NWML/SEC/2025/104

November 4, 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, 5th 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 Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and further to our earlier intimation dated October 21, 2024, regarding the earnings conference call to discuss the Company's performance for the quarter and half year ended September 30, 2024, please find enclosed herewith the transcript of the aforesaid earnings conference call held on Monday, October 28, 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We wish to confirm that no unpublished price sensitive information was shared / discussed in the aforesaid earnings conference call.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

Sneha Amit Patwardhan

Digitally signed by Sneha Amit Patwardhan
Date: 2024.11.04 20:42:38 +05'30'

Sneha Patwardhan
Company Secretary and Compliance Officer

Encl: as above

"Nuvama Wealth Management Limited

Q2 FY '25 Earnings Conference Call"

October 28, 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. BHARAT KALSI – GROUP CHIEF FINANCIAL OFFICER – NUVAMA WEALTH MANAGEMENT LIMITED
SGA, INVESTOR RELATIONS ADVISOR

Moderator: Ladies and gentlemen, good day and welcome to Q2 FY25 Earnings Conference Call of Nuvama Wealth Management Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone.

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

Ashish Kehair: Thank you. Good afternoon, everyone. I welcome you all to our Q2 FY25 Earnings Call. I have alongside me Bharat, our Group CFO, and SGA team, our Investor Relations Advisors. I'll start with a brief, high-level overview of the business, how it went for the second quarter, and then Bharat will take you through greater detail, and then maybe we can jump into the Q&A section. Before we start, I'd just like to take a moment to thank all of you, our shareholders, all the analysts who've covered us, all who are still looking to cover us as we complete our one year of listing.

This is a special moment for all of us at Nuvama as we've achieved many new milestones in this quarter, which, as I said, Bharat will take us through when he's taking us through the detailed coverage. Coming to the results, we witnessed a very healthy quarter again. The revenue almost jumped by about 55% and profits doubled to INR 479 crores for H1FY25.

Before we jump into the specifics of our business, I just wanted to briefly touch upon the sectoral tailwinds and what our sector is actually benefiting from. As we all know, in the last decade, the growth in the investment asset class has been phenomenal, whether it is mutual funds, PMS, AIF, equities or fixed income. Across the board, we have seen a significant amount of flows and growth in the overall AUM that this whole investment asset class has been able to achieve. Even today, the annual household saving that actually flows into this is just about 10% of the total financial household savings.

As we see the rise in the GDP and growth in the wealth pool, financialization playing out, deepening of markets into more tier 2, tier 3, tier 4, consolidation of sector from unorganized to organized. I think the opportunity for this to grow by 6x to 8x still remains over the next decade. I've always maintained that the best for this industry is still ahead of us. The annual flows in the next 8 to 10 years will nearly equal to the stock of the financial assets which exist today and that's a pretty big number. That will benefit almost all asset managers, wealth managers, brokers, merchant bankers, service providers like RTAs, custodians, clearing agents. Across the board, I think the sector will benefit.

Coming to Nuvama specifically, in this quarter and H1, we continue to grow horizontally and vertically. Horizontally, I mean we've deepened our presence both in the tier 2 cities in India for Nuvama Private and Nuvama Wealth, adding a couple of cities. We've also gone offshore as we had mentioned last time that we had received our licenses in DIFC. Happy to state that business has commenced. We have RMs on ground there, office up and running in transactions have started. Maybe in a couple of quarters, we'll separately start reporting the revenues on how that is shaping up for us.

We've also added Gift City for both our Wealth and Asset Management businesses, more specifically for our Asset Management business. We now have an inbound vehicle there; I'll talk about it a bit more. Our client assets have grown faster, more relationships have been added than H1 last year.

And as far as our focus areas go on the private side, our ARR assets and in Nuvama Wealth, the MPIS assets, these are the two areas where we focus more. They have grown more than 35% Y-o-Y and on the net new money, private ARR, out of the total NNM in H1, about 86% is ARR And in Wealth, out of the total MPIS NNM, about 65% to 70% is managed products, which is a clear jump from over 45% last year. We continue to add capacity in both these segments. We've added about 36% over the last one year, 350 relationship managers, about 330-335 in Wealth and about 13 to 15 in Private. Vertically also, we continue to sharpen the value proposition of our business.

A heavy investment in technology, on an ongoing basis. In Wealth Management, Nuvama Wealth, we have gone live with our one platform, which is a single platform that will now be accessed by clients, advisors or employees, and external Wealth Managers, all together. We've strengthened the full tech ecosystem, starting from onboarding to transaction reporting and transaction execution.

We've added family level reporting in Nuvama Wealth, which I think is an industry first for that segment. It doesn't typically exist. Most of the reporting in the mid-market segment right now in the industry is at an account level and not at a family level. We've added that. We are doing a lot of experimentation with AI in Nuvama Private, across prospecting, client portfolio analysis and advisory. So I think all this will have a significant impact on productivity going forward.

I just wanted to talk about the yield in both the segments. In Nuvama Wealth, the yield has moved from 92 bps to 85 bps, purely because of the MTM in the equity assets. The equity assets MTM is about 17%, whereas the equity revenue growth is about 2%. And if you mathematically adjust that, the yield in Q2 will be exactly equal to the yield in Q1. And if you look at both the quarters without equity MTM, they sit at 95 basis points.

Similarly, in Nuvama Private, 91 bps moves to 84 bps and that is also only because the lending mix has come down a bit. And lending, as you understand, is a 5%-6% sort of yield business. That has an impact of five basis points. And one advisory inflow of INR 100 to 150 crores has an impact of one basis point. So that takes it again from 84 to 90, which is almost equal to where we were in Q1. In both the businesses, I would say the steady state, like in Nuvama Wealth, will be between 85 bps to 95 bps, going up to max 1%. And Private would again be between 80 bps to 83 bps to about 95 bps, on a steady state basis.

