ANANDRATHI
Private Wealth. uncomplicated

Ref No: 14/2023-24

Dated: April 19, 2023

BSE Limited
Department of Corporate Services
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001
Scrip Code: **543415**
Scrip ID: **ANANDRATHI**

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, C-1, Block G, Bandra Kurla
Complex, Bandra (East), Mumbai - 400 051
Trading Symbol: **ANANDRATHI**

Subject: Q4 FY23 Earnings Conference Call Transcript

We are enclosing herewith copy of the transcript of the Company's Q4 FY 23 earnings conference call dated 13th April, 2023. The transcript is also available on the Company's website at https://anandrathiwealth.in/Investorrelations.php

This is for your information and record.

Thanking You
Yours faithfully
For **Anand Rathi Wealth Limited**

NITESH TANWAR Digitally signed by NITESH TANWAR Date: 2023.04.19 18:03:00 +05'30'

Anand Rathi Wealth Limited Mumbai

Nitesh Tanwar
Company Secretary and Compliance Officer
M. No. FCS-10181
Enclosed: as above

ANANDRATHI
Private Wealth. uncomplicated

"Anand Rathi Wealth Limited Q4 & FY '23 Earnings Conference Call"

April 13, 2023

MANAGEMENT: **MR. FEROZE AZEEZ – DEPUTY CHIEF EXECUTIVE OFFICER**
MR. RAKESH RAWAL – CHIEF EXECUTIVE OFFICER
MR. JUGAL MANTRI – GROUP CHIEF FINANCIAL OFFICER
MR. RAJESH BHUTARA – CHIEF FINANCIAL OFFICER
MR. CHETHAN SHENOY – DIRECTOR AND HEAD OF PRODUCT AND RESEARCH
MR. VISHAL SANGHAVI – HEAD IR

Moderator: Ladies and gentlemen, good day, and welcome to the Anand Rathi Wealth Limited Q4 and FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be 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 an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Feroze Azeez, Deputy CEO, Anand Rathi Wealth Limited. Thank you, and over to you, sir.

Feroze Azeez: Thank you so much, madam. Good afternoon, and thank you, everyone, for joining the earnings conference call for the quarter and year ended 31 March, 2023. Along with me, I have Mr. Rakesh Rawal, the CEO, Mr. Jugal Mantri, the Group CFO, Mr. Rajesh Bhutara, the CFO, Mr. Chethan Shenoy, Director and Head of Product and Research, Mr. Vishal Sanghavi, Head IR, and SGA, our investor relations advisors.

Amidst geopolitical tensions, higher inflation and higher interest rate environment, we have delivered a strong performance across all our business verticals. In FY '23, our revenue grew by 31% to Rs. 558 crores, and the profit after tax grew by 33%, to Rs. 169 crores. Our holistic approach has also aided us in achieving a strong AUM growth of 18% year-on-year and reached a number of Rs. 38,993 crores.

During the last year we've added 1,270 client families, a new record and ARWL. This clearly demonstrates the trust and confidence our clients have in our services. Our total client families as on 31 March 2023, stood at 8,352. On the relationship manager side, we have added 22 RMs on a net basis for the full year. Over the years, Anand Rathi Wealth Limited has believed in providing uncomplicated, holistic, standardized solutions to our clients that have helped us consistently deliver robust performance at Anand Rathi Wealth.

For our flagship business, the Private Wealth vertical, AUM grew at 18% year-on-year. Despite the challenging environment, we have delivered strong performance across verticals. Our net flows for FY '23 stood at Rs. 4,896 crores, a growth of 78%. And the net flows of quarter 4 FY '23 stood at Rs. 1,180 crores, growth of 40% from the same period last year. This speaks of value which we have added to our client. This growth also reflects the effectiveness of developing uncomplicated wealth solutions for our clients, as well as our competency of our teams.

Our Digital Wealth vertical is a fintech extension of the company's proposition for the mass affluent segment, also registered a growth in the AUM of 23% year-on-year to Rs. 1,151 crores

(The number was incorrectly spoken as Rs. 1,151 crores however the actual number is Rs. 1,051 crores), while the number of clients grew by 9% year-on-year to end that 4,249.

Now I will request Chethan Shenoy to take us through the Omni Financial Advisor business updates. Chethan, can you step in, please?

Chethan Shenoy: Thank you, Feroze. OFA business is a strategic extension for capturing wealth management landscape to service retail clients through mutual fund distributors by using our technology platform. As on 31 March, 2023; OFA has 5,677 mutual fund distributors associated and has assets under administration on this platform of Rs. 92,174 crores. The Board of Directors have declared a final dividend of Rs. 7 per equity share of face value of Rs. 5 each of the company. That is 140% of face value.

Total dividend for financial year 2023 stood at Rs. 12 per equity share. This includes an interim dividend of Rs. 5 per equity share paid in October '22. In the last one year, post listing, the company has outperformed its own expectations. And we anticipate our long-term commitment to offer the most efficient wealth solutions to our clientele will enable us to achieve 20% to 25% growth in the years ahead.

Thank you. And now I request Jugal Mantri ji, our Group CFO, to take you all through the financial performance of the company.

Jugal Mantri: Good afternoon. Thank you, Feroze bhai and Chethan. Friends, despite short-term volatility, the mid and long-term outlook for the Indian equity market seems highly promising. We have delivered strong financial performance across all three verticals. Our consolidated revenue for the quarter ended 31 March 2023, stood at Rs. 147 crores, as against Rs. 115 crores, in Q4 FY '22, registering a growth of 28% Y-o-Y.

While revenue for financial year 2023 stood at Rs. 558 crores, as compared to Rs. 425 crores in FY '22, registering a growth of 31% Y-o-Y. Our profit before tax for the quarter stood at Rs. 59 crores, registering a growth of 35% Y-o-Y, whereas profit before tax for FY '23 stood at Rs. 228 crores, registering a growth of 36% year-on-year. Profit before tax margin stood at 40.4% in Q4 FY '23 and 40.8% in FY '23.

