ANANDRATHI
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Subject: Q1 FY24 Earnings Conference Call Transcript

We are enclosing herewith copy of the transcript of the Company's Q1 FY 24 earnings conference call dated 13th July, 2023. The transcript is also available on the Company's website at https://anandrathiwealth.in/Investorrelations.php

This is for your information and record.

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

NITESH TANWAR
Digitally signed by NITESH TANWAR
Date: 2023.07.19 20:46:57 +05'30'

ANAND RATHI WEALTH LIMITED MUMBAI

Nitesh Tanwar
Company Secretary and Compliance Officer
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"Anand Rathi Wealth Limited

Q1 FY'24 Earnings Conference Call"

July 13, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on July 13, 2023 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 Wealth Limited
3. Mr. Rajesh Bhutara –Chief Financial Officer – Anand Rathi Wealth Limited
4. Mr. Chethan Shenoy – Director And Head, Product & 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 Q1 FY24 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 touch-tone 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, sir. Good afternoon, everyone, and thank you for joining the earnings call for the quarter ended 30th June 2023. Along with me, I have Mr. Jugal Mantri, the Group CFO, Mr. Rajesh Bhutara, the CFO of the company, Mr. Chethan Shenoy, the Director and Head of Product & Research, Vishal Sanghavi, the Head of Investor Relations, and SGA, which is our Investor Relations Advisors. During the Q1 FY24, our total revenue grew by about 34% year-on-year to an amount of INR178 crores, and the PAT also grew by about 34% to about INR 53 crores.

Our strong performance was further fueled by the robust growth in the assets under management, which witnessed 32% year-on-year increase and reached a number of INR 43,413 crores. This growth was, of course, driven by the cumulative part of every constituent of our team. Our flagship private wealth business, AUM, grew by about 31% year-on-year, which stood at INR 42,246 crores. Additionally, we continue to expand our client base, adding 395 client families during the quarter. We have now reached 8,700+ satisfied client families, out of which 62% are with us for more than three years and account for 80% of our AUM.

In Anand Rathi Wealth, our co-belief has always been centered around offering uncomplicated, standardized and well-researched wealth solutions to our clients. This philosophy has not only enabled us to consistently achieve the desired risk-adjusted return, but also enhance our client retention capabilities. Our client attrition is less than 1% in terms of AUM lost for Q1 FY24, which speaks of value which we add to our clients. In terms of relationship managers, we have successfully added about 37 new relationship managers on a net basis in the last 12 months. Our total RMs, as on 30th June 2023, stood at 308. With this brief overview, I will now request Chethan to take us through digital wealth and the OFA vertical to give you a brief update.

Chethan Shenoy: Thanks. Our digital wealth vertical is a fintech extension of the company's proposition for the mass affluent segment. It registered a growth in AUM of 43% year-on-year to INR 1,167 crores, while the number of clients grew by 7% year-on-year to 4,305 clients. OFA business is a strategic extension of capturing wealth management landscape to, service retail clients through mutual fund distributors by using our technology platform. As on 30th June 2023, OFA has 5,688 mutual fund distributors associated and has assets under management on the platform of INR 1 lakh crore plus.

We firmly believe that the wealth management sector holds immense potential, and this motivates us to remain committed to our vision of providing high-quality solutions that fulfil our clients' objectives. Thank you very much, and now I hand it over to our group CFO, Jugal ji, to take you all through the financial performance of the company.

Jugal Mantri: Thanks Chethan and Feroze bhai. Good afternoon, everyone. It is my pleasure to present you all with the key financial numbers. Our consolidated revenue for the quarter ended 30th June 2023 stood at INR178 crores, as against INR134 crores during the same period last year, registering a growth of 34% Y-o-Y. Our profit before tax for the quarter stood at INR 71 crores, as against INR 53 crores during the same period last year, registering a growth of 34% Y-o-Y. Profit before tax margin stood at 39.7% in Q1 FY24. PAT for the quarter stood at a healthy INR 53 crores, as against INR 40 crores during the same period last year, registering a growth of 34% Y-o-Y.

Annualized return on equity for Q1 FY24, which is ROE, stood healthy at 43.2%, and earnings per share for Q1 FY24 stood at INR12.8 per share. Coming to the private wealth vertical, for Q1 FY24, our flagship private wealth vertical revenue grew by 32% Y-o-Y, which stood at INR171 crores, while trail revenue grew by 17% year-on-year, which stood at INR50 crores. Profit before tax for Q1 FY24 stood at INR70 crores, registering a growth of 33% year-on-year, while PBT margin stood at 40.9%. PAT for Q1 FY24 stood at INR52 crores, registering a growth of 33% year-on-year, while PAT margin stood at 30.7%.