In quarters in which we see equity MTM being lower, Nuvama Wealth yield will go up. Similarly, in Nuvama Private, the lending mix will change. I think that will have an impact on the yield movement. Otherwise, at a product level, the yield in both the businesses is fairly steady.

Coming to Asset Management, I think a very, very good quarter for us. We crossed about INR 10,000 crores of AUM, a very important milestone. In public markets, we actually moved our AUM by 3.5x in the last 12 months, from about INR 1,250 crores to now about INR 4,500 crores and we now have products across the spectrum, which is our Delta One or what we call market-facing products, which is a Flexi Cap, mid and a small cap fund.

Large cap replacement product, which is 60% Delta, which is EDGE, largest in its category and best performing. And one absolute return product, which is a fixed income replacement. So across the three, we now have about INR 4,500 crores of AUM. Commercial real estate, we crossed INR 1,000 crores. We have a pipeline which will take it to about INR 2,000-INR 2,500 crores. Now we are focusing on deployment.

And in private markets, we continue to focus on deployments and exits. We will think of raising a new fund in maybe over the next two quarters. We continue to evaluate credit, both real estate and performing corporate credit to add to our bouquet of offerings. And we'll see how that plays out. Capital markets, asset services, our assets doubled over the last year with almost 70% coming from net new money and we further improved our market share in the domestic institution business with more than 21% of the new domestic PMS and AIFs that get registered became our clients.

And on the international side, we continue to add marquee global clients to our list. On the Institutional Equity side, we now have crossed a market share of 6.3% and on investment banking, our deal activity for Q2 was actually double of last year, at the same time. Towards the end, I just wanted to touch upon the regulatory changes, which have been announced by SEBI that has been playing on the minds of everybody.

There are three broad buckets. One is around ASBA. Second is true to label. I think in these two, there is an extremely negligible impact on our business because our business model didn't rely on revenues from these two streams, both on the wealth side and on the Institutional side. The third change, which I think is larger for the overall market, is on the tightening of F&O. We'll have to see how the market adjusts to it.

We have been speaking to a number of participants. We've also seen a lot of reports coming out, especially on exchanges where people have tried to anticipate the volume reduction basis, the number of reduction of expiries and all. I think the answer is not so simple. People will adjust to the new regime and over the next two to three quarters, we'll come to know.

Purely mathematically, when we look at the numbers, the impact on us is not much because we spoke to the institutional clients who actually play in this area in India. They say even after the reduction, the profit pool from derivatives in India is going to be 5x of the next biggest market in Asia. So we are not going to take that capital away.

Having said that, we'll have to see how retail behavior evolves. Retail volume going down has, again, no impact on us because we don't operate in that space at all. So all-in-all, I don't think it's a significant impact that will happen on us like it, let's say, may happen to some discount brokers who operate in that segment. I think that is all from my side right now.

I'll now request Bharat to take you through the performance of all our businesses and then we may answer the questions that you have. Bharat, over to you.

Bharat Kalsi: Yes. Thank you, Ashish. And good afternoon, everyone. Ashish anyways covered the headline numbers. But if we look at the overall quarter, both on a Y-o-Y basis or on a sequential basis, the quarter has been good, whether it's in terms of the top line growth, bottom line growth, adding distribution capacity, adding market share both in the IE side as well as on the Asset Services side, investing on the tech side, both in the frontend as well as on the backend, opening new locations. So, I think overall, the idea of actually expanding and deepening the businesses is going well. And the performance of the quarter reflects that.

Before I go to the overall financial performance, I would like to share a few major milestones. Our total client assets have crossed INR 4 lakh crores at the end of September. Within that, if you look at Nuvama Private has crossed INR 2 lakh crores, Nuvama Wealth has crossed INR 1 lakh crores as well as our Asset Services and custody businesses, custody and clearing businesses has crossed INR 1.25 lakh crores and Asset Management has crossed INR 10,000 crores. So this makes a lot of milestones being crossed at the end of the quarter.

In terms of the overall performance, the assets have grown by 53% at INR 4.4 lakh crores. The revenue grew by around 50% to INR 740 crores for Q2. And all the businesses have contributed to the growth, so it's not just that the Capital Markets has contributed, even the Wealth business has grown by 22% on a Y-o-Y basis for the quarter.

Overall, the cost stood at around INR 390 crores, which has grown by around 30%. But if you look at the breakup of that, what we provide in the data book, the cost growth is actually coming from the employee side, as we added around 350 odd RMs in terms of our Wealth business. Plus, we have added more capacity on the Asset Management side, both on the investment as well as on the distribution side. As the business grows, obviously, the variable cost also increases in line of that. That's one reason for the employee cost growth, which has grown little higher than the overall cost growth.

But if you look at the overall cost-to-income ratio, that has come down to 53% versus a 61% in Q2 FY '24.

Overall, PAT has grown by around 77% for the quarter. And for H1, it has doubled to INR 479 crores.

Happy to share that the Board has declared the interim dividend for H1 FY '25 at INR 63 per share. The ROE for the quarter was around 33.6% and for H1, it is 31.5%. So if you look at all the numbers, whether it is growth, cost only in terms of distribution side, overall ROE level, cost to income ratio, everything is in the right direction.

Now coming back to the individual businesses. Before we go to Nuvama Wealth and Nuvama Private separately, if you look at the overall Wealth business, the revenue has grown by around 24% and the cost to income ratio is broadly same as what it was last year. So it is around 66%-65%. This is despite when we have added so many people over the last 12 months.

As we mentioned during the Q1 call, there was a revenue recognition methodology change which had happened in Q1. Despite that, our PBT has actually grown up by 22%. So 24% growth on the top line, cost to income ratio same with lot of capacity added and the PBT growth of 22%. So I think Wealth business is on the right trajectory. And as Ashish also mentioned, our focus is more on the annuity business, which we call it as MPIS in our Wealth as well as on ARR side on the Private. Both businesses has done well.

