NWML/SEC/2024/79

February 20, 2024

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 conference call

Pursuant to the Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and further to our earlier intimation regarding the earnings conference call to discuss the Company's performance for the quarter and nine months ended December 31, 2023, please find enclosed herewith the transcript of the aforesaid earnings conference call held on Wednesday, February 14, 2024.

The same is also made available on the website of the Company www.nuvama.com.

We wish to confirm that no unpublished price sensitive information was shared / discussed in the aforesaid earnings conference call.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: 2024.02.20 14:09:20 +05'30'

Sneha Patwardhan
Company Secretary and Compliance Officer

Encl: as above

"Nuvama Wealth Management Limited

Q3 FY'24 Earnings Conference Call"

February 14, 2024

Disclaimer:
This document is subject to errors and may or may not contain words which have been included / omitted due to human error while transcribing the conference call. Any and all information should be verified with the company by the reader

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 Nuvama Wealth Management Limited Q3 FY24 Earnings Conference Call. 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 a touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Kehair, MD and CEO from Nuvama Wealth Management Limited. Thank you and over to you, sir.

Ashish Kehair: Thank you. Good morning. Welcome all. Thank you for joining us today for the third quarter call. We've already shared our results and presentation on the stock exchange and our website and we've also added a data book and a detailed presentation and disclosures. Hope you've got a chance to do it.

We'll be happy to address any questions that you have during the call. Today, joining me is Mihir, our group CFO, Manish, who heads our Investor Relations and we have the SGA team, our IR Advisor. Coming to the results, I think our fundamentals remain strong with both wealth and asset management businesses continue to benefit from the sectoral tailwinds and operating leverage.

We've also seen excellent performance from the capital markets business this year. In Q3, actually, all businesses have performed exceptionally well. Overall revenue growth of about 38% for YOY and 29% for nine-month YOY and a profit growth of excess of 65%.

I think fundamentally our revenue streams continue to be diversified across client segments, product platforms, and delivery channels and this basically helps us deliver more services to the same client set and in that sense it's extremely synergistic and makes the business model slightly more predictable because of the holistic set of services we offer. Coming into the respective business segments, I think I'll start with wealth management.

Both Q3 and nine months have seen growth. Last call, and in fact some of you I've met during the year earlier also, had indicated that this year because of the change of revenue recognition and taxation of MLDs, we were actually a bit muted in our expectations on the wealth management side, but I think the team has done really well and we've overcome both the humps, both the revenue recognition of AIF and the taxation of MLD, and you can see the growth numbers showing that. Nuvama Private had more impact, so in Q1 and Q2 it was negative. Q3, on a nine-month basis, we've become flat and Q3 over Q3 we've grown. Q4 we'll improve further.

I think the fundamental decision which we took a decade back of incubating both the businesses is really working well with us because you have to understand that any business model, any customer segment has its own set of nuances. The underlying drivers may be the same, but because of the customer preferences being different, customer behavior being different, your business model takes time to evolve, and you keep making mistakes till the time you perfect the model and then you scale up, and you can't really fast forward that. And we had the time to perfect it, and I think we're in a place now where we just need to push the pedal and keep growing because the product choice, the technology choice, the talent choice, and the infrastructure choice that you make for each customer segment actually varies. So having both the models together works very, very well for us.

Jumping to Nuvama Wealth, which is the mid-market segment for us, we continue to see robust demand. I think the underlying drivers are very, very clear. Customer maturity and understanding of going beyond traditional products, increase in disposable wealth, geographic attractiveness beyond Tier 1, Tier 2, and clearly an under-service segment.

So because of this, we feel that there is a reasonably long runway where one can keep investing, and that's what we have done. We've added more than 100 RMs this year in this segment. A bulk of it has come in Q3.

We've also invested significantly in technology, in building a platform both for our wealth managers and external wealth managers, which in this segment is, I think, industry first, which gives them not only to manage their book, their client portfolio, and access to advice, let's say, which is digitally powered so that you can uniformly service all the clients across the board. And our focus, as I mentioned last time also, continues to be on managed products and investment solutions. That is the area where we will continue to invest.

We have open architecture. We work with multiple product providers and different investment avenues. So overall, net new flows in this segment, 80% from the nine-month period has come in this managed product segment.

Coming to Nuvama Private, I think a segment which most of you are more familiar with. Again, demand drivers are completely intact. Economy is doing well. Businesses are doing well. Real estate is doing well. Capital markets are doing well.

So there are a lot of IPO events which you are seeing which is happening, which is creating wealth in the hand of promoters, business owners, CXOs. So I think the generators of wealth are well intact. The war for talent continues.

Happy to state that here also we have said that we will double our RM capacity in five years, which broadly means about 20% year on year. We've added about 15 RMs this year, and we should add another five. That would take us, that would, I mean, do our first 20% achievement for this year itself.

In terms of geography, we've moved into three new locations. We were earlier present in nine. We are now there in 12. We've added Indore, Baroda, and Cochin. And we are looking at some more locations which we will shortly in either Q4 or Q1 of next year, we will add. We are also working on offshore as a market where we want to expand.

We've already initiated licensing and hiring in a couple of markets, predominantly Singapore and Dubai. But I want to, I mean, highlight one thing here, that when we look at these markets, you see a lot of wealth managers leaving established global platforms and forming their own outfits. Because there is a concept, like we have external wealth managers here.

There is a concept of external asset managers in these markets where you can work with the global banks and their entire product platform is available to you with a 50% revenue share. And I think we'll also use that as a model. But if we just do that, I mean, there is no differentiation which we will offer either to the relationship manager or to the client.

So the value proposition to keep, either bring the client to your platform or keep the relationship manager hooked to your platform will not be compelling. So we are looking at a three-way platform where one, we will service the offshore need of the Indian families. So which will give the RMs based out there a ready business coming from here.

