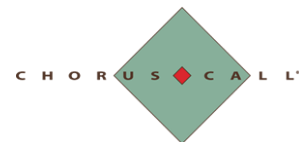




“Nuvama Wealth Management Limited
Q1 FY27 Earnings Conference Call”
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**MANAGEMENT: MR. ASHISH KEHAIR – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER – NUVAMA WEALTH
MANAGEMENT LIMITED
MR. BHARAT KALSI – GROUP CHIEF FINANCIAL
OFFICER – NUVAMA WEALTH MANAGEMENT LIMITED
SGA, INVESTOR RELATIONS ADVISOR – NUVAMA
WEALTH MANAGEMENT LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Nuvama Wealth Management Limited Q1 FY27 Earnings Conference Call. As a reminder, all participant lines will remain 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 the operator by pressing star, then zero on your touch-tone telephone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Ashish Kehair, MD and CEO, for opening remarks. Thank you, and over to you, sir.

Ashish Kehair: Thank you. Good afternoon, everyone, and a very warm welcome to all of you for joining us today. As always, it's a pleasure to connect with you all. Joining me today on the call is Bharat, our Group CFO, along with our Investor Relations Advisor, SGA.

We'll begin with a brief overview of our performance for the quarter. Once I and Bharat are done, we can quickly jump to take your questions. Just a quick summary. I think it was a strong beginning for us this year, delivering record quarterly profits and healthy all-around performance across all our businesses. This was also reflected in a significant milestone for us this quarter.

Client assets crossed INR5 lakh crores. Our quarterly revenues crossed INR900 crores, and our quarterly PAT crossed INR300 crores, an all-time high for us. ROE still stands near 30% and remains to be one of the best in the industry.

Before I discuss business performance, let me just share some quick observations on how the industry is evolving and how we see the opportunity ahead. I think I've said some of these before, so I'll be brief. Some of you may find it repetitive, but I think, nevertheless, it merits a discussion.

Firstly, I think the value of full platform models is becoming increasingly evident. Across the industry, you'll witness that if someone is a standalone wealth manager or asset manager, they are trying to build capital market capabilities, while the traditional capital market broking and investment banking firms are clearly seeking to strengthen their wealth franchise.

So I think that convergence is clearly visible across the market now, which we've been talking about for 5-6 years, but this is inevitable. This 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's banks bringing focus back or private equity funded players, a lot of action you are seeing in this segment.

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

And lastly, I think it merits to say that technology and more so generative AI is playing a very, very transformative role. I don't know how it is going to evolve in the next 4-5 years. But I think it is definitely going to bring in lots of efficiency for everybody. Some may be slightly ahead in the curve, like it happens in any technology innovation.

Initially, it is always non-mainstream, a few people do it. And in 2-3 years, it becomes mainstream. It becomes par for course, it becomes hygiene, most of the players have it. So I don't think people need to panic about it. We are investing around it. We are investing heavily. And I think it will benefit most of the industry because it will bring efficiency in every part of the value chain, which we deal with.

With that context, let me now quickly share a few highlights across our businesses, starting with Nuvama Wealth. I think we took a call long back that putting the power of choice in the hands of the client is a central differentiator to 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 to investment solutions across the board. It's not narrow; it doesn't confine the clients to choose from only 1 or 2 categories. It keeps it open because we understand that every client is unique and their needs are unique, and it can be fulfilled through the wide range of solutions available. Revenue from MPIS grew by about 20% year-on-year. Net new money, one of the highest quarters ever. We crossed INR3,000 crores in this.

And overall assets also increased about 32% year-on-year hitting INR42,500 crores. I think one of the interesting observations which we are seeing that Tier 2 and beyond is expanding faster. I think now it has started contributing to more than 35% and growing even in the MPIS segment.

Second, I think the success in this model ultimately is driven by the quality of advice, which gets delivered to the client. And to support this, we continue to invest in our talent ecosystem, which begins by hiring the right cohort, the right seniority.

And as I mentioned last time, we are doing a seniorization of the entire team. We added ~40 more net relationship managers in that cohort this quarter. Third, to continue my discussion on tech. We are deliberate and intentional in investing in technology and AI across the value chain, and this business, I think, will get the most of it.

We've introduced concepts like Nuggets. This is an AI-based chatbot which services, RMs and our external wealth managers. We have something called a RM Buddy, which is a voice-enabled AI assistant for supervisors and RMs to manage their whole life cycle, client book and gives personalized insights to them as to how they can improve their performance. We have a customer profiler, which is now completely AI-based. We have done a POC with about 200 people, and we'll roll out to the full team very soon.

I think all this has led to significant productivity jump across MPIS both revenue and net new money assets, we have seen more than 25% jump per RM year-on-year and overall revenue jump of about 17% per RM year-on-year. And lastly, on lending, we continue to scale the book. We have mentioned a few quarters back that the growth of the book will be in line with the overall

business. The book has now crossed INR5,000 crores, lending book and NII growth was also about 12% Q-on-Q. It remains at about 20-22% of our overall revenues in this business.

Moving on to Nuvama Private. First and foremost, RM addition. I think I mentioned last time that this segment is seeing some intense competition. It's not that it was not there earlier, but I think it's become more heightened now. And I shared my views around it last time. But I keep telling my colleagues that it's a good thing that we keep struggling for RMs because it actually shows the hypothesis that the growth is intact in the industry. And we made a bet long back, and I think it's playing out now.

Against this backdrop, we are happy to state that we've added about 11% of our force in the last 1 year, and we've added about 6 to 8 RMs in the last quarter. I think we offer one of the most comprehensive platforms for seasoned RMs in the industry.

Across the entire solution spectrum, it basically allows them to solve their clients in the best possible way and also give the immense opportunity to create wealth for themselves. During the quarter, we expanded our presence both in Tier 1 and emerging wealth markets, adding people across Mumbai, Chandigarh, Ahmedabad and Chennai.

