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To,
The Manager,
Listing Department,
The National Stock Exchange of India Ltd.,
Exchange Plaza, 5th Floor, Plot C/1, G Block,
Bandra - Kurla Complex, Bandra (E),
Mumbai - 400 051. Tel No.: 2659 8235
Fax No.: 26598237/ 26598238
Trading Symbol: ANANDRATHI

The Manager,
Listing Department,
BSE Limited,
Phiroze Jeejeebhoy Tower,
Dalal Street, Mumbai - 400 001.
Tel no.: 22721233
Fax No.: 22723719/ 22723121/ 22722037
Scrip Code: 543415

Dear Sir/Madam,

Subject: Q2 & H1 FY2024 Earnings Conference Call Transcript

We are enclosing herewith copy of the transcript of the Company's Q2 & H1 FY2024 earnings conference call dated 13th October, 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
Company Secretary and Compliance Officer
M. No. FCS-10181
Enclosed: as above

ANANDRATHI

Private Wealth. uncomplicated

“Anand Rathi Wealth Limited Q2 & H1 FY2024 Earnings Conference Call”

October 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 October 13, 2023 will prevail

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Private Wealth. uncomplicated



MANAGEMENT:

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

Moderator: Ladies and gentlemen, good day, and welcome to the Anand Rathi Wealth Limited Q2 and H1 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 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 over to Mr. Feroze Azeez, Deputy CEO for Anand Rathi Wealth. Thank you, and over to you, Mr. Azeez.

Feroze Azeez: Thank you so much. Good afternoon, and thank you, everyone, for joining the earnings conference call for the quarter and half year ended 30th September 2023. With me, I have Mr. Jugal Mantri, the Group CFO; Mr. Rajesh Bhutara, CFO of the company; Mr. Chethan Shenoy, Executive Director and Head, Product and Research; Mr. Vishal Sanghavi, Head, Investor Relations; and our Investor Relations Advisor, SGA Group.

India's position as one of the world's fastest-growing economy continues to attract investments in equity markets. At Anand Rathi, we have placed a strong emphasis on providing comprehensive, well-researched, data-backed wealth solutions to our clients. This approach has been a key factor in our achievement of several milestones over the years, and we look forward to building on this success in the future as well.

In H1 FY '24, our revenue grew by about 35% year-on-year to INR 368 crores, while our profit after tax increased by 34% year-on-year to INR 111 crores. We have also revised our guidance upwards for the full financial year 2024. Revenue guidance is revised to INR 720 crores from the earlier guidance of INR 661 crores. The profit after tax guidance is revised as well to INR 220 crores from the earlier guidance of INR 205 crores.

Our success can be attributed to our uncomplicated holistic approach, which has resulted in an impressive 34% year-on-year growth in the AUM as well, and hence, the AUM stands at INR 47,957 crores at September end 2023.

Furthermore, we have expanded our client base to 9,212 families as of September 2023 end, cementing our reputation as a high-quality wealth management solution provider. We have added 40 new relationship managers on a net basis over the past 12 months. A reflection of our entrepreneurial work culture is we have had zero regret attrition in this quarter as well. Our client-centric approach has been a driving force behind our success so far, and we are confident that it will continue to fuel our growth trajectory in the future, too.

Now moving on, I would like to share our flagship Private Wealth vertical's performance for the second quarter and the half year ending FY '24. Our flagship Private Wealth vertical AUM grew by about 33% year-on-year and stood at INR 46,571 crores. Our equity mutual fund net flows

grew by 14% year-on-year. This highlights and solidifies the value we add to our client families by offering holistic and uncomplicated wealth solutions.

In the first half of the year, excluding SIP flows, the industry approximately witnessed an outflow of INR 30,000 crores, while Anand Rathi Wealth saw inflows of more than INR 1,600 crores during the same period. The Private Wealth vertical has consistently delivered year-on-year growth, and we at Anand Rathi continue to see larger growth opportunities going forward.

I will now request Chethan take us through the Digital Wealth and the OFA vertical to give you a brief highlight. Mr. Shenoy, over to you.

