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Riding the Wealth Wave

VQ Deep Dive

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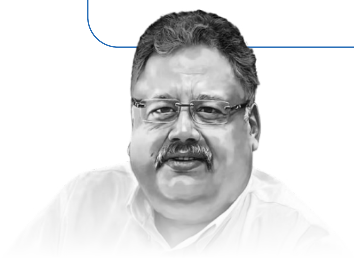
> *“I think in India, a lot of people will get rich over the next few years – because wealth creation by itself becomes self-sustaining once it gathers pace.”* ***- Rakesh Jhunjhunwala***



Our Prime Minister’s vision is: “Viksit Bharat @2047” - the vision to make India a developed nation by 2047.

As India progresses from a developing to a developed nation, we are witnessing the rapid transformation of India on all fronts. We are on course to become the 2nd largest global economy in PPP terms over the next 2 decades, accounting for maximum share of incremental global growth.

The rise and rise of India

India to become dominant economically

India to be global #2 in PPP terms by 2050

	2016	2050	
China	1	1	China
US	2	2	India
India	3	3	US
Japan	4	4	Indonesia
Germany	5	5	Brazil
Russia	6	6	Russia
Brazil	7	7	Mexico
Indonesia	8	8	Japan
UK	9	9	Germany
	10	10	UK

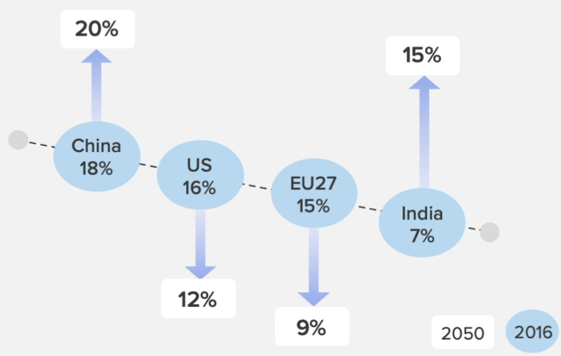
G7 Economies / E7 Economies

Sources: IMF for 2016 estimates, PwC analysis for projections to 2050

India to gain maximum share of global GDP

India to have 15% global GDP share vs. 7%

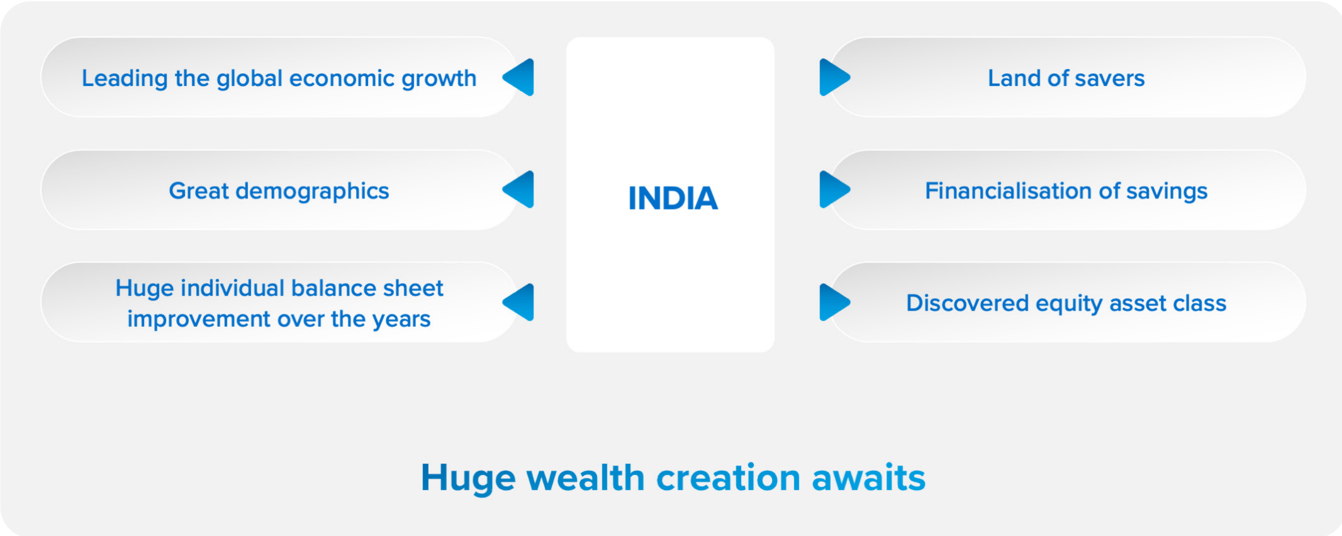
Share of world GDP (PPPs) from 2016 to 2050



Sources: IMF for 2016 estimates, PwC analysis for projections to 2050

As India undergoes this transformation, Indians are going to experience massive wealth creation.

