ANANDRATHI
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Ref No: 80/2022-23

Dated: January 18, 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: Q3 and 9M FY23 Earnings Conference Call Transcript

We are enclosing herewith copy of the transcript of the Company's Q3 and 9M FY 23 earnings conference call dated 13th January, 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
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ANAND RATHI WEALTH LIMITED MUMBAI

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"Anand Rathi Wealth Limited Q3 and 9M FY '23 Earnings Conference Call"

January 13, 2023

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day, and welcome to the Anand Rathi Wealth Limited Q3 and Nine Months 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. Thank you, and over to you, sir.

Feroze Azeez: Thank you so much. Good afternoon, everyone. Thanks for joining us for the conference call of earnings of the third quarter and the first nine months of this financial year. Along with me, I have Mr. Rakesh Rawal, who is our CEO, Mr. Jugal Mantri, who is our Group CFO, Rajesh Bhutara, who is our CFO, Mr. Chethan Shenoy, who is our Head of Product and Research, and I am also joined by Vishal Sanghavi, who is our Head of IR (Investor Relations) and also the SGA team, who is our Investor Relations Advisors.

To begin from the quarter perspective, we have delivered a strong performance in the third quarter on all three businesses: The Private Wealth business, the Omni Financial Advisors channel business and also the Digital Wealth business. Our consolidated AUM has risen to INR 38,517 crores, which is a 20% growth year-on-year and a 7% quarter-on-quarter. This, of course, is a testimony to our emphasis on providing uncomplicated, holistic and standardized solutions to our clients, which deliver the most efficient risk-reward portfolios.

Our flagship Private Wealth business has grown its AUM by 20% year-on-year and 7% quarter-on-quarter to INR 37,500 crores. Though on an industry level, the net flows in equity mutual funds de-grew by 55% in the quarter 3, we have grown by about 74% instead of the de-growth, which is what you've seen on the net flows on equity mutual funds. And our overall net flows have grown by 94% for the said period of nine months and that stood at about INR 3,715 crores.

Indian HNIs, of course, have started moving money from physical assets to financial assets, and we have tried to capitalize this process by using mathematics to express the differential performance between physical and financial assets. And in the last nine months, we've added clients that is about 1,151 clients, as against 801 clients in the same period. That's a good 25% growth and above on the client addition rate. And also one very-very important thing for a business like ours, which we are very pleased to announce, that we have had zero-regret attrition for this quarter three. Regret attrition, any RM greater than INR 40 crores we classify as a regret attrition, has been zero, astonishingly so.

Now coming to the Digital Wealth business. I would like to highlight that our Digital Wealth business AUM has grown by about 24% year-on-year and has moved up above the INR 1,000 crores mark to INR 1,017 crores, in terms of AUM. The client set has grown by about 15%, which is 4,076 clients now. That's on the Digital Wealth piece. OFA business, which is a SaaS platform, has added about 600 IFAs, give or take. And the assets under reporting has almost touched a INR 1 lakh crores.

Before I hand it over to Mr. Mantri, I would also like to highlight that our long-term commitment of growing the assets under management by 20% - 25% remains intact and we are very positive that this number indicated from a long-term year-on-year perspective is a conservative number, given the fact that by the virtue of time and client portfolios' growth of 10% - 12%, we should be able to deliver the differential 13% - 14% by effort.

And now, I hand it over to Jugal sir. Jugal sir, can you take it forward from here?

Jugal Mantri: Thank you very much, Feroze bhai. Let me begin with extending New Year wishes to all the participants, that may 2023 brings tons of joy, happiness and prosperity to each one of you.

Now coming to the company's performance. Despite the short-term volatility, the mid- and long-term outlook for the Indian capital market seems highly promising. We have delivered strong performance across all three verticals. Our consolidated revenue for the quarter ended 31st December 2022 stood at INR 140 crores as against INR 109 crores in Q3 FY '22, registering a growth of 29% Y-o-Y, while revenue for nine months FY '23 stood at INR 412 crores as against INR 311 crores in nine months ended FY '22, registering a growth of 32% year-on-year.

Our profit before tax for the quarter stood at INR 58 crores, registering a growth of 36% Y-o-Y, whereas profit before tax for the nine months stood at INR 169 crores, registering a growth of 37% Y-o-Y. Profit before tax margin is slightly better at 42% in Q3 FY '23 and 41% nine months FY '23. Our profit after tax for the quarter stood at a healthy INR 43 crores, registering a growth of 35% Y-o-Y as compared to INR 32 crores in Q3 FY '22.

Profit after tax for nine months FY '23 registered a growth of 37% Y-o-Y, which stood at INR 126 crores. Profit after tax margin is quite healthy at 31% in Q3 FY '23, which is the same for the nine months ended FY '22. Earnings per share for the quarter 3 FY '23, stood at INR 10.4 per share and for the nine months, stood at INR 30.2 per share.