I would like to emphasize that as the Indian economy continues to expand and progress, coupled with a growing number of millionaires and billionaires in the country, we believe there will be an immense opportunity for professional wealth solution providers in the country and we at Anand Rathi are poised to grab this opportunity. With this, we will now open the floor for questions and answers. Thank you.

Moderator: Our first question is from the line of Lalit Deo from Equirus Securities. Please go ahead.

Lalit Deo: Yes, hi sir. Good afternoon, congratulations on a good set of numbers. So the first question would be, so from the revenue side, we have seen a sharp increase in the MLD revenues. So could you just give us the primary issuance and the secondary issuance that we have done during the quarter, as well as how much is from the third party as well?

Feroze Azeez: Jugalji, can you give us the split?

Jugal Mantri: Thanks, Lalit. See, the gross issuance of the MLD for the Q1 was INR 1,396 crores. Out of that, about INR 143 crores was from third party. But what is important to note here is that the net issuance, see that as of now, we are at a situation every year because of the past issuances in MLD, our MLD portfolio that is standard healthy INR 12,000 crores. And as you know that the average tenure of the MLD, which is about four years, what we will see is that say INR 3,000 crores to INR 4,000 crores will be getting redeemed along with the accrual on those MLDs.

And as we know that about 70% to 80% of the same gets redeployed. So now this will become a regular phenomena that there will be gross issuances, which will be around INR1,000 crores to INR 1,500 crores every quarter. But if you look at the net issuance, that was still INR 358 crores only, which is compared with INR 239 crores in Q1 FY23. And as far as concerned with the MLD breakup, as I said that 10% of the gross issuance is going to the external agencies. But if I compare with the net issuances, that will be like INR 143 crores goes to the external and the remaining of INR 358 crores minus INR 143 crores. So that is about INR 215 crores will be to our sister concern.

Lalit Deo: So like this INR1,400 crores is primary issuance or it includes both primary as well as secondary?

Jugal Mantri: It's a primary issuance.

Lalit Deo: So like what will be the secondary issuance during the quarter?

Jugal Mantri: See, secondary issuance is not issuance. Secondary is basically there is a trading volume. Okay. That was like about INR 254 crores, which was the secondary transaction, which compared with the INR 359 crores in Q1 FY23.

Lalit Deo: So just wanted to ask some more questions, like last quarter, we did about INR1,000 crores of primary issuance and then there was this budget announcement. So like now we have seen a sharp jump during this quarter, like about 40% increase. So is it like a one time impact or like do you see a structural change in the investors where like people are coming, investors are coming from the listed MLD space to the unlisted MLD space?

Jugal Mantri: Lalit, if you recall, I have like while answering the question, I said that we have got an AUM of about INR12,000 crores in structured products. Okay. And say about INR3,000 crores of the face value, along with the accrual component, which varies from 40% to 60%, that gets redeemed, that is going to be redeemed every year. And whatever redemption which is taking place, even without putting any extra efforts, about 80% of that money that flows back into the structured products. Okay.

So this sort of issuance which has happened in the Q1, that is more or less guaranteed. In fact, it marginally it will go up, reason being that the AUM, which is growing because of the market impact and the accrual, in fact, the redemption as well as the renovation of these maturities, in terms of amount, it will marginally go up. But in terms of proportion to the overall AUM, it will slightly fall.

Lalit Deo: Sure, sir. One more question was like, so during the quarter, we have seen like the revenue increase was great. Similar to that, employee expenses, which are mostly related to revenues, have also increased. But like, any reason why we have seen a sharp increase in our other operating expenses also?

Jugal Mantri: See, other operating expenses are like, directly, there are two things. One thing is that in Q1 FY23, there was definitely the COVID impact, all the traveling, conveyances, and those were restricted. And but now, gradually, in FY 2022-23, you might have seen that there is an increase in traveling, business promotion, networking, as well as on the conveyance expenses. So these are directly incommensurate with the increased activity and physical movement on the ground. And that is why, you have seen that the non-operating expenses have moved up.

