Nuvama Wealth Mgmnt.

Operator: Good day and welcome to the Nuvama Wealth Management Ltd. Q1 FY27 earnings conference call. As a reminder, all participant lines will remain in 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 the operator by pressing star and then zero on your touchtone telephone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Ashish Kehair, MD and CEO, for his opening remarks. Thank you, and over to you, sir.

Management: Thank you so much. Good afternoon, everyone, and a very warm welcome to all of you for joining us today. As always, it is a pleasure to connect with you all. Joining me on the call today is Bharat, our Group CFO, along with our investor relations advisor, SGA. We will begin with a brief overview of our performance for the quarter. Once I am done, Bharat will take over, and once both of us are done, we can quickly move to your questions.

Just a quick summary: I think it was a strong beginning for us this year, delivering record quarterly profits and healthy, all-round performance across all our businesses. This was also reflected in a significant milestone for us this quarter: client assets crossed 5 lakh crore, our quarterly revenues crossed 900 crores, and our quarterly PAT crossed 300 crores, an all-time high for us. ROE still stands near 30% and remains one of the best in the industry. Before I discuss our business performance, let me share some quick observations on how the industry is evolving and how we see the opportunity ahead. I think I have said some of these things before, so I will be brief. Some of you may find it repetitive, but nevertheless, I think it merits a discussion.

Firstly, I think the value of full-platform models is becoming increasingly evident across the industry. You will see that if someone is a standalone wealth manager or asset manager, they are trying to build capital market capability, while traditional capital market, broking, and investment banking firms are clearly seeking to strengthen their wealth franchise. This convergence is now clearly visible across the market, which we have been discussing for 5-6 years: that this is inevitable and is going to happen.

Second, I think independent wealth management as a cluster is becoming an emerging, powerful force. A lot of new entrants are coming into this business, whether it is banks bringing their focus back or private-equity-funded players. There is a lot of action in this segment.

Third, in addition to ultra-high net worth, which has of course been mainstream for quite some time, the affluent and HNI segment is also emerging as a very attractive opportunity. It is extremely large, it is growing, it is omnipresent across the country, and it remains structurally underserved and difficult to serve. It is not a very easy segment to crack; it takes time, but it is an attractive opportunity.

Lastly, I think it is worth saying that technology, and more so generative AI, is playing a very transformative role. I do not know how it is going to evolve in the next 4-5 years, but I think it is definitely going to bring a lot of efficiency for everybody. Some may be slightly ahead of the curve, as happens with any technological innovation. Initially, it is always non-mainstream; a few people do it, and in 2-3 years it becomes mainstream, it becomes standard practice, and it becomes basic

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hygiene, with most of the players adopting it. So I do not think people need to panic about it. We are investing in it, and we are investing heavily. I think it will benefit most of the industry because it will bring efficiency to every part of the value chain with which we deal.

With that context, let me now quickly share a few highlights across our businesses, starting with Nuvama Wealth. We took a call a long time ago that putting the power of choice in the hands of the client is a central differentiator for us, and this is what this business represents. Our MPIS model is a strong reflection of this philosophy. The platform empowers clients to define their objectives and access investment solutions across the board. It is not narrow, and it does not confine clients to choosing from only one or two categories. It keeps the choice open because we understand that every client is unique, their needs are unique, and those needs can be fulfilled through the wide range of solutions available.

Revenue from MPIS grew by about 20% year-on-year. Net new money was one of the highest quarterly figures ever; we crossed 3,000 crores, and overall assets also increased by about 32% year-on-year, reaching 42,500 crores. One interesting observation we are seeing is that Tier 2 and beyond is expanding faster. It has now started contributing more than 35% and is growing even in the MPIS segment.

Second, the success of this model is ultimately driven by the quality of advice delivered to the client. To support this, we continue to invest in our talent ecosystem, which begins with hiring the right cohort at the right level of seniority. As I mentioned last time, we are increasing the seniority of the entire team. We added 14 more net relationship managers to that cohort this quarter.

Third, continuing my discussion on technology, we are deliberate and intentional in investing in technology and AI across the value chain, and I think this business will benefit the most from it. We have introduced concepts such as Nuggets, which is an AI-based chatbot that serves RMs and our external wealth managers. We have something called an RM Buddy, which is a voice-enabled AI assistant for supervisors and RMs to manage their entire client-book lifecycle and provide them with personalized insights on how they can improve their performance. We have a customer profiler, which is now completely AI-based. We have completed a POC with about 200 people and will roll it out to the full team very soon.

All this has led to significant productivity increases across MPIS. In terms of revenue, net new money, and assets, we have seen a more than 25% year-on-year increase per RM and an overall revenue increase of about 17% year-on-year per RM.

Lastly, on lending, we continue to scale the book. We mentioned a few quarters ago that growth of the book would be in line with the overall business. The lending book has now crossed 5,000 crores, and NII growth was also about 12% quarter-on-quarter. It remains at about 20-22% of our overall revenues in this business.

Moving on to Nuvama Private, first and foremost is RM addition. I mentioned last time that this segment is seeing intense competition. It was present earlier as well, but I think it has become more pronounced now, and I shared my views on it last time. I keep telling my colleagues that it is a good thing that we continue to compete for RMs because it actually supports the hypothesis that growth in the industry remains intact, and we made a bet a long time ago that is now playing out.

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Against this backdrop, we are happy to state that we added about 11% to our workforce in the last year, and we added about 6-8 RMs in the last quarter. I think we offer one of the most comprehensive platforms for {? fees ?} and RMs in the industry across the entire solution spectrum. It allows them to serve their clients in the best possible way and also gives them immense opportunities to create wealth for themselves. During the quarter, we expanded our presence in both Tier 1 and emerging wealth markets, adding people across Mumbai, Chandigarh, Ahmedabad, and Chennai.

