NWML/SEC/2024/35

November 3, 2023

The Manager,
Listing Department,
BSE Limited,
Phiroze Jeejeebhoy Tower,
Dalal Street,
Mumbai 400 001.
BSE Scrip Code: 543988

The Manager,
Listing Department,
National Stock Exchange of India Ltd.,
Exchange Plaza, 5 Floor, Plot C/1, G Block, Bandra - Kurla Complex, Bandra (E),
Mumbai 400 051.
NSE Symbol: NUVAMA

Dear Sir(s) / Madam(s),

Subject: - Transcript of earnings call

Further to our intimation dated October 23, 2023, informing the exchanges regarding the details of the earnings call held on Monday, October 30, 2023, at 12:00 p.m. (IST) to discuss the Company's performance for the quarter and half year ended September 30, 2023.

Pursuant to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the aforesaid earnings call held. The same is also made available on the website of the Company.

We wish to confirm that no unpublished price sensitive information was shared / discussed in the aforesaid earnings call.

Kindly take the same on record.

Thanking you,

Yours faithfully,

For Nuvama Wealth Management Limited
(formerly known as Edelweiss Securities Limited)

Sneha Amit Patwardhan
Digitally signed by Sneha Amit Patwardhan
Date: 2023.11.03 17:47:23 +05'30'

Sneha Patwardhan
Company Secretary and Compliance officer

"Nuvama Wealth Management Limited

Q2 FY '24 Earnings Conference Call"

October 30, 2023

MANAGEMENT: **MR. ASHISH KEHAIR – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – NUVAMA WEALTH MANAGEMENT LIMITED**
MR. MIHIR NANAVATI – CHIEF FINANCIAL OFFICER – NUVAMA WEALTH MANAGEMENT LIMITED
MR. MANISH DHANUKA – HEAD, INVESTOR RELATIONS – NUVAMA WEALTH MANAGEMENT LIMITED
SGA INVESTOR RELATIONS ADVISOR – NUVAMA WEALTH MANAGEMENT LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY24 Earnings Conference Call of Nuvama Wealth Management Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this call is being recorded.

I now hand the conference over to Mr. Ashish Kehair, MD and CEO. Thank you and over to you, sir.

Ashish Kehair: Thank you. Thank you so much. Good afternoon and a very warm welcome to all of you for joining the Maiden Earnings Call of Nuvama.

We've already uploaded the presentation and the data book and on our website and the stock exchanges. I think we'll keep receiving feedback from you on the data book and keep enriching it over a period of time.

I know you'll have multiple questions. We'll try to answer them over the call and also over a period of time, improve the data book.

Joining me today in the call are my colleagues, Mihir. Mihir Nanavati is the CFO. Manish Dhanuka is the Head of Investor Relations and the SGA team. We thought it would be appropriate that since it's our first call, instead of jumping directly into the earnings and the performance of the quarter, we'll give you a brief introduction and overview of Nuvama, how it came into existence and what are the businesses we are into. Then perhaps Mihir can take us through the performance of the current period and then we'll move into the Q&A section.

So, as you know that this business was actually a part of Edelweiss till about 2021 and that's when PAG came in as a majority shareholder. It was a controlled transaction and it was with the intention that we will demerge the company and list it over a period of time, which we've concluded over the last two years. The businesses which sit inside Nuvama, essentially largest is wealth management and I'll talk a bit about it.

If you look at wealth management as an industry in India and if you look at the overall client pyramid or client triangle, the bottom of the pyramid is the retail or the mass retail segment and our view is that that is best handled by banks or maybe brokers and fintech companies because the profit pools in those customers are not substantial enough for specialized wealth management firms to derive value. To derive value from those customers, you have to actually access the whole wallet which includes their banking products, credit cards, home loans etc.

And the needs of the customers are also relatively simple. I mean they're in the lowest tax bracket so maybe a bank deposit or a simple insurance product can solve their problems. But as the customers become more affluent as they move up into the second tier of the pyramid, which we typically call affluent and HNI, that's when things start becoming a bit more interesting because the customer moves into higher tax brackets, their needs are no longer met by just simple fixed deposits because they pay higher taxes, they want to invest in diversified products and have a diversified portfolio. But unfortunately, that becomes a structural challenges for banks because it competes with their liability franchise.

While they do offer what they offer but because of this conflict with the liability franchise, you will see that most of the banks typically more often than not have more bent towards selling insurance and that's when players like us can step in. And this is the opportunity we saw 10 years back.

We did a lot of market research and market study in these customer segments across the country, Tier 1, Tier 2, Tier 3 towns and there was a common feedback which kept coming back from clients that they need unbiased advice from their wealth managers, they need to have a diversified portfolio so that over a period of time they can build financial independence.

And that was what triggered us to start this part of the segment more than 10 years back. I think we've had a reasonable head start here. We have about 900 RMs in this segment, extremely profitable, spread across 65 to 70 locations and we work both with our internal RMs and external wealth managers.

About 25% of our business actually comes from external wealth managers. We have a full-fledged platform, complete product basket which includes investments, lending, exchange-traded products and even making of will and stuff like that to holistically cater to this segment. I don't think there are too many players which compete with us although we are seeing a lot of interest now coming into this segment, but we've developed a reasonable leadership here.

Then moving up further into the top end of the segment which is typically called Ultra HNI which is about INR25 crores plus. Anything below INR25 crores is what we fit in the affluent and HNI segment. It can start from INR1 crores to INR2 crores, some may start from INR5 crores but broadly below INR25 crores because that cohort has a cluster of needs which can be met by these type of people.

Ultra HNI segment is slightly different, far more bespoke, complex needs. Investment I think just forms 25%-30% of their needs. They have businesses where they need advice the Ultra HNI segment actually has needs which are far more bespoke, I was saying. Investment needs are just one of them. They need wealth structuring, estate planning, they have businesses in multiple countries. So, I think a lot of things have to come together and that was the focus again here for us to build a platform which can comprehensively solve the needs of this segment.