Moving to recurring revenue assets. We continue to see decent momentum there. Full year basis, the ARR assets grew by about 20% to INR58,000 crores and net new money into managed accounts continue to remain strong at about INR1,800 crores. Overall, ARR flows this quarter was slightly soft on net basis at ~INR1,000 crores because we are in the process of weeding out some extremely low-cost mandates, which were acquired long, long back. These are historical mandates, and we are in the process of cleaning them up. So I think that number is a reflection of post that cleanup.

Our target for the full year still remains at 20-22% of the opening assets. We've launched an offering here for the super ultra HNI called Pinnacle. It's a very, very differentiated offering, bundling multiple things and delivering a lot of value proposition to the client. I think it will help us in garnering more ARR assets here.

Talking a bit about offshore. Our focus over the last 18 months has been to build the platform out. And I think now we are seeing the delivery happen. We have 2 locations, Dubai and Singapore, Dubai, we've already broken even and Singapore will breakeven by the end of this year.

Overall, revenue contribution from offshore will remain between 5% to 7% at least in this year. We are now in the process of ramping up capacity there. It is a highly accretive ROE business because lending in this business doesn't sit on our books, any offshore lending sits in the books of our partners. So basically, there is no capital usage which happens. So once you breakeven, everything is straight addition to return on equity.

I think overall, offshore is becoming an important element, not only to serve clients outside but also to deliver a holistic value proposition for clients in India. Clients in this segment. And even in the HNI segment are, in some sense, becoming globally integrated citizen and allocations are

moving out to global assets, not rapidly, but I think slowly and steadily. And our view is that over a 3-4-year period, you will see maybe around 15-20% allocation sitting in a lot of client portfolios, which are offshore assets. And if you have a presence overseas, your ability to serve them becomes better.

So I don't think offshore any longer is a luxury. It's a necessity, which every wealth manager will have to have. RM productivity here also continues to be strong. We have seen a jump of about 17% to 22% year-on-year.

Moving to asset management, let me start with commercial real estate. We successfully closed our first commercial real estate fund. It's branded as PRIME (PRIME Offices Fund). We closed at around INR4,000 crores. We had initially launched with a target of INR3,000 crores. We've completed deployment of around 40% across 3 to 4 marquee assets between Chennai, Delhi, Pune and we are on the verge of completing a few other transactions.

And the target is to deploy about 70% of the AUM in the next maybe 2-3 months so that by end of Q3, we can launch the second fund, which we want to have around INR4,000 to INR5,000 crores again, slightly different strategy from the current one, but in the same space.

And then eventually, over the next 24 months, we are contemplating of looking at building a REIT platform because many of these assets, which we are acquiring are real marquee assets and there is no point of selling it out completely. We can move into a REIT platform and have a source of permanent capital in this business.

Moving to private equity, in the last call, I had mentioned we have done a change of leadership there. Under the new leadership, our single sole objective remains to complete the deployment of the old funds and start returning money which we are now doing.

From first fund, we've returned about 30% of the capital. Second fund, we've returned about 15% of the capital. And we are in the process of raising our fourth fund, it's branded as Crossover 4. We've done about INR300 crores to INR350 crores. We are targeting anywhere between INR700 crores to INR1,000 crores there.

Moving to private credit. Our CIO hiring was done last quarter. Now the team build-out is happening, I think it may take another 2-2.5 months to have a basic level of team in place. And then again, middle to end of quarter 3, we will see the launch of our first private credit fund.

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

Lastly, coming to public markets. I think there, we've seen some amount of volatility given the performance and also due to the launch of SIF's, which is clearly a more superior tax vehicle. We've 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 getting the SIF license. And once our SIF is launched, hopefully, we will be able to move the assets from this to that. On overall P&L perspective on asset management, many of you have asked me in the past that when do you think it starts making money.

So I wanted to tell you that at a strategy level now, commercial real estate is making money, private equity is also making money and public markets is also making money. But because we are investing into new categories, which has a drag of 1 to 2 years, and we've taken an MF license, which needs a separate sort of team from front to back. I think that part of the investment will get over this year. Right now, our cost run rate is between INR30 crores to INR33 crores a quarter. Our assessment is that it will peak at INR35 crores to INR36 crores a quarter.

And by the end of Q4, we will start seeing the revenue inching up with the launches of new products. So this year, we will end up at a cumulative loss of around INR35 crores to INR40 crores. And subsequent to that, you will see the path to breakeven start.

With that, let me move to our next segment, asset services. Momentum was extremely strong this quarter. There was a significant business growth of around 20% quarter-on-quarter. Average client assets have come back to Q1 level of last year when we had lost a very large client and retention has continued to be strong. Just one word of caution, we have seen extraordinary level of growth here, I think over the coming few quarters, we are not expecting a quarter-on-quarter growth like this.

There will be some amount of moderation as new client acquisition has happened and a lot of collateral is right now sitting in cash, which will get converted between cash and G-Secs. So we may see some level of moderation.

But on a full year basis, we are confident that revenue growth will be more than 20-25% here. We are also investing and building the proposition on this business. You are aware that business is divided into 2 segments, International and Domestic. On the International side, I think some significant initiatives are being planned right now, which will start yielding results.

Specifically, three areas of opportunities have been identified. One, subsequent to this STT coming on futures and all, single-stock futures and GIFT have become a proposition where we are seeing few international players wanting to start activity and are asking us to support them, which we will start.

Commodities is becoming important for clients. And you fundamentally can see right now, the collateral of client is being used on Tuesdays and Thursdays because these are the 2 expiries, if we are able to onboard commodities, then Monday, Wednesday, Friday opens up. So it gives a significant amount of efficiency and improves the return on capital for our clients. So I think that is where we are working on.

And the third area which is also extremely very important for us is trying to work on a global custodian, local custodian arrangement, where we have a strategic partnership with a global custodian who doesn't have a presence in India, and we give them the India leg, which allows us

to access client segments, which, let's say, most of the other global custodians, which have a presence in India can access, which is long only funds and hedge funds.