Coming to Nuvama Wealth, the overall client assets are now at around INR 1 lakh crore, which has grown by 53% Y-o-Y basis. The overall NNM for H1 if you look at that's broadly the same as what it was last year, say around INR 3,600 crores-INR 3700 crores. But within that, if you look at our MPIS, which is where the trail build up happens that has grown by 35% from INR 2,600 crores to INR 3,500 crores in H1 period.

And now within NNM, if you look at what we focus more on is on the Managed Product that has grown much faster, that has doubled from INR 1,100 crores to INR 2,300 crores and hence the proportion of managed products within MPIS has increased to 65% compared to 45% last year. So I think the idea to communicate here is that that trail build up will now start eventually happening as the focus is more on the MPIS side of the business.

Overall, NNM for Q2 was at INR 2,100 crores. This is the highest we have done in a quarter. So that's where the NNM has been. MPIS assets within the overall assets have grown healthy by 39% at INR 27,000 crores. RM capacity today we are at around 1,200, which is almost 40% higher than what we had just 12 months before or say end of September '24 As those RMs get vintage, the productivity or the operating leverage will start kicking in. Overall, revenue was around INR 200 crores with a growth of 25%.

And if you look at the cost-to-income ratio, as I mentioned, it's around 65% or so. This is despite the capacity addition. So, if we remove the cost of capacity addition and the associated revenue with that, the cost-to-income ratio would have come down by 400 basis points or so. So from, say, 66%-65%, it would have been around 62%-63% kind of a number. And the overall PBT is strong at INR 71 crores, which is a growth of 20%. So that's how Nuvama Wealth did in quarter one.

Similarly, if you look at Nuvama Private, the assets have crossed INR 2 lakh crores and grew by 35% as at the end of September. The ARR assets also grew in a similar fashion at around 36%. Now the ARR asset stands at around INR 40,700 crores. The NNM actually grew by 50%. So, we did around INR 7,100 crores of NNM in H1 of this year versus around INR 4,700 crores last year, within which ARR is almost 85%-86% as Ashish also mentioned in his opening remarks.

Overall, the number of families are up by 22% and we are at around 4,071. We added more families in H1 versus what we added last year. The overall revenue grew at 22%. As I mentioned in the beginning, for both the businesses, the revenue growth is upward of 20%-22% and the PAT is also to the tune of 20%-25%. So I think that's very reassuring.

Overall, if you look at the capacity on the Private side, we are up at around 127 net RM, which is 11% capacity addition over the year. And the cost-to-income ratio is at around 67%. Again, if we remove the growth cost as well as the associated revenue, this would have also come down by around 350 to 400 basis points on a like-to-like basis. That's where it is going on and the operating leverage or the productivity uplift will come over the coming quarters.

Operating PBT was around INR 48 crores, which is up by 25%. Ashish did mention in the beginning that we had started our Dubai operations, and I think we are seeing a lot of good traction on this front. So we'll see a lot more in the coming quarters on the offshore propositions.

With respect to Asset Management, the overall assets under management have gone up to INR 10,300 crores, which is a 67% growth. But within that, if you look at the public market, that has grown by 255% over the comparable period. This INR 2,500 crores, we got around INR 1,500 crores – INR 1,600 crores in our public market funds and the balance have come into the commercial real estate fund of around INR 800 crores - INR 850 crores.

Otherwise, a lot of new things on the Asset Management side, our EDGE fund in the public market space is now the largest in this category and the fund performance is among the best in all possible cohorts, wherever it is comparable.

Even with the INR 850 crores in the commercial real estate, our commercial real estate fund has now crossed the INR 1,000 crores mark and we will see how we continue to expand the distribution to wealth as well as to the external channels.

Over the last few months, what we have also done on the asset management side is that we have started adding capacity through our external distribution side. So, the public market fund EDGE, if you look at today's flows for EDGE, almost 25%-30% comes through external wealth managers. As the time progresses, we will see how we expand our external distribution.

But to start with, we have added a lot of external distribution capacity in terms of the banks as well as the independent wealth managers. Revenue ex-carry grew by 45% to INR 17 crores. That's how Asset Management has performed over Q2.

Capital market, we mentioned in the beginning, the Asset Services businesses, the custody and clearing assets has doubled from almost INR 65,000 crores to INR 1.25 lakh crores. And the contribution is both from the domestic side as well as on the international side. On the international side, the new client has contributed almost 30%-35% of the new flows in the business.

And on the domestic side, our market share for AIF and PMF has improved to around 21%. And if you look at the similar number for last year, it was used to be around 18% or so. Similarly, on the IE, Ashish did mention the improvement in the market share from 5.7% to 6.3%. So, I think that's reassuring. As well as on the IB side, our ECM deal closures were almost double than what we did last year. So, I think that's working fine. Overall revenue for the capital market was around INR 376 crores, a growth of almost 100% Y-o-Y.

As you understand, this business has the ratio between the growth in the revenue versus the PBT is normally disproportionate. So, when you grow your revenues by 100%, our PBT for this business has grown almost by 150%-155%. That's how the overall capital market has performed.

Nothing specific on the financial performance beyond this. We can start the Q&A session.

Moderator: Thank you very much. We will now begin the question-and-answer session. We'll take a first question from the line of Sanket Godha from Avendus Spark. Please go ahead.

Sanketh Godha: Yes, thank you for the opportunity. I have a few questions. So, the first question is on your asset services in the capital market business. So, you alluded to the point that F&O activity, if it slows down, it can have an impact. So, my simple question is out of INR 284 cores, what we made in H1 in the asset services, how much would you like to link it to F&O activity? And if you have done any, you alluded to that point, but in a worst-case scenario, do you see this number to fall if the new rules get implemented from November 20th?

That's on my first question. Maybe if you can answer the question, then I will go one by one. I have three questions to ask.