And we fortunately also have an investment bank inside Nuvama so it can help in working with these promoters in solving their business needs. So combined these two, both Ultra HNI which is we brand as Nuvama Private and Affluent and HNI which we brand as Nuvama Wealth is the wealth management cluster. This contributes about 70% of the revenue and about 70% of the profits of Nuvama in general.

So, when we started in 2021 (Note: We erroneously stated 2001 instead of 2021 on call) when PAG came in, the revenues of this segment was about INR480 crores. In FY '23, we crossed INR1,000 crores so we've almost doubled the revenue and profit contribution moved from about

20%-25% to about 70% in this segment. In the Ultra HNI segment, the limiting factor across the world, I would not say limiting factor, I would say the raw material is the RM.

And given the fact that these are people who deal with extremely sophisticated customers with sophisticated needs, you always have them in short supply. And the only way you can actually crack and create a moat in this segment is to build a platform where the RM is able to monetize and add value to the clients more than anywhere else. And that is the focus because the relationship managers and the clients, they are actually common across all platforms.

The differentiating factor is what does your platform give which allows the RM to deliver more services to your clients and make more money. And I think that is the focus which we have used to develop the platform and happy to say that we are one of the most comprehensive platforms in the country. We have about 115 RMs in this segment and as I said about 900 in the Affluent and HNI.

The second business which we have in Nuvama is asset management. This is the newest business. This we started after we became independent. It's about two years old now and it works extremely synergistically with the wealth management part because wealth management actually has the customer insights and defines what product needs customers have and there is a gap in the market which is what we create. Over the last two years, we've built about INR6,200 crores of AUM divided into two large buckets of strategies. One is private equity.

In private equity, we have a market leadership product which is called Crossover or Pre IPO. And we recently launched a venture debt fund which is adjacent to that. Combined these two, I think the assets would be around INR4,800 crores -INR4,900 crores.

Then we also started a listed or the public equity segment in which the first product which we launched was a hedge fund long short, more equity oriented. That's now second largest in its category and we are soon going to launch a GIFT city version which has tax advantages both for institutional investors, overseas institutional investors and NRIs.

In addition to that, after the tax rate change for MF, insurance and MLDs, we started absolute return product which targets about 7% to 8% net of tax. We see that that is a clear gap now in the market because there is no other default fixed income product where ultra-HNI guys can park their money. I think combination of this exists. Future, the way we are thinking is to solve for yield and two, three products which are in the pipeline are real assets like commercial real estate and private credit. We are in the process of building and hiring teams and maybe in the next 6 to 12 months, we should hit the market with these products.

The third business which exists in Nuvama, which in fact is the oldest business of Edelweiss, which is capital markets, which has institutional equities, investment banking and custody and clearing business. Let me first talk about custody and clearing because again, I think that is unique to us because only banks typically offer that service.

We are one of the few, actually one of the three non-banks which have the license to offer custody services. So, it's actually a very prized asset. We handle clients which are FPIs and domestic PMSs and AIFs. Large part of the business comes from FPIs. It's a very niche offering directed towards hedge funds and quant funds and high frequency trading companies. Some of the largest ones are our clients in that business.

And the business is extremely simple. You provide them custody and clearing services, not too volatile. It's like a hammer and tongs business and will grow at a consistent pace with the rise of the trading volumes in the country and the institutional participation which comes into the country.

Institutional equities, investment banking, I think that is the most understood business by our community. We have market leadership in institutional equities. We have about 5.4% market share. Number two in the domestic broker side and investment banking, we offer a full service which is ECM, DCM and M&A and private equity. Both of these now actually we are working very, very closely and maybe in next three, four quarters we'll also start publishing data on how we are building synergy with the wealth management side. Because both these businesses work extremely close with the promoter community and each of them are potential wealth management clients.

In fact, in FY 22-23, more than 30% of the relevant investment banking clients which we onboarded became wealth management clients. And similarly, now we are working actively with the institutional equities team. So, the objective actually is to create a one Nuvama kind of a structure where the customer can enter in any part of the circle.

They can enter into asset management; they can enter into wealth management and then we basically use the whole platform to add value and try to monetize the client. I mean, I could just give a simple example. We could invest from our pre-IPO fund into a company. When it goes public, we could use our investment bank to offer the services to them. And when the promoter actually gets the money, we can use our ultra HNI proposition to make the promoter our client and we can use our affluent and HNI proposition to make the employees our clients. So, this is the entire objective to build this full ecosystem and create one Nuvama.

I think that's where we are today. Revenues over the last three years at a platform level have moved from about INR1000 crores to INR1600 crores. I'm talking FY '23 numbers and profits have nearly doubled.

I think with that I will hand over to Mihir to give you a quick overview of the current period performance and then maybe we could move on to the questions that you have. Mihir, over to you.

Mihir Nanavati: Thank you Ashish and a warm welcome to all of you once again. As we move ahead in our journey as a listed entity, we look forward to deepening our engagement with you further. Now over to our operational and financial, most recent operational and financial performance.

FY '24 H1 has been a positive for us as we have reported growth on most of our operating matrices over corresponding previous quarter and half year periods. To begin with, on our client assets, our client assets as on quarter end, INR2,89,281 crores showed a year-on-year growth of

26%. Of this, client assets of our wealth management business stood at INR2,17,278 crores, a Y-o-Y growth of 21%.

Asset management business AUM stood at INR6,175 crores compared to INR4,300 odd crores as on the September of FY '23, reporting a year-on-year growth of 43%. Our client assets in our clearing and custody service business stood at INR65,828 crores, a year-on-year growth of 47%. Now to our revenues, our total revenue for Q2 FY '24 stood at INR492 crores, grew by 29% year-on-year. Our revenues for half-year FY '24 were at INR909 crores and grew by 24% year-on-year.

