

February 29, 2024

## Nuvama Clearing Services Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term non-fund based bank lines	1,834.00	1,834.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
<b>Total</b>	<b>1,834.00</b>	<b>1,834.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

While arriving at the rating, ICRA has considered the consolidated financials of Nuvama Wealth Management Limited (NWML) and has taken a consolidated view of the credit profiles of NWML and its subsidiaries (together referred to as Nuvama Group hereafter), including Nuvama Clearing Services Limited, as the companies have operational and business synergies in addition to a shared name and management oversight.

The rating continues to factor in Nuvama Group's strong market position in the wealth management business, with the company holding the second largest assets under advice (AUA) among non-bank wealth managers, its comfortable capitalisation profile and strong institutional ownership (with PAG (large Asia-focused private investment firm) being the promoter). Moreover, with the scale-driven operational efficiency in the wealth management business and increase in income from the capital market businesses<sup>1</sup>, the Group reported an improvement in its profitability. It reported a net profit of ~Rs. 444 crore, profit after tax (PAT)/net income (NI) of 30% and annualised return on equity of 24% in 9M FY2024 compared to Rs. 305 crore, 19%, 15%, respectively, in FY2023. ICRA notes that the Group's borrowings have increased on account of the growth in the loan book and the higher working capital requirements in the capital market businesses. Thus, the consolidated gearing increased to 2.7 times as of December 31, 2023, from 2.4 times as of March 31, 2023. Nonetheless, the capitalisation remains comfortable.

The rating is constrained by the exposure of the businesses to the inherent volatility in the capital markets, besides regulatory uncertainties and associated reputational risks. The Group's borrowing profile remains modest with market linked debentures accounting a major share of the overall borrowings. Additionally, the loan book remains exposed to market risks, given the volatile nature of the underlying asset class and its sensitivity to capital market movements. Nevertheless, sizeable accruals and the comfortable capitalisation profile provide a buffer to absorb any losses and incremental credit costs.

The Stable outlook on the long-term rating reflects ICRA's expectation that Nuvama Group will maintain a strong market position in the wealth management business, which will continue to support its healthy profitability trajectory and comfortable capitalisation.

### Key rating drivers and their description

#### Credit strengths

**Strong market position** – Nuvama Group is one of the leading domestic integrated wealth management firm. The Group oversees in excess of Rs 3 trillion of client assets (including custody assets) and caters to a diverse set of clients which includes ~11 lakhs affluent and HNIs and ~3,500 of wealthiest families as of December 31, 2023. Nuvama offers wealth management

<sup>1</sup> comprising asset servicing (as professional clearing member), institutional equities and investment banking businesses

solutions, covering investment advisory, estate planning, asset management services, investment management, lending and broking services for individuals, institutions, senior executives, professional investors, and family offices.

The Group has a pan-India presence across all major cities. It also offers loan against securities (LAS) through its non-banking financial company (NBFC) – Nuvama Wealth Finance Limited (NWFL). NWFL, which provides LAS including employee stock ownership plan (ESOP) funding to its wealth management clients, had a loan book of Rs. 2,606 crore as of December 31, 2023. Moreover, the broking entity (Nuvama Wealth and Investment Limited), which provides margin trade funding (MTF) and ESOP funding, had a loan book of Rs. 1,617 crore as of December 31, 2023.

**Comfortable capitalisation** – NWML's capitalisation profile remains comfortable, characterised by a net worth (including minority interest; MI) of Rs. 2,708.8 crore and a gearing of 2.7 times as of December 31, 2023 (2.4 times as of March 31, 2023). The Group raises borrowings primarily for offering the short-tenor ESOP/LAS and MTF, wealth product distribution business and for the working capital requirements of the broking business. In this regard, it is noted that the Group has reported higher borrowings primarily on account of the increase in the scale of the wealth product distribution business and the working capital requirements in the broking business amid the evolving regulations besides the rise in the loan book. Nonetheless, supported by improving accruals from operations, the capitalisation profile has remained comfortable. Going forward, while plans for modest incremental sponsor investments in the asset management business and calibrated growth plans for the lending book are likely to keep incremental capital requirements low, prudent capital management/dividend policy will remain imperative.