It's a new segment that opens up product with time. On the domestic side, I think I mentioned in the past and we'll continue to progress on our RTA offering and trustee build-out. I think maybe another quarter or so, and we should roll that out. And that hopefully will lead to a further increase in the market share in that segment.

Lastly, coming to capital markets. I think the equity market environment remained broadly similar to what we witnessed in Q4. Primary market activity was very, very selective. The total number of IPOs, which we saw in Q1 were 8 as compared to 15 in Q4 and maybe 14-15 last year. And even the total amount of fundraise fell by around 60-65%, both against Q4 and last year Q1. But now we are seeing that activity come back.

And there is a lot of pent-up demand. A lot of documents have been filed. So I think the balance 9 months, hopefully, we should see better activity there. On secondary market, the volumes have been steady. I think cash volumes have actually seen an uptick and derivatives have been rather flat.

There is one key monitorable, which basically on the new regulations which have come around derivatives, which is STT and on intraday financing and bank guarantee collateral around these two. We've seen the numbers. We've ran through the numbers. At least we don't feel that there's going to be a very, very significant impact, but we'll closely monitor on that.

In the capital market side, I think one point which we wanted to highlight, which numbers are actually showing, our fixed income activities saw phenomenal activity in this quarter. Most of the jump actually on the investment banking side has come from fixed income.

And there was a significant amount of FPI activity in this quarter initially because they were selling as rupee was depreciating and there was hardening of yields. And towards the end of the quarter, they were buying as government made the capital gains on G-Sec tax-free.

And I think we participated wholeheartedly on both the sides and made significant amount of money. I think there is some amount of, I would say, income which may not be repeatable in the coming quarters, maybe about INR15-INR20 crores, which we benefited in Q1.

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

Bharat Kalsi:

Thank you, Ashish, and good afternoon, everyone, and a warm welcome to all the participants on the call. Ashish anyways covered the headline numbers. Just to repeat a few headline numbers, we started this year on a strong note with a quarterly profit of INR300 crores plus. Just to put this number in perspective, in FY22 full year, we did a profit of around INR292 crores and after 4 years in quarter 1, we have now done a profit of around INR300 crores. And that is also not coming from one or two business lines. It is across the business lines. So I think that says it all in terms of the platform strength and that the multi-business model is working fine for

us. Along with that, CRISIL has also upgraded our rating from AA- to AA stable. So that is also being reflected because of the financial strength.

Now coming back to the Q1 specific numbers. So we have crossed the INR5 lakh crores mark on the client assets and now the client assets stood at around INR5,36,000 crores. Obviously, it is led by the strong net new money as well as the mark-to-market during the quarter.

There's another milestone which we have achieved. So if you look at wealth and private, we always talk about MPIS asset for wealth and ARR assets for private. Both put together has also crossed the INR1 lakh crores mark. Now MPIS asset stands at around INR43,000 crores and ARR assets stands around INR58,000 crores. This is a strong growth of around 32% and 21%, respectively, for both wealth and private.

In terms of the net new money, again, this has been the highest ever quarterly flows for us crossing INR3,000 crores for Nuvama Wealth on the MPIS asset side. And if you look at private ARR, as Ashish was referring to a low earning advisory kind of an AUM which we have actually let it go. Our overall net new money on an ARR has been INR1,800 crores for Q1 for private.

On the asset management side, we closed the PRIME fund at INR4,000 crores. We initially launched it with a INR3,000 crores target, but we ended up doing at INR4,000 crores.

And we have got the SEBI Mutual Fund approval as well as we have applied for our SIF license. So hopefully, starting quarter 3, quarter 4, we'll have a lot more strategies coming up in the market, and that will give that momentum to the asset management business.

Coming to the overall revenue, our revenue was at INR909 crores which is an 18% growth. And within that wealth management grew by 19%, which is almost like 50% of the revenue. Asset services, as we discussed, has seen a very good number in quarter 1 of this year, around a 34% growth over previous year at INR260 crores. But as Ashish also referred to, that this may not continue to grow at this kind of a number going forward. This will moderate to some extent, but that's where we are. It's a base effect.

In terms of the capital market, overall revenue number is flattish versus quarter 1 at around INR180 crores, but this is because the IE revenue has dropped compared to quarter 1 of last year because we had a large Asset Services client which was sitting and helping in that business, which is not there in this year. Despite that, our total number is around INR180 crores. And as we discussed that on the IB side, it is the fixed income business, which has done very good in this quarter.

This was because there was an opportunity, when on 7th of June the government made G-Sec interest income as well as capital gain tax-free and also announced no withholding tax. So that led to a little bit more market led opportunity for the fixed income market, and they obviously capitalized it because this was an opportunity. So maybe some part of this revenue may not repeat in quarter 2.

But having said that, fixed income is genuinely doing a pretty good job for us in terms of year-on-year growth, in terms of expanding to new client segments and new revenue sources. So I think that's a pretty steady business and doing well for us.

On the cost side, you will see that the quarter 1 cost has gone up by 19% and within that employee cost has increased by 17% and opex is up by 24%. So if I come to the employee cost which has grown by 17%, we have added almost 5% net capacity, net people over the last 1 year. And we have actually replaced our low-cost wealth RM with more senior experienced RMs. So that is playing in. Then there is an annual increments and as well as the variable cost, which is linked to the business.

The data book captures in terms of the fixed cost and variable cost increase over the previous year and previous quarter, so that can give more insights. Opex is up by 24%, but compared to Q4, it is down by 4%. So there are a few seasonal expenses which comes in this quarter. They will be towards the marketing expenses and business promotion expenses. That will be around INR10 crores to INR12 crores.

If I remove that, the opex would have grown by around 14-15%, which we've always been maintaining that will grow. Our opex to revenue has been steady at, say, 14-15%. So to that extent, it is okay with us. If you look at the overall full year opex, I would imagine it will still be in the range of 15-16% for the full year. 2/3 will go to the typical business-related, inflation-related expenses and 1/3 will be towards the new initiatives.

