Management Discussion

Priyadeep Chopra - President, Edelweiss Financial Services Limited
Thank you very much, Renju, and good afternoon everyone. A very warm welcome to our earnings call today. We have on the call with us Rashesh Shah, Chairman of Edelweiss, Ananya Suneja, Chief Financial Officer of Edelweiss Financial Services, and Amit Agarwal, who is the CEO of Alternative Asset Management Business. We hope you all had a chance to review the investor presentation that we filed. This quarter, we've also filed a deep, in-depth presentation on our alternative asset management business, and during the discussion, we will be making references to it. Please do take a moment to 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 some risk and uncertainty. With that, I'll hand over the call to Rashesh to begin the proceedings. Thank you all, and over to you, Rashesh.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Priyadeep, thank you, and good afternoon to all of you on this quarterly earnings call. There is a lot of excitement going on in India, and I'm sure all of you have a very busy schedule, but the fact that all of you have joined on this call, a few times in the past also, and have come today, we are very thankful, and thank you once again, and a warm welcome. I'll just kick off by saying there is not much to speak about the external environment. The last one year, there has been volatility, but within that volatility, there has been stability. I think India has, obviously, also been affected by the global volatility, oil price, the Iran war, but within that, our markets have been stable, our economy has been stable. The government and RBI has done great work, so I won't speak too much about that. I think India continues the way it has continued for many years now.But coming to Edelweiss, we have had a good quarter. Our consolidated profit, after minority interest, has grown by 83% on a YoY basis. We had 122 crores profit after tax consolidated for the quarter. The key highlights for the business have been, first, of course, is our alternative asset management business, EAAA. The CEO of EAAA, Amit Agarwal, is also on this call, and after I finish, maybe he'll say a few words, and then we will start on the Q&A. Alternative asset management business, where we are one of the leaders, continues to grow well. Our fee-paying AUM, which is the most important metric, has grown by 27% to 48,623 crores. Quarterly profit has grown by 45% for the first quarter. We clocked 81 crores PAT for the business, and we are currently at a 29% ROE on this business. Afterward, Amit will say a couple of words. We are obviously working towards an IPO for this business, so there is only so much we can say, given the DRHP and all, but it's a very exciting phase for that business for us.Our other asset management business, the mutual fund business, has also grown equity AUM by 32%. We are, at the end of June, we were at 96,000 crore equity AUM. After that, obviously, we have crossed that in the month of July, but again, it also has had a good growth clip going on.Our Zuno business, the general insurance, has also had a good quarter. Our GWP increased by 58%, and we are very focused on the motor side, and the motor insurance has been growing pretty well.The other good news is that on the wholesale book, ECL Finance, we have been winding down the wholesale book, the SRs that we have had, and we are now down to 600 crores from a peak of 18,000 crores. So, the project on wholesale wind-down is almost over. I think at 600 crores, we are very comfortable that in the next few quarters, this will go to zero, but what was 18,000 crore a few years ago is zero. So, I think our wholesale scale-down has been a good clip on this quarter.Our Edelweiss Asset Reconstruction Company also has started growing again. We are acquiring assets. We are seeing a lot of NPAs in the banking and NBFC system, so we are seeing good growth. That business

also has achieved a 13% annualized ROE for the quarter, so our focus on that business has been on ROE. As you know, we've been clipping along at 10% to 11% ROE, but we want to be at 14%15% ROE in that business, and the ROE improvement has occurred.And lastly, the most important one, both our insurance businesses continue to be on the path to break-even, which should be break-even for the year FY'27. A few of you had asked us whether break-even will be by the fourth quarter or it will be for the year FY'27. We are on path to our stated target of break-even in the year FY'27.Along with that, we continue to grow our customer franchise. Our total customer reach has now become 14 million people. It's grown by 30% YoY, and we have a total customer assets of 2.8 trillion rupees. So, that has also grown by 23% on a YoY basis.I think all our businesses continue to be well-capitalizedgood capital adequacy, good solvency in the insurance business. On the strategic areas that we continue to remain focused on, one is EAAA listing. It is on track. We expect to do the IPO by the third quarter of this year.The Carlyle investment in Nuvama is progressing. We are in process of getting all the regulatory approvals. We expect to close this in the next four weeks.Scaling up of the profit after tax in asset management businessesboth of them have had a good growth. EAAA profit has grown by 45%, and mutual fund profit has grown by 33%.Our insurance businesses are on the path to break-even, and our credit businesses have started scaling up very carefully. Housing Finance AUM has grown by 14% YoY, and our MSME AUM has increased by 94% YoY. It's still a small book; our AUM is only 1,700 crores, but our disbursements for the first quarter have tripled YoY basis.So, on virtually all fronts, whatever was our plan, we continue to execute on that. The other news in alternative asset management is that we achieved a full exit in our first Infra Yield Fund, EYIP 1. It is now a full exit. All the money has been returned to investors. And the other is, we continue to strengthen our operating asset management platform called Sekura, because as Amit will explain, in EAAA, Sekura is a very important part of the platform of managing assets.So, other than that, there is a lot of details in our presentation. Mutual fund continues to grow. ARC acquired 300 crores of recent retail assets in this quarter, and we recovered 304 crores in the quarter.Housing Finance AUM is now 4,900 crores. Housing Finance, we have had to readjust the strategy because the co-lending model that we were working on has undergone a change as per the new RBI rules, so we have recalibrated the strategy in that business.In the ELI, Edelweiss General Insurance, we have a gross premium of 287 crores for the quarter. We issued 9,363 policies for the quarter, and more important, our embedded value now is at 2,306 crores in that business. We still continue to remain focused on par and non-par products in the insurance business.So with that, I think I would sum up and maybe just hand it over to my colleague Amit Agarwal, CEO of EAAA, to say a few words, and then we can open it up for questions. Over to you, Amit.

