, the industry growth has been more or less consistent and range-bound in the 11%-12%, despite any other changes, regulatory or otherwise. But having said that, the fact is that the headroom for growth is very, very significant.

At around 1% of GDP for non-life insurance premiums, we are still one-fourth of the world's average. At about $25, we are still about 5% of the per capita premium average for the world. Like I said, the headroom for growth is significant, so the opportunity is huge. This is just from the perspective of penetration and per capita density. If we go further and look at segment-wise opportunity, even that is huge.

Even the largest, one of the largest segment, at least the largest segment for GI companies, motor, still has 50% underinsurance and non-penetration across various vehicles on road or registered vehicles. So, we believe that the industry continues to hold tremendous growth opportunity.

We believe that the industry still has some problems that need to be solved, which a digital native insurer with a lean operating model like us can solve. Lastly, there are market and regulatory shifts which we believe favor in models like us, which are digital and efficient.

Thanks. That's all from me for this time.

Rashesh Shah: Excellent. Thank you, Shanai. We can now open it up for question-and-answer to the moderator. Can you now start the Q&A?

Moderator: Yeah, sure. Thank you very much. We will now begin the question-and-answer session. The first question is from Maulik Chaudhari from Monarch Networth. Please go ahead.

Maulik Chaudhari: Hello, sir. Am I audible?

Rashesh Shah: Yes.

Maulik Chaudhari: Thank you, sir, for taking up my question. I have a couple of questions. First, congratulations on the successful completion of your EAAA IPO. I just wanted to know that post the IPO, EFSL holds around 84% stake. How should we think about the ownership roadmap from here on? That is my first question.

Second question would be, our overall mutual fund yield has improved by 5 to 6 basis points year-on-year to 25 basis points this quarter. Can you throw some light in which categories we have seen this improvement and what is our midterm target for the yield? These are my two questions?

Rashesh Shah: Can you repeat the second one again? There was a little bit of static and I did not hear it clearly. I am sorry.

Maulik Chaudhari: Oh, okay. Our mutual fund yield has improved by 5 to 6 basis points. We just wanted to know that, which category we have seen this improvement and what is our midterm target for the yield?

Rashesh Shah: Okay. On the first one, we own about 84% of EAAA. We don't intend to dilute any more in the near future. Our idea for EAAA listing was, of course, to get some asset monetization, but that was not the primary reason. Our primary reason was to get this business listed, which we think has a potential to become the leading asset management, alternative asset management franchise in India.

By getting it listed, we can also use employee stock options as a way of rewarding our long-term employees, so our long-term compensation can have ESOP element. It allows the platform to be institutionalized with an added level of oversight, governance, and we think wherever you're managing third-party money, it is good to be listed so that there is a lot more transparency. I think that is the idea in EAAA.

We don't intend to sell any more of our stake in the near future. Obviously, there is the minimum public holding requirement over three years, but three years is pretty far away. For the next at least a year or so, we don't intend to sell any shares at all. Ideally, we would like to hold as much as possible.

We have some ESOPs also, which when they get converted, will also meet the minimum public shareholding requirement. So we are just, I think, playing that in that way. On the yield side on mutual fund, yes, there has been improvement in yield. Part of that has come from the product mix, because we have some products where yield is higher, which have also taken off well. Part of it is we have also rejigged some stuff.

We are currently at about, if you calculate the overall yield, on the equity side, we are at about 38 to 39 basis point. We think over the long term, we can get to 45, but we are not in a tearing hurry. We are not improving our yield by cutting distribution cost or anything. We have new products we can introduce, we have product mix that undergoes a change, and we just keep on building a lot of efficiency around that to improve our yield.

So we think long-term equity assets should yield you between about 45-ish to between 45 to 50 is a good range. We are at about 38, 39. We have come a long way, but I think the improvement will happen. It will happen slowly and steadily, and I repeat, it will not happen at the cost of cutting down on our distributor partners.