Moving to regional wealth, we continue to see decent momentum in recurring-revenue assets. On a full-year basis, ARR assets grew by about 20% to 58,000 crores, and net new money into managed accounts continued to remain strong at about 1,800 crores. Overall ARR flows this quarter were slightly soft on a net basis, at 1,000 crores, because we are in the process of removing some extremely low-cost mandates that were acquired a long time ago. These are historical mandates, and we are in the process of cleaning them up. That number reflects this clean-up.

Our target for the full year still remains at 20-22% of the opening assets. We have launched an offering here for the super-ultra-HNI segment called Pinnacle. It is a highly differentiated offering that bundles multiple elements and delivers significant value to the client. I think it will help us garner more ARR assets here.

Talking a bit about offshore, our focus over the last 18 months has been to build out the platform, and I think we are now seeing the delivery happen. We have 2 locations, Dubai and Singapore. Dubai has already broken even, and Singapore will break even by the end of this year. Overall revenue contribution from offshore will remain between 5-7% at least this year. We are now in the process of ramping up.

Management: It is a highly accretive ROE business because lending in this business does not sit on our books. Any offshore lending sits on the books of our partners. Therefore, there is no capital usage. Once you break even, everything is a direct addition to return on equity.

I think overall, offshore is becoming an important element, not only to serve clients outside India but also to deliver a holistic value proposition to clients in India. Clients in this segment, and even in the HNI segment, are in some sense becoming globally integrated citizens, and allocations are moving into global assets—not rapidly, but slowly and steadily. Our view is that over a 3-4-year period, you will see a 20%, perhaps around 15-20%, allocation to offshore assets in the portfolios of many clients. If you have a presence overseas, your ability to serve them becomes better. So I do not think offshore is a luxury any longer; it is a necessity that every wealth manager will have to offer.

RM productivity here also continues to be strong. We have seen an increase of about 17-20% year-on-year.

Moving to asset management, let me start with commercial real estate. We successfully closed our first commercial real estate fund. It is branded as Prime, the Prime Offices Fund. We closed it at around 4,000 crores. We had initially launched it with a target of 3,000 crores. We have completed deployment of around 40% across 3-4 marquee assets in Chennai, Delhi, and Pune. We are on the verge of completing a few other transactions, and the target is to deploy about 70% of the AUM in

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the next 2-3 months so that, by the end of Q3, we can launch the second fund, which we want to have at around 4,000-5,000 crores. It will have a slightly different strategy from the current one, but will be in the same space.

Eventually, over the next 24 months, we are contemplating building a REIT platform because many of the assets we are acquiring are genuinely marquee assets, and there is no point in selling them entirely. We can move them into a REIT platform and have a source of permanent capital in this business.

Moving to private equity, in the last call I mentioned that we had made a change in leadership there. Under the new leadership, our single objective remains to complete the deployment of the old funds and start returning money, which we are now doing. From the first fund, we have returned about 30% of the capital, and from the second fund, we have returned about 15% of the capital. We are in the process of raising our fourth fund. It is branded as Crossover IV. We have raised about 300-350 crores, and we are targeting anywhere between 700-1,000 crores.

Moving to private credit, our CIO hiring was completed last quarter. The team build-out is now happening. I think it may take another 2-2.5 months to have a basic level of team in place. Then, between the middle and end of Q3, we will see the launch of our first private credit fund.

I think private credit, in some sense, will have a multiplier effect on transactional income as well as co-investment income for both wealth businesses because credit offers significant co-investment opportunities and has decent appetite across the client spectrum. Right now, we work with external credit fund managers whose products we offer to our clients. In addition to that, we will also start offering co-investment opportunities in our own funds.

Lastly, coming to public markets, we have seen some volatility there, given performance and also the launch of SIFs, which are clearly a superior tax vehicle. We have seen some redemptions in our absolute return fund and our long-short fund. We have received the MF license and are in the process of obtaining the SIF license. Once our SIF is launched, hopefully we will be able to move the assets from this fund to that one.

From an overall P&L perspective on asset management, many of you have asked me in the past when I think it will start making money. I wanted to tell you that, at a strategy level, commercial real estate is now making money, private equity is also making money, and public markets is also making money. However, because we are investing in new categories that have a drag of 1-2 years, and because we have taken an MF license that requires a separate team from front to back, I think that part of the investment will be completed this year.

Right now, our cost run rate is between 30-33 crores a quarter. Our assessment is that it will peak at 35-36 crores a quarter, and by the end of Q4 we will start seeing revenue increase with the launches of new products. So this year, we will end up with a cumulative loss of around 35-40 crores. Subsequent to that, you will see the path to break-even begin.

With that, let me move to our next segment, asset services. Momentum was extremely strong this quarter. There was significant business growth of around 20% quarter-on-quarter. Average client assets have come back to the Q1 level of last year, when we had lost a very large client, and

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retention continues to be strong.

Just one word of caution: we have seen an extraordinary level of growth here. Over the coming few quarters, we are not expecting quarter-on-quarter growth like this. There will be some moderation as new client acquisition has taken place, and a lot of collateral is currently sitting in cash, which will be converted between cash and G-sec. Therefore, we may see some moderation. However, on a full-year basis, we are confident that revenue growth will be more than 20-25% here.

We are also investing in and building the proposition for this business. You are aware that the business is divided into 2 segments, international and domestic. On the international side, some significant initiatives are being planned, which will start yielding results.

Specifically, 3 areas of opportunity have been identified. First, subsequent to STT being introduced on futures and related instruments, single-stock futures on GIFT have become a proposition where we are seeing some international players wanting to start activity and asking us to support them. We will begin doing that.

