ANAND RATHI
Private Wealth. uncomplicated

Ref No: 18/2024-25

Dated: January 20, 2024

To,

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Dear Sir/Madam,

Subject: Q4 FY2024 Earnings Conference Call Transcript

We are enclosing herewith copy of the transcript of the Company's Q4 FY2024 earnings conference call dated 15th April, 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**

JAEE VASANT SARWANKAR

Digitally signed by JAEE VASANT SARWANKAR
Date: 2024.04.20 15:57:32 +05'30'

Jaee Sarwankar
Company Secretary and Compliance Officer
M. No. ACS-38080
Enclosed: as above

“Anand Rathi Wealth Limited

Q4 FY '24 Earnings Conference Call”

April 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 April 15, 2024 will prevail

MANAGEMENT:

1. MR. RAKESH RAWAL – CHIEF EXECUTIVE OFFICER
2. MR. FEROZE AZEEZ – DEPUTY CHIEF EXECUTIVE OFFICER
3. MR. JUGAL MANTRI – GROUP CHIEF FINANCIAL OFFICER
4. MR. RAJESH BHUTARA – CHIEF FINANCIAL OFFICER
5. MR. VISHAL SANGHAVI – HEAD, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day, and welcome to the Anand Rathi Wealth Limited Q4 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 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 Chief Executive Officer from Anand Rathi Wealth Limited. Thank you, and over to you, sir.

Feroze Azeez: Thanks, Zico. Good afternoon, everyone, and thank you for joining us on the Earnings Conference Call for the fourth quarter and the full year ending 31st March 2024. I am joined by our CEO, Mr. Rakesh Rawal; Mr. Jugal Mantri, who is our Group CFO; Mr. Rajesh Bhutara, the CFO, and Mr. Vishal Sanghavi, the Head of Investor Relations.

Amidst a fluctuating global economic environment, the Indian economy has emerged as a pillar of stability and hope. India's GDP growth for FY '24 revised from 7.3% to 7.6%. This growth is expected to attract more HNI client than ultra-HNI client seeking professional wealth management services. This is also noticeable in the shift towards investments in financial assets and specifically equity-related asset classes like equity mutual funds. With India's high savings rate and this changing asset allocation trend, the wealth management industry is poised for a strong growth ahead.

Our strategy to provide uncomplicated and standardized solution to clients backed by meticulous, data-driven research sets up apart in the wealth management landscape. This is evident in our consolidated assets under management growth of 52% year-on-year and which now stands at Rs. 59,351 crores as of 31st March 2024.

For the financial year 2024, we are pleased to report a remarkable 35% year-on-year increase in revenue to Rs. 752 crores and 34% surge in profit after tax to Rs. 226 crores surpassing our guidance.

In terms of our net flows during the FY '24, it was a significant 41% year-on-year growth on the net flows, and that stood at Rs. 7,182 crores. Equity mutual fund net flows grew by 47% to Rs. 4,628 crores. Despite one of the small-cap equity mutual fund schemes, which was taken out on the model portfolio from mid-March and the funds were in transit. In spite of that Rs. 4,627 crores which is 47% growth in the equity mutual funds net mobilization year-on-year. In line with our commitment to rewarding shareholders, the Board has recommended a final dividend of Rs. 9 per equity share, total dividends for the FY '24 stood at Rs. 14 per equity share, including interim dividend of Rs. 5 per equity share.

In addition to the dividend, the Board has also approved the proposal to buy back 3.7 lakh equity shares of the company at Rs. 4,450 per share for an aggregate amount not exceeding Rs. 164.65 crores that represents 0.88% of the total paid up equity share capital.

Now turning to the flagship Private Wealth business performance highlights. AUM grew 52% year-on-year to Rs. 57,807 crores. On a net basis, we have added 39 new relationship managers in the last 12 months, bringing our total RM count to 332. Again, for the third consecutive quarter, we have had zero regret RM attrition. Number of active client families increased by 19% year-on-year and stood at 9,911.

Our client attrition rate in terms of AUM lost was 1.02% for FY '24 as compared to 1.1% last year, reflecting our client-centric approach and a strong research-backed solution.

Now let me take you all to Digital Wealth and OFA business. Our Digital Wealth business is an extension of our private wealth offering to the 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 products, research, simpler customer education, and so on.

The AUM in the segment increased by 47% year-on-year and stood at Rs. 1,545 crores. Revenues from this segment grew by 64%, reaching Rs. 25 crores.

Now moving to the OFA model. The OFA business is a strategic extension for capturing the wealth management landscape to service retail clients through mutual fund distributor using our technology platform. This is a subscription-led business model where our proprietary technology is used to solve the common pain points for a mutual fund distributor.