Amit Agarwal - Chief Executive Officer, Alternative Asset Management, Edelweiss Financial Services Limited

Thank you, Rashesh. Hi, everyone. Edelweiss Alternatives is a journey which we have started in 2011, a journey that we are truly proud of, and a journey that has actually made us one of the leading alternative asset management platforms with 48,600 crore-plus of fee-paying AUM, with a PAT margin of 24% plus, and nearly a 29% ROE. Alternative asset management is still in a very nascent stage in India, with a very low penetration of nearly 3%, as compared to nearly 25% plus in the US on GDP basis. We do think that this business is an interesting cross-section of rising private wealth in the country and the rising need for getting yield and income on that wealth. Yield and income is one of the verticals that we have focused upon, and that has been the fastest-growing segment of the alternatives business. We are quite excited about this journey, and as Rashesh said, we can say only so much given our current DRHP filings, but we have put out an addendum which gives a lot

more details about this business, and happy to take any questions on that. Thank you.

Questions & Answers

Operator
Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question comes from the line of Jeel Lunagaria with Equirus Securities. Please go ahead.

Jeel Lunagaria - Analyst, Equirus Securities
Yeah, thank you. So, I had multiple questions. So, sir, firstly, you mentioned about the EAAA IPO that you are planning it in the third quarter of FY'27. So, looking at the current in-to-market conditions, is there any possibility that we can expect it earlier?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
So, I'll get Amit to answer that. We have started our roadshows and all thator sorry, we are about to start our roadshows and all, and we want to do a good marketing and all. So, I think as per now, October looks like a good time for us to achieve that. So, I think August and September, we want to make sure we have time for the investor roadshows. But Amit, you want to add something?

Amit Agarwal - Chief Executive Officer, Alternative Asset Management, Edelweiss Financial Services Limited
No, Rashesh, I think this is perfect. We are following the process, and we do think that given the current state of process, October seems like a good timeline.

Jeel Lunagaria - Analyst, Equirus Securities
Okay, so when can we expect the RHP?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
The DRHP is already filed. The RHP will be filed, Amit, by when?

Amit Agarwal - Chief Executive Officer, Alternative Asset Management, Edelweiss Financial Services Limited
So, I think it is filed as close to the listing date as possible. So, we are with the bankers, and they are guiding us, and there are counsels, Rashesh, who are guiding us, and we will do it in an appropriate time for the listing.

Jeel Lunagaria - Analyst, Equirus Securities
Okay, okay, understood. And secondly, I wanted to understand regarding the products and strategies. So, could you tell us more about the economics of yield and income strategies of EAAA? And additionally, with the eight strategies that are currently across these verticals, how do you see the product suite evolving going forward? And also, you recently launched the private equity fund, so are there any other alternative asset categories that you are exploring to enter? And also, could you share the target fee-paying AUM mix in the medium term?

Amit Agarwal - Chief Executive Officer, Alternative Asset Management, Edelweiss Financial Services Limited
So, we cannot make any forward-looking statements or any target AUMs on this business. What we can tell you is currently we have these eight lines of businesses, private equity being the latest line of business that we have recently added. And our current total income yield, as you see for this

quarter, is around 2.89%, which is also mentioned, and our PAT yield is 0.69%. So, this is the data. More data is available in our DRHP, and it is in those lines that we are continuing to have. This is a very sustainable business model, and it focuses on generating superior risk-adjusted returns for our clients, and that is why you see yields in this business also very strong, because as Rashesh mentioned, we are focused on creating alpha through our operating capabilities inside Sekura and looking at building those assets on a superior risk-adjusted return basis. Thank you.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
I would add another parameter to look at in this is the PAT yield. So, if you look at most of the mutual funds in India, the PAT yield varies from 20 basis points of AUM to 40-45 basis points of AUM at the very upper end. I think in alternatives, for most of the businesses, if you look at others like 360 ONE and others, the PAT yield is usually between 50 basis points to 100 basis points of the fee-paying AUM.

Jeel Lunagaria - Analyst, Equirus Securities
Okay, understood. Coming to my last question, regarding the listing of Edelweiss AMC. Over the past year, we have seen multiple AMCs listing, with HDFC Mutual Fund as the latest one. Is listing Edelweiss AMC something you would consider over the medium term? How should we think about the long-term capital market strategy for this business?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
I think in the mutual fund, obviously, we remain focused on growth and innovation. To just make a general statement of all our businesses. At the right time, we would like to list all our businesses. We want to not exit the business, but we would like to get them listed by selling or IPO-ing with a small stake or even looking at demergers and all that. Because we have found that being listed gives a lot of strength to our business. Institutionalization, continuity, stability, governance, guardrails, all of those become stronger. Even on the Nuvama front, after we spun off the business, we have seen how strong the growth has been, but how strong the platform has become. On all our businesses, insurance businesses, asset management business, at the right time, we want to make sure that the IPO timing, listing timing is right for the business.Eventually, we would aspire that all our businesses should be listed independently on their own.