A lot of our distributor partners do a lot of hard work of educating our customers. A lot of our product have special features, and understanding of that is communicated by our partners. I think we think our yields can improve without squeezing brokerage costs, but by introducing new innovative products, as well as by scaling up the products where there is a higher value added for customers. So, yeah.

Maulik Chaudhari: Okay. Thank you, sir. Thank you for answering my questions, sir. I will call back in the queue.

Moderator: Thank you. The next question is from Vinod Birla from HDFC Securities. Please go ahead.

Vinod Birla: Yeah. Hi, sir. Can you hear me?

Rashesh Shah: Yeah.

Vinod Birla: Yeah. Thanks for taking my question. Okay. In EAAA, we have seen a robust fundraise of around INR20,000 crores in H1 across various categories like special situations, private equity, and also Citius. What does the product pipeline look from here? Are there any particular categories you are keen to explore?

Rashesh Shah: On EAAA, as was also mentioned by my colleague Amit Agarwal, who is the CEO of EAAA business, they had an analyst call couple of days ago. We have had a fairly robust fundraising. We have about four flagship funds currently. One is special situations, one is infrastructure yield, one is our private equity, and the other is our performing credit.

All these four, we have been raising money on that. Along with that, we did list an InvIT called Citius in April. So that has also come into that. Our current target is to raise about INR30,000 crores, about INR11,000 crores-INR12,000 crores in InvIT, and about INR18,000 crores in funds.

You know EAAA has two businesses. One is the business of funds, which are the AIFs, which has special situations, infrastructure yield, performing credit, energy transition fund, private equity, all of them are there.

Then we have InvITs. We have two InvITs, Anzen and Citius. In the future, we might do more InvITs and REITs as new categories we want to create. I think overall, we are going to raise about INR11,000 crores-INR12,000 crores in the year in InvIT, which has already been done, and about INR17,000 crores-INR18,000 crores in funds.

Vinod Birla: Okay. I have a follow-up question. Can you please share your thoughts about the recent paper released on insurance reform? Where do you see some of the key areas where insurance and distribution partners have voiced concern? What could this mean for Zuno? How are you thinking about navigating this?

Rashesh Shah: I will just add a couple of lines from the life insurance side, then I will hand it over to Shanai Ghosh to talk about the Zuno part of it. We first of all think this insurance distribution reform is a very good thing. It is almost similar to what happened in mutual funds about eight, 10 years ago when the entire TER regime came in and the entire mutual fund distribution cost were realigned to add more value to the customer.

I think the insurance proposal is on the same lines. Of course, it will mean a lot of rejig of what costs are borne by the insurance company and what are being borne by the distribution partner. I think it has affected the brokers and the institutional distributors a lot more, so there will be a lot of rejigging of cost and cost sharing will happen there.

Our insurance in ELI, Edelweiss Life Insurance, is a lot more agency-led, a lot more direct-led, so we will also be able to rejig that. But the agency and the direct distribution costs are not as affected. But we will wait for the final norms to come out. We think overall it will be positive for the industry as a whole, and especially for us, who is a smaller, more agile player and not as dependent on banca. But over to you, Shanai. How do you see this in your industry?

Shanai Ghosh: Thank you, Rashesh. First, I will talk about the industry. Yes, it is a consultation paper. The numbers may change somewhat, and some other aspects may change, but I think the direction is very clear from the regulator. One is that, of course, the industry has to become more efficient, and there are parts of distribution that have very high costs, and they want to bring that down.

So, as a result, like Rashesh said, we believe that the net result of this will be positive for the industry. There may be some transition upheaval that will be there, and it is likely to be there, especially on the distribution side. Some business models will have to be rethought. And I think the distributors are already thinking about it.

Also, like you said, a lot of brokers, a lot of distributors have given feedback to the authority, and I think they are seriously considering it. And anything reasonable in the interest of stable growth of the industry while preserving value for the customer will be looked at very favorably, is my understanding from our meetings with the Chairman.

