

PCASL/46/2022-23
Date: 08.11.2022

To,
The National Stock Exchange of India Ltd
Exchange Plaza,
Bandra – Kurla Complex,
Bandra (E),
Mumbai – 400 051
NSE EQUITY SYMBOL: **PRUDENT**

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400 001
SCRIPT CODE: **543527**

ISIN: **INE00F201020**

Dear Sir/Madam,

Sub.: Transcript of the Earnings Conference Call for the Quarter ended 30th September, 2022.

With reference to our earlier intimation No. PCASL/41/2022-23 dated October 19, 2022 and in terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of the Earnings Conference Call with investors and analysts held on Wednesday, 2nd November, 2022 at 11.00 am (IST) in respect of the Un-audited Financial Results for the Quarter ended 30th September, 2022.

The same will also be available on the website of the Company at www.prudentcorporate.com

Please take the same into your records and do the needful.

Thanking you,

Yours Faithfully,

For, Prudent Corporate Advisory Services Limited

Dhaval Ghetia
Company Secretary
Tele No: 079-40209600
Email: cs@prudentcorporate.com

Encl: A/a



"Prudent Corporate Advisory Services Limited Q2 FY-23 Earnings Conference Call"

November 02, 2022



MANAGEMENT:

- MR. SANJAY SHAH – CHAIRMAN & MD, PRUDENT CORPORATE ADVISORY SERVICES LIMITED**
- MR. SHIRISH PATEL – CEO & WHOLE-TIME DIRECTOR, PRUDENT CORPORATE ADVISORY SERVICES LIMITED**
- MR. CHIRAG SHAH – WHOLE-TIME DIRECTOR, PRUDENT CORPORATE ADVISORY SERVICES LIMITED**
- MR. CHIRAG KOTHARI – CFO, PRUDENT CORPORATE ADVISORY SERVICES LIMITED**
- MR. PARTH PAREKH – INVESTOR RELATIONS, PRUDENT CORPORATE ADVISORY SERVICES LIMITED**

MODERATOR: MR. ROHAN MANDORA – EQUIRUS SECURITIES

Moderator: Ladies and gentlemen, good day, and welcome to the Prudent Corporate Advisory Services Limited 2Q FY23 Results Conference Call hosted by Equirus Securities Limited. As a reminder, all participant lines will be in listen-only mode, and you can ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohan Mandora from Equirus. Thank you, and over to you, Mr. Rohan.

Rohan Mandora: Thank you, Mike. Good afternoon, everyone. Welcome to the Q2 FY23 Earnings Call of Prudent Corporate Advisory Services Limited to discuss the quarterly performance. To address queries, we have with us from the management Mr. Sanjay Shah – Chairman and MD. Mr. Shirish Patel – CEO and Whole-Time Director, Mr. Chirag Shah – Whole-Time director. Mr. Chirag Kothari – CFO, and Mr. Parth Parekh – Investor Relations. We will begin with a brief management commentary followed by questions and answers. Thank you, and over to you, Mr. Sanjay Shah.

Sanjay Shah: Thank you, Rohan.. First, let me welcome everybody to the earning call of Prudent Corporate Advisory Services Limited for the second quarter of fiscal 2023.

This quarter has been really special for us because we crossed the landmark of 50,000 crores of assets under management which has been historical for us. Also, as per AMFI ranking, based on commission earned, we improved our position by one notch in ranking, and we've become the second largest non-banking mutual distributor in the country. All the efforts which we would have put in for the business have been reflected in last quarter's numbers wherein we recorded the highest revenue and highest profit in our existence. I hope you all will have the presentation copy handy with you, which was uploaded on the exchange yesterday. So probably in the discussions, I'll be giving references to the various slides of the presentation.

I'll request you move to slide #35.. So, if you look at slide #35, it's a slide that talks about our closing AUM. So, as you all are aware, Prudent being a prominent player in the mutual distribution, asset under management is a very significant number for us. Our closing AUM in the last quarter has increased 35% year-on-year to 52,770 crores. On a quarterly average basis, our AUM has grown by 41% on a year-on-year basis to 51,600 crores. And as you see in this slide, in fiscal '23, we are currently running at an average AUM, which is almost 30% higher than FY22 numbers, so FY23 is expected to remain very robust in terms of top-line & bottom-line growth.

Slide #36 talks about the variables which has helped move the equity AUM on a year-on-year basis as well as on a sequential basis. Our growth is comprised of two important parameters. One is the new business we bring from our investors through our channel partners and the second being mark-to-market gains. So, these are two important parameters.

Equity AUM has grown by 41% year-on-year led by healthy growth in net sales & acquisition of Karvy.