For nine months FY '23, our flagship Private Wealth vertical's revenue grew by 33% year-on-year, which stood at INR 397 crores while trail revenue grew by 27% Y-o-Y, which is stood at INR 135 crores. Profit before tax for nine months FY '23 on a standalone basis was at INR 168 crores, registering a growth of 37% Y-o-Y, while PBT margin stood at 42%. Profit after tax for nine months FY '23 stood at INR 125 crores, registering a growth of 37% Y-o-Y, while PAT margin stood at 32%.

The return on equity of our flagship Private Wealth vertical as on 31st December 2022 stood at healthy at 40%. Given the favorable long-term macroeconomic climate for India and the rise of local millionaires and billionaires, we believe there is significant untapped market for the wealth solution providers like us.

With this, we will now open the floor for question-and-answer. Thank you.

Moderator: We have our first question from the line of Rohan Mandora from Equirus Securities.

Rohan Mandora: Congrats on a good set of numbers. Sir, if you could share what kind of gross inflows in 3Q and if we can split the net inflows of INR 1,240 crores into between equity MF, debt MF and MLD?

Feroze Azeez: Sorry, Rohan, you wanted net flows? Feroze here.

Rohan Mandora: Yes. Net inflows of INR 1,240 crores that was in 3Q. It was split between equity, debt MF and MLDs?

Feroze Azeez: Correct. So, you want a split of the INR 3,715 or crores or the quarter 3 number?

Rohan Mandora: The quarter 3 number.

Feroze Azeez: Rajesh ji, did you have that number?

Jugal Mantri: Yes. The equity mutual fund and debt, which was put together, it was INR 818 crores; for MLD, INR 165 crores and INR 258 crores in other products. That sums up to INR 1,241 crores.

Rohan Mandora: And sir, what is the quantum of MLDs that are expected to mature in FY '24? Any number that you have handy?

Jugal Mantri: Right now, it is not handy, but we can provide you, Rohan.

Feroze Azeez: Rohan, approximately, it is INR 2,700 crores.

Rohan Mandora: And sir, just trying to understand on the trajectory on the employee expenses. If you look at employee by total revenues, employee to total revenues, that thing has come down from around 46% to around 43% - 44% in the last two quarters. So how should we look at it for the full year? Will there be an uptick there? And also, what were the quantum of RMs, which have not broken even on cost right now?

Feroze Azeez: So Rohan, when it comes to compensation for RMs, it works on a total comp concept. So the provisions of bonuses are larger, which is about INR 55 crores for the first nine months, which is about INR 8 crores greater than the same period last year. So we work on a total comp concept, which has not been modified from 2007, so provisions on the bonus side are higher, which are not reflected in the statement you made. Does that answer, Rohan?

Rohan Mandora: No. So actually, the employee expense per total revenue has been coming down in the last two quarters. So are we...

Jugal Mantri: Feroze bhai, I'll just add, see the advantage, what Feroze bhai has explained to you is the compensation for the RM fraternity. But besides RM fraternity, there is a team which is like operation, product, monitoring and the finance accounts team. And that is where you get the advantage of operating leverage because that cost more or less remained flat. So that is why when you see the revenue goes up, you will see in percentage term that the employee cost will come down because that cost, which is the non-operating or non-variable costs, that remain more or less flat. There is a slight increase, and that is where you'll see that the employee cost as % will keep on coming down when the revenue grows.

Rohan Mandora: Just the second part of this question on how many RMs are yet to break even on cost?

Feroze Azeez: So if you, we can give you that precise number, Rohan. If you look at breakeven, as just the physical cost, I think it should be less than 10% - 12%. Because a breakeven of with infrastructure costs, all loaded, it could be different, but we'll give you the precise number.

Rohan Mandora: And just one more thing, how has been the MLD issuances from Nuvama this quarter? Has there been any dip on the issuances on that side or a change?

Feroze Azeez: The requirement of capital was lesser. So Jugal sir, can give you the precise numbers if we have them handy.

Jugal Mantri: So, in case, if you look at it, Rohan, now the ratio is tilting towards the outside or external agencies. As of now, when we talk around 13% of MLD outstanding, that is from the external agencies. So, the ratio, which used to be 100% from the same group entity,. So, in this year, almost about 20% of the MLDs are issued by the external entities.

Moderator: We have a question from the line of Pallavi Deshpande from Sameeksha Capital.

Pallavi Deshpande: Just following up on the previous question about the RMs. We have seen a lower addition in this quarter. Is that anything to do with the market conditions or how should we look at the RM addition going ahead? And just put in my second question also, with regards to the market share, you mentioned in the previous call, about 1% equity inflows, taking that up to 3%. So, what would be the timeline on that?

Feroze Azeez: Yes. So let me answer the first one, which is the RMs strength. The RMs strength, generally, it happens by training and promoting AMs. So, we have gone a little slow because we have to make sure that the person who is becoming an RM from the AM, the probability of successes have to be immense. So that's why you see a little slower addition. It's got not too much to do with the market potential in terms of market sentiment. But the good news is we have the next 30 40 already slated who have spent about 2.5 years as an AM and as an apprentice under seasoned private bankers already. So that number should see a large uptick soon. And what was your next question? Sorry, I missed that.