There's one more update on the opex side, which I would like to highlight is that we are looking for our new office because our current lease is coming for renewal. And as you guys know that under Ind AS 116 when you do a lease accounting, there will always be some charge which comes upfront.

And then as the lease matures, it starts decreasing. As of now, we have not completely finalized anything, but we'll keep the investors updated on this development and we'll 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.

Having said that, on a consolidated basis, our cost-to-income ratio is around 55% and maybe for the full year, this will remain around this level only. See, if you look at from a cost perspective, there are 3 things which will play in. One is the operating leverage, which is coming in wealth and private. You would have noticed that wealth C/I has dropped by 160 basis points.

So to that extent, these 2 businesses will start giving us operating leverage. Asset management, as Ashish was also saying that this year could be a peaked out in terms of our cost for the year. And subsequent to that, cost-to-income ratio will start coming down.

And the third will be the capital market. Within that, asset services is pretty stable. I think within capital market, when you look at IE and IB, and within IB, it's mainly the ECM part. I think these 2 businesses are very much linked to the market activity. And hence, on a quarter-on-quarter basis, you may see a cost-to-income ratio goes up and down. But having said that, on a

full year basis, we still believe that it could be closer to 55%. Maybe a quarter can be a plus 1% and the quarter may be a minus 1%.

So we are okay with that. And finally, if you look at our operating PAT, this is at INR306 crores, which is a 16% growth year-on-year and our ROE is still close to 30%, which is a pretty, I would say, a good number to have. And that's where we are. Looking at the time, I will request the moderator to take the Q&A now.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Prayesh Jain from Motilal Oswal Financial Services Limited.

Prayesh Jain: Congrats on good set of numbers. Firstly, on the private side, the cost to income is at 70%. We have been discussing that the overall wealth cost-to-income should trend towards 60-62% in the near term and then in the medium term.

When and how do you see this progressing particularly on the private side? Because wealth definitely is progressing towards that mark. But on the private side, it's still kind of elevated. And what is the kind of RM addition that you're looking forward from here as well?

Ashish Kehair: So Prayesh, Q1 actually should not form the basis. If you look at Q1 FY26 also it was 69% and Q1 FY27 it's 70%. But overall, profit growth delivered is about 22%, right? So we also basically load the variable incentive in line with the revenue growth that happened. Full year basis, last year was around 66%. I think we will be lower than that this year.

And RM addition essentially our desire always is to basically keep adding 15-16% every year, provided the market allows us to do that at costs which are not upsetting to the overall business. Last 12 months, we've added about 11%, 15 RMs on a net basis. And even Q1, we've added around 6, I think that will continue. That won't stop. And overall, as you rightly said that 60% to 62% medium term, that target also remains over the next 3 years.

Prayesh Jain: Got that. And on the wealth side, the retention seems to have fallen from about 90 bps to 85 bps, what was the reason for that?

Ashish Kehair: So typically, Q4, Q1, the one biggest phenomena in that business is insurance. In insurance, Q4 numbers are normally higher. So for a lower denominator, you get higher income. So there is a few bps uptick that happened. And second, in that business, we report the total yield.

So what happens that in a quarter when the equity market has positive mark-to-market. But your overall brokerage revenue doesn't go up, I mean, in tandem, then there is a downward movement of yield. And on the reverse, if there is a decline in Nifty and broader markets, and your brokerage doesn't fall that much there is a uptick in yield. So that adjustment you'll have to keep in mind in line with the mark-to-market data.

Prayesh Jain: Got that. Got that. And on the AMC fees, the yields have shot up significantly, particularly if I look at your yields on the private market side. What kind of things have changed that kind of yields have gone up so much?

- Ashish Kehair:** Sir, if you see Prayesh last year after Q1, I think Q1 end or Q2, I don't remember, we had mentioned in the call that we will give a pause to the fees that we are charging on our venture debt fund because there was a change in the market condition and the yields in the market has fallen significantly, and the riskiness in the deals had gone up significantly.
- So we had slowed down the pace of deployment. So we said in order to not disadvantage the investors in the fund, we will forego our fees and we will start charging it next year. So 3 quarters, we did not charge and Q1, we have restarted charging. So basically, it's that difference only. Nothing else.
- Prayesh Jain:** So this should sustain now?
- Ashish Kehair:** Yes, yes. Unless we stop again, this will sustain.
- Prayesh Jain:** Okay. And last question on the capital market side and the asset services. So you mentioned that there should be some moderation and full year growth should be 20-25%. So in that sense, it will be more driven by yields and not by flows? Is that the right way to think? And how should we think about?
- Ashish Kehair:** Yes, that's right. So flows will continue. The yield will adjust because some amount of collateral may shift from cash to G-Sec.
- Prayesh Jain:** Ashish, just last point here, the cost to income hasn't dropped in the segment, probably looking at the revenue growth, it was in the previous quarter, it was 40%. It's now at 39%. Any IE or IBs putting the pressure otherwise we would have expected much more significant improvement here? And what should we think about full year cost to income in that segment?
- Ashish Kehair:** Similar range only because we've also provided for the variable cost in line with the revenue growth. And investment banking, at least the ECM side and a bit of IE has been under pressure, which I think as it comes out, will be an improvement. But I think overall full year basis, anywhere between 36% to 40% range is what will remain here.
- Moderator:** We take the next question from the line of Dipanjan from Goldman Sachs.
- Ashish Kehair:** You changed your name.
- Dipanjan:** I think they changed my name.
- Ashish Kehair:** Dipanjan.
- Dipanjan:** Yes, Dipanjan. I'll just go ahead with my questions. First, in terms of Nuvama Private and MPIS in Nuvama Wealth, basically the managed accounts and MPIS piece on both the businesses. Just wanted to get some color on the asset mix and the underlying product mix in these 2 segments, how that would have changed during this current geo-political crisis, if there has been something if you can give some color on that.