Ashish Kehair: Sure, sure. So, Sanket, if you look at that business, it's basically split between domestic and international. So, domestic, there is zero impact because domestic, we basically service the PMS and AIFs, which are typically long only or maybe category three, category two, where the impact of this is zero.

I mean, there is absolutely no impact. That is, let's say, maybe 30%-35% of the business. Balance 60%-65% of the business, again, half of it is completely non-related to any activity which is related to F&O.

So, if you see, let's say, one-third of the clients are the clients that are affected by F&O. And if I look at the volumes, which basically get impacted, which is largely at the retail level, for us, about 90% of the volumes sit into expiry, out of the five, which were there every week. So, it really doesn't matter for the balance expiries to go away.

And when we have discussed with these clients, again, as I said, they mentioned that, look, even if the profit pool in India were to fall by 50%, they're saying, which is an extreme scenario, even then the derivative profit pool for these type of clients in India is 5x larger than the next market. So, deployment of capital will continue. Plus, if two out of five days, they need to keep the float here, balance three days, they don't take it out.

So, as I said, while the volume for brokers may get impacted, whether the volume for us in asset services, the answer looks to be no right now. That is point number one. Point number two, the number of new clients which are coming in, which are of similar type, size, and scale, which operate in other markets and are now coming in India, and we are opening the accounts, I would say that addition itself will more than compensate if there is any fall.

So, right now, I may sound a bit optimistic, but this is after a lot of discussion with all these participants is that we have come to a conclusion that the impact looks marginal, at least on this side of the business.

Sanketh Godha: Got it. So, basically, if I want to simplify, you're saying that in F&O, means out of the total asset services, around 30% is related to F&O, which in that last part is sitting into expiry. And second, new client addition, even if the volumes fall in the 30%, new client addition should compensate for it. So, net net, you will not see an impact. That's the way I should summarize?

Ashish Kehair: Yes, Sanket. That's absolutely right.

Sanketh Godha: Okay. And maybe just adding, because the margin requirements will go up on expiry date, actually, it could negate a bit of impact because you collect more margin, more interest income.

Ashish Kehair: Absolutely. Absolutely.

Sanketh Godha: Perfect. That's on my first question. Second was on wealth business, we saw a significant, I mean, mid-market, I would say, we have seen a significant increase in the flow in the current quarter. Is it fair to assume this happened because of the broker code change, which is prevailing in the industry today?

Ashish Kehair: For us, Sanket, broker code in Nuvama Wealth, the overall net inflow in a quarter, it's about INR 100-INR 120 crores as of now. We have not started pushing it a lot. I think this number will go up more for us because, as you understand, we are one of the players where we have a smaller AUM and when we get new RMs from outside, our ability to pull in will be more.

But at this point in time, if I look at historical data, it's about INR 100- INR 120 crores only for the quarter on net business out of the INR 2,100 crores of net flows.

Sanketh Godha: So, what led to this INR 2,100 crores then? Because it is a little higher compared to what...

Ashish Kehair: It's not like it happened suddenly in the quarter. It's been in the offing for the last 12 to 15 months. Like I said, when that change from upfront to trail happened in, let's say, AIFs, it actually fundamentally changed our business model completely.

Because let's say, we started evaluating the other products in the managed product categories more seriously and which includes, at least in Nuvama Wealth, mutual funds, PMS, CAT III, AIF, in that order. And then we started building, we started building the proposition, we started training people. So, it's a momentum which is catching on.

So, it's not like suddenly in Q2 it happened. Basically, in Q2, you saw that a better part of that rising trend. I think unless we see sustained corrections in the market where people start moving out of equities as an asset class into different asset classes, I think this momentum is going to sustain and will only have a positive upside.

Sanketh Godha: So, is it fair to assume that this INR 2,400 crores run rate sustains and if a broker code system also plays out, then these numbers should look upward trajectory assuming there is no steep correction in the market?

Ashish Kehair: Yes, yes. We are fairly confident around that.

Sanketh Godha: Okay, perfect. And one more on cost. See, our cost-to-income ratio at the company level seems to be largely driven by capital market businesses because they have done phenomenally well, as Bharat highlighted. And even the flow to the PBT is meaningfully very high. Just wondering, your private and wealth cost-to-income ratios have not improved meaningfully.

And I think Bharat told in the call that it is capacity addition. But at some point in time, you will think that this capacity addition, what you have done in RMs, will play out and say next year or a year later.

Ashish Kehair: I got your question. Let me explain. So, if you just look at the Q2 cost for both, let us look at wealth. Wealth Q2 costs have gone up by INR 28 crores and in Nuvama private, the Q2 cost has gone up by INR 16 crores. INR 80 crores has become INR 96 crores and INR 108 crores has become INR 132 crores.

Out of that, 50% is growth cost. If you take the number of RMs which have gotten hired and you take their pro-rata compensation, you take the surrounding opex which is the consultant cost, the office cost and all that around 50% of both these cost increases is actually growth cost which is 400 basis points. And this is after taking 1x revenue against that cost. So, if I say that INR 28 crores is the cost addition in Nuvama Private, that means 14 out of the 28 is growth cost. That 14 has produced 1x revenue and after taking that 1x revenue, the cost income of 400 basis points impact.

Now, if we look at our RM cohorts, again in both the segments, when people move from 1 year to 3 years to 5 years, the productivity moves from 1x to 4x to let's say 6x. And as you rightly said, once we move these people on that upward cohort with an increase in productivity, the cost to income will come down. And now it is a choice as to how many new RMs we'll hire.

Let's say we reduce our RM hiring in the next 12 months, automatically there'll be a sharp fall in the cost-to-income ratio. And even if we continue to hire at the same pace as our existing base of RMs become bigger than the new RMs that are coming in, the cost-to-income starts improving.

Sanketh Godha: Got it. And lastly on private, your net flows have slowed down on quarter-on-quarter basis. Anything to read in between?