Pallavi Deshpande: Yes. It was with regard to the market share. So, we've spoken about our equity market share at 1%, and taking that up to 2% to 3%. So, any time lines you can share on that, sir?

Feroze Azeez: Yes. So, we are looking at the market share increase. Like you might have heard me just a few minutes back, that the net flows have reduced by 55% on equity mutual fund and ours have gone up by 74%, which is a large dispersion to what the industry has got. It's because we are looking at numerically establishing our credibility in mutual fund recommendation. And I will come to the time line, which is your pointed question.

So in the last quarter, we analyzed 109 equity mutual fund portfolios worth INR 1,000 crores outside with other distributors, transaction-by-transaction. And we realized that Anand Rathi's recommendation has been more profitable. And now that we have started being very numerical about our value-add. Coming to your point of question, I think getting to a 3% market share will take about four - five years, because as the market also will increase, and that's the target.

Pallavi Deshpande: You mentioned, just to get this right, 109 mutual funds were analyzed that were outside the current universe, is that right?

Feroze Azeez: No. Let me explain that a little more in detail. Now if there's a prospective client we meet, we take the transaction-wise information and try and see whether the person externally has beaten Nifty or our model portfolio. The 109 is not mutual funds. Those are 109 unique HNI investors' external mutual fund portfolios, which we analyze and see whether we have beaten those portfolios, which were managed by other distributors.

Itt has been heartening for us to see that 95 out of the 109 portfolios analyzed last quarter, our model portfolio would have kept them richer. And with this piece of audited information, the propensity for a client to give us a change of broker for mutual fund has gone up reasonably. Does that answer?

Pallavi Deshpande: Yes, sir. Just another one, if I may. On the capex side, like we have seen a little uptick in depreciation. And any distinct guidance on that side?

Feroze Azeez: Jugal, sir, will be very well equipped to answer that. Jugal bhai, can I request you take that one?

Jugal Mantri: Yes, there is no capex item on the P&L where you have...

Pallavi Deshpande: No, I am talking about the uptick in depreciation that you have seen, slight uptick in depreciation?

Jugal Mantri: So that is because of the Ind AS 115 that, otherwise, there is no capex expenditure. Our is capex-light company in the industry.

Pallavi Deshpande: Sir, lastly, if I could just have, would it be possible to share a breakup between -- on the income side between the mutual fund and the MLD, the other segment?

Jugal Mantri: That is already there in the presentation.

Pallavi Deshpande: Not the AUM. I meant the revenue?

Jugal Mantri: Even the revenue breakup is also there. If you look at the Page 29 of the presentation, you will find the breakup. But I'll just repeat for you, for Q3, the mutual fund revenue was INR 50 crores as against INR 42.5 crores in the corresponding Q3 last year. And the distribution of financial products is INR 86 crores, and other IT-enabled and other services was about INR 3.4 crores.

Pallavi Deshpande: No, sir, that's what I meant. Within this distribution, if you could have how much was the MLD and how much was mutual fund?

Jugal Mantri: Largely, it is MLD only.

Feroze Azeez: But, let me just add one point to Jugal sir's comment. The long-term target of trail income to total income is 50%, and we are headed there. If you see the last one year, Nifty from December to December has hardly moved 1% -, 2%. And you still see a trail revenue increase of 27%. Once the tailwind of the market movement comes, you will see a substantive change in these proportions because markets have to deliver at some point in time, not in this year. In-spite of that we have had a 27% increase.

Pallavi Deshpande: So the 50% target, like you said, would be probably matching with your three to five year term for that?

Feroze Azeez: Yes. Ma'am. Yes, absolutely.

Moderator: We have a question from the line of Dhaval from IIFL.

Dhaval: Sir, just one question from my side. Can you please provide the quantum of gross inflows in the MLD during the third quarter? And also the split between the primary and the secondary?

Feroze Azeez: Yes. Sure. INR 1,151 crores gross in primary and INR 277 in secondary.

Dhaval: INR 277 crores in the secondary, right?

Feroze Azeez: Yes.

Moderator: We have a question from the line of Aditya Shrimankar from Ishti Advisors.

Aditya Shrimankar: I wanted to ask, what is the average yield on MLDs during this quarter? And how it has fared year-over-year?

Feroze Azeez: Aditya, yield by virtue of that nomenclature implies the per annum yield. First, let me tell you what is the yield of all the matured products. In an MLD, if you look at the yield per annum, we have made 1.17% in products which have matured. One is because yield is per annum on market value. When it comes to mutual funds, on the model portfolio of mutual funds, we make 1.11%. On the matured products, which you can backward calculate, the yield has been 1.17%. Having made that point that the yields on both these instruments per annum on market value are identical, if not equal, almost.

