ANAND RATHI
Private Wealth. uncomplicated

Ref No: 85/2023-24

Dated: January 19, 2024

To,

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Dear Sir/Madam,

Subject: Q3 FY2024 Earnings Conference Call Transcript

We are enclosing herewith copy of the transcript of the Company's Q3 FY2024 earnings conference call dated 15th January, 2024. 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
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ANAND RATHI WEALTH LIMITED
MUMBAI

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

“Anand Rathi Wealth Limited

Q3 FY '24 Earnings Conference Call”

January 15, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on January 15, 2024 will prevail

Management:

1. MR. FEROZE AZEEZ – DEPUTY CHIEF EXECUTIVE OFFICER – ANAND RATHI WEALTH LIMITED
2. MR. JUGAL MANTRI – GROUP CHIEF FINANCIAL OFFICER – ANAND RATHI GROUP
3. MR. RAJESH BHUTARA – CHIEF FINANCIAL OFFICER – ANAND RATHI WEALTH LIMITED
4. MR. CHETHAN SHENOY – EXECUTIVE DIRECTOR AND HEAD - PRODUCT AND RESEARCH – ANAND RATHI WEALTH LIMITED
5. MR. VISHAL SANGHAVI – HEAD INVESTOR RELATIONS – ANAND RATHI WEALTH LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Anand Rathi Wealth Limited Q3 FY '24 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 the 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 this conference, please signal an operator by pressing star and 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. Thank you, and over to you, sir.

Feroze Azeez: Thank you so much. Good afternoon, friends, and thank you for joining the Earnings Conference Call for the third quarter and the 9 months ended 31st December 2023. With me, we have Mr. Jugal Mantri, the Group CFO; Mr. Rajesh Bhutara, the CFO; Mr. Chethan Shenoy, Executive Director and Head of Product and Research; Mr. Vishal Sanghavi, Head, Investor Relations; and SGA, our Investor Relations advisors.

Indian economy has shown robust growth, and our markets remain resilient despite global uncertainty. With the expanding investment opportunity and a thriving market, wealth management firms are likely to attract more clients seeking professional guidance. During the last quarter, we have added the highest number of HNI families, and our client base is now at 9,641 families, and our assets under management have grown to INR 55,057 crores, a 43% growth on a year-on-year basis.

In the first 9 months of FY '24, our consolidated revenues increased from -- by 35% year-on-year to INR 555 crores, and consolidated profit after tax grew by 34% year-on-year to INR 169 crores. The consolidated net flows grew by 41% year-on-year to INR 5,411 crores. Equity mutual fund net flow saw a remarkable 85% year-on-year increase to INR 3,854 crores despite the industry experiencing net flows of minus INR 29,000 crores in equity and growth-oriented scheme net of the SIP inflow of INR 1,41,000 crores approximately.

This growth highlights our client families' trust in us and our deep understanding of our client requirement, backed by meticulous research to gain insight into the risk associated with achieving their financial growth. Our trail revenue for 9 months of FY '24 stood at INR 186 crores, which grew by 32% on a year-on-year basis. The role of our team of relationship managers has been a key to our consistent growth. Relationship managers, which increased by 45 in number on a net basis over the past 12 months, bring the total number of relationship managers to 322.

Importantly, this quarter also we saw zero-regret attrition, showcasing the strength of our workplace culture. Our superior client retention capabilities have helped us to manage our client attrition rate below 1% in terms of AUM lost for the first nine months of this financial year. We remain confident that the private wealth management space in India has massive growth potential and the HNI space still being a highly underserved market.

I will now request Chethan Shenoy to take us through the digital wealth and the OFA businesses, which are our subsidiary. Chethan, over to you, sir.

Chethan Shenoy: Thank you, Feroze. The company's Digital Wealth is an extension of our Private Wealth offerings to mass affluent segment. This segment aims to deliver a comprehensive and scalable wealth management solution through technology, featuring real-time portfolio restructuring, access to high-quality private wealth product research, simple customer education and a 360-degree digital delivery model. The AUM in this segment increased by 47% year-on-year reaching INR 1,491 crores. Revenues from this segment grew by 79% year-on-year, reaching INR 18 crores.

Now moving to the Omni Financial Advisors (OFA) business. The OFA business is a strategic extension for capturing the wealth management landscape to service-related clients through mutual fund distributors using our technology platform. This is a subscription-led business model where our proprietary technology is used to solve the common pain points of a mutual fund distributor. As of December 31, 2023, OFA has 5,932 mutual fund distributors and has assets under administration on its platform of INR1,24,410 crores. Total revenue from this segment grew by 15% and stood at INR5 crores.

Now I hand over the call to Mr. Jugal Mantri, Group CFO, to take you all through the financial performance of the company. Thank you, over to you, Jugal, sir.

