NWML/SEC/2025/20

May 17, 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 dated May 3, 2024, regarding the earnings conference call to discuss the Company's performance for the quarter and year ended March 31, 2024, please find enclosed herewith the transcript of the aforesaid earnings conference call held on Monday, May 13, 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We wish to confirm that no unpublished price sensitive information was shared / discussed in the aforesaid earnings conference call.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: 2024.05.17 15:10:03 +05'30'

Sneha Patwardhan
Company Secretary and Compliance Officer

Encl: as above

"Nuvama Wealth Management Limited

Q4 FY '24 Earnings Conference Call"

May 13, 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 – GROUP 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 Nuvama Wealth Management Limited's Q4 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 your touch-tone phone. Please note that this conference is being recorded.

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

Ashish Kehair: Thank you, Michelle. Good morning. A very warm welcome to each one of you. It's always a pleasure to connect with you all. Thank you for joining us today for our call for the fourth quarter and the full fiscal year 24. Joining me today in the call are Mihir, our Group CFO, Manish, Head of Investor Relations, and we also have SGA, our Investor Relations Advisor.

Before we proceed into discussing the business and updates, I just wanted to share an important announcement with all of you. Mihir, who's our Group CFO, will be leaving us and wants to transition into a more advisory and mentoring role, helping many other companies with his decades of experience. I want to thank him on behalf of the entire Nuvama family for the contributions he's made through this important period of transition for us.

He came about six, seven months before we started our demerger process, handheld us through the entire process of demerger listing, and has built a very strong foundation of the finance and investor relation function for us to build it from here. On behalf of the directors, on behalf of the entire Nuvama family, I want to wish Mihir all the best as he begins his new chapter of his life. His resignation will be with effect from 14th of May, which is tomorrow.

I would also simultaneously like to welcome Bharat Kalsi, who's joined us and will take over from Mihir. Bharat is an MBA Finance, Chartered Financial Analyst, and a CPA with more than two decades of experience across multiple domains like finance, strategy, planning, investor relations and treasury. We look forward to leveraging his experience with some of the scaled and reputed financial services companies in India.

He has worked with Max Group, Tata AIA Life, and in his previous role he worked as the CFO and Head of Product and Secretarial Function at Bajaj Allianz Life Insurance. Bharat's appointment as Group CFO and Head of Strategy for the company comes into effect from 15th of May, 2024.

Coming now to results, we've actually shared our results presentation data book like always.

Hope you guys got a chance to look through it over the weekend. We've added some more slides to give more color around our businesses. I'll briefly summarize on the business outlook and share the progress we've made, some in quarter four and some full year, and then hand over to Mihir, he will take you through the numbers and then we can jump into the Q&A.

Overall, I think the strong business momentum continues. Our integrated and diversified business model, which we consciously choose to deploy, serves us well. It basically helps us deliver the comprehensive set of solutions to clients and also deliver superior results to our shareholders. Our growth trajectory actually continues across both the wealth management segments, the UHNI and mid-market. Our revenues there grew by about 17% Y-o-Y, this I'm talking full year, and profits were about 24%. This was after absorbing the material impact of AIF revenue shifting to trail due to the changes in regulations and scaling up capacity significantly in both the segments.

I mean, both segments, I think growth cost as per our calculations is more than 100, 150 basis points. Despite that, I think businesses have delivered this growth, which makes us extremely satisfied. We also benefited from the significant activity which happened both in primary and in secondary markets, which gave a fillip to the capital markets business.

And overall revenues for Nuvama grew by about 31%. And with the operating leverage kicking in, the profits came to about 62% full year.

This was a very important year for us. Some other milestones which happened, we changed our brand identity in April. We demerged from Edelweiss in May. And in September, we got listed. All three big milestones, I think happens once in the lifetime of any company.

I'll now quickly get into each of the businesses. Wealth management, both Q4 and full year saw growth.

You may see that the PBT number in Q4 is flat, Q-o-Q. That is because of the variable cost catch up. If we normalize that, both segments have seen growth of around 7 to 15% Q-o- Q. The assets have now grown to about 2.5 lakh crores and grew by 36% year on year. The traction, as I said, is there in both the segments, which in our view basically mirrors the entire wealth management story of India.

Coming to Nuvama Wealth, I think the demand there continues to grow. In our view, the mid-market continues to present an interesting opportunity because it's growing leaps and bounds, not only in tier one, but across the entire country. And I think it is the most underserved segment by the incumbents. So it's a combination of both. I think it can absorb number of more players and still continue to grow. We've added about 200 RMs in Q3 and Q4.

And now our strength is about 1,100. We will continue to expand capacity next year, and I'll talk about it later. As we scale, because we are getting people now from banks, we've actually invested intensively in our learning and development programs.

Because most of the people who come in now come from a background where they're trained well on selling traditional products, which is, you can say, deposits, mutual funds, loans, insurance. We want to make them far more skilled in doing multi-products because client portfolio requires many, much more than all this. So they continue to do what they do, and they need to get trained on a larger product basket.