Second, you will service the inbound India needs of offshore clients, NRIs and non-NRIs, both family offices in these markets. And third is where you will serve the offshore need of offshore clients. If as an outfit we are able to plug all these three together, our belief is that the value proposition both for the RMs and the clients become more compelling and your ability to attract and sustain talent becomes better.

And this is what we are right now building on. So I don't think we'll push the pedal very hard right now there till the time we are confident of the model because the cost creep you'll understand in offshore markets is very, very high. And if you don't have revenue visibility, it can impact your profitability in the short term.

On the domestic business, of course ARR continues to be our focus now. And we moved from about 53% ARR last year, nine months to about 58% now. So that is on the wealth management side.

Asset management, just to update you, we basically have two broad strategies. One is on the private market side, which has a pre-IPO fund and a crossover fund. And second is on the listed side.

On the private side, we focused more on deployment and we still continue to focus on deployment because we have about INR 4,900 crores of assets there and we still have to deploy about INR 2,500 crores to INR 3,000 crores. Once we finish deploying about 60%, 70% of that, then only we will look at the new fund raise. So maybe in another five, six months from now, we already have the pipes built in.

We have domestic fund raise lined up. We also have an international offshore family office fund raise lined up, but we will not trigger it till the time we finish the deployment. On the listed equity side, our AUMs have grown reasonably well.

We were about INR 700 crores last year, December. We are INR 1,700 now. There's about 120%, 130% increase.

We now have products across the risk spectrum, which is a large cap replacement product, a debt replacement product, and a mid and small cap product. And I think all three are working well with both our internal and external distribution. You would have seen in the media that we recently launched a commercial real estate fund in a 50-50 JV with Cushman because we thought it's a heavily operations intensive asset management category and to have a partner which has experience in all parts of commercial real estate will basically benefit the profile of the fund.

We are right now looking at one more strategy and we've not firmed up whether we will -- when do we start that private credit because in our view there is too much crowding happening in the market. Every house, every AMC, every outfit is launching a credit fund and it could lead to a scenario where there's too much capital chasing too few deals and the risk mispricing can happen. So we will wait and watch in that sense.

On the distribution side, we've added meaningful distributors on the outside of Nuvama, on the domestic side. We have private banks, we have wealth management outfits, we have foreign banks. They've all started distributing our products in a meaningful way. We have not yet gone into the IFA channel because we don't think our product fitment is right for that channel. So we are avoiding that as a category right now.

Lastly, coming to capital markets, I think it has been a stellar performance this year. I will just break capital markets into the two categories. One is our custody and clearing services, which is more steady and sort of works on the more transaction side and not so much on the market volatility and volume side. But that business has grown significantly this year. And I will come to the reasons because two years we spent in cleaning up and we shut down the domestic broker business and therefore this was the first year of normalized operations.

And I think in addition to that, there is a lot of activity from international hedge funds, prop funds into the Indian markets because of the general growth in the derivatives volume. So the activity has increased and the yields are also elevated. So I think all three have helped and the business has grown reasonably well there. Institutional equities and investment banking. In institutional equities, volume growth of 20% and market share has grown from four and a half to five and a half.

And investment banking, I think you've seen the slurry of ECM activity happening in Q2, Q3. We've participated wholeheartedly in that. I think combination of these three has led to a stellar performance in the capital market section. So I think that brings me to the end of the business strategic priorities and how we are looking at it. I will hand over to Mihir. He can take you through the numbers for the quarter and nine months and then perhaps we can jump into the Q&A section. Mihir, over to you.

Mihir Nanavati: Thank you, Ashish and good morning and a warm welcome to all the participants on this call. I'll now summarize performance highlights for the quarter and nine months ended December 31, 2023. At the outset, as Ashish explained, we are happy to report that the growth momentum of quarter one and two has largely continued in quarter three in all the key operating parameters across all the three businesses, i.e., wealth, asset management and capital markets.

On to more specific data on performance indicator first, the client assets. Our client assets stood at INR 3,31,375 crores as at the end of Q3 FY24, which grew by 40% year-on-year. Of this, the aggregate client assets under wealth management business, covering both Nuvama Wealth and Nuvama Private, stood at INR 2,41,837 crores and grew by 29% year-on-year.

In line with our focus, Nuvama Wealth's client assets under managed products and investment solution or MPIS, as we call it, grew by 35% year-on-year and stood at INR 21,318 crores. And in Nuvama Private, our ARR assets grew by 30% year-on-year to INR 30,604 crores. Net new money in Nuvama Wealth was at INR 4,362 crores for nine months of FY24 and grew by 7% year-on-year.

Net new money in Nuvama Private was INR 10,068 crores for nine months FY24 and grew by 14% year-on-year. AUM of asset management stood at INR 6,573 crores at the end of Q3 FY24 and grew by 27% year-on-year. Client assets under custody and clearing stood at INR 82,965 crores and grew by 88% year-on-year.

Next on the revenues, our total revenues for Q3 FY24 were at INR 558 crores and grew by 38% year-on-year. And for nine months, the revenue were at INR 1,467 crores which grew by 29% year-on-year. Of this, our wealth management revenue for Q3 FY24 increased by 18% year-on-year to INR 305 crores and to INR 858 crores for nine months FY24 reporting a year-on-year growth of 17%.

Within wealth management, Nuvama Wealth reported revenues of INR 169 crores for Q3 FY24 reporting a year-on-year growth of 17%. Revenues for nine months of FY24 were INR 486 crores and grew 21% year-on-year. Retentions remained stable at 1% per annum. Nuvama Private recorded revenue of INR 136 crores for Q3 FY24, year-on-year growth of 19%. Revenues for nine months for FY24 were INR 372 crores and grew by 13% year-on-year basis.

