Edelweiss Financial Services Limited

Q4 FY25 Earnings Conference Call

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MANAGEMENT: **MR. RASHESH SHAH – CHAIRMAN – EDELWEISS**
MS. PRIYADEEP CHOPRA – PRESIDENT – EDELWEISS FINANCIAL SERVICES LIMITED
MS. ANANYA SUNEJA – CHIEF FINANCIAL OFFICER – EDELWEISS FINANCIAL SERVICES LIMITED
MS. RADHIKA GUPTA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – EDELWEISS ASSET MANAGEMENT LIMITED

Moderator: Ladies and gentlemen, good day, good afternoon, and welcome to the Fourth Quarter FY '25 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, 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 at Edelweiss Financial Services Limited. Thank you, and over to you, ma'am.

Priyadeep Chopra: Thank you, Rico. Good afternoon, everyone, and a very warm welcome to our earnings call for the year ended March '25. Today, we have on the call with us Mr. Rashesh Shah, Chairman of Edelweiss; Ms. Ananya Suneja, the Chief Financial Officer for Edelweiss Financial Services. And as you all know, we've also filed a business update for our mutual fund business, we have on the call with us Ms. Radhika Gupta, MD and CEO of Edelweiss Asset Management Limited. We hope you've all had a chance to review the investor presentation that we just filed, as well as the business update on our mutual fund business.

During the discussion today, we will be making references to it. Please do take a moment to review the safe harbor statement in our presentation. We will be making some forward-looking statements today, and hence, these may involve certain risks and uncertainties.

With that, I will hand over the call to Rashesh to take us through the proceeding for the quarter. Thank you, and over to you, Rashesh.

Rashesh Shah: Thank you, Priya, and good afternoon to all of you, and a very warm welcome for this call as well as a thank you to all of you for taking the time out to join us. We know the markets are still on, but given that our results are out, we are very happy all of you have joined, and I'm truly happy to share the results with you.

And I'm so glad we are doing this call in the middle of May and not in the middle of April. Because the world, what we call the VUCA world was that is most VUCA in the month of April. So we have come out of that. Things look very steady even in the last week with all the geopolitical tension, India, Pakistan as well as the aftereffects of tariffs and all that. A lot of them seems to be settling down and markets are a bit calmer. So happy that we are doing this call in slightly calmer circumstances.

India's growth still seem to be -- expected to be strong. Yesterday, the inflation numbers came down pretty well. Confidence in RBI cutting rates is there. So overall, I think India has actually looked a lot more steady and stable in the last few weeks also. The world has been completely upside down in the last few months because of all the changes that are happening. But in that change also relatively speaking, India did come across as a much more stable and a safer place.

So that gives us a lot of confidence. India will be driven by our own local savings, local investment, local consumption. And in that sense, we are a story by ourselves. We'll have our own ups and downs, but I think India has truly shown that our growth outlook remains positive. There is a lot of resilience in India, India story and the local drivers are very robust. For

Edelweiss, for the full year ended March '25, hopefully, you have had a chance to look at the investor presentation and the results, but it's been a good year.

Our Board of Directors have recommended a INR1.5 dividend per share for the year. For the year, we saw an 83% increase in PBT but our profit after tax was almost flattish because of the tax element that crept in this year. Last year, we didn't have that. So tax insurance PAT after the minority interest is at INR545 crores, and our consolidated PAT after minority interest is INR399 crores.

So the good news has been the strong profitability in EAAA and mutual fund, along with the reduction in the losses in both the insurance business. And we've been also able to reduce our overall consolidated debt as well as reduce the wholesale book. So before we delve into our full year performance, I just want to take little bit of time to reflect on our journey from a last 3-year perspective because our focus 3 years ago, we have said was scaling businesses and streamlining the balance sheet.

Over the last 3 years, we have changed our architecture. We have pivoted to becoming more an investment company. And instead of a conglomerate, we now have very robust underlying stand-alone independent businesses that we've been able to scale up and build. So our first priority was always last 3 years growth and value creation in the underlying business. Priority number 2 was to reduce the overall debt, and third was the reduce of wholesale book, which, as you know, we exited the wholesale credit business, but the legacy book was there, which we have been wanting to scale down, and we have made considerable progress on that.

So in a way, we have grown where it was important for us to grow, and we have degrown where we wanted to degrow. So for example, since FY '22, EAAA, ARR AUM has grown at a clip of 19% CAGR, while the PAT of EAAA has grown at 67% CAGR over the last 3 years. So now EAAA which is about a 13-year old business for us is now coming of age. In a similar vein, our mutual fund equity AUM has grown at 34% CAGR in the last 3 years and the profit after tax on mutual fund business has grown at 38% CAGR over the same period.

Our ARC business has shown a 15% growth in PAT over the last 3 years. Zuno has been one of the fastest-growing general insurance companies in the industry and the GWP has grown at 41% CAGR over the last 3 years and the losses are almost halved in the last 3 years. Similarly, in the life insurance business, ELI, Edelweiss Life Insurance, our gross premiums have grown at 13% CAGR over the last 3 years and the losses have been reduced by 40%.

So wherever 3 years ago, wherever we had set our objectives and communicated to all of you on what we were going to do on growth as well as getting insurance business reduce the loss to get to breakeven, we have made significant progress on that. Along with that, we had also committed to deleverage the balance sheet and to reduce exposure on the wholesale book.