As of 31st March 2024, OFA had 5,994 mutual fund distributors associated and had assets under management administration on this platform of Rs. 132,900 plus crores. The total revenue from this segment grew by about 17% and stood at Rs. 7 crores. Before I hand over the call to Mr. Jugal Mantri, I would like to emphasize that these two promising segments present considerable growth prospect and Anand Rathi Wealth is actually positioned to leverage them in the times ahead.

Thank you. Over to you, Jugal Sir.

Jugal Mantri: Thank you very much, Feroze bhai. Good afternoon, everyone. Despite the challenges posed by geopolitical tensions, the resilience of our Indian equity capital market has been noteworthy, contributing significantly to wealth generation and the robust growth of the wealth management sector.

Coming to our financial performance for Q4 and FY 2024. First, I will talk about Q4 FY '24 consolidated financial performance.

\ Our consolidated revenue for the quarter ended March 31, 2024 stood at Rs. 197 crores compared to Rs. 147 crores in Q4 FY '23, registering a growth of 34% year-on-year. Trail revenue for Q4 FY '24 stood at Rs. 80 crores, which grew by a hefty 65% year-on-year. Our profit after tax for the quarter ended March 2024 stood at Rs. 57 crores, registering a 33% year-on-year growth compared to Rs. 43 crores in Q4 FY '23. Profit after tax margin for Q4 FY '24 stood at 28.8%.

Now speaking about full year 2024 consolidated financial performance. The revenue for full financial year '24 stood at Rs. 752 crores compared to Rs. 559 crores in FY '23, registering a 35% year-on-year growth. For full year ended FY '24 trail revenue stood at Rs. 267 crores, witnessing a strong growth of 40%. PAT for FY '24 registered a 34% year-on-year growth and stood at Rs. 226 crores versus Rs. 169 crores in FY '23. Profit after tax margin for FY '24 stood at 30% plus. Return on equity for FY '24 stood at 40%.

Coming to the Private Wealth vertical for FY '24, our flagship Private Wealth vertical's revenue grew by 34% year-on-year to Rs. 720 crores and profit after tax grew by 32% to Rs. 231 crores.

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

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

Lalit Deo: Sir, I just have three questions. So firstly, one data related question. So, could you give us the gross primary and secondary issuance in this quarter? And second, like we have seen significant like a material increase in the expenses during the quarter, so what is led to that? And what would be the outlook on the expenses side for the next couple of years? So like while we have guided for a revenue growth of 21% and 24% of earnings growth. So, like what would be the outlook on the expenses? And thirdly, so like we have added like about 39 RMs during the year. Now with the total base of about 330 RMs, like how many RMs would be add and like what are mature in the system? And what are our target plans for the next 2 years on the RM additions?

Feroze Azeez: Lalit sir, too many questions from your side. It's quite intertwined. I will try and not dodge them unintentionally. But yes, see, basically, primary and secondary split, which you wanted. Rs. 5,182 crores of gross sourcing of primary and Rs. 1,474 crores of secondary issuance. That's your first question's answer.

Expense. See I can tell you what we look at internally and what I would request any shareholder to look at. We are an evolving business. We are not a matured business, okay? Expenses in the employee head will change as the maturity changes. What we are very possessive about internally is a 40% PBT margin, which we are very possessive about and we are very possessive about a 30% PAT margin.

Last year, same time, there were approximately 135 RMs (actual number was 137) who had finished 5 years in the system. Now if we have 165 - 168 (actual number is 164) of them, that means 30 (actual number is 27) of them in a single year move to a mature category of 5-year plus, right. So whatever be the expense differentials, 40% PBT of the revenue and 30% PAT is an internal possessive number is one thing, which I wanted to tell you about. And in the minute things, the bigger picture will get lost. This is why I am telling you what goes in our mind. And your last question, I would like to take again because I didn't write it down, Mr. Lalit.

Lalit Deo: Yes, I was saying on the plans of addition of RMs over the next 2 years?

Feroze Azeez: Plans for addition of RMs is going to be driven by external and internal hires. I think a growth of the current nature, we have added about 40 RMs. I think, 40-50 RMs additions per year or more is very, very likely. I don't want to give you a guidance on that because the filter is not how many numbers I want. How many people can carry my proposition effectively to the marketplace without diluting it. That's the limiting factor, right? Otherwise, you have 360 account managers approximately who are being trained. So we may be one of the few wealth management outfits who knows their next 100 RMs, at least 80 out of the next 100 RMs today, and we are training them today because we don't believe in waking up and saying I need 20.

We have to work on them for 2-3 years to get the same cultural fit, which is driven by what binds us together is client centricity, not money. That's why there is 9 months of zero attrition, right? Otherwise, anybody would pay twice the salary to pick a RM from ARWL, right? Why don't people leave? Because what binds us together is what we have to do for our clients because that's the person who puts food on our table.

So the limiting factor for us is not how many people can we hire or how much capital I have to hire them. Do I not dilute myself in the aspiration of number. So, to answer your pointed question, it could be anywhere between 40- 60-70 for the next couple of years. And the limiting factor will not be capital. It will not be number of people wanting to join us, it will be without diluting that becomes necessary, if not a sufficient condition.