Our profit after tax for the quarter stood at a healthy Rs. 43 crores, registering a growth of 23% Y-o-Y, as compared to Rs. 35 crores in Q4 FY '22. Profit after tax for financial year '23 registered a growth of 33% Y-o-Y and stood at Rs. 169 crores. Our PAT margin stood at 29.1% in Q4 FY '23 and 30.2% in FY '23.

Earning per share for Q4 FY '23 stood at Rs. 10.3 per share, and for financial year 2023 it stood at Rs. 40.5 per share. Out of EPS of Rs. 40.5 per share for FY '23, the company has proposed to pay 30% as total dividend that is Rs. 12 per share.

Coming to the Private Wealth vertical for FY '23, our flagship Private Wealth verticals revenue grew by 31% year-on-year, which stood at Rs. 538 crores. While sales revenue grew by 23% Y-o-Y, which stood at Rs. 182 crores. Profit before tax for FY '23 stood at Rs. 226 crores, registering a growth of 36% Y-o-Y, while profit before tax margin stood at 42.1%.

Profit after tax for FY '23 stood at Rs. 168 crores, registering a growth of 34% year-on-year, while profit after tax margin stood at 31.3%. Return on equity of our flagship Private Wealth vertical as on 31 March 2023, stood at a healthy 38%.

With this, we will now open the floor for questions and answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer-session. We have a first question from the line of Lalit Deo from Equirus Securities. Please go ahead.

Lalit Deo: Hi, good afternoon sir. Thanks for the opportunity. The first question was on the revenue side. So, within the revenue, we see that the revenue has been driven from the distribution of our MLD products. So just wanted to know that during the quarter, what kind of the gross issuance we did in this quarter, like both primary as well as secondary on the MLD side?

Feroze Azeez: Lalit, before I hand over to Jugalji to give the precise numbers, since the market in the last quarter, for example, started on 1st, January from 18,100 to 17,300 and since the markets have been flat for the full year is why you may want to say that the revenues have come from the MLD distribution. But if you look at it, our net mobilization on the equity mutual fund side, which is what will give us the trail revenues, was Rs. 900 crores (The number was incorrectly spoken as Rs. 900 crores however the actual number is Rs. 1,004 crores) in equity mutual funds approximately.

In the full year, we collected Rs. 2,400 crores - Rs. 2,500 crores (The number was incorrectly spoken however the actual number is Rs. 3,000 crores) in equity mutual funds, whereas the industry lost Rs. 15,000 crores other than the SIP collections. So our net mobilization share in the trail generating business has been significantly more focused than the MLD distribution. But since the markets have been subdued, the revenues seem to be more skewed towards MLD business. But my gross mobilizations and net mobilization have been extremely skewed towards the trail-generating business, so as to fulfill the commitment or an indicative commitment over the next few years to have 50-50 as the ratio between upfront and trail.

Jugalji, if I can request you to give some more color to this.

Jugal Mantri: Yes. Mr. Lalit, see in Q4 FY '23, the gross issuance of non-principal protected structured product was Rs. 1,000 crores, compared to Rs. 984 crores in Q3 FY '23 (The number was incorrectly spoken as Rs. 984 crores for Q3 FY23 however the actual number is Rs. 1,151 crores). But if you look at the net number, in fact the redemptions were more for because of the maturities, the net number was minus Rs. 407 crores in non-principal protected structure products for Q4 FY '23. And for the mutual fund, equity mutual fund, the net mobilization was Rs. 1,004 crores. For debt mutual fund, it was Rs. 213 crores and other products Rs. 370 crores. So overall, for all the products, the net mobilization was Rs. 1,180 crores in Q4 FY '23.

Lalit Deo: Sure, sir. So, sir, just like as you mentioned this Rs. 1,000 crores, this includes both primary issuance as well as the secondary issuance or this is just the primary issuance?

Jugal Mantri: No, this is, Rs. 1,000 crores is primary. The secondary number is Rs. 287 crores.

Lalit Deo: Sure. And sir, second question was on the -- so like during the quarter, there have been several regulations which are then announced and like basically the taxation on MLD part. Then the second one was on the taxation on the debt mutual fund as well. So with all these regulations coming up, coming in during the quarter, how has been the customer behavior towards these products? And what are the initial signs that we are reading from the market right now?

Feroze Azeez: Lalit, there are quite a few questions intertwined into one. One is client behavior, tax change, regulatory changes which are there for the quarter. So, first is client behavior has been very - very positive towards Anand Rathi Wealth because we predicted this, clearly predicted this on pieces of paper and sent notes saying that the tax advantage for principal protected MLDs will cease to exist. Not even may cease to exist, we had said will cease to exist in the next few budgets.

So that really helped. Clients did not buy even a single principal-protected 10% taxation MLD. The problem was MLDs, a few of those MLDs which got listed because of their principal-protected nature were being taxed at 10%, whereas all the other debt instruments were being taxed at 20%. So we never issued any principal-protected debt-like MLDs. All our MLDs, 1,200 which matured, 1,700 which are expected to mature - 1,600 which are expected to mature, all of them are equity-like, non-principal protected equity-like. So clients could see the merit of -- for us. For the years we have counseled them not to go for tax advantage as a prime purpose of an instrument purchase.

So that helped. Client behavior has become far more positive, and we have no more having to answer the same mundane question we have been answering for years, why we don't do listed, rated, principal protected MLDs. Now, that question has suddenly vaporized, which was the most commonly asked impediment.

Then comes tax efficiency. Again, debt funds have come into the gambit of Section 50AA. They have come under the gambit And again and again reiterates our stance that if you are taking the risk, there is no problem. So 35% plus equity allocations in any fund will not be covered under 50AA. So that doesn't change too much because our strategy on the debt side because our clients have intergenerational wealth. We have collected a homogeneous group of clients is why we have 8,400 not 80,000 clients. We have collected homogeneous groups of clients who have intergenerational wealth. And debt has very small role to play in intergenerational wealth. It's a shock absorbent for short-term volatility.

So we have very small amounts in debt and where we have a low cost, no credit risk, no interest rate risk strategy. So that doesn't get impacted. Regulatory changes have not impacted Anand Rathi Wealth. And there are a few more regulatory changes which have come, which would have gone unnoticed. There is a PMS regulation change which has come in 2022 - December

16. That's one regulation which has come. AIF regulation, which has just come two - three days back. All these don't impact us because we -- and there's one more regulation which came during the year, during the quarter, was the B30 commission going away. So all these don't impact us because we have not used any upfront commissions of AIF or PMSs or the B30 provisions to build a revenue stream. Does it answer, Lalit bhai?