Chethan Shenoy:

Thank you, Feroze. The company's Digital Wealth segment, an extension of its offering for mass-affluent segment, also experienced steady growth. The AUM in this business increased by 46% year-on-year, reaching INR 1,387 crores. Revenues from this business grew by 94% year-on-year, reaching INR 12 crores.

The OFA business is a strategic extension for capturing the wealth management landscape to several retail clients through mutual fund distributors using our technology platform. As of September 30, 2023, OFA has 5,880 mutual fund distributors and has assets under administration on this platform over INR 1,18,000 crores.

Thank you very much. And now I hand over the call to Jugal ji to take you all through the financial performance of the company. Jugal ji, over to you.

Jugal Mantri:

Thanks, Chethan. Thanks, Feroze bhai. Good afternoon, everyone. India's economy is on an upward trajectory, displaying strong performance in recent quarters. With robust growth in key sectors, increased investment and a promising business environment, the nation's economic outlook is bright, reflecting a positive and resilient trend.

Let me start with consolidated financial performance of the company. Our consolidated revenue for the quarter ended September 30, 2023 stood at INR 189 crores, compared to INR 138 crores in Q2 FY '23, registering a growth of 37% year-on-year. Profit before tax for the quarter stood at INR 78 crores, registering a 35% year-on-year growth. The PBT margin stood at 41.1% in Q2 FY '24. Our profit after tax for the quarter stood at a healthy INR 58 crores, registering a 34% year-on-year growth, compared to INR 43 crores in Q2 FY '23. The PAT margin stood at 30.5% in Q2 FY '24, and earnings per share for Q2 FY '24 was at INR 13.8 compared to INR 10.31 last year.

The revenue for H1 FY '24 stood at INR 368 crores, compared to INR 272 crores in H1 FY '23, registering a 35% year-on-year growth. Profit before tax for H1 FY '24 stood at INR 149 crores, registering 35% Y-o-Y growth. The PBT margin was 40.4% in H1 FY '24. Profit after tax for H1 FY '24 registered a 34% year-on-year growth, standing at INR 111 crores versus INR 83 crores in H1 FY '23. The PAT margin stood at 30.2% in H1 FY '24. And earnings per share for H1 FY '24 was INR 26.6 per share compared to INR 19.85 in the first half of previous year. Return on equity on an annualized basis stood at 42.4% for H1 FY '24.

Coming to the Private Wealth business financial performance. For Q2 FY '24, our revenue grew by 36% year-on-year to INR 181 crores. For the quarter end, trail revenue grew by 32% to INR 60 crores. Profit before tax for Q2 FY '24 was INR 76 crores, a growth of 34% year-on-year. The PBT margin for the quarter ended stood at 42.1%. Profit after tax for Q2 FY '24 was INR 57 crores, registering a growth of 33% year-on-year. The PAT margin for Q2 FY '24 was 31.2%.

For H1 FY '24, our flagship Private Wealth vertical's revenue grew by 34% year-on-year to INR 352 crores. Trail revenue for the first half grew by 25% year-on-year to INR 109 crores. Profit before tax for H1 FY '24 stood at INR 146 crores, a growth of 33% year-on-year. The PBT margin for the first half stood at 41.5%. PAT for H1 FY '24 stood at INR 109 crores, a growth of 33% Y-o-Y. The PAT margin for H1 FY '24 stood healthy at 31%.

Now we open the floor for question-and-answers. Thank you. Over to Mr. Enjo (moderator).