Now coming to what you make. We recognize this revenue upfront. So on a three year basis, we make about 5.5%. On a five-year basis, we make about 7% to 8%. Because in mutual funds, the trail income comes on market value, but this is recognized on face value. And all upfront, that's trading income.

Moderator: We have a question from the line of Prayesh Jain from Motilal Oswal.

Prayesh Jain: Just a couple of questions. Firstly, on the expense side, other expenses, they have been trending higher in a right, the run rate used to be around INR 11 crores, reach INR 17 crores. So what I've been on one of the questions that are alluded that a large portion of the expenses are fixed in nature beyond the expenses of, beyond the salaries or bonuses of RMs. So, then what is this increase pertaining to? That is question number one.

Secondly, on the mutual fund book, what would be, do we have any SIPs? And if so, what would be the shares of SIPs in our mutual fund and AUM?

Feroze Azeez: So, let me take the second one, and I will toss the first one to Jugal ji. The SIP book is about INR 32 crores - INR 33 crores per month…

Prayesh Jain: This is monthly, or is it total AUM in the?

Feroze Azeez: This is monthly. Monthly, because we deal with HNIs. HNI savings come in lumpier chunks. So, because if somebody saved about INR 10 lakhs - INR 15 lakhs - INR 20 lakhs, in a quarter, he gives you that money at INR 40 lakhs - INR 50 lakhs. That's the general trend. But still having said which, the SIP number is marginally higher than INR 30 crores per month.

And for the first question, other expenses, of course, when we spoke of the expenses, it was pre-COVID levels. So, I will ask Jugal ji to give you some color to the other expenses.

Jugal Mantri: See, largely if you may recall that because of the COVID, there was no physical off-site visits which we used to have on a quarterly basis, the strategy meets and all that. So this year onwards, all these activities have started, and these expenses pertains to the off-sites, business strategy meet as well as the traveling expenses, which were lower in FY '22, more particularly when you are comparing with the December quarter last year, vis-à-vis the current December quarter. The expenses are on account of, increased expenses are on account of traveling, off-sites and strategy meet.

Prayesh Jain: Just one more on the, you mentioned that 20% of the MLD sourced in the current year are outside agency. So, what is the commission you made on those?

Jugal Mantri: Same.

Feroze Azeez: Marginally higher. Marginally higher from Nuvama. So 1st April, if there is a sourcing of about INR 616 crores, for the same period kind of an MLD, it's marginally higher.

Moderator: We have our next question from the line of Dipanjan Ghosh from Citi.

Dipanjan Ghosh: Three questions from my side. One is a follow-up to the question asked by the previous participant. In terms of the SIP flows, could you give some color on the redemptions you are seeing in the portfolio or any quantitative number on gross-to-net ratio?

My second question is on the distribution yields that your debt of incremental flows that are going into the existing yields of mutual funds and whether the incremental distribution yields have changed YTD or Y-o-Y, if you can give some color on that?

And lastly, we have seen a list of NFOs happening during the current quarter or even the current year. So just wanted to get some color on how was the yield shaping up between FY '22 and

FY'23 or YTD '23? And also, are you able to lock in the yield on the NFOs flows for one year, or is it like -- is it for a longer period of two or three years? So, those are my questions.

Feroze Azeez: Mr. Ghosh, your audio wasn't so clear. If you can again go one-by-one, it will be helpful. Because I could barely hear you in terms of -- it was a little muffled.

Dipanjan Ghosh: So, is it fine now?

Feroze Azeez: Yes, if you can pick up your headphone, if you're not using it, do something. Yes. So if you can again go with your first question, SIP number, you were saying something?

Dipanjan Ghosh: I just wanted to get some color on the SIP redemption trend? And any color on the gross-to-net ratio in SIPs?

Feroze Azeez: Gross-to-net ratio, if you're looking at SIP redemptions or SIP stoppages, I don't think there have been too many stoppages. Because HNI is not so. So to answer your pointed question, it should be negligible. I don't have a precise number to that currently.

Dipanjan Ghosh: My second question was on the incremental distribution yields that you are getting on fresh flows into equity schemes of mutual fund players. And how that has changed. Let's say, between March and December or an incremental flow into existing schemes of actively managed equity mutual funds?

Feroze Azeez: So, when we recommend mutual funds, we recommend a very pointed portfolio for most of our clients. And over a period of time, money moves there. So like I told you, it has been 1.11% yield on the 11 schemes, weighted average as per our recommendation. It has gone up by about 2 paisa, same period December. December end last year, we were at 1.09%, now it is 1.11% for this 11 schemes. And we have our suppliers, which are mutual funds, competing with the others for our market share. So we don't see any stress on any reductions there.

Dipanjan Ghosh: My last question was on the NFO side, and over the last six to eight months and even prior to that in FY 2022, we have seen there has been significant amount of flows in NFO and also the NFO payouts to distributors have been quite strong. Just wanted to get some color on incremental trends during the quarter and also YTD. And are you able to lock in the NFO yields for, let's say, more than one year?