Lalit Deo: Yes, yes, sir, it does answer. Actually last question was that like, since you mentioned in that these days the market has become a little uncertain and like, so in that equity schemes which you generally share with your investors, so like have you changed any kind of strategy over there or like that? Like we have a policy of only giving out 11 equities schemes. So have you made any changes in those schemes?

Feroze Azeez : Yes, we have made some changes in the scheme. We do this exercise, a very thorough exercise between January, February and March every year to see the validity of the schemes we recommend. There are 380 active schemes, out of which we had 11 schemes only. Our purpose of buying an equity scheme is to make sure on an aggregate 11-scheme level we are able to beat NIFTY by 2 to 3% or NSE 500 by 2 to 3%. So it requires an immense amount of vigilance. Yes, there are some changes. Now we have launched our new model portfolio, which has 14 schemes instead of 11.

We have increased the number of schemes because we did -- we analyzed client portfolios transaction-wise, external portfolios, which are with competitors. And we realize that we win over 90% of the external portfolios. But there are some portfolios which beat us. They had more number of schemes. So we have increased the number of schemes to 14.

Moderator: Thank you. We have our next question from the line of Madhusudan Kela from MK Ventures. Please go ahead.

Madhusudan Kela: Yes. Hi, Rakesh, Feroze. It's Madhu Kela here. Both my colleague, Sumit is also along with me. Sir, congratulations in this environment. I think over the last one year amid all this volatility you guys have declared fantastic results. I have two - three points to make. One, in this overall tax environment, what has happened to debt mutual fund in terms of taxation, what has happened to MLD guidelines in terms of taxation, how do you see this business shaping up over the next 12 months and maybe over the next two - three year period also? Has it lost some steam compared to past because of slightly unattractive taxation? I am saying asset class as a whole.

Feroze Azeez: Debt as an asset class, sir? Is that what you asked Madhu Sir?

Madhusudan Kela: Yes, MLD, basically?

Feroze Azeez: Sir, MLD, now they have defined MLD as those which have principal protection. So the answer is yes, the Rs. 1.5 lakh crores industry, which ARWL had zero share in that will become absolutely non-lucrative for HNIs. Okay, we didn't have a share. We were always in the non-principal protected unlisted, unrated MLDs because they give an equity-like return, but lot of MLDs were only debt with a small little clause. So they were practically a bond with some outrageous clause saying that if NIFTY went to zero, I will not give you a return. So those were MLDs for the name sake. Those will definitely have an impact. That was almost, if I am right, if my memory serves me right, it's about Rs. 1,35,000 cores, Rs. 1,40,000 crores industry, sir.

Madhusudan Kela: Sir, do you see that you gaining market share, at least that money which was going in all those MLDs, will this mean that part of that could come to companies like yours, who are being selling unlisted MLDs?

Feroze Azeez: Yes, Madhu, sir, that we are seeing because this was one thing which was competing with us. That competition has gone away. Out of our 8,400 families, by taking them through logic we used to convince them that what we are saying is mathematical and logical. So most of our existing clients might not have too much intersection with that 1,35,000 crores, but there are a few. They might be 10%, 15% of our clients who would have had listed MLDs, they are seeking our tax advice also sometimes. So, you are right, we might have some collateral benefit of that industry losing its steam.

Madhusudan Kela: My other question is of course what we are hearing, that the entire expense ratio is being discussed at the regulator, that it will come down meaningfully for the AMC, right? Whether now it will happen or not happen-- hello¦

Feroze Azeez: Yes, sir, very intently hearing you, sir.

Madhusudan Kela: Give me one minute. Whether it will happen or not happen, we don't know. But supposing it's something like what is being proposed had to happen, how will it impact our business in terms of growth, margin, everything because what is being discussed is pretty sharp.

Feroze Azeez: Yes, Madhu sir. There are about six to seven points in the discussion paper which was floated as informed by my friends in the industry are concerned. So one of them, which has got implemented is B-30 being abolished. First let me give you a context of how we look at it. We have not used any of the extra benefits, so it doesn't impact us. Why I had like to say is, one thing which was the B-30, we have not used. We have not sold one NFO in spite of knowing several of our companions in the industry sold and collected 3% in the first year as trail. We said no, we will not do an NFO because it doesn't make sense for the client too. In-spite of having 380 old funds, buying a new fund didn't make sense to us. So we did not use B-30, we have not used NFOs.

Now we have not used smaller schemes just to increase our AUM. The 11-scheme model portfolio last year, the average scheme size was Rs. 15,000 crores. In the circular, which SEBI has sent to AMFI and in turn to asset managers, they have said that let's have an AMC-based expense ratio. Even if that gets implemented, then my trail comes down by 2 paisa, which I simulated. Out of my trail commission today in the equity mutual fund is 1.11%, that could come down to 1.09% if I look at all AMCs of the same scheme having the same expense ratio was the biggest hardest heating item out of the seven items written in that discussion paper, sir.

Madhusudan Kela: And Feroze, how will it impact our future business if these guidelines were to be implemented? One is the trail commission coming down. How will it impact the future earnings?

Feroze Azeez: Madhu Sir, since, look sir, because we have a model portfolio which only earns me 1.11%, if I use all -- if I would have used all these provisions, I would be earning 1.4% trail. Because it is not in my client interest, so I am currently voluntarily earning lesser because I have not used any of the provisions which are there. To come back to your pointed question, Madhu Sir, what will be the impact on the trail commissions in the future, I think minimalistic 2% to 3% if all of them get implemented because I have not got that 2 paisa advantage, is why it is not going away.

So there will be several distributors who used to use those advantages, they will have an impact, for sure. So it's an important point for a distribution fraternity because I have not used them in spite of having known of them, is why the impact could be lesser. In fact, it will improve active funds performance, which will impact us positively because if it makes alpha then because I am the third largest distributor, other than aggregators, other than Indian banks, I am the largest equity mutual fund distributor. It will impact me positively because performance will also be raised by 0.20 paisa to 0.30 paisa. Alpha what I very.