So, that is about the industry. If we look at Zuno in particular, there is a reason why I gave you the map from 46%- 30%, because we have been able to demonstrate the operating leverage that we have always been talking about. Our opex ratio is 12%. This is the number that the regulator was also talking about, and it is honestly quite comparable, maybe just a couple of 200 basis points higher than some of very scaled players.

So, that is one part in terms of operating efficiency, which is what this paper pushes the industry towards. The second part is on distribution cost, which is where the caps on commission come in. Whatever be the caps on commission, Zuno has never been a player that has bought market share.

We have never been the highest payers. If you were to look at the public disclosures of various companies for FY26, you will find that this is borne out by the data. So, for us, we have always played on our product innovation, on our services, on our tech, and that is what has won us market share, and that is what has won us partners and stayed with us.

For us, honestly, when payout stops being a lever of competition, it is just playing to our advantage because we have always played on these three pillars, and we think that whatever be the numbers, if payout stops being the primary axis of competition, then the industry will go back to the basics, looking at product innovation, looking at value to customer, service, claims.

Even partners will look at this. The overall efficiency and the flexibility and empowerment that an insurer offers partners. I think we believe that these reforms favor business models like ours, and therefore, we are preparing for that. Having said that, there will be some rejig we will have to do. I think the industry had outsourced a lot of distribution to third-party companies and brokers.

There will have to be some shifting of that so that the distributors can manage their cost, and the industry also takes up some part of that work. I think eventually it will be a six to 12 month transition period, but I think eventually the industry will land on its feet, and there is, like I said, tremendous room for growth and tremendous opportunity for growth, and I think long-term growth will stay intact.

Vinod Birla: Okay. Thanks. Thank you.

Moderator: Thank you. The next question is from Prabhav Shah from Equirus Securities. Please go ahead.

Prabhav Shah: Hello. Thank you for the opportunity. I have two questions. Recently we have seen new players entering the general insurance industry. With increasing competition, how does Zuno differentiate itself? What is the competitive advantage? Going forward, what are the product categories which would you like to focus on? Is my first question.

Second, with Nido stake sale and EAAA IPO completed, can you tell us what are your future Which is the next value unlocking plans? ARCIL completed its IPO. Should we think on similar lines for our ARC business, or are there any other businesses you are thinking of?

Rashesh Shah: I will answer the second part afterwards, but on the first part, I will request Shanai to take that.

Shanai Ghosh: Thank you, Rashesh. I think general insurance has always been a very, very competitive industry. In fact, we entered the market in 2018, and we have been able to build market share in times of intense competition and with very well-entrenched incumbents. Three things we have always spoken of as our differentiators.

One is product innovation. Over the last eight years, we have successfully established ourselves as a company that thinks very differently about products and that is always very agile in identifying solutions that our partners may want or our customers may want.

That has got a lot of partners to work with us and to co-create products. That is one thing that we differentiate. The second thing is our tech platform that delivers operating efficiency and that delivers tremendous agility and flexibility for all our partners.

In our deck, you would have seen that our integration takes less than a week. We have close to 500 APIs. All of this works to free up a lot of productive time for the partner, and that is the second thing that works for us. The third thing that works for us with partners is transparency.

We are extremely transparent in our communication on anything, whether it is product, whether it is pricing, whether it is payout. The fourth thing that, of course, is last but not the least at all, is our claim service. From day one, we have focused on our claim service because that is really the product that the customer sees. The product that we sell is a promise, but the product that the customer actually experiences is the claim.

For us, the proof of this entire service delivery is not just the NPS that we get from customers, but it is also the NPS and the feedback that we get from partners. Over eight years, I do not think I have met a single partner who did not have great things to say about our service.

So, now we have created, over the last eight years, we have created this kind of a platform for ourselves from service, product innovation, and efficiency and agility, which we think is not very easy to replicate.