Second was I think in the domestic asset servicing business, I think you mentioned that you'll be going live with RTA and trusteeship business, which should kind of help you gain market share. But if I were to think from a medium- to long-term perspective, I think in your IB, IE, for the other segments, you might be servicing from the domestic mutual funds also.

So any plans, let's say, on a foreseeable future to kind of try to get into that large segment on the MF side in terms of cross-sell opportunity through your RTA? The third question is how should one think of the ESOP cost and dilution over the next 2 to 3 years? Those are my 3 questions.

Ashish Kehair:

So asset mix, I don't think 1 or 2 quarters have significantly changed it. But broadly for us, it remains in the managed products and ARR segment between 30% to 35% would be equity and 65% will be non-equity. So it's not fixed income. It will be fixed income plus alternatives like credit, real estate, infrastructure, so products that could deliver clients returns ranging from 7-8%, right up to 18-20%, but non-correlated with the equity market performance. People typically try to say that it's fixed income, it's not necessarily fixed income.

It's yield, but the range is very wide depending on the product that clients have chosen. I think now some amount of come back to equities we are starting to see once there is some adjustment in the AI trade globally and some good, I think, discussion around India is happening. So maybe in the next 2 quarters, the proportion of equity may go up.

On the RTA and trustee, both would be targeted towards the current client segments only, which is our PMS and AIF. I don't think right now we firmed up to go behind mutual funds because their banks still continue to have a better right to win because you need some form of balance sheet if they need intraday financing to manage redemption flows and all, we would not be superior.

However, for products which are like arbitrage funds or products which are SIF's, which let's say, which involves usage of derivatives or, let's say, categories where usage of derivative and efficiency of collateral becomes a more important paradigm for an AMC to improve the return delivery to their clients, we have a play. Categories, which are vanilla like long-only fixed income and equities, where intraday financing is the play, we are not the preferred choice. So I think it will remain like that.

I think ESOP cost, important question. Right now, it's gone to shareholders for approval. It's not actually ESOP, it's stock appreciation rights, so ESARs, so I'll explain the difference because it has a significant impact on dilution. Most of the companies in India do an ESOP, which means if you do 1,000 units and if you grant 1,000 units and people exercise 1,000 units, it's a dilution of 1,000 units. Whereas in ESAR, what happens, if you grant 1,000 units, the shares which are given to people who exercise, it's only to the extent of profit. So now assume that if Nuvama price today say hypothetically is INR1,500 or INR1,800.

And let's say, average exercise of people is that hypothetically say double at INR3,600, your dilution will become half. If it is say, 30% above the current price, your dilution will become even lower, where in ESOP dilution is 1:1, the EPS loss to shareholders is significant. ESAR

calculation is very simple. If the stock price appreciates by 20% every year for the next 5 years and people exercise 1 year after they're vesting against the 7.5% pool, our dilution will be 3%, so less than half.

The cost to the company remains same as ESOP, the option premium, which will get recognized over the 5-year vesting period. Obviously, it will be upfronted more. The profit to the employee will be same as ESOP, the dilution to the shareholders is less than half. So it's like a win-win for everybody. Cost for us is typically the premium cost is around 20%.

So if we grant, let's say, if we end up granting options worth INR1,500 crores or INR2,000 crores, cost order of magnitude is INR300 crores to INR400 crores over a 5-year period, slightly heavier upfronted because that's how the Ind AS costing structure flows down. But it's a noncash cost. There is no cash outflow, and you end up saving tax of 25%. So actually, the cost is 75% of the premium plus. That's how it plays out.

And there's some bit more technicality here. Whenever the exercise happens, there is a perquisite value on which an employee gets taxed. Actually, companies have started claiming that perquisite also Ex cost and you end up saving. So if you are able to do that against a total cost of INR400, our net cost will be INR150 only over a 5-year period. That's the sum and substance of our ESAR.

Dipanjan:

Got it. Just one small question on the wealth business. You have not previously classified- maybe you could classify your Nuvama Wealth AUM between relationship management-driven and external asset manager (EAM) driven. But from a flow perspective in the ARR segment, since you categorically mentioned there are a lot of flows are coming in from Tier 2 and Tier 3, is there any breakup that we could get maybe on a rolling basis between RM and EAM from an ARR flow perspective in the Nuvama Wealth segment?

Ashish Kehair:

We will have a look at it. And if we can incorporate, we will add it. But it's broadly in a similar range as AUM right now.

Moderator:

We take the next question from the line of Madhukar from JPMorgan.

Madhukar:

Sir, you spoke about the external optionality and the business that we want to create on that side. So in particular, you spoke about the GIFT City option and second was making that margin line with you on the asset services side available for other exchanges. So, specifically on the second option, can you elaborate a little bit as to what stage are we in this thinking process?

Can this actually be done given certain restrictions on commodity exchanges? So where are we over here? And also, how large can the opportunity be on the GIFT City derivatives trading business there? So yes, any sort of guidance and additional color on this is what I would want to know.

Ashish Kehair:

I think, Madhukar, more clarity will evolve in the next 2-3 quarters, at least on the GIFT City because, as you know, it's right now premature because the tax, the cost structure in India has

created this opportunity where there is no STT in GIFT City and there is an STT on the domestic exchange. But for any derivative market to thrive, there has to be volume.

Right now, the volume is restricted to index it's not in single stock. But there are large participants globally who have approached us that they want to, they obviously run swap books globally. And those swap books can be hedged using them if the trade between themselves also.

So I think that's how it will start. And right now, they want to work on a minimum commitment basis. So that's how it starts. And I think then we will see how that build-out happens. It's a bit premature to talk about how the volume will evolve because we'll have to see how it goes.

Commodities, on the other hand, the movement is faster, whatever FPIs are allowed to do. Some of our clients have already started doing, specific numbers we will come back in the next quarter. But I think as a rough-cut assessment, what we were seeing, it can become at least 15% to 20% of the equity market size for our relevant client segment. In that sense, the way it is evolving.