Feroze Azeez: No. We don't do any such advancement of yields, because we don't recommend NFOs. Since I don't buy an NFO, so I don't recommend it to my client. So zero NFOs have been sold over the last 8 - 9 years. So because if there is 570 equity mutual funds, out of which active ones are about 250 - 280, and the best and the worst one have a 44% difference and there is a lot of constituents, which are already there and there is an established fund manager. With a philosophy and from a client-centric organization standpoint, selling an NFO, I don't see any merit to hurry into buying an NFO, if it does not have a three-year track record.

So, any equity open-ended fund, it requires a basic three - years for us to be able to analyze behaviors of fund managers and its right-to-wrong ratios and stuff. So, no NFOs sold and that's been the philosophy. Unless there is some NFO, which addresses a gap in the future, we will be agile enough to adapt if it is something which makes merit from a client's risk-reward standpoint.

Moderator: Thank you. We have our next question from the line of Varship Shah from Envision Capital. Please go ahead.

Varshit Shah: So, I was just wondering like what kind of reaction are you getting from the clients with regards to the whole active versus passive investing? Are any of your HNI or UHNI clients questioning you about an advisory versus distribution model or why active or passive and -- entire the value-add that we do in the process? And is there any slowdown also in our client addition? Because I also see in this quarter, your client addition has slightly slowed down?

Feroze Azeez: Got it. So let me answer this question in two parts. One is, Varship, the active vis-à-vis passive debate. Ironically, in the industry is happening without numerical measurements of their own portfolios. So, what we do is if the client is debating in active and passive, he needs to or she needs to first compute transaction-wise alpha or underperformance to a benchmark, which is missing.

So what we do is we calculate transaction-wise alpha. People generally go by perceptions and with narratives. Now there is one client, let me give you an illustration on a little more casual note on a serious call.

I met a client who wanted to move his INR 22 crores to an ETF. Then I said, okay, you can't read newspapers and decide that. Why don't you first check transaction by transaction, what is the alpha you've generated over the last five years? 966 purchases, 36 exits. If you take Nifty transaction by transaction, he himself had beaten Nifty by 2.7% per annum.

So if somebody is not able to make alpha, it doesn't mean that you are not making alpha, but get your own number. Mathematics measurement is the first step of management and that doesn't seem to be happening. Most people who debate that they don't even have their transaction-wise alpha on their direct equity, on their mutual fund, on their PMS.

So that's point one. So we don't see any risk on ETF. And the model portfolio, which we have used all regression in all Nobel Prize winning formulas for the last 9.5 years from 1st June 2013, has generated 3.17% extra over Nifty after all costs.

So if these numbers are there and they are mathematically accurately measured, people are guided not by narratives, but by actuals. For them, one size fits all doesn't work in wealth management, is our opinion and a strong one.

Varshit Shah: And on the client addition, is there any slowdown in…

Feroze Azeez: Client addition is not a slowdown. What happens is we measure clients not all of them. We measure them if they have more than INR 50 lakhs with us. Mark-to-market brings some of them in the bucket, some of them outside the bucket because there's no point counting at 10 lakh clients. We count 50 lakhs plus who has INR 4 crores INR 5 crores as total assets.

Now coming to the -- so there will be some volatility in quarterly numbers of client addition and subtraction because there's also subtraction possible. If somebody came back and took away INR 5 lakhs from INR 52 lakhs, he will no more be in this client list. Because it is only fair to account for clients who have, at a point in time, greater than INR 50 lakhs with me.

That's why you see a larger number last quarter. But to eliminate this volatility, you have to look at nine months to nine months. Nine months last year was 801. Nine months this year is 1,120 which is 320 more clients in the same nine-month period. So there is a client addition rate being increased, point one.

And the second is we also try and measure the quality of client acquisition in terms of the first chque. The first cheque average has gone up by about 70% to 80%. So after listing, which is a very credible thing for a business which requires some degree of branding from -- because people are parting with their money, has resulted in people trusting us at the beginning with more money than they used to, before we were listed last December. Does it answer?

Varshit Shah: Yes. Sorry, please go ahead

Feroze Azeez: Does it answered, or you want some more clarification for it?

Varshit Shah: Yes. So have you seen more initial ticket sizes go up?

Feroze Azeez: Yes, we have. And some clients have given us outrageous starting values as well, which is a great indication of what is -- what lies ahead for a listed wealth management output.

Moderator: Thank you. We have our next question from the line of Sagar Jethwani from PhillipCapital. Please go ahead.

Sagar Jethwani: So I just, have one question. Do we plan to expand into B30 cities? And what are the typical ROI / ROC in long term if you expand the branches there? This is my only question. Thank you.

Feroze Azeez: Thank you for your question, Sagar. Our strategy to expand into the full Bharat has been planted a few years back. So our hiring patterns of our current RMs, our top 100 RMs. There are about 27 - 28 of the 100 RMs who belong to unique B30 towns, smaller towns, Tier 2 - Tier 3. Because we have a very strong principle of client centricity and a culture, which Rakesh Sir has built over the last 15 years. To protect that, starting a peripheral unit by itself is something which may not be the most advisable.

