"Edelweiss Financial Services Limited

Q4 FY24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good afternoon, and welcome to the Fourth Quarter FY '24 Earnings Conference Call of Edelweiss Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Priyadeep Chopra, President of Edelweiss Financial Services Limited. Thank you, and over to you, Ms. Chopra.

Priyadeep Chopra: Thank you, Neerav, and a very good evening, everyone, and a warm welcome to our Earnings Call today. We have with us on the call, Rashesh Shah, Chairman of Edelweiss; Ananya Suneja, Chief Financial Officer, Edelweiss Financial Services Limited; and Shanai Gosh, the MD and CEO of our General Insurance Business.

We hope you had a chance to review the investor presentation as well as the business update on Zuno General Insurance that we filed with the exchanges yesterday. During the discussion, we will be making references to it. Please to take a moment and review the Safe Harbor statements in our presentation.

We will be making some statements today that may be forward-looking in nature and, hence, may involve certain risks and uncertainties. With that, I'll hand over now to Rashesh to begin the proceedings of the call. Thank you all, and over to you, Rashesh.

Rashesh Shah: Thank you, Priya, and a very good evening to all of you, and a warm welcome to our earnings call for the fourth quarter and the year ended March '24. Good to see all of you. Good to have all of you here. As we know, we now do these calls twice a year for the half year and for the end of the year. So these are two very important interactions for us and the fact that all of you take the time, go through the documents and come and ask interesting questions. These interactions do give us a lot of clarity and feedback. So thank you, again, all of you.

As Priya said, we have our colleague, Shanai Gosh, Head of our General Insurance business, Zuno, and we -- every quarter, we give some updates of our underlying businesses so that all our investors and stakeholders can get a better appreciation of a slightly deeper dive in those businesses. So she is also on this call. And if there are any specific queries or feedback on that business based on the deep dive addendum that we have had, I would love to hear that.

And the other interesting parts about having these businesses updates every quarter is that historically, everybody had assumed that Edelweiss Financial Services is an NBFC, but we are more than an NBFC. We have a lot of other interesting businesses like our Asset Management businesses. We had the Wealth Management business that we spun out a year ago. We have our Insurance businesses. We have ARC businesses. We have a lot more businesses than NBFC. But conventionally, because most nonbank financial services are NBFCs, we have also been evaluated from there, and we want to use these calls to give investors a slightly deeper appreciation of our other businesses also.

In all the businesses we have, we remain focused on adding value as well as unlocking this value smartly from time to time, and we would love your feedback and inputs on putting the value in our businesses and also unlock the value for our stakeholders in these businesses. So with that, we have two big updates today. One is on Edelweiss as a whole, and one is on the -- a little bit of colour on all the specific businesses you would have seen that in the investor presentation that has been put out yesterday.

To start off with India has been the favourite of the global markets. I've been meeting a lot of investors, and I'm amazed at how much goodwill Indian economy and Indian markets have. Indian GDP is doing very well. PMI has also improved. Retail inflation is easing off. So almost on all counts, this is a fairly Goldilocks situation for India, but there will always be concerns.

There are concerns that household saving is falling, private sector capex has not really taken off, but given all of that, this is as good as it gets -- has been for India. We have to look out 2024 is an election year, not just in India, but all over the year. Expectations from India are very high. Indian valuations can be slightly elevated because there is a lot of liquidity chasing stocks. And we always believe that a lot more capital is going in equity markets than is going in credit markets. And that itself has a lot of other repercussions on the economy.

And as I said, one of the key concerns that we have is the household indebtedness is going up. The gross household savings are okay, but the net household savings are falling a lot faster, and we need to reverse that. And the last one, the private sector capex, which needs both equity and credit availability is still not taking off.

So as we always say, India is always a glass half full, half empty, it is more than half full as of now. Things are looking pretty well, and India has actually managed bigger challenges in the past. So the few challenges we have don't really concern us, but we should keep an eye on that. We are now a $4 trillion economy, going to $10 trillion by 2035, so the next 11 years are going to very, very, very exciting for India. We hope that we and Edelweiss and our stakeholders participate in that.

First, coming to the Edelweiss as a whole performance, if you see our profit numbers, we look at our profit after tax from two angles. One is consolidated profit, and one is excluding insurance profit after tax. So consolidated profit for the year has come in at INR421 crores, which is a 22% growth on a Y-o-Y basis. As you know, we have remodelled and pivoted our business model in the last few years from a very NBFC-heavy and NBFC-centric and an asset-heavy capital, heavy approach to a more asset-light, capital-light a range of financial businesses, including asset management and insurance oriented approach.

So a consolidated profit INR421 crores, growth of 22%, our ex-insurance PAT is at INR661 crores. Still, we have a long way to go. But I think in the last 2 years, we have been managing consistent growth quarter-on-quarter. We hope to continue on that as now all our businesses are scaling up well and our re-architecture, the Edelweiss rearchitecture from a very heavy operating NBFC as a heavy company to an asset-light more investment company, business model has fallen in place.