**Improving profitability trajectory** – With the scale-driven operational efficiency in the wealth management business, the Group reported an improvement in its performance in the past two years. In 9M FY2024, the NI increased by 29% YoY, led by increase in income from capital market businesses and wealth management business. As a result, the profitability improved with a net profit of ~Rs. 444 crore, PAT/NI of 30% and annualised return on equity of 24% in 9M FY2024 compared to Rs. 305 crore, 19%, 15%, respectively, in FY2023.

**Association with PAG to support global relationships and financial flexibility** – PAG is one of the large Asia-focused private investment firms with assets under management (AUM) of \$53 billion across Asia and leading institutional investors from Europe, North America, Asia and the Middle East. Through PAGAC Ecstasy Pte Ltd, PAG acquired a majority stake in Nuvama Group in FY2021. As on December 31, 2023, it held a ~56% stake in the Group while a fund managed by PAG (Asia Pragati Strategic Investment Fund) held ~1%. Nuvama Group is expected to benefit from its association with PAG by leveraging the firm's global relationships for setting up alternative investment funds (AIFs) and expanding its clientele.

## Credit challenges

**Exposure to inherent volatility in capital markets besides regulatory uncertainties** – Driven by the sizeable increase in income from the capital market businesses, the Group's reported a 29% YoY increase in NOI. The wealth management business continues to account for 58% of the Group's NI in 9M FY2024. However, the share of transaction-led revenues within wealth management, remains high. Additionally, income from the merchant banking, institutional equities and asset servicing businesses is sensitive to the overall activity in capital markets.

The Group forayed into the asset management business recently, however, the share of income from this segment remains modest. The Group's revenue profile is also susceptible to regulatory changes, which could have an adverse impact on its profitability. Thus, changes in the regulations and their potential impact on the business model remain key rating sensitivities.

**Franchise risk** – The Group relies on its franchise, which has been developed over the years, for the acquisition and retention of clients as well as employees. Any reputational damage could affect the AUA and hence the revenues and profitability. The ability to retain the relationship manager base also remains imperative for maintaining low client attrition rates.

**Modest borrowing profile, though partially by limited funding requirements** – The Group's funding profile remains concentrated with borrowings largely comprising market linked debentures (52% of overall borrowings as on December 31, 2023, compared to 58% as of March 31, 2023). Given the changes in taxation on market linked debentures, the share of these borrowings in incremental fund raising remains to be seen. As of December 31, 2023, the Group's other sources of funding included commercial paper (23%) for its short-term requirements, bank lines (overdraft lines; 11%), non-convertible debentures (NCDs; 6%) and others (8%).

## Environmental and social risks

**Environmental considerations:** While financial institutions do not face any material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. Nonetheless, such risk is not material for the Group as the lending operations primarily comprise capital market lending products such as LAS, margin trading facility and ESOP funding. Further, the business activities are typically short-to-medium term in nature, which will allow it to adapt if required.

**Social considerations:** With regard to social risks, data security and customer privacy are among the key sources of vulnerability for financial institutions as material lapses could be detrimental to their reputation and invite regulatory censure. Additionally, it is noted that customer preferences are increasingly shifting towards the digital mode of transacting, which necessitates the adoption of technological advancements in addition to providing an opportunity to reduce the operating costs. In the light of this, it is noted that NWML has been making investments to enhance its digital interface with its customers and is strengthening its technology infrastructure.

## Liquidity position: Adequate

Nuvama Group's liquidity position remains adequate with an unencumbered cash and bank balance of ~Rs. 754 crore (~10% of consolidated borrowings), free liquid investments of ~Rs. 105 crore and drawable but unutilised lines of ~Rs. 191 crore (as on December 31, 2023) at the consolidated level. These, along with inflows from the short-tenor MTF book of ~Rs. 770 crore (which can be liquidated at short notice to generate liquidity) and the LAS & ESOP book of ~Rs. 3,413 crore are adequate for covering the repayment obligations falling due in the ensuing six months.