- Moderator:** So the first question is from the line of Rohan Mandora from Equirus Securities. Please go ahead, sir.
- Rohan Mandora:** Congrats on a good set of numbers. Sir, if you can share what were the issuances on the structured products for MLDs for the primary and secondary issuances for the quarter? And second one, on the net flows of INR1,226 crores, how is it split between equity, debt, mutual funds, and market-linked debentures?
- Feroze Azeez:** Jugal ji, can you take this one?
- Jugal Mantri:** Yes, sure. See, for the MLD in Q2, the gross issuances were INR 1,367 crores, compared to INR 1,396 crores in Q1 FY '24 and INR 1,121 crores in Q2 of the last FY '22-FY '23. And when you do the breakup, the secondary issuances were INR 278 crores in Q2 FY '24 compared to INR 254 crores in Q1 FY '24. Did that answer your question?
- Rohan Mandora:** Yes, sir. And sir, on net flows of INR1,226 crores, what was the break-up for the quarter, how much was equity MF, debt MF, and structured -- MLDs?
- Jugal Mantri:** You're talking about the net inflow?
- Rohan Mandora:** Yes.
- Jugal Mantri:** See, the net inflow...
- Feroze Azeez:** Jugal ji, I have the numbers.
- Jugal Mantri:** Yes, yes. Okay.
- Feroze Azeez:** INR 1,507 crores of equity mutual fund net flow, minus INR 406 crores of debt and liquid. Total mutual fund of INR 1,101 crores. Non-principal protected SPs, minus INR 57 crores. Other products, INR 182 crores. So INR 1,226 crores is the total. So equity mutual funds, to answer your pointed question, is INR 1,507 crores.

- Rohan Mandora:** Sure. Second was, in terms of the MLD originations that we are doing right now, is there any change in mix in terms of the tenor, three-year, five-year kind of products? Or is it broadly the same that we have been issuing in the recent months / recent quarters?
- Feroze Azeez:** So Rohan, our principle has been to optimally innovate. And five-years was something which we statistically found was a better risk reward for our client and so we continue with the five-years. There's no change whatsoever.
- Rohan Mandora:** Sure. And in terms of the originations, what was the mix from the non-group entities on the MLDs for this quarter?
- Feroze Azeez:** 90:10. 90 favoring internal.
- Rohan Mandora:** Okay. And lastly, in terms of the primary issuance run rate, which is around INR 1,300-odd, INR 1,400-odd crores quarterly, what is the peak rate that we can issue? Are there any constraints may be from a regulatory perspective which can cap that run rate? Just trying to understand from a growth perspective from FY '25 / '26 perspective, what kind of an origination run rate can we see at the peak level?
- Feroze Azeez:** So there is largely no limiting factor, at least for the next 5 - 7 years whatsoever.
- Jugal Mantri:** And on top of it, Rohan, as of now, like we are limiting it to one external vendor and one group entity. The market is very wide. We can always explore and keep on adding the issuers. So there is no limitation whatsoever even in any near as well as the far future.
- Moderator:** The next question is from the line of Ms. Pallavi Deshpande from Sameeksha Capital. Please go ahead.
- Pallavi Deshpande:** Yes, sir. Thank you for taking my question. Just wanted to understand in terms of the sequential revenue growth is a little slower. Would this primarily be explained by this decline in the MLD book?
- Feroze Azeez:** Sequential growth is lower? I just don't think that's the case at all. So year-on-year growth is 36% in revenue. And sequential, from the first quarter, there is still a growth of about 20% -- no, the revenue growth...
- Jugal Mantri:** Revenue growth is 6% on Q-on-Q.
- Feroze Azeez:** Correct.
- Jugal Mantri:** So that is quite a healthy number when you look at the Q-o-Q growth. In case if you are comparing it with the quantum leap, which has been achieved in the AUM growth, and that is what makes you feel that the revenue growth is smaller compared to the AUM growth, so there the main thing is that, see, the sizable growth which has come in the mutual fund AUM, there it is largely the trail income.
- And trail income accrual will happen over a period of time. So it never happens for the full quarter, as and when we keep on adding AUM. So even for some AUM, the revenue might be

for a few days only in the whole quarter. So that is why it looks smaller when you compare it to the AUM percentage, but going forward, it will get normalized and you will see the similar kind of growth. Is that right, Feroze bhai?

Feroze Azeez: Yes, absolutely, Jugal sir. If you normalize the 6% revenue growth in a quarter, that implies 25% for the year -- 24% to be precise. And like you said, the trail revenues come in gradually, and they don't come upfront. And if you look at the structured product issuance, which is also exactly or almost equal to what it was, because the structured product issuance is an outcome of a portfolio design. And if the portfolio design has a certain percentage, there will be allocation opportunities in structured products or in mutual funds when there is a rebalancing.