In this year, we had one very important event, which was the unlocking of the Nuvama value. We unlocked the Nuvama Wealth Management business, distributed 30% of the company to our shareholders, which at today's price is about INR5,000 crores. So we have handed over because ultimately, whatever value we create in the underlying subsidiaries, they belong to the shareholders. And as and when the time is right and the structure is ready, we would like to hand over that value to the shareholders.

We have done that in Nuvama. The unlocking of this kind is one of the few instances in India, and from all of you and our stakeholders and shareholders, we have received very, very good feedback on this unlocking of the value in Nuvama, which created a win-win-win situation for all of them.

This whole structure has been good for Nuvama, the business, and the employees of Nuvama. It has been good for Edelweiss Financial Services, the investment company, and it has been good for the shareholders of Edelweiss Financial Services also. Edelweiss continues to own another 14% stake as of now, which is also worth maybe INR2,500 crores plus and we will use this to reduce our corporate debt. As we have said and we speak about it in this call, our corporate debt is one big focus area for us.

So with that update, if I move on to the key priorities of Edelweiss, we had articulated four key priorities, happy to share the update. The first was to scale up profitability in the asset management business and the mutual fund business because as we grew the Wealth Management business a few years ago, last few years, we've been growing the asset management business and the profitability in that. So we have achieved a 32% profit growth in alternative asset management business.

We are the leaders, market leaders in alternative asset management business. Our fee-paying AUM has grown by 39% for the year. So we are earning fees on the larger part of the AUM, but our profit after tax has gone -- has grown by 32%, our mutual fund profit has also almost doubled in this year.

Our composition of the mutual fund assets, the AUM, which was earlier more heavy towards para-centric, now we have a lot of AUM in the non-Bharat bond what we call ETF debt funds, that equity and hybrid AUM has grown at 61% Y-o-Y in this year. Now we are focused on improving cost-to-income ratio in that business and profitability going forward.

The second priority was growing the retail credit via co-lending model. We have been very steady, very consistent, growing it, have some great partnerships, but invested in a lot of back-end technology because co-lending is not just you create credit assets and go and sell to banks. You partner with banks; you create a pipeline with banks and the technology integration is very important. We continue to work on that. The disbursements are growing. They have been growing pretty well. But along with that, we still continue to make, and we will do it in this year, make a lot of investments in the back end and the pipeline and the strengthening of the partnership for the banks.

So in this approach, we have found that disbursements are easier to grow. We have tripled our MSME disbursements on co-lending in this year and in housing finance, we have doubled our disbursements in this year. Disbursements are easy to grow. The back-end partnerships and the quality of asset, asset quality, all these are much harder ones. We have maintained that. We remain focused, hawk eyed on those, and those will be still the priority. I think about two third of the priority for this year in the credit businesses will still be on building the back end and one third will be in growing the disbursements much faster.

The third priority articulated is insurance to be breakeven by 27%. We remain on track on that. You would have seen one of the key highlights for this year is insurance, the investments in insurance. The losses on insurance businesses have peaked. They have started falling. Our scale has gone up, and both of businesses have grown pretty well. The Life Insurance that was at 21% improvement in profit.

In the general insurance business, and we have Shanai here who can speak a little bit when you have some questions, has grown by 54% Y-o-Y. We've been the fastest-growing general insurance company in this year in the industry. And the focus in the insurance business is to bring down expenses, bring down our -- what in insurance is called EOM and meet our breakeven target. We remain committed on that, and we'll keep on updating investors on a breakeven commitment from quarter-to-quarter.

And the fourth one is a focused reduction on debt, especially corporate debt. We have reduced our debt by 20% in this year. We are now at INR13,000 crores if a few of you will remember, our peak debt was INR40,000 crores. So INR40,000 crores to INR13,000 crores has been a phenomenal reduction which has made a stronger, which has made us much more agile, and which has given our business model a unique advantage.

We had announced a small minority stake sale in our alternatives business to create some liquidity to pay down our debt as well as to get the valuation and the investor endorsement on that. We are in the process. We have finalized investment banker information memorandum now that the annual results are out. We will start working with investor conversations on that and update our investors and stakeholders on that.

Our entire balance sheet remains very robust because of the reduction of debt, we hold almost INR3,000 crores of liquidity, which is a fair amount of liquidity given that the debt has come down in the businesses and for Edelweiss as a whole.

Our customer franchise continues to grow. We have now reached 76 lakh customers. We added 20 lakhs in this year, and our customer assets have crossed 2 trillion mark, up 13% of this year. On the business update, alternative asset management business continues to grow. You would have seen our AUM grew by 18% to INR54,000 crores this year. Our fee-paying AUM grew at 39% to INR32,000 crores. We closed a few funds this year. We've got a very prestigious market award India category in Asian investor Asset Management Award and we are now one of the largest players in private debt market globally also.

