Management Discussion

Priyadeep Chopra - President, Edelweiss Financial Services Limited
Thank you, Leo, and a very good afternoon, everyone. A very warm welcome to our earnings call today. We have on the call with us Rakesh Shah, Chairman of Edelweiss, Ananya Sunejar, CFO of Edelweiss Financial Services, and Shanay Ghosh, who's the CEO of our General Insurance business. We hope you've all had a chance to review the investor presentation that we filed earlier today. This quarter, we've also filed an in-depth presentation on ZUNO General Insurance, and during the discussion, we'll be making references to it.

Please do take a moment to review the safe harbor statements in our presentations. We will be making some statements today that may be forward-looking in nature, hence may involve some risks and uncertainties. With that, I'll hand over the call to Rasesh to begin the proceedings. Thank you all, and over to you, Rasesh.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Thank you, Priya, and a very good afternoon to all of you, and again, a warm welcome On this earnings call for the quarter and the 6 months ended September 26th. Uh, good to have you all back with us today. Uh, first, a couple of words on India. Obviously, in the last quarter since we spoke, a lot has changed in India, though a couple of weeks ago it looked like India was unfavorable, not a great global market to invest in. But last 2 weeks have shown that India can come back, and when it comes back it can come back pretty fast.

But just keeping stock market aside, I think India economy has been doing well. The first half has been good for corporate earnings, for growth. We're seeing fairly robustness in the economy. And in spite of the high oil price and the monsoon and all, it just again reminds us that India is a very adaptive economy. And it's very hard to say how we adapt, But when, you know, something is not working, like oil price went up, our import bill went up, but the gold imports came down, and somewhere the invisible adjustment keeps on happening.

So we in Edelweiss call it an adaptive economy. So I think India continues to adapt. Uh, we obviously still not growing at our full potential, which we think is at least 10 to 11%, but I think maintaining a 7, 7.5% growth looks very possible. So I think the adaptive, resilient India allows us to do that. If we do some more effort and deregulate and take away the frictional things in our economy, I think we have an ability to grow even faster. But in Edelweiss, we think even 7, 7.5% is good enough- not great, but good enough for all of us to continue to grow.

And a lot of Edelweiss future growth hypothesis is based on that, and we think Over the next 8-10 years, India will, will maintain this growth. We will be unfavorable at times, very favorable at times, but in the middle of it, our economy will keep on compounding away, plugging away in this very chaotic, adaptive manner. For Edelweiss, uh, on Q2, we have moved forward on almost all the areas that we had promised. Our consolidated PAT after minority has increased by 50% YOY to Rs 193 crores. Our operating businesses- the- we have used to have 7 operating subsidiaries.

Now that NEDO has got- has stopped being an operating subsidiary, it's now- because we have given away controlling stake to Carlyle, we now have 6 operating subsidiaries. They continue to witness very healthy growth, led by asset management businesses EAAA has grown by 27%, the profit at Rs 88 crore. Mutual fund has had a good growth, their profit has more than doubled to Rs 37 crores. Our insurance business, Zuno, has reported its first profitable quarter, and we have my colleague Shanai Ghosh, who is this- who is the MD and CEO of this business.

She's also with us on this call. We have filed an addendum because a lot of the investors and analysts have expressed curiosity to understand more about this business. So after my opening remarks, I will hand over to her and she will also speak a few words on the Zuno business and the GI opportunity as we see it. And obviously she and I will answer all the questions that you have in the Q&A part of this call. Uh, our customer franchise continues to grow. Uh, our total customer reach is now about 15 million customers, which has grown by 24% YOY.

And our customer assets are about Rs 2.9 trillion now, which is also up 24%. In the last quarter, as we have done in the last few years, we have strengthened our balance sheet. All our businesses continue to be well capitalized. And one piece of very good news, which is very heartening, is the wholesale SR book in ECL Finance. ECL had some stressed assets. When they sold the stressed asset, they got the, uh, the SR, the security receipt, out of that. At one point it was more than Rs 5,000 crore, and this was always a point of, uh, you know, it was dragging down their balance sheet and their P&L.

Happy to report that now that book has become zero, and the wholesale book which was Rs 18,000 crore is now also almost close to zero overall in ECL Finance. So ECL now today has become truly an MSME led business, and we are growing pretty well on the MSME side, as you would have seen. So all our operating businesses have, have actually executed well. They have delivered well thanks to our customers and all our stakeholders whose support we have had. We also completed 2 important transactions, one in the- in Q2 and one after Q2, but it's important, so we'll speak about it.

Uh, we first closed the Carlyle transaction with, with NIDO. Now Carlyle has become the, the majority partner. They will infuse almost, uh, about 1,400-odd crores into the business in 2 tranches. And, uh, at the end of both the tranches, we will own 26% and they will own 74%. We remain very positive. The equity of the

Sanjay Ladda - Analyst, Bastion Research
Business

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Will go up from 800 crore to close to 2,400 crores in the next 18 months. So At Rs 2,400 crore, it will be a very well-capitalized affordable housing finance company. Uh, the other important transaction, our EAAA alternative asset management business got listed about a couple of weeks ago. Uh, it has been- we got very strong response from institutional investors and all, um, and, and quite a few marquee clients both onshore and offshore. And that- and both of them have actually allowed us to you know, partly monetize our stake in that business, which we had been wanting to do to reduce our debt, but also allowed us to strengthen those businesses and institutionalize those businesses in need of- with the strengthening of the balance sheet.