Jeel Lunagaria - Analyst, Equirus Securities
Okay, thank you so much. That was very helpful. That's it from my side.

Operator
Thank you. Next question comes on the line of Rajiv Rangwani with HDFC Securities. Please go ahead. Mr. Rangwani, please go ahead.

Rajiv Rangwani - Analyst, HDFC Securities
Yeah. Can you hear me?

Operator
Yes.

Operator
Yes, please go ahead.

Rajiv Rangwani - Analyst, HDFC Securities
Sorry. My question is that the ROE for EAAA has improved to 29% this quarter from around 26% in FY 2026. As this platform continues to scale, how should we think about sustainable ROE over the medium term? Also, FPAUM and PAT also have shown very good growth in this quarter. What are your aspirations for FPAUM and PAT growth over the next few years, and what will be the key factors driving this trajectory?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Again, it's hard to make any forward-looking statement on how it will grow. Our approach has been that it isn't like any other asset management company which will have fairly good dividend payout from the profits that it makes. I think an ideal good asset management company should distribute, say, 50% of their profits as dividend, and the balance can be retained for growth and other, because in this business also you have to make some co-investments in your funds. I think given all of that, we do feel comfortable that the current ROE is pretty healthy. A good asset management business should make about 30. I think between 25%-35% ROE is a good target for an asset management business. Our business will evolve. As you can see, we are creeping along.For us, the first and most important parameter is the fee-paying AUM, which over the last few years has grown at about close to 25%, if you see that, and we would be keen to maintain that growth. I think fee-paying AUM, if it grows, then most of the other economics is fairly automatic. I think this is a good ROE on this business.

Rajiv Rangwani - Analyst, HDFC Securities
Okay. Following the WestBridge transaction in the mutual fund business and the proposed listing of EAAA and ongoing transaction with Nido also, what are your plans to unlock value across the remaining businesses? Given that insurance business is also expected to break even this year, are there any plans to pursue value unlocking in these businesses?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
I think if you look at value unlocking, as you know, we have a two-pronged objective. One is to look at recycling our capital and also reducing the corporate debt. You would've seen the corporate debt has come down in this quarter. We'll continue to bring it down. We, of course, have assets like office building and property and all, which can support the debt, but we want to bring down the debt. With the Nido transaction, with the EAAA transaction, I think this year we'll get into a comfortable zone for where we want to be on the corporate debt. Our objective number one was obviously to use the capital for reducing corporate debt. Objective number two is, as I said, to unlock value, make these businesses independent, and use that value to share with the shareholders of Edelweiss. We continue to evaluate that.

We are in no hurry because our businesses are growing pretty well. As you would've seen, not just the last year but the last three, four years, all our businesses have maintained a pretty good growth rate. As long as the businesses are growing and we don't need to raise a lot of capital to reduce debt, we will do it for the business strengthening and the value unlocking perspective. We keep on getting a lot of inquiries from many people on insurance and others, and we just evaluate. We are very open-minded. We evaluate everything. We have learned the importance of having good investors in the individual businesses. We'll continue to evaluate, and now our focus is on Carlyle, the Nido transaction, and the EAAA IPO.

Rajiv Rangwani - Analyst, HDFC Securities
Okay, thanks. I'm done.

Operator
Thank you. Next question comes from the line of Shriyansh Jain with IIFL Capital AMC. Please go ahead.

Unidentified Participant
Yeah, hi. Thank you for the opportunity, sir. Just a couple of questions. Like Zuno delivered around year-over-year growth this quarter, with the motor segment growing nearly 20% year-over-year. It was significant ahead of industry growth. Could you please elaborate on the strategy on this side, like driving this strong performance and also beyond the motor insurance, which product categories do you see as the key growth drivers after this?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Yeah. If you know, on the Zuno, we are very focused on the motor insurance. As you know, the two large segments in insurance are motor and health. We have not focused on health because we think the others with stronger advantages and a stronger network, and because we can only focus on what our strengths are, our focus has been on motor. We have done a lot of work on innovation, data-based underwriting. We also have products like pay as you drive and know how you drive, and we focus a lot on telematics and just, I think, innovating products which meet the customer needs. Along with that, we also strengthened a lot of our OEM partnerships for getting distribution. As you know, motor has been doing well for the last two quarters. The car sales in India have improved.That car sales have given us a tailwind, but our own innovation and the OEM partnerships we have has allowed us to have this growth. In the business, I think on the car insurance, we have maintained a 40% average growth for the last four, five years. We continue to be on that trajectory. This quarter was exceptionally good because quite a few things fell in place at the same time. Overall, we have maintained on auto insurance about 40%-41% growth over the last five years.