Second, commodities are becoming important for clients. Fundamentally, you can see that currently a client's collateral is being used on Tuesdays and Thursdays because those are the 2 expiry days. If we are able to onboard commodities, Monday, Wednesday, and Friday become available. This provides significant efficiency and improves the return on capital for our clients. That is what we are working on.

The third area, which is also extremely important for us, is working on a global custodian-local custodian arrangement. We have a strategic partnership with a global custodian that does not have a presence in India, and we provide them with the India leg. This allows us to access client segments such as long-only funds and hedge funds, which most other global custodians with a presence in India can access. It is a new segment that will open up for us in a significant way.

On the domestic side, as I have mentioned in the past, we will continue to progress on our RTA offering and trustee build-out. I think in another quarter or so we should roll that out. Hopefully, that will lead to a further increase in our market share in that segment.

Lastly, coming to capital markets, the equity market environment remains broadly similar to what we witnessed in Q4. Primary market activity was very selective. The total number of IPOs we saw in Q1 was 8, compared with 15 in Q4 and perhaps 14-15 last year. The total amount of funds raised also fell by around 60-65% both against Q4 and Q1 of last year. However, we are now seeing activity return, and there is a lot of pent-up demand. A lot of documents have been filed, so hopefully, in the balance 9 months, we should see better activity there.

In secondary markets, volumes have been steady. Cash volumes have actually seen an uptick, while derivatives have been rather flat. There is one key monitorable relating to the new regulations around derivatives, STT, intraday financing, and bank-guarantee collateral. We have reviewed the numbers, and at least we do not feel that there will be a very significant impact, but we will monitor it closely.

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On the capital markets side, one point we wanted to highlight, which the numbers are actually showing, is that our fixed-income activity saw phenomenal activity this quarter. Most of the jump in activity on the investment banking side came from fixed income, and there was a significant amount of FPI activity in this quarter. Initially, FPIs were selling because the rupee was depreciating and yields were hardening. Towards the end of the quarter, they were buying because the government made capital gains on G-sec tax-free. We participated wholeheartedly on both sides and made a significant amount of money. I think there is some income that may not be repeatable in the coming quarters, perhaps about 15-20 crores that we benefited from in Q1.

With that, I think I will come to an end and hand over to Bharat to share the granular numbers. Over to you, Bharat. Thank you.

Management: Thank you, Ashish, and good afternoon, everyone. A warm welcome to all the participants on the call. Ashish has already covered the headline numbers, but let me repeat a few of them. We started this year on a strong note, with quarterly profit of more than 300 crores. To put this number in perspective, in FY22, we made a full-year profit of around 292 crores, and after 4 years, in Q1, we have made a profit of around 300 crores. This is also not coming from just one or two business lines; it is across the business lines. I think that says it all in terms of the platform strength and the multi-business model working well for us.

Along with that, CRISIL has upgraded our rating from AA- to AA stable. That has also been reflected in the financial strength.

Coming back to the Q1-specific numbers, we have crossed the 5 lakh crore mark in client assets, and client assets now stand at around 5.36 lakh crore. Obviously, this was led by strong net new money as well as mark-to-market gains during the quarter.

There is another milestone we have achieved. If you look at Wealth and Private, we always talk about MPIS assets for Wealth and ARR assets for Private. Together, these have also crossed the 1 lakh crore mark. MPIS assets now stand at around 43,000 crores, and ARR assets stand at around 58,000 crores. This represents strong growth of around 32% and 21%, respectively, for Wealth and Private.

In terms of net new money, this was again our highest-ever quarterly flow, crossing 3,000 crores for Nuvama Wealth on the MPIS asset side. Even if you look at Private ARR, as Ashish mentioned, we let go of a low-cost or low-earning advisory-type AUM. Our overall net new money in ARR was 1,800 crores for Q1 for Private. That has been progressing well.

On the asset management side, we closed the Prime Fund at 4,000 crores. We initially launched it with a target of 3,000 crores but ended up raising 4,000 crores. We have received SEBI Mutual Fund approval and have also applied for our SIF license. Hopefully, starting in Q3 or Q4, we will have many more strategies coming to the market, which will provide momentum to the asset management business.

Coming to overall revenue, our revenue was 909 crores, representing 18% growth. Within that, Wealth Management grew by 19%, accounting for almost 50% of revenue. Asset Services, as discussed, saw a very good number in Q1 of this year, with around 34% growth over the previous

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year to 260 crores. However, as Ashish also mentioned, this may not continue to grow at this rate going forward. It will moderate to some extent, but that is where we are because of the base effect.

In Capital Markets, our overall revenue was broadly flat compared with Q1, at around 180 crores. This is because investment banking revenue dropped compared with Q1 of last year. We had a large AS client that was contributing to that business, and that client is not there this year. However, our total number is around 180 crores.

As discussed, on the investment banking side, the fixed-income business performed very well this quarter. This was driven by an opportunity that arose on June 7, when the government made G-sec interest income and capital gains tax-free, including removing withholding tax. That created additional market-led opportunities in the fixed-income market, and we capitalized on them. Some portion of that may have been a one-time item in the current quarter, amounting to about 15-20 crores.

Management: Some part of this revenue may not repeat in Q2 and thereafter. Having said that, fixed income is genuinely doing a good job for us in terms of year-on-year growth, expanding into new client segments, and creating new revenue sources. I think it is a steady business that is doing well for us.

On the cost side, you will see that Q1 costs increased by 19%. Within that, employee costs increased by 17% and opex increased by 24%. Coming to the 17% increase in employee costs, we added almost 5% net capacity, or net people, over the last year. We also replaced low-cost wealth RMs with more senior and experienced RMs. That is reflected in the numbers. In addition, there were annual increments and variable costs linked to the business. The data book captures the increase in fixed and variable costs compared with the previous year and the previous quarter, so it can provide further insight into this.