Beneficiary of a huge megatrend: India



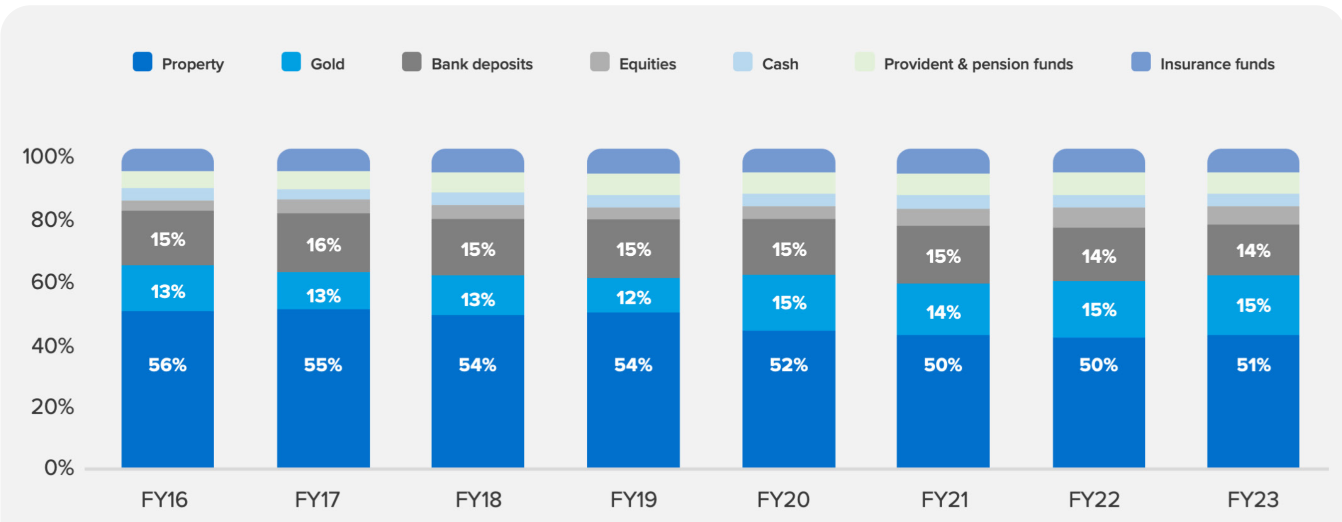
As this growing pot of wealth gets financialized, we believe that Indian wealth managers are going to be the biggest beneficiaries of this megatrend.

Megatrend: Financialisation of savings

India: A land of savers and their newfound love for equities

Always a land of savers, the real change has been the increasing financialisation of savings, as Indians discover their love for equities and gradually allocate the incremental rupee to equities vs. real estate/gold. Even with the meteoric rise seen in equity flows, we still remain in the early stages of this transition; as evidenced by a ~10% penetration in demat accounts and <5% of financial savings to equities.

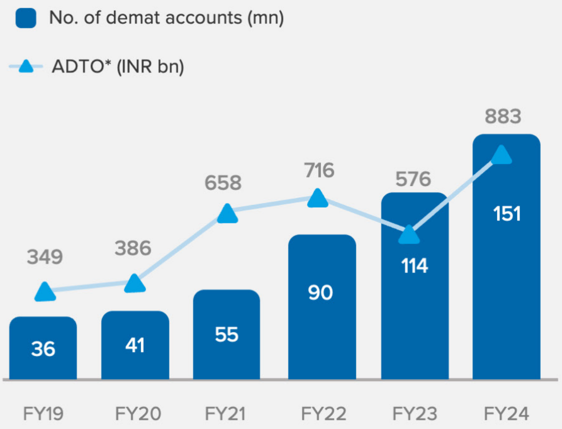
Category wise % of household savings – financial savings gradually gaining prominence



Source: RBI

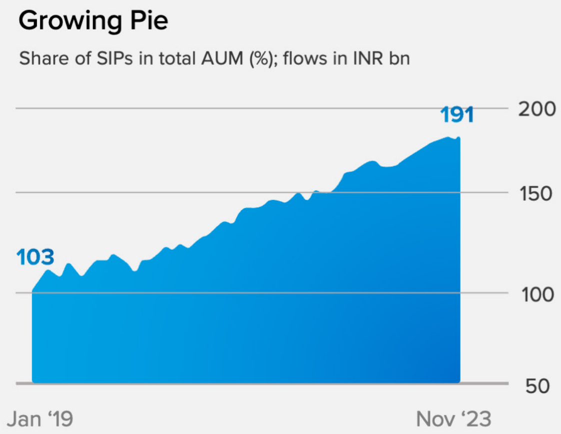
Indian Investors faith in equities growing

From 3 to 15 cr demat accounts in 5 years



*Spot market average Daily Turnover for BSE & NSE

SIP flows: 2x in last 5 years



The Indian investor's faith in equities has been well rewarded with massive amount of wealth has been created. Public & private markets generating a whopping $900 billion of incremental wealth for Indians in the last 20 years.

Public and private markets have generated >$900 bn of wealth for Indians

Public markets

>$800 bn of wealth created in last 20y

Particulars	2005	2010	2015	2020	2023
Total market cap (crs)	**$400 bn**	**$900 bn**	**$1.3 trn**	**$2.2 trn**	**$4.5 trn**
Direct retail + MFs % shareholding	12%	8%	6%	7%	16%
Total value of shares held by retail investors	**$50 bn**	**$70 bn**	**$80 bn**	**$250 bn**	**$800 bn**