Lalit Deo: And last question on like this, like on the Structure products issuance, so like for the next couple of years, like what kind of an outlook are we looking at it? Like as we remember, like last quarter, we highlighted of the overall AUM mix, about 60% is now currently coming in the mutual fund. There is share of structured products are right now at 24%. So, what would be the overall mix of the AUM, which can be looked upon in the next 2 years?

Feroze Azeez: 30%-35% is structures Products; 50%-55% in equity mutual funds; 8%- 10% in debt and some portion in others. Others is raw material for our alignment process. So, if today, it is 24%-25% structure products because of the extensive mark-to-market last year on the equity mutual fund side, it should get restored back to 30%. That's our aspiration, okay, and you will see that over a period of next 1-2 years, depending on what mark-to-market both these assets throw up in the next 1 year - 2 years. Does that answer, sir?

Lalit Deo: Yes, sir.

Feroze Azeez: So, you can do a follow-up if I didn't.

Lalit Deo: Yes, sure.

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

Bhavin Pande: Congratulations on surpassing the guidance. The first question was on the strategy that was taken out of the model portfolio, so was it sort of valuation, if you could shed some light and also realignment towards the new strategy that would be included for whatever Rs. 800 crores that could not be included in the inflow?

Feroze Azeez: Sorry, I didn't clearly follow your question. I got a gist. Bhavin sir, if you can probably again articulate it for me so that I don't give you incorrect answer.

Bhavin Pande: Yes. So, Feroze, this small-cap strategy that was taken out of the model portfolio in mid of March and the funds are in transit right now, so what was the reason for taking out the strategy? And where are those funds getting allocated now?

Feroze Azeez: Okay, super. Now I got it so clearly. Thank you so much to repeat yourself. So yes, so what was the reason for removing a small cap fund. Because we went hammer and tongs last financial year into small-caps because historical performances were bad. So we try and remove the emotional aspect. Past performance doesn't drive our decision-making, unlike investors do. So as a wealth management outfit, we have gone from one scheme of small cap to three schemes on 1st April 2024, and that call went reasonably right. That's why our model portfolio's alphas over Nifty went up to 16-odd percent for the last financial year, so we wanted to take some money off the table.

This was not from fear saying that small cap is overvalued because small cap is a very-very large segment, 250 stocks in the small cap. In Morgan Stanley's index there are 460 stocks in the small cap. Making a general statement that small cap is overvalued and acting on it may be very-very macro for an index, which has got a stock with 10 P/E ratio and has a stock with 300 P/E ratio. So, we don't paint all of it in the same brush.

So, it was not emanating from valuations. It was emanating from the fact that you had gone long. Several wealth management outfits became negative on small cap in the September - October last year, but the liquidity has always been there. And it's been in a country where there is Rs. 800 lakh crores of household savings. Rs. 2.5 lakh crores, which is 0.3%-0.4% in a small-cap category is not a very large amount.

And I think we will not be limited by demand for small cap stocks, but the supply of small cap stocks and its free float. So, to come back to your pointed question, why did we remove? Because we had made money and we wanted to book some profits. Automatically, if you look at where this money will go, this will depend on each client's specific gap sheet as we call it. If the client has a desire to have 55% in equity mutual funds, 35% in structures products, it will automatically go to those portions where there's a gap on the desired allocation.

So, we generally fix the desired allocation with most of our clients. And then whenever there is liquidity emanating from an exit or from the client it will be plugged into the gap as per the gap sheet so that the top-of-mind products are not sold, but the strategic way of managing money.

So now to answer your pointed question, most clients have a gap in structured products because the proportions of structured products have become lower owing to the mark-to-market increase in the mutual fund side, both Nifty and the alphas we have been able to generate with our 14 schemes model. Does that answer, Bhavin sir?

Bhavin Pande: Perfect. Perfect. So, Feroze, following up on that, would you think it would be safe for us to assume that our blended yield would be much higher in the next 2 years because of the mix of structured products improving?

Feroze Azeez: Blended, see, I would say it is a function of several things. In our opinion, blended yield could go up, but if there is a mark-to-market downwards and then automatically the proportion of structured product get restored to 30%. If there's a market fall which is unlikely. I am speaking about 1% probabilities, 0.5% probabilities also.

So, it will not be right for me to guide a higher yield. Are you with me, sir? Like that 30 became 24 on account of mark-to-market. So, since it has a function so I would not guide a higher yield. We are looking at a long-term yield of 1.3% - 1.4%. That's something which we don't compromise on.

The yield is computed backwards on a structured product from a 5-year product on market value that's how the mutual funds compute. The yield is about 1.17% to 1.2%. Because of the accounting function you might get 10 bps - 20 bps higher, mutual funds give us 1.1% post GST and we don't expect any shrinkage.