And the coming in of Carlyle will strengthen- there is a strong board. Even Aditya Puri has, uh, has been a personal investor in that transaction. So we hope that with All that coming in, Niro will continue to grow. And EAAA, by, uh, along with listing and getting us, uh, the stake monetization objective, it will also allow EAAA to become more institutionalized. There'll be an added level of governance to that which will get added as a listed company. And since we focus on managing third-party money, both HNI, Indian, as well as global institutional clients, That added oversight and added governance is a big plus for us.

Both our insurance businesses remain on track to be profitable. Zuno has already turned profitable in the first half. ELI will also become profitable. So overall, and MSME continues to grow well. MSME

AUM has doubled in the last one year. The MSME book size is now Rs 2,145 crores. So we are slowly and steadily growing that business. There is a lot of detail about EAAA fee-paying mutual fund. Our ARC business also has started growing again. We're seeing some, uh, NPA which are getting sold by the banks.

So we have increased our retail, uh, uh, percentage in the total assets. In the first- in this quarter, we also acquired about Rs 600 crores of assets, which is which is pretty good because that means an annualized run rate of more than Rs 2,000 crores, which is a big step up. So ARC also started growing again. And to sum up, basically our first part of our P&L is our operating business PAT, which has been very, uh, which has grown pretty well and which has been very heartening to see that our operating businesses PAT is the key engine for for our future.

And they are now- with the insurance businesses becoming profitable, the operating business cumulative PAT is going to be a strong engine for growth. Our consolidated PAT will grow along with that. All our businesses have had healthy growth, as you would have seen in the presentation that we have put out. And, uh, the 2 important transactions got done, and we continue to focus on the things that we have- that we have focused on, on the long term, which is growth, create value, but also build a very strong institutionalized platform where people can excel and also have fun.

Because one of the parts of our culture is that while we are creating value, we are also growing and having fun and helping each other grow and have fun also. So that remains part of our culture. I'll just hand over to Shanai Ghosh for speaking a few words on the Zuno Insurance and the GI market, and then we'll open it up for Q&A. So again, thank you, and over to you, Shagai.

Shanay Ghosh - Chief Executive Officer, Zuno General Insurance, Edelweiss Financial Services Limited

Thank you, Rakesh. Good afternoon, everyone. So Rakesh has already shared my big news, which was that we've turned profitable. So I'll lead with that, and usually I would have led with the industry, but this is a very important milestone for us, so I'll lead with that. We've turned profitable. But what's particularly heartening for us is that this has come on the back of very, very robust growth. We've grown GDPI at the rate of 51% and GWP at the rate of 49%, which is in excess of 4x of the industry.

The industry- if we look at the private GI industry, is growing at 12%. In addition to this, our growth has been particularly robust in our area of focus, which is motor. We've grown at 69% while the industry has grown Grown at 12%. At about 12%. And even if you look at OEM, is one of our big channels, if you look at that, even in that, our numbers for new business growth is 37% against a 22% growth in sales. So all in all, this profitability has come on the back of 2 big things. One is growth. You all know that growth comes with a sort of penalty in the current accounting standard because the Cost is upfront while the earning is amortized.

And the second thing that I would like to highlight is that this growth, the turn towards profitability, is also structural. We've seen a reduction in our COR, almost a 10-point reduction from about 128 last year at the same time to 118. A lot of this reduction has come on account of the expense and efficiency and the operating leverage that we believe the operating model, the digital operating model would deliver, and it is delivering, it's becoming visible in this year. It's also important to highlight that our EOM, which is a point of contention and it's a much debated topic, was 34.1 last year.

It's come down by another 3, almost 3 percentage points to about 31.6. And obviously it will continue to improve as the volumes grow. So this is a journey that we've taken from which was

about 46%, uh, about 4 years ago to almost 30%. We closed last year 30.5%. So we've demonstrated the ability to deliver the operating leverage that we said, and that is what is playing out along with robust growth. Uh, this is about Zuno. As far as the industry is concerned, the industry growth has been more or less consistent and range-bound in the 11 to 12%, uh, despite, uh, you know, uh, any other changes regulatory or otherwise.

But having said that, the fact is that the headroom for growth is very, very significant at around 1% of GDP in for non-life insurance premiums. We are still 1/4 of the world's average. And at about $25, we are still about 5% of the per capita premium average for the world. So like I said, the headroom for growth is significant, so the opportunity is huge. And this is just from the perspective of penetration and per capita density. If we go further and look at, you know, segment-wise opportunity, even that is huge.