Plus, we have also created data and analytical capability that allows us to price risk at a very, very granular level. In this industry, as you have seen the direction of the reforms the way they are, it requires you to be as efficient as possible and as good in risk selection as possible.

Our tech platform and our data platform helps us excel in these two places, apart from us being a very agile and service-driven organization. That is really what Zuno's differentiation is. Thank you.

Prabhav Shah: That is really helpful.

Rashesh Shah: Excellent. Thank you. I think on your second question, as I said, now our corporate debt after the EAAA IPO is somewhere around the INR4,000 crores range. We think about INR3,000 crores is a good sustainable debt because we have property, office building and property, plus we will have our stake in Nido, which is now an investment stake, plus we have investments and all.

So, altogether, about INR3,000 crores of corporate debt can be sustained. We had about INR4,000 crores plus after this, and we get now a fair amount of dividend from our underlying subsidiaries. You would have seen EAAA also declared dividend couple of days ago.

So, I think on that basis, now we are in a very comfortable space from a corporate debt point of view. We will still want to IPO and list a couple of our subsidiaries in the next two, three years.

As you very correctly said, the two ones which are getting ready and should be ready in the next two to two and half years will be the mutual fund as well as the ARC. ARCIL, I think ARCIL listing and the awareness that it has created amongst investors is a good precursor, and we do think that as the credit cycle is coming back, the ARC industry growth is also coming back.

In fact, we think this year will be a good growth for the industry as a whole in terms of new assets being acquired. We are also seeing and experiencing growth in ARC. As the credit cycle is growing, as you know, the first half bank credit has grown by 18%, it is inevitable that there will be some buildup of NPA and there will be some need for NPA selling by the banks, which will come back.

We think the next three, four years will be good opportunities for ARC industry. In that growth also, I think ARC could be also a candidate for IPO. We tell all of our businesses that you should keep on getting ready for IPO because that itself is a good process from a governance, transparency, and institutionalization point of view. Getting ready for IPO is good homework to do. It builds that entire platform very well.

We will keep all our companies getting ready for IPO, but I do think, as you very correctly said, the asset management, AMC, and ARC could be candidates. But again, we will wait for a year before we start the process because we want these companies to grow and not get too distracted with the IPO process.

Prabhav Shah: Got it. Thank you so much. That was helpful.

Moderator: Thank you. The next question is from Sanjay Ladha from Bastion Research. Please go ahead.

Sanjay Ladha: Yeah. Hi, sir. Thank you for the opportunity. Sir, my question would be, since following the EAAA IPO, the entity continues to remain under the parent company structure, effectively making it a holding company and exposing it to a holding company discounts.

So in our previous call, we had indicated that management will ensure that shareholders do not suffer from a holding company discount and that they will take appropriate step to protect shareholder value.

Does the management have any plans to demerge EAAA from the parent company at some point in time in the future? If it continues to remain within the holding company structure, the holding company discount is likely to persist, defeating the very purpose of the IPO. What is the management long-term plan to address this?

Rashesh Shah: Yeah, I am happy you are asking that. First, I must be clear, the idea of listing EAAA was not any objective of holding company discount or I mean, we also don't call ourselves a holding company. We are an investment company. We invest into businesses, and we have a long-term view on how we want to create value out of those investments.

The EAAA IPO was not with the objective of holding company discount. In fact, we are very focused on intrinsic value, and we do believe there is a gap between intrinsic value and market value, but that will also get closed down as market understands the intrinsic value more, understands how we have a range of businesses which are all fairly diversified, but also there is a benefit of that Edelweiss, the parent organization, adds to that EAAA, with our IPO growth, all of them.

There is a lot of enabling and the nurturing that is required. When we demerged Nuvama few years ago, Nuvama was at a stage where it could standalone, be independent, because all the enabling phase and the nurturing phase was over, and there was a PE partner who came in with a majority stake.