Lalit Deo: Sure, sir. Thank you, sir. I will come back in the queue for any questions.

Jugal Mantri: Okay. Thanks, Lalit.

Moderator: Thank you. Our next question is from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Yes, sir. On the regulatory side, the changes that are, on the total expense side, that we are expected to see, what would be the steps you would be taking here? And, what would be the kind of impact you expect on the commission side?

Feroze Azeez: Pallavi, in the last earnings call, we discussed this. So firstly, as you would be aware, Anand Rathi Wealth Limited has not used any of the generosities on the commission front, be it the B30, be it the NFO, or liberalness because of the AUM not getting established. Since, and the smaller schemes giving you more commission, like the 11 Scheme model portfolio, we had at an average assets of INR 13,000 crores – INR 15,000 crores was the average assets. I very well knew as a company that, if I take 11 Schemes with INR7,000 crores of average AUM, then I will get INR 0.30 more.

So point one, I am making is the impact of any client-centric circular would have minimal effects on somebody, who has already been client-centric. And you would be very happy to know that Anand Rathi Wealth, has not sell any product, which is an NFO for the last 11 years, we have not even approved one of them. That's point one.

So as far as our understanding goes, the regulatory circular will go through huge amendments in the next form and fashion if you heard the regulator say that. So the impact of 3%-4% of revenue, which I was speaking about the last time around, doesn't seem to exist anymore.

Pallavi Deshpande: Right, sir. And so what would be the average? You mentioned about the average AUM size being 13K to 15K, but we have introduced some more new schemes, I understand. So what would be the average AUM size now?

Feroze Azeez: Yes, it should be about INR 11,000 - 12,000 crores. We are always going to be running the business as per client objective. If INR 500 crores scheme, if at all, to magnify the example, helps me to meet my client objective, it will be a part. If INR 50,000 crores scheme helps me meet my client objective, it will be. So revenues are never going to take precedence over our actions, irrespective of whatever pressures we may ever have.

Pallavi Deshpande: Right. And sir, my second question would be on the net inflows, if we could have the break-up between what would have come from the existing clients and what would have been from the new clients?

Feroze Azeez: We look at net flows, Jugal ji may have this number. So net flows, we focus on – if you look at it from a perspective of new clients, I would say about 30% comes from the new clients, 70% comes from existing clients. We, as a wealth outfit, have this clear display of confidence in action by not forcing a client to start big with us.

In spite of our segment, which is very dear to us, which is a million USD plus, we don't force the client to start with half a million USD. We say, if you have INR 50 lakhs, start with us and merits will help us penetrate into your wallet. So the share of new money from clients, when they begin is not going to be big because I don't put pressure on them saying that start with INR 5 crores. Why? You start with INR 50 lakhs. If I am not doing lip service, then it is obvious that you would give me the money, which I deserve. So that's why a 70%- 30% ratio.

But the clients, who come in every single month are my potential clients, which is one million USD plus kind of balance sheets other than the homes they live in. So that's where comes the snowballing effect of this business, after it reaches an inflection point. So these 8,700 families are filtered on the basis of their segment and if there is some short-term investor or investor, who doesn't fit the segment in terms of size, we don't even on-board them.

Pallavi Deshpande: Right, sir. Thank you so much, sir. I'll come back in queue.

Feroze Azeez: Thank you, Pallavi, for your question.

Moderator: Thank you. Our next question is from the line of Bhavin Pande from Athena Investments. Please go ahead.

Bhavin Pande: Hey, congratulations on a wonderful set of numbers. Sir, I just wanted to understand, how are we trying to push this business from sales perspective? And how many Relationship managers would we be looking to add every year over the period of the next five years?

Feroze Azeez: Very valid and a good question, sir. Firstly, what we look at is client - RM addition is one of the verticals, which people can extrapolate on an excel sheet reasonably easily by hiring and putting in some capital behind that strategy. So, we expand on our RM fraternity on the confidence of the preparedness of the leadership bandwidth. All my INR 100 crores plus RMs are qualified potential leader.

So, to answer your pointed question, today we have 135- 140 RMs, who have the capacity to mentor three to four people. So, that's the leadership capacity given. So, that means, 140 people mentoring three to four people, which is a span of control, implies close to about 500 relationship managers in the constraint of leadership. So, leadership is no more a constraint any further.