Madhusudan Kela: Is there any particular reason why you have either not looked at international markets yet in terms of sourcing clients or even distributing products for, let's say, Indian investors into international markets.

Feroze Azeez: Madhu sir to have your perspective. To be very honest if even after employing 83 research people won't understand India a lot. So, we thought that, brother if you do anything which is a little more beyond, because we like to have 20 - 30 people doing research in the international market, if not more. So and relationships get a little dampened if you make mistakes. So we try and have a kid glove kind of an approach to our relationship. But Rakesh Sir would be the best poised to answer this question, sir. Rakesh Sir, can I ask you? I know you have a sore throat that's why I have been doing the talking.

Rakesh Rawal: Madhu, basically the whole thing is objective that let to make a return of 12% to 14%. Hello?

Madhusudan Kela: Yes, sir I am with you. I'm with you.

Rakesh Rawal: Yes. And we have to get to 12% to 14% in the simplest way possible. Right? So if the simplest way possible means a certain proportion to Indian equities through the simplest mechanism, which is mutual funds. And structured products and a little bit of debt, then that becomes the least distance path, right? Anything more, complicates it. So if I add foreign funds or if I add foreign markets, it's complicated when it doesn't serve the purpose. So complication, which does not serve the purpose, we avoid. And that's been our strategy right from the beginning.

So that's the reason why we don't look at it. Plus, I think also Feroze said, that anything that we do, we want to do deep researching and then take to the customers. And if I were to take US or to take China or any other market, I just don't want to just do a fund just for the sake of it. I want to do it if there is going to be deep research, which means a lot of resources have to be put into it. A lot of resources putting, not serving a purpose didn't make business sense to us. That's why we didn't do it.

Madhusudan Kela: My other part of the question, Rakesh, was obviously NRIs and the people residing abroad is also a large community for Indian markets. I am assuming that Anand Rathi doesn't have a significant international presence. Any particular reason why we have not looked at it?

Rakesh Rawal: No, no. See we have an office in Dubai. And we've got that now for the last six - seven years, we have got great traction there. So, what we are doing with them is that we were saying, hey, bifurcate your money into two parts. The ones that you want to invest in India and the one that you want to invest abroad. For the ones that you want to invest in India, we are masters, instead of being jack of trades for all markets, we are master of one issue. And there is a lot of attraction to India over the last several years. The image of India has changed and a lot of NRIs are showing interest in investing in India.

So for that portion of the portfolio, which is significant, we have the full value of their money. And that's growing very handsomely in Dubai. And we will have, without having offices in the US, several US clients. And I manage a few whose 90% of those, they are being managed by us. So we have about 10% of our book, which is NRIs. So we are not ignoring NRIs but yes, you have a point that, yes, maybe we could be a little more aggressive there.

Madhusudan Kela: Thank you so much. And the best.

Rakesh Rawal: Thank you Madhu. Thank you for joining us.

Moderator: We have a next question from the line of Samyak Shah from Sameeksha Capital. Please go ahead.

Samyak Shah: Hello. Congratulations for this good set of numbers. Am I audible?

Feroze Azeez: Yes, Samyak. You are.

Samyak Shah: Yes. So there is significant amount of increase in other financial assets, as we can see from cash flow. So is it like FDs which is collateral against bank overdraft. And if so, then for what purpose such high amount of cash has been restricted?

Feroze Azeez: Jugal Sir, if you can.

Jugal Mantri: Yes, Mr. Samyak. See, what has happened is that if you recall in the month of February and March, the FD's interest rates have shot up. And what we have done is that we have made fixed deposits of more than one year in the month of February and March. So as per the balance sheet classification, in case if we are holding fixed deposit in excess of one year, then it has to be shown in other financial assets, which was earlier part of cash and cash equivalent. So actually, there is just movement of fixed deposit from cash and cash equivalent to other financial assets.

Samyak Shah: Okay, got it. And my other question is that can we get to know bifurcation of net inflows as to how much is from existing clients and how much from new clients, so new families which we have added?

Feroze Azeeze: Jugal sir, would you want to take that one?

Jugal Mantri: So Mr. Samyak, can you repeat the question?

Samyak Shah: Yes, sure. Sir can I know the bifurcation of net inflows as to how much net inflows from existing clients and how much is from our new clients?

Jugal Mantri: So I think this sort of classification we do not have about the AUM mobilization from the new clients as well as old clients. Reason being that our existing clients also they keep on like moving from one bucket to another bucket in case if their AUM fall below 50 lakhs, then they get excluded from my active number of clients. But it still will work out and give it to you Mr. Samyak.

Samyak Shah: Okay. Thank you.

Moderator: Okay, thank you. We have our next question from the line of Mayank Agarwal from Incred Capital. Please go ahead.

Mayank Agarwal: Yes, thanks for the opportunity and congrats for good set of numbers. My first question is on RM addition. We have added 16 RM. Now we have 292 RM (correct no is 293). So how many of the new addition is from outside and how much is from you know the promotion of the AMs to the RMs? My first question.

Feroze Azeeze: Yes, one. I will just give you the split. The net addition is 22, right? Yes, sir. For the full year, the net addition is 22. Okay, and you would be also happy to note that last quarter when we declared our result, our regret attrition was zero. This quarter it is one, that is 0.35% for this quarter. For some personal reasons, some RMs might leave . But we have been able to maintain a very, very low regret attrition number. Regret attrition defined as a person who has got more than 40 crores of AUM.

After having come to 40 crores a year, if somebody left off, it would be called a regret attrition, and that was only one person in the quarter. And coming back to your question, lateral hires from the industry are 40% internal and 60% external. That is lateral hired. For the last quarter, right?

Mayank Agarwal: Yes, sir. So, there would be also some client addition because of that outside hiring also, if I am right?

Feroze Azeeze: Sorry?

Mayank Agarwal: The 40% hiring we have done outside, they would also have bring some clients out of the newly added clients, if I am right. Is that the issue we should look at?