We are now the only Indian player ranked in the top Global 100 private debt asset management companies. In this year we also grew our infra business in this alternative business by closing the L&T deal where we acquired the L&T road assets for about INR6,000 crores. Mutual fund we are now the 13th largest mutual fund in India by rank. Assets at INR127,000 crores, equity AUM has grown to INR43,000 crores which is a 61% growth.

We have more than 15 lakh folios is mutual fund. Both the asset management business are doing very well. ARC continues to be a dominant player - 40% market share even now and we are strong on recoveries. We continue to acquire retail assets, retail debt as we go along. I gave you the update on NBFC and HFC where we are focused on co-lending.

NBFC has a lot of equity. You would have seen the capital adequacy of all our credit businesses. I think ARC has crossed more than 50% adequacy, both our NBFC and HFC have very robust capital adequacy, asset quality is good. We are very small in size in both the credit businesses. So scale is very low, but quality has improved quite a bit as we have repaid debt and strengthen our asset quality.

We remain focused on reducing the wholesale book on the NBFC business and it will take us another 2 years to reduce, but it is becoming more and more insignificant as we go ahead. In the General Insurance business we have filed a business update. We are a new age Insurtech business. We do focus a lot on product innovation, customer experience on that. We have done a lot of industry first in that and as I said we've been for the last 5 years one of the fastest-growing general insurance business and it's not on a small scale now.

So even on a fairly decent scale this year we grew at 54%. Our gross written premium was INR851 crores. We are now averaging approximately INR80 crores to INR100 crores a month on that business.

On the Life Insurance business, it's been a steady year. We had a 15% growth in premium. We are very, very mindful of cost and capital utilization on that. Claim settlement is more than 99% and we've improved our persistencies to 78% from 75% last year.

So all businesses have had a good year. They've all trended up. We still have a lot of work to do in each of the businesses and we remain committed to the four priorities that we have highlighted - Grow profit in our asset management business, bring our insurance businesses to breakeven, reduce the overall debt especially corporate debt and grow the NBFC and housing finance business through co-lending in MSME and housing space with partnering with banks. So again, thank you very much for being on this call And now that the update is over, we'll just open it up for questions and any feedback that you have on the results. Once again, thank you very much for being on this call.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Harshada Gite from Prabhudas Lilladher. Please go ahead.

Harshada Gite: I have two questions. First one, in the last one year many asset managers have ventured into private credit space. So do we see an increase in competition in the sector and how do we stand out from the rest of the players, and do we have some kind of moat?

Rashesh Shah: And the other question because you said you had two questions.

Harshada Gite: Yes. And second one is in HFCs. So we have seen some initial signs of success in the co-lending model with disbursements doubling in financial year '24, but we haven't seen any material impact on PAT and our ROE continues to be around 3%. So by when can we witness an uptick in our PAT and ROE?

Rashesh Shah: Yes. Actually, good question. On private credit, obviously, everybody is trying to grow and there are a lot of people who are raising. Given the market demand and there is a lot of awareness of that, I think raising a INR1,000 crores or INR2,000 crores fund for a good competent team has become possible which is a good thing. We actually welcome that because now there are a lot more people educating investors on the private credit.

I think there are two very big parts of private credit where we have an advantage. One is our track record. We are on our third fund now in most of the strategies. We have about five strategies. We are on second and third fund. So one is the track record and that matters a lot especially for scale.

So if you raised -- if you saw our funds are now in the range of INR5,000 crores to INR10,000 crores. As a fund size we are not doing INR1,000 crores, INR2,000 crores only funds. We are doing the larger funds also. So that is only possible when you have a track record, and you have strong distribution both in India and offshore.

A lot of the private credit funds which are being raised in India money which is a good money which is actually coming of age, but there is a lot of international money also. So we have a lot of LPs both in India, what we call LPs are the limited partners in India and overseas who are doing repeat investments with us.

So I think in this business in alternative asset management business the three big drivers of your profitability and advantage are one is age. We've been in this business for 11 years, 12 years. We are on the third fund of the series which helps investors a lot especially large investors who are adding USD50 million and USD100 million checks.

The second advantage you have is by the time you get to your third fund your team has stabilized; you have the carry income from the first one coming in. You have the fee income from the second fund coming in and you have the undeployed capital of the third fund which is there. Usually, that is all this it sings up. The funds are usually about 7 year to 8-year cycle. So your carry comes after the fourth, fifth year, your fees come when you deploy the money, and your dry powder is when you raise the money but not deployed it yet.

So I think in all the private market business whether it's private equity or private credit, age is important, track record is important. Distribution and LP relationships are very important, and a stable team is very important. So I think the AUM that we have about 54,000 in both private credit and infra-assets is by far the biggest in India in this category. We are not in private equity. We are not in other asset classes like real estate in the alternative side, but in private credit and infra we are one of the biggest players and that itself has its advantages.