Opex increased by 24%, but compared with Q4 it was down by 4%. There are some seasonal expenses that come in this quarter, particularly marketing and business-promotion expenses, which amount to around 10-12 crores. If I remove those expenses, opex would have grown by around 14-15%, which is what we have consistently indicated. Our opex-to-revenue ratio has been steady at around 14-15%, so to that extent, we are comfortable.

For the overall full year, I would expect opex to remain in the range of 15-16%. Two-thirds will go toward typical business-related and inflation-related expenses, and one-third will be toward new initiatives.

There is one more update on the opex side that I would like to highlight. We are looking for a new office because our current lease is coming up for renewal. As you know, under Ind AS 116, when lease accounting is applied, there is always some charge that comes upfront, and as the lease matures, it starts decreasing. As of now, we have not completely finalized anything, but we will keep investors updated on this development and provide further details during our quarterly results. This cost will be over and above what I have mentioned in terms of the usual opex growth for the firm. This cost will therefore be incurred.

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Having said that, on a consolidated basis, our cost-income ratio is around 55%, and perhaps for the full year it will remain around this level.

From a cost perspective, 3 things will play a role. The first is operating leverage, which is coming in Wealth and Private. You would have noticed that the Wealth cost-income ratio has dropped by 160 basis points. To that extent, these 2 businesses will start providing operating leverage.

Asset management, as Ashish also said, is in the process of reaching a peak in terms of costs for this year. Subsequent to that, costs will start coming down as a percentage of income.

The third is Capital Markets. Within that, Asset Services is fairly stable. Within Capital Markets, when you look at IE and IB, and within IB mainly the ECM component, these 2 businesses are very much linked to market activity. Therefore, on a quarter-on-quarter basis, you may see the cost-income ratio move up and down. Having said that, on a full-year basis, we still believe it could be close to 55%. One quarter may be 1% higher and another quarter may be 1% lower. We are comfortable with that.

Finally, if you look at our operating PAT, it is 306 crores, representing 16% year-on-year growth, and our ROE is still close to 30%, which is a good number to have. That is where we are. Considering the time, I will request the moderator to begin the Q&A.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use their handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We take the first question from the line of Prajesh Jain from Motilal Oswal Financial Services Limited. Please go ahead.

Prajesh Jain – Motilal Oswal Financial Services Limited: Hi, everyone. Congratulations on a good set of numbers. Firstly, on the Private side, the cost-income ratio is at 70%. We have been discussing that the overall Wealth cost-income ratio should tend toward 60-62% in the near to medium term. When and how do you see this progressing, particularly on the Private side? Wealth is definitely progressing toward that mark, but on the Private side it is still elevated. Also, what level of RM addition are you looking for from here?

Management: Prajesh, Q1 should not form the basis for this assessment. If you look at Q1 FY23, it was 69%, and in Q1 FY27 it is 70%, but overall profit growth delivered is about 22%. We also load the variable incentive in line with the revenue growth that takes place. On a full-year basis, last year was around 66%, and I think we should be lower than that this year.

Regarding RM additions, our desire is always to keep adding 15-16% every year, provided the market allows us to do so at costs that do not upset the overall business. Over the last 12 months, we have added about 11%, or 15 RMs on a net basis, and even in Q1 we added around 6. I think that will continue. It will not stop. As you rightly said, the target of 60-62% over the medium term also remains in place over the next 3 years.

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Prajesh Jain – Motilal Oswal Financial Services Limited: Understood. On the Wealth side, retention seems to have fallen from about 90 bps to 85 bps. What was the reason for that?

Management: Typically, between Q4 and Q1, one major phenomenon in that business is insurance. Insurance numbers are normally higher in Q4, so with a lower denominator you get higher income, resulting in an increase of a few basis points. Second, in that business we report the total yield. When the equity market has high positive mark-to-market but overall brokerage revenue does not increase in tandem, there is a downward movement in yield. Conversely, if there is a decline in the Nifty and the broader market but brokerage does not fall as much, there is an increase in yield. You will have to keep this adjustment in mind in line with the mark-to-market movement.

Prajesh Jain – Motilal Oswal Financial Services Limited: Understood. On the AMC side, yields have increased significantly, particularly if I look at your yield in the private-markets segment. What has changed for yields to increase so much?

Management: Prajesh, last year, after Q1—in either the end of Q1 or Q2, I do not remember—we mentioned on the call that we would pause the fees we were charging on our venture-debt fund. There had been a change in market conditions, yields in the market had fallen significantly, and the riskiness of the deals had increased significantly, so we had slowed the pace of deployment. We said that, in order not to disadvantage investors in the fund, we would forego our fees and start charging them again the following year. We did not charge fees for 3 quarters, and in Q1 we restarted charging them. That is the only difference. Nothing else.

Prajesh Jain – Motilal Oswal Financial Services Limited: So this should sustain now?

Management: Yes, for 3 years, unless we stop again. This will sustain.

Prajesh Jain – Motilal Oswal Financial Services Limited: On the Capital Markets side, regarding Asset Services, you mentioned that there should be some moderation and that full-year growth should be 20-25%. In that sense, would it be more driven by yields rather than flows? Is that the right way to think about it, and how should we think about it?

Management: Yes, that is right. Flows will continue, while the yield will adjust because some collateral may shift from cash to G-sec.

Prajesh Jain – Motilal Oswal Financial Services Limited: One last point here: the cost-income ratio has not declined in the segment. Considering the revenue growth, it was 40% in the previous quarter and is now 39%. Is IE or IB putting pressure on it? Otherwise, we would have expected a more significant improvement. What should we expect for the full-year cost-income ratio in this segment?

Management: It will remain in a similar range because we have also provided for variable costs in line with revenue growth. Investment banking, at least on the ECM side, and to some extent IE, have been under pressure. As that recovers, there will be an improvement. However, on a full-year basis, we expect it to remain in the range of 36-40%.