Let's say, there is a 30% allocation a client actually has desired to have in structured products. If mutual funds run up, there will be movement from mutual fund to structured product and vice versa. So the revenues are an outcome of client action derived out of a portfolio construct predetermined. So that the process is driving and revenue is an outcome. Clients' return is the primary requisite and the desired portfolios which are agreed with the client makes the repeated sale practically a few minutes' job.

Pallavi Deshpande: Right. Sir, second, I just wanted to understand, I think you did mention before that there is no capacity constraint for the non-principal protected structured product. Would there be any -- I understand, long-term there's no capacity constraint, but in the near term, do you see an overheating in the credit markets and due to which you may be wanting to go slow there?

Feroze Azeez: Not at all, Pallavi. The reason being, when we look at -- when we give our long-term guidance of 20% to 25%, we have methods where we simulate at least the next 8 quarters, if not more, okay? So there is no constraint. From a credit market heating up, will we have difficulty in further issuances? The answer is no.

And this is something which we have been doing for the last 11 years. And when you plan -- and it is the same two products -- or three products, which have been repeated may be 1,000 times each. So we believe in doing the same thing over and over again and perfecting it rather than waiting to get our revenues in the bank.

Pallavi Deshpande: All right, sir. I will come back in the queue.

Moderator: Thank you. Our next question is from the line of Sunil Shah from SRE PMS. Mr. Shah. Please ask your question.

Sunil Shah: Thank you, Feroze, thank you everyone in the team, my question is more towards the next three years to five years. Now if I run with an assumption of, let's say, 25% compounded growth, maybe 12% for us can come because of the market appreciation, because we are selling such products, wherein our AUM will be either 11%, 12%, 13%, 14%.

So if I take a 12% growth over that period, and the residual 13% growth can come in from, let's say, incremental AUM from existing clients plus introduction of new clients because of your increase in the RM. So this 25% kind of a growth number for the next three years to five years is the broader assumption with which I am moving forward. Is there any risk to my assumption,

which is internal to the organization? External in terms of market is something which I can understand. But is there anything that I am missing out on this assumption that I am going ahead with?

Feroze Azeez:

Sunil sir, thanks for your question. Firstly, like we have given the guidance of 20% to 25%. Of course, the 25% compounded growth, not just for five years, for 10 years, 15 years, and we firmly believe it's par for the course. Like you rightly said, if the client portfolios grow by about 12%, then the other 13% needs to come from the three other cylinders of growth: new client addition, penetration into existing clients and new RM addition. Let me throw some color for you to be able to comprehend the potential of all these four verticals or four cylinders.

We did an analysis -- we continually do this analysis. But the latest numbers of all our 10-year plus clients, the top 200, the return compounded for their portfolios is 13.97%, give or take, because this is still not audited, it is in the audit stage. So 13.97% is the compounded return of our 10-year-plus clients with a beta of about 0.57%.

In the same period transaction-by-transaction, Nifty has delivered about 12%. So having said which, like you rightly provisioned for the future, like 12%, I would say, to be on the safer side, 10% - 11% is what we provision from the automatic growth as time progresses, if we do justice to people's hard earned money.

Then coming to the second part, penetration of our existing families, which is 9,212, you will also be very happy to know, our top clients who contribute to 20% of the AUM, approximately, INR 50 crores plus, all of them, barring none, were acquired at an average value of INR 12 crores. So this can give you a sense of the potential of the large number of acquisitions which are happening.

With time, we are able to build credibility of reasonable distributors who don't overstate and underdeliver. And once a client realizes that this is some place where he can trust, there is risk management, numerical risk management. And everything which is given to them is what the relationship manager buys for himself, then penetration becomes simpler.

So point I am trying to make is, all our top clients, we have penetrated their wallet reasonably over long periods of time. And we have thousands of clients waiting, and in the process of the credibility build, the potential is humongous on the second cylinder, which is penetration.

When it comes to new client addition, the engine of new clients, as we become more and more visible is becoming relatively simpler. And in the next one years, two years, the pull strategy of marketing seems to be currently showing green shoots. Most of our clients today take pride in referring their friends. There are several clients who want to bring 30 - 40 of their friends to make us do events for them. So that whole inflection point, is around the corner in terms of client acquisition, so that we can get to 0.75 - 1 client per RM per month, which is our aspiration.