And the third one, which I mentioned, which actually can become very, very large is the global custodian-local custodian tie up because right now, we have precluded from targeting that client segment where global long only are investing into India, we are actually closely working with 2-3 large global custodians who have access to global long only, but they lose out on their India mandates because they don't have any local presence, and that's what we want to fill up so that they can pitch using our services and we get access to a new client set.

Moderator:

We take the next question from the line of Sanketh Godha from Avendus Spark.

Sanketh Godha:

So Ashish, is it fair to say that your private that is ultra-HNI business, I just want to understand from you from an industry point of view that more people choosing advisory over trail-based revenue is becoming a prominent factor which honestly was there but now you're feeling it will be happening more.

And therefore, if you take a call of not doing the business at lower yield, is it fair to say that your heavy lifting of the incremental net flow numbers will be done more by mid-market or wealth segment and maybe AMC segment. Just need to understand at what point of time you would be okay to do advisory business even if yields are lower?

Ashish Kehair:

Sanketh, actually, when we say lower yield, this is more like a corporate treasury type mandate, not a UHNI. UHNI, we are more than happy. And I think directionally we are heading towards advisory, like I spoke about our Pinnacle proposition, and we have our Infinity proposition. Maybe in next 3-4 quarters, you will see the numbers separately coming from advisory. We are also now fundamentally clear that advisory in the current shape and form will start working.

And on the overall book, the yield actually may go up. Because if you look at the combined yield today for any ultra HNI business, if you combine the transactional business and the ARR business and you take the full yield, it's not more than 30-35 bps ex of NII. So I think that is easily achievable even through an advisory business and gives far higher stickiness in the long run, and that progression has started internally.

In terms of creating value proposition, creating teams and all numbers will eventually start flowing. So I don't think we are going to, because that is the reality that is going to play and that I'm also seeing the regulatory infrastructure change because today, if we are doing advisory with an accredited investor, we can offer all distribution services also to them earlier, that was not a scenario.

So clients are losing out, advisers are losing out. Right now, the package is becoming far more stronger. So I don't think you should take the statement of weeding out lower advisory in that direction. This is more legacy account, typical corporate treasury and all, which we may want to shift to transactional business kind of category. But ultra HNI we will progress towards advisory.

Sanketh Godha: So, Ashish, is it fair to say that today, last year, you were almost at 90 bps on private. And in the quarter, you reported 82 bps, so, on ARR, I mean to say. So basically, this number because advisory going up will keep on seeing a little trending downwards, assuming you don't get a consumerate NII business?

Ashish Kehair: Not really. I think in the next 2 quarters, you will see the range to be again, so I've always maintained Sanketh, that between 80 to 90 at this point in time is what we are able to see. It depends on the product mix of ARR, what gets done or what proportion of product of between AIF II, AIF III, MF, PMS become heavy in a quarter.

Let's say, we have a blockbuster product in category 2 AIF, in a particular quarter, it could cross 1% also. I don't think right now that impact of advisory will play out, maybe next year, we may see. But then the flows will become far larger once that happens. And of course, NII, as you rightly said, that tool remains with us.

Sanketh Godha: Okay. So, Ashish, if you can give a color out of the INR58,500 crores of closing AUM what you have in ARR, how much is today advisory and how much is on trade?

Ashish Kehair: 13,000.

Sanketh Godha: 13,000. Okay. Understood. And the second question, which I wanted to check is that there was SEBI consultation paper on PMS-MF. Do you think this is a material big opportunity for us in mid-market segment or UHNI segment? And I don't know whether the 2.5% fees, what you can charge will hold up or not. But any initial thoughts you have on this piece?

Ashish Kehair: Not the PMS-MF piece because actually, 50 lakhs has become 25 lakhs, and we already had a product in our setup at 50 lakhs, which was of PMS-MF of direct plans. But I think the other measures which they have mentioned, that can have more impact for both our businesses, which is allowing for to-be-listed securities to be incorporated that makes PMS come at par with MF and AIF allowing for overseas investments to be made as part of PMS.

I think that will be helpful because it allows us to give sort of global diversification in the portfolios if clients are giving discretionary mandates on the wealth management side. I think these 2 measures will have a better impact than MF only. MF only was already there, and it was

people using it. I think it is to enable others, who needed a higher amount of capital and all to have a light touch vehicle, not for established wealth managers.

Sanketh Godha: Understood. Understood. And Ashish one more, just maybe a color on flows number because last year, we did around INR20,000 crores of net flow if I include MPIS prior to ARR and AMC, so any color you want to say, you will see that number to be in '27? And if you can split among the 3 segments, you just mentioned would be useful.

Ashish Kehair: Broadly, Sanketh, and these are obviously indicative numbers, but the way we are seeing it is that between wealth and private, both INR 10,000 - 12,000 crores. So a range of INR 20,000 to 24,000 crores and AMC, we are seeing anywhere between INR 3,500 to 5,500 crores.

Sanketh Godha: Okay. Understood. And lastly, on this IE, IB business, largely it was driven by IE in the current quarter? And therefore, next year, if the IPO market or ECM markets become super active then IB should support incremental growth for subsequent quarters?

Ashish Kehair: So first quarter was a combination of institutional equities plus the fixed income part of investment banking. Fixed income part of investment banking really hit it out of the park. So let's say, some bit of moderation happens there and that will get covered up by the ECM ramp-up plus more. So I think ECM, like you said, once it opens up, you will see better growth in that line from where we are because fixed income on base level has been set and IE continues to do well. Yes, ECM was very, very bad in Q1.

Sanketh Godha: Okay. Understood. Understood. Sir, so basically, INR180-odd crores kind of run rate is more manageable number for next 3 quarters?

Ashish Kehair: Yes.

Moderator: The next question comes from the line of Lalit Mohan Deo from Equirus Securities.

Lalit Mohan Deo: So sir, just one question on this lending book. So we are seeing a good growth on a sequential basis. But when we calculate the margins, now I understand this is based on the period end number. But in terms of margins, we are somewhere currently trading at around 3.7-3.8% on a period-end basis. So like what would be the steady state margins in our lending work and going ahead? How should we see this overall lending book both in private as well as in wealth business?