Feroze Azeeze: Yes, there will be issues. When a client, new RM comes, he adds about 10 – 12 - 14 clients. It is not very easy to move all the clients from the erstwhile organization. So, it will be very difficult to bifurcate that when he joins in, in the first 3 months, 4 months, how many does he get? So, over a period, he tries to re-establish, connect with his erstwhile organization's client. Yes, you are right.

Mayank Agarwal: And I want your perspective on equity inflows. So, the industry is witnessing, you know, kind of a neutral inflow for last 4-6 months. It could be higher interest rate or you know, the neutral performance of the market. When you expect equity inflows to return to the market?

Feroze Azeeze: See, the fact that equity inflows are not there may not be the best judgment. What happens is HNIs use different vehicles. Right? Mutual fund has had very low inflows from HNIs. PMSs have had inflows, AIFs have had inflows. Now, AIF also is going to be starting a direct alternative, direct option. So, then again, the mix between MF, PMS and AIF in most wealth management outputs is going to change. So, coming back to this year, the total net outflow of HNIs is 15,500 crores negative. If you remove the SIP collections for the full year.

So and Anand Rathi's number is till February was 2,400, somewhere there about. So, we are positive, the industry is negative. To come back to your question, pointed question Mayank, when will this become better? To my mind, it will become better because you have already gone through a one and half year time correction.

You have gone through a thousand points of price correction. In the same period from October 21, markets have not moved anywhere. They have added 900 rupees of earnings to their books, minus the dividend of course. So, I think there has to be the light at the end of the tunnel. That's point one. But you would be happy to note how a wealth management output can influence a trend in its own set of smaller subset of 8,400 clients. You would see that the last quarter, Nifty was very bad. But our sourcing was the maximum in equity mutual funds.

It is one thing to have academic faith that market will be down, we will buy. There is a, it's all together a different thing to actually do that in action. So, you would see that in quarters where Nifty averages lower levels, our net mobilization is increased. And that's when client performance comes. Right? So, that's something which we take pride in like Jugalji said, the 1,000 crores of our total sourcing for the last quarter came in equity mutual funds.

Mayank Agarwal: Right, thanks that was really useful and best of luck.

Moderator: Thank you. We have our next question from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: Hi, good afternoon. Hope I am audible.

Moderator: Yes you are.

Feroze Azeeze: Yes, Mr. Ghosh, you are.

Dipanjan Ghosh: So, just a few questions from my side. First, you know, a lot of the private banks and the boutique wealth managers have been guiding on expanding their presence in the 1 to 10 crores or 1 to 20 crores segment. So, both from let's say a medium term, maybe a 5 to 7 year perspective, how do you see the competitive intensity increasing in the segment? Obviously, there is a high expansion in terms of client penetration or new client acquisition, but also there is an aspect of competition increasing from some of these players?

Second, I think from the cost perspective, obviously over the last few years, you have seen some improvement. If you can give some color on what sort of buffer or headroom do you see on the cost side from a medium-term perspective, where you can see some improvement out there. And also, if you can split your overall expenses between variable and fixed, be it on the employee or over on the side?

And lastly, one data giving question, if you can quantify the ESOP expense for the quarter and for the year?

Feroze Azeeze: Yes, that's a lot of questions, Mr. Ghosh. So, I might just miss any of them. You can pull me back into those ones. The first one, you said about just the competitive intensity, right?

Dipanjan Ghosh: Yes.

Feroze Azeeze: See, the competitive intensity is not just about the number of players in the space. It's about number of similar players in the space. What we stand for is being mathematical, not product pushing, right? We have a strategy, we do it very uncomplicated. There is no wealth management outfit which would be able to survive without doing an NFO, without doing a PMS, without doing an AIF for 10-10 years. So, we have acclimatized our clients to expect no entertainment, uncomplicated advice. Not something new every quarter, right?

So, when you look at it, the industry does direct equity. Clients may not even know their IRR, forget their alpha, right? PMSs they do, they don't know their post-cost, post-expense alpha and IRR. Quite a few clients don't know. So, we want to be guiding our clients on the basis of mathematics. So, and all other peripheral services, right? A guy does regular mutual funds with us, not just to remunerate me on mutual funds.

He wants to remunerate me for the trust I created, for the tax opinions I gave or help them source. He wants to give me a regular scheme because I have made his will, I have registered his will, I am making codicil to his will. So, there are several peripheral services. So, for wealth management outfits to offer these services and do mathematically just a 1% equity mutual fund business, I don't see that will change too much.

Because as of now it's just there are so many players. But not the real private bankers want to start in the ultra-HNI segment. But we have the Rs. 5 crores to Rs. 50 crores segment which Rakesh sir chose way back in 2007 as his preferred segment because the DNA of those people is mathematical, professional. They don't like product pushers. They like somebody who can give them professional service. So and we will traverse that as the industry evolves. And that's all. What was the next question Ghosh sir?

Dipanjan Ghosh: Second was on the cost part, whether you see some headroom from improvement and what is the quantum and also if you can split between variable and fixed.

Feroze Azeez: Yes, yes, Jugal Sir.

Jugal Mantri: Yes, Mr. Dipanjan, if you look at the overall cost structure which we have, out of Rs. 100 revenue which we earned, see our PBT margin is about, say, 42.5%, okay? So rest, about 57.5% that constitutes my total cost. And out of that, if you split it, that the operating cost, including employee cost, that is, say, about 46% - 47% and remaining 10% is other incidental costs, which is other operating business promotion, rental and all these things. And even in case of employees, the split is between the revenue-generating employee as well as the product, operation or non-revenue-generating employee set up is, say, between 2/3 and 1/3.

So what we can say as far as concerned with the increase in the volume of business, that the 1/3 cost, we are still capacitized to handle, say, another 50% volume of what we have been doing right now. And that will be a semi-variable cost. And the revenue-generating employee, which constitute that is directly variable cost. So if we overall, as long as we achieved, say, 42.5% to say, 43% or 44% of the gross margin or the PBT margin, I think that we are very close to the optimal listing margin level. And the further scope of improving it is limited. That will be less driven by the volume and the commensurate increase in the cost. Does this answer your question, Mr. Dipanjan?

Dipanjan Ghosh: Yes, sure. And if you can just quantify the ESOP expense number?