And because we are adding in large numbers and we don't want the productivity to go down, and hence investment in L&D is extremely essential. In addition to that, we've also leveraged significantly on technology. I mentioned in the last quarter that we launched something called as a One Platform, which can be useful to clients, our relationship people, and external wealth managers.

We are now going to launch portfolio tool because of our whole philosophy of moving the entire relationship team from selling products to offering portfolio solutions to clients. So, we've built a very, I think it would be an industry first, leveraging AI, portfolio analyzer and recommendation tool, which will be available to RMs across their mobile apps and their desktops and everything. We had acquired a tech company called Pickright about a year back, we leveraged that entire platform to build the solution.

This will be rolled out in a beta version now. This will achieve three things. One, the ability of the relationship person to holistically engage with the client. Uniformity of advice, which is a big challenge for the entire industry. And also, parallelly, it'll help increase productivity of people.

On the product side, like we've been saying, MPIS or Managed Products and Investment Solution (MPIS) continues to remain a focus area. In Q4, our MPIS net flows was actually more than our total net new money in this segment, by about 10%. And full year MPIS constitutes 86% of our net new money. It grew by 12% year on year, and it was 30% of the opening assets of MPIS. So about a third of our opening assets, we've been able to add this year.

Moving on to the ultra-high net worth segment, or Nuvama Private. I think the general buoyancy continues. Capital markets doing well, companies doing well, real estate doing well. I think all these become ingredients for ultra-high net worth to continue to grow their wealth. And like, I mentioned, Nuvama Wealth, mid-market play, there is no ambiguity that it is across India, now we can see even in the ultra-high net worth, the concentration is going beyond top tier cities.

We've been able to expand into six cities beyond Tier 1. And I don't think there's a demand problem. It is the ability of service providers to reach there, to find the right talent, the market is out there to be tapped. Capacity, I spoke, we've added about 20% here, and we'll continue to add. The key challenge here obviously remains that how you keep attracting the relationship people.

And what we realized long back, and we continue to invest in improving our product platform, because the stronger the platform is, your ability to attract clients and relationship people continue. That is the key differentiator that we will continue to invest in. In terms of clients, we've added about 170 new family offices in this quarter.

And on the product side here, our focus remains ARR revenues. It's not that, we don't like transactional revenues. I think it is a key component and not only in India globally because it serves certain components of client portfolio and the income accounting is unfortunately the way it is, so you can't convert it into ARR.

So you have to look at the client wallet and then make your product proposition. On the ARR side, net flows were much faster than overall net flows for fiscal 24. Our overall net flows were about 9% and ARR net flows was about 21%.

Q4, you will see a dip in the NNM, but actually the ARR net flows is about INR 2400 crores. So what we lost was some transactional assets, but out of that major component was of a client who became a custody client. So what we lost from here went into our custody clearing business. If you look at the full year net new money, it's order of magnitude INR 11,300 crores.

About 60% of that comes from ARR assets which is 26% of the opening ARR AUM. So about a fourth of the opening AUM we've been able to add this year. We mentioned about building offshore. I'm happy to update that we've been able to get our license in principle approval in DIFC.

So Dubai or DIFC will be our first go-to market, not Singapore right now because I think the economics and the market potential there and our product platform suitability all of them come together. It's faster to breakeven, it's easier to attract talent. And so all in all, I think it's more synergistic with our Indian setup and we're also looking at offshore not only as a geography for the purpose of tapping clients.

As I keep saying it's also a skill or a very big addition in the platform to serve the domestic clients because very soon if you don't have offshore as a proposition at least in the ultra-high network segment it will become a handicap for service providers. So I think it's a necessity which we are building and investing.

Moving on to asset management, our AUM has now reached about INR 7,000 crores. Over the last three, four months we continue to stay put on our priorities. Deployment in private markets has been a key priority and we focused on that. We did not initiate a fund raise in the last full year. We will now start a fundraise in crossover which is our private equity strategy both in offshore and in onshore.

We are working with a placement agent in the offshore market which works with the family offices in Middle East. So you will see some activity going in the next two, three quarters. Public markets our AUMs now stand at about INR 2,100 crores. It grew by 155% over the last one year. In the last quarter also about net new money of INR 500 crores in asset management out of which 70% came into public markets.

And commercial real estate is now launched. We will scale it in the next three to four quarters and take it to the desired level which we initially felt.

Asset services and core capital markets which is institutional and equities and investment bank continues to see exceptional performance.

Q4 stabilized though I would say, but on a full year basis I think we saw massive expansion. I think the fee pool in investment banking and institutional equities in our view expanded by about 40% to 50% this year. And we also saw a jump of our market share especially in institutional equities by about 20%.

Asset services I mentioned previously that we have two client segments of our choice. One FPIs in which we deal with systematic quant funds and HFTs and in domestic we work with PMSs and AIFs. In both these chosen client segments our market share last year was about 20%.

That's it from my side in terms of an update of what happened briefly in the last quarter and full year.