Ashish Kehair: So about 30-40 bps higher than this because like I mentioned in a few calls, our cost of debt basically moves a bit up and down because of the hedging gains and losses, which comes on our MLD book. Our overall borrowing has about 25%, which is the MLD on which we keep hedging. On a full year basis, we are able to save around 50 basis of cost. In some quarters, you go slightly negative. In some quarters, you go slightly positive.

So if you see Q4 of last year and Q1 of last year is where we saved about 60-70 basis and Q2, Q3, we were slightly negative. So this year, Q1 is like Q2-Q3. So basically, blended, if you are asking me from the current level, you can add 40-50 basis points from here.

- Moderator:** We take the next question from the line of Sanidhya from Unicorn Assets.
- Sanidhya:** Sanidhya this side. Fairly good color in the opening remarks about the tech capabilities that are driving the sector right now. I would want to hear more upon how do you see in the wealth segment, particularly as you see the largest retail focus broker in the sense or the other brokers as well, which are basically platform or technology driven, they are focusing more on the mid-to lower ticket size clients in terms of wealth management. Like in the holistic sense mainly driven by the technological benefits that they have. How do we see ourselves placed in that? Because I think Nuvama is also in the same category. Are we competing?
- Ashish Kehair:** Actually, there is a category difference in the customers which we handle.
- Sanidhya:** Yes. Could you share color on that?
- Ashish Kehair:** Each of the segments are very, very large. So segments, which can be completely – or I would not say completely, let me correct myself. That can be largely managed by technology as the end delivery channel to a customer has to enable execution using very, very simple products. It can't be complex. It can't have multiple categories, unlisted, offshore, AIF's, PMS, it's very easy to say that I will enable all execution online.
- But for a customer to consume that much and take action on it is virtually impossible. So there have to be simple products, which means the ticket size of the disposable network, which the customer has, has to be significantly smaller so that they don't go beyond.
- You're talking about 25 lakh, 50 lakh, 1 crores, 2 crores customers. Their investable surplus is in that range. Maybe technology can end up doing the end-to-end execution in perhaps the next 5 years because you'll reduce the product complexity maybe to only MF or MF plus maybe maximum one more category. Beyond that, it's difficult. Globally, we have not seen, it's not that technology can't do.
- So don't get me wrong. Technology can do everything. And if it happens, we will also offer. The customer is not in the position to consume that and to take that service using technology. That is the state and that I don't think is going to change. People who have INR10 crores, INR15 crores, INR20 crores, they will have needs which will become significantly more complex and human interface on advisory will still remain.
- Sanidhya:** Yes, you were highlighting that we are trying to reach, penetrating deep and reaching to the clients, which were not easily available earlier. Could you share more color on that?
- Ashish Kehair:** So we are going beyond Tier 1, but we are not changing the segment in which we are operating. So we are not going, so there is geographical distribution and there is affluent distribution. Affluent distribution, we are not diluting. We are not saying that we are going retail or we are not saying we are going down the value curve right now because the segments in which we operate are large enough and they are fairly well expanding. It's not that we have some dominant market share there.

So I think there is a lot of play available. There are segments which are below, they are also large enough and different types of players are suited to capture that. I think it will be difficult for people to cross each other. It's a different DNA, different customer set, different product set, everything is very, very different.

Sanidhya: Do we think beyond Tier 1, there is enough density for us to operate and be profitable on the large scale? Because obviously, initially, it would be less. But then eventually, we think we can do that.

Ashish Kehair: Yes, yes, absolutely. Absolutely. We have no, I mean, that set up for us has worked out, and we've been now present in 65-70 cities directly and through our external wealth manager model, we are present in about 400-450 pin codes. I don't think that's a challenge anymore for us.

Sanidhya: Okay. And are we setting up physical offices there?

Ashish Kehair: Not everywhere, but top 70-80 places now we have physical offices.

Sanidhya: And we are actively getting relationship managers in those places?

Ashish Kehair: Yes, yes.

Sanidhya: Cool. That explains. On the private business, is there anything to read except for the few quarter 4 versus quarter 1 differences in the revenue?

Ashish Kehair: I don't think quarter number should be looked at so much. You should see full year. And if you have to look at a quarter number, you should compare with the relevant quarter in the previous year. There's nothing much to it, there's no structural change in the market space or in the margin or at a product level margin or customer behavior, nothing.

Sanidhya: Okay. And on the commodity trading whatever we were discussing, the other participant also asked. Where do the revenues end up for that business? Is it largely the asset services in the capital market?

Ashish Kehair: So, both. I mean, if there is, obviously, on the wealth management side, also customers who do commodities that would sit in wealth and private, but that's smaller. When I was talking at that point in time, I was talking more on the asset services business, our international clients. They are opening up to doing systematic quant trading on commodities in addition to what they do on equity derivatives and that is opening up. And the key point is that their collateral, which right now sits unused on, let's say, a Monday, Wednesday, Friday.

They'll start getting used if they build on commodity side, just for them, that return on capital today is, let's say, 0, anything they get is superior. So that improves the possibility of more capital flow coming into the country and also mitigate the negative impact that could happen on derivative tightening or whatever.

Sanidhya: Yes, makes sense. And is it more linked towards now NSE also launching different commodities?

Ashish Kehair: Yes, it does. It does.

Sanidhya: It really does help, right, so GIFT City on NSE IFSC?

Ashish Kehair: Yes. It does help.

Moderator: We take the next question from the line of Sidharth Negandhi from CWC.

Sidharth Negandhi: Congrats on the good quarter. Just 2 questions. One clarification on whether I got that right. You mentioned that the ARR yield net of lending would be very similar to the 35-odd bps on advisory.

Ashish Kehair: No, no. What I said was that if you take the total revenue in private, which is transactional plus ARR and divide by the total AUM. And from that, if you remove the lending, actually don't remove the lending, take the full yield, then advisory yield is actually similar. Right now, what people bifurcate is that transactional, you don't calculate yield, ARR is the only one where you calculate yield.