Of this, ARR revenues continued to grow and now constitute about 58% of the total revenues for nine months of FY24. As we mentioned on our last call, revenue growth in current periods over corresponding previous periods has to be viewed in the context of a lower income booking on AIF products due to regulatory changes in charging of AIF commissions in May '23 during the current period.

Now on to asset management revenues, our ex-carry revenues stood at INR 14 crores in Q3 and grew by 29% year-on-year. And for nine months, the revenues were INR 37 crores and grew by 37% on year-on-year basis. This was mainly on account of growth in the fee earning AUM during the respective periods. Capital market revenues stood at INR 237 crores in Q3 and grew by 79% year-on-year and INR 557 crores in nine months of FY24, which grew by 62% on year-on-year basis.

As Ashish mentioned, this year has been exceptional for capital markets business lines. On to cost, total cost for FYQ3, FY24 stood at INR 328 crores and grew by 21% year-on-year. And for INR 922 crores for nine months of FY24 and grew by 15% year-on-year basis. Of this, staff cost stood at INR 234 crores in Q3 of FY24 and grew by 27% year-on-year. And INR 655 crores for nine months of FY24 grew by 18% year-on-year basis.

Operating expenses stood at INR 94 crores in Q3, which grew by 8% on year-on-year basis. And INR 267 crores in nine months of FY24, which grew by 8% year-on-year basis. Our overall cost to income ratio for nine months of FY24 stood at 63%, down by about 760 bps year-on-year basis. On to profitability, our operating PAT for Q3 FY24 stood at INR 176 crores and grew by 66% year-on-year.

And for nine months of FY24, our operating PAT was INR 416 crores, which grew by 64% year-on-year basis. Our return on equity for nine months of FY24 stood at 22.7%, against 16.7% for the same period of the last year. Thank you. And I will now request the moderator to initiate the question and answer session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Jeswani from Stallion Assets. Please go ahead.

Amit Jeswani: Congratulations, Ashish ji for a great set of numbers Ashish ji, my first question is a bit more long term and just wanted to understand. Assuming today we are at INR 177 crores of profits and Nifty, one year from today is broadly where it is today. Would there be any difference in our facts? That is number one.

Number two, is typically globally wealth management industry grows at three to five times the capital market industry. So would you say that since our penetration is low, that if assuming Nifty doubles in the next how many ever years, Nuvama's profit should ideally be three times higher than or four times higher than what it is today. Is that a safe assumption to make?

Ashish Kehair: Too complex, Amit, for me to answer this. I can only say…

Amit Jeswani: But if you see it happened globally, the same trend is there.

Ashish Kehair: So let me give you how I see the overall business. So again, if you look at the entire space of financial services, wealth management, in my view, is one of the most nascent pieces because India is still evolving, right? I mean, we are talking of 3,500 families. Our competition has some 7,000, somebody has 9,000. These are really small numbers. And even if you look at the assets under, I would say, client assets, not under management or advice, client asset numbers are also not very high in terms of the size of the country and the potential which it commands.

So I think it's a very, very long runway ahead. Overall, obviously, you understand the equity markets far better than most of us. Equity markets should do well because if the underlying economy is doing well. And essentially, if the markets do well, Amit, if real estate does well, if these two things are doing well, who are the owners of these assets? The owners of these assets are finally individuals, right?

Eventually, all these individuals who own these assets, in whichever part of the wealth spectrum they are, whether it is retail, mid-market, high net worth, ultra high net worth, their wealth is continuously going to increase. So one increase is obviously, let's say, you said from market increase, right? So if I'm holding Nifty, I will gain by that much just by holding Nifty.

In addition to that, I have a salary income or a business income from which savings is getting generated. So, if you combine the two, obviously, wealth management will grow at a far faster pace than the market itself. So theoretically, what you're saying is absolutely correct.

Amit Jeswani: Got it. And my second question is on allocation, on capital allocation. So we generate a lot of cash flows. And would you -- would it be right for me to, we are at 27% ROE, would it be right for me to say that our goal would be to reinvest in the margin funding and the ESOP loans that we give from the cash flows and reinvest our cash flows or we would move to a 30% dividend payout kind of structure? Because our competition has moved to a dividend payout structure.

So just trying to understand, Ashish ji, how you think about it.

Ashish Kehair: So we will move to a dividend payout structure. We don't intend to use the cash we generate to, you know, grow the book. The book which we run, Amit, is a facilitation book. It's not a target which we run that we need to grow the book which we run Amit is a facilitation book. It's not a target which we need to grow the NBFC by 20%, 30% every year. In wealth management, lending is just a facilitation part. It's on and off.

There are times when your book will grow in a quarter, then it may come down. But we will move to the dividend model and not reuse cash in this. There could be other growth avenues. There could be something else where we will use. But for that, I think ample amount of cash is getting generated that we can pay dividend and retain some. I mean, it will be a combination of both. But to answer your question, we will be more tilting towards the dividend side.

Amit Jeswani: Got it. And my third question, Ashish ji, is about the recent SAT order which happened. Of course, Edelweiss has said that they have already indemnified you and they've given out in a press release. So whatever happens in the Supreme Court, like I've gone through the details, looks like it's a very -- should be a very easy case for you guys to win. And with very high probability, you guys should win.

But just in case, like a very small 10% probability or a 2% probability that it doesn't go as per our things, then Edelweiss will pay the entire amount directly and we've got nothing to do with it, right?

Ashish Kehair: See, it's a matter which is sub judice right now. And anything I say can be used by the opposing councils in the court. So I can only comment limited amount. I can say that it's a, like you said, I mean, it's a low probability event. It's a four-year-old matter of a discontinued line of business. We completely complied with all the regulation, no money was retained by us.