Even the largest One of the largest segments, at least the largest segment for GI companies, motor, still has 50% underinsurance and non-penetration across various vehicles on road, all registered vehicles. So we believe that the industry continues to hold tremendous growth opportunities. We believe that the industry still has some problems that need to be solved, which a digital native insurer with a lean operating model like us can solve. And lastly, there are market and regulatory shifts which we believe favor models like us, which are digital and efficient.

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

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Excellent. Thank you, Shanai. And we can now open it up for question and answer. To the moderator, can you now start the Q&A.

Questions & Answers

Operator
Yeah, sure. Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask questions may press star and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking questions. Ladies and gentlemen, we will wait for a moment while the question queue assembles. To ask questions, please press star and 1. The first question is from Maulik Chowdhury from Monarch Network.

Please go ahead.

Maulik Chowdhury - Analyst, Monarch Network
Oh, hello sir, am I audible?

Operator
Yes.

Maulik Chowdhury - Analyst, Monarch Network
Uh, thank you sir for taking up my question. I have, I have a couple of questions. First, uh, So congratulations on the successful completion of this IPO. So I just wanted to know that post IPO, EFSL holds around 84% stake. So how should we think about the ownership roadmap from here on? That is my first question. Second question would be, uh, our overall mutual fund yield has improved by 5 to 6 basis points year on year to 25 bps this quarter. So can you throw some light in which

categories we have seen this improvement and what is our midterm target for the yield?

So these are my 2 questions.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Can you repeat the second one again? There was a little bit of static and I didn't hear it clearly. I'm sorry.

Maulik Chowdhury - Analyst, Monarch Network
Oh, okay. Yeah, so our mutual fund yield has improved by 5 to 6 basis points. So just wanted to know that which category we have seen this improvement. And what is our midterm target for the yield?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Okay, so on the first one, we own about 84% of, uh, EAAA. Uh, we don't intend to dilute anymore in the near future. Our idea for EAAA listing was of course to get some asset monetization, but that was not the primary reason. Our primary reason was to get this business listed, which we think has a potential to become the leading asset management, alternative asset management franchise in India. And by getting it listed, uh, we can also use employee stock options as a way of rewarding our long-term employees.

So our long-term compensation can have ESOP element. It allows the platform to be institutionalized with an added level of oversight, governance, and all. And we think wherever you're managing third-party money, it is good to be listed so that there is a lot more transparency. So I think that is the idea in EAAA. We don't intend to sell any more of our stake in the near future. Uh, obviously there is a minimum public holding requirement over 3 years, but 3 years is pretty far away. For the next, uh, you know, at least a year or so, we don't intend to sell any shares at all.

And ideally we would like to hold as much as possible. Uh, we have some ESOPs also, which when they get converted will also meet the minimum public shareholding requirement. So we are just, uh, I think, playing that in that way. On the yield side, on mutual fund, yes, there has been improvement in yield. Part of that has come from the product mix because we have some products where yield is higher which have also taken off well. Part of it is we also reject some stuff, and we are currently at about, uh, if you calculate the overall yield Uh, on the equity side, we are at about 38 to 39 basis points.

We think over the long term we can get to 45, but where we are not, you know, in a tearing hurry. We are not improving our yield by cutting distribution cost or anything. Uh, we have new products we can introduce, we have product mix that undergoes a change, and we just keep on building a lot of efficiency around that to improve our yield. So we think long-term equity assets should yield you between about 45-ish to, you know, between 45 to 50 is a good range. We are at about 38, 39. We have come a long way, but I think, uh, the improvement has happened.

It has happened slowly and steadily, and I repeat, it will not happen at the cost of cutting down on our distribution partners. A lot of our distribution partners do a lot of hard work of, you know, educating our customers. A lot of our products have you know, special features and understanding of that is communicated by our partners. So I think we think our yield can improve, you know, without, uh, squeezing brokerage cost, but by introducing new innovative products as well as by scaling up the products where there is a higher value added for customers.

So yeah,

Maulik Chowdhury - Analyst, Monarch Network
Okay, thank you, sir. Thank you for answering my questions. I'll fall back in the queue.

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

Vinod Birla - Analyst, HDFC Securities
Yeah, hi sir, can you hear me? Yeah, yeah, thanks for taking my question. Okay, in EEEE, we have seen robust fundraise of around Rs 20,000 crores in H1 across various categories like special situations, private equity, and also CTS. What does the product pipeline look from here? Are there any particular categories you are keen to explore?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
So on EAAA, as you know, as was also mentioned by my colleague Amit Agarwal, who is the CEO of EAAA business, they had an analyst call couple of days ago. Uh, we have had a very fairly robust fundraising. We have about 4 flagship funds, uh, currently. One is special situations, one is infrastructure yield, one is our private equity, and the other is a, is a performing credit. So, uh, all these 4, we've been raising money on that. Along with that, uh, we did, uh, list an InvIT, uh, called CTS in the in April.

So that has also come into that. So our current target is to raise about Rs 30,000 crore, uh, about Rs 11,000-12,000 crore in InvIT and about Rs 18,000 crore in funds. So you know EDELWEISS has 2 businesses. One is the business of funds, which are the AIFs, which has special situations, infrastructure yield, performing credit, uh, energy transition fund, private equity, all of them are there. And, uh, and then we have InvITs. We have 2 InvITs, Enzen and Citius. And, uh, in the future we might do more InvITs and REITs as new categories, uh, we want to create.

