Nuvama Wealth bets on a prosperous India. But at P/BV of 3.5x, are valuations justified?

By Alekh Angre & Pravin Palande Oct 3, 2023, 11:21 AM IST

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Synopsis

Nuvama Wealth's growth potential is tied up with the overall growth in India's wealth. As the country's GDP increases, wealth management will be in huge demand. While the business has high potential, it is available at high valuations. But those keeping an eye on the per-capita GDP simply can't ignore the sector.

On September 26, **Nuvama Wealth Management** debuted on the BSE at INR2,699 apiece and settled the day 5% lower. Previously known as **Edelweiss Securities**, the company was renamed after private equity firm PAG bought a 56% stake in 2020 after it was announced that the company would be demerged and listed separately on the exchange. The company is in the business of **wealth advisory** where the bulk of its revenues are through fees and commission income.

On September 29, Nuvama Wealth shares ended at INR2,424.85 on the BSE.

After Anand Rathi Wealth and 360 One WAM, Nuvama became the third **wealth management** company to list on the Indian bourses.

For the year ended March 31, 2023, the company's total revenue stands at INR2,214 crore amid a net profit of INR305 crore. The market leader, 360 One WAM (earlier known as IIFL Wealth), has total revenues of INR2,064 crore and net profit of INR658 crore — double the profit of Nuvama's — and a market capitalisation of INR18,000 crore at a price/book value of 6x.

On the other hand, Nuvama's market cap stands at INR8,000 crore and is being traded at a price/book value of 3.5x, at the levels of ICICI Bank and HDFC Bank.

So why is the business getting such high valuations?

Celebrating India
Over the last decade, many Indians have created huge amounts of wealth. This is through ESOPs (employee stock options), startups and, more importantly, due to high salaries and bonuses. Then there are SME or small businesses that have grown at a very fast rate and generated wealth for their founders.

The growth is now coming more from the tier-III or even smaller cities in India.

"Over the last five to six years, we have seen that more wealth is getting created in smaller cities. In fact, today much of our business is coming from these small cities. Our ratio of urban-to-non-urban business is now at 48:52 and I see this trend only improving," says Ashish Kehair, managing director and CEO, Nuvama Wealth.

He feels Nuvama Wealth's growth potential is tied up with the overall growth in Indians' wealth. As the country's GDP grows, wealth management will be in huge demand. The big opportunity lies in the fact that Indian wealth management is yet to be formalised with much of the advice still coming from friends and families. There is low share of financial assets in overall wealth and there are huge opportunities for the New Age worker to make serious wealth on the backdrop of tech and innovation, which is growing at a fast pace.

However, more money also brings in more problems, especially in a complex world where diversification is the key and instant gratification just drives people to the flavour of the month.

Again, most people who are retiring do not have the cushion of a pension as compared to their parents who retired from government jobs. They will have to start planning their retirement as early as in their 30s.

In an Economist magazine podcast, Marcus Habbel, partner, Bain and Company, gave some numbers about how the wealth management business is growing globally. He expects 50 million new customers entering the segment in the next 10 years. He feels that the demand for advice for financial markets was never so high and it has to do with volatility and politics.

“It is becoming the most attractive business for banks as it is a capital-light model and whenever the wealth management business of a bank starts to grow the valuation of the bank goes up. There is a clear link between wealth management business and getting high multiples in capital markets,” Habbel said in the Money Talk podcasts.

But here is the thing with the business. It is clearly a winner-takes-it-all kind and the top two or three companies will manage the entire market.

Small is big

In India, banks are the big competitors for pure-play wealth management companies. However, wealth management companies understand that the business is about building personal relationships rather than offer commodity solutions. They feel they can easily compete with large banks, which may not be able to provide personalised services. In fact, if the business is growing outside the top-tier cities, Kehair feels they are in a far better position than most private banks. He is already telling his employees to relocate to their hometowns if they are coming from smaller cities.

But he is also nervous.

Minutes before the listing, Kehair made a light-hearted remark. “I am terribly nervous and scared on what is going to happen in sometime. We are only humans,” he said while speaking at the BSE’s iconic international convention hall.

These days Kehair often gets asked as to how his life will change after listing. “Everybody knows that it is not easy. You are subjected to public scrutiny and questions. But I deeply contemplated what will not change. On that, I have complete clarity. Our values will not change. Our obsession around our customers, our long-term vision will not change. And us being sticklers for efficiency will not change.”

Nuvama Wealth Management: Key metrics

Net worth as of Q1 FY24 (INR crore)	2349
Client asset growth(CAGR 3 years)	17%
Net revenue growth (CAGR 3 years)	26%
Operating PAT growth (CAGR 3 years)	36%
Client assets as of Q1 FY24	Around INR 2.5 trillion
Total revenue for FY23 (INR crore)	2230.39
Net profit for FY23 (INR crore)	305
Market capitalisation (INR crore)	8189
P/Bv	5.15x

Source: BSE Filings, Nuvama Wealth

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He adds that Nuvama is well poised to ride the growth wave by playing across the value chain.

"I think the most basic way in which I look at the industry is the summation of financial savings, which today stands at INR300 lakh crore. It has taken 75 years to reach there but bulk of it came in the past 20-25 years. What got created in the last 25 years, 4x of that is going to be happen in the next 12 years by the sheer growth of GDP and increase in financial savings. Penetration is going to double from where we stand. So, you are actually looking at 8x increase in the overall sector growth," he says.

He feels in the long run, sustainable value creation is only done by a company that can balance all four stakeholders — customers, employees, shareholders, and regulators.

Industry trends

In a recent report, Motilal Oswal Financial Services said that the wealth management business in India is well poised to register a healthy CAGR of 12%-15% over the next five years and all segments — ultra-high net worth individuals, HNI, mass affluent, and retail — offer significant growth opportunities.

With an eye on growing opportunities, wealth management firms have also adapted to changing landscape and departed from the earlier model of selling investment products and earning revenue from commissions. They now focus on advisory-based approach.

“It was necessary to transition from a product-oriented strategy and adopt a solution-oriented approach due to the increasing demand for personalised services. Only a scalable wealth management player with "full platform" capabilities would be able to provide this holistic solution. This led to a shift in market from banks to specialised wealth and asset management firms,” Motilal Oswal Financial’s report said.

In FY20, 360 One WAM transitioned its business model from being transaction-driven to a more sustainable annuity distribution-commission model. The goal was to offer unbiased client solutions that were not contingent upon direct commercial benefits, BOB Capital said in a report dated August 8.

“Although financials initially took a hit, the new annual recurring revenue (ARR) model has been steadily gaining traction. Recurring revenue grew 15% YoY to INR1,050 crore in FY23 (25% CAGR over FY20-FY23) and recurring AUM increased 16% YoY to INR1.7 trillion (39% CAGR). At FY23-end, 61% of the company’s AUM and 67% of revenue was based on ARR, which management expects will grow further,” the brokerage firm added.

Clearly, the business has high potential but is available at high valuations. But anybody who wants to bet on the per-capita GDP and its growth potential in the top percentile of Indians, then this is one sector that cannot be ignored.

(*Graphic by Sadhana Saxena*)
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