Shriyansh Jain - Analyst, IIFL Capital AMC
Understood, sir. Sir, another thing, it was relatively soft quarter for Nido with a small reported loss. Could you help us understand what was the main reason behind this?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Nido, there were two things in this quarter. One was, as you know, the co-lending rules got changed in the last quarter by RBI. As a result of that, we have recalibrated. Earlier we used to originate and sell down immediately, the DA was immediately with your co-lending partner. Now we originate and we have to hold it on our books before we sell down. That has required some amount of more capital getting allocated to holding the assets on your business until 180 days are over, because we are still pursuing an asset-light model. I think that co-lending change affected the business. Along with that, we are getting ready for an expansion post Carlyle investment. We have opened some new branches. We have recalibrated a lot of our processes on standardizing underwriting across branches and all that.There has been a lot of organization building work that we've been doing on strengthening the business for growth in this quarter. That coupled with no co-lending income has resulted in this. We remain confident that once we close the Carlyle deal, the additional capital comes in, the next innings of growth for this business will start.

Shriyansh Jain - Analyst, IIFL Capital AMC
Okay. Agreed with you, sir. Thank you.

Operator
Thank you. Next question comes on the line of Siddharth Shah with SRS Capital. Please go ahead.

Siddharth Shah - Analyst, SRS Capital.
Yeah. I had two somewhat similar questions.

Operator
Mr. Shah, sorry for interrupting. We cannot hear you. Can you speak a little louder?

Siddharth Shah - Analyst, SRS Capital.
Yeah. Hi. I had two questions on EAAA. I think in this quarter, FP AUM grew 27%, but our revenues grew 50%. Similarly, if you look at the EAAA presentation over the last few years, revenue as a percent of FP AUM has gone from close to 2% to nearly 3% yield. Can you, for both those instances, help us understand what's driving that? Is it product mix change? Is it carry income or something else? ?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Yeah. Amit, you want to answer that?

Amit Agarwal - Chief Executive Officer, Alternative Asset Management, Edelweiss Financial Services Limited
Understood.Our business is obviously in a flywheel effect. This business has built over a period of time. Across, as we go along the path, we have more AUMs getting added, and the margins are quite strong and robust. This business actually scales up over a period of time very significantly. Here, also in this business, scale starts giving you a lot of, what I would say, advantage over a period of time. This has happened in the U.S. over the last 30 years where Blackstone from $3 billion as today become a $1 trillion plus sort of an asset manager. This has happened over a period of time in the U.S. in a very deep way. This is both a flywheel effect, a change in terms of the mix, the product.We've added private equity to the portfolio, which is a small fund at this point of time, but our yield and income funds have also started becoming stronger franchise with the client because we are in the third and fourth vintages now. Vintages matter in this business a lot. Vintages also reflect the client confidence in the product, and that all allows your revenues to grow steadily. We do think that the growth will continue, the momentum will continue, but at this point of time, we are also generating a lot of our carry is getting or variable additional returns are getting materialized as well. It's a combination of all the factors put together.

Siddharth Shah - Analyst, SRS Capital.
Understood.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
I would just add, Siddharth, that what happens in alternative asset management unlike a normal mutual fund or a normal NBFC, here when you exit a fund, you actually make a good return because a lot of the carry comes in. As I said, in this quarter, we also exited our EIYP I fund. We now have a series of funds which we had raised eight years ago, which are all now getting towards the closure exit mode and all that. We have eight strategies. Every year, every quarter, there are some older

funds which are exiting. The best time for a business like alternatives is after 11, 12 years have passed, where a lot of your older funds have now been proven, the exits have started happening.In the AI business, a lot of your, especially in yield and income kind of strategies, a lot of your upside really comes from the second, third fund and when you exit the businesses. It's a very back-ended business. We are now getting the tailwind benefit of this business being 14, 15 years old.

Siddharth Shah - Analyst, SRS Capital.
Understood. That's very helpful. Thank you.

Operator
Thank you. Next question comes on the line of Sujal Chandalia with Wallfort PMS. Please go ahead.

Sujal Chandaliya - Analyst, Wallfort PMS
Hello. Thank you for the opportunity. I have a couple of questions from my side. Firstly, what is the current mix of domestic and offshore clients in alternative asset business? Have recent geopolitical developments and market conditions impacted this mix? Are there plans to expand into new geographies? Additionally, how do you expect the mix of retail and institutional investors to evolve over time?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Yeah, Amit, you will take that.

Amit Agarwal - Chief Executive Officer, Alternative Asset Management, Edelweiss Financial Services Limited
Yes. As you see, we have provided this in addendum. We have nearly a 50/50 mix of institutional and non-institutional clients. Now we are actually spread across multiple geographies. We have now North America, Canada, Europe, Australia. We have got multiple geographies, and our clients are also spread across those geographies. The important point for us is actually more repeat client AUM as well, because that also showcases that the performance of the funds have been in line with the client's expectation for him to, A, come into the same fund again, as well as come across our product suite. It's also deepening as well as broadening of the client base. This is still a very small number of clients in the retail. I would say UHNI and HNI space, because this business is largely UHNI and family office business in India today.Going forward, the domestic institution capital will also start hopefully looking at this business. Globally, mostly institutions are invested into alternatives. In India, the exposure of institutions to alternative is still very low. That also is a mixed thing which could potentially change the institutional and non-institutional mix.