Second is how many people have a cultural fit into the organization of client centricity. So, that's why we internally currently train 296 apprentices, who are called account managers who get promoted. So, these are the two important fuels to my RM force. So, having said which, where could we head? We are going to always expand in a calibrated fashion because we have to make sure that, the brand promise of uncomplicated and client centricity is actually delivered. So, 308 RM, I wouldn't be surprised it gets to those 500 RM kind of numbers over the next couple of years or three years to be more realistic.

Bhavin Pande: Okay. And like the given phenomenal number of families we have, so our emphasis would be more on increasing wallet share of existing customers? As you mentioned that you plan to start with a figure of INR 5 million and wants to go up to let's say INR50 million, would be a balanced approach between adding more families and increasing the wallet share?

Feroze Azeez: See, all the four growth engines have immense mutually exclusive potential to contribute to our long term, very, very dear to heart objective of 20%-25% flat growth for years and decades to come. So, having said which, I don't think, we are at some phenomenal numbers in terms of client families. We may be happy at 8,700, but we are still, any report will tell you, there are 8 lakh to 10 lakh HNI families. So, we are just 1%. So, we are scratching the surface. So, we don't pat ourselves too much on the back in terms of covered the HNI fraternity currently, but I am sure, there is an exponential potential possible.

So, if I have 308 private relationship managers, who are at least 80% of them are not at full capacity. I am not very pleased if I don't - in the next one year - one and a half years, acquire 200 families on a net basis. Because 0.6 per relationship manager is our internal target. So, to answer your pointed question, we are nowhere close to having quenched our thirst in terms of new client acquisition. Because the universe is so large and every 8,500 families have at least 5 HNI, 10 HNI friends, who deserve to be our clients and we deserve to be their distributors.

And as we build credibility with these 8,700 and credibility doesn't come without time. Time is one very - very important credibility builder, be it as a listed company, and be it as an advisor or a distributor. The good part is, we have, 67% - 70% of our clients having finished three years. That means, they would have seen us for three years. So, that's a very important mutually exclusive variable and our aspiration is to get to 200 net client families added per month, month on month in the near future.

Coming to the net mobilization from the wallet share penetration, I think that anytime a client finishes three years and we have delivered him a risk adjusted return of 12% - 13% on Beta of 0.5 on Nifty, we go and have this conversation with him. Sir, I didn't force you to start with INR 5 crores, but you have INR 5 crores. You are at two. I have done my bit. Can you please be generous to do your bit? And those conversations are very positive conversations because you have already shown him three years of risk adjusted return, which is best in class. Does that answer, sir?

Bhavin Pande: Yes, definitely. Perfect. Thank you so much and all the best for quarters and years ahead. I will just get it back in the queue.

Moderator: Thank you. Our next question is from the line of Naysar Parikh from Native Capital. Please go ahead.

Naysar Parikh: Hi, thank you for taking the question. A couple of questions. The first one is on the structured products / MLDs that is like 29% of AUM. Out of that, what percentage is to our sister entity? And, you know, so to that extent, does that pose any risk for any of that sort, just in terms of it being the sister entity?

Feroze Azeez: Mr. Parikh, right, sir?

Naysar Parikh: Yes.

Feroze Azeez: Mr. Parikh, the optical, of course, a reasonable portion of that is by a sister entity. Whatever be the ratios, I'm sure Jugal ji will be very equipped to answer a second decimal in terms of proportions. The risk which you see optically itself is the risk mitigant. Okay, so when I don't have another entity, which I am very comfortable with, even if there's a gun on my head, I am not going to distribute that product for the revenue. So we were the first few to eliminate two structure product issuers, which were a part of our recommendation in 2016, 2017, 2018, much before they ran into trouble and because of our credit risk evaluation team, where they see very mathematically which ones are at risk, we were able to pull the plug much - much before several portfolios were able to sell their bonds as well.

So, to answer your pointed question, a large portion of that is in the sister concern. Of course, we have Nuvama because we were comfortable after the ownership change, and that's another offering which we have, but the larger portion is in the sister concern, and the pricings which we get from Nuvama are better than the sister concern. Okay, the same product gives me more revenues if issued by Nuvama, and that's the great part to put evidence to the transfer pricing or arm's length pricing, which I am sure some of you may be wondering if that's true.

Naysar Parikh: I understand, if I could follow-up, right, when customers 30% of the AUM in MLD is that significant. So, like, are customers asking you to maybe diversify more? Is this more of a pull thing or is this a push thing when you allocate 30% to MLD?