Prajesh Jain – Motilal Oswal Financial Services Limited: Understood. Thank you, and all the best.

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Operator: Thank you. We take the next question from the line of Depane from Goldman Sachs. Please go ahead.

Management: Please change your name.

Dipanjan – Goldman Sachs: I think they changed my name. Yes, Dipanjan. I will go ahead with the questions. First, in terms of Nuvama Private MPIS and Nuvama Wealth, regarding managed accounts and the MPIS component in both businesses, I wanted to get some colour on the asset mix and the underlying product mix in these 2 segments, and how that may have changed during the current geopolitical crisis, if there has been any change. If possible, please provide some colour on that.

Second, in the domestic asset-servicing business, I think you mentioned that you will be going live with the RTA and trusteeship business, which should help you gain market share. From a medium- to long-term perspective, in your IB and IE businesses, you may also be sourcing from domestic mutual funds. Are there any plans in the foreseeable future to enter that large MF segment in terms of cross-sell opportunities through your RTA?

The third question is how one should think about ESOP costs and dilution over the next 2-3 years. Those are my 3 questions.

Management: On the asset mix, I do not think 1 or 2 quarters have changed it significantly. Broadly, for us, in the managed-account, managed-products, and ARR segments, 30-35% would be equity and 65% would be non-equity. It is not only fixed income; it includes fixed income plus alternatives such as credit, real estate, and infrastructure. These are products that could deliver client returns ranging from 7-8% up to 18-20%, while remaining uncorrelated with equity-market performance.

People typically refer to this as fixed income, but it is not necessarily fixed income; it is yield, and the range is very wide depending on the product chosen by the client. We are now starting to see some return to equities. Once there is some adjustment in the AI trade globally and some good discussion around India continues, perhaps the proportion of equity may increase over the next 2 quarters.

Regarding the RTA and trustee businesses, both will be targeted toward our current client segments, which are PMS and AIF. At present, we have not firmly decided to target mutual funds because banks continue to have a better right to win. You need some form of balance sheet if you need intraday financing to manage redemption flows, and we would not be superior in that respect.

However, for products such as arbitrage funds or FIS products involving derivatives, or categories where the use of derivatives and collateral efficiency are more important for an AMC to improve return delivery to clients, we have a role to play. In vanilla categories such as long-only fixed income and equities, where intraday financing is important, we are not the preferred choice. I think it will remain that way.

On ESOP costs, this has currently gone to shareholders for approval. It is not actually an ESOP; it is Stock Appreciation Rights, or SARs. I will explain the difference because it has a significant impact on dilution. Most companies in India use ESOPs, which means that if you grant 1,000 units and

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people exercise 1,000 units, there is dilution of 1,000 units. With SARs, if you grant 1,000 units, what finally the—look at it, 10% incorporated, we will add it, but it is broadly in the similar range as AUM right now.

Dipanjan – Goldman Sachs: Understood. Thank you, sir, and all the best.

Operator: Thank you. We take the next question from the line of Madhukar from JP Morgan. Please go ahead.

Madhukar – JP Morgan: Hi, Ashish and Bharat. Thank you for taking my question. You spoke about the external optionalities and the business you want to create on that side. In particular, you spoke about the GIFT City opportunity and, second, making the margin line that you have on the Asset Services side available for other exchanges.

Specifically on the second option, can you elaborate on what stage you are at in this thinking process? Can this actually be done given certain restrictions on commodity exchanges? Where do we stand on this? Also, how large can the opportunity be in the GIFT City derivatives-trading business? I would like any guidance and additional colour on this. Thank you.

Management: Madhukar, more clarity will evolve over the next 2-3 quarters, at least on GIFT City. As you know, it is premature at this stage because the tax and cost structure in India have created this opportunity: there is no STT in GIFT City, whereas there is STT on the domestic exchange. However, for any derivatives market to thrive, there has to be volume.

Currently, volume is restricted to index products and does not include single-stock products. However, large global participants have approached us because they want to operate. They run swap books globally, and those swap books can be hedged by trading among themselves as well. I think that is how it will start. At present, they want to work on a minimum-commitment basis. That is how it starts, and then we will see how the build-out develops. It is premature to discuss how volumes will evolve because we will have to see how it progresses.

Commodities, on the other hand, are moving faster. Whatever FPIs are allowed to do, some of our clients have already started doing. We may come back with specific numbers in the next quarter, but as a rough assessment, we believe it can become at least 15-20% of the equity-market size for our relevant client segment, based on how it is evolving.

The third opportunity I mentioned, which can become very large, is the global custodian-local custodian tie-up. Right now, we are precluded from targeting the client segment where global long-only funds are investing in India. We are working closely with 2-3 large global custodians that have access to global long-only funds but lose their India mandates because they do not have a local presence. We want to fill that gap so that they can pitch using our services and we can gain access to a new client segment.

Madhukar – JP Morgan: Understood, sir. Thank you, and all the best.

Operator: Thank you. We take the next question from the line of Sanket Godha from Avendus Spark. Please go ahead.

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Sanket Godha – Avendus Spark: Thank you for the opportunity. Ashish, is it fair to say that your Private, or UHNI, business is seeing more and more people choosing advisory over trail-based revenue as a prominent factor? This was already happening, but are you now seeing it happen more significantly? Therefore, if you decide not to pursue business at lower yields, is it fair to say that the heavy lifting for incremental net-flow numbers will be done more by the mid-market or Wealth segment and perhaps the AMC segment? I want to understand at what point you would be comfortable doing advisory business even if yields are lower.

Management: Sanket, when we refer to lower yields, we are talking more about a corporate-treasury-type mandate, not UHNI. In UHNI, we are more than happy to move toward advisory. As I mentioned, we have our Pinnacle proposition and our Infinity proposition. Perhaps in the next 3-4 quarters, you will see the numbers reported separately for advisory.