If you look at in India, I think most companies have either an investor or a sponsor who is an enabling factor, who at least makes some critical calls. So, it is important for the next few years for us to nurture and grow EAAA. I think the shareholder value in Edelweiss for the next five years, a lot of that will come out of the growth of the underlying business, not by any financial engineering we do.

Having said that, we are very focused that the difference between intrinsic value and the market value should be reduced, but it's not in our hands. It's also in your hands, because I think investors have to, if they like the business, they like the story, and they like Edelweiss the company, then the discount will come down.

We have to do a lot more awareness creation, a lot more communication. Along with that, we have a lot of other tools besides growth of the underlying business to also make sure the Edelweiss shareholders do well. As you very clearly said, demerger is one option. There are a lot of complexities in that. There are a lot of nuances in that.

It's not something you can do just as one exercise saying, "Yeah, we distribute kar do," because there is a lot of enablement that the businesses need, and hence you need to do this at the right time. There are a lot of income tax rules, there are a lot of SEBI rules because we manage third-party money, we are AIFs, so there are a lot of other issues also there.

We have to do this in a very thoughtful manner. For the next couple of years, our key focus is on, now that the corporate debt is also in manageable, we'll keep on reducing it and paring it down a little bit as we go along.

But the biggest thrust for the next two years, now that the insurance business also turning profitable, is to focus on growth of the underlying businesses and giving them all the enablement to that. The discount to intrinsic value, it's the market. I mean, I don't even know what is this thing called holding company discount, because I've seen in the U.S. there are companies which have a holding company premium also.

And we are not a holding company. Just a word on holding company versus investment company. There are holding companies which have a 100 year view, and usually the objective of a holding company is to keep control within the family, and that is why sometimes maybe investors give a discount to that, because objective may not be to grow and create IRR and value. The objective could be to keep control within the family.

On the other side, there are PE funds which have a three to five year view, and they focus obviously on IRR and their entry price and their exit price. We are an investment company that operates in the 15-30 year range. We grow businesses, build businesses, but we also act like an investor, like we did with Nuvama.

All our businesses, when we interact with them, we also put a shareholder hat, and we want our businesses to make about 25%-30% IRR for the shareholders of the parent company on a 15-30 year window.

We have the business model, which is called investment company. We do hope that as an investment company, it should not trade at a huge discount. However, we all come from capital markets, and there are enough advisors we have that if the discount becomes insufferable, there are interventions that we can do.

Sanjay Ladha: Sure, sir. Thank you for the clarification. Thank you.

Moderator: Thank you. The next question is from Siddhesh Dharmadhikari from PL Capital. Please go ahead.

Siddhesh Dharmadhikari: Hi, sir. Am I audible? Hello?

Rashesh Shah: Yes.

Siddhesh Dharmadhikari: We have recorded robust around INR11,000 crores of net equity inflows in MF this quarter. Just wanted to understand which are some of the categories where we are witnessing this kind of traction. Further, while net equity inflows have been strong, interestingly, SIP book has fallen

by 11% quarter-on-quarter. What explains this? Are the majority of inflows coming in form of lump sum?

Rashesh Shah: I think on the second one, the SIP has fallen because of the international funds. As you know, there is a cap on the international funds, which have now been hit. A lot of SIP we were encouraging. In fact, we had kept our international funds open for SIPs only for the international funds. We were not taking large payments outside of SIP.

Now the international funds have hit that cap. We had a little bit of headroom for the last one year, which we have used to cultivate a lot more SIP investors coming into international funds. Part of the fall in SIP is because the international funds have been capped out, and we cannot do SIP in international funds anymore. In the mutual fund, obviously, we have been early movers in the SIF space, and we are currently the market leaders in that.

We were able to move into that pretty quickly. We have some other innovative product called the recently listed IPO funds and all. We do a lot of product innovation. Obviously, our old funds like the Balanced Advantage Fund and the Mid Cap Fund have been doing very well. They have grown pretty significant in size in the last few years.