Ashish Kehair: Nothing. It's basically - it will continue. See Q1, we had one massive inflow and Q2 there was an outflow that happened which is why it looks like that, but otherwise if you ask me on an annual basis, how you should see it basically our estimate remains that between 30% to 35% of our opening ARR assets is what we will see as net new money inflow.

Sanketh Godha: Perfect. And lastly, if you can break down your IE income, IE& IB income would be useful, just because IB is little episodic?

Ashish Kehair: 40-20. So that asset services if you remove balance, you can divide in the ratio of 40-20.

Sanketh Godha: 40-20. Okay, perfect. That's it from my side. Thank you for the answer.

Moderator: Thank you. We'll take a next question from the line of Lalit Deo from Equirus Securities. Please go ahead.

Lalit Deo: Thank you for the opportunity.

Moderator: Sir, can you use your handset mode please, your audio is not very clear.

Lalit Deo: So sir I was looking at the net new money. So, we have done very well in this quarter and in H1, but if we just calculate the MTM gains in our AUM book, so there we are seeing some softness over there like on the overall MPIS assets as well as the ARR assets. So, just wanted to understand the broader mix of those piece like how much is being contributed from the equity side, how much is it debt and what is the overall composition?

Ashish Kehair: Lalit, if you look at the MTM in both, broadly it's in the range of 8% to 10% annualized like MPIS and ARR. So, right now, the composition of our assets both in ARR and MPIS is less market linked, so less of equities, more of alternative asset, more of absolute return fund, more of infrastructure, distressed asset fund. But if you look at the composition of net new flows which are coming into these, the proportion of equity assets are higher.

As I said initially, when I was telling Sanketh that the change of business model happened over 12 months to 18 months back where we shifted our focus towards more PMS, MF, CAT III AIF. So, incremental flows will have more equity, so more MTM related assets are coming in, but if I look at the base from which we started, equities was lesser, maybe let's say about 25% to 30%, which is why if you take an annualized MTM right now, it's in the order of magnitude 8% to 10%.

Lalit Deo: Right. Sure, sir. And secondly could you broadly split the cost between the asset services and the IE& IB business because we have been seeing continuous improvement in the cost-income ratio over there?

Ashish Kehair: So, overall cost-to-income, if you look at Q2, in that segment is about 40% to 42%. Asset services, you can broadly take a cost-to-income ratio of between 25% - 26% to 31% - 32% and the IB & IE order of magnitude between 45% to 55%. I mean, that is the range in which these businesses operate.

Lalit Deo: And sir hypothetically if this businesses were to – if there were any adverse movements and if the revenues from this business declined by 15% to 20% in any adverse scenarios, then how this cost-to-income would change? Could you give us some color around the same?

Ashish Kehair: So, to the extent of variable cost, so I think the variable cost, variable employee cost in these businesses are higher. So, to the extent if there is a revenue fall, some of the fall will be absorbed by the change in variable cost, rest will be a pass through to the PBT. But if I look at, let's say, a 2 year, 3 year perspective. Right now in FY23, the cost-to-income of this business was around 68% to 70%. We came to 53% in FY24 and this year, we may end up around 45% or so. And let's say, this business were to normalize over the next 2 year to 3 years and the cost-to-income goes back to say 55% - 56%. I'm saying a 10% up move from here.

Parallelly, what is happening is the cost-to-income ratio of our wealth management business is coming down, because as we added this new capacity, as that becomes productive and operating leverage kicks in, in the next 2 years to 3 years, that cost falls from 65% to 60%, which is our stated strategy. Asset management moves from being a 100% cost-to-income business to positive contribution as we move from INR 10,000 to INR 20,000 crores. So, on a blended basis, our cost-to-income should be below 60% in the next 2 years to 3 years, even if there is a decline in the capital market's cost-to-income ratio**.**

Lalit Deo: Sure, sir. Lastly, on the dividend policy, so like in the first quarter, we have been regularly announcing dividends. So, going ahead how should we look at the overall dividend distribution policy?

Ashish Kehair: Similar. So, when we declared the dividend last time, we said that that was for last year. So, that was about 47% - 48% of last year's profit and this time around also for H1, it's about 47% of H1 profit. And as of now, as per our calculations, our retained earnings after the dividend should be sufficient to support the business growth. So, we will maintain that 40% to 60% range which we have indicated.

Lalit Deo: Sure, sir.

Moderator: Mr. Deo, are you through with your question?

Lalit Deo: Yes.

Moderator: Thank you. We'll take our next question from the line of Jayant Kharote from Jefferies. Please go ahead. Mr. Kharote your line is unmuted. Please go ahead.

Jayant Kharote: Thank you for the opportunity. Two questions. First is on the translation of flows to revenues. When I look at Nuvama Private, for example, we've had very strong inflows of almost INR 8,500 crores in the last three quarters. Now, I get the impact of that policy change on CAT III AIFs, but even if I look at the Q-o-Q revenue, we have gone from INR 50 crores to INR 52 crores. I'm just trying to understand why isn't the flows translating to better revenue in the managed products piece? That's first question?

Ashish Kehair: That's the first question. So, it's largely a trail build-out, Jayant. It will take its time and also the timing of the flows. Sometimes the flows come towards the end of the quarter, middle of the quarter. So, from a yield perspective, if I look at the yield at a sub-product level, there is no decline in yield per se. The yield is intact in each of the product lines in either of the two businesses, but the build-out will take time. So, you will have to be patient for at least two to three quarters.

Jayant Kharote: Great. So, we should expect the yields to move back to that 90 basis points number?

Ashish Kehair: Yes. So, I'll tell you Nuvama Private basically this quarter the impact on yield has happened because the lending proportion has gone down. If you clearly see as a proportion of income within the ARR revenue, lending has gone down and that has brought down the yield by about 4 - 4.5 basis points. So, once we bring that back to the proportion, it comes back. And in wealth, it's driven by the MTM of the broking asset because broking for us is not a big revenue driver.