Jugal Mantri: Thank you very much, Chethan and Feroze bhai. Wish you all a very Happy Makar Sankranti. Now coming to our financial synopsis, our consolidated revenue for the quarter ended December 31, 2023, stood at INR 187 crores compared to INR 140 crores in Q3 FY '23, registering a growth of 34% Y-o-Y. The revenue for 9 months of FY '24 stood at INR 555 crores compared to INR 412 crores in 9 months of FY '23, registering a 35% year-on-year growth.

Trail revenue for Q3 FY '24 stood at INR 72 crores, which grew by 43% year-on-year. And for the nine months ended, trail revenue stood at INR186 crores, witnessing a growth of 32% Y-o-Y. Profit before tax for the quarter stood at INR 78 crores, registering a 34% year-on-year growth, whereas profit before tax for 9 months of FY '24 stood at INR 226 crores, registering similar growth of 34% Y-o-Y.

Our profit after tax for the quarter stood at INR 58 crores, registering a 34% Y-o-Y growth compared to INR 43 crores in quarter three of FY '23. Profit after tax for nine months of FY '24 registered a growth of 34% year-on-year at INR 169 crores as compared to INR 126 crores for nine months of FY '23. The PAT margin stood at 31% in Q3 FY '24 and 30.5% in nine months of FY '24.

Earnings per share for Q3 FY '24 stood at INR 13.9 per share, and for nine months of financial year FY2023-24, it stood at INR 40.5 per share.

The return on equity on an annualized basis stood at 42% for nine months of FY '24.

Coming to the Private Wealth verticals. For nine months of FY '24, our flagship Private Wealth vertical revenue grew by 34% year-on-year to INR 531 crores, and profit after tax grew by 33% year-on-year to INR 166 crores.

With this, we can now open the floor for question and answer. Thank you, Mr. Dorwin.

Moderator: Thank you. The first question is from the line of Samyak Shah from Sameeksha Capital. Please go ahead.

Samyak Shah: So, congratulations on a good set of numbers. Thank you for giving me opportunity. So, I just wanted to know that what will be the alpha generated by us on 9-month basis?

Feroze Azeez: Sorry, I couldn't hear you. If you could just repeat the question, Mr. Shah.

Samyak Shah: Yes. Am I audible now?

Feroze Azeez: Yes, a little. So -- but yes, we will try -- I will do an attempt to hear you better this time.

Samyak Shah: Yes. So, what would be the alpha generated by us on mutual funds this time?

Feroze Azeez: Okay. Alpha generated by us. On the model portfolio, we run a 14-scheme model portfolio currently. The alpha generated as of yesterday, I can tell you. I don't know the 31st December number, but those 14 schemes are in the public domain. It is 14.23% from 1st April absolute.

Samyak Shah: Okay. And other products have increased from 12% to 15% this year. So, which are the products offered in this segment? And what will be the average yield on those products?

Feroze Azeez: Sorry, I couldn't get you again.

Samyak Shah: Yes. Other product -- like other product share has increased from 12% to 15%.

Feroze Azeez: Correct.

Jugal Mantri: So, I think he is talking about the AUM, which we classify under other products.

Feroze Azeez: Yes. I understood. I understood, Jugalji now.

Jugal Mantri: Work in progress which has gone up.

Feroze Azeez: See, when we get assets, that's our raw material for the subsequent quarters. So, when you look at other products, when a client we analyze, we generally don't onboard him generally just with a cheque. We sometimes take his stocks in our Demat account, which will, over a period of time, get realigned. So first, we show him our strategy or show her the strategy, whoever the client is. The person we say that there's a lot of tax implication, exit load implications to what you currently are doing. So, we take that in our custody and that's work in progress.

And we are very, very happy to see that number, 12-13% becoming 15%. It implies that you have more money to align for the subsequent quarters. And that's where that's 13% to 15%. Other product could be a tax-free bond, could be a stock, could be a PMS, which may get on a annual for a change. So, realignment happens post the custody moves to us.

Samyak Shah: Okay. And had we launched any new offering in non-principal protected structured products?

Feroze Azeez: No. We personally believe in just doing the same thing over and over if it works. So, the structured products we currently design require two macroeconomic variables, which is high interest rates and reasonable Vols. And that continues. So, this design has not changed –from

February 1, 2013 which was the first issuance. So, the design has remained similar because the external environment has been similar, too.

So, we might be doing the same product 1,300 times. So, no innovation. Innovation is in the optimal extent only when the clients stop making money or are projected to stop making money is when the design changes.

Samyak Shah: Okay. And when seeing product-wise AUM mix, share of those products have reduced from 29% to 24%. So, what is our target AUM mix?