Source: ACE Equity

Private markets

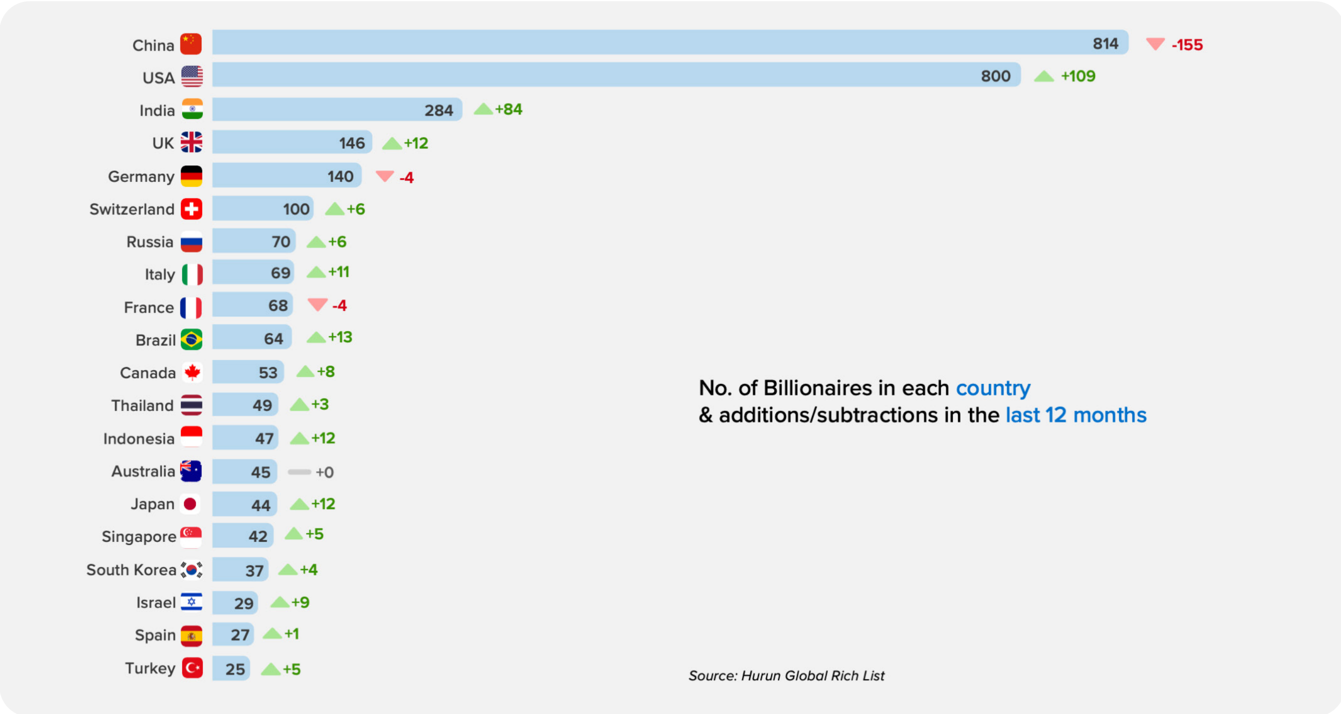
>$100 bn of wealth created in last 20y

Particulars	2005	2010	2015	2020	2023
No of unicorns in India	-	1	10	42	110
Valuation of all unicorns in India	-	$1 bn	$50 bn	$125 bn	$350 bn
% stake held by Indians	-	50%	40-50%	30-40%	30-40%
Value of stake held by Indians	-	$0.5 bn	$20-25 bn	$40-50 bn	$100-120 bn

Source: VC Circle

Billionaires, billionaires everywhere: The number of billionaires has only gone up and up; with India already having close to 300 billionaires, >1/3rd of USA & China; despite our economy being <1/5th of their size.

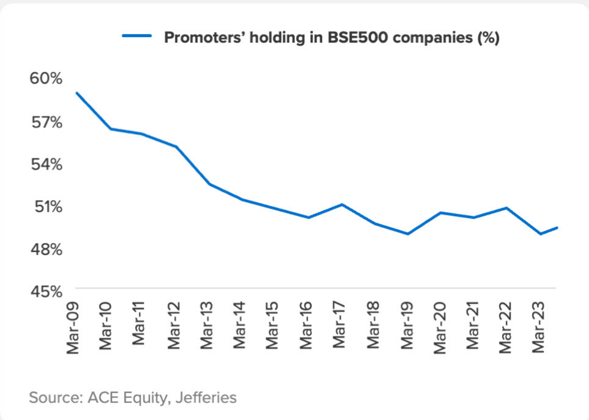
Billionaires by country



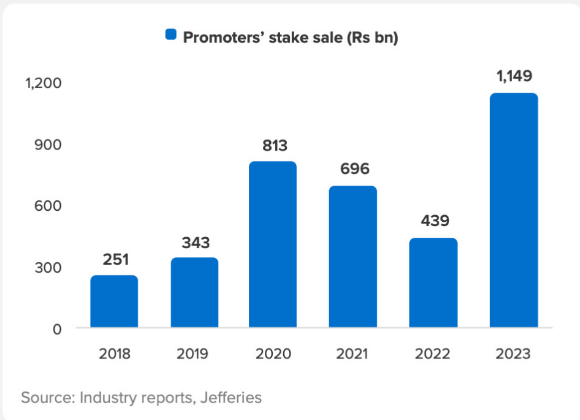
Not just paper billionaires: No longer just paper wealth, promoters are now increasingly able to encash their wealth via OFSs/secondary sales with close to $15-20 billion of such deals annually, a 5-6x increase in the last few years.

It's no longer just paper wealth for promoters

Promoters' holding in BSE500 down 10pp since FY09



Promoters sold own stakes worth ~Rs1.1tn in CY23

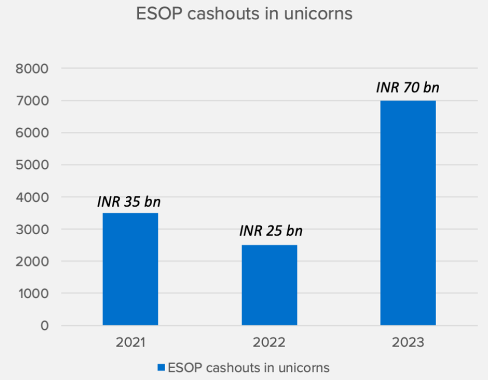


2024 pipeline of more than Rs. 1.5 trn of promoter OFS + stake sales

Our private markets are not far behind with India being one of the fastest growing private markets globally, as we have moved rapidly from having 1 unicorn company in 2015 to 100+ unicorns now. As their founders & employees encash their holdings and ESOPs, we are seeing the advent of the next pool of millionaires in the country.