And on that, from FY '22, our consolidated debt has come down by 40% which -- I mean, to give you a longer-term perspective, what was INR40,000 crores in FY '19 has now become INR11,200 crores. So significant, almost INR30,000 crores reduction in the overall debt we have achieved in the last 5, 6 years.

And in our strategy to go towards an asset-light model, NBFC debt has also come down. NBFC debt has come down by 70%, INR6,300 crores reduction in 3 years and the loan book has declined by INR8,000 crores, which is a reduction of 75%. So last 3 years has been grow the right businesses, degrow the wholesale book and debt, and we're focused on that.

And now before we go into the individual businesses for this year, I just want to take a couple of minutes on 2 strategic updates, which we achieved in this quarter. One was on -- in ECLF, the wholesale book, which is now a stressed book mainly consisting of security receipts. We have taken a markdown on that by using a very conservative formula of the lowest of NPV or book value, or IRAC or NAV, on an asset-by-asset basis, which is a very conservative approach, but we have taken that in consultation with RBI.

And this reduction of the book was actually preceded by increase in the net worth of ECL Finance. In the last 1 year, we had debentures in that business that we converted almost over INR1,000 crores. So that added equity in that business. We are also merging one other Edelweiss Retail Finance business into this and ERFL, Edelweiss Retail Finance is another INR500 crores of approximately equity, which is also getting added.

So we preceded the markdown with about INR1,500 crores of effective equity into ECL Finance, and then we have taken a INR1,100 crores odd markdown with a very conservative. The good news on this is even after this markdown, the capital adequacy of the NBFC stands at more than 30%. We are closer to 32.6% capital adequacy in the NBFC. Along with that, there is no deterioration of asset quality. We have only taken the markdown by taking a very conservative, lowest of the 4 parameters in each asset and just added it up.

The cash flow expected from this book remains the same. So no change in assumptions on cash flow. No asset quality has deteriorated. We have taken a markdown and we received that the markdown by adding equity of almost INR1,500 crores in ECL Finance. So even after this, they have a capital adequacy of 32.6%.

Along with that, we are also very happy to announce that we have hired a new Managing Director, Mr. Ajay Khurana, who was earlier Executive Director of Bank of Baroda and has more than 40 years experience in banking and a large part of the banking career has been focused on MSME credit business. He has joined from April 1 as the new Managing Director of ECL Finance and he is going to lead the pivot towards MSME credit.

So by marking down the wholesale book, by strengthening the balance sheet, we have hopefully now drawn the line in the sand on the legacy wholesale book, which did cause a lot of stress as all of you are aware. But I hope we have drawn the line in the sand. And with the joining of Ajay Khurana we are now getting ready to really be what NBFC to becoming an MSME credit-oriented business will continue to be asset light.

We continue to focus on MSME only. And along with that, our focus is to invest on really a differentiated MSME offering. So as Ajay Khurana settles down, we'll also communicate to you how that strategy is getting implemented. The wind down of the wholesale book is almost complete, and we are towards the end of that, and that does and that part of the story.

As you all know, it has been a painful story, but we were hit by post ILFS and COVID and all the other changes that happened. But I think now we still a lot of our collateral in that book, though the assets are stressed, and we have taken NPAs and call them stressed assets. A lot of those assets underlying collateral continue to be real estate and since the real estate industry is doing well, our expectation on recoveries on that stressed assets are still pretty strong.

And as I said, the markdown has not affected asset quality and the expectation of the cash flow. The equity in ECL Finance as you would have seen in the investor presentation also, is still closer to INR2,100 crores. So we still have INR2,115 crores of equity in the NBFC business.

The other strategic update is about EAAA listing. We had filed the original DRHP. We got it back from SEBI with comments in March. And largely, the comment was on reclassifying some of the earning items and changing the classification. It doesn't change the overall income and profit for the business. What was being called some items which are being called as income from operations, SEBI felt we should call it other income and that reclassification is being taken.

And after reclassification of that we expect to find the DRHP again with SEBI. There is no impact on profitability or the total revenue of the EAAA. Only the reclassification has changed because SEBI wanted us to call only the management fee as operating revenue, everything else they wanted to be called other income. Since we are the first alternate asset management company, which has been planning to go IPO, there is a lot of, I think ambiguity on how to classify what is income from operations and other income.

So currently, SEBI has asked us to classify it conservatively. We have been happy to do it. We are reclassifying it and without any change in profit numbers or the revenue numbers, we will refile the DRHP soon.

The last part, performance for this year, FY '25, again steady growth in profitability, healthy growth on the key metrics. The balance sheet and liquidity continues to be strong, and we have added 3 million customers for the year. Our customer reach is now 1 crores customers across all our businesses. And the customer assets that we manage is about INR2.2 trillion rupees, INR220,000 crores.

I will not go update on the business by business because it's there in the presentation. Just a few highlights. EAAA, profitability growth of 31%, and we had INR230 crores of PAT in EAAA for this year. Mutual fund has shown a 40% growth in profit. ARC, the PAT has grown by 8% for the year, but ARC had a good recovery year. They recovered INR5,700 crores in the AUM this year. NBFC, we have reduced the wholesale book by 40% and the total borrowing of the NBFC is also below INR3,000 crores.