It was given to the Clearing Corporation. And in the low probability event, even if it happens, I think we have a strong promoter, we have Edelweiss backing. I don't think it's going to impact any of our businesses or strategic growth opportunities. So one-off, if it happens, low probability, we'll handle it. I don't think it worries us at all.

Amit Jaiswani: Got it. Thank you. Thank you, Ashish. So nice speaking to you.

Ashish Kehair: Thank you, Amit.

Moderator: Thank you. The next question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Hello. Good morning, sir. Congratulations on a good set of numbers.

Ashish Kehair: Thank you, Prayesh.

Prayesh Jain: Sir, just firstly on the Nuvama Wealth piece. If we look at the net new money that gets -- that's been getting added, it's been from the peak of around INR 2,400 crores in 1Q, we came down to INR 1,300 crores and now to INR 640 crores. What's really transpiring out there? And how should we see this? That is the first question. Second is, on the same bit on the retention that has been kind of coming off from 1.09% to 0.98% in Q3. How should we read this and how should we look at it going ahead?

Ashish Kehair: So net new money, basically, actually we disclose limited lines. So you're obviously right in saying what you're saying, because you're seeing the headline numbers. But the way we look at it, our focus obviously is on MPIS.

And when we look at the flows in MPIS, the 641 actually translates to 1,050, which was about 950, 960 in last quarter, and about 1,500 in Q1. So it will keep going up and down. But from a trend perspective, I don't think there is anything to worry.

First quarter, we had some bumper sales happening in one of the products which was closing, but otherwise 1,000, 1,100 and 1,200 every quarter in MPIS. And maybe in one or two quarters, we will start disclosing that line. This number has become 641, because we had an ESOP repayment of about INR 400 crores in HDFC Bank case when the price went up.

So that went away. So ex of -- if you look at ex of loan assets and ex of broking assets, actually, Q-on-Q, it has gone up by about 10%. And on yields, it's a very simple thing. The mark-to-market on the broking part has been slightly higher, which is why your MPIS portfolio doesn't move that much by mark-to-market.

So on the overall portfolio, there is a 4-5 basis point movement, which will get corrected in Q4, because Q4 typically is a higher insurance kind of a quarter. And insurance from a yield perspective is more bumpy. So it will come back to maybe 1.05, 1.1 by the end of Q4.

Prayesh Jain: Great. And just on this Nuvama Private, again, you know, from a new money flow perspective, could you throw some light there as well, the way you explain this? We have seen very strong in this quarter, which was closer to INR 5,200-odd crores. So just throw some light there as to how is this shaping up?

Ashish Kehair: So I keep saying this, Prayesh, that it's not right to track so granularly quarter-on-quarter. This quarter has been very good because across categories, I mean managed products, loan assets, your ARR assets, every category flows have come. Maybe next quarter, it could be slightly lower or ballpark in the same magnitude. But there is decent client activity now, which is happening across the board, which gets reflected. We only get worried when you consistently see outflows from a good yielding portfolio on a consistent basis, which is not visible in any part of our business right now.

Prayesh Jain: Just to look at these two businesses combined, and possibly you can share this separately as well, as to what is the share of mutual funds? And in fact, we've been telling earlier that we want to increase the share of mutual funds and we're investing in that piece of business. So where are we and how do we see this going ahead?

Ashish Kehair: I think right now, it's early stages. And I don't think it will be just mutual funds. It's basically entire category of assets in which you earn trail. So it could be a PMS, it could be a CAT 3 AIF, it could be a mutual fund, depending on the customer preference, customer need and customer choice. Nuvama Wealth may have a higher proportion of mutual funds and Nuvama Private may have a higher proportion of PMS and AIF.

We've started investing and focusing on that. I think maybe in two, three quarters, you'll start seeing and maybe I can disclose separately the numbers, which we'll start seeing. Right now, I don't think it's become meaningful. We have started seeing the green shoots. What we used to do in a year, we started doing in a month.

Prayesh Jain: Sir, my last question is on the profitability. We've seen a significant improvement in profitability for the entire company as a whole, but a large part of it seems to be coming in from Nuvama Wealth and from the capital markets business -- and largely from capital markets business more so, which is kind of cyclical.

Would you say that this profitability in the capital markets business is not sustainable? And in case of cyclical downturns, what should be a normalized profitability in the capital markets business from a mid-cycle perspective? We are right now in a boom phase. So in a mid-cycle perspective, how should we look at the profitability in this segment?

Ashish Kehair: So if you look at our capital, so overall, if you look at the cost income and if you look at the three-year trajectory, right. We would have moved from -- overall business has moved from, let's say, in FY'21, we were 73%. Then we came to 70%. Then we came to 69%.

This year, hopefully, we will end up anywhere between 63%, 61%, 62% ballpark, that range. From 73% to 69%, if you see the entire benefit came from the operating leverage of wealth management because capital markets actually deteriorated. It went from 59% to 73% and wealth came from 88% to 67%.

This year has been good. But I also pointed out that, you know, in our custody clearing businesses, last two years we were changing our business model. We shut down the line of business of domestic brokers group. And that basically had a two flat year kind of a scenario where costs went up.

This is a full year normalized. So we saw a full year performance. And custody clearing is actually more than 60%, 65% of our capital markets profitability. So the more volatile part is your institutional equity investment banking.

Having said that, if you look at -- so this is, let's say, a super cycle for them. If you look at a mid-cycle and if you say that in a mid-cycle, their cost income will deteriorate by, let's say, I'm asserting a number by say 700 basis points, 800 basis points. That will have an overall impact on our cost income by 100, 150 basis points, max 200 basis points.