Feroze Azeez: I can tell you, I have met a few thousand clients because all of us are relationship managers first, so I manage about eight - nine clients myself. My biggest trouble is, he says, why not 40%? Okay, because there is understanding of what we do, so we do only things which we really understand second decimal.

So, to answer your question, is it a push or a pull? It is a push from the client for, why it is not 40%? That's the current status, and that's how it has been for the first few years, of course, when we started issuance in December 2012. Now, we have credibility in terms of having matured. 1,300 ISINs have matured, and 15.3% is the IRR of those 1,300 ISINs with a standard deviation of 4.3% on the outcome. That means a Three-sigma event also keeps them in the positive on a three to five-year basis.

Okay, so after having built that kind of credibility with 1,500 ISINs still to mature and 1,300 ISINs having matured, because every Tuesday we have a trade of the same product thousandth time. So, we have two - three products. We don't innovate till the client needs it. We don't innovate just to make sure that we have interesting conversations with clients. So, it is very surprising to other friends in the industry saying that, how are you able to sell the same product thousandth time and keep the interest alive? That's because if our jobs are not to make wealth management interesting, our job is to make the wealth.

Naysar Parikh: Got it. And sir, last question on this, the sister entity that you have is basically an NBFC, right? It's driven to lending, right, if I am understanding it correctly?

Feroze Azeez: Correct. It is a mix of, and I am sure if you download the balance sheet, it will give you a second decimal allocation. It is lending, not such aggressive lending and a lot of money is in debt instruments to make sure that the money is safe.

Naysar Parikh: And the second part of the question was on digital, how are we using digital and is digital, at all do you think in the wealth management space, a direct digital or a digital app can be a significant channel? And how are we using digital to kind of tap into some of the young professional salary people who might reach or are reaching the million dollar milestone?

Feroze Azeez: See, if you look at India, of course, wealth is household savings. We have just done a study, its INR 670 lakh crores. Of course, please read this with some degree of 10% - 15% tolerance, because we have taken RBI data and all that data to see that we have INR 670 lakh crore household saving 10 years back, it was only INR 270 lakhs crore. So Indians are saving phenomenally, but they are investing wrongly. We also computed India's return for the last 10 years, of course, back of the envelope, it is sub 7%.

So having said which, of course, if the savings rates are so good, the young professionals will have more money than they can actually spend. So digitally delivering that is the only way to give ethical advice to those guys, because you can't afford to make an RM reach there and still not sell him an insurance policy. Because if I have a human interaction, then my revenues can't be 1%. If my revenue is 1% on 10 lakhs, it's INR10,000. I'm sure that's a 15 day salary of my client's driver.

So I can't do ethical advice without a digital reach. So we are at the stage of experimenting. And today, there is proof of concept, there is no cash burn, a value unlocking will take its time. So and but do we see this as a huge potential and a peripheral, important business? Yes. And it also helps us keep our ears and eyes on the ground on the paradigm shift, which technology brings about every couple of years.

Having said which, it's a chicken and egg story, the mass affluent or the affluent does not get great distribution, till he is HNI. And if you get great distribution, it becomes an HNI. So it's a chicken and egg story we are trying to solve. So at this stage, we don't count the eggs before they are hatched. So we think that it has a huge potential of value unlocking for our business. And proof of concept and no cash burn is evidence to that.

Naysar Parikh: Got it. Thank you so much. Thank you. And all the best.

Moderator: Thank you. Our next question is from the line of Harsh Kothari from Kothari Investments. Please go ahead.

Harsh Kothari: Hi, actually, my question is on the MF equity and debt revenue and the employee cost, slide number 29. So when we see those numbers, as a company, it's a third largest distributor of mutual funds. But if I look at the cost of distributing mutual funds and the employee cost, the employee cost exceeds the revenue from MF distribution. So do you intend to make ultimately MF at a standalone level as a business profitable, including if there was some regulatory risk pertaining to the structured products?

Feroze Azeez: Hello, Mr. Harsh, right? If I got your name, right?

Harsh Kothari: Yes.

Feroze Azeez: See, its apples and oranges if you compare the cost and the revenue. Why I tell you so, because the costs have a provision of the bonus or the remuneration of the structured product sale as well. So if you say that the RM does not do structured product sale, what would his bonuses be? My provision will come down. So if I was just in the business of mutual fund distribution, would I still be making profit? The answer is a big yes.