On the second question on HFC you are absolutely right. We have now increased our disbursement. As I said, a lot of investments are still growing on the back end to try to get the partnership with the bank stabilized, we have a lot of extra equity because last 3 years we have not disbursed very heavily, but the equity in the business remained intact. So ROE is low, but if you see the low ROE along with the high capital adequacy, we have almost half the equity in excess.

So with a 50% equity if it's a 3% ROE, I would adjust it to say we are at about 5% or 6% if I adjust for the excess ROE which is still low and I think, in the next about four to five quarters we want to be a double-digit ROE, but with a gearing not more than 4x. So we will not ever exceed the 4x gearing, but this entire co-lending model needs a lot of offered investments we are making. We have a much larger team.

Our current disbursements are not even using 50% of the capacity that we are building on the disbursement side. So that is the reason for the HFC low ROE, but obviously like you said we are all very focused on increasing that. In the next four to five quarters we will see a fairly good uptick in that.

Moderator: Next question is from the line of Ravin Kurwa from Avendus Spark. Please go ahead.

Ravin Kurwa: I have two questions. One was related to the deployments in the AIF business. So we have seen that last year, it was close to INR7,000 crores and this time the number is closely around the same thing. So any reason behind it that the deployment number has remained stable?

Rashesh Shah: It's a function of deals and we don't like to push deployment very aggressively if the deals are not right because we are asset managers, we are custodians of the clients. So we look at fee-paying AUM because we deploy, we also exit our old investments and all. And our primary focus is risk management, not deployment.

So if there are a lot of deals which have been approved by the investment committee, at any point, we have about INR8,000 crores to INR9,000 crores of approved deals in the investment committee that are waiting to be disbursed. But as you know, in private credit, your documentation, legal agreements, compliance structures are very important.

So we sometimes hold back until we are very confident of all that. And it has been shown up in our track record that in the private credit business, we have posted good returns, which is what has allowed us to have the repeat funds and the repeat investors. So we do hope to scale up the deployment.

Also for this year, a lot of focus was on the funds that we closed. As you saw in the investor presentation, we closed our ESOF Fund and our Infra Fund in this year. So there was a little bit of attention for the entire platform on closing out these funds. This year, FY'25, there is going to be a lot of focus on deployment of these funds. And we are seeing India is at the right place. The opportunities are shaping up pretty well.

Last year, everybody was also slightly more careful because interest rates were going up very sharply. And along with interest rates going up, risk also goes up, so you want to be very careful.

So it has been more out of carefulness. I think there are a lot of deals. And in this year, we hope to scale up disbursements also.

Ravin Kurwa: Sure. Sir, just one follow-up. So the funds which we have closed, what has been the retention behind it, means how many money have been -- how much of the capital we have been able to retain?

Rashesh Shah: What do you mean by retain because we -- the way the funds work…?

Ravin Kurwa: We return the money to the -- the funds got closed as a result of it, the money got refunded to the investors, right?

Rashesh Shah: Right.

Ravin Kurwa: So were we able to deploy -- I mean, retain those money again, recapture those capital again?

Rashesh Shah: Yes. So we call them repeat investors. We have a fairly high ratio of repeat investors. In the institutional categories, we have more than -- like basically, there are two or three ways of looking at it. One is repeat investors. One is also how many investors have come into your multiple funds.

So we have more than 13, 14 investors who are in more than one funds. We have a fairly good share. Almost all our old LPs have repeated in the follow-on funds. So I think on both repeat investors as well as investors in more than one fund investing across the platform, we are pretty high.

We have actually one of the most diversified limited partner base in India. If you look at most other alternative managers, they usually have about two or three sponsors who contribute to 80%, 90% of the capital. That is not true in our case. Our sponsored capital is very small. We usually, at Edelweiss, invest about 3% to 5% in a fund, but we are really partners who are not sponsors who are investing as investors only in the fund.

Ravin Kurwa: Okay. Got it. That's great. And sir, my second question was on the MF business. So I was looking at the yields and we have seen a very good decent improvement in the yields. Now PAT side can be explained largely because the equity mix AUM has grown in a very efficient manner. But sir, if you see the peers, they still make like a close to around -- on the revenue side, they make close to around 50 bps of yield. So sir, what will be our roadmap to reach that kind of a number?

Rashesh Shah: So as you very correctly said, we look at cost income ratio, including what is the top line yield and the cost income ratio. In the next two years, if you see the trend that has been there for the last about five or six quarters, the trend has been going up in terms of the top line as the mix has changed.

As you know, we followed a strategy of using BHARAT Bond and the entire ETF, credit ETF and bond ETF to scale up our IFAs and distribution and establish our credentials as a large player, establish our credentials as a house that is offering good products. Also, we used it to invest in our -- on the non-ETF side of the business, which has scaled up pretty well.

So now that we have more than INR60,000 crores in the non-ETF, I think we need to get to INR100,000 crores in the non-ETF side of the business, which is another 18 months is what we think, which is the equity AUM and all, which has grown very fast this year. Also remember that the equity AUM has an upfront cost. So as we are growing that AUM, there is a little bit of upfront cost that also goes up.