But there could be incidental higher yields and since there is another variable which is not in your control the restoration of 30 can happen if there's a mark-to-market differential is why I would not guide a higher yield, but expecting the yields which I just stated would be a fair thing to do.

Bhavin Pande: Thank so much and good luck ahead for 2025.

Feroze Azeez: Thank you, sir, for your kind questions and your comments.

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

Pallavi Deshpande: Sir, I just wanted to understand the others portion which was higher in December. So, you guided that it takes time to deploy the money. So just wondering if it continues to be high, so just wanted some clarity on the same.

Feroze Azeez: Great. So, it continues to be high because the influx is also reasonable. And when you are transferring a PMS to yourself and that you are supposed to be aligning to a mutual fund the mark-to-market of a PMS could be similar to a mutual fund. Are you with me, Pallavi madam?

Pallavi Deshpande: Yes, yes.

Feroze Azeez: Right. So that's your raw material, okay? If the raw material is more, I am happy. If the proportion would have increased with a decrease in AUM, I would be worried. You have to see it in conjunction, right? If my AUM guidance was Rs. 55,000 crores revised from Rs. 47,000 crores to Rs. 55,000 crores and then ended at Rs. 59,000 crores.

If it was the other way around, if I faltered on my AUM guidance and other proportions went up that as a combo is a more speaking variable. It speaks more. So, since the AUMs have been exceeded AUM guidance and we have ended at about Rs. 59,000 crores as against Rs. 55,000 crores as lately as December. So, I would say that it's something which internally we feel happy that we have more in others currently which means that there's huge potential for the future. Of course, internally we will be happy. If shareholders might want to take it with a pinch of salt, but yes, that's their choice.

Pallavi Deshpande: Since you mentioned about the RM not being the limiting factor to dilute performance. I mean, I understood that correctly, right?

Feroze Azeez: Pallavi ma'am, you're muffled so I could barely hear you. If you can please repeat yourself.

Pallavi Deshpande: Right. Yes, I will just repeat these are two questions in one. So, what could be our target for new family additions this year? And like I think you mentioned on the RM side, that is not the target you said that it's not how many people can carry forward your position and not diluting itself, on that side...

Moderator: Ma'am, sorry to interrupt you. May I request you to use your handset, ma'am. Your audio is not very clear.

Pallavi Deshpande: Yes, I will just make it short. What would be the family addition target for this year?

Feroze Azeez: On these, I will rather call these not as targets, as aspiration, internal aspirations on both of those questions which you had. We have this longstanding aspiration we have not met of having 1 RM per client -- per RM per month (1 client per RM per Month). That makes it 332 (per month) till we get to full capacity.

And RMs capacity is 50 clients per RM. Of course, some of them are above that. So, excluding them, if I look at it, our internal aspiration, aspiration is also a stronger word, dream. Okay, let me put it a milder word. Our dream is 1 client per RM per month till he gets to his 50 or she gets to her 50. Now looking at the next year the kind of client love we have seen and affection we are seeing and the reference avalanche which may happen and there are some green shoots of it for the next year our internal target, not a guidance again will be 200 per month.

Pallavi Deshpande: Thank you. That's all from my side.

Feroze Azeez: And on the number of RM additions, of course, we are into the new financial year. So there again not a guidance, only an aspiration, I think, we should get closer to 380-390.

Pallavi Deshpande: And just continuing that on the RM side the more than 12 less than 5 years, that shift that happens, does that impact the compensation?

Feroze Azeez: See, it is a function of time. If you write the equation, it's a function of time that most of our people, if there is no leaking bucket, if your clients are not leaking, why are the clients not leaking because RMs are not leaking. Why are RMs not leaking - because what binds them together is not selfish motive. So, coming to your pointed question how many RMs will we have above 5 years? It's just a function of time because you've had 9 months of zero regret attrition. And I think that should continue. So, over a period of time, the number of people between 3 years and 5 years is how many? I think you will see, like last year we saw 138 (actual 137) going to 168 (actual 164) above 5 years. After 5 years the RM has built a book which is intergenerational from his perspective not even in his lifetime, right? So, since itis a function of time. So, you have 36 people who are above 3 years, below 5 years. In the next 1.5 years, we should become 5-year plus. So automatically that should take it to -- because the average time these 36 would have spent if they don't leave Anand Rathi Wealth Limited then they automatically as a function of time will take this number to 200 in 1 year, 1.5 years depending on the average time they spent. Does that answer Pallavi ma'am?

Pallavi Deshpande: Yes.

Moderator: Thank you. The next question is from the line of Ritika Dua from Bandhan MF. Please go ahead.