That is the sensitivity. A 10% deterioration there will have maybe a 2% deterioration on the overall business, assuming that wealth management doesn't improve from here, which is not the case because wealth management every year is improving by 200, 250 basis points like I mentioned.

And asset management, if you see, Prayesh, right now is more than 100% percent. Once we cross INR 15,000 crores, it starts adding to your profitability and starts bringing. So even if that brings that 100 basis points down, on an overall basis, I think we have a sufficient capability to absorb this capital market cyclicality.

Prayesh Jain: Thank you so much, sir, and wish you all the best.

Moderator: Thank you. The next question is from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: Hi, sir. Good morning. Congratulations on a good set of numbers. Just a few questions from my side. First on the number of family increases that we have seen in Nuvama Private. And you mentioned that there have been some monetization events.

Just wanted to get some sense of what will be your, let's say, client penetration in the new monetization events that you're seeing or the wallet share that you're getting in the new flow from an industry perspective compared to your peers.

Second, you mentioned that there has been some variable cost realignment in Nuvama Private RM. If you can give some color on that and mention that the entire cost has been absorbed or there can be some spillover impact on that.

The third question is on the IB pipeline. I mean, you would have probably some visibility on the next six to nine months and maybe give some color if the current trends are sustainable, assuming the market hold up at current levels.

Lastly, two or three data-keeping questions, which you gave in the last quarter also. Your corporate treasury AUM, which was around, I think, INR10,000 crores last quarter. And the recurring flows into Nuvama Private, which I think were around INR 5,800 crores for first half, if you can just give those two numbers.

Ashish Kehair: So I'll first answer the variable cost question. So variable cost in Nuvama Private, as I mentioned in the last call, that last year it was skewed towards Q4. And therefore, if you look at the nine-month cost income in Nuvama Private of last year versus this year, this year looks higher, which is why I think Prayesh was also saying that the cost income there is higher.

But this year, the variable cost we have taken more uniformly. It will not be as skewed in Q4 like last year. So full year basis, we should end up at around 64%-65%, which is same as last year. After absorbing the entire impact of the AIF accounting, and just to tell you the impact of AIF accounting on the entire wealth management cluster is about INR 50 crores for nine months, which is about 7% from a revenue perspective and 20% from a PBT perspective.

So if you were to compare with the old regime, this 27% PBT growth would actually have been 47% if this AIF impact was not there. But that now is absorbed and we are getting trail. So I don't think there will be a spillover of variable cost in Nuvama Private. I think that is fairly well absorbed. In terms of treasury assets, broadly at the same INR10,000 crores-INR11,000 crores level, I don't think that's a very big focus area for us to continue to increase that.

Our flows, new money flows in Nuvama Private is about 5,300. Out of that, in this quarter, the ARR flows will be about 1,500 and rest will be non-ARR. And in the non-ARR, broking is about 2,000 and balance is fixed income, MLD , unlisted and all that.

And first question, I don't think we track right now from the percentage of flotation and all that. And I don't think that's a scientifically trackable number right now. What we have started tracking rather is that what we take in terms of our own ECM mandates or M&A, PE mandates, how much of those clients we are converting.

We have started hitting that to about 30%-35%. So anything which our IB wins, how much of that we are converting into assets, the way we look at it, that IB brings that upfront fees and the wealth management will bring the annuity by getting the assets in from those clients. That's how that combination will work.

And your fourth question on the IB pipeline. So if you look at our IB business, Dipanjan, it's broken up into two parts. One is fixed income and second is on the equity side. Equity, obviously, as ECM and M&A, PE. And broadly, it's about -- in some years, fixed income is 60%. In some years, equity side is 60%-65%. This year, equity will be heavier. What we have done in the last nine months in IB, I think we should be able to deliver a similar number in the next at least six months. So that visibility is there.

Dipanjan Ghosh: Got it, sir. If I can just squeeze in one or two more questions. One is on the yield part in the Nuvama Private, ex of loans, recurring ex of loans. Based on whatever numbers you gave, it seems that has kind of jumped a bit, quarter-on-quarter. Is it because of more MLDs that you did in the quarter or if you can give some color on that?

Ashish Kehair: MLD doesn't come in ARR, Dipanjan. This is because now you have to start accruing trail, right, in your AIF. And last year, trail has also started coming in, in products which we sold earlier. So combination of these two and plus whatever little first year fees come. So all three put together. And I think this yield will sustain at least for a quarter and then maybe it will normalize by 5-10 basis points.

Dipanjan Ghosh: Got it. And just from a strategic perspective, historically in your Ultra HNI segment, you know, let's say, if a client puts in INR 100 bucks in any particular year as fresh flows from a new client. ex of mark-to-market, how do you see that wallet size increasing over the next two, three, five years, how do you see that kind of increasing, which will give us some understanding of the organic growth that you can get from the existing client base, even if market, let's say, kind of corrects a bit from here?

Ashish Kehair: I think same set clients on an aggregate basis, one can see about 15% growth. So some clients will be higher, some will be lower. But on an aggregate basis, about broadly 15%. But we will do a check on these numbers and maybe we can discuss it one more time.

Dipanjan Ghosh: Thank you and all the best.

Ashish Kehair: Thank you, Dipanjan.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: Sir, congratulations on a very good set of numbers. Sir, I think...

Moderator: Sorry to interrupt. Mr. Gautam, may I request you to use your handset, sir? Your audio is not very good.

Vivek Gautam: Is it okay now? Better now?

Moderator: Yes, sir. Please go ahead.

Vivek Gautam: Yes. Sir, congratulations on an excellent set of numbers. Just wanted to know about basically the opportunity size and expected growth for our sector and our company in India as well as abroad.

And any comment on that being a cyclical sector and the steps being taken by us to make it non-cyclical? And one more question is about the NRI opportunity size and a lot of difficulties NRIs are facing in investing in India. So, any plans you have taken for that, sir?