Feroze Azeez: See, that's again alignment opportunity next quarter or the subsequent quarters. When the mark-to-market gains in structured products are going to be lower than a year where markets - NIFTY, I think, started this year on the 1st April of about 17,400 and, I think, has moved up about 18%, 16%, 17% as of December end.

So the change in proportion is because of the mark-to-market gain in one of the primary products being higher than the other, which implies that when I take a portfolio to the marketplace and realign because the strategic allocation for a client. Let's say, one of my clients who I am an RM has 65-35, 65 equity mutual fund, 35 non principal protected structured products. If that was the desired allocation on 1st April and that was allocation on 1st of April, there is a realignment need of 5% - 6% because of the differential mark-to-market. So that proportion will be restored back to 30%. That's the hope and that’s our opportunity.

Samyak Shah: Yes. And what will be gross and net issuance of MLDs, these non-principal structured products?

Feroze Azeez: Yes. So gross and net, I will request Jugalji to give you precise numbers. Yes, but the net has gone up significantly. Jugalji, can I request you to give those numbers, 9 months gross and net?

Jugal Mantri: Yes, please. See, the gross mobilization in case of 9 months is INR 3,994 crores. And the net mobilization in non-PPSP is about INR3,000 crores. (please don't consider this data, actual net mobilization is given subsequently)

Feroze Azeez: No, 9 -- Jugalji...

Jugal Mantri: In the 9 -- first 9 months.

Feroze Azeez: That's equity mutual funds, right? Non-principal protected structured product...

Jugal Mantri: Gross mobilizations is INR 3,994 crores in the first in the 9 months.

Feroze Azeez: Gross mobilization is INR 3,994 crores. And net number is INR 915 crores.

Samyak Shah: Okay. Yes, that's really helpful. All the very best.

Feroze Azeez: Thank you so much sir, for your questions.

Moderator: Thank you. We have the next question from the line of Dhaval Parekh from IIFL. Please go ahead.

Dhaval Parekh: Thank you so much for the opportunity, sir. Am I audible?

Feroze Azeez: Yes, absolutely.

Dhaval Parekh: So, sir, I had a few questions on the MLD part. So just wanted to know within the gross or the primary issuances that we do, what proportion of it could be a self-product and, I think, from the Nuvama Wealth product?

And secondly, on the duration of the product, what is the current duration of the MLD products that we sell to the clients? And has it significantly changed post the change in the regulations last year? Thank you. That will be my question.

Feroze Azeez: Second question was what, sorry, Mr. Parekh?

Dhaval Parekh: Second question was the duration of the MLD products that we sell. Is it a 3-year product - 5-year product? And has it significantly changed post the tax regulation change last year?

Feroze Azeez: No. So, on the first one, what are the proportions, the proportions I can give you precise numbers. But Jugalji, have a proportion number and he will give you…

Jugal Mantri: Yes, yes. For the gross mobilization in the first 9 months, as I said, it is INR 3,994 crores. Out of this, INR 3,590 crores is issued by the group company and remaining INR 404 crores has been issued by the third party, which is Nuvama.

Dhaval Parekh: Okay. Thank you.

Feroze Azeez: Yes. And the second part of the question, is there any change? In August 2020, I think we went from 3 years to 5 years. That was one of our learnings from COVID. It has been largely 5 years post that.

And there has been some regulatory change on some MLD or structured product – non-principal protected structured product issuances because of that Nuvama's sourcing could be lower in this quarter. There is some regulatory change on certain issuers. Anybody who has issued a principal-protected structure product had some changes in regulation. I am just trying to bring it to your notice now that we are on the topic.

Since Anand Rathi Global Finance has never issued a listed product ever like we had also during the MLD tax change highlighted that we don't believe in taking market share and things which we don't believe in. So, we never did. Not even one listed structured product now called MLD has ever been done. So, there is no change in regulation for ARGFL, but there has been a change in regulation for anyone who have issued both of them in the past.

Dhaval Parekh: Okay, sir. Thank you, sir. And, sir, last one point on this. What is the yield that we make on this product, sir, currently?

Feroze Azeez: The yields we make are 1.17% on all matured products approximately per annum. Yields are always per annum on average market value. If a product began at INR 100, matured at INR 180, the average capital is considered as INR 140. And the yield is 1.17% for about 1,200 products when we last computed after maturity.

Dhaval Parekh: Okay. Thank you so much, sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Bhavin Pandey from Athina Investment Fund. Please go ahead.

Bhavin Pandey: Hi, team. Congratulations on great set of numbers. First question would be on the increase in AUM we have seen. Some could be attributed to MTM gains. And whatever inflows we had, could we get a breakup of how much is from the increased wallet share and how much is from new customer additions?