## Rating sensitivities

**Positive factors** – Sustained performance, in terms of AUM and profitability, across market cycles while maintaining a comfortable capitalisation profile.

**Negative factors** – A material and prolonged erosion in the Group's AUM, impacting the financial performance, or an increase in the consolidated gearing beyond 3.5 times.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Stockbroking &amp; Allied Services</a> <a href="#">Rating Methodology for Non-banking Finance Companies</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of Nuvama Wealth Management Limited (NWML) and has taken a consolidated view of the credit profiles of NWML and its subsidiaries, including Nuvama Clearing services Limited, as the companies have operational and business synergies in addition to a shared name and management oversight.

## About the company

Nuvama Clearing Services Limited (NCSL; erstwhile Edelweiss Custodial Services Limited) is registered with Securities and Exchange Board of India (SEBI) as a clearing member and as a professional clearing member with NSE Clearing Ltd (NCL), Indian Clearing Corporation Ltd (ICCL), Multi Commodity Clearing Corporation of India Ltd (MCXCCL) and National Commodity Clearing Ltd (NCCL). The company also offers fund accounting services to portfolio managers, alternative investment funds (AIFs) and domestic body corporates. Besides the clearing fee, the company earns a significant share of income from the float received from the clients for their trading positions.

NCSL is a fully-owned subsidiary of NWML while PAGAC Ecstasy Pte Ltd is the ultimate holding company. The company reported a profit after tax of Rs. 89 crore on net operating income (NOI) of ~Rs. 151 crore in H1 FY2024 (provisional basis). As of September 30, 2023, it had a net worth of ~Rs. 476 crore (~Rs. 387 crore as of March 31, 2023) with nil on-balance sheet borrowings. It had reported a profit after tax (from continuing operations) of Rs. 98 crore in FY2023 on NOI of ~Rs. 199 crore compared to a net profit of Rs. 63 crore on NOI of Rs. 184 crore in FY2022.

## Key financial indicators

NCSL	FY2022	FY2023	H1 FY2024*
Net operating income	183.7	199.0	150.8
Net income (including fair value gains)	195.4	225.2	150.7
Profit after tax	62.8	97.9	89.1
Net worth (including MI)	295.4	386.8	475.9
Total assets	4,203.8	4,687.9	8,480.8
Gearing (times)	0.0	0.0	0.0
Return on average net worth	23.8%	28.7%	41.3%

Source: Company, ICRA Research; \* Unaudited numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

## Nuvama Wealth Management Limited

Nuvama Group is one of the leading domestic integrated wealth management firm. The Group oversees in excess of Rs 3 trillion of client assets (including custody assets) and caters to a diverse set of clients which includes ~11 lakhs affluent and HNIs and ~3,500 of wealthiest families as of December 31, 2023. Nuvama offers wealth management solutions, covering investment advisory, estate planning, asset management services, investment management, lending and broking services for individuals, institutions, senior executives, professional investors, and family offices.

NWML, erstwhile Edelweiss Securities Limited, was incorporated in 1993. It was earlier a wholly owned subsidiary of Edelweiss Financial Services Limited (EFSL). However, EFSL announced the sale of a part of its stake in the wealth management business to Pacific Alliance Group (PAG) in Q2 FY2021. Thereafter, subsequent to the completion of demerger process in June 2023, it got listed in September 2023. PAGAC Ecstasy Pte. Limited is the ultimate holding company of NWML. As of December 31, 2023, PAGAC Ecstasy Pte. Ltd held a ~55% stake in NWML while Edelweiss Group and its promoters held ~21% and the remaining was public holding.

As of December 31, 2023, the Group's capitalisation profile was characterised by a net worth (including MI) of Rs. 2708.8 crore and gearing of 2.7 times. The Group reported a consolidated net profit of ~Rs. 444 crore on a NI of Rs. 1,495.7 crore in 9M FY2024.