Sujal Chandaliya - Analyst, Wallfort PMS
Okay, sir, that's helpful. Sir, secondly, in your life insurance business, around 80% of premium is contributed by par and non-par products. What is your view on the future evolution of the product landscape, and how are you thinking of aligning your medium-term product strategy accordingly?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Our focus is on what we call savings product, because we do believe that though there is an opportunity in things like unit link products and all, the margins are much better in the savings product. We also come from a very focused investment approach and earning a good return on investment on the corpus that has been there. Our whole idea is that par and non-par is going to remain the focus area. I think we would like to keep about 70%-75% of our AUM in par and non-par.

We do have ULIP and term and all, but those are not really very focused on high-growth areas. We do want to also focus on annuities and pension as we go along because those are also good savings product.Our view is that insurance industry in India caters to a small need for risk, but a large need for savings to be converted into good long-term investments. Our focus is on that. The reason we are not very gung-ho on ULIP is because the margins are low and I mean, that need is also being catered by through the mutual fund industry. While the long-term savings need is one where people really look to insurance. That is our focus. That has been our focus, and we have done pretty well. We have innovated a lot on the par and non-par products.

Sujal Chandaliya - Analyst, Wallfort PMS
Okay. Thank you. Thank you, sir, for your detailed answer. That's it from my side.

Operator
Thank you. Next question comes on the line of Siddhesh Dharmadhikari, PL Capital. Please go ahead.

Siddhesh Dharmadhikari - Analyst, PL Capital
Hi. Thank you for the opportunity. Am I audible? Hello.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Yes,

Operator
Yes, you are. Please go ahead.

Siddhesh Dharmadhikari - Analyst, PL Capital
Sir, could you give us more details on the transaction with Nido, with Carlyle? What is the current status of the transaction?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
I think all the agreements are signed. Everything has been done. We have applied for final approvals from RBI and NHB. The process is on. We have got a lot of clearances. We should be able to close that deal in the next three to four weeks. As you remember, the contour of the transaction is that Carlyle will buy a portion from us as a secondary purchase. They will invest another INR 750 crore into the company now, and they will invest another INR 750 crore into the company in 18 months. They will put in INR 1,500 crore into the company. They pay about INR 630 odd crore to us to buy out the stake. Right now, out of the first tranche, we will be 45%, they will own 55%. After the second tranche, they will own 74%, we will end up owning 26%.

Siddhesh Dharmadhikari - Analyst, PL Capital
Understood, sir. We have seen initial signs of growth in NBFC business with MSME disbursement tripling year-over-year, AUM nearly doubling, and asset quality improving significantly. However, profitability has remained broadly stable. As the portfolio continues to season, when do you expect this operating momentum to translate into stronger earnings? Also, if you can please share your outlook for the disbursement and AUM growth over FY 2027.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
ECL Finance, we had pivoted to focus more on MSME, to be honest with you, until last year, our focus was in reducing the wholesale book. Which as I very happily reported, we are now down to

only INR 600 crore in the wholesale side of the business. Now we have a lot of elbow room for growing MSME. We hired a new managing director, Ajay Khurana, about a year ago, and he is building out a strong MSME business for us. As you can see, the disbursements have grown, almost tripled on a year-over-year basis. We are currently planning for an INR 2,000 crore disbursement for FY 2027. To just give you a comparative figure, average for the last three years was about INR 300 crore to INR 500 crore per year. We are currently looking at about an INR 2,000 crore disbursement for this year.We are also opening branches, strengthening the product portfolio we have. I think the next two years we will see some uptick in the profit after tax, our focus is on growing branches, growing AUM, growing disbursement. Once we get to, say, AUM of about INR 4,000 crore to INR 5,000 crore, which is about couple of years away, is where we will really start seeing real ROE and profitability in this business. We have a fair amount of capital in this business. We have INR 2,000 crore of equity, as you can see, the current borrowing is pretty small. We are geared around one is to one only, which in NBFC business is very low, hard to really make good profits if you are geared only one is to one. I think we have a lot of headroom for growth. We have quite a bit of equity.We have a strong management team, the product range and the size we are in, we are still a very small player in MSME, we have enough space for growth.

Siddhesh Dharmadhikari - Analyst, PL Capital
I understand, sir. That's it from my side. Thank you.

Operator
Thank you. Next question comes on the line of Rajesh Ganesh Kumar with GMF. Please go ahead.

Rajesh Ganesh Kumar - Analyst, JM Financial
Hi. Thank you for the opportunity. Am I audible?

Operator
Yes, you are. Please go ahead.