So, broking assets moved by about 17% and broking revenues moved by about 2%. So, that brought down the yield. It's purely mathematical. Hopefully, with this correction in this quarter, the broking MTM should remain flat. The yield will come back.

Jayant Kharote: Great. And in Nuvama Wealth, first of all, a great number, this INR 2,000 crores number, and from what I gather with Sanket conversation, this should hold up. Would you like to guide that this kind of number should not correct, given that this is spread across a larger number of 1,000 plus RMs, given, of course, market conditions are supportive?

Ashish Kehair: Yes, if market conditions are supportive, then I don't think we will see a significant drop from here. It should be in this range, maybe 10%-15% up-down, that can happen in any quarter. But directionally, I'm saying it can't be like it goes to INR 1,000 crores and all. It should remain between INR 1,500 Cr– INR 1,600 Cr to INR 2,200 Cr – INR 2,300 Cr range.

Jayant Kharote: And lastly, sir, on the RM addition, you are at 1,200 now. What should be the pace from for this year and next 3 years?

Ashish Kehair: See, between, in Nuvama Wealth, on a net basis, anywhere between 35 to 45 per quarter, we should add. And then we will review again towards the end of the year. Ideally, between 15% to 20% capacity addition should continue, but we will review again. So that's the plan broadly right now. And for private, anywhere between 5 to 8 RMs in a quarter maximum is what we will look to add.

Jayant Kharote: Sir, if I could just squeeze in one last question on the distribution commission, some of the AMCs have rationalized their commissions in Equity MF. How are you seeing this play out? I know the first order impact will be towards the retail guys, but maybe in some quarters it will come to us as well. So how should we think about it? Again, not from one quarter, but directionally, are there more funds that you are in discussion with? Is this a sector wide trend? And even if it plays out, how does it play in our P&L?

Ashish Kehair: So for us, let's say mutual funds across both put together will not be, even at full scale basis will become not more than, 5% - 10% of the revenue, maybe 15%. And we are still an early player in that. So it's not that our current AUM is getting impacted. On the fresh flows, I think out of the top 10 - 15 AMCs, there are multiple products, multiple schemes available in which you can negotiate and get a good rate, if you are able to deliver a good placement for them.

I don't think it's going to impact us much. For people who are largely dependent, I think few players who are largely dependent on MF as a product, as a single product, because we have PMS, we have CAT III AIFs, we have multiple avenues to monetize. I think there the impact may be higher because for us, I think it's just one of the lines that we should be able to manage.

Jayant Kharote: Great. Congratulations, sir, for a great set of numbers. Thank you.

Moderator: Thank you. We'll take our next question from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: Hi. Good afternoon, sir. Just a few questions. So the first question is, again, none of us would probably know the direction of movement of market, but let's say things hold up at current levels after the sort of correction that we've seen over the past 1 month. And in that case, how would you quantify the IB pipeline in terms of assuming, let's say, 80%, 90% of whatever deal pipeline you have, fructify?

Second question is on the new flows that you're seeing, be it in private or in Nuvama Wealth. Given that you have added a lot of RMs, your client additions have all picked up in the last 12 trailing months, how would the proportion between flows from new clients to existing clients have shifted, let's say, 18 months or 24 months prior to, let's say, today? That would probably give us some understanding of how the productivity benefits shape up over a relatively longer time horizon?

A third is on the competitive landscape we have seen RM exits across some funds or other competitors. We are hearing some new entrants also coming into the marketplace? So could you give some color on how your sort of RM discussions are shaping up in terms of both new additions, as in top RM additions, both in private and wealth, and also in terms of retention? And do you expect any pressure on the cost side in case things heat up?

And this last one question is on the Nuvama Wealth business. Between your active customer base, which is like 20% of the 12 lakh customers that you have, how much would be serviced by your in-house RMs and how much would be serviced by the external asset managers? And also, if you can give some color on the product mix sourced by the in-house RMs versus the external asset managers. I assume that the clientele quality would be a little different in both cases?

Ashish Kehair: Yes, so let's start with the IB deal pipeline . So I think if the market sustains, then I don't see a dip from how we have done in the past. It should be in the similar range, because the number of filings which we are seeing are actually higher than what we have done both in previous quarters. And in terms of IB, you know that if you have filed now, then the revenue visibility is this year, because whatever you are going to do after, let's say, October, November, December, the revenue will come next year.

So we don't see a dip there happening. And plus, in our IB, half is fixed income. That is anyways continuing at its own pace. That is not impacted by the market. You'll have to repeat the second question, Dipanjan.

Dipanjan Ghosh: Yes, so second question was on the flow between new and existing clients in the wealth management?

Ashish Kehair: Now, if you look at the flows on ARR assets and MPIS assets between, let's say, existing and new, I think it's almost 50-50. And in some quarters, it also goes slightly higher towards the new clients in Nuvama Wealth. So that is a healthy sign which we are seeing, at least in the MPIS assets.

And similar ratio even in Nuvama Private. Although I would say Nuvama Wealth, the new client flows for the last 10, 12 months have been higher than the older existing clients because of the number of RMs which have gotten added. And that's purely logical, because when you add, somebody transfers or somebody opens an account, there's a transfer of assets which is happening and all that, whereas in the existing clients, only incremental flows come. So that's why the ratio is like that. What was the third question for you?

Dipanjan Ghosh: Third question was on the competitive landscape and RM, either attrition or retention?

Ashish Kehair: So attrition right now, so let's go segment by segment. In Nuvama Wealth, as I said, we bucket the RMs in 3, 4 categories. The top category is called the big league, which is, let's say, 60%, 70% of our revenue producers. Those are the 300, 400 RMs out of the entire 1200 population. We lost 2 RMs in the last quarter. In Nuvama Private, both Q1, Q2, there has been zero regret attrition.