So I think overall, uh, we are going to raise, uh, about Rs 11,000-12,000 crore in the year in InvIT, which has already been done, and about Rs 17,000-18,000 crore in funds.

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

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
So, so I'll just add a couple of lines from the life insurance side, then I will hand it over to Shanay to talk about the Zuno part of it. We first of all think this insurance distribution reform is a very good thing. It is almost similar to what happened in mutual funds about 8-10 years ago when the entire TER regime came in and the entire mutual fund distribution costs were realigned to add more value to the customer. I think the insurance proposal is on the same lines. Uh, of course it will mean a lot of rejig of what cash- what costs are borne by the insurance company and what are being borne by the distribution partner.

Uh, I think it has affected the brokers and the institutional distributors a lot more, so there'll be a lot of rejigging of cost and cost sharing will happen there. Uh, our insurance, uh, in ELI, Edelweiss Life Insurance, is a lot more agency-led, a lot more direct-led So we will also, uh, be able to rejig that. But the agency and the, and the direct distribution costs are not as affected. But we will wait for the

final norms to come out. We think overall it will be positive for the industry as a whole, and especially for us who is a smaller, more agile player and not as dependent on Banka.

But over to you, Shanai, how do you see this in your industry?

Shanay Ghosh - Chief Executive Officer, Zuno General Insurance, Edelweiss Financial Services Limited

Thank you, Rakesh. Um, first I'll talk about the industry. Yes, it's a consultation paper, the numbers may change somewhat and some other aspects may change, but I think the direction is very clear from the regulator. One is that of course the industry has to become more efficient, efficient, and there are parts of distribution that have very high costs and they want to bring that down. So as a result, like Rakesh said, we believe that the net result of this will be positive for the industry. There may be some transition upheaval that will be there, and it's likely to be there, especially on the distribution side.

Some business models will have to be rethought, and I think the distributors are already thinking about it. Also, Like you said, a lot of brokers, a lot of distributors have given feedback to the authority, and I think they are seriously considering it. And anything reasonable in the interest of, you know, stable growth of the industry while preserving value for the customer will be looked at very favorably, is my understanding from our meetings with the chairman. So that's about the industry. If we look at Zuno in particular, There's a reason why I gave you the map from 46% to 30%, because we've been able to demonstrate the operating leverage that we've always been talking about.

Our OpEx ratio is 12%. This is the number that the regulator was also talking about, and it is honestly quite comparable, maybe just a couple of base, uh, 200 basis points higher than some of very scaled players. So, uh, that's one part in terms of operating efficiency, which is what, uh, this paper pushes the industry towards. The second part is on distribution cost, which is where the caps on commission come in. Whatever be the caps on commission, Zuno has never been a player that has bought market share.

They've- we've never been the highest, uh, payers. If you were to look at the public disclosures of various companies for FY26, you will find that this is borne out by the data. So for us, we've always played on our product innovation, on our services, on our tech, and that is what has won us market share, and that is what has won us partners and stayed with us. So for us, honestly, when payout stops being a lever of competition, uh, it is just playing to our advantage because we've always played on these 3 pillars, and we think that whatever be the numbers, if payout stops being the primary axis of competition, then the industry will go back to the basics, looking at product innovation, looking at value to customer, service claims.

Even partners will look at this and the overall efficiency and the flexibility that an empowerment that an insurer offers partners. So I think we believe that, you know, these, uh, regulate- these reforms favor business models like ours, and therefore we are preparing for that. Having said that, there will be some rejig we will have to do. So I think the industry had outsourced a lot of distribution to, uh, third-party, uh, companies and brokers. There will have to be some shifting of that so that the distributors can manage their cost and the industry also takes up some part of that work.

So I think eventually it will be a 6 to 12 month transition period, but I think eventually the industry will land on its feet. And there is, like I said, tremendous room for growth and tremendous opportunity for growth. And I think long-term growth will stay intact.

Vinod Birla - Analyst, HDFC Securities
Okay, thanks. Thank you.

Operator
Thank you. The next question is from Prabhav Shah from Equitas Securities. Please go ahead.

Maulik Chowdhury - Analyst, Monarch Network
Hello, thank you for the opportunity. So I have 2 questions. So recently we have seen like new players entering the general insurance industry. So like with increasing competition, like how does Zuno differentiate itself Like what is the competitive advantage and like going forward, like what are the product categories which would you like to focus on? This is my first question. And second, with Nido stake sale and E-Triple IPO completed, like can you tell us like what are your future, which is the next value unlocking plans?

So like ARCIL completed its IPO. So like, should we think on similar line for our ARC business, or are there any other businesses you are thinking of?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
So I'll answer the second part afterwards, but on the first part, uh, I'll request Shashanai to take that.