Ritika Dua: Thank you sir and congratulations on a good set of results. So, two questions which have been asked already. I just wanted some follow-ups on the same. Sir, first is on the structure product bit. So, you said that it could go back to 30. I am not holding that as a guidance. I am just saying maybe directionally it will go up from the current mix. So are we building new capacity for this or we think that maybe in a time where the markets are doing very well, maybe mutual funds take over a little bit more versus structure product and maybe in the next two years, obviously, I mean, markets do stabilize and that's how the structure product come back into flavor. So just wanted to understand the reason for the 30%-35% improvement. What are the vectors for the same? And the second question is that, obviously, you have given a very good guidance for FY '25, but do you think that it is a little conservative because in the previous question you said that the number of RMs could actually reach 380. So that's about a 14% growth. And then obviously, you would have your -- some of your older RMs continuing to actually move higher up. Last year -- this year also you had some 20% actually growth in your RMs, which are more than 5 years which actually yield to a very high productivity.

So, if you could just kindly delve a little more into your guidance of 24% PAT growth and a 21% AUM growth. So, these are the two questions. Thank you.

Feroze Azeez: Is that Ritika, you said, your name madam, so that I can address you with this name?

Moderator: Yes, sir. Ritika Dua.

Feroze Azeez: Ritika Dua. Okay. So, your first question, which was on flavor, whether it's structure products or mutual funds. See, we don't go by flavor trends because if you are dealing with 9,911 families, you are expected to meet them 12 times a year. You will dictate the trend in this subset. If I was a retail business of 10 lakh people, I will go by trends. Here, you will influence their thought process. That is what the relationship business is all about. So, I am not going to go by flavor. In fact, we find the most important cognitive bias, which is called recency bias. A client will be tempted to buy what performed very well last one year. And that's exactly my job role to counter that and not let him get carried away with rear-view mirror analysis, right? Of course, the propensity of a client to buy a mutual fund today will be higher. Last year, the same client was telling me, why structured product is not 40%? Same client is saying, okay, structure product we will do 30%. That's called the recency bias. That's the cognitive bias we fight by showing numbers. That's where the gap sheet, which I just alluded to in the previous question, comes into picture. So you don't go by what is your top of mind flavor. You go by where is the gap as per your strategic decision, which is not swayed by what happened in the last 3- 4-5 months or even 1 year or 2 years. So recency bias is what we fight. So we will not go by flavor, we will go by gaps. If a client disagrees, then we counsel it. That's where that 3-4 years is needed.

New clients are not seen as revenue machines. There is something you have to work on. You have to build that relationship for 3-4 years with data, data and data to eliminate the heart aspect as much as possible and bring more mathematics, which is the mind aspect of wealth management business. So coming to the second part, again, when RMs again get added, we are not in a hurry of how much revenue they will bring. Again, they are not my revenue machine. They are people. Again, you build a relationship with an RM, build his capability, her capability, bring the same social fabric. It takes years to build that. But the third part will be, we always believe and give you a conservative guidance, that's going to be our DNA for sure. Does it mean that I will beat the guidance is what I am saying? No, because God also has a lot to do in the next 12 months. But 280 in our belief currently is something which we can put on the table and deep down, we know we are not exaggerating.

Ritika Dua: And sir, just on the first question that I had, if you could just elaborate a little bit more. So I understand that obviously having mature and understood that our process on suggesting a particular product is obviously very scientific. So just wanted to understand a little bit more on the structure product. So when you say rather if not guide that the share of Structure products would improve, what I was trying to check is that do you look that the capacities in this particular segment will move up. That's how it is a 30%-35% kind of a mix from the current. If I am not on 25%? Or is it that some of the investors do not have structure products, which if they look to add to their portfolio, that's how the mix would move up? Or thirdly, does it naturally happen that, if at all, we assume that markets are not going to be the way they have been buoyant in the last 1 year, naturally, the share of structure products move up. So I just wanted to understand that when you say 30%-35%, what are the points that you look to highlight, if assume for us that it should move 30%-35% because this will obviously take your yields also higher. So that's the last thing. Thank you.

Feroze Azeez: So yes, madam, so it's not market driven like it may not be buoyant. So the 30% number, which I just said as not a guidance. As a number which was in my heart, it stems from the fact that we do a lot of realignment yearly. Or every 15 months, our model portfolio also goes through some rejig depending on if we had cash in our bank account, will I buy the same 13 schemes. The answer may come no. So I look at doing a full zero-based exercise of what I want in mutual fund. When you actually do that exercise, if your proportions are not as per the decided allocation. Let's assume I am a client, which I am, of course, a happy one. If my proportion decided an equity mutual fund was 55% and 35% in structure products and 10% hypothetically, or 65% in mutual funds and 35% in structured products with zero debt. If this was my proportion on the beginning of the year, at the end of the year, because the 65% grew at 40%-45% last year, the mark-to-market brings me to 72% in equity mutual funds and 28% in structured. From May-June, if my equity mutual funds are being re-evaluated, if there is one fund which I exit, I would not buy back equity mutual funds, the Rs. 7 may get reallocated to structure product funds. Are you with me? So we do a one full-fledged exercise every 15 months of equity mutual. In that, if I redeem 3 funds, I may not buy 3 funds back. I will bring it back to 65%-35%. And all clients will do it at different points in time. So that's the reason whereby I said, 30%. And this will be the large reason of realignment, which is a yearly exercise, which we do.