Rajesh Ganesh Kumar - Analyst, JM Financial
I have three questions I'll quickly ask. The first question comes from the line of the equity AUM and the SIF book. Equity AUM recently, congrats, it has crossed INR 100 crore, and the SIP book has reached close to about INR 700 crore. Now, the question that comes to my mind is whether these were solely because of fresh inflows or majorly driven by MTM. Also, as the franchise continue to scale, what are the long-term aspirations that the business has over the next three to five years? As AMCs have gradually expanded their product horizon beyond mutual funds and they have stepped into its adjacent businesses such as PMS, AIFs and NPLs, how do you think about broadening the product bouquet over the next three to five-year time horizon?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
To answer your first question, and thank you, I think we are very excited when equity AUM has crossed INR 100 crore. Out there, I think our target has been to get net new money. As you know, equity markets, MTM growth has been fairly subdued in the last one year. It changes quarter to quarter, but on a year-over-year basis, there has not been much MTM growth because equity markets are flat. I think we are adding about, currently at the current run rate, we are adding about INR 18,000 crore, INR 20,000 crore of new equity money every year. That is our current run rate that we are maintaining. I would say conservatively INR 15,000 crore to INR 20,000 crore addition of new equity money every year is the current expectation that we will maintain. And if you look at first

quarter, that is what we have maintained also.Along with that, our MTM growth will happen if it happens for the industry as a whole. I think SIF has been a good product. We were able to innovate quite a bit on that. Our focus is on client needs. If the client need can be served on the mutual fund platform, on the SIF platform, we will do that. We already have an AIF business in EAAA in any case, but if there is equity AIFs to be done, we will also explore that. We have no really focus on product side. We are very focused on the client needs. If there is a client need, we basically evaluate only two things. Is there a client need, and have we got an ability to innovate or cater to that client need in a strong manner?If we have that, whether it's AIF, whether it's PMS or whether it's SIF or whether it's mutual fund, we'll explore all of that. A mutual fund will largely remain focused on listed market, and alternatives, EAAA is largely focused on the private markets.

Rajesh Ganesh Kumar - Analyst, JM Financial
Thank you. Thank you. This was really helpful. Speaking of EAAA, the last phrase where you ended the answer. In the recent business update, which has been filed for EAAA, there is a mention about the asset operating and management platform, Sekura. Which honestly seems like a great competitive edge. Could you throw some light on what Sekura platform actually is, and how does it compare with similar platforms which are offered by other market participants?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Yeah, I'm happy you're asking that. I think it's an excellent question. Amit, do you want to elaborate on that?

Amit Agarwal - Chief Executive Officer, Alternative Asset Management, Edelweiss Financial Services Limited
Sure. Sekura is our dedicated asset operating and management platform. This is a capability we have built over a decade. It has got people who are actually having domain knowledge and expertise in their respective areas. The team member on the energy side would have been hired from an organization where he would have done almost 20 years of work only on building renewable energy and working on renewable energy. Similarly, on the transport side, you will have people who would have done only roads. This is nearly a 60-member team now having capabilities across the asset classes that we own and operate. These are engineers, domain knowledge, experts, which are in-house and provide us across the portfolio access. It also helps us in diligencing the assets, even at the start of the investing process, in a much more efficient and clean manner.It also helps us in adding what we think is the additional alpha, which comes from improvement in processes, systems, using the right materials, ensuring that our operation costs are controlled. These are very focused business people. They supplement the investment team, which is generating the returns and doing the transactions, but this is at the heart of the asset management. We have a fully automated, what I would say, a center or a control center where we analyze nearly a terabyte of data on a very regular basis, which allows us to improve our operations. In the recent past, we have started using AI also on that data to ensure that we try and optimize even on how we generate electricity in some of our solar plants to allow for higher revenues. All of this is very operational.It allows adding small bits to actually create a massive impact. This is one of the most things we are proud of and that has been built over a period of time. We do think it is a moat in this business, and this is something which global platforms have done in multiple other geographies. In India, I think this is one of the most unique offerings that are sitting inside the EAAA platform.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
I would just add that, as Amit said, I think large players like Brookfield and Blackstone also build their own platforms, the operating platforms. A lot of the Indian asset managers have either outsourced or they partner, and there are good outsourcing companies available. You can outsource the asset management, you can partner with an operating partner. We have decided to do this in-house because, as Amit said, it gives us the advantage at the due diligence stage. It gives us an efficiency on operating management advantage, and it gives us a lot more control. Because when you own a road for 20 years, or when you own a renewable plant for 25, 30 years, it's actually very good not to be dependent on outsiders for operating and managing and controlling that asset.

Rajesh Ganesh Kumar - Analyst, JM Financial
Understood. Thank you. Thank you for the detailed answer. This is a great initiative, and I'm sure Sekura will continue to do very well. One last question before I get back in the queue is, has the life insurance business taken the path on to achieving its break even this year? How do you see the next three or four quarters planning out? If you could throw any light on that. I think that will be all from my end.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Can you repeat that? Sorry, I didn't hear that.

Rajesh Ganesh Kumar - Analyst, JM Financial
The life insurance business. My question is whether the life insurance business is on the path to achieving its break even this year and, with respect to the life insurance business, how do you see the next three quarters planning out?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Yeah. I think we are on path to break even. Break even for the year as a whole, not just in the fourth quarter. The fourth quarter will be a much easier one, but we are on path for that. We have focused a lot on our productivity, efficiency, branch productivity, all of that. I think the way we are on this current path, we remain confident of achieving break even in that business.

Rajesh Ganesh Kumar - Analyst, JM Financial
Done. Thank you. Thanks a lot for answering all the questions patiently. I hope Edelweiss Group grand success in all the products that they are launching and the financial spaces. Thank you once again. Thanks.