We are now fundamentally clear that advisory in its current shape and form will start working. On the overall book, the yield may actually increase because, if you look at the combined yield today for any UHNI business, combining the transactional business and the ARR business and taking the full yield, it is not more than 30-35 bps excluding NII. I think that is easily achievable through an advisory business and provides much greater stickiness in the long run.

That progression has started internally in terms of creating the value proposition, building teams, and so on, and the numbers will eventually start flowing. I do not think we are going to stop that because it is a reality that will play out. I am also seeing the regulatory infrastructure change. Today, if we provide advisory services to an accredited investor, we can also offer distribution services to them. Earlier, that was not the case. Clients were losing out and advisors were losing out. Now the package is becoming much stronger.

Therefore, you should not interpret the statement about removing low-cost advisory in that direction. This refers more to legacy accounts, typical corporate treasury, and similar mandates, which we may want to shift into a transactional-business category. For UHNI, we will progress toward advisory.

Sanket Godha – Avendus Spark: Ashish, is it fair to say that last year you were at almost 90 bps on Private, while in the reported quarter you were at 82 bps, on ARR? Since advisory is increasing, will this number continue to trend slightly downward, assuming you do not get commensurate NII business?

Management: Not really. In the next 2 quarters, you will see the range return. I have always maintained, Sanket, that between 80-90 bps at this point is what we are able to achieve. It depends on the product mix of ARR and what gets done, or on the proportion of Category 2 AIF, Category 3 AIF, MF, and PMS products in a particular quarter. For example, if we have a blockbuster Category 2 AIF product in a particular quarter, the yield could cross 1%.

I do not think the impact of advisory will play out immediately. Perhaps we may see it next year. However, the flows will become much larger once that happens. As you rightly said, NII remains a tool available to us.

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Sanket Godha – Avendus Spark: If you can give us a colour on the 58,500 crores of closing AUM in ARR, how much is currently advisory and how much is on trail?

Management: 13,000. 13.

Sanket Godha – Avendus Spark: 13,000. Understood. My second question is about the SEBI consultation paper on PMS-MF. Do you think this is a material opportunity for us in the mid-market or UHNI segment? I do not know whether the 2.5% fee that can be charged will hold up, but do you have any initial thoughts on this space?

Management: Not on the PMS-MF component, because the limit has actually changed from 50 to 25, and we already had a product in our setup at 50, which was a direct-plan PMS-MF product. However, I think the other measures they have mentioned could have a greater impact on both our businesses.

One is allowing listed securities to be incorporated, which brings PMS on par with MF and AIF. The other is allowing overseas investments as part of PMS. I think that will be helpful because it will allow us to provide some global diversification in portfolios when clients provide discretionary mandates on the wealth-management side.

I think these 2 measures will have a better impact than the MF-only measure. MF-only was already available and was being used. I think this is intended to enable other players that need a higher amount of capital and similar resources to have a light-touch vehicle, rather than established wealth managers.

Sanket Godha – Avendus Spark: Understood. One more question: a colour on the flows. Last year, we had around 20,000 crores of net flows if I include Private ARR and AMC. Do you want to share any colour on whether you expect that number to be around 27, and if you can split it among the 3 segments you mentioned, that would be useful.

Management: Broadly, Sanket, these are obviously indicative numbers, but the way we see it is that between Wealth and Private, both together, we are looking at 10,000-12,000 crores, giving a range of 20,000-24,000 crores, and for AMC we are seeing anywhere between 3,500-5,500 crores.

Sanket Godha – Avendus Spark: Understood. Lastly, on the IEIB business, it was largely driven by IE in the current quarter. Therefore, next year, if the IPO or ECM market becomes very active, should IB support incremental growth in subsequent quarters?

Management: The first quarter was a combination of Institutional Equities and the fixed-income component of Investment Banking. The fixed-income component of Investment Banking performed exceptionally well. If there is some moderation in that, it will be more than offset by the ramp-up in ECM. I think ECM, as you said, will show better growth from our current level once the market opens up, because fixed income has established a strong base and IE continues to perform well. ECM was very weak in Q1.

Sanket Godha – Avendus Spark: Understood. So, essentially, an 180-odd-crore run rate is a more manageable number for the next 4 quarters, or 3 quarters?

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Management: Yes.

Sanket Godha – Avendus Spark: Thank you. That is all from my side.

Operator: Thank you. We take the next question, but before that, ladies and gentlemen, if you wish to ask a question, please press star and one. The next question comes from the line of Lalit Mohan Deo from Equirus Securities. Please go ahead.

Lalit Mohan Deo – Equirus Securities: Hi, Ashish and Bharat.

Management: Lalit, we cannot hear you. Lalit, we cannot hear you at all.

Lalit Mohan Deo – Equirus Securities: Is this better?

Management: Yes.

Lalit Mohan Deo – Equirus Securities: I have one question on the lending book. We have seen good growth on a sequential basis. When we calculate the margins, I understand this is based on period-end numbers, but in terms of margins we are currently at around 3.7-3.8% on a period-end basis. What would be the steady-state margin in our lending book, and going forward, how should we view the overall lending book, both in Private and Wealth?

Management: It should be about 30-40 bps higher than this. As I have mentioned in a few calls, our cost of debt moves up and down somewhat because of the hedging gains and losses on our MLD book. Around 25% of our overall borrowings are MLD-related, against which we maintain hedges.

On a full-year basis, we are able to save around 50 basis points in cost. In some quarters, you are slightly negative, and in some quarters, you are slightly positive. In Q4 of last year and Q1 of last year, we saved about 60-70 basis points, while in Q2 and Q3 we were slightly negative. This year's Q1 is similar to Q2 and Q3. On a blended basis, if you are asking me about the current level, you can add 40-50 basis points from here.