Because you're seeing the cost as a proportion of mutual fund revenues, which is on single day, I make INR 58 lakhs - INR60 lakhs, which is my trail revenue. Even when there is Independence Day, I am going to get my INR 60 lakhs (INR58 lakhs - INR60 lakhs), which is my trail. I am just giving you rough numbers. But my cost has the cost as a proportion of a bonus or the share of the RM for the structured product business. Did I articulate it well enough?

Harsh Kothari: Yes. And do you see yourself moving to the RIA model going forward?

Feroze Azeez: We are very clear from day one 2013 is when RIA came into existence. RIA is to our mind, not practically possible in India. That's our take. Because all products, wealth management portfolios do not just have mutual funds, they have private equity, they have alternate funds, they have insurance policies, none of them have a direct, and several of them don't have the direct option.

So if I have to go RIA, I have to say to the client that only mutual funds I will give advice or distribution on. So how do we do RIA? If there is no direct option in private equity, so I am going to earn from that supplier, meaning the manufacturer, right? So we are not in the business of RIA, we have stuck to distribution. There have been five changes in my competitors business models over the last 10 years, we have not had any change.

Why don't we have this change? Because we look at what is the regulator need? We don't look at the print, we look at the essence of the regulations. As the essence of the regulation in 2017, when they removed or 2018, they removed upfront commission, we did that in February 2016. We wrote to all our AMC partners saying that we don't want upfront because it was writing on the wall that it is one year, two year, three year, three year later, the regulator will tell you this.

Because if you look at the essence of what they want from a regulatory standpoint, regulatory changes will help you. Like the MLD taxation change helped us. Why? Because we already knew, in June, 2022 we released a paper saying that this MLD taxation of listed is no motivation for somebody to buy. Don't buy it, it will change in the next few budgets. We gave that in writing because it was very clear. So point I am trying to make is, our regulatory strategy is not to look at what comes as a circular. Read between the lines of what does the regulator want? Regulator does not want miss-selling. So no NFOs. It does not want people to change their addresses and take a B30 commission, which some of them would have done. So that is our strategy. Regulatory strategy, regulations will always give us a push on the positive side because hand on heart, I also want to be as client-centric or a little more client-centric than the regulator wants me to be.

Harsh Kothari: And the product, these MLDs remain tax-free or they are not tax-free? but they are still taxed at 10% the new issuances or they are now taxed at income slab?

Feroze Azeez: See, firstly, MLD didn't have a clear definition. Now, whatever products we are issuing are not qualified to be called MLDs, because MLDs are debt securities. Debt securities need to be capital protected. Okay. It was reiterated in the latest media interaction of the regulator. Debt securities have to be capital protected. Fortunately, for our foresight, not even one out of 2,700 products was a capital protected listed, rated instrument.

So if you are not capital protected, we can't use the word MLD. So we are not in the distribution of MLD whatsoever. Now that there is a definition to MLD, which is two conditions. It needs to be a debt security. It needs to have market linkage. Debt securities definition in four different circulars, SEBI has very categorically said it, the latest being 13 August 2021, circular, which says very clearly that if you don't have principal promised in full at maturity, you are not a debt security.

So I am not into MLD distribution. With this new definition, I have never been. Nuvama, which is another entity we procure structured products from, has a rated paper which is MLD, but we have not procured one from other company supplier as well.

Moderator: Our next question is from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Thank you for taking my question. So just going back to the earlier what we were discussing on is the regulator rethinking this expense ratio. So I think you already mentioned that the change one would see -- you don't see any impact at all when the changes come through with the new regulations. Just wanted your thoughts on do you see coming down by 50% or how do you see it playing out?

Feroze Azeez: So if you look at it, our trail commission of a most active mutual fund is about 1.1 or 1.15% post GST, okay? The circular had seven points. In fact, I had done a call way back in February with a few analysts, and I am sure some of you would have got an invite, to take you through all these six - seven points.

The regulator now understands that India's saving account and current account balances, don't hold me to this statement, but yes, are greater than the equity mutual fund AUM of INR 21 lakh crores. So if INR 670 lakh crores is the household saving and equity mutual fund is INR 21 lakh crores, which is close to 4% or little over that or little somewhere thereabouts of 3% to 4%, we have a long - long way to go in terms of mutual funds getting its space in one's portfolio to the extent of 20%, 30%, 40%.