I would now request Mihir to give you an overview of the specific numbers across each business and then we can go into the question and answer section. Thank you.

Mihir Nanavati: Thank you, Ashish, and a warm welcome to all the participants on this call. At the outset, I want to thank Ashish, Nuvama, my senior leadership team at Nuvama, and my team and colleagues at Nuvama for this opportunity. And Ashish especially to you for your words of appreciation on this call.

I also want to thank you all for the insightful interactions that we have had on these calls and also on one-on-one meets that we have had over time. I wish you all the very best.

With this, I come to the specifics of our performance for quarter 4 and FY24. The FY24 was a buoyant year for Nuvama. We saw a well-rounded performance and healthy growth in operating and financial parameters across all the three businesses.

Coming to our businesses and AUM first. Our aggregate client assets stood at INR 3,45,957 crores at end of FY24 which then grew by 50% year-on-year. Of this, client assets under wealth management business constituting Nuvama Wealth and Nuvama Private stood at INR 2,47,835 crores and grew by 36% year-on-year. Nuvama Wealth client assets stood at INR 77,930 crores at end of FY24 and grew by 48% year-on-year.

MPIS assets stood at INR 23,018 crores as at the end of FY24 and grew by 39% year-on-year. In Nuvama Private our client assets stood at INR 1,69,904 crores at FY24 end and grew by 31% year-on-year. Our ARR assets within this Nuvama Private grew at 31% year-on-year to INR 33,421 crores as at FY24 end. AUM of our asset management business stood at INR 6,967 crores at the end of FY24 and grew by 25% year-on-year.

We witnessed strong flows in public market strategies in FY24. Our closing AUM stood at INR 2,070 crores in this category at the end of FY24 and this grew by 155% year-on-year basis. Client assets under custody and clearing asset stood at INR 91,156 crores at FY24 end and reported a growth of 109% year-on-year. On our revenues, aggregate revenues for Q4-FY24 were INR 596 crores and grew by 35% year-on-year.

Our full-year aggregate revenues for FY24 grew by 31% year-on-year to INR 2,063 crores. Of this, total revenues from wealth management business grew by 16% year-on-year to INR 330 crores in Q4-FY24 and by 17% to INR 1,188 crores during FY24. Within wealth management, Nuvama Wealth clocked revenues of INR 183 crores for Q4-FY24, a Y-o-Y growth of 6%.

Revenues for FY24 were INR 669 crores and grew by 16% year-on-year driven by our focus on MPIS overall retentions were approximately 1% per annum in line with the previous quarters.

Nuvama Private recorded revenue of INR 147 crores for Q4 FY24 a Y-o-Y growth of 32%. Revenues for FY24 were INR 519 crores grew by 18% year-on-year. Of this, ARR revenues for FY24 were INR 297 crores and grew by 23% Y-o-Y. This constituted 57% of total revenue in FY24.

Our asset management revenues, ex carry stood at INR 12 crores in Q4 and grew by 27% year-on-year and INR 49 crores in FY24 which grew by 34% year-on-year.

Our capital markets revenues stood at INR 248 crores in Q4 and grew by 71%. Our revenues for FY24 in capital market segment were INR 805 crores and grew by 64% year-on-year. This reflected the strength of our franchise amidst strong capital market activities.

Now on to costs. Our total costs for Q4-FY24 stood at INR 358 crores and grew by 25% year-on-year. For FY24, our aggregate costs were INR 1,279 crores and grew by 18% year-on-year. Of this, staff costs stood at INR 252 crores in Q4 and grew by 23% year-on-year. And staff costs for FY24 INR 906 crores for the full year of FY24, a growth of 19% year-on-year. Our operating expenses stood at INR 106 crores in Q4 and grew by 31% year-on-year and INR 373 crores in FY24, which grew by 14% year-on-year. Our overall cost-to-income ratios stood at 62% for FY24 down approximately 700 bps year-on-year basis.

Onto profitability, our operating PAT for Q4 stood at INR 181 crores and grew by 57% year-on-year. Our operating PAT for FY24 was INR 597 crores, which grew by 62% over FY23. Our ROE for FY24 stood at 23.6% up by 5.8% over FY23. With this, I now hand over to the moderator for Q&A session.

Moderator: Thank you very much, sir. We will now begin the question and answer session. The first question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Hi, good morning, everyone. Firstly, congratulations decent set of numbers. Firstly, if you look at your cost-to-income ratio particularly if I look at it in Nuvama Wealth it has kind of while for the full year it's down to 65%, but if I look at the last couple of quarters, it's been higher at 66% and 68%.

How should we think about this from FY25 perspective and what is your - in terms of RM count addition what are your plans for Nuvama Wealth in particular with respect to RM addition what you would have done for FY24 as well as what are the plans for FY25? That would be my first question.

Ashish Kehair: Good morning, Prayesh. So if you look at the cost-income for Nuvama Wealth for Q3, Q4, and if you look at our hiring most of our hiring is actually back-ended this year. In fact, till September the number of RMs were either flat or net negative.