Ritika Dua: Very useful, sir. Thank you so much. I am done.

Moderator: Thank you. The next question is from the line of Yash Gandhi from Stallion. Please go ahead.

Yash Gandhi: My questions are answered. Thank you.

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

Prayesh Jain: Sir, just a question on your guidance. So if I look at your net margin that you are disclosing that is also similar to what you have reported in FY'24. And even if I look at your realizations of the yield, both that also looks flattish. Now given that you have given a guidance that structure products could go up or not a guidance or indicative trend. I would have assumed that these would have gone up. And secondly, given the scale advantage that the business has, why aren't your net margins kind of improving next year?

Feroze Azeez: Sir, net margins are not improving next year because this is a guidance, point one. Point two, the business has to be understood a little more macro than the real small numbers. That's how I look at it, Rakesh sir looks at it, Jugal sir looks at it, so I am just telling. The business is all about making 1.2%-1.3% yield on a long-term basis, could be a 5 bps-10 bps here or there. Don't hold me to that. And what is the net flow I am adding? You have to project what is the revenue, what will be my AUM in 2029 March? That's my internal target. March '29, what will be my AUM? On account of mark-to-market in the clients' portfolios, on account of how much new money I bring per month, on account of how much growth in net mobilization will I have, you have to first project what will be my expected AUM in 2029 March? That's what I do. It is your choice whether you do it or not. Then you multiply that with 1.2-1.3 1.4 or 1.1 depending on your assumptions on what is the revenue I will have. 40% of that, which should be PBT and 30% should be my PAT. This is how we look at our business. Okay. And in that interim formative years, our business is not even a teen. It is in its formative year. If I have to compare with human life, it is a 10-year-old child, not an 80-year-old child. So, there will be numbers which will take us away from the macro picture. I am just trying to bring you to the model, which I look at as a professional being a part of this company for the last 12 years. Now coming to how we look at it is, we are very possessive about consistency. We don't like to have very great numbers some days for our clients, we like to bring in consistency because it's not about possibilities in life, it's about probabilities. So, you would see that we are so possessive about our consistency that we would be one of the few companies in the country who would have calculated the mean result, the median result, the standard deviation of our results. And the worst year-on-year growth we have given was March 2023, 23.6% (actual is 23.4%) growth, and the mean is 33.8% (actual is 33.6%), don't hold me to second decimal or first decimal, median is 34% (actual is 34.2%). And standard deviation of our results, leaving the COVID ones, which had a base effect, so for fairness sake, I am leaving those. Last 8 results, standard deviation of our yearly growth is 4.8%. That is how numerical we want to be with our shareholders. So I am not going to project a yield increase on variables, which are out of our control, then under commit over deliver will be very difficult to hold to.

Prayesh Jain: So if I just, while you really spoke about a long-term target or long-term view of the company, But from, say, if I look at it from an FY '25-FY '26 perspective, now is it fair to assume that the costs you would be incurring would be in line with your revenue growth? And I would like to understand as to what elements of cost that are getting added? What are the segments you are investing in for you to kind of extrapolate the growth in expenses to be in line with the growth in revenues? That will be one bit. And second bit, is it in spite of the rising mix of structure products, we will still see a flattish yield. Is that what you're guiding for? That is a fair assumption, right?

Feroze Azeez: No, I am not guiding for. I know what is the word you're looking for, operating leverage. We didn't want to use this word because we like to have it unfold because we have given you a guidance and we have told you that this is under commit over deliver. I don't want to promise an operating leverage because we are very possessive about on what we guide about. That's why I am not speaking of operating leverage. Do I deep down believe there is some operating leverage? Yes, it is. Now that you're putting me in a corner to answer that, which I was conveniently not wanting to comment because that's what keeps us up. If we overcommit, it disturbs us as professionals. That is why you don't want a new variable which you are going to be asked on. We have already given you our aspiration of trail to upfront 50-50. Now that is something, which runs in our mind and in our actions on a daily basis. That's where you see trail has come up from 35% to 37%. When I already have an extra variable, which I have spoken about, not guided, but we like to deliver what we speak. So that's why I don't want to comment on operational efficiency aspect. And for an external party, upfront income could be something, which is not predictable in inverted commas. For us internally, it's as predictable as trail or at least 80% as predictable as trail because money get reinvested after-tax money, because I know I have met clients. I am an RM myself. I know what maturities will come and will it get reinvested on the basis of the behaviour of clients. And I meet three clients a day. So I know that upfront revenue for me is predictable. Of course, some external party will take it as a pinch of salt saying that it is not predictable, right? So we believe it's predictable, upfront revenues. And we believe and we don't expect you to do.