Shanay Ghosh - Chief Executive Officer, Zuno General Insurance, Edelweiss Financial Services Limited
Uh, thank you, Rakesh. Um, I think, uh, general insurance has always been a very, very competitive industry. In fact, We entered the market in 2018 and we've been, we've been able to build market share in times of intense competition and with very well-entrenched incumbents. 3 things we've always spoken of as our differentiators. One is product innovation. Over the last 8 years, we have successfully established ourselves as a company that thinks very differently about products and that is always very agile in identifying solutions that our partners, they want, or our customers, they want.

And that has got a lot of partners to work with us and to co-create products. So that is one thing that we differentiate. The second thing is our tech platform that delivers operating efficiency and that delivers tremendous agility and flexibility for all our partners. So in some- in our deck, you would have seen that our integration takes less than a week. We have close to 500 APIs. All of this works to, you know, free up a lot of productive time for the partner. And that's the second thing that works for us.

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

And for us, the proof of this entire service delivery is not just the NPS that we get from customers but it's also the NPS and the feedback that we get from partners. Over 8 years, there's seldom- I don't think I've met a single partner who didn't have great things to say about our service. So now we've created- over the last 8 years, we've created this kind of a platform for ourselves from service, product innovation, and efficiency and agility, which we think is not very easy to replicate. Market.

Plus, we've also created data and analytical capability that allows us to price risk at a very, very granular level. And in this industry, as you've seen the direction of the reforms the way they are, it requires you to be as efficient and as, uh, as efficient as possible and as good in risk selection as possible. And our tech platform and our data platform helps us excel in these 2 places, apart from us being a very agile and service-driven organization. And that's really what Zuno's differentiation is.

Maulik Chowdhury - Analyst, Monarch Network
Thank you. Excellent.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Uh, thank you. Uh, I think on the- on your second question, as I said, now our corporate debt after the E-Triple IPO is somewhere around the Rs 4,000 range. And, uh, we think about Rs 3,000 is a good sustainable debt because we have, uh, property, office building and property, plus we'll have our stake in NIDO, which is now an investment stake, plus we have investments and all. So altogether about Rs 3,000 crores of corporate debt can be sustained. We had about Rs 4,000 plus after this. So, and we get now a fair amount of dividend from our underlying subsidiaries.

You would have seen EAAA also declared dividend. Couple of days ago. So I think on that basis, now we are in a very comfortable space from a corporate debt point of view. Uh, we will still want to IPO and list a couple of our subsidiaries in the next 2-3 years. As you very correctly said, the 2 ones which are getting ready and should be ready in the next 2 to 2.5 years will be the mutual fund as well as the ARC. ARC, I think, our listing and the awareness that it has created amongst investors is a good precursor.

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

So we think the next 3-4 years will be good opportunities for ARC industry. So in that growth also, I think ARC could be also a candidate for IPO. And we tell all our businesses that you should keep on getting ready for IPO because that itself is a good process from a governance, transparency, and institutionalization point of view. Getting ready for IPO is good homework to do. It builds, you know, that entire platform very well. So we will keep all our companies getting ready for IPO, but I do think, as you very correctly said, uh, the asset management, AMC, and ARC could be candidates.

But again, we will wait for a year before we start the process because we want these companies to grow and not get too distracted with the IPO process.

Maulik Chowdhury - Analyst, Monarch Network
Got it. Thank you so much. That was helpful.

Operator
Thank you. The next question is from Sanjay Ladda from Bastion Research. Please go ahead.

Sanjay Ladda - Analyst, Bastion Research
Hi sir, thank you for the opportunity. So my question would be, since, uh, following the AAA IPO, the entity continues to remain under the parent company structure, effectively, you know, making it a

holding company and exposing it to holding company discounts. So in our previous call, we had indicated that management would ensure that, uh, shareholders do not suffer from a holding company discount and that they will take appropriate step to protect shareholder value. So does the management have any plans to demerge E3LA from the parent company at some point in time in the future?

And if it continues to remain within the holding company structure, the holding company discount is likely to persist, defeating the, you know, very purpose of the IPO. So what is the management long-term plan to address this?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Uh, yeah, I'm happy you're asking that. Uh, first I must be clear, the idea of listing EAAA was not any objective of holding company discount, or I mean, we also don't call ourselves a holding company. We are an investment company. We invest into businesses and we have a long-term view on how, how we want to create value out of those investments. So the EAAA IPO was not with the objective of holding company discount. In fact, Uh, we are very focused on intrinsic value, and we do believe there is a gap between intrinsic value and market value, but that will also get closed out as market understands the intrinsic value more, understands how we have a range of businesses which are all fairly diversified.

But also there is a benefit of that Edelweiss, the parent organization, adds to that EAAA whether IPO growth, all of them, there is a lot of enabling and the nurturing that is required. When we demerged Nuama a few years ago, Nuama was at a stage where it could, uh, stand alone, be, be independent, because all the enabling phase and the nurturing phase was over. And there was a PE partner who came in with a majority stake. So if you look at in India, I think most companies have either an investor or a sponsor who is an enabling factor, who at least makes some critical calls.