Feroze Azeez: Sure, sir. I will have to ask Jugalji for that number, which is there in front of me. And Mr. Vishal is going to give it to my notice. Jugalji, do you want to take that, if you have that handy?

Jugal Mantri: Yes, yes, it is available. The new money which has come to us is about INR 5,620 crores, and M-to-M gain is about INR10,260 crores. And there is an AUM attritional adjustment that is about INR 260 crores.

Feroze Azeez: And the proportion between existing and new clients is about 70% from existing clients, to be precise, 73% and the residual from new clients.

Bhavin Pandey: Okay, okay. And Feroze, when we look at equity markets, especially in the Indian market. We have seen sort of a dream rally. And we can see that SIP numbers and everything has gone up in general. But when we look at the scenario where we could see a down cycle, so how do we make ourselves immune to a situation like that?

Feroze Azeez: So, we are already immune. Let me tell you there's one which is a perception and the other is the reality. Perception is that a lot of money has come into mutual funds, which is correct. But if you look at the nine-months number, if you look at this number, this was mind-boggling to me. So I thought I will try to bring to attention, INR 1,41,000 crores has come in the form of SIPs in the first 9 months. Still, the net addition in terms of flows is about INR 1,12,000 crores, which implies if you remove -- if SIPs were zero, the amount which is there would have been INR 29,000 crores negative.

In the same period of 9 months, the corresponding net of SIP numbers for Anand Rathi stands at INR 3,557 crores. In a period of 9 months, when if SIPs were to be zero hypothetically, you would have had a minus INR 29,000 crores outflow. In that period, Anand Rathi Wealth Limited has a INR 3,557 crores of inflow.

So, like in the past couple of calls, I would have said that our dream is to be a 3% - 4% market share in equity mutual funds. This is a green shoot of the same. Last year, full year, if SIPs were not there, the total net flow of equity mutual funds would have been minus INR 9,000 crores.

In the same period, if I remember the number, for Anand Rathi Wealth, net of SIP, the number was close to INR 2,500 crores positive. You have gained market share on three counts. One is better funds chosen. You get better mark-to-market. Second is you get better market share in net flows. Then your market share on AUM goes up. So, when we have a dream of 3% to 4%, we are backing that with effort and energy to make sure that, that dream has a larger chance of getting fulfilled.

So, to come back to your question, are we agnostic to the direction of how the market is behaving in terms of their affinity to buy mutual funds. I would like to believe, yes, because our SIP total inflow has just been INR 250 crores (correct number is INR 295 crores). We are also now focusing on SIP. In the next year or 2, you will be very pleased with us as a shareholder of what kind of SIP numbers we will mobilize from the HNI fraternity.

Bhavin Pandey: Wonderful, wonderful, Feroze. Seems pretty much clear. And just one last thing before signing off, do you see a sort of a reversal in the trend in the debt MF space and we are anticipating a string of rate cuts in the year ahead?

Feroze Azeez: I don't see that because if you look at the cumulative rate cuts expected in the country, in the world, our estimate is about 155 rate cuts by central banks are going to happen in the world. But India is not going to see huge mark-to-market gains on the debt side because we didn't see mark-to-market losses.

If you look at our 10-year G-SEC is at 7% in June 2022 when the rate cut cycle happened. We were somewhere thereabout, about 50 - 60 bps more is what we have seen. So, we've not seen the long end of the yield curve in India move up dramatically.

So, if that's the case, the repo rate changes have not transpired into the long end of the yield curve, so expecting to make mark-to-market gains when the short end of the yield gets lower may not be real because in India, we have always operated an upward sloping yield curve. But the short end of the yield curve has now gone up.

So we have a flattish kind of a yield curve. Hence, I don't expect huge mark-to-market gains on the debt side even if interest rates on the lower end, repos and reverse repos are reversed. We didn't lose money, so you are not entitled to make as much is the key.

Bhavin Pandey: Superb. Thanks Feroze, and congratulations again.

Feroze Azeez: Thank you so much for your wishes.

Moderator: Thank you. The next question is from the line of Gaurav Nigam from Tunga Investments. Please go ahead.

Gaurav Nigam: Thank you, sir, for taking my question. Sir, I have one question on the OFA business. I have not followed up, I think you may have mentioned this earlier, but can you help explain what is the business model of this OFA business and how it is different from the other national MF distributors?

Feroze Azeez: Sure. Sure, Gaurav bhai. Let me try and attempt doing that. OFA business, which is an abbreviation to Omni Financial Advisors, is a SaaS platform. It is a reporting platform which are on a subscription model basis. We provide to IFAs, close to about 5,600 IFAs, okay, give or take.