Unicorns are creating next pool of millionaires

Unicorn ESOPs also no longer paper wealth..



Large ESOP cash outs in recent past

Period	Company	Approx amt (INR bn)
Jul-23	Flipkart	56
Jul-21	Flipkart	7
May-22	Razorpay	6
Sep-21	Browser Stack	4
Jul-23	Swiggy	4
May-22	Tekion	3
Feb-23	Tredence	2.5
Jul-21	Upgrad	2.5
May-21	Zerodha	2

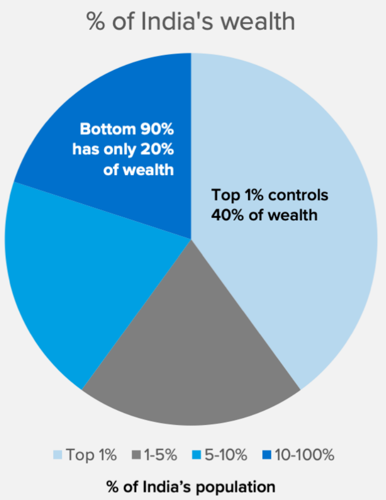
Note – The stock names are for illustration purpose and should not be construed as buy/sell recommendation

The wealthy should grow even wealthier

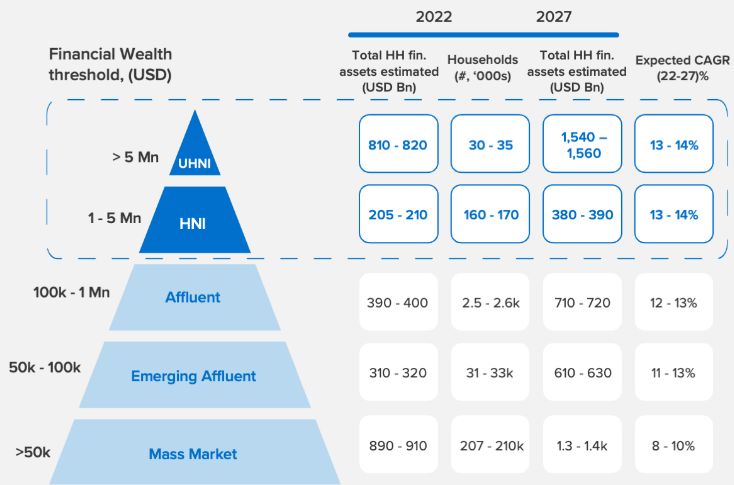
What this has led to is the wealthy growing wealthier given their favourable starting position, access to financial assets and much higher exposure to equities and alternates.

Thus saving in india are concentrated in hands of the wealthy

80% of wealth controlled by 10% of population...



...and expected to see fastest growth in wealth going ahead



Source: Mckinsey wealth pools analysis. 360 One investor presentation

How should investors be positioned to benefit from these trends?

There are a lot of players in this entire ecosystem: Should one bet on firms that directly manage this wealth/assets like banks, AMCs, alternative managers, etc or firms that enable this flow of funds like wealth managers, distributors etc.?

To find the right wealth creation opportunities, we have performed a deep-dive into how this journey has played out in the USA over the last 30 years.

Case Study: Evolution of the mother ship

USA has gone through a massive wealth creation cycle with overall savings growing from $24 trn to $165 trn over the last couple of decades.

A big trend has been the massive concentration of this wealth with 60% of the wealth in the USA held by the Top 10% of population. The bottom 50% of population holds just 5% of overall wealth. Interestingly, this concentration has only grown starker over the years.

60% of the wealth held by the Top 10% of the population

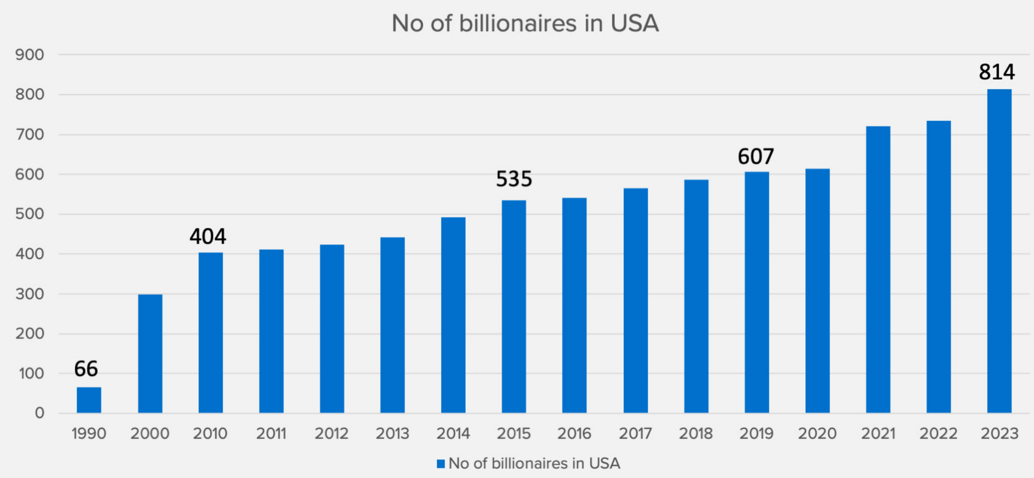
60% of wealth in USA is held by the Top 10%