So it is important for the next few years for us to nurture and grow EAAA. I think the shareholder value in Edelweiss on a- for the next 5 years, a lot of that will come out of the growth of the underlying business, not by any financial engineering we do. Having said that, we are very focused that the difference between intrinsic value and the market value should be reduced, but it's not in our hands. It's also in your hands because I think investors have to- have to- if they like the business, they like the story, and they like Edelweiss the company, then the discount will come down.

So we have to do a lot more awareness creation, a lot more communication Along with that, we have a lot of other tools besides growth of the underlying business to also make sure the Edelweiss shareholders do well. As you very clearly said, demerger is one option. There are a lot of complexities in that. There are a lot of nuances in that. It's not something you can do just as one exercise saying, yeah, we distribute [Foreign Speech] because there is a lot of enablement that that businesses need.

And hence you need to do this at the right time. There are a lot of income tax rules, there are a lot of SEBI rules because we manage third-party money, we are AIFs. So there are a lot of other issues also there. So we have to do this in a very thoughtful manner. For the next couple of years, our key focus is on- now that the corporate debt is also manageable, we'll keep on reducing it and paring it down a little bit as we go along. But the biggest thrust for the next 2 years now that the insurance business also turning profitable, is to focus on growth of the underlying businesses and giving them, giving them all the enablement to that.

The discount to intrinsic value, it's the market. I mean, I don't even know what is this thing called holding company discount, because I have seen in the US there are companies which have a holding company premium also, and we are not a holding company. So just a word on holding company versus investment company. So there are holding companies which have a 100-year view, and usually the objective of a holding company is to keep control within the family. And that is why sometimes maybe investors give a discount to that, because objective may not be to grow and create IRR and value.

The objective could be to keep control within the family. On the other side, there are PE funds which have a 3 to 5 year view and and they focus obviously on IRR and their entry price and their exit price. We are an investment company that operates in the 15 to 30 year range. We, uh, grow businesses, build businesses, but we also act like an investor, like we did with, with Nuama. So all our, our businesses, when we interact with them, we also put a shareholder hat, and we want our businesses to make about 25 to 30% IRR for the shareholders of the parent company on a 15 to 30 year window.

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

Maulik Chowdhury - Analyst, Monarch Network
Short sir thank you for the clarification thank

Operator
You Thank you the next question is from Siddhesh Dharmadhikari from PL Capital please go ahead hi

Maulik Chowdhury - Analyst, Monarch Network
Sir accountable hello yes sir we have recorded robust around 11,000 crore of net equity inflows in MF this quarter So just wanted to understand which are some of the categories which, uh, where we are witnessing this kind of traction. And furthermore, net equity inflows have been strong. Interestingly, SIP book has fallen by 11% Q-on-Q. So what extent are the majority of inflows coming in form of lump sum?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
So I think on the second one, the SIP has fallen because of the international funds. As you know, there is a cap on the international funds which have now been hit. So a lot of SIP we were encouraging. In fact, we were- we had kept our international funds open for SIPs only in the inter- in the- for the international funds. We were not taking large payments outside of SIP. So now the international funds have hit their cap. We had a little bit of headroom for the last 1 year which we have used to cultivate a lot more SIP investors coming into international funds.

So part of the fall in SIP is because the international funds have been capped out and we cannot do SIP in international funds anymore. Uh, in the mutual fund, obviously, uh, we have been early movers in the SIF space and we are currently the market leaders in that. So we were able to move into that pretty quickly. We have some other innovative product called the recently listed IPO funds and also we do a lot of product innovation Obviously, our old funds like the Balance Advantage Fund and the mid-cap funds have been doing very well.

They've grown, uh, you know, pretty significant in size, uh, in the last few years. Like, to give you an idea, in 2020 our mid-cap fund was Rs 1,000 crore. Now we are close to- we are close to Rs 20,000 crore in the mid-cap fund. So we do keep on growing those funds. So our Balance Advantage Fund, mid-cap fund are our flagship funds. And along with that, uh, SIF has also been doing well. All the international funds have done also pretty well. So we have a range of, uh, the entire bouquet of the funds we have, and this- the 4 or 5 that I mentioned are our real flagship funds where we're seeing a lot of interest.

Maulik Chowdhury - Analyst, Monarch Network
And, uh, on the asset reconstruction business, we have witnessed a strong recovery in the quarter. So further, we have started seeing some pickup in acquisitions. In the past, you have talked about how this industry is cyclic and cyclical in nature. So are they now entering the upcycle phase, and which segments are currently seeing the most activity in terms of MPA formation and acquisition opportunities?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Yes, I think, uh, if you- as you very correctly said, I think, uh, between, you know, of about '14-'15 to '21-'22 was a good opportunity to acquire assets as banks had a lot of NPAs. I think after '21-'22, a lot of focus is on recoveries, which we have done pretty well. I think in the last, uh, 5 years, we would have recovered more than Rs 50,000 crores, uh, amongst the old NPAs that we had bought. We are starting to see an uptick in, uh, in the, in the banks wanting to sell NPAs. The the offers have gone up.