Fourth engine, which is new RM addition. We have 330-odd account managers, which are our apprentice, being trained by the 300-odd RMs on a one-on-one relationship. And most of our RM promotions come from -- or RM additions, reasonable number, come from this set of those sharp people who emerge themselves as capable of carrying the brand and its ethos in the

marketplace. So to answer your pointed question, sorry, a long answer, Sunil sir, I think your assumption is very, very fair. To provision for external risk is, why there is a range of 20% to 25%.

Sunil Shah:

Right. Thank you, Feroze, for making me understand this much better. Yes, clearly, Anand Rathi for us is one of the only companies in this financial world in India, which has carved out a process for the RM side, the client side, the product side, which is not visible in any other company. Appreciate that a lot.

Again, I will just dwell back on the question, which is the risk part. This is beautiful, what you are doing. But anything that you think can be that minus three Sigma kind of an event, which we cannot think about internally is what I am trying to understand. Is there anything or if it isn't, just maybe I had be happy to hear that. But at this point in time, we do not foresee. But just, not on the MLD parts, the relationship that we have with our sister concern. Anything on those is what I am talking about.

Feroze Azeez:

Sunil sir, like you rightly said, there could be three Sigma event, four Sigma or six Sigma events, and that's which are not seen. But if you look at how the group has behaved, like Rakesh sir is one of the longest-standing CEOs, I am saying one of the because I don't know all of them, but 17 years. And we have travelled several challenges reasonably well.

There is risks which we mitigate. Now if you look at the regulatory side, the tax side, the supply side, like there was an MLD tax change and we had predicted that a year before that. And that's why we were not doing listed MLDs. And this was in public domain given as this is writing on the wall it will happen. So regulatory.

Now if there is any change in trail commissions, for example, I am again taking you out of MLD for a moment. I wil come back to that topic. We know that it is going to be an advantage. Even if there is a yield compression, it's going to be an advantage for us. Why will a yield compression be an advantage? Well, it looks like -- sounds like an oxymoron. So the third largest distributor, nonbanking distributor, and yield compression could be an advantage, because it helps me have the same level of interest where my competitors are losing interest.

The evidence of that is, the lumpsum flow in equity mutual funds is minus INR 30,000 crores in the same half year, where we are speaking of INR 1,600 cores - INR1,800 crores of addition. If you remove the SIP number of INR 90,000 crores, the total inflow is only INR 60,000 net, which implies lump sum money has gone out.

So from a regulatory standpoint, from a taxation standpoint, from a supply standpoint, now I am sure you are very interested in the MLD piece, or now MLD has a definition, so we call it non-principal protected structure products, which is what it is. We have looked at all the four constraints, and we have examined these constraints very, very extensively.

Constraints could be supply in terms of borrowing needs of the NBFCs, supply of the hedging needs of the derivative market, for example, so on and so forth. There are four constraints. All those four constraints have been examined to an AUM of INR 1 lakh crores in structured products alone.

So we like to simulate that, we have a written down strategy for each of that. So probably we can give you a reply -- Vishalji, we can also do some other one-on-one meetings to explain a simulator. In fact, we have also made a simulator, a very interesting one. Because Sunil sir, you spoke about process. The process has been laid down, because in our company, everybody is a relationship manager; me, Rakesh sir, Chethan Shenoy, even our erstwhile HR Head used to manage clients. So there is a lot of experience when you go to the marketplace, and Chethan Shenoy could be my tenth largest RM, or even -- so it is not just for a tick box, we are serious relationship managers who understand what's happening in the marketplace.

So putting a process -- keeping in mind the RM difficulty, the client need, and the delivery of performance for the client, those processes are being defined and always being strengthened as we learn, as we go along.

Sunil Shah: Sure. Thanks for the detailed information. Thank you so much.

Moderator: Thank you. So the next question is from Rusmik Oza from 9 Rays EquiResearch. Thank you. Mr. Oza, you can go ahead.