Of this, our wealth business revenue was INR281 crores for the quarter and grew at 16% year-on-year over the previous quarter. For half-year FY '24, the wealth revenues were INR553 crores and grew by 17% year-on-year over September FY '23.

Our asset management business reported revenue of INR19 crores for Q2 FY '24 and INR32 crores for H1 FY '24. Excluding the carry component, the revenue was INR11 crores for quarter 2 FY '24 and grew by 17% year-on-year. Similarly, ex-carry revenue for our September FY '24 half-year was INR24 crores and that resulted in a year-on-year growth of 42% over the previous half-year. Our capital markets revenues were INR190 crores, which grew 86% year-on-year. And for H1 FY '24, the revenues were INR320 crores and grew by 51% YoY over H1 FY '23.

I'd just like to pause here and touch upon an impact that SEBI circular on distribution fees on AIFs on our wealth management business revenues. The SEBI circular of May '23 on AIF commission kept charging of upfront commission on AIFs to a maximum of one-third of total commission and the balance would be recovered over the life of the funds.

This change resulted in lower revenue booking in FY '24 Q2 over corresponding quarter of FY '23 on a like-to-like basis. Had this change not materialized, our growth in wealth management revenue for the current quarter would have been approximately 30% higheras against a reported growth of 16% over the same period.

We may, however, mention that this impact is transitional and would result in a higher trail income in the following periods. This is just to give a context to our wealth revenue growth, stating that look, our volumes are intact, our business is intact, the numbers are impacted by the change in the income booking pattern.

On the cost side, the total cost for Q2 FY '24 stood at INR302 crores and grew by 16% year-on-year. For half-year FY '24, the costs were INR594 crores and grew by 12% year-on-year. Of these, the staff costs amounted to INR212 crores in quarter 2 of FY '24 and grew by 17% year-on-year. For the current half, the same costs were INR421 crores and grew by 14% year-on-year. Our operating expenses were INR90 crores in Q2 of FY '24 and grew by 14% year-on-year.

Whereas, for the half-year of FY '24, the current half, the costs were INR173 crores and grew by 8% year-on-year. Coming to our profitability, our operating PAT for Q2 FY '24 stood at INR145 crores and grew from INR93 crores in Q2 FY '23, reporting a growth of 57% on year-on-year basis. Our operating profit for H1 FY '24 stood at INR244 crores, showing a growth of 63% year-on-year.

Our return on equities for the half-year ended in Q3 FY '23, stood at 20.3%, up 5.47% over the same period of last year. Our cost to income ratio for the current half was 65% and was lowered by 7.0% over last year of September '23. Here, we would also like to mention the adjustments. You would all have seen the data book and we would like to explain a couple of points that reflect in our data book.

The adjustments that we made to our operating profits. As Ashish explained, Nuvama Group got carved out of Edelweiss Group over a 2-year period from FY '21 to FY '23. And to attain current holding business and entity structure, a number of arrangements, including through de-merger schemes, were put in place.

This resulted in a number of exceptional items and non-recurring items getting reflected in the financial statements. And to make current results comparable with that of past periods, and also to set the reference point for comparing future performances, we made two key adjustments to the reported numbers. The first is the carve-in and carve-out of income and expenses.

There are two components again here. The part of investment banking business came to us through a de-merger scheme which got approved in May 2023. We were entitled to the profits from these businesses over a period of FY '22 till the date of merger.

Now, that lumpy profit element came in previous quarter, that means June of 2023, first quarter of current financial year. What we have done in order to make the numbers comparable, we have actually carved out from quarter one and re-appropriated those numbers into the previous years as they were applicable.

Similarly, FY '21 carve-outs represent income and expenses of businesses and entities which were transferred to EFSL Group as a part of restructuring, resulting in what we have, namely capital market business, wealth management business, and asset management business.

Second adjustment pertains to the adjustments of carving out or adjusting the non-recurring expenses. As we separated out from Edelweiss group, as an independent entity or group, we incurred significant amount of expenses towards transition, which includes platform transition, technology transition, brand transition, and so on and so forth. We also incurred significant expenses on de-merger and listing of our entities.

These expenses were incurred between FY '21 and the previous quarter of the current year. We have adjusted these expenses from the respective periods to reflect the operating profit. Important to say that current quarter numbers do not have any carve-in carve-out out adjustments or the extraordinary adjustments for any extraordinary or non-recurring expenses. So, from here on, we are on a steady state basis. All of these elements have been granularly quantified in our PPT as well as data book for clarity and analysis purposes.

That's all from my side and I request the moderator to take over and initiate question answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: Hi. Good morning, sir. First, congratulations for the listing. Just a few questions from my side. First, you know, on your managed products in wealth division, both on private and Nuvama Wealth, if you can just give some split either on the AUM side or on the revenue side between the product mix that you have? And I think on your...

Moderator: Mr. Ghosh, we are unable to hear you. Should we move to the next question, sir?

Ashish Kehair: Yes.

Moderator: We'll check his connection. Thank you. We have a question from the line of Jagannadham Thunuguntla from Techpro Ventures. Please go ahead.

Jagannadham T.: Couple of queries. One is, in comparison to Q1 and Q2 performance, the expenses and the salaries, etcetera, appearing to be lower as a percentage of the revenue, which is to do with the Q1 has more bonus element and so on. I'm trying to understand so that there will be a seasonality element on the Q1.

Ashish Kehair: Actually, no. Now, if you look at last year, our bonus provisioning was not as smooth because we were still adapting. But this year onwards, our bonus and incentive provisioning is in line with the revenues. The reduction in the cost income actually has come because of the improved performance on the revenue side. I don't think there is a severe movement on the cost side in that sense.