Jugal Mantri: That is very insignificant. I think in this quarter, it was about Rs. 1.5 crores, that was the ESOP expenses. There are no other ESOPs which are outstanding. So in fact that expenditure will also go away going forward.

Dipanjan Ghosh: And if I can just follow up on one of the points you mentioned in a previous answer. You mentioned that if the industry were to move to a company-level TER from a scheme-level TER, then the impact will be around 2 bps going down to 1.09% from 1.11%. So if you can give some color on how you kind of arrived at this calculation. Or what are those inputs that you kind of baked in?

Feroze Azeez: Yes. So what we did was, see, every asset management company, we had 9 asset management companies, 11 schemes, okay? If every asset management company's average AUM of each of the schemes became their actual TER fixation number. For example, if I take the largest AMC, the biggest scheme could be Rs. 30,000 crores, right? If all of them were pegged to Rs. 30,000 crores, what would be the actual expense chargeable on the scheme which I am selling, right? I am selling, for example -- okay, let me not give you examples of asset management companies.

But if I would be selling a Rs. 10,000 crores scheme in our asset management company, which average AUM is Rs. 20,000 crores, will I get impacted there in that asset management company, I will get impacted. Now I sell a very, very large scheme also in my 11 schemes, which you would have heard of, me speaking on TV or somewhere where you would have Rs. 50,000 crores - Rs. 40,000 crores in that scheme.

In that AMC, I will not get impact. So we went AMC-by-AMC, trying to re-peg the TER permissible as per SEBI's slabs on the average and the highest scheme of that corresponding asset management company, then did the math. Then the drop was 3% - 4%. Then if you made some modifications to the model portfolio, the new model portfolio said 2% - 3%. That's all.

Dipanjan Ghosh: And when you say average AUM, basically overall sum of AUMs divided by number of schemes, right?

Feroze Azeez: See, one of the interpretation says that that's not the case. So I have also simulated into the largest schemes. If all the smaller schemes of an asset management company now gets charged only on the basis of the larger scheme. So there is some degree of interpretation there. Average may not be the right because it is not become a rule, and I think that's put at bay, in my opinion so far. So, when it happens, you have to try and navigate that.

And I don't think if my model portfolio was so designed to get a 1.3% trail, which I could have very easily, the average AUM of my 11 schemes is 15,000 because I am a client-centric organization. I will choose a scheme not because of the 2,000 crores scheme could give me more commission. The average scheme size being 15,000 itself implies that I didn't use the smaller schemes to bring my revenues up. If I would have done that, I would have been at a 1.4% trail, then would I come back after this regulatory change to 1.1%. So I could have enjoyed that 0.2%, 0.3% more for some period of time, very well knowing it will go away. So I have not used that. Does it answer?

Dipanjan Ghosh: Yes, sure it does. Thanks for the clarifications and all the best.

Feroze Azeez: Thank you sir, for your questions.

Moderator: Thank you. We have our next question from the line of Abhijeet Sakhare from Kotak Securities.

Abhijeet Sakhare: So one question, just a broad question on how we operate. So just some perspectives on what's been the level of acceptance or what are your broad thoughts around moving towards an advisory-based or a fee-based model in terms of advising our client base?

Feroze Azeez: For fee-based model, 2013 is when advisory regulation was introduced. There are about 10 circulars which have been published after that, circulars and discussion papers. We have not had to change our business model. We have chosen distribution. We will remain distribution till advisory, all products need to be on direct. Now after 10 years of mutual fund going on direct, 2 days back or 3 days back, you read that AIFs are also going to have a direct option because a client portfolio has several products, insurance, AIFs, PMSs mutual funds. Only mutual fund had a direct option. PMSs didn't have a direct option.

So that's why we chose a distribution model. 5 years from now, 10 years from well, now if all financial instruments could come on direct is when somebody can choose to go the advisory model or the distribution model and then give unbiased advice, right? So that's the reason. And anyway, the advisory licenses have been surrendered by all wealth management outlets in October 2020. This is something. And now PMS platforms get used for charging a fee. Most of our companions in the industry surrendered their advisory license. If you google that, you will find it. Does it answer, sir?

Abhijeet Sakhare: Yes got it. Thanks a lot.

Moderator: Thank you. We have our next question from the line of Varun Pattani from Quant Mutual Fund. Please go ahead.

Varun Pattani: Congratulations on a great set of numbers. So my question was on selection of mutual fund schemes. You mentioned you have 11 schemes and you might increase a few more schemes now. So what sort of criteria apart from maybe AUM size or something else? What criteria do you look at? Because most of the industry practice is looking at historical numbers like returns or Sharpe ratios or something like that. So as a customer or as a client, how do you explain it to them why you have gone for a particular mutual fund scheme?

Feroze Azeez: So, Varun, I can sometimes offline take you through the presentation from a client standpoint, but we -- I just tell you in a nutshell. Firstly, we tell the client that don't evaluate each scheme independently, you have to evaluate the full portfolio. I don't take a mandate to get you the best 11 schemes. So the portfolio, you will always have 2 - 3 or 1 – 2 - 3 of those schemes out of the 11 - 12, you choose which will not do well. That's an expectation setting. Otherwise, the client is always going to get into individual schemes and it will be, rest assured, there will be 2 - 3 of them which will under-perform and he will miss the woods for the trees, point one.

Point two, how do we choose it? We ran a regression model on 104 variables to check the correlation with -- as a lead indicator and then we identified some 11 variables which have a significant correlation between the past variable and the future performance. So what are those 104, it's a laundry list of them, not those conventional sharp variables only. There are several other variables. We check the correlations of them and then we use regression to fit the coefficients of those differential equations. That is the statistical method. The second is we try and get into the schemes, stocks in each of those portfolios, and we use our research to find out the overall basket's future potential. Just like most analysts give a target price for a stock, a basket of stocks also we try and put rigorous efforts to find out which is the portfolio which has the maximum headroom for growth and internal price movement. That's the second.