Rusmik Oza: Sorry for the disturbance. My question to both Feroze and Chethan was just to understand the strategy of the Digital Wealth space. Because in the last one year, number of customers have gone up only by 10%, because it's a platform business much more fast scalable. And in terms of AUM, it is around 3% of our assets as of today. What's your strategy for this in the next three to five years? And in terms of profitability, how does it compare now and maybe five years down the line, once it is fully scalable, how could it build up?

Feroze Azeez: Mr. Oza, the thought process here is to see if we can give HNI kind of advice to mass-affluent digitally and still continue our huge cultural principle of giving ethical advice. Because currently, the mass-affluent buys investment-based insurance plans largely by several other banks and distributors. So that's the thought process. Now coming to your pointed question, what do we see as the future? We have always had this principle of first evolve and then scale.

So we are in the evolution stage to understand where we are right, what's wrong, what's right. So these are profit-making entities. And we are still in the process of getting the trial and error to make sure that, it becomes a scalable business. So I would not want to comment on its scalability at this stage.

Like you would see in the Private Wealth business, now we are, for the last two years, three years, putting the pressure on the accelerator, because a company which deals in people's money needs to evolve and not scale so soon. That's why I would not have projections or any guidance to give on those businesses. It will be like counting the chickens before they hatch.

And we would not want to do that. But yes, the core principle is, can we give mass-affluent a similar advice where still there is a relationship manager who can manage 100 to 200 clients using the technology platform? Because we have realized that technology standalone does not handhold the client during bad times. Investing is both heart and the mind from an investor standpoint, if you think.

We were the only or one of the few wealth managers who had a positive equity mutual fund inflow during the COVID year, whereas the industry lost a few lakh crores between PMS and mutual fund. That's because handholding is the most important thing when adversities happen. That's when a person is able to realize the long-term benefit which he sees on paper.

So technology standalone is not our thought process. It should help augment an RM to manage 200 clients as against 50, which is what we have as private wealth number of clients. So that's the key fundamental thought process, I thought I will throw some color on it around the expected numbers. It would be a little premature for me to even create a guidance on that and raise hopes.

Rusmik Oza:

Thanks for the elaborate answer. That was very helpful. My second question is, since our business is actually more driven with manpower, and that cost doesn't go up so much. But as earlier Sunil was asking, if you have got 10% - 11% AUM growth and another additional growth coming from various other aspects. And if you grow at 20% - 25% per annum for the next couple of years, then is there any scope for the net margins, we make around 30% right now, to inch up further going forward? Or we feel that this 30% is something which could stay for the couple of years?

Feroze Azeez:

Mr. Oza, can it go up? The answer is yes. Like you rightly pointed out, several costs are variable and the fixed cost gets amortized over a larger revenue, that could definitely give us operating leverage. Having said which, we believe that investing in the business for future growth being ensured, or at least the probability of future growth becoming higher and higher. We are currently investing in several other verticals like strengthening our marketing, strengthening our compliance, strengthening our product division, strengthening several other divisions, which require to be made as professional as any company on the street, so that we can ensure the growth.

Having said which, we have an LCM kind of a number in our mind when we discuss internally, 40% for PBT and 30% for PAT. In the order of magnitude, we always would like to protect this under most controlled circumstances. But it's also very important to strengthen. Let me give you an illustration of how we have strengthened the front-end product team. We have several research people, who currently, because of the digital transformation after COVID, do joint meetings with RMs for effective communication and conviction transmission to the client.

And you would be very happy to know, if you are already a shareholder, that we do 25,000 to 30,000 joint meetings by these 50 product research people who are front-end, and their calendars have four- five six - meetings every single day on a working day and even on holidays. So that's why, you would see revenue jumps not resulting in operating leverage currently, because we would want to invest in the business for the enhancement of the probability of the guidance which we have given, so that we can continue the ethos of under-commit and over-deliver.

Rusmik Oza:

Thanks and my last question is on the regulatory side. We've seen the regulator such as SEBI has been very aggressive in the last couple of quarters on trying to introduce a best practices and other things. Do you see any threat on the regulatory side? And if so, are there any solutions which we have?