Jagannadham T.: What I'm asking is, so employee costs more or less remain same between Q1 and Q2, and whereas revenue obviously more. So, it's more of, you can say, operating leverage playing out and efficiency is playing out. Is it to do with that?

Ashish Kehair: Yes, I think that is the correct assessment. It is operating leverage which is playing out. And also, in Q2, we've had a little bit of carry coming in, about INR8 crores of carry coming in. And the performance of the capital market segment is significantly superior than Q1, which was slightly moderate in the balance period of the year. But I don't think you will see significant movement in the employee cost or the opex from the levels which you're seeing. It will trend upwards mildly, but not significantly.

Jagannadham T.: Correct. So other point is, just to get the clarity on the asset side, is that client assets is INR2,17,000. And so, adding that INR65,000 crores of client assets, that's what you are saying, right? INR2,90,000.

Ashish Kehair: So basically, if you look at the client assets, the total is around INR2,85,000 crores, INR2,89,000 crores. Wealth management is divided into two buckets. One is Nuvama Private, second is

Nuvama Wealth. Nuvama Private is around 150-ish range. Nuvama Wealth is about INR65,000 crores. Asset management is INR6,200 crores. And custody and clearing is INR 65,000 crores. So, if you add everything together, it gets to the 280 range.

Jagannadham T.: Okay, just last point. So, comparing it with the FY '23 figure that you had in the historical trend. So, FY '23, you had shown a figure of INR2,31,000 crores.

Ashish Kehair: Absolutely.

Jagannadham T.: So, the INR2,31,000 crores has grown to INR2,89,000 crore.

Ashish Kehair: Yes, that's right.

Jagannadham T.: Okay. Thank you. Thanks for the opportunity.

Moderator: Thank you. We have a question from Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: So, I'll just repeat my questions. First, on your Wealth division, I just wanted to get some colour on the managed products, both on the Private side and on the Wealth side. And on the Private side, you have given the mix between recurring and non-recurring. If you could give us some colour on the similar piece for the Wealth division, for your MPIS piece specifically? That would be my first question.

Second would be on P&L reconciliation. While you state a core or adjusted revenue number out there of around INR909 crores for first half, I just wanted to get some sense of where does interest income and net gain on fair value change really sit within that? Because in your segmental revenues, you have not explicitly carved out the other income or the volatile part of the investment link part of the revenues out there.

And third, on your cost trajectory, if you can give some colour on how do you see that shaping up from here onwards in terms of both business or franchisee or RM expansion and also productivity improvement across the RMs that is available out there. So, these are my three questions. I have two data-keeping questions that I can maybe ask at the end.

Ashish Kehair: So first, managed products and investment solutions or managed products in that sense, Dipanjan, is largely the same split as the industry. I mean, it will have mutual funds, PMS, AIF in case of private. And in case of Nuvama Wealth, we also add insurance, although that's a very small component.

In terms of Nuvama Wealth, recurring and non-recurring revenue at an overall level, although I've always maintained in the past that we don't track that business on that basis. We normally look at the yield on the overall assets, which is about 1%. But if you look at the derived total income of recurring and non-recurring, about 50 odd percent or 49%, 45% to 50% is still coming as recurring, even in Nuvama Wealth.

Your second question was on the net interest income.

Dipanjan Ghosh: It was on the other income. So basically, in your BSE release, you tend to mention interest income, net gain on fair value change, etcetera, other income separately. But in your MIS reporting for the segments like Private Wealth, AMC, you seem to have clubbed that within the businesses, or maybe you have kind of adjusted that in the P&L reconciliation. So just wanted to get that triangulation math.

Ashish Kehair: Yes. So net interest income is largely split between Nuvama Wealth and Nuvama Private because those are the two businesses which have net interest income because of the client loan books which sit there. And in Nuvama Private, the net interest income for half year would be around INR32 crores. And in Nuvama Wealth, it will be around INR82 crores.

On the other income side, Mihir, you want to take a shot?

Mihir Nanavati: So, on the other income, again, the accounting component of other income is purely relating to income tax refunds and stuff like that, or non-business income, but they've got apportioned in an appropriate manner to the extent they relate to the businesses.

Dipanjan Ghosh: Sorry. So just for me, just a follow-up, I mean, so would you, like, for the first half, your net gain on fair value changes, let's say INR142 crores. So does this entire INR909 crores capture this? I mean, does the INR142 crores sit within the INR909 crores?

Mihir Nanavati: Yes. So, when Ashish said NII, it covered every element. It would appropriately get captured either as a part of NII or a bond trade positions or security trade positions either into a wealth management business or in our capital market business, which has a debt capital market division, which takes trade positions for a short duration for the client facilitation.

Ashish Kehair: I'll just add, Dipanjan, there that typically gets classified in distribution income, what Mihir is trying to explain that in two, three categories where, let's say, fixed income secondary or in unlisted securities, it actually passes through the books. So, you first buy and then you sell down to clients and the spread income is what you make, which in MIS gets classified as distribution income in either Nuvama Private or Nuvama Wealth, but in your accounting, it comes as net gain on fair value changes and all that. A very small portion will sit in the capital markets where they do this when they do the debt syndication business.

Dipanjan Ghosh: Got it. Ashish, on the third part, on the cost part, if you can give some colour?

Ashish Kehair: So, cost broadly open, if you look at the first two quarters, 84 and 90, 90 has some INR5 crores of one-time, which is related to listing, which will go off. So, we will start Q3 on a base of around INR85 crores, INR86 crores, and we don't see quarter-on-quarter movement of more than 2%, 3% there. In terms of fixed and variable cost on manpower, I think broadly addition will be in line with, as you have seen between Q1 and Q2, as we add RMs, but it will not be disproportionate. I mean, again, not more than 2%, 3% a quarter at max.

Dipanjan Ghosh: Got it. Just a few data keeping questions. First is, what does held-away assets really mean? And second would be, what is it?