We do think the industry this year will experience a 40-50% growth as a whole as an ARC industry acquisitions as compared to the last year. So there is a good growth happening. There are 3 segments in the market: retail, which has also got unsecured and secured like, like home loans and mortgages. Then there is what is called SME and mid-market, which is between Rs 5-10 crore to Rs 100 crore kind of accounts, and then there are large accounts which are Rs 100 crore plus, which are the corporate. In the last cycle, we saw a lot of activity in the large accounts.

They were big, like, you know, SR and Bhushan and Binani, and all of them were there. So we are not seeing a lot of the big accounts coming in the market as of now because they will only happen when there is a lot of, uh, new CapEx getting created. Some projects will run into trouble and those will come back. They are not coming now. Right now, a lot of growth is happening in the retail segment, especially mortgages where we play. There is growth in unsecured also. We don't play in that segment.

We play only in the mortgages of retail where we're seeing a fair amount of growth. And the SME and, and the mid-corporate, which is, as I said, Rs 5 crore to Rs 100 crore kind of deals, there is a fair amount of traction in that also. A lot of banks are selling NPS of that size. So the industry as a whole is seeing activity in the retail and the SME mid-market, uh, mid-corporates side.

Maulik Chowdhury - Analyst, Monarch Network
Understood, sir. That's it, that's it from myself. Thank you.

Operator
Thank you. The next question is from Rajesh Ganesh Kumar from JM Financial. Please go ahead.

Rajesh Ganesh Kumar - Analyst, JM Financial
Hi, uh, thank you for the opportunity. I have 2 questions, uh, to begin off with. Uh, in our alternatives business, our FPAUM has grown about 28% YOY, although it has broadly been, you know, flat quarter on quarter. Could you help us understand what has led to the slowdown, and was it mainly due to, you know, fundraising or deployment? And how should one think about FPAUM growth trajectory over the next few quarters and the profit outlook from here on?

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
So FP AUM is actually driven by a lot of factors. Like every time we exit a position, FP AUM goes down. Every time we deploy money, FP AUM can go up. Sometimes when we raise money, like in a private equity where the fees are on commitment basis, the FP AUM goes up. FP AUM can go up and down in a quarter, uh, so hence we look at a 3-year moving average. We have maintained a 23 to 25% growth in FPAUM over the 3 years going forward, uh, because it was a question asked in the AAA conference call also.

We think FPAUM will continue to grow at between 20 to 25% a year on a 3-year average basis. On a quarter-on-quarter basis, there could be some quarters of a 25-30% growth, like the quarter you close your PE fund, there'll be a fairly big jump in that. But, uh, if there is a very big exit, like in the last quarter we closed the first infra fund, we actually exited all that and it's, uh, all the money has been returned to investors with a good IRR. So when we close the infra fund, FPAUM goes down.

So alternatives works in a slightly more idiosyncratic manner where every quarter it can go up and down based on the activities that you do. And hence the best way to see this on a 3-year basis. The same thing applies to the fundraising side of the business. On the fundraising also, sometimes you have like the quarter of, you know, Jan, Feb, March usually is a big fundraising quarter. So what happens is there is a lot of quarter-to-quarter fluctuations on both FP, AUM, and the fundraising that happens.

And hence we recommend and advise investors to look at that part of the activity on a 3-year moving average basis.

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

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Yeah, can I get Shanai to take that? Shanai?

Shanay Ghosh - Chief Executive Officer, Zuno General Insurance, Edelweiss Financial Services Limited
Yes, yes, sure, Roshesh. Thanks for the question. Uh, it is somewhere in, in the addendum that we've circulated, we have talked about areas where we are using AI already. ZUNO has been within the general insurance industry, has been an early mover. We've partnered with external entities and we've created AI assets internally. The few areas where we are using AI extensively already is in, of course, product development, tech product development. We have our own tech team and most of the products that we use are developed internally.

So We've seen huge improvements in lead times, and, you know, our go-to-market lead times have crashed by about 50% using this. And we are using it across the lifecycle of product software development. So now from software development lifecycle, we've moved to AIDLC. The second area that where we are using AI is in pricing intelligence. Pricing intelligence is something, especially in motor, which is almost 60% of our book. Motor is a very dynamic portfolio where we have to incorporate not just our own experience but also what is going on in the market.

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

Again, in insurance, we have to be very careful because we are dealing with customers. So AI is more probabilistic, so we have to use ML, combination of ML and AI. So the model itself is ML while the process of deploying it is AI. This helps us, you know, step up our scale of operations without any commensurate investment in people. The 4th area that we obviously use it is in claims intelligence, because in claims there's a lot we can do using AI by reading the claims, reading the documents, interpreting it, uh, not having to go through the entire human view.

Having said that, we always keep a human in the loop because these are decisions that affect customers. So while AI short-circuits the entire process and makes it ready for decision, there is a human in the loop that takes the final decision. So these are a few areas that we are using AI. And the last one area where you're using AI is to make data very easily understandable by a larger section of people. So today we have dashboards and everyone has dashboards, but internally we are creating- we've created something called ZunoLens, which is an NLP engine that sits on top of our dashboard.

So you can ask it anything. And it gives you that insight. So these are the areas that we are using AI currently in ZONO.