I think along with that, as we increase -- as we change the mix and focus on cost-income ratio, so if you look at industry good cost-income ratio is between 50% to 60%. We are currently at about 85%. So we have to bring 85% down to 50% to 60%. As I said, one of our priorities is the profitability of the mutual fund business, and we are hugely focused on that. With scale and the product mix as well as the other things we are doing, it will come down.

We will continue to invest in the business. Last year, we invested a lot. We're opening new offices in the new cities also. So that continues to be a focus area. But with that also over the next two years, we want both the top line, the product mix and the cost income ratio to be aligned with the industry averages.

Ravin Kurwa: Okay. So just a small follow-up, sir. So a few years back, we have seen a lot of competition intensity on the distribution side of the mutual fund business. So how is the competition intensity as of now?

Rashesh Shah: Competitive intensity is always high, and it will always remain high. But again, it's a scale business. I think the mutual fund houses, which have crossed INR1 lakh crores of AUM, find it easier to get into larger wealth management platforms and IFA platforms and all. So I think you need scale, you need the ability to invest. I think in the mutual fund, the way the industry is, it takes about 5 to 7 years and between INR300 crores to INR400 crores of investments to get to at least 100,000 scale if you get everything right.

So all the competitive intensity, the new players who have come about in the last couple of years, they will need about 5 to 6 years and at least INR300 crores, INR400 crores of spending money, investing money, and after that also, there will be a 50-50 chance of who gets to INR100,000 crores of AUM. So I think the larger challenges are how to get to INR100,000 AUM after that, how to scale up in a cost-effective manner, which is where we are right now.

And fortunately, the industry is growing well. We have a lot of products. We are only in 30 cities in India. We can go to 100 cities, which is our plan. So we have a lot of the white spaces available to us. It's a function of investment. Every branch is an investment of about between INR50 lakhs to INR60 lakhs. So if you want to go from 30 branches to 100 branches, it does need investment. A branch with breakeven over between 6 to 8 months, depending on your product mix and all of that.

So it does require investment. I think all retail financial services, good products in India have a great opportunity, but all of them need about 4 to 5 years of investment, committed investment, committed execution, and only after 8, 10 years is where you start seeing some upside on that. So I think staying power is very important in all these businesses. We have shown that.

We have shown in our Wealth Management business, in our Asset Management business that staying committed to a particular business for 10 to 15 years, is par for the course for us. And we don't really rethink too much of that. We do rethink a lot about, are we executing efficiently? Are we investing in a cost-effective manner? Or are we frugal, all of that? Are we doing innovation? But we don't get disheartened either by competition or a slowdown for one year in any of our businesses. So that itself is a big competitive advantage, according to me.

Moderator: Thank you. Next question is from the line of Amit Jain from Axis Capital Ltd. Please go ahead.

Amit Jain: I have 2 questions. First, on the stake sale, this alternate asset advisors, what sort of valuation we are expecting over here and in terms of timelines, by when we can expect the deal to happen? And also what sort of investors you are looking for domestic or foreign investors? This is the first question from my side.

Rashesh Shah: Firstly, I announced, we are looking to raise between 1,000 to 2,000. Our ideal number is about 1,500 and we are looking to sell between 10% to 20% stake. So the stake sale will be in that region. That is what the conversation with investors has been as you saw that, that business had a good year. The profit and all is scaling up pretty well on the alternative asset management side. I don't know if you had a chance to look at the business performance for this year, but the profit after tax for '24 has been INR210 crores, and we are now averaging INR75 crores for a quarter like for the March quarter, we ended INR75 crores.

So on an annualized basis, we are clocking between of INR250 crores to INR300 crores of annualized PAT in this business. We have a lot of carry that will come in as we exit the investment. So there's a very robust business. It's a market-leading franchise. It's already been there for 12, 13 years. So a lot of proven track record. It is unique. It's not private equity where there are more than 80 players in India. In private credit and Infra, there are 8, 10 players only. And in that also, we are the leaders.

So given all of that, we expect good investors. We're also getting a lot of advice from investment bankers on taking this business to market, which has its own advantages, if it's a listed company, there are a lot of inorganic growth opportunities and all, so in the next 6 months, as we go through this stake sale process, we plan to announce a much longer-term plan of action for this business maybe by September to December quarter -- October, December quarter.

We are working on how to best leverage this using the market opportunity, using inorganic opportunities on this business. But currently, we remain focused on the stakes in, and we have started the process. It should take about five months to six months because it is a long process. We also want to be very careful.

We don't have to do this. As we are doing this only to repay down the corporate debt, which is now currently manageable, but we want to bring it down. So we are doing this from a position of strength, and we want the right kind of investor at the right price in the right way.