To give you an idea, in 2020, our Mid Cap Fund was INR1,000 crores. Now we are close to INR20,000 crores in the Mid Cap Fund. We do keep on growing those funds. Our Balanced Advantage Fund, Mid Cap Fund are our flagship funds.

Along with that, SIF has also been doing well. All the international funds have done also pretty well. We have a range of the entire booking of the funds we have, and the four, five that I mentioned are our real flagship funds where we are seeing a lot of interest.

Siddhesh Dharmadhikari: Understood, sir. On the asset reconstruction business, we have witnessed a strong recovery in the quarter. Further, we have started seeing some pickup in acquisitions. In the past, you have talked about how this industry is cyclical in nature. Are we now entering the upcycle phase? Which segments are currently seeing the most activity in terms of NPA formation and acquisition opportunities?

Rashesh Shah: Yes. I think, as you very correctly said, I think between about 2014, 2015 to 2021, 2022 was a good opportunity to acquire assets as banks had a lot of NPAs. I think after 2021, 2022, a lot of focus is on recoveries, which we have done pretty well. I think in the last five years, we would have recovered more than INR50,000 crores amongst the old NPAs that we had bought.

We are starting to see an uptick in the banks wanting to sell NPAs. The offers have gone up. We do think the industry this year will experience a 40%-50% growth as a whole, as an ARC industry acquisitions as compared to the last year. There is a good growth happening. There are three segments in the market. Retail, which has also got unsecured and secured, like home loans and mortgages.

Then there is what is called SME and mid-market, which is between INR5 crores-INR10 crores to INR100 crores kind of accounts. Then there are large accounts, which are INR100 crores plus, which are the corporate.

In the last cycle, we saw a lot of activity in the large accounts. They were big, like Essar and Bhushan and Binani, and all of them were there. We are not seeing a lot of the big accounts coming in the market as of now, because they will only happen when there is a lot of new capex getting created.

Some projects will run into trouble, and those will come back. They are not coming now. Right now, a lot of growth is happening in the retail segment, especially mortgages, where we play. There is growth in unsecured also. We don't play in that segment.

We play only in the mortgages of retail, where we're seeing a fair amount of growth. The SME and the mid-corporate, which is, as I said, INR5 crores-INR100 crores kind of deals, there is a fair amount of traction in that also. A lot of banks are selling NPAs of that size. The industry as a whole is seeing activity in the retail and the SME mid-market, mid-corporate side.

Siddhesh Dharmadhikari: Understood, sir. That is it from my side, sir. Thank you.

Moderator: Thank you. The next question is from Rajesh Ganeshkumar from JM Financial. Please go ahead.

Rajesh Ganeshkumar: Hi. Thank you for the opportunity. I have two questions to begin off with. In our alternatives business, our FPAUM has grown about 28% YoY, although it has broadly been flat quarter-on-quarter. Could you help us understand what has led to the slowdown, and was it mainly due to fundraising or deployment, and how should one think about FPAUM growth trajectory over the next few quarters and the profit outlook from here on?

Rashesh Shah: FPAUM is actually driven by a lot of factors. Like every time we exit a position, FPAUM goes down. Every time we deploy money, FPAUM can go up. Sometimes when we raise money, like in a private equity where the fees are on commitment basis, the FPAUM goes up. FPAUM can go up and down in a quarter, so hence we look at a three year moving average.

We have maintained a 23%-25% growth in FPAUM over the three years. Going forward, because it was a question asked in EAAA conference call also, we think FPAUM will continue to grow at between 20%-25% a year on a three year average basis. On a quarter-on-quarter basis, there could be some quarters of a 25%, 30% growth, like the quarter you close a PE fund, there will be a fairly big jump in that.

But if there is a very big exit, like in the last quarter, we closed the first infra fund. We actually exited all that, and all the money has been returned to investors with a good IRR. So, when we close the infra fund, FP AUM goes down. So alternatives works in a slightly more idiosyncratic manner, where every quarter it can go up and down based on the activities that you do.