Feroze Azeez: Mr. Oza, for us, we have seen regulator as – regulation as an opportunity. Why? Because we have tried to always read between the lines of each regulation, not read the lines, but get the essence of it. I can give you several examples. But for the lack of time, I will just tell you that we look at regulatory changes as opportunities. Why does this become? Because we have interacted with regulators in different informal forums largely, where the regulator wants you to be client-centric. If the expectation of the regulator is mean client centricity, we want to be the three sigma more than mean in terms of client centricity. That's our aspiration. We don't want to be told to be client-centric. We want to be three sigma more than the average expectation of a regulator. That's why any change has resulted in some degree of fillip for us. And I can list down the seven changes which I have in mind when I am making the statement.

Having said that again, let me tell you that regulatory changes could be on commissions, which I think the regulator had spoken about. And we had already done a certain conference call also in terms of -- I think Vishalji, we would have made one, where we were trying to decipher that none of the regulatory comments were applicable to us. We were not using B30, we were not using smaller schemes to get more commission. We were not doing NFOs, not even one NFO approved. Forget selling, not even one approved for the last 11 years. We very well knew our neighbour could make 3% as a competitor upfront commission. We were still very happy making the 1.09% trail commission because we think that an NFO doesn't have data enough for me to analyze.

So we stuck our ground. So, we didn't take the advantages of the generousities on the regulatory front. So when the generousities get curtailed, we are not hampered. Lastly, if you look at the study which we did, India has INR 670 lakh crores of household savings, which was only INR 270 lakh crores in 2013. Large part of this data comes from RBI's website. Out of this INR 670 lakh crores, for all industry participants, it may be surprising to know that there is only 4% of Indian household savings in equity mutual funds. And we have, as a country, more money in the form of currency than equity mutual funds.

This tells us what kind of role as part of the industry, we have as a duty to make sure that if there are 18 crores people in crypto and 4 crores in equity mutual fund, we have a long way to go as an industry to spread awareness of this platform, which is the most transparent. So I think regulator also understands what is ahead and what kind of distribution infrastructure will be needed. And I think there will be a balance because there is rationality in all our regulators.

Rusmik Oza: Thanks, thanks for the detailed answer. I appreciate the kind of work you all are doing, because I have spent 11 years in the wealth management division historically, so I can relate and understand the kind of quality work you are doing. Best of luck to the entire team. Thanks a ton.

Feroze Azeez: Thank you for your generous words, sir.

Moderator: Thank you. So the next question is from the line of Pallavi Deshpande from Sameeksha Capital. Over to you ma'am.

Pallavi Deshpande: Yes. Thank you for taking my question again. Just wanted to understand, this is something from an industry perspective, that the small cap funds are now facing a challenge given their size in

terms of their choice for investments getting limited. How do you see this play out for the industry?

Feroze Azeez: Yes. Pallavi madam, now that you've spoken of small cap, with full humility, let me take some credit for the company. On 2nd January 2023, which was much before all this outperformance, in public domain we had said small cap has to go up, because of some data and analytics which we back tested and front tested. Point one. So we increased in our model portfolio, small caps, which was just 5% in the fund level to almost about 24% much before this rally. So Pallavi madam, can you hear me now?

Pallavi Deshpande: Yes sir.

Feroze Azeez: So, like you rightly said, small cap as an industry has become larger. The assets which have come into small cap in the month of August was about INR 4,340 crores, came into small cap as a category. Last month, INR 2,638 crores in the month of September. Small cap as a name has remained the same over the last five years, and the next five years, we will keep still call the subsequent 250, other than the first 250 as small cap. The English description would remain as small cap.

But you will also be happy to know that the top stock of the small cap index, which is the NSE small cap 250, which is what is the concern for a mutual fund investor, as per SEBI, the largest stock is a INR 36,000 crores market cap, which is Suzlon. So if you look at the average of the top 10 stocks in the NSE small cap 250 Index, the smallest one is INR 20,000 crores in the top 10 weights. So, I think five years back, the largest small cap stock was INR 8,000 crores. Today, again, it is called a small cap, but the largest small cap is INR 36,000 crores. Unfortunately, English hides more than speaks. So we like to look at the mathematics of it. That's point one.