Operator
Thank you. Next question comes on the line of Sarvesh Gupta with Maximal Capital. Please go ahead

Sarvesh Gupta - Analyst, Maximal Capital
Sir, thank you for giving the opportunity. I have two questions. One is on EAAA, wherein I think a participant mentioned that the yields have actually moved up from 2% to almost 3%. You also mentioned that there can be some lumpiness because of this carry income. What is the expected steady state yield for the revenues as well as PAT for EAAA? That is the first question.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Yeah. I think we should look at the FY 2026 number, which is the 2.45% income yield on the FPAUM. The PAT yield is 0.68%. We think these businesses over a long period have a very steady state yield

on the income and on the PAT side. The quarterly numbers might look a little, because the FPAUM that you create is an average of the opening and the closing of each of those years. I would say that the total income yield of 2.45 and the PAT yield of 0.68 is more reflective of how an FPAUM yield for this business would look like. These are pretty steady state yields for these businesses.

Sarvesh Gupta - Analyst, Maximal Capital
Understood. Secondly, Rashesh, I had one sort of observation. As we are looking to sort of unlock the value of our shares through various investor induction as well as through IPO, at some point of time, the holding company discount that we will have to suffer with would become very substantial. It would probably become maybe 30%, 40%, 50% of our market cap itself. How or what was wrong that, and given that we have done a demerger and now we are on progress for something else, how do we think discount that? Right now we have a corporate net debt of INR 5,700 crores. Till that point when it is paid, till that point, everything is fine because the EV conversion to equity value will happen directly.After this is paid down substantially, this holding company discount will come into picture in a big way. If you can give some thought process and color on that?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
We are pretty clear that we are not a holding company, we are an investment company. As an investment company, there are a lot of options we have. Basically, you are asking how do you narrow the discount between intrinsic value and the market value? As you know, about 2 years ago, we did the demerger with Nuvama, and what we distributed to the Edelweiss shareholders in the Nuvama demerger is, I think, worth today more than $1 billion. There are many ways of unlocking value and narrowing the discount between intrinsic value and the market value. If you look at the discount in India, I think for a lot of investment companies, holding companies, the discount is anywhere from 10%-50%. I think, yeah, you correctly said 50% is very high.Unlike others, we are not a holding company, so we don't need to hold stock forever in the underlying companies. We showed in Nuvama that we can demerge and distribute and unlock value in that way also. We will have a lot of options, I mean, how to unlock value. The good news is that we are all, at a primary level, we are shareholders. As you know, Edelweiss has a very strong ESOP culture. As you will see in the annual report also, a lot of our senior management, even at EFSL, the holding company level, have quite a bit of ESOP. I think equity price finding its right value is important for us. See, we have basically 2 objectives after we reduce the corporate debt. One is to grow the value in the underlying business.That is and will remain the primary number 1 focus. How do we continue to build value via growth in the underlying business? That, as you would have seen, continues, and we remain very focused on that. After that, the second objective is, after we have built that value and we continue to build the value, how do we unlock it? How do we make sure all the shareholders of Edelweiss also enjoy and participate in that value via market price or via distributions? On that, we have quite a few options, and as we get there. I think next one year, our focus will still be on stabilizing corporate debt and continue to grow the business, because we do believe that growing the business is the harder one. I think unlocking the value, there is a lot of optionality available in that.

Sarvesh Gupta - Analyst, Maximal Capital
Understood. If I can ask one more. I think we had some property, which you had mentioned around INR 1,500 odd crore. Is there any specific reason why we are sort of waiting to sort of unlock or reduce our corporate debt by sale of those properties?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
No. I think, as we said, our current corporate debt is about INR 5,700. Out of that, when we close the Nido transaction and the EAAA IPO, we expect that our corporate debt will come down below INR 4,000 crore. I think our property and investments, we can sustain about INR 2,500 to INR 3,000. Our property is worth INR 1,500, where even if we do a sale and leaseback, we'll have an 8%-9% cost. Currently, we are borrowing at about 10% cost. There is not much saving in taking the property off the books and paying the lease rental on that. I think up to INR 2,000 to INR 2,500, INR 3,000 crore debt, we don't really want to bother, and we are getting comfortable if it is against property and investments that we have in terms of our funds and all that.I think from INR 5,700, our current target is how do we get to under INR 4,000 crore pretty quickly, and then once we get to INR 3,000 crore is where we say that now it is earmarked against property and investments. Now we can be more strategic about it. All the underlying businesses are there, as we said, with the IPO of EAAA and all. After that, other businesses also, we own 100% of Zuno, we own 85% of AMC, we own 83%-84% of ARC. All these are good, powerful, strong businesses where there is a fair amount of interest from investors, either in the private market or through IPO, that we can explore.I think our idea would be this, as I said, a triangulation of reducing corporate debt first, growing the underlying value in the businesses first, and then looking at unlocking value and making sure the market price and the shareholders enjoy the real underlying value as close to the real value as possible. I think these three, as we have said, continue to remain our focus area. Of this, if you ask me, I would continue to say growing the value of the underlying business is the most important, because that is forever and continues to grow. This is for financial engineering at a particular point of time.