Amit Jain: Just another question on HFC. We have seen significant improvement in disbursements during the year. But as compared to the other industry players, we are somewhat lagging. And further

AUM has not grown for the last three years, four years. So how should we look into all this? And what sort of growth we can expect in the, let us say, next two years, three years timing?

Rashesh Shah: From the HFC business, obviously, we remain very bullish. We have a lot of equity. We have more than INR880 crores of equity in that particular business. So because, as we are following an old model. Old model was a standard pre-IL&FS kind of a model, which was disbursed and then whole things only books and all, so we had an old book which is getting repaid, and which is getting run down, which was old, what I call, Housing Finance 1.0 business.

We have last three years, moved to Housing Finance 2.0 business, which is the partnership with State Bank of India, the disbursements and the co-lending model, all of that. This is still going to be another one year of scaling up. In the meantime, we have continued to spend money on building the disbursement capability and the asset origination and quality capabilities.

We have been working on the back-end technology with the partners and all that and we have kept the equity intact in that. So there's a lot of equity -- excess equity in that business. As this has more than 39% capital adequacy in the housing finance business where you need only 12.5%. So we have 3x being regulatory limit. We have a lot of excess capital, but we are okay with it. We have excess capacity, excess capital. We are investing in that.

Our current focus is to get to a double-digit ROE with a lot of excess equity in that, which we think is about 4 quarters away. We are still very small player, and we will continue to be a small player for the next three years. But our disbursement will grow at the same pace that we are going.

Moderator: Next question is from the line of Sidharth Shah, Individual Investor. Please go ahead.

Sidharth Shah: I have just 2 questions. One on the alternatives piece. On the valuation, what metrics would kind of these investors look at because we've kind of put out a number. Is it like market cap to AUM, price to earnings. And the second piece was on the wholesale lending business. It seems that the assets have degrown by about INR600 crores year-over-year. I think we were targeting maybe INR1,500 crores to INR2,000 crores. So has there been any challenges on the sell-down on the residual portfolio, either the loans or the SRs. Thanks.

Rashesh Shah: To answer the second question, no, there are no challenges. I think the projects are working well. And earlier, we are doing sell-down also for liquidity reasons as our liquidity has been more stable, we are doing sell-down more strategically and not just for liquidity reasons because sell-downs are expensive. I mean, all said and done, sell-downs cost you between 15% to 20% cost of liquidity in that sense because whoever is a new buyer expects that kind of return at the very minimum. So given that we've been thinking about it very carefully. We have done a few sell-downs in this year also, but rather than do large portfolio sell-down, we are now doing asset by asset sell-downs.

We remain confident and very -- as that book is becoming more and more insignificant, we have a lot of equity in the NBFC business. Concerns on that business have gone away. We want to complete the projects. There are still four, five cases where we still need to go through the NCLT or other issues there, their answers need some enforcement and all, but we remain okay on that.

On the alternative asset management business, I think there are two things, most asset management businesses in India, either by the sum of parts or by way of -- as a percentage of AUM.

On alternative side, most of the businesses globally, they usually trade between 10% to 20% of the AUM, given the product mix and the franchise and the scale and all of that on alternative side. As you know, on the mutual fund side, it is about 5% to 8% in India, but alternative, it is about 10% to 20%. There are a lot of deals that have got done.

Recently, BlackRock acquired GIP where they paid about between 14% to 15% of AUM as their acquisition price. The other way a lot of investors in India are looking at it because alternatives is still a new asset management class in India. Most Indian investors are looking at it as a PE multiple. And the average asset management PE multiples have been between 30 to 45 the trailing 12 months in India is what most of the asset management companies have been value at in India. But as you know, there are different asset management companies that they are different product mix is in that. But these are the two approaches that are there, percentage of AUM and profit multiples.

Fortunately, we are at a stage where, as I said, for this quarter, the alternative asset management business made a INR75 crores profit, so even if you annualize that, it gets us to a good valuation range at which we are looking at the stake sale. But it will be premature for me to say a lot because we just started the process. But in the next five, six months, we'll be able to give a good update to the investments.

Moderator: Sidharth, do you have any follow-up questions?

Sidharth Shah: No, that's very helpful.

Moderator: Next question is from the line of Raghavendra Rao, Retail Investor.

Raghavendra Rao: This is a question on insurance. Zuno is positioned as a new year insurance tech company. How are we leveraging the technology to differentiate ourselves in the market?

Rashesh Shah: It's a good question. My colleague, Shanai is there. I will ask her to give examples of what she's doing in her business. Over to you Shanai.

Shanai Gosh: Thank you, Rashesh. Thank you, Raghavendra, it's a good question. You're absolutely right that tech is ubiquitous today in the industry and business in general and how we are differentiating ourselves. Before I get into our key levers for differentiation, I just want to say that we've been in operation for six years. And what is critical for us is that we've demonstrated efficient, consistent and sustainable growth in both scale and quality, and this is underlined by our tech platform.