Lalit Mohan Deo – Equirus Securities: Thank you, sir. That is all.

Operator: Thank you. We take the next question from the line of Sandhya from Unicorn Assets. Please go ahead.

Sandhya – Unicorn Assets: Hi, Sandhya here. Ashish, your opening remarks provided fairly good colour on the technology capabilities driving the sector right now. I would like to hear more about how you see the Wealth segment, particularly as the largest retail-focused broker and other brokers that are platform- or technology-driven focus more on mid- to lower-ticket-size clients in wealth management, in a holistic sense, primarily driven by their technological benefits.

How do we see ourselves positioned in that context? I think Nuvama is also in the same category. Are we competing, or are we looking to—

Management: There is actually a category difference in the customers we serve and continue to serve, and each of these segments is very large. Segments that can be largely managed by technology as the end-delivery channel to a customer—

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Management: The customer has to enable execution using very simple products. It cannot be complex. It cannot include multiple categories such as unlisted investments, offshore investments, AIFs, and PMS.

It is very easy to say that I will enable all execution online, but for a customer to consume that much information and act on it is virtually impossible. Therefore, there have to be simple products. This means that the ticket size or disposable net worth of the customer has to be significantly smaller so that they do not go beyond that level.

We are talking about customers with 25 lakh, 50 lakh, 1 crore, or 2 crores, where the investable surplus is in that range. Perhaps technology can perform end-to-end execution for them over the next 5 years because product complexity can be reduced to only MF or MF plus, at most, 1 additional category.

Beyond that, it becomes difficult. Globally, we have not seen this. It is not that technology cannot do it, so do not misunderstand me. Technology can do everything, and if that happens, we will also offer it. The customer is not in a position to consume that much and use that service through technology. That is the stage and that is the position, and I do not think it is going to change. People with 10, 15, or 20 crores will have needs that become significantly more complex, and human interface in advisory will continue to remain important.

Sandhya – Unicorn Assets: You were highlighting that we are trying to reach and penetrate deeper, reaching clients who were not easily accessible earlier. Could you provide more colour on that?

Management: We are going beyond Tier 1, but we are not changing the segment in which we operate. We are not changing the geographical distribution or the affluence distribution. We are not diluting the affluence distribution. We are not saying that we are going retail, nor are we saying that we are moving down the value curve right now, because the segments in which we operate are large enough and are expanding fairly well.

It is not as though we have a dominant market share there, so there is a lot of opportunity available. There are segments below us that are also large enough, and different types of players are suited to capture them. I think it will be difficult for players to cross over into each other's segments. The DNA, customer set, product set, and everything else are very different.

Sandhya – Unicorn Assets: Do we think there is enough density beyond Tier 1 for us to operate profitably on a large scale? Obviously, it would be lower initially, but do we eventually think we can achieve that?

Management: Yes, absolutely. That setup has worked for us. We are now directly present in 65-70 cities, and through our external wealth-manager model we are present in about 400-450 pincodes. I do not think that is a challenge for us anymore.

Sandhya – Unicorn Assets: Are we setting up physical offices there, or how—

Management: Not everywhere, but we now have physical offices in the top 70-80 locations. We are actively hiring Relationship Managers in those locations.

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Management: Yes.

Sandhya – Unicorn Assets: That explains it. On the private-wealth business, is there anything to read apart from the Q4 versus Q1 differences in revenue?

Management: I do not think quarterly numbers should be looked at in isolation. You should look at the full year, and if you have to look at a quarter, you should compare it with the relevant quarter of the previous year. There is not much else to read into it. There has been no structural change in the market, margins, product-level margins, or customer behaviour.

Sandhya – Unicorn Assets: On the commodity trading we were discussing, another participant also asked where the revenues from that business would be recorded. Would they largely be in Asset Services and Capital Markets?

Management: Both. If there are customers on the Wealth Management side who trade commodities, that would sit in Wealth and Private, but that is a smaller component. When I was discussing it earlier, I was referring primarily to the Asset Services business and our international clients.

They are beginning to undertake systematic quantitative trading in commodities in addition to what they do in equity derivatives, and that opportunity is opening up. The key point is that collateral that currently sits unused on, for example, Monday, Wednesday, and Friday, begins to be used if they add commodities.

For them, the return on capital is currently zero. Anything they earn is therefore superior. This improves the possibility of more capital flowing into the country and also mitigates some of the negative impact that could occur on the derivatives side.

Sandhya – Unicorn Assets: Does it now have a stronger linkage with NSE also launching different commodities?

Management: Yes, it does. It actually helps.

Sandhya – Unicorn Assets: It especially helps through GIFT City and access to NSE as well.

Management: Yes, it does help.

Sandhya – Unicorn Assets: Great. That makes sense. It was a good quarter. All the best for the next one.

Management: Thank you.

Operator: We take the next question from the line of Siddharth Nigandi from PwC. Please go ahead.

Siddharth Nigandi – PwC: Congratulations on a good quarter. I have 2 questions. First, a clarification on whether I understood this correctly: you mentioned that ARR yields net of lending would be very similar to the 35-odd bps on advisory.

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Management: No. What I said was that if you take total revenue in Private, which includes transactional revenue plus ARR, divide it by total AUM, and take the full yield without removing lending, then the advisory yield is actually similar.

What people currently do is bifurcate the business: they do not calculate yield on the transactional component, and ARR is the only component on which they calculate yield. However, when you provide advisory services, there is no separate transactional component. For that client, everything you earn is earned on the full asset. Therefore, it is currently being bifurcated into 2 streams. If implemented well, advisory can ultimately become more rewarding for a wealth manager.