The Nido has been a steady year. We are now planning to pivot that and grow that, but the asset quality remains healthy with GNPA at 2.2%. Zuno has continues to grow and the losses declined by 61%. And the life insurance, the loss has come down by 20%. But more importantly, the Life Insurance business was profitable in the fourth quarter.

So first time we had a quarterly profitability, they made about, I think, INR23 crores PAT for the quarter, which has been very impressive. So all the businesses, they are executing well on the priorities that we have articulated in the past.

We are pretty confident that we'll continue to remain the same. So in a way, in a very exciting and news field world, I think our story remains the same. It was 3 years ago what is now. We continue to grow our asset management business profitability. We will get the insurance businesses to break even in the next 18 to 24 months. We are pivoting both our credit business, which both have a reasonable amount of equity between our NBFC and HFC, we have almost INR3,000 crores of equity, which we need to now sweat it and get some return on equity on that.

And with our focus on MSME and NBFC and the affordable housing in Nido, I'm confident we will get there. And hopefully, the next few quarters will show a clear trend on that. On ARC, we remain steady. We keep on focusing on recoveries. New asset acquisition is slow. For obvious reasons, there are no NPAs of scale in the banking industry.

So we continue to focus on recoveries out there. So along with that, I think I've covered most of the highlights, and as usually the most important part of the meeting is the interaction and the questions from you. So I end it here now and hand it back to the moderator to give you an opportunity to ask your questions. Thank you very much, once again.

Moderator: Thank you very much. Our first question comes from the line of Maulik Hitendrasinh Chaudhari from Monarch Networth Capital Limited. Please go ahead.

Maulik Chaudhari: I have a couple of questions regarding our EAAA business. So firstly, like what is the expected percentage of sticks in the Edelweiss as to selling the IPO? Second, what is the ballpark valuation that management is expecting?

Rashesh Shah: So I think you've asked the most important questions. I think the first one is easy to answer. We expect to dilute about 15%. So as you know, we own 100% of EAAA. We will dilute about -- expecting to dilute about 15%, it could be a combination of pre-IPO or IPO, whichever combo, we prefer to go with, but it will be about 15%. On the valuation, it's a business which is growing at 20% a year. We made INR230 crores of PAT in the last year.

We have more than INR45,000 crores of ARR AUM. I think you all as investors will decide what is the valuation of that. And we are pretty okay with that, what the bankers and all are indicating the ranges which are there. And as you know, the market is volatile, it goes up and down. But I think we are comfortable that it will be appropriately valued.

Maulik Chaudhari: And sir, my last question would be like with the recent ups and downs in the market caused by tariffs and tension with our neighboring country, how do you see the Indian economy and financial sector performing in the near future? And also, how do you think that this could mean for our own business?

Rashesh Shah: So -- and I think last few months, you've also shown. India is relatively stable. When the U.S. dollar was getting stronger, the rupee also fell against the dollar, but not so much. When the U.S. dollar fell the rupee appreciated but also not so much. The same thing about our stock market. I think we didn't have very big volatile days in the market as such because a large part of India story is India related. And even when we look at the Kargil War and all as long as it's not a full-scale war where anyway, I don't think any of us have an experience of what happens.

But unlikely, even in that India has shown that we are very responsible and grown up economy which is very balanced. So I think India's stability and resilience has got highlighted. We obviously are comfortable making our point of view, taking action where required. But we are not irresponsible. So all these are the good messages on that. So I think on the medium to long term, my India story, our India story remains the same.

I think financial services should grow at approximately 15% a year, give or take now different parts of financial services will go at slightly different rates. And our idea is that most of our businesses if we can manage a 20% to 25%, closer to 25% growth in value creation for the next 10 years, that is what we are focused on. Can we grow our value -- underlying value of the business by about 20% to 25% a year in the coming years.

And we are very focused on that. I think India will continue to give us opportunity on that. There is no doubt in that. If things change in the short term, 1 quarter here and there will always happen. But over the next 40 quarters, I think we are pretty confident of the story in India. Financial services, 15%. We want to grow at between 20% and 25%.

Moderator: The next question comes from Aakash from Dron Capital.

Aakash: So my first question is regarding the EAAA fund. It has grown at a CAGR of 20% and PAT at a CAGR of 67% over the last 3 years. What are your 5-year expectations? And what would be the strategic road map going forward?

Rashesh Shah: So as you know, our EAAA business is fairly unique. In alternatives business, there are mainly 2 categories. One is what we call growth investment strategy, which are mainly equity, private equity led and all that. And the other are what I call income and yield strategies, which are mainly private credit and real assets.

Because as we know, all investors, we need -- we want to either invest in growth or we want to invest in income and yield. In the past, I think equity markets, capital markets in India gave you only growth opportunities. We do think now from starting from REIT and InvIT to private credit funds to real asset funds and all of that, now you have a reasonable chance of making 14%, 15% kind of return via AIFs in income and yield strategy.

There are a lot of other absolute return funds and all in the market, which try to give some kind of yield and income strategies to investors. So our entire alternative business is largely built on yield and income. We are not in private equity because there are a lot of other good funds out there and competition is very heavy.