Prayesh Jain: And lastly, on your dividend payout, what are the thoughts in terms of overall future? How should we look at it? Should this level of payout be maintained? Or is there any scope to increase it further? How do we see this?

Feroze Azeez: Our dividend policy stays 30% to 50%. I think we will stay in that range.

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

Feroze Azeez: And I actually, sorry, by mistake dodged one of the questions. Rakesh sir beautifully answer's that and that's where he is given -- Rakesh sir.

Rakesh Rawal: Hello?

Feroze Azeez: Hello, sir. Sir, where are our areas of reinvestment you generally give us a lot of guidance there. So actually, there was a question saying that -- which are the areas of reinvesting money and not worrying about operational efficiency today.

Rakesh Rawal: Yes. you see like Feroze has mentioned that we are a strong growth company and with a 20%-25% compounding, the size of the company over the next few years, five years will become very large. And therefore, we have to make sure that we build strong pillars, which can hold this large organization together. So therefore, for example, marketing. For example, the whole introduction of the platinum segmentation, which is Rs. 50 crores plus kind of plan, yes? So, several of these areas are there where we have to invest money. What we are trying to do is to maintain that 40% margin and whatever operating leverage we get, we reinvest into the business in some of these verticals. We will strengthen our HR far more than what it is today. Despite having zero attrition, does our HR needs strengthening? Yes, it does. And we are in the process of doing that. So internally, there are several areas that we need to strengthen, so that we can have sustainable growth. So that's why, to the market, we are saying, "Hey, don't have an expectation, more than 40%".

Prayesh Jain: Got that. Thank you. That's helpful. Wish you all the best.

Feroze Azeez: Thank you, sir.

Moderator: Thank you. The next question is from the line of Sunil Shah from SRE PMS. Please go ahead.

Sunil Shah: Thanks for the opportunity. Congratulations Feroze and the entire team at Anand Rathi for this super performance. Yes, Feroze, this is about the 2029, five years down the line and you just stated the simplest way to look at it is -- I am audible, I hope.

Feroze Azeez: Yes, Sunil sir.

Sunil Shah: Yes. Okay. So Feroze, you just stated the best way to look at it five years down the line would be that we are having a growth of roughly 33% at a mean level. Am I getting that number correct in terms of the AUM growth?

Feroze Azeez: No, no. Yes, sir, last 10 years could be that. What I meant when I spoke those 33% in the context of last nine (actual eight) results, our mean annual growth is 33% and the median annual growth is 34%. Because we like to have consistency for a shareholder as well, just like a client. That's the context in which I said. It was not a forward-looking statement. It was actually a backward-looking statements of the last -- we have been -- we got listed in December '21. So I think it's our 11th result (actual 12^{th}).

Sunil Shah: Yes. Okay. So if I think our -- as you stated, you have been there in the organization for like 12 years and I believe a lot of people would also be amongst your RMs would be there for a good period of time. Now maybe all that you have invested in the organization to make it very-very robust and evolve over time, so the next five-year journey could be even better in that sense. So I am just trying to say that if the market is compounding like say 15% and if you are increasing your manpower strength by similar number then still sustaining the 30% growth rate will probably not be a challenge given that the mean growth has been at that rate? That's number one. Second is, if I extrapolate this Rs. 59,000 crores of AUM and look at in 2029, my AUM number comes to something around Rs. 2,50,000 crores. I am just looking at a directional thought process, which I have. Is my thinking significantly in a wrong direction or if you could help me to understand where I can still improve on my thought process.

Feroze Azeez: No sir, I think you are very close to our thought process. Not numerically, but since we have this principle of count that asset, which is yielding, okay? So it becomes very easy for our shareholders. See, I worked for a previous company where anything and everything can be counted as AUM. So how does a shareholder decide whether this will give me 1.3% yield. In Anand Rathi, we are a gatekeeper. We bring those clients and those assets, which marry our thought process. If somebody like, if my cousin said, I have sold my business. I am giving you Rs. 800 crores of arbitrage fund. I would say, "I don't want this brother". So, we are a gatekeeper of bringing long-term assets. So the thought process is “jo assets hain uspe aap yield kamayege. Jaha aapka haq nahin banta waha nahin kamayege and jaha haq banta hain waha nahin chodege”.

This is our mantra with our clients also, right? We don't give discount on a mutual fund to lure somebody to start. So, coming back, yes, you should project an AUM. I think you should project an AUM conservatively. So, the number, which you had in mind was larger than my number because it's always good because your good times don't need preparation, right? So you should always have a little conservative approach on that and then multiplying it with revenue, then with PAT -- PBT and PAT. I think that's all. And like you rightly said, I have finished 12 years, but I am the most junior most representative on this call. Rakesh sir has finished 17 years on 1st April. 2007 is when he joined. He's one of the longest standing CEOs and change in management was the reason why this is my third job, unfortunately. It could have been my first job. I left the company because the promoters changed, ABN AMRO was sold. So point I am trying to make is, I am still the junior most. Jugalji has spent 30 years in this brand, and I have spent 12. Of course, Vishalji makes me look pretty by having only spent five years because he is a young man.