Ashish Kehair: So, first question, I think for overall wealth and asset management, we see a significant runway ahead and not only us, I think our peers and competition and everybody in the market believes that if the India story continues the way it is, obviously, as I said, capital markets will do well. If capital markets do well, the wealth in the hands of people will increase. And we are basically beneficiaries of that in whatever category of products we offer to the clients.

So, if you assume that Indian GDP, nominal GDP will grow by 10%-11% and therefore, markets will grow by another 3%-4% higher than that. And in addition to that, savings of people will get added into this pool. So, you can clearly see the overall wealth which will get managed across asset classes, across products, including deposits, insurance, mutual funds, direct equities, bonds, everything put together, should ideally grow order of magnitude 20%-25% every year.

There will be years where the growth will be more than 40-50, there will be years where the growth will be 10%. But if you take a 10-year perspective, 20%-25% is easy. Then, second aspect which is very important is that in India, organized wealth management is extremely under-penetrated.

It's less than 15%. If you take the total financial wealth in India today, it's about maybe INR 3-INR 4 hundred lakh crores. And out of that, all capital markets wealth, let's say insurance, mutual fund, equities, everything put together is say INR 150-INR 200 lakh crores.

Out of that, all of us put together in terms of wealth management do not manage more than INR 15-INR 20 lakh crores. So, that penetration is about say 10%-15%. In a country like China, it's about 30%-40%.

In developed countries, which includes maybe Singapore, Hong Kong, US, Europe, it's more than 80%-90%. And India, where we are today, which is at let's say 14%-15%, 10 years back was about 5%. So, if you combine the increase of wealth, which to my mind in 10 years should become at least 2x to 3x given our growth rate, and you take the penetration of 15% to even 30%, I think the size of industry will grow by 4x.

This is the simple mathematics and everybody will benefit out of it. In terms of cyclicality, this is a slightly unique segment. It's not fully cyclical and it's not fully like a FMCG.

So, it's somewhere in between. There is an implication of market, but the underlying keeps growing. The underlying wealth of the clients keeps growing.

It's only allocation between different asset classes which changes. So, if you take a 5-year view, I think the industry is reasonably good to invest in. You have growth, you have under-penetration, and you have low number of players where you can actually invest and participate in this.

Vivek Gautam: And the next question was about the NRI opportunity size. I believe a lot of NRIs are very much in the wealthier class and interested in investing in India, but they're finding a lot of difficulty in doing so through some regulatory process compliance. How do you tackle that?

And if you can also highlight our differentiators and USP for us versus competition versus the recently listed companies? Thank you.

Ashish Kehair: So, NRI as an opportunity, we have started looking into it now. We were focusing on domestic, so we are creating the pipes through which they can come in. If you look at overall NRI investment in India, I think broadly 10% of mutual fund AUM today is coming from NRIs.

And I would say about 5%-6% of bank deposits would be coming from them. There is friction because they can't invest as seamlessly as the domestic investors can. So, we are building those pipes now.

We are also building specific dedicated relationship teams to cover them. And I think we should start seeing impact of that in about a year or so because we want to reduce this friction. There is immense amount of interest in India right now. They want simple products. They want easy access. And I think it's not a big challenge to execute, so that we will do.

In terms of differentiation as a business model, from a client segment perspective, we are fundamentally clear that we will offer a product platform which is extremely comprehensive and diverse. And it's targeted towards client wallet rather than what we want our revenue streams to look. So, biggest problem in India, I think, is people have significant amount of allocation in inefficient bank fixed deposits, at least in the mid-market segment.

And that is where we started our focus on. We created a plethora of products for them to have higher yields, higher returns on a tax-adjusted basis while keeping the risk profile same. And I think that led to our huge surge in business there.

Now we are expanding into different parts of the world. In Nuvama Private, I think the basic difference between us and some of the others is the product platform which we offer. The comprehensive access in addition to investments, estate planning, tax planning, investment banking, their business side advice, all of this under one umbrella is, I think, our value proposition to our clients which is differentiated from most of the players in the market.

Like, you look at some of the players that don't even have a lending NBFC. If a client needs a loan, they will have to go to some other player. If they want to buy something off of a stock exchange, they will not be able to buy.

They will have to empanel with some other broker. We have tried to build everything within the same umbrella to offer full service to the client.

Vivek Gautam: Thank you, sir. And any anti-thesis point you would like to highlight along with the positivities?

Ashish Kehair: Sorry, any?

Vivek Gautam: Anti-thesis. Concerns, concerns, which can...

Ashish Kehair: Okay, okay. So, concerns in the sense, I mean, it's a business of trust. And if, let's, where, you know, on ground, thousand people are talking to clients and selling investment products and all.

So, we have to ensure high level of guardrails and governance that we do not breach our client trust in any manner. I think any wealth manager, that is one of the biggest risks that exists. People ask me, is there a regulatory risk?

Can the regulations change? My fundamental view is that this industry has been in existence globally for hundreds of years. And this need is not going to go away.

People will generate surplus every year. People will need advice to manage that surplus in an intelligent manner every year. So, I don't think there can be a regulation which will come and take this away.

Then somebody can say that, you know, can technology replace this? At a retail level, when you have to invest small sums of money and monoline, yes, technology can play a role. But when the quantum increases, when the amounts become large, it's not very easy for somebody to place money in a, you know, a fund on a technology enabled device, which is, say, INR 5 crores, INR 10 crores, INR 50 crores.

They need to understand whether this is the right step, whether this is the right product, whether this is the right time I should invest in. So, I don't think these are really the risks. The risks are execution. We may not be able to execute the opportunity or mis-selling of a product or breach of customer trust. I think broadly, if we can take care of this, business is in a fairly good shape.