Point two, nothing to say that these two funds, which are really large, like Nippon Small Cap and the SBI Small Cap, which have reached more than INR 25,000 crores. Like Nippon Small Cap had some 160 stocks in the portfolio. But again, SBI Small Cap, which is equally large, had only about 60 stocks in the portfolio. So, every fund manager is able to apply his judgment to what he can manage because the universe has become larger.

The number of stocks which we call non Micro-Cap, which is greater than INR 3,000 crores market cap, has expanded significantly by about 80% in the last five years. For a country this large, which India has the largest number of listed stocks in the world, do we think that supply will come? To my mind, yes. But from a mutual fund distributor standpoint, if the person is ahead of the curve in terms of not looking at the rearview mirror to decipher the returns and his actions, we are able to generate the alpha.

So, the model portfolio which we ran from 1st January 2013 after Direct was introduced, we knew that this is one risk so we will have to put in a lot of effort to add value to be a relevant distributor. So, we started a model portfolio on 1st June 2013. 1st Jan 2013 is when Direct was introduced. Just past performance advice or distribution would not work, we knew then. So, after 10 years, I am very happy to disclose that all the buying and selling, which our model portfolio

recommended, if done, would have generated an alpha of 3.97% over Nifty over a 10 year period compounded.

So if one were to invest INR 10 crores as per Anand Rathi model portfolio and agreed on all decisions taken, he would have had INR 41 crores instead of INR 30 crores in Nifty. So INR 11 crores of alpha has been added because 25 people spend day and night only to understand out of the 384 active funds, which one will be the 14 which will form a part of my portfolio and the intense and rigorous mathematics in terms of solving differential equation using regression, using holiday NAV, using target NAV, all these are concepts which we are working on, even have copyright on, and a patent if possible, as a process, should give us the 3% alpha on Nifty. So point is, for a distributor, everything is open. For industry as such, I think small cap has been redefined, not in English, though, but in mathematics.

Pallavi Deshpande: Great to know about the alpha. In second part of this would be that what's the view on the small caps now?

Feroze Azeez: I don't think it is the right forum. For whatever it's worth, we think that small caps have potential. But there's a lot of liquidity which has chased the stocks. So we try and see the intersection between so we – I will tell you what we did. Because the exuberance in small caps, which is apparent from the dispersion and Nifty returns to the small cap returns, especially for this financial year, when we moved into small cap, it is so large that we wanted to see whether it is time to book profits out of them. We realized that we first made a list of the negative stocks of 25, and then we tried to see the intersection in our model portfolio on an implied exposure basis that was very less.

So what is our thought is that out of the 250 small cap stocks, being very, very selective is the name of the game, in our humble opinion, which might be completely wrong. But yes, I am just telling you what we feel, especially in a year where there is an election. And this is one thing from an industry participant out of our digressing from our results. We did an analysis of the last five general elections. Elections generally are perceived by an investor to be an adversity. But all five years, if somebody were to invest just six months before election - general election and exited six months after general election, all five times you would have made a positive return. That was a surprise to me. Even a one year investor plus or minus six months with a general election in the middle has always made positive return, and 10% is the minimum return and 16% is the average. So we tell the client that elections might seem like an adversity, so don't change your risk and calibrate it too much, unlike what the perception with the decibel of the news going up on this is going to happen. That's what we want to counsel our 9,212, so they don't behave equal to the rest of the four crores.

Pallavi Deshpande: Right sir. Thank you so much sir. This is very useful.

Feroze Azeez: Thank you Pallavi madam.

Moderator: Thank you so much. As there are no further questions, I would now like to hand the conference over to Mr. Feroze Azeez, Deputy CEO of Anand Rathi Wealth Limited, for closing comments. Over to you, sir.

Feroze Azeez: I had 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 Mr. Vishal Sanghavi, our Investor Relations Head; Rajesh Bhutara, our CFO; Strategic Growth Adviser, our Investor Relations Advisers. Appreciate your time, and I would like to extend my heartfelt wishes for the upcoming festive season and may you have a great weekend. Thank you for your time and patience.

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