So these 27 - 28 people may choose to go back to their cities, which they belong, where their parents live, where they are brought up, they know the regional language, they are able to relate to the fraternity there. So that is our strategy. So in that process, we have started a Coimbatore unit. We have Visakhapatnam. We have Indore. We have now started Ahmedabad.

These are smaller units, which may not be called units but those are supposed to be built brick by brick with one - two people who understand and who are our top RMs who go back to set up a business there. And they are already breaking even from day one when they reach their home location. And that has a lower cost of building a unit and would be infrastructure cost in every city in India. In fact, I would say all Tier 2 cities, for sure, have at least 100 – 200 - 300 HNIs.

And to go there, you can't send an English-speaking, golf-playing guy and expect the people will be able to relate to him. So that's the answer, Sagar, from a strategy standpoint. And I am sure Rakesh sir can add a lot on this account because all of it is brainchild.

Sagar Jethwani: Yes. On the…

Feroze Azeez: I'll just ask for a comment from Rakesh sir.

Rakesh Rawal: You covered this beautifully. I think the idea is to sow a seed, which we are doing in a lot of cities and will continue to do so. And we know that how it sort of grows. So like in Vizag, we have one RM, and now we are – she has already trained a second person over there, and therefore, soon, we will have two RMs over there. So in smaller cities, you have to organically sort of grow and we have plans to grow it in a lot of smaller cities in the future.

Sagar Jethwani: But then last -- I mean, if you -- what are the typical ROI / ROC in, suppose, say, four - five years once you set up the branch? Just trying to understand that because the penetration is relatively slower in B30 cities. So that's what -- that's where I was coming from?

Rakesh Rawal: No, I don't think that is true. I think that, for example, the AUM in Vizag that this lady is handling is about INR 120-odd crores. She has taken about three - four or five years to get there. In the big cities also, a fresh RM takes four - five years to get to INR 120 crores. So I don't see that being any different. You have the advantage of not too much of competition there. You also have a little bit of disadvantage that not too many rich people are floating around. So it balances up.

So, I don't think that the narrative that ROIs are going to be lower is very valid. The costs pertaining to office, electricity are very - very marginal compared to the rest of it. So, for example, with INR 100 crores, you will have a revenue of INR 1.2 crores - INR 1.3 crores. What kind of cost do you think will be there for having a small office? Mostly a thousand, INR 20,000 - INR 30,000 - INR 40,000 per month. So I don't believe that your margins are going to be significantly different in smaller towns.

Moderator: Thank you. We have our next question from the line of Abhijeet from Kotak. Please go ahead.

Abhijeet: Hi, good afternoon. So, I am not sure if I am reading the numbers right, but it looks like you don't sell much of other alternate products like PMS or AIF. So any thoughts if that has the right reading. And a related question would be any thoughts also on getting into investment management as well?

Feroze Azeez: Abhijeet, I will take this question. The last part I missed, but let me answer your first part. We don't sell -- currently, we don't sell PMSs and AIFs because the standard deviations of PMSs are significantly more. We have analyzed several PMS portfolios, which have six – seven - eight PMSs, but our model portfolio on the mutual fund side, transaction by transaction, has beaten them. So currently, we don't sell PMSs and for the last seven - eight years as well, almost 10 years now.

Why? Because there is tax inefficiency and several other reasons. We have a seven filter process to have a product line approved. And without that, our client objective of 11% to 14% is being met. If you look at the daily standard deviations of most PMSs operate at about 50% - 60% more than the corresponding mutual fund peers. That's one of the reasons because our objectives for the client are not just return-based. They are also risks, which we measure. A 3-year standard deviation of generally norm -- which should not be double-digit. So infusing PMSs results in increase in the standard deviation.

Secondly, AIFs also have long-only AIFs. We believe that alternate investment fund should be truly used for alternate as an instrument. Equity common stock is the most oldest financial instrument that being housed in an AIF is something which we disagree with. And we have an AIF license. We will use it appropriately when you are actually doing something which cannot be housed in a mutual fund or a PMS platform regulatory. Does that answer the first part, Abhijeet?

Abhijeet: Yes, it does. Look, I think it also answers the second one, which was around getting into doing these businesses in-house as an investment management firm. I think your strategy or your thoughts on that, anyways, answers the second question as well. Thank you.

Feroze Azeez: Yes. So, in fact, an MLD can be always housed in an AIF. We will explore that in the future.

Moderator: Thank you. We have a next question from the line of Sadanand Shetty from True Equity Advisors. Please go ahead.

Sadanand Shetty: My question has been asked. Thank you.

Moderator: Thank you. We have a follow-up question from the line of Senthilkumar from Joindre Capital Services Limited.

Senthilkumar: Hi, good afternoon. Am I audible?