Our growth has been in excess of 50% for the last three years at least on an increasingly large base. And interestingly, our physical infrastructure hasn't really grown. So we were in nine offices on day one. We are still in nine offices. That should give you a sense of how technology is enabling us because without that, there would be no way that we would be able to sustain this kind of performance. Having said that, while outcomes are very important for us, but we focus on the drivers or inputs for our business because we believe that is what creates a base for sustainable growth. And we have three pillars of our business, which are all driven by technology.

The first is customer experience. Of course, I don't think any business would say it's not important. But we try to believe that we really put our money where our mouth is. Claims, the moment of truth is extremely important in our business. Our motor claims is completely transformed by technology. Almost 50% of our claims are intimated using a voice-based AI bot that creates a lot of efficiency.

Also, a large percentage, almost 40% of our claims are remotely solved. In fact, our fastest claim was settled in 16 minutes. That's the record and that might be getting broken any time we speak. So all of this is possible largely because of technology. However, if I was to say that what drives this? I think the advantage to us more than what we are able to do is the kind of culture that we have been able to build and I think that makes it differentiated and sustainable. And in this culture, an example of this culture is how deeply ingrained NPS is in our KPI metrics. Every person has an NPS metric, in fact claims people have NPS metrics. So they have to balance between not just settlement of claims and life settlement and checking for fraud, etcetera, but also customer satisfaction and that's a very fine balance to work.

Our NPS is real time. It's been measured since day one, and it's more than just getting an output of an NPS, it's also getting very critical and immediate feedback on how to improve and where to improve, which is why we've been able to consistently improve our NPS, which is a barometer of our customer experience, and we measure NPS in each and every metric. So even claims, for instance, our claims NPS is in the range of 50 to 60 and anything above 50 of NPS is excellent.

Second big lever is innovation because we -- while having the basic products and being competitive in terms of pricing is very, very important. But we also believe that you have to bring something new and differentiated to the customer to solve some problems that are not being addressed. And we've done that repeatedly over the last six years. And the one thing that we are and there are many first in that. The one key differentiator, the key innovation that we've done is we've created a mobile telematics embedded app, which can help us personalize motor insurance solutions for customers today.

Customers very often complain that they are treated equally, and there is no differentiation across them. And this app helps us to differentiate across good drivers and not so good drivers. When we say good remain safe, and this is the only app in the country that uses mobile telematics to indicate a score for safe driving and that safe driving can translate into value for customers, and we share this value with customers through better pricing for them. And overall, I think it also helps society by just creating safer drivers. In fact, the heartening feedback was that people were infused and motivated by just getting a small and it automatically kind of triggers them to improve that score.

The third pillar that we drive is an operating model which is extremely efficient, and efficiency creates value for all stakeholders. This is the efficiency due to which we've been able to generate this kind of growth with the same level of physical infrastructure. In GI, your ability to select risk at a very granular level and to be able to execute it is very, very important, and that's why technology is core for us. We have created all this technology ourselves and that's a differentiator for us because our backbone is API for micro services driven.

So everything that we want to execute on the ground, whether it's risk selection, whether it's fraud detection, all of that is, one, using our own technology and our own application. That allows us immense amount of agility, flexibility and control in how we want to execute our business and that -- these are the 3 levers through which we differentiate our entire business and the underpinning for all these 3 levers is technology.

Moderator: Next question is from the line of Aman from Dolat Capital. Please go ahead.

Aman: I have 2 questions. First is our current share of equity AUM is around 35%. From two years down the line, what is your projected number? And how can we achieve that? Second one is your overall net debt has decreased by around INR27,000 crores in the last five years, but your corporate debt has been steadily increasing from Q1 FY'23. In fact, it has gone up by 1.8x. What is the reason behind this increase? And going ahead, how should we look at this?

Rashesh Shah: Turning on the first one, you are very right. I think a good mix, if you look at the mutual fund industry as a whole, a good driver of profitability is having at least 50% of AUM in equity, we are at about 35%. We want to get to 50% in the next two years. So the AUM will grow as the percentage of equity in the AUM should at least be at 50. Most of the good players are between 50 to 60.

As in mutual fund product categories, there are 3 categories, equity is one. Second is what do we call non-equity like bond and credit funds. And the third is ETFs and liquid funds and all. Most of the people have about 60 in equity, 20 in non-equity and 20 in liquid and others.

We are currently slightly more in ETF. We have about 50% in ETF and balance in equity and others. We will want to go towards equity as 50%. We have to execute on that. But if the trend of the last year shows us, I think we are on the right track on that. So that is one. On the second one, as you correctly said, we have deliberately been strengthening our underlying businesses by investing equity in that, taking on some corporate debt.

Our corporate debt overall has come down. In the last two years, three years, what we have done is continue to invest in our insurance businesses and asset management businesses, but also, we have been investing as GP in our funds also because we have co-investment out there. And along with the interest that we pay out the corporate debt because we've been waiting for the Nuvama unlocking to be able to be repay down the debt.