Ashish Kehair: Yes, I'll just answer that. So basically, what happens, Dipanjan, when you onboard clients in the Ultra HNI segment, it's not necessary that you will get their entire assets or what they want to park with you or through you, everything together. And there are times when they will say that, look, I hold this outside. Why don't you give advice to me even on this or tell me what should I do? And they start sharing that data, which we start capturing in our system.

The objective is that over a period of time, if you are able to deliver value to those clients on those assets, they start moving from held-away to your own.

Dipanjan Ghosh: Got it. But theoretically, as on this state, they are not a part of Nuvama's managed assets?

Ashish Kehair: Absolutely. That's right.

Dipanjan Ghosh: Got it. Just a few more questions, one or two small questions. One is, again, what is the difference between fee-paying AUM and closing AUM in the asset management piece?

Ashish Kehair: So, Dipanjan, when you do a product which has -- when you do a private equity product or a venture debt product, there are, or let's say even a credit fund or a commercial real estate fund, which are essentially Category II AIFs, which are drawdown-based. The fee charging model can be of two types. One is you can charge on commitment.

And second is when you charge only on drawdown. Typically, products which are a fixed-income type delivery, the industry charges on drawdown and not on commitment. Otherwise, the client returns get compromised. So, the gap between, let's say, INR4,800 crores-INR4,900 crores, that full cluster, minus what you see as fee-paying is the undrawn amount, which will get drawn in the next, let's say, 12 months to 15 months.

Dipanjan Ghosh: Got it. Just one last question. On the net new money now, since you've given just one number, I would assume that it would also include a lot of volatility from the transaction of the broking piece, which kind of goes in and goes out. Because if I look at your event of net new money, I mean, for example, in Private, you have a significant amount of outflows, and Nuvama Wealth also. I mean, if I compare quarter-on-quarter or last year trends, I think it has dropped. So, ex-of the transaction, I mean, if you can just put some colour on the money or the core flow that is coming in from clients in the managed products, or in the AMC on some of the products, if you can just give some colour on that?

Ashish Kehair: Yes. So, if you look at Nuvama Private, the first half net new money on a total basis is about INR1,200 crores. But if you see the ARR and transactional assets, that's about INR4,700 crores. Out of that, around 80% is ARR. And again, Nuvama Wealth, we don't track it in this manner. It's largely managed products and investment solutions.

In the transactional assets or the brokerage asset, the movement is relatively small. It's more to do with the MTM there. But to be precise, the total movement in H1, in the broking assets, is about INR61 crores out of the INR3,700 crores of net new money in Nuvama Wealth.

Dipanjan Ghosh: So, Ashish, can you just repeat the Private portion, if I understood correctly, out of your INR1,200 crores of money movement?

Ashish Kehair: INR1,200 crores, there is a positive of INR4,700 crores, which is the assets with us. And held away is reduced by the rest. So, the outflow is more from the held away assets and not from the assets which we have.

Dipanjan Ghosh: Got it. So, this INR4,700 crores is the net positive.

Ashish Kehair: Net positive, yes.

Dipanjan Ghosh: This will include money going into broking also, right?

Ashish Kehair: Yes, this will include, and broking would be about, broking is again an outflow of INR1,000 crores.

Dipanjan Ghosh: Okay. So, basically around INR5,700 crores of net new money in your MPIS, broadly?

Ashish Kehair: Yes, that's right.

Dipanjan Ghosh: Got it. And why do you specifically carve out the expenses which are mapped to revenues, as in on both services, which are mirrored basically on your reconciliation? I mean, do you give, what would be the sub-broker payout of some colour on that model on that part of the business?

Moderator: Mr. Ghosh, I request you to join back the queue, sir.

Dipanjan Ghosh: Sure. Thank you.

Moderator: Thank you. We have a next question from the line of Mohit from BOB Capital. Please go ahead.

Mohit: Yes, congratulations on listening and I've got two, three questions. First is that I wanted to understand your strategy, whether you'd be targeting HNI or UHNI, the typical yield that you earn in the HNI and the UHNI segment and some colour on the attrition, if you could give both on the client and the RM side?

Ashish Kehair: So, actually, if you look at the numbers in the data book, it will be reasonably clear. In the Private segment, our ARR yield is around 1%. And on the transactional revenue, we make about INR50 crores a quarter. And if you take, if in that INR50 crores, about INR25 crores comes from, let's say INR20 crores comes from broking and that comes from non-broking. So, non-broking yield on the full base would be around 20 basis points, 30 basis points and 1% on ARR assets. On Nuvama Wealth yield on overall assets is about 1%, 1.1%. So, that's on the yield side. What was your second question?

Mohit: So, on the attrition, if you could throw some colour, basically, both on RM and the client side, what was the attrition that you experienced over the last two years?

Ashish Kehair: So, in Nuvama Private, we've lost about three people, regret attrition and Nuvama Wealth, the attrition, regret attrition is about 1.5% to 2%. Customer attrition, very frankly, doesn't happen in our businesses. This is a question I've been asked many number of times and I've explained that customer attrition actually means customer closing accounts and going away. That's sub-1% across the board typically happens when people move out of the country, or they are closing the full relationship. It doesn't really typically happen there.

Mohit: All right. And basically, your strategy, that you would focus more on the UHNI or the HNI market. I mean, what would be your strategy going forward? Which piece you focus more within a Wealth?

Ashish Kehair: Our view is very clear. You really need to focus on both, because if you look at the stage at which we are in wealth management business in India, it's extremely nascent. It's not like a fully developed business that you have to become extremely sharp in targeting. I think pieces are expanding. As of today, both Ultra HNI and HNI and affluent have become extremely profitable as client segments. Most players have tapped Tier 1 and maybe Tier 2, Tier 3, Tier 4.