Third we do is, we try and see, we rank our fund managers, 152 fund managers are ranked in the chronological order of their decision-making capability, which we numerically measure using a proprietary formula. So I don't want to give that all on a call. But yes, these are the three steps. And then doing all this, just to make sure that we are able to beat Nifty by 2% to 3%. 9 and half years, we have run a model portfolio. Ever since direct came, we said we will have to generate

Alpha and create our relevance. That's when we will be able to sustain a regular business for years to come or if not decades.

So in the 9 and half years, the audited performance of our model portfolio of 38 exits and 36 entries in the portfolio has resulted in 2.23% Alpha over Nifty compounded for the last 9.5 years is the outcome of our statistical evolving mathematical model for a choice.

Sorry for the monologue. Varun, does it answer, at least conceptually?

Varun Pattani: Yes. It does, thank you.

Moderator: Thank you. We have our next question from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: Hi, thanks for the chance. Sir, just one question that from the current revenues in the PPT, the way you report it, out of your 141, 47 is trails, that's clear. So the balance 95, how much of it comes from the up fronting of the MLDs? Could you quantify that? That's just a query I have. And the second one, actually, if you could quantify this, if it's possible?

Feroze Azeez: Yes, it's certainly possible. Jugal sir, if you can say that. So a reasonable portion of that will be MLD, primary, secondary and some broking income, some things which are generally there.

Jugal Mantri: Yes. So out of that, like 91% or 91.5% is from the MLD and rest is from other products.

Aejas Lakhani: Perfect. And sir, you mentioned a couple of times that your growth is, in the MF has been Rs. 2,000 crores ballpark and the industry has had minus Rs. 15,000 crores. So could you just tell me what is exactly driving that? And what do you think are the growth drivers for that in FY '24 and FY '25?

Feroze Azeez: So measurement is driving that. Now if a client came to me or if we went to a client, we try and find out transaction-wise Alpha's of his over Nifty. Most distributors don't give this number. On a specific day, now let's assume a few days back I just met a large client who had done 426 entries into mutual funds and about 121 exits into mutual funds over the last four years. So I take the transaction information, put that on an Excel sheet, compute if you bought and sold Nifty on those specific dates, would you be richer or poorer.

If he is poorer, he has underperformed Nifty and he doesn't even know. Most people have -- don't even have the exact transaction-wise Alpha. So we analyzed last five months, we analyzed 239 external portfolios, transaction-wise, no approximation, because Nifty moves 1% every day. If you have to measure Alpha, you have to measure it on the same days if I bought and sold Nifty. Out of the 239, about 170 of them didn't outperform Nifty in spite of being an active funds through other distributors. 219 of them couldn't beat my model portfolio. 20 of them have beaten my model portfolio.

So I learned from the people who beat me. The 219 clients who underperformed my model portfolio on a transaction-by-transaction basis, that's the crux. Then I go to them and say, sir, you may go direct, you might think that you've saved some cost, but your revenue has dropped far more than your cost. That's why you have underperformed Nifty by 3% in spite of saving 0.5% or 1% on cost. Then I am able to move even a direct client, large direct clients are moving to regular.

So measurement, which we started lately, mathematically exact same precise measurement is helping up, establish that we are great distributors rather than in english but in number.

Moderator: Thank you. I request you to come back in the queue for further questions. We have our next question from the line of Varship Shah from Envision capital. Please go ahead.

Varship Shah: Thank you for taking my question. Just from a reporting perspective, would it be better if you could report between average AUM for the quarter. It would make easier for us to calculate yields, and I'm surely, internally, we do that exercise, as a class?

Feroze Azeez: Great suggestion sir.

Varship Shah: Okay. And on the MLDs, so we are completely unimpacted by any regulation taxation change, the regime, because we are non-principle protected?

Feroze Azeez: In our belief, we are positively impacted by that change because that's what we called out, saying this will happen. So from a taxation standpoint, the answer is yes, we don't get impacted. And that belief gets solidified because debt funds with 35% equity also don't get impacted. So the Section 50AA basically says if you're taking the risk, no problem. If you're not taking the risk, please don't take indexation and long-term capital gain tax. That's why debt funds with more than 35% in equity are exempt from 50AA. Does it answer?

Varship Shah: Yes, thank you.

Feroze Azeez: And all our products are risk. They can also lose full capital if Nifty becomes zero. So we have -- there are more equity-like.

Varship Shah: Thank you.

Moderator: Thank you. We have our next question from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Hi, sir. Thank you for taking my question. So, I just a small one here on the NBFC that's backing the structured products, which is I understand it's into G-Sec, derivatives and a small amount of loans. I just want to understand what's the yield on the loan book then?

Feroze Azeez: Jugalji, you may be equipped to answer this one, the yield on the loan book.

Jugal Mantri: So that is a question related to NBFC, but I'm sure that on the NBFC front, whatever lending which has been done, the average yield which they are earning is about 11.5% for the loan against shares portfolio. And for mortgage and construction finance book, the average yield is in excess of 13%.

Pallavi Deshpande: One-three?

Jugal Mantri: Yes.

Pallavi Deshpande: Okay. Sir, second question would be on what would be the average age of the clients, that's 8,500 clients, what would be the average age, sir?

Feroze Azeez: Pallavi, sorry, average age of?

Pallavi Deshpande: Of the client, yes, of your client?

Feroze Azeez: See, average age, I can't tell you, but I'll tell you one number, 63% of the clients are finished more than three years, 37% are less than three years. Okay, now, when a person goes through one cycle of three years, then he is a mature relationship with us.

Pallavi Deshpande: Yes, Just I was asking about the higher…

Feroze Azeez: Okay. You're not speaking of the vintage with us, you are speaking about the age. Okay, we've not measured that Pallavi…

Pallavi Deshpande: Age of the client, 50 years, 20 years, yes.

Feroze Azeez: No, sorry, 50 years, 60 years. The actual age, right? That's what you asking?

Pallavi Deshpande: Actual age, yes.

Feroze Azeez: Okay. I'm so sorry. I misunderstood you. I thought the vintage with us is what you were looking for. I just tell you…

Pallavi Deshpande: If you could tell me how many of them would be higher than 60 years old?

Feroze Azeez: Okay. Rakesh sir, you want to take that to break the monotony of my voice, and your…

Rakesh Rawal: On a precise number that my experience is that it would be close to about 40%, would be higher than 50 - 55.