And the assets which use the platform for reporting is close to about INR 1,20,000 crores of assets gets reported. They are not in our broker code or based in another sub-broker model. Unlike other B2B businesses where there is sub-broker models also being utilized. This is just a pure SaaS platform for a fee.

The reason why this business exists in a wealth management firm is because there are multiple avenues of monetizing this. Huge consolidation of IFAs on the reporting platform given the fact that the advisory capability (under the auspices of Chethan Shenoy have 122 research people) which an IFA may not be able to procure himself because of the cost constraints.

So, to answer your pointed question, it's a SaaS-platform, where a subscription fee is paid on an annual basis and 5,600 of them use it for their clients to report upwards of INR 1,00,000 crores of assets which are not in our distribution whatsoever.

Gaurav Nigam: Understood, sir. Thank you.

Feroze Azeez: You understand, Mr. Nigam?

Gaurav Nigam: Yes, yes, yes. Sir, just a follow-up on this, if, let's say, those IFAs end up scaling up, let's say, INR 120,000 crores become like INR 240,000 crores, is there a possibility of our fees going up? Is it like in any way related to the AUM growth?

Feroze Azeez: Not currently, because you are wanting to build scale and then try and monetize.

Gaurav Nigam: Understood. But going forward, what are the avenues for monetization, sir, if you can help explain it? If it is possible?

Feroze Azeez: Mr. Gaurav, our principle always has been to under-commit, over-deliver. So, I don't even want to tell you stuff which is on paper. We generally test. Now if you remember, we are one of the few IPO period participants who would have vocally told that, please, value our profit-making digital businesses at zero. We said that because we like to under-commit and over-deliver.

So, there are several methods of monetizing it. Are we very confident that we have cracked the code? The answer is no. So, I would not create hope unless I am very sure that it is doable because, of course, I can rattle out those 4 - 5 methods of monetizing, which are there in my mind.

But I think it would be unfair for me to create expectations on trial and error because we try to like -- I would have also, on the Private Wealth business, said, we spent 10 - 15 years -- Rakesh Sir, who is our professional group, joined on 1st April 2007. After 15 years, we said that we know exactly how to scale this business now. We have done our mistakes on smaller basis. Now you will see us grow at a larger pace.

So, in the primary business, if there was 8 - 10 years of trial and error and trying to be very confident. We love the statement which SEBI made to AMCs, become better before you become bigger. So, we always want to be better. And then, I think, on the Private Wealth stage, we have got to that stage where we can say now we are trying to become bigger. We have not got anywhere close to on those digital businesses to make that statement.

Gaurav Nigam: Understood, sir. So we will track it and wait to hear from you more on this. Thank you for answering.

Feroze Azeez: Sorry, Gaurav bhai. I almost didn't give you an answer because I don't want to give an answer on this in the public domain as of now.

Gaurav Nigam: Sure sir. Thank you.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus. Please go ahead.

Rohan Mandora: Good Afternoon sir. Thanks for the opportunity and congrats for good set of numbers. Sir, I missed the number on net MLD issuance. Was it INR 915 crores for nine months? I just want to reconfirm.

Feroze Azeez: Yes, it was INR 915 crores.

Rohan Mandora: And sir, what was the secondary issuances for the quarter, for 3Q?

Feroze Azeez: Jugalji, can you look at that number?

Jugal Mantri: Yes, INR 427 crores.

Rohan Mandora: INR 427 crores, okay. And sir, in one of the earlier participants' question, you indicated there is some regulatory change because of which the other sourcing partner may have a slower contribution incrementally. So, what is that regulatory change? Is it something other than the budget announcement? Just wanted to understand that.

Feroze Azeez: Yes, you can read up on the circular. It says that basically, there is a regulatory change which came as lately as a few months back, 2-3 months back. Any company which has issued a listed structured product, that's whom that regulation is applicable. So, I think I can send you that regulation. Rohan, of course, you understand our business, one of the best. So, I am sure you have tracked us much before. And I have, I think, Vishalji and our SGA team will send you that circular. Chethan, if you could get this sent, please?

Rohan Mandora: And sir, just one more thing was that for FY '25, what would be the total MLDs that will mature?

Feroze Azeez: FY '25, we will have about, if I am not wrong, don't go precise numbers, I think we will have INR 800 crores-900 crores of full maturity. We will have a reasonable portion which has got into the long-term category. About INR 4,000 crores - INR 5,000 crores would have got into the long-term category from a taxation standpoint and about INR 800 crores - 900 crores of maturity.

If your question is stemming from your worry whether we will have enough net sale in structured product, if you want to understand that bit in conjunction of our asset proportions when there is going to be realignment opportunity. We will be able to project the kind of revenue I will be able to do in FY '25.