Moderator: Yes, please go ahead.

Senthilkumar: So firstly, congratulations for a good set of numbers, especially for the revised AUM guidance. And my question pertains to the correlation between net client addition and the Private Wealth AUM growth. Actually, I see 40% -- nearly 40% degrowth in net client addition and sequential basis. But as we have reported a 10 to 11 percentage growth in Private Wealth AUM. And how should we read this, sir? Your color on this, please?

Feroze Azeez: Senthilkumar, thank you so much for your wishes. And thanks for the question as well. Firstly, AUM, so client addition has not reduced. If you see 450 for the quarter 2 and 270-odd for this quarter, which is quarter 3, it will look like a reduction. It is not that the clients -- some clients get added or subtracted because of movements in market or small redemptions which come through. So, whenever you look at client additions, you have to look at a longer period because mark-to-market can move some clients up or down.

Does that answer, Senthil, first part? Yes, you have to look at 801 and compare it with 1,120. So in nine months, I have added 320 more clients than what I added in the first nine months. Is that clear, Senthil?

Senthilkumar: Yes, clear.

Feroze Azeez: Okay. So, it is not a reduction in the pace at which clients are being added. So that's a wrong conclusion. That second part is AUM. AUM is like a photograph. It is on a specific date, okay? So like June end -- sorry, September end, the Nifty was not at great levels. So net addition of inflows and outflows will give you a better picture of how much money we are getting from marketplace. The last nine months have not been great sentiment. In spite, of that, we got INR 3,715-odd crores from clients, new clients and existing clients giving us more money. When times are bad, we look better to several of our clients because in good times, everyone is making money.

So, when, in bad times, clients give you more references and more AUM and they consolidate their portfolios with us, it is because a relative comparison. People don't do when everything is doing very well. People will buy a PMS and double their money, then they will not be so worried. But when they underperform elsewhere is when they start referring their friends. So INR 3,715 crores of net mobilization is a better number to look at in terms of new money which came in, which was 94% greater than the previous year, same nine months. Senthil, you had another part also to the question. Sorry, I missed it.

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

Pallavi Deshpande: Just following up on that, like you said, in the rough times, we look even better. So, what would be outlook given the rough time, which is continuing?

Moderator: Sorry. Can you use your handset, please?

Pallavi Deshpande: Yes. So, I just continue on the previous question on when you said that in the tough times, we look better. So given the current environment, tough times seem to be continuing. So, can we assume still we will out performance going forward? And yes -- on the net inflow side?

Feroze Azeez: Thanks, Pallavi, for your other questions. So, I will make one comment and give the last word to Rakesh, sir. So will -- are we doing enough and more to make sure that our long-term guidance of 20% - 25% holds? 2023 in our hope, is going to be better than 2022. So irrespective, growing at 20% - 25%, we think is a conservative guidance clearly. And for 2023, we are definitely attempting to beat that. And Rakesh, sir, if you can give an elaborate answer to Pallavi madam's question, if you can please.

Rakesh Rawal: I think you have given the direction. Our belief is that 2023 would be far better than 2022. And you are already starting to see the results of companies that are coming on. And our belief is that, say, companies do well, then the markets will catch up, sooner or later. And similarly, companies do well when the opportunities increase. The GDP grows at 5% - 6% - 7%. There is opportunities for companies to grow. And therefore, I am not a believer of many of the people who say, massive recessions are coming, etc. etc. So having said that, I think that there will be good quality growth in terms of the AUM per se aided by market.

The second part is net flows, yes. Net flows is a function of client additions and penetration. There is so much that we are doing to increase penetration of existing clients as well as acquisitions. I think Feroze mentioned the entire audit program that we have started, that when you audit the assets lying outside and show to the client mathematically that those assets are not very efficiently placed, there is a large tendency of the client to bring those assets for the better and more efficient management with us.

So I think exercises like this, whether it is audit of mutual funds, audit of insurance policies, audit of real estate and so on so forth, which gives them clarity that say what they are making there and what they can make here. So, this exercise brings in depth of penetration. So we believe that these exercises will lead to the net flows having a very robust momentum next year.

Yes, that's what I wanted to say. Does that answer, young lady?

Pallavi Deshpande: Yes, sir. Thank you so much, sir.

Feroze Azeez: Thank you, Rakesh, sir, for that answer. Pallavi, if we look at this business has got a vintage advantage. As you progress, RM vintage and client vintage helps. If you look at the client vintage segment-wise on a year-on-year basis, if you look at the 5-year plus clients, have on average AUM which is 4x more than 1 to 2 years. So, if I just extrapolate time passage and the average is remaining identical, then we are looking at growth greater than what has been indicated without client addition as well.

Pallavi Deshpande: If I may just squeeze in one last one on the MLD side. You could have some -- you have some quite a few bunching of MLD maturing during June 2023, if would that cause any volatility in MLD flows for FY23?

Feroze Azeez: Sorry, which FY? You are speaking of FY '23 or '24?