Sunil Shah: More importantly, I think the way in which the culture is getting built up in terms of the new RMs, which will then carry on the legacy for even a longer period of time. So that's really a great thing to do. I think coming back to the number bit, which I was talking about, so once the AUM number is arrived at five years down the line, the simplest way to do it is 1.2% of the AUM as my top line revenue estimates and arrive at a 30% bottom line estimate of your top line, which I arrive at, that could be the way to go about, right?

Feroze Azeez: You're almost cornering me. Similar, I would say.

Sunil Shah: Whatever the AUM number is, whether it's Rs. 2,00,000 crores or Rs. 250,000 crores, for me to just have some number in my mind, the best way to look at it is 1.2% even if it's not 1.3% as the current number is, 1.2% can -- will be my top line and 30% of that will be my bottom line. That's directionally the right way to think?

Feroze Azeez: Yes. You are in the right direction, sir. And that's what -- how I would look at it as well, if I were supposed to be looking at it. And when Rakesh sir has said and since he is the head of the pack, and we are foot soldiers. When he says 20%-25% growth for decades. Now you have to see, he would not say it if he doesn't mean it. And I think after 23 years in the industry after having worked in FMCG, he understands the industry enough. And when he says 20%- 25% long-term guidance compounded, will there be years more than that? There will be years more than that. And that's how the last 2 years have panned out. And you are building a business which is market agnostic, unlike most people's belief. They think financial services will run on the momentum of the market. What all happened in the last 11 quarters? The war in Ukraine nifty went to 15,200, HDFC merger nifty went to 18,000, then there was an inflation scare in June and nifty went to 15,200. In all this, how did the quarterly results come out reasonably consistent? That's the point to ponder upon for analysts, which they will just paint everything in the same brush. Financial services market is unpredictable. One guy said this to me. I said 2 years, please see market has touched 18,000 - 4 times and 15,000 4 times. But look at the quarterly result, last quarter was not the great market sentiment. After December, things changed, but my net mobilization was good. So we are trying to build a market agnostic logical finance company and sales is an outcome. This is what is our internal aspiration.

Sunil Shah: So market will do what it has to do, which is unfortunately or fortunately not in either one of us hands. The important thing would be to build a team of RMs, which will be completely in your hands and create that culture. So we are looking at growing our RM base by at least 10%. 10% kind of a thing on a sustainable basis year-on-year for the next 5 years. Because 15% is what market will give me, for my 25% growth. The 10% RM push has to be there. So that's a conservative thing to look at 10% growth in RM base year-on-year for the next 5 years?

Feroze Azeez: There's -- actually how we look at it is, there are 4 mutually exclusive variables of growth. We said this in the first result. Of course, there is now some degree of credibility. Rakesh sir, you want to speak of those 4 legs of growth

Rakesh Rawal: Well, so as Feroze mentioned that the first leg of growth is the portfolio is giving return, which is market dependent, but there are other factors as well as alpha and so on and so forth. So that we expect long term, 5 years, 12%-13%-14% kind of growth coming from that variable. Then we have our existing clients who are not fully with us. There are several clients, where part of the book is with us and, therefore, by showing them performance and with building the relationship, we have been drawing their assets from other wherever they are kept, including real estate into financial assets as well as from other advisers through a series of processes of audit and so on and so forth. That will continue. That will add to my growth, which is existing client, money is outside. Then we have new clients coming in with their starting with whatever they are starting. That will be a third vertical of growth. And the fourth vertical of growth is adding new RMs to the kitty. So as you said in the beginning, there is market growth plus RMs bringing in money. But there are 2 additional factors which also bring in business and that will add to. So when you add all this, is it likely to be more than 20%-25%. Well, we think it is likely to be. Is it something which is an opportunity for 1 year or 2 years? No, I believe there's an opportunity for several multiple years. And that's why we are saying that there is a very high probability of this business growing at 20%-25% for a very long period of time. That's the way at least we look at it.

Sunil Shah: Thanks, sir. Thanks for this wonderful explanation. Thanks, Feroze. Thanks the entire team. Please continue the great work. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question of the question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Feroze Azeez: I would like to thank everyone for being a part of this call. We hope we have tried to answer your questions. If you need more information, please feel free to contact Vishal Sanghavi, our Investor Relations Head, or Rajesh Bhutara ji, our CFO. Thank you so much for your time and patience. Thank you, Rakesh sir, Jugal ji, Rajesh sir. Thank you.

Rakesh Rawal: Thank you, everyone. Thank you, Feroze. Thank you, Jugal ji.

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.