

Nuvama Wealth And Investment Limited

May 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Commercial paper	1,500.00 (Enhanced from 1,000.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

In March 2021, PAGAC Ecstasy Pte Ltd (PAG), a global alternative investment firm, and its affiliates bought a direct and indirect stake (61.47%) in the wealth management business of Edelweiss Financial Services Ltd (Edelweiss group), housed under Nuvama Wealth Management Limited (NWML) (erstwhile-Edelweiss Securities Limited). Following this, the Edelweiss group initiated the demerger of its wealth management business in phases, Phase-II of which was approved by the National Company Law Tribunal (NCLT) and filed with the Registrar of Companies (ROC) in April 2022, and accordingly, as on June 30, 2022, PAG and its affiliates holds 56.24% direct stake in NWML. The proposed Phase-III demerger is expected to conclude post receipt of the necessary regulatory and statutory approvals and the equity shares of the company will be listed on the BSE Limited and NSE Limited.

Following the scheme of demerger (effective April 2022), there has been restructuring, with the wealth management business now being under NWML, and thereby, the business and operations of the wealth management company have been assessed separately. The management has informed that the re-branding exercise, including the change in name, brand logo, and brand positioning has been completed. As of August 2022, ESL has been renamed to Nuvama Wealth Management Limited (NWML), and subsequently, Edelweiss Broking Limited has been renamed to Nuvama Wealth and Investment Limited (NWIL) in the ROC records.

The rating assigned to the instruments of NWIL factors in the established presence of the NWML group in the wealth management business, the strong and resourceful promoters, the experienced management team, and the strong liquidity profile, enhanced by liquidity support from the parent entity, NWML, and the promoters as and when required.

The rating is, however, constrained by the concentrated resource profile with a relatively high cost of borrowings and the volatility in capital markets along with the regulatory risk and attrition risk inherent in the wealth management business.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors– Factors that could, individually or collectively, lead to positive rating action/upgrade:

Not applicable

Negative factors– Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Any material changes in the shareholding pattern, resulting in reduced support from the investors on an ongoing basis.
- Material and prolonged erosion in the assets under management (AUM), with high client attrition.
- Regulatory action in the wealth management segments, resulting in a change in the business profile.
- Overall gearing of the parent, NWML, exceeding 3.5x on a consolidated basis.

Analytical approach:

Standalone, along with factoring in its linkage with the parent, i.e., NWML, owing to its strong operational and business linkages being a 100% subsidiary of NWML.

As on December 31, 2022, NWML has nine subsidiaries and one associate, as listed below:

Indian subsidiaries

Nuvama Wealth and Investment Limited (erstwhile Edelweiss Broking Limited [EBL])

Nuvama Wealth Finance Limited (erstwhile Edelweiss Finance & Investments Limited [EFIL])

Nuvama Clearing Services Limited (erstwhile Edelweiss Custodial Services Limited [ECDSL])

Nuvama Asset Management Ltd (erstwhile ESL Securities Limited)

Nuvama Capital Services (IFSC) Ltd (erstwhile Edelweiss Securities (IFSC) Limited)

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Foreign subsidiaries

Nuvama Financial Services Inc (erstwhile Edelweiss Financial Services Inc)
Nuvama Investment Advisors (Hong Kong) Pvt Ltd (erstwhile Edelweiss Securities (Hong Kong) Pvt Ltd)
Nuvama Financial Services (UK) Ltd (erstwhile Edelweiss Financial Services (UK) Ltd)
Nuvama Investment Advisors Private Ltd (erstwhile Edelweiss Investment Advisors Private Ltd)

Associate

Nuvama Custodial Services Ltd (erstwhile Edelweiss Capital Services Ltd)

Outlook: Not applicable

Key strengths

Established market position in the wealth management business.

NWML offers advisory, asset management, broking and distribution services to the affluent segment and high net-worth individuals (HNIs) and ultra-HNIs. It is the second-largest independent wealth management player, as reflected in the client assets, which stood at ₹ 2,24,474 crore as on December 31, 2022, recording a CAGR growth of 22% over the last five years. NWML has a presence in wealth management across 65 locations and 1,039 relationship managers and 307 team leaders as on December 31, 2022.