Competition is very heavy in the income and yield segment also, I must say. But we've been pioneers in that, and we have built a fairly large business on that. So I think the first distinction I would make is that we will continue to focus on that. We are fairly well entrenched. And again, we do think that giving -- I mean, different strategies have different returns, but about anything around 15%, 16% on a yield-oriented strategy has a lot of appetite, has a lot of investor demand in India.

There are a lot of investment opportunities also in that. So we want to continue to focus on that. This yield and income private credit real asset has grown in U.S. from 2008 onwards, and we have seen how it has grown in other markets. And we do think this will grow in India. We are hoping if we can grow, as I said, between 20% to 25% a year.

Last 3 years have been very good because now all the hard work of the last 13 years came together, we have truly taken off in terms of profit. So I would not expect the same CAGR of profit over the last 3 years to continue. But I think if we can grow our business at about 20% to 25% a year over the next 5 to 10 years, it will be a market-leading franchise in alternative investing.

It already is one of the leaders in the market in alternative asset management and we think the next 10 years does present a lot of opportunities. So that will be our ambition, that will be our aspiration.

Aakash: And my next question is regarding the HFC business. The PAT for the HFC business has been flattish over the past few years. Are we facing any challenges in terms of scaling up the business? What's your outlook towards like disbursements and AUM growth?

Rashesh Shah: Yes. Actually, in the housing business, we have pivoted, a, from an own balance sheet to a core lending model, and we have pivoted from what we used to call prime home loan to an affordable home loan segment. So last 3, 4 years, there is a lot of work that has gone in pivoting it. And while post-ILFS, we were also rechanging our architecture, we were very, very focused on getting this pivot right. So that did come at the cost of growth and we didn't grow the balance sheet in the old model as aggressively as we were earlier doing.

Along with that, we are building a very strong infrastructure at back end as well as partnership with banks like State Bank of India. So given all of that, it's been very flattish kind of the business from a profit point of view. But from the pivot point of view, I think we almost completed the pivot. And now I would truly hope to see growth coming back in that segment. Last year was slightly more muted also is because post-RBI order on our NBFC and ECL Finance, though it did not affect needle in a direct way we did become conservative and held enough liquidity so that if there is any aftermath or any collateral damage, we were more equipped.

So last year, our disbursement still went from INR1,100 crores the earlier year, the INR1,500 crores last year, but we could have grown more because now the platform is in place. The pivot has happened, our affordable housing products, our affordable housing loan products have stabilized. So we should hopefully start being able to grow in that.

Moderator: Our next question comes from the line of Aman from Dolat Capital.

Aman: I have a couple of questions. First is there has been a notable decline in consolidated net worth. Could you explain the reason behind this? Second, with the exit from wholesale lending, what is the guidance for the MSME lending business? While growth has been muted recently, where can we expect to see momentum? What are the growth projections for this business? Thirdly, Life Insurance has posted good profit numbers in Q4 of the year. Can we expect this momentum to continue? And are we on track to achieve breakeven by FY '27?

Rashesh Shah: Yes. On the last question, we do expect that the insurance -- the reduction in the loss and the improvement in the profit and loss account will continue. I think that trend is underway. And we do expect in 2 years to get to breakeven if the IFRS rules are implemented, then it might be earlier because IFRS rules will help with accounting profitability. But even if IFRS rules don't come, we are on track for that. And this quarterly trend will continue to showcase that. So that's the last one on the insurance business.

On the first question you asked about the reduction in the overall net worth. This has been largely because of the strategic markdown we have taken in the wholesale book in NBFC. So NBFC would have had an equity base of INR3,000 crores. They are at about INR2,100 crores because of the markdown they have taken. After that also, there are still with an equity of INR2,100, their borrowings about INR2,800.

So they are geared only about at 1.2 something or so. So they have a very high capital adequacy. They have a 32% capital adequacy. So they are fairly well geared in terms of available equity for growth. We have used this opportunity of taking the excess capital and using it to reduce the wholesale book by marking it down. But because the NBFC marked it down, the consolidated net worth has also come down. So NBFC networth is down by about INR1,000 crores.

So our net worth is also down by about INR1,000 crores. All the other parts of Edelweiss, including the holding company, there has not been any change. The ECL Finance, NBFC equity has gone down from, say, INR3,100 crores to INR2,100 crores.

Moderator: Our next question comes from the line of Sidharth Shah who is an Investor.

Sidharth Shah: Just on EAAA, I think ARR AUM has grown 6%, but the revenue saw a much bigger jump of about 34%, is that due to kind of a change in product mix where we're getting more yield on certain products? Or is it due to more like onetime carry income or something like that, that we are seeing? And two, maybe I didn't follow. But I think in ECLF, we had a INR1,000 crores kind of debt-to-equity conversion. So shouldn't the equity have then stayed the same post this INR1,000 crores write-off in that broadly INR3,200 crores range that was there about last year?

Rashesh Shah: So that INR3,200 was actually convertible debentures, so they were counted as equity last year also because they were convertible debentures. So from a Tier 1 capital adequacy point of view, it was not counted as full equity. But in what we were showcasing, it was counted as equity. So we converted those debentures to build up the capital adequacy. Then we are merging ERFL into ECLF to add another INR500 crores of equity in ECLF. And we are then using that to -- for the strategic mark-down so that ECLF still ends up at a fairly good capital adequacy of 32%. So that was how it was done.