% of savings held across Net-worth cohorts	1989	1993	1998	2003	2008	2013	2018	2023
Top 0.1%	7.7	8.6	10.1	8	8.8	10.5	10.4	12.1
Next 0.9%	12.7	13.5	14.5	14.6	14.5	15.7	16.2	15.3
% held by Top 1%	**20.4**	**22.1**	**24.6**	**22.6**	**23.3**	**26.2**	**26.6**	**27.4**
Next 9%	34.9	33.1	33.1	33.4	34.9	36.3	36.8	34.6
% held by Top 10%	**55.3**	**55.2**	**57.7**	**56**	**58.2**	**62.5**	**63.4**	**62**
Next 40%	37.5	36.8	34.9	36.7	33.9	31.5	30.9	32.2
Bottom 50%	7.2	8	7.4	7.2	7.9	6	5.7	5.8

Source: FRED

Billionaires, billionaires everywhere: The number of billionaires has grown >10x in the last 30 years to >800 as of 2023 end.

Wealth has become increasingly concentrated



Source: Hurun 2024

What has this led to?: A massive uptrend for financial assets, since the wealthy hold >80% of their wealth in financial assets (since there is only so much one can invest in real estate or gold) vs. the bottom 50% for whom ~70% of their wealth is locked in real estate/ gold etc. **This concentration has grown so stark that the Top 10% of population now accounts for >85% of the US population's equity holdings.**

Who have been the large beneficiaries of these trends?

The biggest beneficiaries have been the asset and the wealth managers as their overall AUM that has grown from $2 trillion 30 years back to as much as $80 trillion now, at a compounded growth rate of 15-20%.

Entire financial management ecosystem has seen massive growth as a result..

Subsector	1993 AUM ($ trn)	2003 AUM ($ trn)	2013 AUM ($ trn)	2023 AUM ($ trn)	AUM growth % (Last 30y)	AUM growth % (Last 10y)
Wealth Managers	$700-800 bn	$5-6 trn	$12-13 trn	$40-50 trn	18-20%	13-15%
Asset managers: Alternatives[1]	$80-100 bn	$400-500 bn	$2-2.5 trn	$10-12 trn	18-20%	18-20%
Asset managers: Mutual Funds	$1.5 trn	$6-7 trn	$14-15 trn	$30-35 trn	13-14%	7-8%

Source: VQ Analysis, Company filings of Blackstone, KKR, Blackrock, Vanguard, Morgan Stanley, Goldman Sachs etc.

Even more interestingly, the fastest growth seems to have been recorded by alternative asset managers and then wealth managers. **Mutual funds have been a gateway to financial inclusion, but as people have become wealthier, there has been growing need for professional wealth managers as well as a greater inclination and ability to invest in alternative assets.**

As a result, the largest profit pools have been created by wealth managers, followed by alternative asset managers. Wealth managers alone enjoy a profit pool of $40-50 billion and alternatives of $35-40 billion while managing to grow at healthy rates with high ROEs.

Mutual funds have struggled in recent years with the advent of passives eating into their yields with a material slowdown witnessed in their growth rates.

...with wealth managers having the largest profit pool

	Revenue pool ($ bn)	Profit pool ($ bn)	PAT growth %	ROE %
Wealth Managers	$180 - 200 bn	$40 - 50 bn	12-15%	18-20%
Alternatives	$130 - 140 bn	$35 - 40 bn	15-20%	20-25%
Mutual Funds	$75 - 80 bn	$20 - 25 bn	7-8%	25-30%
Exchanges	$30 - 35 bn	$15 bn	12-13%	18-20 %

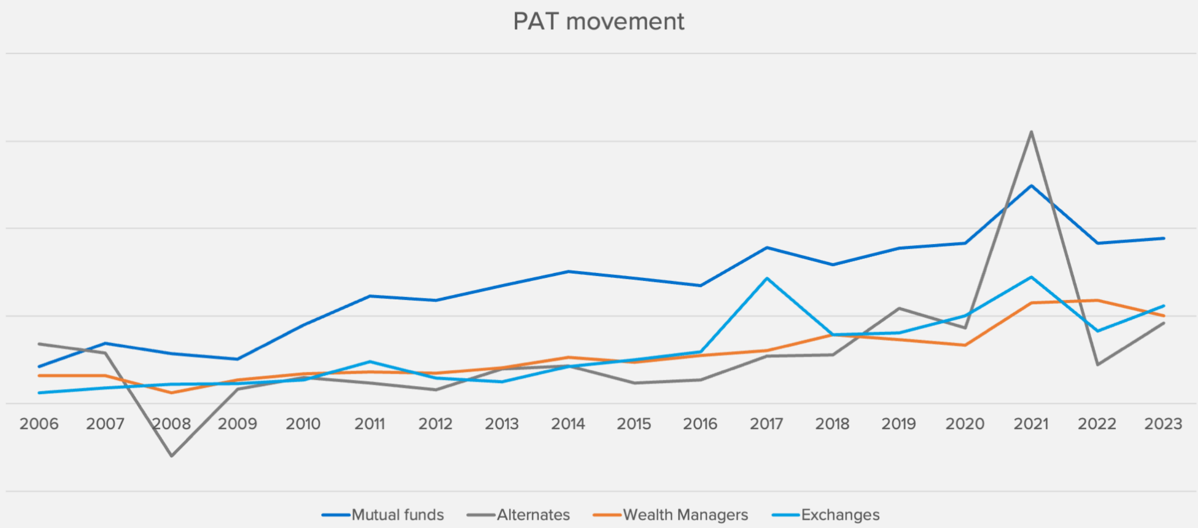
Source: VQ Analysis

Okay this is all well and good, but isn't this space cyclical?