So I don't think the regulator wants to squeeze it below 1% because there is also an alternative of direct to a client where he can save that 50 – 70 paisa by bypassing the distributor. So I don't think 1% is at a challenge.

If I used all the generosities available and brought my trail commissions to 1.4 - 1.5%, if I have not got something, what can be taken away. That's why a B30 has not had any impact on me. NFO also paying on a certain way is also not impacting me because I didn't do anything.

I didn't do small schemes for the reason of commission. So if you look at those seven points and read that first discussion paper which came in October - November to the industry and the latest circular, which was given as a draft paper, now, of course, that has been deferred from the draft paper. I personally believe from what I have read between the lines, the impact is negligible.

Even if you look at how this business will run, as a professional, we can only assure you that we will apply full might to handle adversities. As a professional, we can never tell you there will be no adversities, but you have to judge for yourselves that the last ten adversities, the last five adversities, how has the company dealt with them.

In a positive fashion with an open mind and using all the intellect and energy so I will tell you that I can only assure you as a professional representing the rest of the group, of course, not I as in Feroze, that we will do our professional best to handle adversities.

Adversities will come. The quantums of adversities we have seen in the past have proved that we know how to handle adversities to a certain extent, and we will still do our professional best. Does that answer, madam.

Pallavi Deshpande: Yes, sir. That was very helpful. Just a nice refresher. Thank you so much.

Feroze Azeez: Thank you ma'am.

Moderator: Our next question is from the line of Sudip Dugar, who is an investor. Please go ahead.

Sudip Dugar: Thanks for giving me the opportunity. Actually I am relatively new to the business, so I have a couple of questions. The first is that could you please explain the reason as in why our average yields are going up?

And the connected question to it is that, if I understand correctly, MLDs have higher yields as compared to mutual funds. But in the past we have had this strategy that going forward, the proportion of mutual funds will be increasing. So some idea as to what are the yields on these two products and how are the yields going up?

Feroze Azeez: Thank you, Sudip. First, I will answer these. And if I miss out any of your points, please highlight again, because you have had very interesting questions. There is something called perception and there is something called reality. So let me put some numbers on the table.

Yield, as a word, has to always be per annum, right? So post facto, when we looked at our 1,300 maturities, on a like-to-like basis of computation of mutual fund, the structured product, my yield was INR0.03 more per annum for the structured product issuances.

So in the order of magnitude, both these products give me the same yield. Do I account it sooner or later is an accounting issue for the energy of my RM. My RM needs enthusiasm to work every day.

So if I go a full trail model, my RM's energy drops, which drops my revenue. So to answer your pointed question, Sudip sir, the yield -- in the order of magnitude, yields are computed on market value per annum in a mutual fund.

If I do the same method of computation if as an RM, Feroze allocated INR100 of his client in mutual funds, INR100 in a structured product, and at maturity computed how much did I earn more as a Feroze for his revenue under his belt, you would see hardly any difference. So 1,300 products matured have had, in the order of magnitude, equal yield to mutual fund. That's point one.

Point two is that going forward these proportions will not change my revenue mix because the proportion changes are bottom up. If the client has a 14% strategy need, we have a model portfolio which is 14%, 13%, 12% and 11%. We try and fit all our clients into these four.

Even if they like the uniqueness, we tell them, four are there sir, we can't have 8,700 best portfolios. That's an oxymoron. You can't have 8,700 best portfolios. You tell me the risk-return objective, I will make one portfolio statistically tested enough, back-tested, front-tested, using a simulator like Monte Carlo and give him one portfolio.

So to answer your pointed question, the yields in the order of magnitude are identical 1,300 products is a reasonable sample set out of the 2,700. Statistically 30 products itself is called a significant sample and 1,300 is significantly more than that. Does it answer, Sudip sir? Or I missed out answering something?

Sudip Dugar: Yes, sir. That was very helpful.

Moderator: Thank you. That was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Feroze Azeez: Thank you all for joining the call. We hope we have addressed all your queries. If any further information is required, please feel free to reach out to our CFO, Mr. Rajesh Bhutara; Investor Relations Head, Vishal Sanghavi, or our Investor Relations Advisors which is SGA. And we will try answering all your questions to our best ability and thank you to support as shareholders, whoever are. Thank you. Have a wonderful week. Thank you, Jugalji.

Jugal Mantri: Thank you. Thanks, Feroze bhai, thanks Chethan

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.