Last year, the INR3,200 crores equity you would have seen included the convertible debenture in equity calculation, though it was not Tier 1 capital. On EAAA, what happens is ARR is usually an end-of-period number. We closed a lot of funds in the last quarter because various product approvals from SEBI and other things. Our last quarter in this year, saw a lot of funds getting closed. So that did increase our ARR revenue.

Because as you know, in private credit and yield strategies, as you are also exiting, you are paying out money. So money is coming in and money is going out. The first 3 quarters, we had some very good exits, as you know, because Indian markets and liquidity was robust. So until October, November, there were a lot of good exits were happening. So we got a lot of exits, which actually would have fallen the ARR revenue.

The irony of any alternative fund is when you have a good exit, which is good news, you are actually ARR AUM falls because you have now got the profit, you have made your investment return, but your ARR AUM falls. So we had very good exits in the first 3 quarters, and we added a lot of funds in the fourth quarter. So the ARR AUM has only grown by that. The overall revenue has grown because of the exits and it's not just the carry income. We also deployed quite a bit of the dry powder we had in the first 3 quarters.

And when you deploy in a lot of our credit funds, we get paid on deployments. The fee income goes up when you deploy, ARR goes up when you raise money, and your ARR goes down when you exit the investment. So it's a very complicated triangle that goes on. So there is not always a one is to one correlation between ARR end of the quarter and the revenue growth.

But this year, as you would have seen in the investor presentations, we had some very good exits fundraising as well as investments. So I think on all 3 counts, it was a good year. It's just that a few things happened in the first 3 quarters and others happened in the last quarter onwards.

Sidharth Shah: And maybe just one last question is on the INR670 crores top line in EAAA, is it possible to give a broad split of what would be the management income and what would be maybe carry income from the funds that you've guys exited or investments you realized?

Rashesh Shah: If you see in the last quarter, we had given an addendum along with that. But if you broadly I think see the P&L of that particular business, you can actually calculate that. We make about INR600 crores from INR670 crores of income on an ARR AUM about INR45,000 crores. So average is about both fee and carry put together post distribution fee because we also pay distribution costs, we deduct that. Post all of that, you end up making about 1.2% to 1.3% of your AUM as your top line.

And this business currently operates at about 55% to 60% cost/income ratio. So the best way to look at it is that. Now in a quarter-on-quarter, it may change a little bit. Like if you see the fourth quarter, our actually -- total revenue was only INR150 crores, which if you annualize comes in INR600 crores.

So -- and out of this year's income about 80% was management fee, 20% would be carry incentive income. But our cost income also has both the ongoing annual cost and the variable cost. So on that basis, we do think about anybody who wants to look at the alternative business and understand that getting about 1.2% to 1.3% of ARR revenue as the top line is a good outcome, and operating at a 50%, 60% cost-to-income ratio is a good outcome.

So on that basis, your PBT will -- if it is about 50, 60 basis points of AUM and your PAT is about 40 basis points of AUM is where this industry will end up. As compared to the mutual fund industry, which operates at about 10 to 15 basis points of AUM as PAT. So the profitability of alternate business should be about 3x the profitability of our mutual fund business on an average, if you compare industry to industry.

Moderator: Our next question comes from the line of Shobhit Sharma from HDFC Securities Limited.

Shobhit Sharma: Sir, I have questions on your mutual fund business and your general insurance business. Firstly, on your mutual fund business, sir. We have seen a good growth in equity AUM. So can you help us understand what are the key factors which are driving this?

And what's our expectations on this? And secondly, what are the major distribution channels who are helping us to grow in this business? And lastly, some of the large AMCs have rationalized their payouts to the distributors. How much is this impacting our businesses? Then I will come again on the GI General Insurance questions.

Rashesh Shah: Yes. Actually, we have Radhika Gupta, who is the Managing Director of Edelweiss Mutual Fund. So Radhika, will you answer this?

Radhika Gupta: Yes. Good afternoon. Thank you for the question. So I just take the 3 questions order-by-order. I think in terms of equity AUM, it has been on journey. And if you were to ask me, the key drivers are to 2. One is across the board, our funds have demonstrated consistent performance, consistent quartile 1 and quartile 2 performance and not over a 1-year period, now over a 1-, 3-, 5-year period. In fact, we were just awarded Best Asset Manager by Morningstar this year.

And increasingly, our distribution partners and investors are taking note of the consistency and product performance across all our equity products and that is contributing. Secondly, over the last few years, we worked very hard to grow our distribution reach. Both our reach in unorganized counters like MFD channels and also increased market shares in counters like NJ, Prudent and also banks.

So rising distribution reach consistent product performance. And third, as we've talked about on past earnings calls, we've been expanding the scope of geography. So from about 20 locations, 5 years ago, we are now closer to 60 locations. And we are seeing presence and uptick for the brand in many of these locations. The second question was in terms of channel reach. So if you look at our channels, about 75% of the assets come from either MSD, which is mutual fund distribution or your aggregators of mutual funds, which are people like NJ and Prudent.