Now coming to an important question, "but isn't this space cyclical? What will happen when markets correct?"

Looking at the profit trends of these businesses over the last 20 years; wealth managers seem to be least susceptible to the vagaries of the cycle with relatively lower cyclicality vs. asset managers whose fortunes are closely linked to market performance.

Some cyclicality is inherent to the segment; wealth least cylical

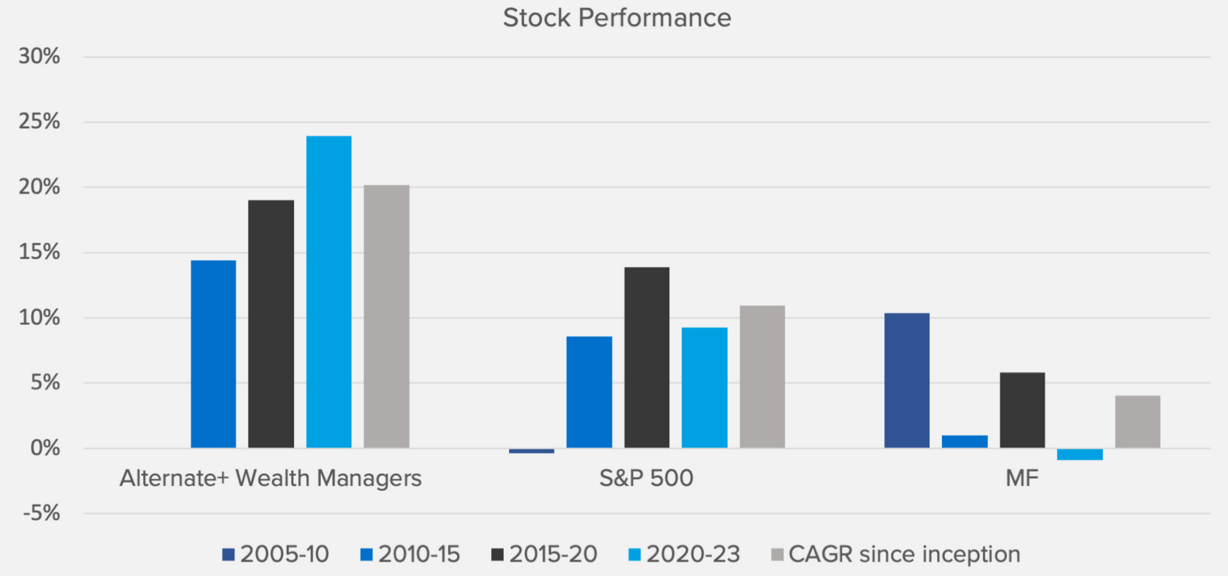


Source: VQ Analysis, company filings

Did shareholders end up making money?

Massive wealth creation has been seen in alternatives and wealth managers with these **stocks massively outperforming the index and mutual funds. Wealth managers and alternative asset manager stocks have delivered close to 20% CAGR returns over the last 20 years across cycles; generating significant alpha vs. index returns over this period.**

Alternatives & wealth managers have created significant shareholder value



Source: VQ Analysis, Bloomberg data

The India story

We saw in the beginning that there is a massive amount of wealth creation taking place in India, which is expected to further accelerate in the coming years.

That being said, we are still in the early stages of the cycle. This can be evidenced by the fact that the combined profit pools of our wealth managers & alternative asset managers is <1x of mutual funds vs. 3-4x in USA.

Wealth managers revenue pools still small as asset managers

	Revenue pool (₹ crs)	Profit pool (₹ crs)	Historic PAT growth %	ROE %
Mutual Funds	20-22k	10-12k	16-18%	30-35%
Exchanges	14k	8k	30-40%	30-40%
Wealth Managers	15-17k	4-5k	20-25%	25%
Alternatives	7k	1k	30-35%	30-35%
Depositories	1.2k	0.7k	18-20%	30-35%
RTAs	1.8k	0.5k	18-20%	20-25%

Source: VQ Analysis, Corporate filings

We believe that the long-term megatrend in wealth creation should drive significant growth for wealth and alternate asset managers over the next many years, if not decades.

Overview of wealth management in India

There are multiple segments in the wealth management industry:

Distribution

- This segment involves distribution of products like mutual funds, alternatives (PMSs, AIFs), insurance etc. to clients
- Companies get paid commissions by manufacturers of these products (typical distribution commission is 50% of fees)
- The best part of this business is the trail/recurring nature of this income whereby the distributor gets paid 50% of fees as commissions on an annual basis

Advisory

- A relatively newer offering, under the advisory structure, clients pay the wealth manager for advice on how to invest their funds which can be either discretionary/non-discretionary
- No commission shares are taken from manufacturers under this model, this ensures non biased advice given to clients

Manufacturing

- Most wealth managers have backward integrated and now have their own manufacturing/asset management setup as well
- This enables them to capture the entire profit pool of the customer as well as provides the ability to come up with differentiated fund offerings basis their client requirements

Most players typically operate/straddle offer multiple options to clients/create a mix of all these different offerings.

What are the key success factors in this business?

Talent quality, retention and productivity

- Relationship managers (RMs) are the backbone of this people dependent business. They are responsible for attracting and managing client relationships.
- RMs at the top companies typically have 15-20 years of relevant experience.
- Since there are no institutes for training such talent in India, talent in this space is hotly contested for; thus retaining good talent is the most critical area for success of these companies.
- Talent productivity can be measured by the quantum of clients & AUM managed by each RM, on this front UHNI focused wealth managers like 360 One & ASK have superior people productivity.