There is significant amount of wealth creation that has happened. In fact, to be very candid, whenever any of us visits Tier 2, Tier 3 towns, it's an opportunity sitting there where wealth and clients are actually growing at a pace far faster than the pace at which industry is adding RMs. So, I don't think we are at a stage right now where you need to diversify your focus.

Both offer opportunities because at the back end, there is tremendous amount of synergies, right? Asset classes are similar. Product construct may change. There may be different, personalization's and specializations you will build at the margin, but you are significantly able to leverage the same infrastructure to target both the customer segments. There is no point in right now saying, I will focus here more or focus there less. As a firm, we will focus on wealth and asset management more. That's a stated strategy.

Mohit: Right. You know that this is helpful. So, the next question is on the revenue. I think from Q3 onwards, is it safe to assume that all your revenues would be in the trail mode and there will be no upfront recording there?

Ashish Kehair: So, there are product categories. Now in AIFs, there is a methodology now prescribed by SEBI, which is what we are following in mutual funds and PMS that was done a couple of years back. Let's say a product like fixed income and structures and unlisted, they will always remain on a transactional basis for every player in the industry because there is no method by which you can make them trail giving. When you sell a fixed income, you earn at that point in time and the rules have basically made it mandatory that you have to recognize the income at that point in time.

So those will remain as transactional. The proportion of transactional will keep coming down over a period of time, but they will always remain transactional.

Mohit: Perfect. My last question is on the employee expenses. So variable cost is around 30% to 33% of total employee expenses. Will it remain in that range going forward?

Ashish Kehair: Yes, we don't really see too much changing there because incentives are linked to typically revenues. It could change only if we have a dramatic increase in revenues. Then yes, the variable cost component will change, but then profitability will also rise.

Mohit: Right. Perfect. Thanks, and wish you all the best.

Ashish Kehair: Thank you.

Moderator: Thank you. We have a next question from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijeet Sakhare: Good morning. Sir, to start off, I had a few clarifications on the Nuvama Wealth business. So, if you could just give some colour on what do you mean by MPIS? Like which are the products you're including here?

Ashish Kehair: So typically, first category, Abhijeet, is managed products and managed products have four segments, alternative investment funds, mutual funds, portfolio management service, and insurance. And then beyond that, you have products which are ex-off exchange traded. So, your fixed income, MLDs, unlisted securities, all those also come in the investment solution. So, combination of these two is we call managed products and investment solutions. So virtually you can say everything other than direct equity or currency or commodities is here.

Abhijeet Sakhare: Okay. Because when I look at the yields, the implied yields are almost 2%, which looks higher for at least the investment funds part of the business. So, I'm guessing the higher yields is driven by products like MLDs and some of the other ones that you mentioned?

Ashish Kehair: MLDs. So typically, the yield on gross sales here would be in the range of 2.5% to 3.5%. Only insurance is more, but insurance is a component for us. Even in this business, if I look at an estimate of full year basis, will not be more than 8%, 9% of the revenues. But that also bumps up the yield a bit. But yes, 2.5% to 3% is what you typically are able to make if you do fixed income or MLDs or unlisted security.

Abhijeet Sakhare: Understood. And then second one, the client asset composition, almost 60%, 65% is classified as others. So there again, if you could give some broad breakups would be helpful?

Ashish Kehair: Actually, we'll start sharing this over a period of time. So about 35% will be managed products and investment solutions, and that is growing at a very, very fast pace. This you're asking only Nuvama Wealth right now?

Abhijeet Sakhare: Yes. Nuvama Wealth, others, which was 63% in first half?

Ashish Kehair: So that would have, let's say some brokerage asset and some other unlisted securities and all that sitting there. But from a component perspective, that is now dropping, except if mark-to-market happens, that we can't help.

Abhijeet Sakhare: Understood. And then the second one on the wealth business, the impact of AIF change in the recognition of fees, if you could share the absolute amount of assets with upfront income and the associated fee amount that was booked, let's say last full year or I think the regulation changed only in the second quarter this year. Right so if you could at least give us last years what the number would be?

Ashish Kehair: First of May is when the regulation actually changed. Basically, it essentially changed from booking upfront and we were actually not on full upfront, Abhijeet, we were around 60% and that has now fallen. So, if I look at the revenues that would have, actually we've done a computation on what would have been the incremental revenues had we not changed. For let's say this half year, it would be around INR40 crores to INR50 crores more in the full wealth cluster if we had continued with the last year's booking methodology.

Abhijeet Sakhare: And any quantification of the amount of assets itself?

Ashish Kehair: Amount of assets, I think this year we would have sold around INR2000 crores INR2200 crores.

Abhijeet Sakhare: Okay. All right. And the last one is asset servicing business, how to look at the revenue driver? Is it the jump? Is it driven by interest rates? Do we get client money where we earn float? Is that true?

Ashish Kehair: Yes, that's right. The combination of two things actually, assets under clearing. So, there are two ways in which you can look and I think we've also deliberated this internally and we will modify and update the data book to help you understand more. Essentially, there are two buckets in which assets are divided there.

One is assets under custody and second is assets under clearing. In that INR 65,000, the assets are broken in these two categories. Assets under custody, actually the revenue doesn't come here directly. It's taken as a profit pickup because it's an entity which is an associate entity. Assets under clearing is what you should see, and the revenue is reflective. So around between 1% to 1.5% because within assets under clearing, there is float assets and non-float assets.

On the overall, you earn some fees and some transaction charges and fund accounting charges which are all annually in nature. And on float, you earn the interest income. So, combination is between 1% to 1.5% is what we are for the full year basis.

Abhijeet Sakhare: Understood. Thanks a lot and thanks a lot for disclosures.

Ashish Kehair: Thank you.

Moderator: Thank you. We have our next question from the line of Manan Poladia from MKP Securities. Please go ahead.