So basically, we have a very simple business model. Rohan, of course, you understand this. Whatever assets we get, like if there is INR 2,900 crores which came new to Anand Rathi Wealth in the quarter, we are going to earn 1.25% yield at least per annum. That's our business model. If there is a client who gives me short-term money, I don't even take it. If there's a client who wants 20% IRR, we don't -- we filter our clients and assets at the gate of entry.

So if you want, if we got to almost INR 950 crores of net mobilization in the last quarter average INR 933 crores. You should try and see on a monthly basis. If I collect this amount, which is my run rate now for this quarter and see what will be my AUM, what will be the AUM on account of client portfolios growth, okay? Our clients' portfolios' growth over the last 8 - 10 years on an overall basis has been 12% to 14% return. Clients have made 12% to 14% return. That's one assumption. Next 10 years, will they make 12% return with our strategy? In our belief, with the kind of environment India is in, they will make 12%. So that's the automatic growth.

The second variable is, how much money new will I bring on a monthly basis? Third variable is, what is the yield I will make? The fourth variable is on the revenue, how much PAT do I make? If you project this for the next five years, that's the business model I look for as a professional. And that will give you a sense of where this business is headed.

Structured product sourcing is an outcome of alignment. Now if our structured product proportions have come down, given 1st April, if I go to a client and say, now it's time for me to realign, I will have to sell some mutual funds and bring it back to 30% if that is the agreed allocation. If it is 35%, I will bring to 35%. So, the kind of money alignment, which is needed in client portfolios, is enormous.

So, to answer your pointed question, not too much maturity next year. Point one, INR 800 crores to INR 900 crores of market value. The long-term category 4-year plus, 4.5-year plus, which are almost close to maturity which can be sold in secondary to people, is about INR 4,000 crores - INR5,000 crores plus the alignment opportunity you can compute from mutual funds to structured because you have to realign like asset allocation gets realigned. If equity does very well, people reallocate between equity and debt, right, realignment. Similarly, we realign between equity mutual funds and structured products.

So that change -- the reduction in the structured product AUM as a mark-to-market AUM value will help you ascertain what kind of alignment opportunities our business has in FY '25. And that's mind-boggling.

Rohan Mandora: Sure, sir, sure. And sir, in terms of the payouts to RMs, is there a difference in the proportion that is paid out for revenues from MLDs and from mutual funds? I am asking this because the employee expenses have declined Q-on-Q, whereas the revenues were broadly flattish. So, I just want to understand that, please.

Feroze Azeez: No. We have the -- now that you have brought me to this topic, Rohan bhai, which people don't get enough -- because you have to read between the lines. Why is our attrition is zero? That's a shocking number for a financial services firm because everybody would want to hire your people, but people don't leave. Our formula has been constant. Our remuneration formula, which is on the basis of total comp fixed plus variable of two people generating the same revenue, will always be equal.

In-spite of somebody negotiating a better fixed, he will get a lesser variable. If somebody is not a negotiator of a best fixed, when he enters, he will get a larger variable. So, the total comp concept was introduced in June 2007. And even their Excel sheet password has not changed. There is very few in this country or the world as wealth management outfits who can say this, that we have not changed the bonus of the remuneration formula for the RM fraternity for 16 big years.

–I have worked for some -- a couple of them in the past. I have spoken to at least hundreds of them. Everybody is mesmerized that how can you have a bonus formula, which is constant. Now coming to your pointed question, sir, saying that there is there a differential payout? The answer is no. Why is there a difference in employee cost? There could be bonus provisions, which are...

Jugal Mantri: Feroze bhai, if you recall, see, in Q2 FY '24, we had an unfortunate incident where we lost Mr. Rohit Rajgopal, and there were one-time payment -- ex-gratia payment because of his sudden death. And that is why that additional cost of about INR 2 crores is there in Q2 FY '24. And that is why the personnel cost is slightly higher in Q2 compared to Q3. That is the reason, Rohan. There is an addition over there in Q2 FY '24. And otherwise, there is no reason for this manpower cost to be lower in Q3 in FY '24.

Rohan Mandora: Sure, sir. Thanks. And just lastly, so in the new sourcing that we are doing between RMs and AMs, where are we typically recruiting them from currently in the last one, two quarters? Just trying to understand the landscape.

Feroze Azeez: Sure. I will tell you, our strategy. Our strategy has been hiring best people from smaller brands, okay? We have tested this hypothesis. I have, of course, done about 400 - 500 interviews between '15 and '17, 2015 and '17. And I tested several hypotheses of what has got the best odds of success. We realized that best people from a smaller brand will – hit the ground running.