Pallavi Deshpande: The June '23 MLDs, those maturing in June 2023, will that cause volatility for FY '24 inflows of MLD?

Feroze Azeez: No. We have extrapolated our maturities, and that is a reasonably smooth curve. I can tell you that. And I don't know why you are specifically asking June 2023. Is there a particular reason, Pallavi, in asking June 2023?

Pallavi Deshpande: MLDs, some of them are bunched up 3 years?

Feroze Azeez: So, we have a very well-placed maturity profile and for reasonable periods of time. And our rates of reinvestments are driven by the client allocation decision. And when the reinvestment comes, there is hardly any conversation because there are gaps in the allocation. They automatically get reallocated. So, for a reinvestment of INR 100, there -- in most cases, we don't even have to discuss more than 5 to 10 minutes with the client because there is an allocation already decided. So, reinvestment, just like the mutual fund industry, used to have an FMP as a product. FMP used to mature they used to get rolled over. That's the kind of principle.

So, to answer your pointed question, Pallavi, there is no -- it's a reasonable smooth curve of maturity, an 80% - 85% reinvestment, which is decided by the allocation and not by individual conversations that maturity is the nature of the business.

Moderator: We have a question from the line of Sunil Shah from Turtle Star.

Sunil Shah: Thank you so much for the opportunity. Feroze and team, we really need to appreciate the culture that you cultivated in this organization. I guess we are strictly at now four different products of 11% - 12% - 13% - 14% return for the client. And it is really good that long-term compounding is actually what will roll out for the organization because of the stickiness of the client. So my point is the uniqueness that we do is the MLD product, which does not work easily from the wealth management side available unless focused on what we want to do.

So, would MLD involve any amount of risk at maturity for any client? Because now we are going to almost 20% from outside of our organizational concern. So, I just wanted to make sure about the risk in the MLD part. Could you just give me confidence actually?

Feroze Azeez: Yes, Mr. Shah. As you rightly pointed out that we are very possessive about our culture and the client centricity. We ofcourse, the organization aspires that, and so do we, and we are very possessive about that. And the culture built has a lot of inspiration from Rakesh sir's HUL experience for about 10 - 12 years.

Now coming to your pointed question, MLD, the reason why we used to have 100% of MLD in an entity, which was other group entity, is because we stopped selling Edelweiss and Reliance Capital MLD, which we used to sell previously. We have a team in the research, which identifies credit risk and is reasonably ahead of the curve. That's why Reliance Capital, which was a AAA-rated NBFC, which issued MLDs, we quit Reliance Capital 2 years before default. Some of the mutual fund companies didn't quit till default.

Now coming back to -- unless we are very comfortable, we don't give away credit risk management to any other company. Nuvama, of course, we have got the comfort with a 54% holding by Nuvama . That is why you see close to INR 600 crores have gone there. But MLDs, as long as the money, like the group entity also, Jugalji is the best person to tell you, and I think my NBFC is also overlooked by our group CFO, who has been with the group from since '93 - '94. The kind of management stability there and the money allocated and very prudently deployed unlike most NBFCs. We are liability-backed NBFC than an asset-backed NBFC.

So probably, we can take this question off-line, and I can give you more information for the lack of time since we have gone over five minutes already.

Sunil Shah: No issue. I get the point. Thank you so much. Thank you.

Feroze Azeez: Jugal sir, do you want to add something?

Jugal Mantri: As you rightly said, we can have off-line discussion.

Moderator: We have our last question from the line of Rohan Mandora from Equirus Securities.

Rohan Mandora: Just wanted to touch base on the, client addition discussion again. So because in this quarter, the explanation that you are giving that if the AUM is going below a certain threshold, we are not counting them in the number of client count. So would it be fair to assume that most of these are due to redemptions in this quarter? Because MTM, it may not be there this quarter. And if so, like what would be the quantum of clients who would have completely exited the relationship?

Feroze Azeez: What -- Rohan, right? What happens is Q2 number might have been inflated because of Q1 number. Because June quarter was very depressed. The rate of addition in gross, there's something called upgrade - downgrade of clients and net additions. If I look at net addition, that has marginally gone up. I will give you precise numbers. Redemption as a trend is not influencing this much. The client attrition number is very low. And if your RM attrition is very low, client attrition further goes down. But you will have to allow us some time to give you precise numbers. Your question is very valid. We will give you that data, for sure.

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

Feroze Azeez: Jugal, sir?

Jugal Mantri: Yes. Thanks, friends. I take this opportunity to thank everyone for joining on the call. I hope we have been able to address all your queries. And on two points where we have suggested off-line discussion, I will request Mr. Vishal Sanghavi and our SGA team to have the meeting or call arranged and the queries addressed. In case if you have any further information, requirement or any further query, kindly get in touch with our IR Head, Mr. Vishal Sanghavi; our CFO, Mr. Rajesh Bhutara or our Strategic Growth Advisors, our Investor Relations Advisor. 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.