### Key financial indicators

NWML (Consolidated)	FY2022	FY2023	9M FY2024*
Net operating income	1,080.3	1,365.3	1,296.7
Net income (including fair value gains)	1,285.2	1,595.9	1,495.7
Profit after tax	857.4!	304.4	441.1
Net worth (including MI)	1,912.8	2,258.8	2,708.8
Total assets	10,598.3	12,715.7	NA
Gearing (times)	1.9	2.4	2.7
Return on average net worth	48.7%^	14.6%	23.7%

Source: Company, ICRA Research; \* Unaudited numbers; All ratios as per ICRA's calculations; Amount in Rs. crore. ^12.8% if exceptional items are excluded; ! Supported by extraordinary items aggregating Rs. 632.9 crore

### Status of non-cooperation with previous CRA: Not applicable

**Any other information:** ICRA notes that the Securities Appellate Tribunal (SAT) vide its order dated December 15, 2023 upheld the order of Member and Core Settlement Guarantee Fund Committee of NSE Clearing Ltd against Nuvama Clearing Services Limited (a subsidiary of Nuvama Wealth Management Limited) in the matter of Anugrah Stock & Broking Private Limited. The company has filed an appeal before the Hon'ble Supreme Court against the impugned SAT order. The matter is pending for hearing.

### Rating history for past three years

Instrument	Type	Current Rating (FY2024)		Chronology of Rating History in past 3 years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
				Feb 29, 2024	Dec 28, 2023	Dec 27, 2022	Jun 24, 2022	Jun 29, 2021	Nov 09, 2020 Oct 19, 2020 May 05, 2020
Long-term/Short-term non-fund based bank lines	Long term/Short term	1,834	1,450^	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]A+(Stable)/[ICRA]A1	[ICRA]A+(Negative)/[ICRA]A1	[ICRA]A+(Negative)/[ICRA]A1

Source: Company; ^ As of September 30, 2023

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term/Short-term non-fund based bank lines	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Short-term non-fund based bank lines – Bank guarantee	NA	NA	NA	1,834.00	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership as on Mar-23	Shareholding as on Mar-23	Consolidation Approach
Nuvama Wealth Management Limited (erstwhile Edelweiss Securities Limited)	Parent	-	Full Consolidation
Nuvama Wealth and Investments Limited (erstwhile Edelweiss Broking Limited)	Subsidiary	100.0	
Nuvama Wealth Finance Limited (erstwhile Edelweiss Finance and Investments Limited)	Subsidiary	100.0	
Nuvama Clearing Services Limited (erstwhile Edelweiss Custodial Services Limited)	Rated Entity	100.0	
Nuvama Asset Management Limited (erstwhile ESL Securities Limited)	Subsidiary	100.0	
Nuvama Capital Services (IFSC) Limited (erstwhile Edelweiss Securities IFSC Limited)	Subsidiary	100.0	
Nuvama Financial Services Inc (erstwhile Edelweiss Financial Services Inc)	Subsidiary	100.0	
Nuvama Financial Services (UK) Limited (erstwhile Edelweiss Financial Services (UK) Limited)	Subsidiary	100.0	
Nuvama Investment Advisors (Hongkong) Private Limited (erstwhile Edelweiss Securities (Hong Kong) Private Limited)	Subsidiary	100.0	
Nuvama Investment Advisors Private Limited (erstwhile Edelweiss Investment Advisors Private Limited)	Subsidiary	100.0	
Nuvama Investment Advisors LLC (formerly known as EAAA LLC)	Subsidiary	100.0	
Pickright Technologies Private Limited	Subsidiary	74%	
Nuvama Custodial Services Limited (erstwhile Edelweiss Capital Services Limited)	Associate	49%	Limited consolidation
Nuvama and Cushman & Wakefield Management Private Limited	Joint Venture	50%	

Source: Nuvama Wealth Management Limited

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### Branches



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