So currently, our corporate debt is -- if you look at the presentation, there is a slide in the presentation on the overall debt, let me just point out the slide to you. The overall debt in across all the businesses is now -- the net debt is about INR13,000 crores, let me see which slide is that -- it's on Slide 19.

And if you look at the corporate debt is about INR8,800 crores, out of which we have about INR1,500 crores of cash on hand. So the net corporate debt is about INR7,500 crores or so against which the Nuvama shares we own are worth about INR2,500 crores, so that you can use it as a liquid investment. So the -- after the Nuvama liquid asset we have, the net corporate debt is about INR5,000 crores, the stake sale of EAAA that we are planning about INR1,500 crores, we have other investment assets of another INR2,000 crores, which will get liquidated over two years.

So in the next two years, with the Nuvama and EAAA stake sale and the investments we hold at the corporate, we expect the debt from current net debt of INR7,500 crores to be come down to about INR3,500 to INR4,000 crores. So it will half in the next 18 months and then we have other assets.

We have office building and other real estate investments, which are worth under INR1,500 crores. We have other businesses where we have not yet sold stake, like our mutual fund business is 100% owned. Our general insurance business is 100% owned. Now the businesses will also start giving dividend.

This year, actually, the mutual fund has given dividend, the housing finance business has given dividend. So now we will start getting dividend income also from the underlying subsidiaries, which itself can be another INR400 crores, INR500 crores a year. So given all of that, I think now we are focused, as we have highlighted it as one of the priorities.

We want to bring down the overall debt and corporate debt. Our first priority was to strengthen the businesses and that we have done strengthen their balance sheets, infused equity, make sure that they are -- there is actually a lot of excess equity and excess capital adequacy in our underlying businesses.

The corporate debt is currently manageable. We have a lot of assets and a lot of liquidity but INR1,500 crores of cash and INR2,500 crores of the Nuvama value itself is INR4,000 crores of the INR8,700 crores that you see out there. So almost 50% is liquid and almost liquid kind of assets for the corporate debt, and then we have EAAA stake sale and other investments also available to us.

Moderator: Thank you, Aman. Do you have any follow-up question?

Aman: No. Thank you.

Moderator: Next question is from the line of Pratik Bhandari, Individual Investor. Please go ahead.

Pratik Bhandari: I had a question on the alternate side. So basically, we have launched pre-REIT fund and climate fund last year. Is there any other category we are looking to venture? And is there any other funds in the US. market, which is not there in the Indian market?

Rashesh Shah: There are actually -- if you look at alternatives globally, there are 5 or 6 product segments in alternatives that are called alternatives. One is obviously the most obvious is private equity that was a start of that. In that private equity, obviously, you have things like venture capital, private equity, growth equity, buyout. All of them fall under the private equity. We are not in that category at all. We hope to build that business, but we'll announce that, but one is private equity.

Second is private credit, where we are one of the leaders. Third is infrastructure where also we are there. Fourth is real estate, where we are not there. If you see in India, firms like Blackstone and all have done great work in real estate with all the REITS and InvITSall that, and the funds they have.

The fifth is hedge funds and what we call public alternatives, where also there are a lot of players in India, I would call the entire PMS and AIF in equity markets also as part of the public alts. Globally, they are called hedge funds. But in India, we don't call them hedge fund because they are not long short, but wherever there is a performance fee attached, it is called alternatives.

In the global market, wherever there is a fee plus a carry a performance fee, it is called alternatives. So there are globally hedge funds in India, we have something similar in PMS and AIF also. And if you look at a lot of players in India in asset management, they have PMS and AIF assets which carry a performance incentive also that also would qualify alternatives.

So we are not in that category as of now. So out of the 5 categories, we are only in 2, 3 categories like private equity, real estate and public alternatives, we are not present at the moment. So we have enough empty spaces. And within each of the categories also to have multiple segment like I said, in private credit also, there is performing credit.

There is special situations. There is a high yield, there is stress credit, there is distressed credit, have multiple strategies in each of the category also. So there is enough space within the category and across the category to grow in alternatives.

The key in alternatives is not just the opportunity. It is also building the product expertise, which takes 5 years to 10 years to build with the team and the stability and to build our distribution capability because raising money is as important as investing money and the confidence of investors, especially qualified investors and institutional investors takes a lot of time. So those are the contours of the alternative asset management business.

Moderator: Ladies and gentlemen, due to time constraints, that will be the last question. I will now hand the conference over to Mr. Priyadeep Chopra for closing comments.

Priyadeep Chopra: Thank you, Nirav, and thank you very much, everyone, for joining us on the call today. Please do feel free to write to us at Edelweiss Investor Relations for any questions or additional information you may need. Your questions and inputs are always valuable to us, and we enjoy this time we spent together. Thank you, and have a good day ahead.

Moderator: Thank you very much. On behalf of Edelweiss Financial Services, we conclude this conference call. Thank you for joining us, and you may now disconnect your lines. Thank you.