It has a subsidiary, Nuvama Wealth Finance Limited (NWFL) (erstwhile Edelweiss Finance & Investment Limited), which is a non-banking financial company (NBFC) that provides loans against securities, ESOP funding, initial public offering (IPO) financing and margin trade funding to the clients of the wealth management business, with a loan book of ₹ 2,229 crore as on December 31, 2022.

Furthermore, NWIL, a 100% subsidiary of NWML, is a broking company registered as a trading member with the NSE of India Limited, the BSE, the Metropolitan Stock Exchange of India Limited, the Multi Commodity Exchange of India Limited, and the National Commodity and Derivatives Exchange Limited, providing broking services to the clients. NWIL is also registered as a depository participant with the National Securities Depository Limited and the Central Depository Services Limited, providing depository services to clients. NWIL acts in the capacity of a distributor for various financial products such as mutual funds, bonds, portfolio management services (PMS), structured products, and alternative investment funds (AIFs).

Strong and resourceful promoter

PAG is a global alternative investment firm that manages multiple asset classes, including private equity (PE), real estate, and hedge funds. It is considered one of the largest private investment firms in Asia, with over US\$ 50 billion of assets under management in private equity, real estate, and absolute returns. It has 10 offices in Asia, with additional offices in London, New York, and Geneva. PAG is focused primarily on three sectors in India, viz, the financial sector, the health sector, and the pharma sector. Thus, NWML (wealth management business) has been identified as a key focus area for the group's overall investment plan. PAG had invested ₹2,366 crore for the majority stake in NWML, including primary and secondary investments. It has also given a liquidity support arrangement of ₹3,000 crore, which can be used in case of exigencies.

Experienced management team

NWIL has experienced professionals on its board and a key management team with strong experience in the respective business segments. At group level, apart from the senior management, the team leaders and relationship managers have an average experience of over five years with an attrition rate of 4% in fiscal 2022.

Comfortable asset quality

NWFL, the lending arm of NWML and a 100% subsidiary, operates as a lender for the wealth clients of the business. With key products such as loans against securities, ESOP financing, margin trade funding, IPO financing, it has a loan book of ₹ 2,229 crore as on December 31, 2022 (₹1,965 crore as on March 31, 2022). These loans are extended to the existing clients of the wealth management business. The reported asset quality indicators remain comfortable, with nil gross and net non-performing assets (NPA), collateral cover of around 3x, and zero credit losses since inception. Since the loan book is backed by financial assets, the books are susceptible to volatility in capital markets.

Key weaknesses

Concentrated resource profile, with a relatively higher cost of borrowings

The resource profile of NWIL remains concentrated with the borrowings, with a significant reliance on PP-MLDs (50%); commercial papers (21%) and NCDs (13%) as on December 31, 2022. On a consolidated basis, NWML's resource profile is concentrated largely from its own client base through PP-MLDs (around 59% of the overall borrowings), followed by commercial paper (23% of the overall borrowings). Furthermore, the company was able to raise borrowings at competitive rates during 9MFY23, however, the ability of the company to reduce its cost of funds will be a key monitorable.

Exposure to volatile capital markets, regulatory risk, and attrition risk

NWML's earnings are exposed to the volatility in capital markets, however, the current higher AUA is expected to support revenues, and lower net inflows can impact revenue growth. The revenues are further susceptible to regulatory changes.

Furthermore, the ability to retain key personnel is important in the wealth management business, as changes in relationship personnel may bring a change in the relationships with the clients as well. The company had a total of 307 team leaders and 1,039 relationship managers as on December 31, 2023, and overall, the team leads have more than five years vintage.

Liquidity: Strong

The company has strong liquidity with no negative cumulative mismatches, as per its asset-liability maturity profile as on December 31, 2022. NWML, on a consolidated basis, has a strong liquidity cushion of ₹2,327 crore as of December 2022. Additionally, it has liquidity support arrangement of ₹3,000 crore from PAG in case of exigencies.