Siddharth Nigandi – PwC: Understood. The second question is that, given the strong growth on the transactional side in Q1, do you see any one-off elements that, like the fixed-income income you mentioned, may not come through in subsequent quarters?

Management: No. Actually, even in fixed income, I am not saying it is a one-off. It is a heightened level of activity, and you may see a compression of some 10-15 crores in the coming quarters.

In Private, as I have mentioned, about 70-80% of our transactional income is business-as-usual. This includes equity broking, fixed income, and MLDs. About 20% is from opportunistic trades, which can include unlisted shares, credit deals, and secondary deals in AIFs.

Therefore, the only variable component is 20%. At some times, in some quarters, you may get more attractive opportunities, so it will be higher. In some quarters, it will be lower. However, on a full-year basis, if we ended last year at around 300-305 crores, this year we should be anywhere between 350-360 crores.

Siddharth Nigandi – PwC: Understood. I assume that some of the additional increase we have seen this time is coming from that 20-30% component, which is somewhat more variable.

Management: Yes.

Siddharth Nigandi – PwC: Understood. Thank you, and all the best.

Management: Thank you.

Operator: We take the next question from the line of Shrenik Mehta from Indo-Alp Wealth. Please go ahead. Shrenik, please unmute your line and proceed with your question.

Shrenik Mehta – Indo-Alp Wealth: Can you hear me?

Management: Yes.

Shrenik Mehta – Indo-Alp Wealth: Good morning. I wanted to ask about Asset Services and Capital Markets. These have been combined into a single 269-crore PBT. Within that 269-crore PBT, what was the Capital Markets PBT in Q1 compared with Q1 FY24?

Management: We do not share that.

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Shrenik Mehta – Indo-Alp Wealth: What is the absolute decline you are seeing in Capital Markets, if you can share that? Your fixed income has grown 2 times—

Management: In Capital Markets, listed equity and ECM fees between Q4 and Q1 were nearly flat to marginally positive.

Shrenik Mehta – Indo-Alp Wealth: Was there also positive growth in Institutional Equities and IB?

Management: Marginally, yes.

Shrenik Mehta – Indo-Alp Wealth: Understood.

Management: Fixed income was stronger; this was marginal.

Shrenik Mehta – Indo-Alp Wealth: Thank you for this. All the best for the coming quarter.

Management: Thank you.

Operator: We take the next question from the line of Abhijit from Kotak Securities. Please go ahead.

Abhijit – Kotak Securities: Thank you. Good morning. Ashish, I had a broad question. Considering the scale of your offerings, where would you place yourself in terms of your ability to capture the range of things that a client wants and the range of things that an issuer wants? Essentially, what is your wallet share on the client side as well as on the corporate side, considering the range of things you are able to offer today?

Management: On the client side, wallet share is a different question, but in terms of solution capability, I think it is 100%. Regarding wallet share, as I have always maintained, particularly in the ultra-high-net-worth segment, clients prefer to have at least 2 core advisors. They also have a long tail of other players from whom they may want a single product. In that context, the order of magnitude of our share could be around 40-50%. However, from a solution-capability perspective, it is 100%.

On the issuer side, from a solution perspective in terms of capital raising, if we restrict ourselves to debt and equity, we possibly have all the solutions today. We do not have offshore fundraising capability. If somebody wants to raise a bond overseas or something similar, we may have an offering, but I do not think we are their preferred partner for that. For domestic debt-capital markets or equity markets, our solution offering is currently 100%.

Abhijit – Kotak Securities: Understood. One more question on the Wealth business, following up on your comments about advisory: in your experience, what is the approximate threshold above which you do not mind offering advisory services, and below which it still does not make financial sense?

Management: I think it is more important from the client's perspective, Abhijit, because what we do should be aligned with what is right for the client. For any client below perhaps 100-200 crores, it does not really make sense for them to opt for advisory. Anyone above 500 crores is a clear case; there is no doubt in my mind that they should move toward advisory because it gives them reasonable access.

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However, many of them do not want to. The issue is that many of them want to continue with this combination relationship because they want access to mutual funds completely free of cost, they want access to deals, and they do not really want to shift. I think it will never be a utopian world in which all large clients are using advisory. Nor will it be a world in which everyone uses a combination of transaction and distribution. This has not happened globally in any country, so it will be a mix.

Directionally, as people's or clients' preferences shift toward giving up control, perhaps with the second or third generation, the adoption of advisory will increase.

Abhijit – Kotak Securities: Understood. One last question regarding talent capability on the advisory side: are there any gaps in terms of experience level or geography? For example, do you want to scale up in the North or South, or are there any other points you can highlight?

Management: Advisory is slightly easier to deliver in that sense because, from a practical perspective, there are 2 aspects. One is the revenue model, and the second is customer delivery. Typically, everyone ends up confusing the two. Whether you are operating a transaction-plus-distribution model—

Management: Even in distribution, customer engagement is still advisory. No relationship manager goes to a customer with a list and says, “Choose a product.” The core job of every relationship manager is to understand the customer, understand their overall asset allocation, and understand how the relevant product will fit within that asset allocation and what portfolio size that product should have. All of that still happens. The difference is in how you earn revenue.

In that sense, a transaction-cum-distribution model is fairly difficult to execute because every advisor and every relationship manager is an advisor in their own right while handling the client. The moment you shift a portfolio into an advisory model, there is a central team that provides an overlay. Advice, recommendations, and the actions to be taken can then be developed jointly by the relationship manager and the central team. In my view, it is easier to develop at scale than a transaction-cum-distribution model.

Abhijit – Kotak Securities: Understood. That is very helpful. Thank you so much.

Operator: Thank you. Ladies and gentlemen, we will take that as the last question and conclude the question-and-answer session. I now hand the conference over to the management for their closing comments.

Management: Thank you once again for being here. We look forward to meeting you again at the end of Q2.

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

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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