So, you will see a large portion of our team was hired from a smaller wealth management outfit in those periods because when a client moves from a sticky bank platform, if the technology is the hook in the previous adviser, then we don't hire. So where do you hire from? Stand-alone wealth management outfits, anybody who has spent more than 5 years, 6 years, 10 years who has proved credibility that he doesn't move on a drop of a hat are the only people we hire. So, we don't hire anybody who has not spent more than four years in the previous organization. That's an embargo in our company.

And the longer the period, longer the propensity for him to bring in clients and if he is from not a very big brand, it becomes easier for him to get assets. Otherwise, we have these internal people whom we are training. 340 people being trained internally is a lot. So, every time you see the sharpest ones who have shown capability of intellect, intent, value system and communication, irrespective of language, gets promoted on a periodic basis.

So just like a college has fewer seats, right, and IIM today does not hire 10,000 people to educate. So we try and make sure that we promote as many as we can teach to be able to take the legacy forward without diluting our brand in the marketplace. That's the principle.

Sorry, your question was very pointed, where you hire from, but I think it's more important for a prospective shareholder or a shareholder to understand principles because that's where the business ascends life, not in the numbers.

Jugal Mantri: Thank you, Rohan bhai.

Moderator: Thank you. The next question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Yes, hi. Good afternoon, everyone. So just one-bit longer-term question as to how do you see your mix between MLDs and mutual funds evolving, say, in the next three years' timeframe, what is the kind of diversification that you would like to bring apart from these two products as well? If you could throw some light on this.

Feroze Azeez: So, diversification can't be the cause of any product being approved. That's why, there are 21 product lines in wealth management: unlisted stocks, PMSs, AIFs, perpetual bonds, the insurance, so on and so forth. The reason why we do two is not that the service providers or product providers in the category don't want to tie up with ARWL, right? Anybody would want to tie up with us, right, PMS an AIF.

Because my client doesn't need it currently, we like to operate as an uncomplicated fashion of LCM. If I can get to my return objective of 12% to 14% without having the 10th product. I have just noticed another portfolio, which I analyzed of triple-digit crores of a person for 10 years has bought 84 unique products across 14 different product lines, and the IRR for the last 10 years is 10.68%, and the beta is 1.1. So, if I can achieve a better beta and a better return with fewer products, so to answer your pointed question, the business needs diversification will never be the cause of the third product.

My client needs the third product, then the outcome is going to be diversification from your perspective. We do products in a very controlled environment, a laboratory environment, right? That's why there are two products, not that tomorrow I can't. So, if there is evidence that this is going to help me better my risk-adjusted return, that product will come. The third will come. The fourth will come. Even the 10th will come. But we have done enough research to figure out that I don't need any more at the moment.

So, some day after two years, I might go hammer and tongs on the fourth product more than equity mutual funds maybe as long as mathematically, it's right. And how do we test mathematics? We use Monte Carlo simulation. We use Markowitz. We do all the statistics which is there in those big fat finance books and apply them to manage these thousands of crores.

Prayesh Jain: Sir, but in the sense that you know your customers, how many of your customers would be kind of subscribing to the other 20 other 19 products that you spoke of 21 products earlier, the 19 line of items? They will be subscribing elsewhere with other kind of wealth managers. And are we kind of missing out on that AUM?

Feroze Azeez: I would love to miss out on the AUM. That's been the strategy, okay? When you do what is right to the client, you just have to show him the logic of why you're not doing something.

Prayesh Jain: Okay.

Feroze Azeez: For everything I don't do, I have a strong logic, non-refutable logic, in my opinion, mathematically. On perception, of course, it's a refutable logic. So, clients appreciate the fact that you're telling him why you don't do something, okay? That way, he is buying real estate. I can become a builder, right?

So then I show him that I have analyzed close to 2,400 properties. The IRR of these properties is 8.82% after 11.42 years of holding period. If you bought nifty, these families, which was 700 families, would be richer by INR 2,000 crores. Now tell me, sir, why should I tie up with a builder to provide you an under-construction apartment with this data, right? So, what I am saying is two people come on the same page if there is evidence, mathematical evidence of doing something or not doing something, okay?

So, like the Anand Rathi Global Finance structured product model portfolio, which started on 1st of February, if somebody would have invested in that, his money would have been INR 5.5 crores in 10.66 years. But if he invested in NIFTY, it would have been INR 3.3 crores, which is hard-fact. So, mathematics helps decision-making. And that's why you see so much consolidation, right? Why is there 15% in other products? Because there's logic presented to them, and somebody has to be my client to understand the exact nature because of the lack of time, I am not able to articulate what depth of mathematics we use.

Prayesh Jain: No, I appreciate that. And just on these MLDs, probably you would have answered this, but just from a clarity perspective, how much of the AUM that you have today is -- does Anand Rathi manufactured MLDs or it's completely outsourced?

Feroze Azeez: Anand Rathi Global Finance is the largest issuer for Anand Rathi Wealth Limited.