UHNI segment metrics

In crs

Player Name	# of RMs	# of clients per RM	Recurring AUM per RM	Total AUM per RM	Revs per RM (ARR)	Revs per RM (Total)
360 One	230	30-35 families	650-700 crs	1600-1700 crs	3-4 crs	5-6 crs
Nuvama	120	28-30 families	200-250 crs	900-1000 crs	2 crs	3-4 crs
ASK	80	40-50 families	400-450 crs	500 crs	5-6 crs	5-6 crs
Avendus	70	15-20 families	600-700 crs	600-700 crs	2 crs	2-3 crs

Source: VQ analysis, numbers are approximate

Full stack product/service offerings

- Developing & effectively monetising customer relationships requires companies to create a full stack platform with varied service & product offerings that can cater to varied client requirements.
- Apart from varied wealth offerings, the ability to backward integrate into manufacturing own funds is an important element that can enable companies to capture the entire profit pool from clients as well as create differentiated offerings vs. the market.
- The most successful firms have been able to develop a comprehensive offering encompassing wealth advisory, distribution and manufacturing across a wide suite of asset classes including equities, alternates (PMS's/AIF's), fixed income, structured products, etc.

Innovation and leadership

- There is a need to constantly innovate and introduce new products per the changing market conditions.
- Companies with visionary leadership teams are able to identify upcoming trends before others and modulate their products accordingly.
- Asset managers that are first to launch funds in new categories are typically able to capture a large share of allocation from investors. We have seen this in the past with players like 360 One who was first to launch in the pre-IPO funds category in 2017 and captured disproportionate share in this category, similar for Edelweiss in the credit funds category.

Managing yields and cost structure

- It is critical for companies to manage their yields on AUM well to ensure profitable growth.
- There are no regulatory caps on yields in this segment unlike for mutual funds.
- Cost structure management, specifically with respect to employee costs is an important element that determines profitability of these companies.

Which players are likely to win the race?

Taking some lessons from the USA: Investment banks/investment bank based players have won the wealth management race vs. private banks.

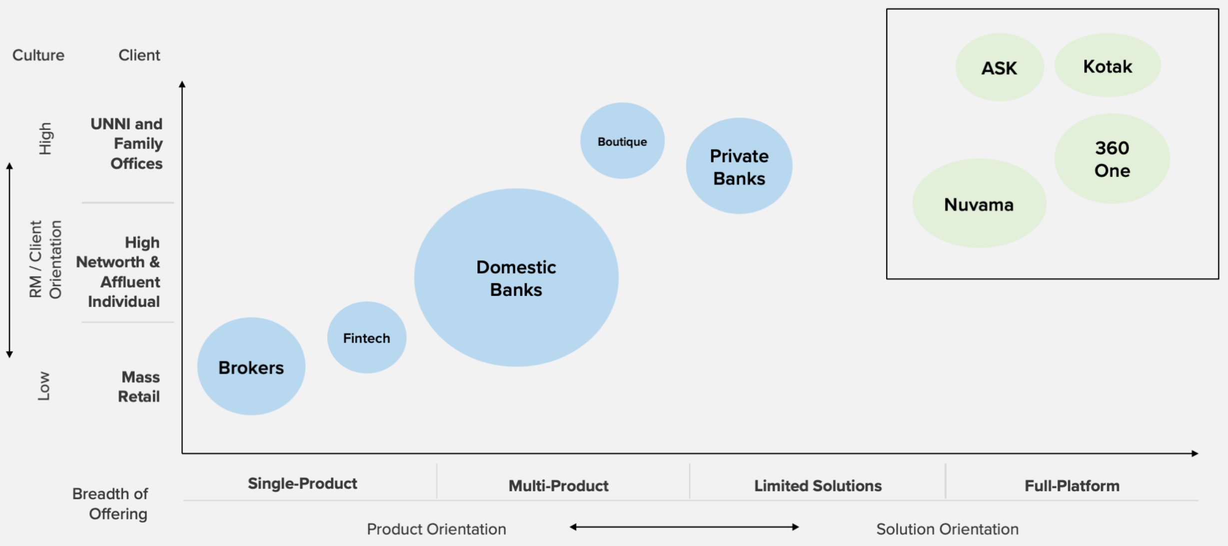
Lessons from USA: Who won the wealth mgmt. race?

	Investment bank players	Private banks	Boutique players
% Market share	50-55%	25-30%	15-20%
Key Advantages	• Client acquisition pipeline via IB division • Advance view into client finances • Ability to attract and retain good talent; good paymasters • **Combination of brand + focus + clients + talent**	• Client acquisition pipeline via banking business; however typical client size is much smaller • **Can leverage existing network and cost structures** for growth	• **Building focused service and product offerings** for target client profile • Relatively niche businesses
Challenges faced	• Relatively **bloated cost structures**	• Client acquisition pipeline via banking business; however typical client size is much smaller • **Can leverage existing network and cost structures** for growth	• **Building focused service and product offerings** for target client profile • Relatively niche businesses

Note – The stock names are for illustration purpose and should not be construed as buy/sell recommendation

Competitive scenario in India: It is a competitive space but competition has been rational upto now. Given the kind of growth expected in the market, it is likely to remain that way.

There are investment bank based firms, private banks, boutique firms etc all vying for their space in the market. Specialised players have been able to craft a niche for themselves in the UHNI space (360 One, Nuvama, ASK etc.)