So essentially, this is all mutual fund distribution. About 10% to 12% comes from banks and the balance comes from direct. We have seen an uptick in our direct mix but distribution remains the core. And as I said, in key distribution like NJ, prudent and also MFDs, we are seeing an uptick in our distribution reach. And we expect that to continue. So if I were to look at equity AUM, I would hope that equity and fee earning AUM will grow at 20% to 25%. And that, of course, will lead to commensurate growth on the revenue and PAT side.

On years and brokerage to the question, I think each AMC at different point in its evolution takes different decisions. For us, it is a fine and important balance between finding and continuing to sustain our equity growth and build a book and also managing yield. So we want to be sensible in terms of the kind of brokerages and yields that we want to pay out. But we also want to grow our distribution and grow our book. So it is a fine balance, and we are trying to strike that balance going forward.

Shobhit Sharma: Sir, I have 2 questions on the GI side. Firstly, sir, large players on the GI side have been guiding that the competition on the motor lines of business has increased. But for Zuno, we have seen we have grown quite rapidly as compared to the industry growth. So what has been our strategy for growth on that side? And if you can help me with the combined ratio and claims ratio for Zuno, that would be helpful for full year.

Rashesh Shah: Yes. I think on the first one, our strategy for growth has been actually, first and foremost, very focused on innovation because we do think that there is a lot of product innovation that is inherent and possible in the business. So we do focus a lot on product innovation. We also focus a lot on customer experience management. So if you look at our policies, they're very simple, easy to understand, our call centers, we have no interactive voice response system in our call center. We do -- we have no real targets for agents on our call center on completing a call fast.

So we do get a lot of good feedback on that from our -- from all the customers that we have in that particular business. So I think we have focused on customer experience, product differentiation, and that is what allows us to grow. We're also very careful about the cost and all of the -- and there is a lot of competition out there in the market, which is putting a lot of pressure out there on everybody.

In terms of our critical ratios, in our combined ratio, we average between 122% to 123%. It comes down because there is a part of combined ratio cost, which is your overhead cost, which comes down as you keep on growing. So as you know, a good company in India as a combined ratio is about 105%. So we want -- we want to go towards that. We want to -- we have increased -- improved that every year for the last few years used to be 135%. Now we're at 120%. We want to get to 114%, 115% in this year come down and then get to 105% when we get to breakeven.

At about 107%, 108% is very breakeven in the business. And if you look at our trend over the last few years, we are on that path. We are focusing a lot on cost and productivity and all and keeping the overheads and all as much under constraint as possible. We also pick our distribution cost and try and achieve as much efficiency as we can in that.

And the third is, obviously, the loss ratios and all that. So we have a good portfolio mix between third-party motor and motor OD. We are very good in auto insurance, but especially a lot in car insurance. Car insurance is our forte. We have really some strong advantages in product differentiation and in customer experience in that, and we do capitalize on that as we go along.

Moderator: Our next question comes from Pradyumna Choudhary from JM Financial Family Office.

Pradyumna Choudhary: My first question is, so if you look at the mutual fund business, the AUM seems to have grown really well, but somehow, that's not translated into revenue growth from a quarterly perspective as well as from an annual perspective also. So what's the reason for the same? And also, if you look at -- if we look at opex, also, it seems to be much lower than same quarter last year. So could you just explain this?

Rashesh Shah: Do you want to handle that, Radhika?

Radhika Gupta: Yes, I can do that. So if I -- just one second, Rashesh. I think there's an echo now.

Thank you for the question. So if I just look at mutual fund revenue growth over a -- instead of quarter-on-quarter may be a 5-year period equity AUM growth has been 55% over the last 5 years. This is in the annexure also that we provided. Can you hear me clearly? Yes. Okay. This is in the annexure that we provided.

In the same period, revenue growth has been about 40% CAGR. So equity AUM growth is translating into revenue growth. Obviously, when there is growth in equity AUM in the early days, when a scheme grows from, I would say, INR500 crores to INR2,000 crores, INR3,000 crores, there is very sharp fall in TER slab. It goes from 2.25% to something like 1.75%.

So some of the hit comes on revenue. But net-net, we've seen a 40% revenue CAGR over the last 5 years. And I think on a going-forward basis also, as I said in another question, it would be fair to expect 20% to 25% equity AUM and also equivalent revenue growth on a going-forward basis.

In terms of opex, I'm just looking at the numbers. Actually, if you look at our opex ratio as a percentage of AUM, it's typically in the 10, 11 basis points range it's commensurate to what some of the scaled AMCs are. So while we always work hard to keep improving opex efficiencies. On a stand-alone opex basis, even compared to scale AMCs, actually, we've grown fairly efficiently. We don't have as many branches. We rely far more on digital infrastructure. Our teams tend to be a lot leaner. So opex to AUM actually shows that we are reasonably efficient.

Pradyumna Choudhary: Actually, my question was quite specific to this quarter. If I look at revenue, it's actually declined compared to Q4 FY '24 and same for opex. So I was trying to understand from that perspective. Revenue in current quarter was INR58 crores versus INR78 crores in the base quarter.

Radhika Gupta: Okay. So we had -- yes, so specific to that quarter, we had AIF alternatives, a small public market alternatives business within the AMC business. And there were some funds that were transitioned out so the revenue for those would have shown up in March quarter last year and the opex for that would have shown up in March quarter last year. It's a onetime item.