Vivek Gautam: Can you also highlight about PAG? Our parent are, and basically, most of the investors take it as an Edelweiss only. PAG, I believe, awareness level is slightly low.

Ashish Kehair: Yeah, I can definitely talk about it. So, just to give you a bit of history, we are now demerged from Edelweiss. In 2021, PAG, which is a private equity and an alternative investment, Asia-focused alternative investment group, they invested about 56%. They became the promoter. It was a controlling stake. March of 21, they invested.

And then the process of demerger started. In demerger, we got separated from Edelweiss. That got concluded in the beginning of this year, around April, when NCLT completed the whole process.

Post demerger, Edelweiss stopped being the promoter, and PAG became the promoter of the company. Edelweiss still has a holding of about 13%, 14%, which they hold as a treasury stock. And after demerger, the shareholding, which Edelweiss had in our company, got distributed to their shareholders.

So, retail shareholders and institutional shareholders of Edelweiss became our shareholders. PAG is an Asia-focused private equity platform, or rather an alternative investment platform. They basically have three lines of businesses, private equity, credit, and real estate.

And they also run an asset management platform called Polymer, in which other asset managers are onboarded and they serve institutional clients. It's one of the largest Asia-focused firms. They have investments in Australia, Japan, India, China, broadly these four markets.

They came into India in 2019. In private equity, they've been in real estate for some time. And they now have about a billion dollars already invested in India, and they're looking to increase exposure.

Vivek Gautam: Thank you, sir. I believe that is one of our strengths. PAG, Parentage, and the LLCs we call them.

Ashish Kehair: Yes.

Vivek Gautam: Thank you, sir. Keep up the good work. Thank you.

Moderator: Thank you. Our next question is from the line of the Dhyey, from Niveshaay Investment Advisors. Please go ahead.

Dhyey: I had this question on the operational side of the business. So, for example, when a new client comes and he requires multiple services or multiple products, then how is the client segregated between the two major segments?

Ashish Kehair: So, the target client segment itself is separate. And the relationship teams which go and acquire the clients, they basically go and acquire from their target segment only. So, for example, in Nuvama Wealth, the target client segment in top eight cities would be, let's say, employees of Category A companies.

Nuvama Private RM will not go and target that client at all. For Nuvama Private, the target client will be a promoter of a company or a CXO or a CEO of a company who will at least have INR 50 crores, INR 100 crores to invest. So, completely the target clients are different and they get acquired differently.

Yes, it can happen that in either of the businesses there could be some overlaps. That we basically manage internally and we move the clients from one place to the other.

Dhyey: Okay, understood, sir. I had this question. So, in the third-party products and the in-house products provided under both the segments, there is wealth and asset management. So, how does the asset management segment. So, does the asset management segment run the in-house schemes only or it runs multiple products at the same time?

Ashish Kehair: Asset management basically, as I said, manufactures schemes which get distributed both through Nuvama and through third-party distributors. So, in that sense, they will offer products to Nuvama and to third-party distributors, to other wealth managers. And Nuvama Wealth and Nuvama Private will sell our own asset management products and third-party products. So, it's like a crisscross.

Dhyey: Correct, sir. And, sir, I believe that most of our borrowings come from the market-linked debentures. Am I right on that?

Ashish Kehair: About 55%-60% now. It used to be more than 70%-75%. And I think with the progress of time, it will keep coming down.

Dhyey: Correct. And what would be the approximate ballpark number for the borrowing cost, the rate?

Ashish Kehair: The rate right now would be anywhere between 9.25% to 9.75% depending on the tenor of the borrowing.

Dhyey: Okay. Okay. Correct, sir. Also, sir, this is a little long-term question. What would we be focusing on in terms of broking, IB, IE or the wealth management side of the business, which area would we be focused more on in the longer-term?

Ashish Kehair: So, wealth and asset management clearly, we have said, is the focus area. Because from a domestic market perspective, those are the sectors which are right now sunrise sectors. Wealth even more than asset management, where it's nascent, we have had a reasonably good head start and we see a long runway of growth.

If you look at IB and IE, from a business perspective, they are more mature, they are extremely profitable, and we will take those businesses and work their synergy with wealth and asset management. So, it will work like a complete synergy in a virtuous model, but in terms of focus where our investments will go, it will be essentially wealth and asset management because that's where the country is right now offering growth opportunities.

Dhyey: Correct, sir. Understood. I had this last question. So, we are planning to add around 15% Cagr to our relationship managers.

So, how do we expect to increase our revenues? Would it be more linked towards the market performance as you explained, or we can expect some good performance from relationship managers as well?

Ashish Kehair: I don't think market performance has significant impact on our revenues. Market sentiment has, like something like a COVID happens, all businesses get impacted. But if markets do not go anywhere for one year, our revenues I don't think will get impacted that much because very little is linked directly to market movement. So, it's a combination of organic growth of client assets, the products we offer, and the RMs who come in.

So, even the current RMs, their productivity keeps going up year on year because you understand, let's take you as a client, right? Today, you have, let's say, INR 100 of surplus money, and you are managed by one RM. In five years from now, that 100 itself will become 200, 300.

In addition to that, you would have earned money from your business or your salary, and you would have added to that. So, that 200, 300 can go to 400. So, by definition, on a single client basis, only 3x-4x asset increases.

In addition to that, the RM acquires a new client. So, if you aggregate all this, you can see where the growth comes from.

Dhyey: Correct. So, sir, any ballpark number you could provide?

Moderator: May we request you to rejoin the question queue, please?

Dhyey: Yeah, sure. Thanks a lot, sir. That was really very helpful.

Moderator: Thank you. The next question is from the line of Mohit from BOB Capital. Please go ahead.