Pallavi Deshpande: All right. Sir, that's why I was just relating this to the debt funds that are going to be becoming more unattractive in the whole scheme of things, do you see money then shifting? Would you be looking at within your allocation, shifting more clients to equity and or, yes?

Rakesh Rawal: Yes, see, what have found is that people with 50 – 55 - 60 years have the same aspiration to do well and earn 12% - 14% return as maybe with a guy of 30 years of age. This is a misnomer that when you have 60 years relegated to old age, near death bucket. There's a lot of life still left at 60. So we are very comfortable with equity, unlike the perception. I see a lot of young people put money in deposits. Hello?

Pallavi Deshpande: Yes, but money shifting to FDs, just like you have put your money into an FD, the company has that so that is a good thing that is a shift expected from debt funds.

Feroze Azeeze: Pallavi…

Rakesh Rawal: I am just saying -- sorry, Feroze carry on.

Feroze Azeeze: Sorry, sir. You were speaking, I didn't hear you. I am sorry. Please go ahead, sir.

Rakesh Rawal: No sir I am basically saying that if a person has a 12% to 14% aspiration any client whether 60 65, 50, 80 then there is a mechanism to do that which involves a certain degree of equity so it is not about the age it is about what objective that person has and the point I was raising was that it does not make sense to have a 6% - 7% kind of objective and you have an ambition of 5 - 6%.

So that is why most people many people have chosen 12% to 14% which is and they get comfortable with it you know over time in equity so age profile at least in my experience hasn't doesn't have a correlation to what kind of equity exposures they have. I don't know if that answers it, but at least my experience tells me that it doesn't have a correlation. Feroze you can add to that.

Pallavi Deshpande: Right. That was very insightful.

Feroze Azeeze: I would like to add to that Pallavi what happens is with age earning potential reduces. A person who has - who is not financial free see the present value of all the HNI goals is less than his current net-worth then he is attained financial freedom. If he has attained financial freedom then he has intergenerational money.

So if I am 80 and I am not going to be using 35 crores for example it is going to be dependent on who is the Karta I might be that if I am elected you my 80 years and this money is in the trust of a benefit of my three grandchildren who are 18 years age will my risk appetite be dictating the allocation of the 18 year olds who are actually the beneficiary of this money what do you think Pallavi?

Pallavi Deshpande: Yes, I got my answer.

Feroze Azeeze: Right so when we look at this perception it is coming because 99% of India is living hand to mouth they are not able to fulfill the goals of their lifetime but we have collected a homogeneous group of those guys who if they want to achieve all their goals there will still be left money that's why Rakesh sir is only implying return objective not retirement objective. He is saying 12% to 14% he is not saying, for children's studies, he is not saying retirement.

Pallavi Deshpande: Right.

Feroze Azeeze: You understand, what is the difference between ARWL and 99% of India is operating with the same mentality which you said because in old age the ability to earn decreases.

Pallavi Deshpande: Right. I got it. Thank you so much sir.

Moderator: Thank you. We have our next question from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Yes hi. Firstly, a question on the client addition trajectory that we have seen it is kind of on the weaker side when we compare it what we have been doing in the past so is there and also I see that generally whatever numbers reported numbers we have even in last year Q4 that number used to be on the lower side so first of all is there a in terms of client acquisition trajectory where you come up getting to some slowdown or that's them.

Feroze Azeeze: No Prayeshji, if you look at, see, when you look at client addition the number which you will be looking at is net. What happens is if a client market value falls below a certain threshold we stop counting. Another, client when the market fall we have some degree of outflow not that the client has gone away. Right.

Clients, mark to market has brought him beyond the threshold which we like to see. If you look at gross addition it will give you a true picture let me give you the gross addition in the first half of the last financial year we had 1,230 gross addition and in the second half we had marginally lower 1,070 gross addition. Because the market in March 31st closed significantly lower, then the December number of 18,100 some of them would have slipped lower.

Now the beauty is of course there is a 5% - 10% lower in the second half than the first half. But the quality of addition, the client who started in the first half gave us 91 lakhs average to begin with. The client who gave us money in the second half started with 1.45 crores as an average. So, as we have become a listed entity we are getting popular we are becoming more trustworthy, because there is a perception attached to a listed company of governance and transparency.

So we start ready to cut bigger and bigger cheques as we progress so if the quality of acquisition is improved marginally you are right in the second half there was a marginal drift relative to the previous half. But if you compare it with the previous year we have had a gross addition increase significantly.

Prayesh Jain: Okay. And just a question on the employee cost you know you mentioned -- so when you how do you account for the variable cost on a quarterly basis you forecast for the full year and then approximate during the year, you accounted in one particular quarter, how do you do that?

Feroze Azeeze: Jugalji, if you can understand the problem.

Jugal Mantri: See the incentive, the larger portion of the incentive is accounted on a quarterly basis, okay. But there are certain incentives which are like add-on incentive linked to the achievement of certain threshold limits, okay, that we come to know in the last quarter only that whether any individual RM who has crossed a particular threshold and because of this there is some incremental incentive which is getting accrual to him over and above the incentive which has been provided for. So that is why when we are finalizing the annual account that the assessment of the incremental approval to any employee on account of incentive that gets computed in the last quarter. And that is why you will see that in fact the employee cost for the Q4 is higher by say about Rs. 5 crores and Rs. 5.5 crores in Q4 that is on account of that incremental incentive.

But you can say that largely about 90% to 95% of the incentive that gets computed and accounted in respective quarter and the remaining 5% to 10% of the incentive which is add-on that gets computed and accounted in the final quarter.

Moderator: Thank you. I would now like to hand the conference over to management for closing comments, over to you.

Feroze Azeeze: Jugal ji.

Jugal Mantri: Yes please. So, I take this opportunity to thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information or clarification, kindly get in touch with our IR head Mr. Vishal Sanghavi or CFO, Mr. Rajesh Bhutara or Strategic Growth Advisor or Investor Relation Advisors. Thank you very much.

Moderator: Thank you. On behalf of Anand Rathi Wealth Limited that concludes this conference Thank you for joining us and you may now disconnect your lines.