Most of our hiring has happened in Q3 and so the full impact of the cost comes in Q4. That is number one. And when I was giving my opening remarks, I made a mention of the variable cost. We've still not perfected our variable cost estimation and Q4 was still again a catch-up. If you see our Q4 revenue is almost about 27% for the year, but our variable cost was 32%. So if I take that impact out then actually the cost-to-income for Q4 falls back to 65%.

And maybe Q1, Q2 will inch up slightly higher. Now next year - see for this business what will now happen is that what you've hired now will start producing may be three months, four months from now. So their cost actually came now, but their revenues will start coming later. In this business now the whole gain of cost income is based on how much you will hire in a year and whether it'll be front-ended or back-ended.

Now this year, it was back-ended in about 220 RMs. Next year, if we stick to the same the cost income should actually fall by 100 basis points. However, if we choose to hire more and if we front-end the hiring the cost income may actually remain here or may slightly go up, but then year after and the year after we plan to hire lesser.

So I will be more comfortable in giving you a 3-year trajectory. From a 3-year perspective, we want to add about 800 people 3-year perspective. Now the spreading could either be equal or slightly more in FY25 depending on how the markets are, but at the end of 3 years our target is 60% and that is on track.

Prayesh Jain: Second is on the new money whether we talk about from an overall perspective how do you see new money flowing into the next year? For Nuvama Wealth, it is from INR 5,400 odd crores, we've gone to INR 5,800 odd crores. And even in terms of Nuvama Private, we've seen a moderate kind of a growth from INR 10,000 odd crores in ARR and transaction assets to 11,000 odd crores. How do you see net new money and what are the kind of drivers we should look at from FY '24? One is obviously the RM count addition that adds to it, but from a two to three-year perspective, how do you see the net new money kind of flowing?

Ashish Kehair: So, Prayesh, broadly, if I look at historically, and I have seen this year-over-year, and if you do this computation, typically your net new money which comes in is about anywhere between 10% to 12% of your opening assets, given the combination of assets, and then you add the compounding which happens on the assets, which is why I keep saying that 18% to 20% AUM growth is what you can aspire.

Some years will be more, some years will be lesser, like last year was lesser because of the mark-to-market was lesser, this year the mark-to-market is higher, so the growth is higher. Having said that, in both these, if you look at the growth in, let's say, net new money, the way we are targeting MPIS as a focus area, that has grown by more than, I think, more than 30% of the opening AUA, and in Nuvama Private, ARR has grown by more than 26% of the opening AUA of that asset class. So, blended basis, 10% to 12%, but focus areas should be 20%, 25% plus.

Prayesh Jain: Got that. I have just two more questions. One is retention on average ARR earning assets has been down in Nuvama Private is this because of product mix or anything particular that we have to look at?

Ashish Kehair: No, this is basically product mix. In Q4, our focus was more on building PMS-type assets. See, the products basically are essentially PMS, AIF, CAT 3, CAT 2, there is a minor difference. MF, these are largely the products which will generate ARR, except CAT 2 AIF, everything else is actually equal because everything you just annualize the revenue and you earn. CAT 2 is the only one where about 25% to 30% of your lifetime commission comes in the quarter of sale. So, in any quarter where the product mix will change slightly up or down, you may see a five, six basis points up and down happening.

Prayesh Jain: Okay, and my last question is on Nuvama asset where you have an MTM negative in this quarter.

Ashish Kehair: Yes.

Prayesh Jain: What is that pertaining to? And also, in terms of costs, it's jumped sequentially, substantially, just because of variable pay or is that anything?

Ashish Kehair: Yes, I'll answer the cost question first. There was a one-off cost of INR 10 crores which was on our JV setup and all. So, if you remove that, actually the quarter cost is about INR 16 crores. And if you normalize the variable, then it should be 18 crores and quarter three should be about 17 crores. So, INR 17 to 18 crores is the run rate, it'll remain at that level. The increase of salary, basically the regular increase of salary and manpower addition, whatever happens next year, that will be the jump. Otherwise, there is no BAU cost jump that has happened. The MTM impact is in our crossover funds, there were a couple of assets which were digital assets where we have done a revaluation and marked them down.

Prayesh Jain: Got that. Thank you so much and all the best.

Ashish Kehair: Thank you.

Moderator: Thank you. The next question is from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijeet Sakhare: Hi, good morning, everyone. First one is a data question. For both wealth and private division, could you give us a split of asset mix across equity, listed, unlisted, and fixed income?

Ashish Kehair: I think direct equity will be around 40% and fixed income, maybe another 15- 20% and balance will be managed products. Almost both similar.

Abhijeet Sakhare: The mix is similar across both divisions?

Ashish Kehair: Almost similar. Not too much difference. Yes, I think this is what I remember offhand.

Abhijeet Sakhare: And second is, if you could just mention two, three action points to improve productivity and operating leverage over the next one or two years?