Manan Poladia: Yes. I don't know if this is a repeat question. I've been listening to the call. I don't think it is, but I'll go ahead . So, my question is with respect to the Nuvama private revenues, we've seen an 8%, 9% jump this year, but this quarter, but we are not seeing the same in terms of profitability. What I want to understand is, is it that our RMs, we have over hired currently and we are planning to get to that kind of revenue later where this cost is year-on-year going to be attractive to our bottom line or what is the case? I'd just like to understand?

Ashish Kehair: So, I think one, what you're saying is correct. We have added about 15 RMs and their productivity will flow through in the next 12 to 18 months. Second is that we were describing, that there is a change in accounting that has happened in how we recognize income from AIFs, specifically category two AIFs, which earlier we were recognizing about 60% upfront and balance in trail. That has now changed to about 30% which comes in year one and balance in trail.

So, there is an impact of about INR30 crores, INR35 crores, INR30 crores in Nuvama private specifically because of this thing. And so, if you add that back, you will see that even Nuvama private, theoretically the profit would have grown by 20%, 25%.

Manan Poladia: Correct. I understand that. That's perfect, sir. Thank you.

Ashish Kehair: There is one more thing. Third is that if you look at the way, as I mentioned earlier in my call, the way we had provisioned for variable cost last year, it was skewed in Q3, Q4. So H2 was fairly higher than H1, whereas if you look at the revenues, they were fairly consistent. It was not highly gradient, whereas this year we have smoothened that variable. So, you will see that positive also kicking in H2 for Nuvama private.

Manan Poladia: Right. Perfect. Thank you, sir. Thank you so much for the explanation. Sir, my other question is on your balance sheet side. What I understand is there's a lot of like bank balances which have like spiked up from March 31st to this quarter. Our cash balance, bank balance is up INR4,500 crores. And there is some liability and debt security. I just want to understand which part of the business is this relating to and whether this is steady state or there is going to be some change with respect to this?

Ashish Kehair: So, I'll just speak a bit about it and maybe Mihir can add. Our, net debt is about INR4,000 crores. The rest of it is cash which is related to client margin money and corresponding security. So, it sits in the balance sheet, but it's not our money. We have about INR600, INR700 crores of excess cash.

And we are right now deliberating on our dividend policy and what to do with that. Because if you understand in the context of Nuvama, we are just a two and a half year old independent entity. And in last two and a half years, this was the first time we went into the markets and started borrowing. And before that, we never had any independent borrowing. So, we conserved cash because in the last two, two and a half years, there were a lot of rules which also changed around margining for institutional clients and for individual clients.

So, we wanted to conserve cash, but I think now we are in a comfortable position and we will have a dividend policy and we will come back and disclose to the market soon. So, some amount of this cash will go down, but that excess cash which you see is actually not our cash. It's margin in the exchange and corresponding client money.

Manan Poladia: Correct. So, if I were to look at Nuvama as a company alone and not have any client debt or cash or whichever, you're saying your net debt is about INR4,000 crores. So, if that would put your EV at today's market cap of about INR10,000 crores market cap plus INR4,000 crores net debt to INR14,000 crores EV? Is that the right way to look at it?

Mihir: This is Mihir here. That's a fair way of looking at it.

Manan Poladia: All right. All right. Thank you, Mihir. Thank you so much. I think that does cover my questions for now. Thank you so much.

Ashish Kehair: Thank you.

Moderator: We have our next question from the line of Lalit Deo from Equirus Securities. Please go ahead.

Lalit Deo: Yes. Hi, sir. Good afternoon. So firstly, like in the Nuvama Wealth business, so like there are two models. One is the RM model and the second one is the external RM model. So, could you give us more colour in it like the accounting treatment and what is the like does the sub-broker payout in the external RMs add pressure? That would be my first question.

Ashish Kehair: So, accounting treatment is actually what Mihir was explaining earlier is that we net it off when we earn and whatever payoff we have to make, we net it off. But I think in the published accounts, it's shown as gross revenue at the top and then the payoff is shown below in the operating expense. But what we have produced for investor relations and all, we have netted it off. Our overall net revenue is split almost 75-25. 75% are direct RMs and 25% are external wealth managers.

And these are not, because you use the word sub-broker, I wanted to clarify. Sub-broker will be a very small component in this. Typically, these are people who in their journey of wealth management had been single product distributors. Some would have been MF distributors; some would have been insurance and some would have been sub-brokers. What we have done in the process over the last seven, eight years is converted them into a multi-product wealth manager and our treatment with them is exactly same like the way we deal with our own RMs.

So, the entire training platform, technology platform, compliance framework, product platform, everything is available to them. The only difference is that they don't get compensated or fixed compensation, they get variable part of the revenue because that is their business model. But other than that, their relationship interaction with the clients should be exactly similar to our relationship managers.

And this is a fairly well-established model in the international markets. Actually, if you go to markets like Singapore, Switzerland and all, in large wealth management outfits, like in the likes of UBS and all, more than 40%, 50% now, the terminology used in those markets is EAM, External Asset Manager. In India, we have started this as External Wealth Manager.

Lalit Deo: So, is it fair to say like that then the clients on the wealth side will have some overlap, wealth we have -- will be managed by the RMs as well as the external managers or they are exclusive, the clients are also exclusive as per data we have?

Ashish Kehair: The clients will be exclusive. So, you can imagine like, if there are two relationship managers in the firm, they will have clients. Similarly, this is a third relationship manager who's not on our roles. So, overlap typically doesn't happen unless there is an existing client and the external wealth manager has a very strong relationship. Than this -- so that will be a bilateral mutual discussion on how will we share revenues. But otherwise, these are typically exclusive clients.

Lalit Deo: And just to clarify some point, whatever the payout which we are making to this external relationship manager, that gets netted off and whatever we report as net revenues, that is the net revenues which we earn. There is no payout further to this external RMs in their opex line item?