But when you do advisory, there is nothing called transactional. For that client, everything you earn on the full asset. So right now, it's getting bifurcated into 2 streams. So advisory in the end can actually become more rewarding for a wealth manager if played well.

Sidharth Negandhi: Got it. And the second question was given the strong growth on the transaction side in quarter 1, do you see there being any one-offs there that, again, like you mentioned on the fixed income side may not come through in subsequent quarters?

Ashish Kehair: Not really. Even in fixed income, I'm not saying it is one-off. It's a heightened level of activity, and you may see a compression of some INR10-INR15 crores in the coming quarters. But private, as I mentioned, in our transactional income, about 70% to 80% is BAU, which is basically equity broking, fixed income and MLD. About 70% to 80%.

20% is opportunistic trades, which can be unlisted shares, which can be credit deals, which can be secondary deals in AIF's. So the only variation is 20%. At some time, in some quarters, you may get opportunities which are more attractive. So it will be higher. In some quarters, it will be lower. But on a full year basis, let's say, we ended up last year at around INR300 crores, INR305 crores. This year, we should be anywhere between INR350 crores, INR360 crores.

Sidharth Negandhi: Got it. Got it. That's useful. And I'm assuming some of the extra jump that we've seen this time is coming from that 20-30%, which is a little more variable.

Ashish Kehair: Yes.

Moderator: We take the next question from the line of Shrenik Mehta from IndoAlps Wealth.

Shrenik Mehta: Can you hear me?

Ashish Kehair: Yes.

- Shrenik Mehta:** So I just wanted to ask you about the asset services in the capital markets. This you are combined in a single INR269 crores PBT, within that INR269 crores PBT, what is the capital market PBT in Q1 versus the Q1 of FY27?
- Ashish Kehair:** That we don't share.
- Shrenik Mehta:** Okay. And what is the absolute decline that you're seeing in the capital markets, if you can share that because your fixed income has grown 2x.
- Ashish Kehair:** Capital market, listed equity and ECM piece between Q4 and Q1 is nearly flat to marginally positive, between Q4 and Q1.
- Shrenik Mehta:** And also positive growth in institutional equities and IB as well.
- Ashish Kehair:** Marginally, yes. marginally. Fixed income was stronger but it was marginally.
- Moderator:** We take the next question from the line of Abhijeet from Kotak Securities.
- Abhijeet:** Ashish, I had a very broad question. So in terms of your entire scale of offerings, in terms of like how would you, or where would you place yourself in terms of being able to capture the range of things that a client wants and the range of things that an issuer wants, right? So basically, the wallet share both at the client side as well as at the corporate side in the range of things that you are able to offer today.
- Ashish Kehair:** Client side, I think wallet share is a different question. But in terms of solution capability, I think it's 100%. Wallet share, as I've always maintained that at least in the ultra-high net worth segment clients prefer to have at least 2 core advisers, and then they have a long tail of other players where they may like a single product of somebody. So there, order of magnitude, the share could be around 40-50%. But from a solution capability perspective, it will be 100%.
- On the issuer side, again, from a solution perspective, on the capital raise side, if you are restricting ourselves to, let's say, debt and equity, we have possibly had all the solutions today. Yes, we don't have offshore fundraise capability if somebody wants to raise a bond overseas or stuff like that there, we say that we have an offering, but I don't think we are a preferred choice partner for them. But for domestic debt capital markets or equity markets, the solution offering is today 100%.
- Abhijeet:** Got it. And just one more question on the wealth business. In terms of like following up on your comment on the advisory business, in your experience, what is that rough threshold after which you actually don't mind offering the advisory services and probably below which it still doesn't make sense from a financial point of view?
- Ashish Kehair:** I think more from a client perspective, Abhijeet, I believe it's important because what we do should be aligned to what is right for the client. Any client who is actually below maybe INR100 crores to INR200 crores, it doesn't really make sense for them to go for advisory. And anybody

who is above INR500 crores is a clear case. There is no doubt in my mind. Then they should move towards that because it gives them a reasonable access, but many of them don't want to.

The issue is, many of them want to continue with this combo relationship because they want to have access to the mutual funds completely free of cost. They want to have access to deals. They don't really want to shift. So I think it will never be a utopian world that all large clients are doing advisory. Neither will it be a world that everybody is on a combination of transaction plus distribution.

Neither globally, it has happened in any country. So it will be a mix directionally people or clients who's preferences shift towards letting go of control, maybe second generation, third generation, there the proliferation of advisory will increase.

Abhijeet: Got it. And just last one, in terms of the talent capability on the advisory side, any gaps in terms of like at the experience level or maybe geographically, whether like you don't want to ramp up, let's say, north or south or any of those points that you can highlight.

Ashish Kehair: Advisory in that sense is slightly easier to deliver because if you look at it from a practical sense right now, okay, one is, what we look at is the revenue model. And second is the customer delivery. And typically, everybody ends up confusing between the two, whether you are running a model of transaction plus distribution, the customer engagement is still advisory, right? No customer, you go with a laundry list and say, okay, choose the product. Every relationship manager, at least the core job is to understand the customer, is to understand how this overall asset allocation is, and within that asset allocation, how the said product will fit in?

What portfolio sizing of the said product has to be there. That all still happens. How you earn is different. Now, so in that sense, our transaction cum distribution model is a fairly difficult model to execute because every adviser, every relationship manager is an adviser in his own right handling the client. The minute you shift our portfolio into an advisory model there is a central team, which also has an overlay where the advice recommendation, the generation, the actions to be taken, can be done jointly between the relationship manager and the central team. So in my view, it's more easier to develop than a transaction-cum-distribution model at scale.

Moderator: Ladies and gentlemen, we 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.

Ashish Kehair: Thank you. Thank you once again for being here. We will look forward to meeting you again at the end of quarter 2.

Bharat Kalsi: Thank you.

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