Pradyumna Choudhary: Yes, that clarifies it. And second question was on the life insurance. So we've already turned profitable as of Q4 in the quarter, which just went by. So we expect this profitability to sustain or we expect that there could be some here and there in terms of profitability before we actually go towards sustaining these numbers in life insurance?

Rashesh Shah: So yes, I don't think we will be profitable in the coming year because we still incur some losses. So Q4, as you know, almost about 35% to 40% of the business happens in fourth quarter. So last year, fourth quarter, we broke even. This year, fourth quarter, we made a INR23 crores profit.

So overall, on an average on last 4 quarter basis, the trend is coming down of the -- how much is the loss every quarter, it is coming down. We will still take another 8 quarters to get to breakeven. So overall, if you want annual breakeven, we are 2 years away. But in these 2 years, there will be some quarters we'll break even. But on an annual basis, we are still 2 years away.

Pradyumna Choudhary: All right. And sir, last question is on...

Rashesh Shah: No. And I was just adding and the quantum will keep on coming down. So there is a clear downward trend in what is the average loss per quarter.

Pradyumna Choudhary: Understood. My last question was on EAAA. The growth -- the growth for FY '25 was around 9%, the AUM growth. So how should we really understand this? Any particular reason why it was slow for FY '25?

Rashesh Shah: If you see the slide on the presentation, FY '25, we had quite a few realizations also. I don't know if you have the investor presentation in front of you. But to give you an idea, in Q4FY '25, we did about INR3,700 crores got deployed. So when the deployment goes up, our fee income goes up, our asset management fee income goes up. But we also had INR2,100 crores realization in this quarter.

So on that basis, a lot of your ARR AUM growth is like a stock item, but some ARR AUM is already earning fee because it is deployed. Some is going earn fee because it will be deployed in the next quarter. So in this year, our focus in the last quarter, we did a lot of deployment in the last quarter. So if you see the income has grown, but at the same time, we also had a lot of realizations and we raised a lot of money in this quarter.

So overall, they don't move in sync on a quarter-on-quarter basis, you have to see the longer-term trend. Internally, we look at an average of the last 5 to 6 quarters as the trend. The real trend because like if you close the fund in 1 quarter and you don't close another fund for 2 quarters, then your ARR AUM will not show the same steady growth rate that has been there.

So idea is to, because there is some episodicity and idiosynchronicity in the alternative asset management business. So the idea is to look at it as a trend line. And as I said, the broad parameters or whatever is your ARR revenue, about 1.2% to 1.3% is a good income from that. And if you can operate at a 50% to 60% cost income ratio, it's a good efficient business.

This year, we have come down in a cost income below 60%, which is a good thing. We used to be at 85% cost-to-income ratio 3 years ago. So as scale is coming up, costs are coming down, your cost income ratio is improving. If you study other companies like Nuvama, which was earlier Edelweiss Wealth Management, that also, you will see a steady coming down of the cost-income ratio.

So usually, most of this kind of businesses, we do first try and get scale. Once we get scale, then we focus on bringing down the cost income ratio and improving profitability. In fact, in the mutual fund business, also, if you put the same framework, you will see a clear improvement.

Moderator: Our next question comes from the line of Amit Jain from Axis Capital.

Amit Jain: I had 2 small queries. First is that on your general insurance business. So we see that we have done a good job in addressing the losses from INR123 crores in FY '24 to INR48 crores in FY '25. So do you still envisage that this can become profitable in FY '26? Or it's again going to take 2 years on an annualized basis to breakeven on this business. That's number one. Number 2 is in terms of the corporate business.

So we see that this tends to remain very volatile. So in Industrial, there was a profit of INR70 crores. In this year, there was a loss of INR31 crores. So how should we interpret this business in the overall scheme of things?

And number 3 is on the overall profitability. Now if you see that overall, if you see the profit from FY '24 to '25 has seen a marginal decline. So while I understand that a large part of this would be driven by the NBFC business, but how should we look at over the next, say, 1 or 2 years, how -- where should this number be planning? Yes, that would be all from my side.

Rashesh Shah: So I'll try and remember the question you have asked, but if I forget please remind me. First is on the general insurance business. It's been a great improvement that we have seen this year. We're very happy with that. I think growth is happening and your -- and there is an improvement in the PAT number. I think we have about 5 to 6 quarters away from breakeven.

So FY '26 may not be a breakeven, maybe hopefully fourth quarter, we might end up seeing a positive number. But overall, if you see, we are about 5 to 6 quarters away from breakeven in the general insurance business and 8 quarters away from the -- in the allied business that we have maintained and we are on track for that. We are hoping that we keep on pushing the envelope and getting that done. So that is one.

On the corporate side, there is volatility because the corporate has actually 2 or 3 things. One is obviously the holding company expenses, which is a very steady number. It also has interest cost on the corporate borrowing that we have. And the third we have is we get capital gains when we do a stake sale or any of the underlying companies. And we have some other assets investment portfolio. Also sometimes when we exit, we do get some gains in that.