Ashish Kehair: That's right.

Lalit Deo: Sure, sir. And then secondly, on our Nuvama Private Business, so just to understand, so we have revenues coming from advisory pool as well apart from the managed products. So, within our assets, will there be a component of advisory assets as well or is it just the distribution assets which we do right now?

Ashish Kehair: No, it will be a combination of both distribution and advisory assets.

Lalit Deo: So, is it, could you please quantify the same, sir?

Ashish Kehair: We will actually share, but it will be order of magnitude around INR10,000 crores.

Moderator: Thank you. We'll move on to the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Yes, thank you very much, sir, for this opportunity. Sir, in one of the press release, I read that, we are looking to double the RMs in next five years, right? So, what ideally means for our AUM and in that respect, our revenue growth?

Ashish Kehair: Both should move at a faster pace than the addition of RMs because your current base productivity obviously will go up. And if you look at our last three years, three years to four year track record, we've nearly increased the RMs by maybe about 40%, 50%, but revenue has grown at a CAGR of around 45%. So, I'm not saying that, we will maintain the growth of the past, but yes, it will be higher than the rate of RM growth.

Deepak Poddar: Okay, so next five years, whatever our, if you have to double it in five years, so our CAGR, we are talking about a 15%, let's say in terms of RM. So ideally, our revenue and AUM should grow at a much faster rate than this 15%...

Ashish Kehair: Yes, ideally, yes, otherwise our profit growth will fall.

Deepak Poddar: Correct. And given that our bottom line, our opex growth is lower than your revenue growth. So, your bottom line growth should be faster than your revenue growth, right?

Ashish Kehair: Yes.

Deepak Poddar: And then my second question is a little on the sequential basis. If you see last five quarters, six quarters, we have done phenomenally well. I mean, in terms of growth, we have been growing on a quarter and quarter basis also. So, are we looking to, have that trend going forward as well or some sense would be quite helpful, sir?

Ashish Kehair: So actually, we've not formalized the policy of quarterly guidance right now. So, I will refrain from commenting on that. But we will be in line with the industry growth is what we can say or slightly better than that. And if there is a marginal or there is a significant improvement in the industry uptrend, we will follow that. But we are discussing internally on how do we want to guide for the future. This is our first call. And maybe over one quarters to two quarters, we will reach a conclusion. And then by end of the year, we will start guiding.

Deepak Poddar: Fair enough. That's very helpful, sir. I think, that's it from my side. And all the very best to you. Thank you.

Ashish Kehair: Thank you.

Moderator: Thank you. We have our next question from the line of Chintan Shah from JM Financial Family Office. Please go ahead.

Chintan Shah: Hi, thank you so much for the opportunity. Just a couple of questions. So, my first question is, if you can just broadly help us to understand, what is the competitive advantage for us versus peers in terms of a tech or product or an RM incentive structure or retention? And secondly, in our journey, if you could also highlight basically what are the things we are working on that we need to improve? That would be the first question.

And secondly, in terms of guidance, while you gave a broad idea in terms of revenue, in terms of profitability over a longer term, say three years to five years, if you could help us understand, say, maybe how the cost to income would move ahead, that could be helpful? Those were the two questions.

Ashish Kehair: So, on competitive advantage, whatever I can say, I will say because some of the things we may not want to disclose. I think one is the comprehensiveness of the product platform which we have created, where the ability of the relationship manager to comprehensively solve all the needs of the clients in the Wealth Management space. Very frankly, if you look at the entire market right now, there are a few players who has reached that position.

If you ask me between five years to ten years from now, everybody will reach because most of the peer set is working towards that. And the industry is right now, as I said, and I keep saying, it's nascent, so it will evolve. And so, we will have to continuously keep upping the game to maintain that edge.

The second question you asked was, which are the areas we are working on. In Nuvama Private, we are working on creating an offshore full stack Wealth Management proposition because now we see that ultra HNI clients do have a need to access overseas markets, set up family offices there. And it's time now to work on it.

And similarly, for Nuvama Wealth, we are working on an NRI proposition and comprehensively moving to a portfolio solutions approach instead of a product approach there. And in both the segments, we will leverage technology and analytics to reduce our cost to serve. That will become a very, very strong proposition from our side internally to improve the efficiency metrics, which leads to your next question on cost income.

So, if you see the industry cost income in these categories, Wealth Management typically operates between 58% to 63% range. We are right now, borderline 65%. We were at 70, we improved by about 5% this year. Asset management, fully scaled, operates again at 50%- 55%. And capital markets operates at around 70%. I think, if you ask me in the next three years to five years, our target at a firm level would be about 60%, where Wealth should be best in the industry.

Every year we hope to reduce by 100 basis points to 150 basis points. Asset management right now is an investment phase for us. So, we don't look at it from a cost income angle. Once we cross INR15,000 crores to INR20,000 crores of AUM is when the real operating leverage kicks in. And maybe in three years to five years, we should be 4x- 5x from here. So broadly, if you ask me, if we are at 65%- 66% this year, clearly between three years to five years, you should see us at 60% levels at a firm level.

Chintan Shah: Okay, got it. Thank you. Thanks for the detailed answers. That's it from my side.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I now hand the conference over to Mr. Ashish Kehair for closing comments. Over to you, sir.

Ashish Kehair: Thank you. Thank you for taking time out for this call. It was, I think, an interesting session for me. We will take these questions as input and feedback. And some of you, we will, of course, meet over the next three months, four months. And as I said at the beginning of the call, we will continuously improve the quality and content of the disclosures which we are making. Just bear with us. And I think in one quarter to two quarters, hopefully we should be able to answer most of your questions through our data book itself.

Moderator: Thank you. On behalf of Nuvama Wealth Management, that concludes this conference. Thank you for joining us and you may now disconnect your lines.