Operator
Thank you. Mr. Gupta, please rejoin the queue for more questions. Due to time constraints, we take the last question from the line of Rishabh Jogani with Walut. Please go ahead.

Rishabh Jogani - Analyst, Walut
Hello. Am I audible, sir? Hello? Hello? Hello?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Yes, please go ahead. Yes, you are audible.

Rishabh Jogani - Analyst, Walut
Okay. Sorry. There are two questions. You are in the process of listing your alternative asset. Can you give a brief color on the industry and what is the market size and how the growth trends have been for a few years? Can you compare it with developed markets like U.S.? What growth trajectory you see going forward? Second question is on corporate debt. Your debt declined to INR 5,700 crore. You mentioned that you will go below INR 4,000 crore very quickly. What levels we can see for FY 2027 and what will contribute that debt reduction? From where the cash flow will come, and what percentage or what proportion you want to quantify for each driver? Yeah, that's it. Hello?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Okay. I'll ask Amit to first answer on EAAA.

Amit Agarwal - Chief Executive Officer, Alternative Asset Management, Edelweiss Financial Services Limited
Sure. As I said, asset management, especially the alternatives, also scales up as the economy goes to a larger level. The penetration in India is hardly 3.5% of GDP, while in U.S. it is nearly 27% of the

GDP. There is both broadening and the deepening of the market that is expected in India. Currently, as we see, the alternative AUM is projected to move from INR 166 billion to nearly almost INR 276 billion in India, which is what we have mentioned. Within that, the focus that we have is on the income and yield category, and that category is expected to grow faster, and that is expected to grow at nearly 18% CAGR at an industry level. We do think that there are significant macro drivers, both in terms of the rise in private wealth, where the HNI and the UHNI population is expected to grow.The wealth management penetration in the family offices is also expected to grow, which will in turn allow them to look for products with superior risk-adjusted returns with income and yield, and that will allow for the growth of the industry. EAAA is a significant player in the industry, and all these tailwinds will help EAAA. This is currently not considering all the capital that potentially domestic institutions will also look to put as they start getting more comfortable with this asset class. Again, in U.S., as U.S. economy in the last 20 years, from 2005 to 2025, moved nearly 2.5 times, the AUM of Blackstone moved almost 25 times in the same period. The AUM of KKR moved, and these are all public data, so the AUMs there moved also more than 30 times.The industry is, again, as I said, it's a flywheel industry where vintage and track record and client repeatability makes a lot of difference. That will allow both the industry to grow. We do think that we will be beneficiaries of the tailwind.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
I would just add that what we have seen in alternatives is because alternatives is ultimately a trade-off between higher return with some kind of illiquidity because you are in close-ended funds, you are in private markets. As you would have seen over the last 30 years in the U.S., a lot of the large insurance companies and pension funds and endowments, slowly, the same thing is happening with HNI and the Ultra HNI industry in India. The same thing will happen with institutional investors in India, where you will trade off some amount of your portfolio, maybe 3%, 4%, 5% of your portfolio into illiquid assets in AIFs and all, which will give you a higher yield.If you get a 3%-5% pickup in yield or a strategy that has four, five, six years, a lot of people are now allocating capital more and more to this, especially in India, it is currently Ultra HNI, but eventually we think insurance companies and others will also come, insurance and pension funds and all. Along with that, I think the awareness and SEBI has done a fabulous amount of work on that. In AIFs, there are actually two markets. One is a growth market, which is mainly private equity, and the other is a yield market, which is mainly infra and private credit and all of that. I think private equity has grown.Yield market is also growing, and a lot of insurance companies and pension fund people who don't want PNL volatility actually are more interested in income and yield strategies, and that is where EAAA is focused on. We have seen this market how it has grown in the U.S. over the last 30 years, and we do think there are some similarities with the Indian market opportunity in that sense. On the corporate debt side, as I said, from INR 5,700, we get to under INR 4,000 by the end of this year. We have some investments that we can sell and keep on getting money. We have investment in our funds, and we have investment in some wholesale assets that we had, which will all get liquidated. About INR 500 crore to INR 1,000 crore we do expect will come from there also.We're also starting to get dividend income from underlying companies as mutual fund and EAAA and ARC are profitable and throwing out free cash. As you can just add up, these three businesses have a free cash flow of between INR 600 crore and INR 800 crore per year. On that basis also, that cash that they throw out as dividend also helps us reduce our corporate debt. I think our idea is get down to INR 4,000, then inch it back, inch it to under INR 3,000. Regroup and decide whether that should remain a priority or we should then focus on unlocking or using that money for more distribution to shareholders,

distribute spin-offs, demergers. I think look at all of those options also.

Rishabh Jogani - Analyst, Walut
Okay. Thank you, sir. That was helpful

Operator
Thank you very much. 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 - President, Edelweiss Financial Services Limited
Thank you, Renju, thank you all for your time today. We truly appreciate you taking the time out and joining us. Please do write in to us at Edelweiss Investor Relations for any other questions or feedback that you may have for us. Thank you, Rashesh. Always a joy to listening to you. Thank you, Amit. Very insightful to have you on the call today. Thank you all. Have a great day ahead. Bye-bye.

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