Mohit: Yeah, hi. Thanks for the opportunity and congratulations on the excellent set of numbers. There were two questions.

First, if I look at say, Nuvama Private and Nuvama Wealth, I just wanted to do an analysis of the net new money received from the new versus existing clients. So, if you can give a color, you know, whether that has changed over the last 2-3 years or perhaps that ratio has remained the same. So, that would be helpful.

And secondly, in terms of the capital markets, like you said that you had an exceptional quarter. I just wanted to understand the INR 90 crores that we earned this quarter, is that kind of sustainable on an annual basis? So, that INR 400 crores is something that you envision or do you think there could be some kind of moderation over there?

Yeah, that's it. Thank you.

Ashish Kehair: So, first question, if you see the net new money between new customers and existing customers, as the business, so right now, if you ask me, the numbers can be anywhere between 75-25 or 60-40. And it keeps changing. But on a business, which is continuously growing, right?

Your base of clients will keep on increasing and the newer clients which will get added will be a small fraction of the base. So, in a business which becomes, you know, 20-30 years old, it will become 80-20 towards existing clients versus new clients. In a new business, it's reverse.

The new clients which come in bring in more net new money. But that doesn't change the characteristic of the business. So, I don't think that data point should be focused on too much.

In terms of capital markets performance, as I said, we can divide it into asset services, IB and IE. About 60%-70% of this business comes from our custody clearing business. And about 30%-35% from a profitability perspective comes from IE-IB. Asset services is more stable compared to IE-IB. So, even if there is volatility, maybe this 92 can go to say 85-80 kind of a range. But I don't think we will see a further fall at least in the coming two quarters.

Mohit: Right. This is helpful. Thank you so much. I wish you all the best.

Moderator: Thank you. The next question is from the line of Bhuvnesh Garg from Magma Ventures. Please go ahead.

Bhuvnesh Garg: Hello, sir. Good morning. Congratulations on a good set of numbers and thank you for the opportunity.

Just a couple of questions. Firstly, on our RM cost. So, if you can share how much of our percentage revenue goes to RM on an overall basis and currently and where do you see it stabilizing over the next 3-4 years?

And how the revenue sharing with RM in India varies from revenue sharing with RM globally? Yeah, this is my first question.

Ashish Kehair: So, broadly 20%-25% of the total would go to RM in India. And that is the order of magnitude which we have in a business which is profitable and in a business which is scaled in a non-bank category. Where you don't have too much of interest income.

20%-25% typically goes. When you go into banks, that number falls to maybe 5%-10% because the component of interest income is significantly higher. And when you look at the business models globally versus India, so globally there are two kinds of business models.

One is the broking oriented or the broking led. And American versus European, that also is different. American would be more like a 40% payout because it's more broking led.

And when you go to European private banks, it's more blended. It has interest income and they run huge portfolio leverage book. So, there again it falls to 10%-15% because wherever capital is used to generate income, the sharing ratio keeps coming down.

And wherever it is pure fee income and commission income, the sharing ratio goes up.

Bhuvnesh Garg: Sure. Understood. And for our business, we are currently saying 20%-25%. And would it remain stable or how do you see it moving?

Ashish Kehair: I think it will gradually trend down. But I don't think in India for let's say next 3-5 years, you will see it going below maybe 17%-18%. It's difficult.

Bhuvnesh Garg: Understood, sir. And second thing is on attrition trends and vintage of RM. If you can share some data points that what's the current attrition rate in RMs and what is the vintage of our RMs both in Nuvama Private and Nuvama Wealth.

Ashish Kehair: So, attrition Q3, Nuvama Private regret attrition is 0. Non-regret is about 2 RMs. And in Nuvama Wealth, our attrition percentage is broadly about 1% in the regret category. In vintage of RMs, what exactly would you want to know?

Bhuvnesh Garg: How much percentage of RM is more than 5 years old within Nuvama?

Ashish Kehair: I may not have that number readily. Let me just look up. So, about 3 years plus is 65%. And less than 1 year as I said is about 20% because we are adding 20% capacity year-on-year. So, balance is between 1-3 years.

Bhuvnesh Garg: Got it. Understood, and finally, in terms of our arrangement with external wealth managers, how much of our revenue percentage goes, I mean, is shared with external wealth managers?

Ashish Kehair: So, it depends on the category. So, when you get into an arrangement, it's a product-wise, volume-wise slab. Broadly, you can say anywhere between 50%-55% maximum that would go. And that is the global trend also.

Bhuvnesh Garg: Understood. So, in that scenario, comparing RM versus external wealth manager, so here in case of RMs, only around 25% goes to RM, whereas as an external wealth manager, around 50% goes to them. So, how do you see that this differentiation bridging?

Ashish Kehair: See, there are two things. In external wealth managers, you don't have any opex, right? They have to create their own offices, they have to have their own...

So, if you look at that entire part, that is managed by them. Second is, there are good years and then there are bad years, right? In a bad, let's say, hypothetically, in a COVID year, your payout to your RMs can increase to 35%-40% because the revenue itself will dip.

And in case of external wealth managers, it's all variable. So, it's a business model choice. It's not that one is good or one is bad.

You have a low opex and an infinite scalability when you do external wealth manager, but your quality controls, your compliance checks, those have to be kept in measure. If you grow everything organically, you have higher fixed costs, in case your revenue does not do well, your P&L gets impacted more. So, if you run a blend of both, it's far better.

Bhuvnesh Garg: Understood. Fine, sir. That's it from my side and I wish you all the best.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question for today's question and answer session. I would now like to hand the conference over to Mr. Ashish Kehair for closing comments.

Ashish Kehair: Thank you. Thank you, moderator. Thank you all of you for being here. I hope I was able to answer all the questions. We shall see you again in the next quarter.

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.