Having said that, is there pressure? There is, of course, pressure. Higher in Nuvama Private, because the number of people available in the market are lower. So there will be some cost pressure. There will be retention tactics which everybody will employ. We will also employ. In terms of hiring in both, I think Nuvama Wealth is slightly easier, because the number of people who can give a proposition like us right now in the market are far and few, which can give such a widespread product bouquet with less pressure on insurance as a product class, which these RMs are normally subjected to, superior execution platform, reporting platform, multi-product access.

So I think our employee value proposition is significantly superior to our competition at this point in time, so we are able to attract. Private, as I said, large number of players coming. But again, continuous investment in the value proposition for the employee, we are able to attract. So like last quarter, we hired 9 RMs. We have a decent pipeline for Q2 in terms of number of RMs where we've already closed and people are serving their notice periods. But I will not hesitate to say that it is competitive. It's a part of business. It's one of the factors where you have to compete, and you have to compete fiercely on the street.

Dipanjan Ghosh: The last question, sir, was on the active customer base mix between in-house RM servicing and EAM-based servicing in the Nuvama Wealth segment and if the product mix varies across these two categories?

Ashish Kehair: So I can give you the asset split. The asset split is about 80% and 20% between the in-house RMs and the external RMs. Net new money is also similar ratio between 75-25, which is in line with the revenue. In terms of the product mix, the external RMs, I would say, are more transactional or investment solutions oriented, less managed product oriented. Managed product, they do more which are our in-house managed products like, the ones which we manufacture.

But otherwise, MLDs, unlisted shares, fixed income, insurance, those, they are heavier compared to our in-house. So, which is why in certain quarters, you will see that the tilt of revenue towards external wealth managers can be higher because they are doing more transactional versus the in-house doing more managed products. So, the trail builds out and therefore the revenue growth is gradual. But once it starts building, that momentum will be faster.

Dipanjan Ghosh: One small question on your AMC business. I think you briefly kind of highlighted earlier that when you reach around INR 150 billion sort of an AUM, that is where one probably can see breakeven. You've already crossed like INR 100 billion. So just wanted to get some two questions, actually two small questions.

One is the new fund offering, apart from whatever you have mentioned, one more maybe next two quarters. So if you can give some color on that and the next is, how should the profitability curve be in that segment let's say for the next three to five years?

Ashish Kehair: So, one new product, one approval we've received now is FlexiCap fund, which we will launch. Because on the long only side, we only had a mid and small cap. And then we had a 60% Delta product with a large cap replacement, which has crossed INR 2,000 crores and an absolute return product. So new we will add FlexiCap. And we will also maybe in two quarters have a credit fund, maybe real estate, non-real estate, both or only one. So that will be another product that will get added.

In terms of vehicle access, we've added Gift City for inbound for our 60% Delta product and our absolute return product, because that will be extremely compelling for non-resident Indians and offshore investors because derivative taxation is negligible. So overall taxation on that product will fall to sub 5% in the Gift City. So that is going to get added.

In terms of breakeven, actually we are already breakeven as I said earlier, because we allocate central costs equally to all businesses. Even asset management gets an equal share. So, the large businesses like wealth, private, asset services, institutional equities and asset management get a similar share.

If I take that, even if I reduce that by 50%, asset management has broken even. But even with the allocated costs, I think now the gap you see is about INR 2 crores a quarter, INR 2 crores to INR 3 crores a quarter. I think by the end of this year, if we are able to cross a maybe INR 13,000 crores, which is INR 130 billion.

And out of that, if you are able to sort of hit, let's say, essentially INR 10,000 crores at 80 basis points, which is about INR 80 crores of fee income next year. And if our total cost is, let's say, 38 in, H1. So maybe around next year, mid this time, we should be on a monthly basis, start to show numbers, which on a monthly basis will look breakeven.

I think by around September, October next year. And from there, depending on the asset addition, it'll start growing. So, if you are able to add $1 billion of assets every year, after that, the profitability curve will just keep going up.

Moderator: Thank you. We'll take our next question from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Yes. Hi, everyone. Congrats on a great set of numbers. So firstly, you know, while everybody has been talking about equity markets, even the debt market seems to have, you know, we will see some interest rate corrections in the second half. Yields have already come down. And we started Nuvama work has been pretty strong on the credit side. So how do you see the benefits kind of playing out for Nuvama if the interest rate kind of cuts from here on?

Ashish Kehair: So actually, multiple businesses have multiple impacts. If, let's say the interest rate goes down, there will be some impact maybe in the yields of asset services business, but that will come with a lag of 12 months because yields are already locked in for about 12 to 15 months. There could be some improvement on, let's say, the lending side, because our yields are already quite competitive, our cost of funds can go down.

So, there could be a positive impact on the NII side in the wealth management. I think barring these two, I don't see any other impact for us on the overall business side, unless there is a positive momentum on the equity side because of the interest rate cut, that is a second order derivative impact.

Prayesh Jain: So broadly, overall, from a wealth management perspective, could you split your assets between equity, debt and others?

Ashish Kehair: Almost 60% will be equity and maybe 25% to 30% will be debt, quasi-debt, and then balance will be alternate.

Prayesh Jain: Okay. And so, coming to your overall RM strategy, I alluded to what growth, what additions you're planning to do. My question was more on, like just a couple of quarters back, we were discussing about growth, investing now versus kind of benefits. Are we kind of, you know, the bulk of the investments have happened now, or we will, it's more of a gradual addition story that we are embarking on? So, what's the thought there?

Ashish Kehair: So, see, in Nuvama Wealth, we've added about 40% of the capacity in the last 12 months, right? Now, the game is also to make them productive, and that part of the activity is on. We are not, in a sense, slowing down. There could be some quarters where we ramp up, some quarters where we dial down, but on a yearly basis, like this year, we will add about anywhere between 175 to 200 RMs on a net basis, right? So it is a significant number.

And maybe next year also, we will continue with that, because I don't see any reason for slowing that down. So, if you are able to, Prayesh, for example, add 200 people, and if I look at it from last September, we would have added almost 400 people. 337, we've already added.