Ashish Kehair: So operating leverage clearly, like in the past four, five years, what is happening now is that the major cost addition is happening only in the sales capacity. Because your platform, your infrastructure, technology, everything is almost there. The delta cost will be negligible. And when you add sales capacity, typically the productivity keeps increasing year-on-year for the new sales capacity and you reach your desired level of productivity. Nuvama Wealth is slightly faster. Nuvama Private, maybe slightly longer, but you take about two to three years. If they reach 4x, then every 1x of cost addition, you add about 3x of additional revenue or profitability without a commensurate increase in cost. And that is the key driver.

Productivity improvement, multiple things are happening. And I think technology is playing a huge role. In Nuvama Wealth, we are basically rolling out a lot of enabling, support enabling technology solutions for RM, which will help them increase their throughput. Traditionally, what used to happen, I mean, people will go and sell a single product. Now you've given them a portfolio analyzer tool, which can then help them address the entire assets of the client. Even if they are not with you, they will be able to recommend stuff. So throughput of the RM per interaction keeps going up.

And I think technology is the main solution which you have to embed. And some amount of product mix. These two will basically lead. And the fact that your other costs are not going to increase substantially because your broadly infrastructural platform is set, that will lead to your operating leverage.

Abhijeet Sakhare: I got it. Thanks a lot.

Moderator: Thank you. The next question is from the line of Lalit Deo from Equirus Securities. Please go ahead.

Lalit Deo: Yes, hi, sir. Good morning. So I have two questions. So firstly, we have seen some compression in the net interest margins during the quarter. Like it fell down to about 470 basis point. So I just wanted your outlook on the same for the next one year?

Ashish Kehair: So typically, what happens, quarter may not be a right reflection. There are three things which happen in a business which does loan against shares or loan against ESOP funding and all. Typically loan against ESOP funding. You earn interest from the client. You earn processing fees. And depending on the book, you have to provision for expected credit loss or ECL.

Now, the behavior of ECL and processing fees is actually opposite each other. What happens is that when you book a loan, you amortize the processing fees over the period of the loan. And because these are not standard loans, like home loan, car loan, personal loan, these are very market link, so people can repay much faster.

Let's say you charge the processing fees of 0.5% for six months, and somebody repays after two months, that entire processing fees gets upfronted. So your NIM will suddenly start looking higher. And once that loan gets repaid, you reverse the expected credit loss provision which you had made. So it could happen that average book in a quarter is high, but end of period, somebody repays, your NIM looks higher. So if you look at quarter-to-quarter, it'll be difficult to predict, but on a full year basis, 5 to 5.2 % is where we land up.

Lalit Deo: Sure. And so, lastly on the, we have a decent healthy cash flow as a fair market, also going ahead, what are the plans for effective utilization of this cash?

Ashish Kehair: I couldn't get your question. Can you repeat?

Lalit Deo: So like last quarter, we highlighted that we would be thinking on giving a dividend, announcing a dividend?

Ashish Kehair: Okay. So we are very close to formalizing our dividend policy. I think maybe another month, month and a half, and then by next quarter, we will be completely able to disclose. I keep saying that our bent is towards paying dividend, and we will soon close that, and we shall proceed with it. And I think in the next call, we'll be able to articulate our dividend policy.

Lalit Deo: Sure, Yes, thanks.

Moderator: Thank you. The next question is from the line of Jayant Kharote from Jefferies. Please go ahead.

Jayant Kharote: Thank you for the opportunity and congratulating the great set of numbers. Sir, on the Nuvama Wealth piece, the retention on client assets is slightly down to 94 bps this quarter, it seems. It's been moving down from 100- 104 bps?

Ashish Kehair: So that is only because of the MTM of the brokerage assets. Actually, the yield on our MPIS assets is either steady or it's higher in Q4, because in Q4, insurance numbers go up. But the MTM of brokerage assets, if that expands because of the market phenomena, your denominator expands. That is the only reason.

Jayant Kharote: Great. Sir, if you could also give out your MPIS assets outstanding in the two quarters that you mentioned, it was 35% of your AUM. If you could give us that number, it helps us to track this?

Ashish Kehair: I think MPIS assets would be around 30%. Yes.

Jayant Kharote: It would have come down over last two quarters?

Ashish Kehair: It ranges between 30 to 35%. The problem is that the brokerage assets typically have higher MTM, because they are directly linked to market. So the way you have to look at the business is you don't control MTM, right? MTM is given by the market. What you control is the net new flows. Now, net new flows of about INR 5,700 crores came into this business in full year. Out of that, 86% came in MPIS.

Jayant Kharote: Yes.

Ashish Kehair: And which constitutes 30% of the opening balance. So that will give you a sense of how we are driving. Now, let's say tomorrow if God willing market doubles, I mean, the percentage of assets will come down, but that's because of MTM.

Jayant Kharote: Okay. So INR 5,000 crores was 30% of your flows?

Ashish Kehair: INR 5,700 crores was the total net new market. Out of it, 86%.

Jayant Kharote: 5000 crores was…

Ashish Kehair: Yes, 5,000 crores was MPIS. That's right.