Maulik Chowdhury - Analyst, Monarch Network
Understood. This is very helpful. Thank you.

Operator
Thank you. We'll be able to take one last question. We take the last question from Sanjay Pandit from 1729 Capital. Please go ahead.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Um, um, hello, uh, this is to Rakesh. You know, congrats on a strong quarter and on the successful IPO of Edelweiss Alternatives. Um, I think with Novama and Alternatives IPOs, there's a good trend of, you know, unlocking value with IPOs. Um, my question is, you know, in the case of Novama, um, investors in Edelweiss Financial were able to get some stock in their hands sort of that stock distribution approach was very helpful. We're still holding on to some of ours. I think Edelweiss has substantially exited its- the stake that it sort of had.

And we understand you have to obviously pay down the excess net debt, etc. But we would really like to see a return to the culture of distributing stock to investors.

Sanjay Ladda - Analyst, Bastion Research
Versus it all being sort of kept within Edelweiss, except especially once you've been able to bring your corporate-level net debt down beyond a certain point. So is that something you think we could look forward to in future IPOs, maybe of the AMC, or maybe in a subsequent distribution of Edelweiss Alternatives? That's the question.

Rashesh Shah - Chairman, Edelweiss Financial Services Limited
Yeah, again, as I answered in the earlier question, Sanjay, the decision to use distribution as one lever to unlock value is always there. And we do, uh, I mean, I personally am also, also, uh, you know, an equity shareholder, uh, a lot first than the CEO of the company. So we do think like investors. Even our entire management team has stock options and also I think creating value on stock price is obviously a very aligned objective. There is no difference in that. Uh, we do think that demerger is one tool that is there.

It has its pros and cons, and maybe sometimes when we meet personally, I can, I can tell you holistically how the pros and cons can be evaluated. Maybe your inputs will also help, but we have other tools also. But our primary tool of creating value- even Nuama, it has created value not because of demerger but because of the growth of the last 5 years. So we want to make sure that we demerge or, or, you know, distribute shares of a company where even after that, when Edelweiss has no involvement, the company should continue to be able to grow and deliver.

In Nuama, we were convinced we were at that stage. EAAA Uh, it's, it's still a very young, fast-growing business. There is a lot of nurturing and enablement the corporate and the parent does provide there. Uh, we were deeply involved in the IPO. We were- we are deeply involved in the strategy, capital allocation, a lot of important, uh, even people development. Like, I am executive chair of EAAA, and things like people development, culture capital allocation strategy, a lot of those are still deeply there.

When we feel that even without Edelweiss involvement or without any nurturing or enabling, the business can continue to grow and we can switch on to becoming pure shareholders rather than sponsor shareholders, is when we can trigger that off. We were at that stage in Nuama. I think in EAAA we hope to get to that stage, but when we get to that stage, we'll announce it and we will do that. A lot of, uh, these businesses are growing pretty well. I do believe the primary vector of value creation, whether it's through, uh, demerge or otherwise, is growth and not just financial engineering part of it.

So Nuama has grown, and we were convinced it will continue to grow. We had done almost 4 years of work before that. So the Nuama work started from '18 onwards, and we eventually demerged the company in '22. To 20, uh, around '22, and we actually stepped off the operating committees and the board in '23-'24. So there was a lot of handholding that we did. We had the time for that. Also remember, Nuama was actually all Edelweiss business until, until 2012, '13, '14. What is, what is Nuama was actually whole of Edelweiss at that time.

So it was a much more evolved business And it could easily, you know, after spin-off can continue to grow. Plus there was a PAG kind of a partner out there. So whenever we do that, we want to make sure if it needs a partner, a sponsor partner, we have to put all of that in place. So it will be a very thoughtful decision. We also have to take in- uh, take into account the SEBI rules and the income tax rules and all. And there are a lot of nuances. I don't want to, you know, burden everybody with this call.

But there are, there are a lot of things you have to put in place before you do an act like demerger. So we will do it at the right time. But as I said, even as and when we do that, the more important part is can the business be on a road to good growth? And I think EAAA, mutual fund, all of that, we want to primarily grow. If you've seen the first half results, the, the primary story is the growth of the underlying businesses. If you see, the operating PAT, uh, for the underlying business has gone up, uh, from last year's second quarter was 110, this year it is 290.

And if I look at half-year basis also, 286 has become 355. So the growth of the underlying businesses, the operating businesses, is what we are truly very focused for the next couple of years, I must say that. Uh, I think unlocking, we will do that as and when it is required. I think as we create awareness and then the businesses grow, a lot of investors also are, are excited by that. So we will speak to investors, stakeholders like you, and, and take your feedback and, and keep that as one of the options.

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

Priyadeep Chopra - President, Edelweiss Financial Services Limited
Thank you, Rayo, and thank you all for your time today. We truly appreciate you all taking the time out and joining us. Please do write in to us at Edelweiss Investor Relations for any other questions or feedback that you may have for us. Thank you, Ashish, always a joy to listen to your insightful remarks, and thank you, Shania, for clarifying all the questions today. Thank you all. Have a great day ahead.

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