Hence, the best way to see this on a three year basis. The same thing applies to the fundraising side of the business. On the fundraising also, sometimes you have like the quarter of January, February, March usually is a big fundraising quarter.

So what happens is, there is a lot of quarter-to-quarter fluctuations on both FP AUM and the fundraising that happens. Hence, we recommend and advise investors to look at that part of the activity on a three year moving average basis.

Rajesh Ganeshkumar: Understood. This is really helpful. Thank you. One last question before I get back in the queue is, on Zuno, how is Zuno currently leveraging AI across the business segments today, and which are the areas which you feel have seen meaningful deployment so far? More on how do you see AI contributing to customer experience, underwriting, or any other specific areas that you would highlight?

Rashesh Shah: Yeah. Can I get Shanai to take that? Shanai?

Shanai Ghosh: Yes, sure, Rashesh. Thanks for the question. It is somewhere in the addendum that we've circulated, we have talked about six areas where we are using AI already. Zuno has been within the general insurance industry, has been an early mover. We've partnered with external entities, and we've created AI assets internally.

The few areas where we are using AI extensively already is in, of course, product development, tech product development. We have our own tech team, and most of the products that we use are developed internally.

We've seen huge improvements in lead times, and our go-to-market lead times have crashed by about 50% using this, and we are using it across the lifecycle of software development. So now from software development lifecycle, we've moved to AI-DLC. The second area where we are using AI is in pricing intelligence.

Pricing intelligence is something, especially in motor, which is almost 60% of our book. Motor is a very dynamic portfolio where we have to incorporate not just our own experience, but also what is going on in the market. It's impossible for any, even ML model to take in all that data.

We've created a pricing intelligence module, which is a combination of ML, because it needs to be deterministic. So it's a combination of ML, and there is an AI that builds into the intent and the process, and which gives us rule recommendations to suggest which are the areas we need to tweak, and it automatically, once approved, it automatically goes and sits in our rule engine. That's the second area where fraud, of course, is where we are using AI extensively.

Again, in insurance, we have to be very careful because we're dealing with customers. AI is more probabilistic, so we have to use ML, combination of ML and AI. The model itself is ML, while the process of deploying it is AI. This helps us step up our scale of operations without any commensurate investment in people.

The fourth area that we obviously use it is in claims intelligence, because in claims, there's a lot we can do using AI by reading the claims, reading the documents, interpreting it, not having to go through the entire human view.

Having said that, we always keep a human in the loop because these are decisions that affect customers. While AI short-circuits the entire process and makes it ready for decision, there is a human in the loop that takes the final decision.

These are few areas that we are using AI. The last one area where you're using AI is to make data very easily understandable by a larger section of people. Today, we have dashboards, and

everyone has dashboards, but internally, we've created something called Zuno Lens, which is an NLP engine that sits on top of our dashboard, so you can ask it anything, and it gives you that insight. These are the areas that we are using AI currently in Zuno.

Rajesh Ganeshkumar: Understood. This is very helpful. Thank you.

Moderator: Thank you. We will be able to take one last question. We take the last question from Sanjay Pandit from 1729 Capital. Please go ahead.

Sanjay Pandit: Hello. This is to Rashesh. Congrats on a strong quarter and on the successful IPO of Edelweiss Alternatives. I think with Nuvama and alternative IPOs, there is a good trend of unlocking value with IPOs. My question is, in the case of Nuvama, investors in Edelweiss Financial were able to get some stock in their hands, and sort of that stock distribution approach was very helpful. We are still holding on to some of ours.

I think Edelweiss has substantially exited the stake that it sort of had. We understand you have to obviously pay down the excess net debt, etc. But we would really like to see a return to the culture of distributing stock to investors, versus it all being sort of kept within Edelweiss, especially once you have been able to bring your corporate level net debt down beyond a certain point.