Jayant Kharote: Yes. So how should this trend, sir, now that you're adding new sales force, how should this trend over the next two to three years? And then how has this trended over the past? How has this scaled up? Because we've gone from 600 to 1,000. I know it's very recent addition. But if you could give some colour, how has this scaled up and how does this number move from the next two to three years?

Ashish Kehair: So I think anywhere between 25% to 30% growth on this is what we will target. This has actually over the past, if I see number of years, it has grown substantially. I mean, 7,000 crores has gone to order of magnitude 25,000- 30,000 crores. And every year, it has grown at that kind of a pace. So I think that will only continue to grow with more number of RMs coming in and more from, let's say, the banking fraternity where their understanding of these type of products is more. I think 25% to 30% is the bare minimum we will look.

Jayant Kharote: Great. And the yield should be stable on this one?

Ashish Kehair: Ideally, yes. We are increasing the proportion of business of mutual funds and PMSs in this business. In fact, in this year, September onwards, we've increased the focus because now our RM mix is also changing. About 30%, 40% of the RMs have now come from banks and they're extremely comfortable. And those assets, typically, I'm talking MF equity and PMS, typically yield more than 1%. So I don't foresee the yields coming down in this space.

Jayant Kharote: Just one last question, more from a long-term perspective, given that in the next few years, numbers will be very much influenced by the RM addition, so it may not give us a clear picture. But on a steady state basis, how does this, I mean what AUM, do you see the RM profitability moving below, let's say, cost-to-income of 50%, 55%? And how many years, or what is the period of break-even? If you could just give us some indication from a steady-state perspective, not from next two year, when we get one of these.

Ashish Kehair: If we stop hiring RMs, let's say, today, in the next two years, we should hit 60%. With the addition of RMs, we are saying maybe three years, we are targeting 60%. And at any point in time, if you stop hiring RM, over the next two years, three years, you can reduce 150- 200 basis points and reach 50%-55%.

I don't think it'll go below 50%-55% ever, because there'll be a churn of RMs also, new RMs will keep coming in and going out. But 50%-55% is a very steady-state basis. But in India, for the next five, 10 years, I don't think you'll reach a situation where maybe, yes, there will be a year of catastrophe when you will say, no hiring, nothing. But the space offers too much growth right now that you will say that you'll stop hiring people and all. And we are still very small, Jayant, in terms of size and scale, very small.

Jayant Kharote: Absolutely. So that's very helpful, and congratulations again.

Ashish Kehair: Thank you.

Moderator: Thank you. The next question is from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: Thanks for the opportunity. So first question is on asset services. This segment has shown very strong growth in this year. So how do you see this segment panning out, and what is the revenue model in this segment?

Ashish Kehair: So this is classic custody and clearing business. Basically, we serve two client segments. One is FPI. FPI is also, we don't typically go after long only because I think there the revenue model is more related to FX and lending and multi-country custody clearing, which is offered by the global banks. We are typically targeting systematic quant funds and hedge funds where the technology solutions and agility required is far higher.

So in that segment, our market share is reasonably large. But given the derivative volumes in India right now, I think immense amount of interest is increasing from these kind of funds which operate in other markets. We are seeing activity from funds in Australia, funds in Israel, UK, US, Hong Kong, Singapore obviously was there, but other markets are also opening up.

So it'll be a function of the number of clients coming in. Last year, we had about 20% market share of all the new clients that came in. And on the domestic side, which to my mind is more structural and more long-term because these are all PMSs and AIFs which is tapping into the Indian financial savings. I think that growth is happening as you can see in front of us.

Total assets, both PMS and AIF put together now, I think it's now about some INR 16 lakh crores which was the size of the mutual fund industry in 2017. And they are growing by 20%-30% every year with new players coming in. So I think we'll just keep focusing on these two segments.

And the earning model is divided into two, three elements. There is fund accounting, there is custody charges, clearing charges, and there is some float income which you make on the cash balances that remain. Either as way of margin or as by way of bank balances which these PMSs and AIFs leave in terms of the cash holding in the portfolios.

Nidhesh: Second is on Nuvama Private. How do you see retention yield on ARR assets going forward? At 100 basis point, it is quite higher than the other listed peers. So over medium to longer term, how do you see this yield panning out? And if I also compare this number versus, let's say global peers, this number is on the higher side.

Ashish Kehair: So I would say between 90 bps to 100 bps is what visibility right now we have. And maybe with the expansion of assets and all that, if it comes down later, we are not seeing that visibility right now. Maybe 85 bps to 100 bps is the range depending on the product mix because practically most of the products which go into that typically have that kind of a yield except because fixed income mutual funds is not something which clients in that segment buy through you. They typically go for direct plans. Whatever fixed income they do, they will do in transactional assets through direct bonds or NCDs or credit products or structured credit products which all sit in the transactional asset class. So it's typically either alternative funds or it'll be equity related funds where the yields will not be lower than maybe 70- 80 basis points at the lower end and on the higher side, maybe 1.2%-1.3%. Yes, if long, I mean absolute return products which mimic fixed income, that is the only category which at a product level will yield slightly lower, but that also is not below 50- 60 basis points. So it depends on the product mix, but between 85- 90 bps to maybe 1%- 1.05% is the range over a period of time is what is visible right now.