And let's say, if we add even 70 in the next two quarters, we would have added 400 people. And if we end up at a cost income of 65%, which was without people addition in H1 last year, I think it's reasonably good to continue that, right? Why to cede market share just to improve cost income?

I mean, you can do that anytime you want, right? You can stop recruiting for two quarters, and your cost income will improve. But if you're able to add, if you're able to contain attrition, and you're able to move people from bucket one to bucket three, which is three to five years, where the productivity jumps from 1x to 5x, it can have a massive impact on the business.

Prayesh Jain: Absolutely. Absolutely. Got that. And, sir, you know, you mentioned about the cost of income, the 50% of the increased costs and growth, where else are we investing?

Ashish Kehair: So, rest would be mix of everything, right? So, there'll be some bit of tech, there'll also be hikes given to the existing people. Because of the increase in business, the provision for incentives, the provision for bonuses have gone up. So it's a combination of all that.

Prayesh Jain: Got it. So last question on the private side, where, how is the kind of RM cost trending, you know, when you're hiring new RMs? And what is your source of RM hiring today? It's private banks, or how is it? Because whenever we attend wealth management conferences, this is the biggest discussion point about the resource crunch. So, is it the right time to add costs? At what level are we adding? Could you give some sense there?

Ashish Kehair: So, we will continue to add, but we will not add at any cost. So that is our stated philosophy, because it doesn't make sense. And it doesn't make sense for the employee also, because they will soon realize that if they join organizations at absolutely unacceptable costs, and if they don't become productive over a period of time, the strain on the organization will be such that they will be compelled to ask those people to go.

So, I think there are a set of people who understand this, they also understand that in this business, fixed cost is not the only cost, it's actually a combination of fixed cost plus the bonus or the incentive you make plus the ESOP which the organization gives you. And then on a collective basis, if you're joining a platform in which there is a higher degree of certainty, there is ESOP coming in, there is incentive, which is paid better than the market, there are people who understand and then take that call.

And we are able to find these people, like I said, in Q2, we were able to add nine RMs. It's not that it all happens in Q2, because you work over four, five, six months, you close, and then they serve their notice period, and then they come. So, it's an activity which is an ongoing activity which keeps happening. So we are not in a rush that we have to go and add 50 RMs in the next six months. If we don't get, we don't get, but we are able to find these people, private banks, MNC private banks.

Typically, if you're hiring from a firm, which has given people stock options and the stock has run up and they have unvested options, those are the most expensive people which we avoid.

Prayesh Jain: Okay, so just sorry to slip in just last one more. You know, Dubai is something where we were kind of expanding, and we were investing in Dubai, Singapore, any incremental information there as to what is the size or anything like that?

Ashish Kehair: Yes, so Dubai, right now we have about three RMs and the country head. We are now functional in the sense all licenses are there, all product setups have happened, our first set of transactions have happened, our first set of clients have been onboarded last week itself. So, as we say that we are now open for business, and it's progressing well.

Singapore, we just got the license, I think a week back, and we will now evaluate as to how to move ahead. But between the two, Dubai seems to me as a more, I would not say easier, but I would say more logical to expand first than Singapore.

Prayesh Jain: And this would be more private rather than wealth, right?

Ashish Kehair: Yes, right now it's more private, but we will also evaluate to see if there's an opportunity in wealth.

Moderator: Thank you. We'll take our next question from the line of Jay Jariwala, an individual investor. Please go ahead.

Jay Jariwala: Yes. So yes, my question was on recruiting of RM. So, like how much cost or how much like on an average RM cost, RM recruitment cost will be and like at what pace it is growing or it is like a stagnant from a couple of years or what will be the revenue generated by each RM? Do we have any sort of data on that?

Ashish Kehair: You can just divide the total revenue by total number of RM. So, for example, if we take last year, let's say Nuvama Private, we had about INR 550 crores-INR 560 crores of revenue and about 100 average RMs you can take because we had new, so about INR 5 crores-INR 5.5 crores per RM. And similarly, if you take in wealth, about INR 700 crores of revenue and about 1,000 RM, so about 70 lakhs, so that's the order of magnitude.

And we operate at about 4-5x in terms of the multiples of cost. In terms of hiring cost, it's a broad number. I mean, it depends on how many consultants you hired, but typically it's about 8% to 12%-13% of the first-year compensation of the new employees that you hired only if you are going through the consultant. If you are doing a referral program or if you are able to reach out directly to candidates, those costs are not incurred.

Jay Jariwala: Sure, yes, got it. And also like about RM itself, so like whenever we recruit and…

Ashish Kehair: We can't hear you, Mr. Jariwala.

Jay Jariwala: Sorry for the disturbance. Yes, so I just want one more question. So, the cost to income of the company has been down in this particular quarter, any guidance on what it can actually bring it down in the next couple of quarters, any further guidance on that?

Ashish Kehair: I think it will remain similar to where it is in the next couple of quarters. But over the next three years is what we are saying that maybe capital markets will move up slightly, Wealth Management will come down to 60%-61% and asset management will move from break-even to maybe 75%-80%. So therefore, on an overall basis, we will range between 55% to 60% in the next three years.

Jay Jariwala: And in the Dubai, you have started a particular -- so from there, from where we can expect revenue to be kicks in, in which quarter specifically, any guidance on that?

Ashish Kehair: It will take time for Dubai to become a meaningful contributor. So, you can just look at Dubai as a new city addition in India. It's not that it will become some 10%-15%-20% contributor, it will take time to develop. It's an addition, it's a product addition also for our clients. It's also a new revenue source, but it's not going to become one major contributor in that sense.

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

Ashish Kehair: Thank you. As usual, for taking time out. And as I said, this was a special one for us because we completed one year of listing and many new milestones were achieved in this quarter. Hopefully, the markets will be supportive and we should be able to see you again in the next quarter. Thank you. Thank you for your time.

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