Is that something you think we could look forward to in future IPOs, maybe of the AMC or maybe in a subsequent distribution of Edelweiss Alternatives? That is the question.

Rashesh Shah: Yeah. Again, as I answered in the earlier question, Sanjay, the decision to use distribution as one lever to unlock value is always there. We do, I mean, I personally am also an equity shareholder a lot first than the CEO of the company. So, we do think like investors. Even our entire management team has stock options.

Also, I think creating value on stock price is obviously a very aligned objective. There is no difference in that. We do think that demerger is one tool that is there. It has its pros and cons, and maybe sometime when we meet personally, I can tell you holistically how the pros and cons can be evaluated. Maybe your inputs will also help. But we have other tools also.

Our primary tool of creating value, even Nuvama, it has created value not because of demerger, but because of the growth of the last five years. So, we want to make sure that we demerge or distribute shares of a company where even after that, when Edelweiss has no involvement, the company should continue to be able to grow and deliver.

In Nuvama, we were convinced we were at that stage. EAAA, it is still a very young, fast-growing business. There is a lot of nurturing and enablement the corporate and the parent does provide there.

We were deeply involved in the IPO. We are deeply involved in the strategy, capital allocation, a lot of important, even people development. I am executive chair of EAAA, and things like people development, culture, capital allocation, strategy, a lot of those are still deeply there.

When we feel that even without Edelweiss involvement or without any nurturing or enablement, the business can continue to grow, and we can switch on to becoming pure shareholders rather than sponsor shareholders, is when we can trigger that off. We were at that stage in Nuvama.

I think in EAAA, we hope to get to that stage, but when we get to that stage, we will announce it, and we will do that. A lot of these businesses are growing pretty well. I do believe the primary vector of value creation, whether it is through demerger or otherwise, is growth and not just financial engineering part of it.

So, Nuvama has grown, and we were convinced it will continue to grow. We had done almost four years of work before that. The Nuvama work started from 2018 onwards, and we eventually demerged the company in around 2022, and we actually stepped up the operating committees and the board in '23, '24.

So, there was a lot of handholding that we did. We had the time for that. Also, remember, Nuvama was actually all Edelweiss business. Until 2012, '13, '14, what is Nuvama was actually whole of Edelweiss at that time.

So, it was a much more evolved business, and it could easily, after spin-off, can continue to grow. Plus, there was a PAG kind of a partner out there. So, whenever we do that, we want to make sure if it needs a partner, a sponsor partner, we have to put all of that in place. So, it will be a very thoughtful decision.

We also have to take into account the SEBI rules and the income tax rules and all, and there are a lot of nuances. I don't want to burden everybody with this call, but there are a lot of things you have to put in place before you do an act like demerger. We will do it at the right time.

But as I said, even as and when we do that, the more important part is, can the business be on a road to good growth? I think EAAA, mutual fund, all of that, we want to primarily grow. If you've seen the first half results, the primary story is the growth of the underlying businesses. If you see the operating PAT for the underlying business has gone up from last year, second quarter was INR110 crores. This year it is INR290 crores.

If I look at half-year basis also, INR286 crores has become INR355 crores. The growth of the underlying businesses, the operating businesses, is what we are truly very focused for the next couple of years, I must say that. I think unlocking, we'll do that as and when it is required.

I think as we create awareness and as the businesses grow, a lot of investors also are excited by that. We will speak to investors, stakeholders like you, and take your feedback and keep that as one of the options.

Moderator: Thank you very much. We'll have to take that as the last question. I would now like to hand the conference over to Ms. Priyadeep Chopra for closing comments.

Priyadeep Chopra: Thank you, Rayo, and thank you all for your time today. We truly appreciate you all taking the time out and joining us. Please do write in to us at Edelweiss Investor Relations for any other questions or feedback that you may have for us. Thank you, Rashesh. Always a joy to listen to

your insightful remarks, and thank you, Shanai, for clarifying all the questions today. Thank you all. Have a great day ahead.

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.