Nidhesh: Sure, thank you. That's it for my side.

Moderator: Thank you. The next question is from the line of Karan Sanwal from Niveshaay. Please go ahead.

Karan Sanwal: Thank you for the opportunity.

Moderator: Your voice is muffled. May I request you to kindly use your handset, please?

Karan Sanwal: Yes, is it better now?

Moderator: Yes, sir, please continue. Thank you.

Karan Sanwal: Yes, congratulations for the good set of numbers. Just wanted to understand the impairment of asset that we have recorded in this quarter. If you could talk about it was towards some ongoing dispute involving the Wealth and Investment Limited or subsidiary. If you could talk about it in greater detail.

Ashish Kehair: Sorry, I didn't understand.

Karan Sanwal: So there was an impairment of asset that we have recorded in the books?

Ashish Kehair: That was a case which was going on. We had been providing for it. It's actually a custody client, which was doing brokerage through NWIL. So that impairment will get cross-charged to the asset services business.

Karan Sanwal: Okay. And also, when we see the financial results and when we see the presentation, there's a bridge to financial statement in the form of annexure one. So I wanted to understand what would be a better number to look at on a study set that is going forward. How long do we expect that bridge to financial statement to offer in our books?

Ashish Kehair: So that bridge will always be there because of certain accounting treatments. For example, when we earn, let's say, brokerage, now you have to, in financial statements, it gets reported as gross, and then all the statutory charges and payouts, they come in the opex, which actually is incorrect.

Ideally, the income should be net income. So that adjustment is one adjustment. And similarly, let's say when we do a fixed income product, typically in fixed income, how it happens, it passes through your books. You buy and then you downsell.

So what gets recorded in financial statements is fair value changes and all that stuff, but it's actually distribution income. So unfortunately, the way the accounting standards are, this will continue, in my view, permanently.

Karan Sanwal: So would the adjusted numbers be a better number to look at?

Ashish Kehair: Yes. Because otherwise, you will not be able to comprehend the numbers. If you look at the financial statements, given the way accounting standards are, you will not be able to correlate it back to the actual business line numbers.

Karan Sanwal: Okay, understood. And one last question. So this, you have talked about the opex, cost, but on a consolidated basis, I just wanted to understand, how are the opex costs expected to behave with respect to earnings? Are these margins that we're doing for the last two quarters sustainable on a full year basis, or do we expect, if you could give us a range of margins that we would do on a full year basis?

Ashish Kehair: I think what we have seen for last two quarters will only get impacted if there is a severe downturn in, let's say, the capital market business, where if, let's say, primary and secondary activity goes down. On our analysis on, let's say, variability, even if capital markets business, so for Nuvama Wealth, Nuvama Private, I don't think the margins are going to compress if the market environment remains normal. I'm not saying euphoric and, let's say, catastrophic. If it remains normal, our margins would remain the way they are, and operating leverage will continue to keep adding to the margins.

Asset management is still in an investment phase. Next year, maybe our cost income will be in a similar range or slightly higher. Year after that onwards, you will see a consistent improvement. Capital markets is the only one where you've seen significant margin expansion. Even if there is a 10% fall of revenue, the way our cost structure is in that business, about INR 300 crores to INR 310 crores is fixed cost.

The revenues were about INR 805 crores, and balance is variable cost, and variable cost is between 10% to 15% of revenue. So if you have a 10% fall, our cost income there goes up from full year basis 53% to maybe 56- 57%, and that is 100 basis points impact on our overall business. So broadly, unless there is extremely something drastic which happens, I don't think you will see a margin compression from where we are.

Karan Sanwal: Okay, that was very helpful. Thank you so much. All the very best.

Moderator: Thank you. We'll take the next question from the line of Yash from Stallion Asset Managers. Please go ahead.

Yash: Okay, thank you for that. Thanks for the opportunity. So I just wanted to understand that we have taken an impairment of INR 24 crores on a console basis this quarter, and I think that has impacted the profitability on Y-on-Y basis. So going forward for next year, do you have any sort of idea on how this number would behave?

Ashish Kehair: No, there is no such impairment next year.

Yash: Okay, okay, so there's no impairment on that. Okay, thank you for that. And just one more thing. Just a previous participant had asked on the capital markets. I just wanted to understand the margin commentary that you had made. So you're saying that going forward, or just elaborate, please, again, on your comment. I wasn't able to get it.

Ashish Kehair: So if you see capital markets right now, our cost income ratio is broadly 53% for the full year. Right. Now, if let's say we are able to grow, I'm saying modestly by let's say 10%, there will be an improvement in the cost income, which you're seeing. If we are flat, it'll remain the same. If our revenues fall by 10% from where we are, instead of let's say INR 800 crores, we end up INR 720 crores. The cost income there will go up from 53% to about 56%- 57%. And that will have an overall impact on the full business by 100 basis points. That's what I meant.