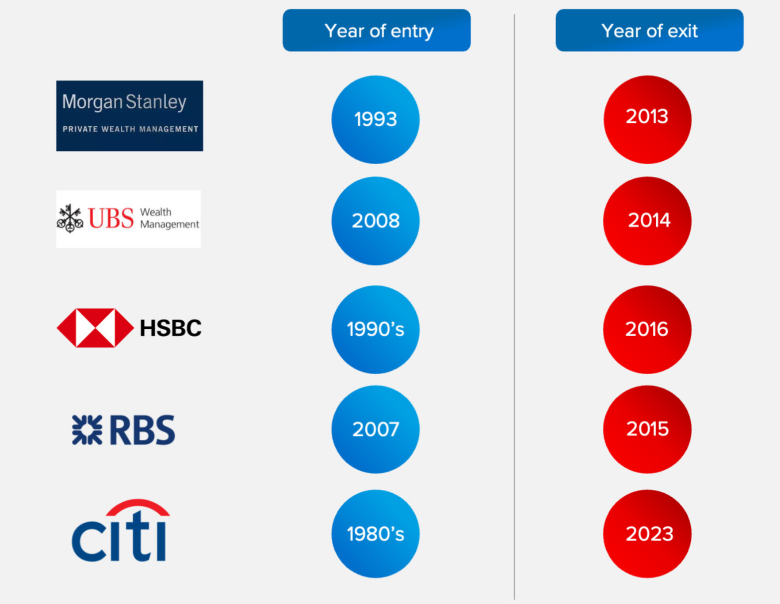


Source: Nuvama Investor Presentation

Note – The stock names are for illustration purpose and should not be construed as buy/sell recommendation

Specialised non-bank players dominant in the UHNI segment

Global players have not seen too much success with most companies exiting India within a few years. This is largely due to their inability to manage cost structures well and lack of adaptation to the dynamics of the Indian market.



Source: VQ Analysis, Corporate filings

Global players have not seen so much success in India

Given the stickiness of talent and clients in this business, we believe that the large incumbents (360 One, Kotak, ASK, Nuvama etc.) will continue to retain and grow their market share.

Wealth managers can grow at 20-25% annually for an extended period

Growth formula for wealth managers: New flows + MTM benefit on existing AUM

Net new flows have typically averaged in the range of 10-15% of existing AUM & MTM has been in the range of 8-10% annually; thus driving 20-25% AUM growth on annual basis

Historical growth in this segment has been 20-25%. Given that the future on wealth creation looks bright + underpenetration of formal wealth management, gives confidence on sustainability of high growth rates in the future. Cyclicality will remain a factor, however as seen earlier wealth is the least cyclical among all capital market segments.

Alternate asset managers are at an inflexion point

This space has also seen massive growth over the last few years with total alternate assets under management now totalling 12 lac crs+; growing at 25-30% CAGR over the past few years.

The Top 4 alternate managers all have an integrated wealth/distribution offering showcasing the criticality of distribution and a wealthy client base in this space.

Top 10 alternate managers in India:

PMS + AIFs	2018 AUM (crs)	2023 AUM (crs)	Last 5y CAGR %
360 One	13,400	60,000	35%
Kotak	22,000	60,000	20%
Edelweiss	12,000	50,000	33%
ASK	15,000	40,000	22%
Enam	16,000	40,000	18%
MOSL	17,000	22,000	5%
White Oak	1,000	21,600	85%
Unifi	3,000	18,500	44%
ICICI Ventures	4,000	13,000	27%
Abakkus	-	13,000	-
ValueQuest	500	11,500	87%
Total	1 lac crs	3.5 lac crs	27%

Source: VQ analysis, nos are approximate
Note – The stock names are for illustration purpose and should not be construed as buy/sell recommendation

Companies have been able to scale up profitably

Majority of the companies have seen strong growth being delivered over the last few years, with compounded revenue and PAT growth of 15-20%.

Player name	FY24 est revs (crs)	Last 5y rev growth %	FY24 est PAT (crs)	Last 5y growth %
360 One	1840	19% [1]	800	23% [1]
ICICI Securities	1500	40%	550	50%
Nuvama (Excl cap markets)	1250	13%	330	16%
ASK	1000	15%	400	23%
MOSL	400-500	10-12%	130	6-8%
Avendus	180-200	17-18%		

Players with integrated asset management capabilities have performed relatively better driven by ability to better monetise clients and manage yields.

[1] Adjusted for change in commission norms from upfront to trail
Source: VQ Analysis, company financials
Note – The stock names are for illustration purpose and should not be construed as buy/sell recommendation

Valuations inexpensive vs. other capital market peers

Valuations of Indian cos are relatively expensive by global standards but we feel that can be justified looking at the significantly large growth opportunity. Within India, wealth managers have the most reasonable valuations vs. other capital market players. Given their expected growth profile, return on equity and recurring nature of business (for some players), we believe that valuations for wealth managers are most reasonable.

How are Indian cos valued vs. USA

1y fwd P/E

	Indian co valuations	US co valuations
Mutual Funds	35-45x	15x
Exchanges	25-50x	25x
Wealth Managers	25-30x	20x
Alternatives	-	25x
Depositories	35x	-
RTAs	35x	-

Source: VQ analysis, Bloomberg data, Nos are approximate

Conclusion

- Wealth creation itself a megatrend that investors can profit from
- Global experience shows that wealth managers and alternate asset managers have delivered strong long-term returns to shareholders and handsomely outperformed other capital market segments, whilst being least cyclical
- In global wealth management, investment bank backed wealth managers have captured a large part of the market and continue to outperform private banks in this segment
- In India, while the current market size for wealth and alternates is still small; it has been seeing rapid growth of 20-25% in recent years which is expected to accelerate going ahead
- Boutique players with the right leadership, talent, full stack offerings and ability to innovate are likely to see most success
- Valuations of wealth/alternate cos in India are still at a discount to other capital market segments