Applicable criteria

[Policy on default recognition](#)

[Rating Methodology-Service Sector](#)

[Factoring Linkages in ratings](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Capital Markets	Stockbroking & Allied

Incorporated in 2008, Nuvama Wealth and Investment Limited (NWIL) is a 100% subsidiary of NWML. NWIL is a broking company registered as a trading member with the NSE of India Limited, the BSE, the Metropolitan Stock Exchange of India Limited, the Multi Commodity Exchange of India Limited, and the National Commodity and Derivatives Exchange Limited, providing broking services to clients. NWIL is also registered as a depository participant with the National Securities Depository Limited and the Central Depository Services Limited, providing depository services to clients. NWIL acts in the capacity of a distributor for various financial products such as mutual funds, bonds, PMS, structured products, and AIFs.

Incorporated in 1993, NWML is a public limited company incorporated under the provisions of the Companies Act. PAG is the ultimate holding company. The company is registered as a trading and clearing member with the NSE of India Limited, the BSE and the Metropolitan Stock Exchange of India Ltd. NWML provides broking and advisory services to its clients along with trading in securities and derivatives.

NWIL (Standalone)

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23(UA)
Brokerage and fee income	296	550	703
Total income	399	730	903
Overall gearing	0.85	2.27	3.44
PAT	3	95	140
Total Assets	1,762	3,266	4,412
ROTA	0.18%	3.76%	4.87%
RONw	1.78%	37.54%	33.07%

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

All ratios are as per CARE Ratings' calculation.

NWML (Consolidated)

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23(UA)
Total income	1,298	1,620	1,611
PAT	(475) **	857**	220
Overall gearing*	0.95	1.91	2.42
Total assets	7,385	10,597	12,414
ROTA (% excluding one-off adjustments)	2.57	2.51	2.55
RONW (% excluding one-off adjustments)	10.63	13.47	14.82

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'

**Including one-off adjustments

*Borrowings exclude compulsorily convertible preference shares (CCPS); tangible net worth (TNW) includes CCPS.

All ratios are as per CARE Ratings' calculation.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper	INE523L14278	28-12-2022	7.80%	27-06-2023	10.00	CARE A1+
Commercial Paper	INE523L14286	04-01-2023	7.80%	03-07-2023	10.00	CARE A1+
Commercial Paper	INE523L14302	16-02-2023	8.65%	15-02-2024	50.00	CARE A1+
Commercial Paper	INE523L14328	28-02-2023	9.25%	30-05-2023	50.00	CARE A1+
Commercial Paper	INE523L14336	09-03-2023	8.00%	08-06-2023	6.00	CARE A1+
Commercial Paper	INE523L14344	13-03-2023	9.00%	12-06-2023	100.00	CARE A1+
Commercial Paper	INE523L14351	13-03-2023	9.00%	21-06-2023	100.00	CARE A1+
Commercial Paper	INE523L14286	13-03-2023	9.00%	03-07-2023	100.00	CARE A1+
Commercial Paper	INE523L14385	29-03-2023	8.30%	27-03-2024	5.00	CARE A1+
Commercial Paper	INE523L14393	18-04-2023	8.25%	12-01-2024	5.00	CARE A1+
Commercial Paper	INE523L14401	09-05-2023	9.45%	07-05-2024	100.00	CARE A1+
Commercial Paper	INE523L14419	09-05-2023	9.45%	19-04-2024	100.00	CARE A1+
Commercial Paper	INE523L14427	10-05-2023	8.25%	05-07-2023	150.00	CARE A1+
Commercial Paper	INE523L14468	11-05-2023	8.65%	10-08-2023	10.00	CARE A1+
Commercial Paper	INE523L14450	12-05-2023	8.65%	25-08-2023	100.00	CARE A1+
Commercial Paper	INE523L14443	12-05-2023	8.65%	30-08-2023	100.00	CARE A1+
Commercial Paper (Proposed)	-	-	-	-	504.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Current Ratings	Rating History
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	Name of the Instrument/Bank Facilities	Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Commercial Paper-Commercial Paper (Standalone)	ST	1500.00	CARE A1+	-	1)CARE A1+ (20-Oct-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated.

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us.

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About us:

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