Yash: Okay, understood. That's it, that was my question. Thank you.

Moderator: Thank you. The next question is from the line of Rahul Agrawal from Himalaya Investment Advisors. Please go ahead.

Rahul Agrawal: Thanks for the opportunity, sir. My question was also on the capital market business there. How different is the margin profile for the asset services business that we have and for the capital markets, which is the institutional equities and IB business?

Ashish Kehair: So I think the asset services business has the highest margin because that is a business that requires some amount of capital, licensing, technology, everything. The lowest would be investment banking because it requires zero capital. Everything is done by people. So whatever you earn is 100% ROE and institutional equities will be somewhere in between.

Rahul Agrawal: Understand. Can you put an absolute range to where would it be on a ballpark basis?

Ashish Kehair: Each of them?

Rahul Agrawal: Yes, for asset services specifically?

Ashish Kehair: Maybe the cost to income would be around in a good year, 35%, in a bad year, 50%.

Rahul Agrawal: Got it. And there you said that your focus on FPI clients which are more into algo trading, hedge funds, and so on. Can you talk a bit about what sort of yields do you, what sort of revenues come from the FPI segment there versus the domestic segment? And what is the yield?

Ashish Kehair: The yield is more or less similar because the earning is same. The underlying earning is same and we don't earn on activity. There is no, earning on activity happens in broking. In custody and clearing business, you don't earn on activity. It's a services business. So you basically earn float, fund accounting charges, clearing charges, custody charges, which are broadly similar. So the yields will be similar, the sizes will be different, but domestic is growing at a faster pace.

Rahul Agrawal: Understand. And FPI would be north of 50% for that business currently in terms of revenue contribution?

Ashish Kehair: Yes.

Rahul Agrawal: Got it. And you also mentioned that in a good year, the cost of income can be 35%, in a bad year it can be 50%. I would imagine asset services should be very, stable in terms of margins. Can you talk a bit about why would it move so much?

Ashish Kehair: Maybe you're right. I'm talking from a historical context perspective as to how our profit margins have expanded over the last three- four years. But that is not reflective of the business in general, because we shut down two- three lines of businesses over the last two, three years, which were not very accretive and high risk.

So in those years, our cost income was slightly higher because you still had the cost and you shut down the revenue. And as and when you reduce those costs, it fell down to 35%- 36%. So broadly, I think that should be the range. It should not be, in a normalized year of business, it should be within a 10%- 15% range, and not more than that.

Rahul Agrawal: I understand. So more like a 35%- 40% cost to income. So net is a 60% PBT business in a way for the asset services.

Ashish Kehair: Yes.

Rahul Agrawal: Got it. And one last question on that, what is the revenue contribution of FPI? You were saying something that I could not understand.

Ashish Kehair: So right now, about 60% comes from FPI and about 40% would come from domestic.

Rahul Agrawal: Got it. Okay, thank you so much, sir.

Moderator: Thank you. The next question is from the line of Gurpreet Narang, an individual investor. Please go ahead.

Gurpreet Narang: Thank you. Hi, good morning, everyone. Congratulations on a decent set of numbers. My question pertains to your asset management business, sir, which I feel has a lot of untapped potential. Can you throw more light on it? How do you plan to scale it up? Thank you.

Ashish Kehair: So basically, there are right now three strategies or three broad buckets in which we operate. One is private markets, where we have a crossover fund and a venture debt fund. We plan to keep expanding on the crossover fund as a strategy because we have track record, we have size and scale.

And going forward, we will also maybe add late stage fund. So that is one element where we keep expanding the size of the funds in that strategy. And we are expanding distribution right now. In the initial years, we started only with our internal wealth management distribution. We have now added about six other wealth management outfits and banks. And we have gone out and added a placement agent in Middle East.

So that's how we will expand distribution there. On the public market side, we now have three-four funds. One is a long shot, which is over cycles. It's supposed to beat large cap, standard large cap funds. We have absolute return fund, which is a fixed income replacement. We have a mid- small cap.

We will soon be launching a flexi cap, which will be the all weather equity product. And so in public markets, the idea is to just keep expanding across these strategies, both internal and external distribution. And then we have a real estate fund, which is commercial real estate.

There are other areas, which we are still thinking about, like private credit, which is now growing very fast. Most of the people have a fund around that, but we are still not clear whether we want to launch and when we want to launch, because there is some amount of overcrowding there. Is the question of is only when and not whether we will do.

But right now we are waiting for this. I think across these three- four, clearly, next year, we should be able to add INR 3,000 crores to INR 4,000 crores of assets, which will take us to INR 10,000 crores. And once we cross INR 20,000 crores, is when the full-fledged operating leverage starts kicking in. Because most of your investment teams, operations team, distribution team, everything will be in place. And as you expand the asset size, it keeps adding to your margin. So that's how we are looking at the overall asset management.

Gurpreet Narang: Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Ashish Kehair: Thank you. Michelle. Thank you everybody for joining us today. Hope to see you again in the next quarter. Thank you.

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