Prayesh Jain: Okay.

Feroze Azeez: Because that's one NBFC which, in our opinion, is the safest NBFC in the country from an asset standpoint. They have the largest investment portfolio.

Prayesh Jain: Okay. And what would be the share of this entity in your total AUM today?

Jugal Mantri: So out of INR 55,057 crores total AUM, about the non-principal protected structured product has got total allocation of around INR 13,300 crores. And out of that, around 80% - 85% is with Anand Rathi Global Finance, and the rest is with the third parties.

Prayesh Jain: And that's what you mentioned, that incrementally, it will be more Anand Rathi rather the third party.

Jugal Mantri: We already see around 80% 85% is with Anand Rathi. It will continue in the same ratio.

Prayesh Jain: Okay. Got it, got it.

Feroze Azeez: People will also around with the regulation, right? All the other issuers are not going to stop issuance. That's why I said for this quarter. And what you may see as risk is what I see as good night's sleep. I am telling you this.

Prayesh Jain: Got it, got it. Thank you so much and a wish you all the best.

Moderator: Thank you. The next question is from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijeet Sakhare: Good afternoon, everyone. First question is on mutual fund sales. So any broad industry-level observations that you can share in terms of how do you see commission payouts been trending for the past. Let’s say, six to 12 months in terms of it’s a large, mid-, smaller AMCs, NFOs versus older funds? Any broad sense that you can share will be very helpful.

Feroze Azeez: Yes, sir. Sure. For whatever it’s worth, ’I will give you my opinion. I think commissions on the regular side don’t have too much scope for compression. That’s why the –discussion paper which was issued by SEBI, was held back more or less. So, from a commission standpoint, of course, NFOs have taken a hit. Anand Rathi Private Wealth Limited never did one NFO. B30 commissions might get restricted again. we don't have any stake there. Smaller schemes get larger commissions.

I think economies of scale, the regulator rightly wants that to be passed on to the consumer economies of scale. I think our average model portfolio scheme size is upwards of five-digit crores. So, we have not used that lever. So, these are the three - four which you rightly pointed out, could have some compression.

As a business, we have had a sense of that because I have not done any of those so far. So, commissions might have a headroom of 10 paisa 12 paisa compression at best. Currently, if I am not wrong, the model portfolio schemes give us post GST about 1.09. I think for Anand Rathi Wealth, the compression is going to be lower because we have not used any of those levers. So, if you have not earned from it, you don't lose it. But from an industry standpoint, a 10 paisa, 12 paisa -13 paisa compression over the next three, four years is possible.

Abhijeet Sakhare: This compression is more of a pass-through, right? Like not really AMC is trying to increase their share of the overall TER. How are you seeing it?

Feroze Azeez: It is basically pass-through, sir, like the GST component. For example, AMCs were passing on their share of fees, GST was being charged to the client. But the distributor's GST, the distributor was paying. So to answer your pointed question, I would see it as a pass-through, and the illustration to exhibit that is like the GST bit.

Abhijeet Sakhare: Understood. Very clear. Second is on structuring of MLDs, just for better understanding's sake, like how does the transaction get executed? Do the investments have to sit on your balance sheet for a few days or weeks before it gets sold to the clients? Or it's like a pure agency transaction? If you could just explain.

Feroze Azeez: The period would be a few days at best, three - four. But yes, you buy and down sell them.

Abhijeet Sakhare: You buy them down sell then. Okay.

Feroze Azeez: And the weighted average TAT of the entire volume would not exceed three to five days.

Abhijeet Sakhare: Understood. Got it. Thanks a lot.

Feroze Azeez: Weighted average TAT, rupee value TAT.

Abhijeet Sakhare: Yes. Got it. And sorry, can I just squeeze in one more? In terms of the transactions on the MLD side, there's no explicit regulation that governs it, right? Like I mean, I understand the accounting sense and how you make revenues in the overall transaction. But there's no explicit regulations like what you have on the mutual fund side that guides these sorts of transactions just from a risk point of view?

Feroze Azeez: No, because this is just a bond, okay? Like a bond trader, this is a bond buy and sell. So the answer is no. But this is no different than I buying a bond on my prop book and giving it away. Just that the return is variable, and a normal bond return is a constant.

Abhijeet Sakhare: Note that. Thank you.

Moderator: Thank you. We have no further questions, ladies and gentlemen. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Feroze Azeez: I would like to thank everyone for being a part of this call. We hope we have tried to answer your questions to our best ability. If you need more information, please feel free to contact Mr. Vishal Sanghavi, our Investor Relations Head, or Rajeshji, our CFO, or Strategic Growth Advisors, our Investor Relations advisers. Have a wonderful week and thank you so much for spending your time with us.

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