So the corporate profitability will be volatile because of this -- because the third item is very episodic. The corporate opex will stay steady and the corporate interest cost will keep on coming down because as we repay the debt. So as you can currently also see with INR6,000 crores odd debt, corporate that itself will be about INR650 crores, INR700 crores burden on the corporate account every year. But against that, we have some income, we'll get some capital gains. We have some investment income, all of that comes and goes.

So on a quarter-to-quarter basis, corporate number will stay volatile. But our current focus on that is to reduce the debt. So if we bring down the debt as our plan is, and as you have seen, we have brought down debt by a couple of thousand crores every year on the corporate side. If we continue on that, then that couple of thousand crores should save you about INR200 crores to INR250 crores a year in terms of the P&L. And that will be the biggest change for the corporate account. And the last question was what, sorry, you had a third question?

Amit Jain: Just on the overall profitability. So we have seen a marginal decline on our overall PAT basis. So how do you see this in FY '26 or '27, maybe? Can we see your marginal growth come from the current levels or to improve in practice, some thoughts around that?

Rashesh Shah: So first our primary focus is on individual businesses, to be honest with you, because that, for us, is the main driver of our profitability. So if you look at the numbers and in our investor PPT, if you look at Slide number 19 and 20, this year, consolidated PBT was up 83%. If you look at the PBT, but PAT was more or less flat or a slight decline because there was a tax element that came in.

So the first thing is to see are the business profit, where EAAA went up from INR175 crores to INR230 crores, our mutual fund went from INR38 crores to INR53 crores, ARC went from INR355 crores to INR385 crores. NBFC was the one there was a fall because of the RBI order last year. Nido was flat but Zuno improved from minus INR123 crores to minus INR48 crores and life insurance improved from minus INR157 crores to minus INR127 crores. However, corporate went from plus INR70 crores to minus INR30 crores.

So I would keep corporate out of it and just look at the improvement in each of the individual business at the first stage. As I said, corporate will always be slightly volatile. And given the capital gains and other taxes and how they apply there will be some swing on PBT to PAT also.

All this should normalize in the next 1, 1.5 years as insurance gets to breakeven as we repay some of the corporate debt and as our stake sales also stabilize, then a lot of that volatility will go away. But the first one I see is the individual profit growth of the businesses, EAAA, mutual fund ARC, NBFC. So except NBFC, which had a fall this year and Nido which was flat all the other businesses have shown significant improvement in their PAT numbers.

Moderator: Our next question comes from the line of Kartikeya Mohata with Motilal Oswal Financial Services Limited. Sorry to interrupt, sir. Before you go ahead, may I request you to use your handset, sir. Your audio slightly low, sir.

Kartikeya Mohata: Yes, is it better now?

Moderator: Can you go ahead, sir.

Kartikeya Mohata: Yes. So I have 2 questions on the mutual fund business. The first was with the rising competition in the industry with new entrants coming in, what is the differentiating factor for our AMC business that will make us increase the market share that we have and second is the new product that the regulator has given approval for the SIF. We've seen a lot of new -- a lot of companies asking for approvals for that product. So what is -- are we going to ask for any approval for sale for that product?

Rashesh Shah: Yes. Radhika?

Radhika Gupta: I think the mutual fund industry has always been competitive. And I do foresee an increase in the number of mutual fund players that are out there in the market, but I think it's always been a competitive place. In terms of our differentiators, I would say 3 very, very clear ones. One, we, as an AMC, have been very focused on product innovation bringing first of its kind products to the market, and that has really worked in helping us build a hook with distributors and investors.

If you look at other bonds or the whole target maturity suite of ETFs, one of the first and largest teams to do factor-based investing, one of the first AMCs to be large in the space of international funds, I think product innovation in each category continues to be a differentiator.

The second is the platform that we have. Unlike most asset managers, where there's an equity and fixed income platform, we have a 3-prong platform, traditional long-only investing, factor-based investing, which now other asset managers are investing in, but we've been doing for the last 10, 12 years and fixed income. And across all 3 unlike many boutique AMCs which focus on 1 niche -- we actually have products and track record across all these 3 capabilities.

And third is the engagement that we focus on with distribution. So one of the reasons our distribution reach has grown is the amount of ground effort and ground engagement that we do with each of our channel partners in terms of training, education content, continuing on social media. So I think these are the things that give us continued competitive strength and opportunity to increase market share in this business.

As far as the second question, the new product, which SEBI has christened Specialized Investment Fund or SIF -- we're certainly very, very excited about that product. And we hope to be one of the first AMCs to have a product out there in the market. I would hope, subject to the regulatory approvals, we should have a product out in the next 3 to 6 months.

One of the benefits of a platform like ours is that we already have the talent to launch funds in the 7 SIS categories. We don't need to build out a new team. We can leverage the existing manufacturing and asset management capability to just launch products on a different kind of platform. And hopefully, you will see that in the next 3 to 6 months.

Moderator: Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference back to Ms. Priyadeep Chopra for closing comments.

Priyadeep Chopra: Thank you Rico, and thank you all for your time today. Please do write in to us at Edelweiss Investor Relations for any questions or additional information that you may need. Signing off from our side today. I'm sure Rashesh and Radhika would want to say bye too. Thank you all for joining us.

Radhika Gupta: Thank you, folks. It was lovely talking to all of you.

Rashesh Shah: Again, thank you to all of you for taking the time out and really enjoyed all the interactions. Bye-bye.

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