On a sequential basis, our equity AUM has grown by 14%, with a substantial movement being led by mark-to-market as far as last quarter is concerned.

However, on a trailing 12 months basis, if you look at the mark to market, it has been very muted, only 3%. So, one of the major parameters of our AUM growth on a trailing 12-month basis has been slightly subdued.

Net equity sales of the first half are almost 2,735 crores, and we are in line with our guidance to achieve net sales of 5,000 crores. Rather we are of the view that if you simply annualize this, we probably will be in a position to surpass our target of 5,000 crores of net sales.

Now request you all to turn to page #37; I would like to point out that despite all the noise around fintechs, our markets share in Equity AUM ex-ETF, normally we do not track ETF because if you look at ETF is mainly the segment which is looked at by the institutional investors and we strongly represent India's retail investor segment. So, if you look at our Equity AUM, ex-ETF, our market share has improved to 2.4% from 1.9% a year ago. Our equity mix has also improved significantly by 3.4 percentage points on a year-on-year basis to 94.1%.

Another important parameter if you look at our business is the SIP. And our monthly SIP flow for September month was very strong at 456 crores when we compared to 307 crores a year ago. So, almost close to 50% growth has come on our SIP book, which is a very strong pillar for us. So given the strong traction on SIP, we expect our gross flow from SIP to be close to 5,200 crores in FY23. The collection from SIPs will be around 13% of FY23 opening AUM, which is providing us very strong visibility of the organic growth.

The SIP mobilized during the quarter was at a historical high of around 1,324 crores in the last quarter. Every second rupee we collected through gross flows, came from SIP. So, 50% gross flow contribution has been from the SIP, representing our AUM's granularity.

Slide #38, emphasizes our emerging segment insurance, which formed around 9.5% of our total revenue for this quarter. This vertical has been growing at a faster pace year-on-year. Two-thirds of the revenue from this vertical comes from Life Insurance and the balance comes from General Insurance. Our POSP network is also becoming stronger day by day, and at the end of September, we had 6,992 POSP working with us and we are strongly relying on this channel to bring scale to this insurance business.

Slide #39; talks about our consolidated number. Our revenue has grown by almost 40% year-on-year, led by strong growth in AUM and a change in mix towards higher yield equity AUM. Operating profit growth was 58%, higher than the revenue growth led by operating leverage. Our operating margin expanded by 3.22% or 322 basis points to 27.2%. Our profit after tax grew

slightly slower than operating profit growth at 41%, mainly led by higher depreciations and lower income.

As you all know, last year, we paid 151 crores for acquiring Karvy assets, and the 151 crores we paid are required to be amortized for ten years equally. So, the 15 crores will come as a depreciation every year. So, two impacts come because of this- One is the treasury available with the company has been utilized for acquiring Karvy, so there is a dip in other income.. And second, there is significantly higher provisioning on the depreciation side because of the amortization of Karvy assets. So, depreciation increased by three times, led by the amortization of Karvy assets, which we acquired in November '21.

Our annualized return on equity in the first half stood at 33.5%, which is very healthy. Another important parameter we want to highlight is the cash flow from operations. Cash flow from operations generated during the first half is almost 43 crores. We urge analyst to track our cash flow from operations because whatever we paid for acquiring Karvy will be amortized over a period of next ten years. But 15 crores is going to be additional cash which is available to us every year. So that's the important parameter. This is basically about the consolidated financials.

In this process, I just wanted to highlight one point as a company that regularly generates significant cash, we are always looking for inorganic growth and in pursuit of our growth we acquired Karvy Mutual Fund assets aggregating to 8,100 crores in November '21. We also made another strategic acquisition in July. The company signed a term sheet on July 27 to acquire the mutual fund AUM of iFast Financial India Private Limited. Till last month, we got approximately 500 crores through this acquisition and based on the term sheet, we assume that we might be required to pay 2.65 crores for this acquisition. Already 1.63 crores have been paid by us in advance. If you look at the cost we paid, it's hardly half a per cent, so it's a very good acquisition for us.. Even though the amount is very small, it will add a large number of retail IFAs and retail assets. So, this is broadly about the numbers.

Before I open the question-answer session, I would like to briefly touch upon the growth outlook. There are four main growth drivers for us.

So, #1 would be the continuous addition of mutual fund distributors. As you know, we are a unique B2B2C platform in the country. As a business strategy, we are focusing aggressively on adding more and more mutual distributors who are the backbone of our business. As on March 31, we have 20.4% of the country's MFDs associated with us. So that shows how strongly mutual distributors are reposing trust in us. In the first half of '23, we added around 2,600 new MFDs. There is an increasing need for mutual fund distributors to collaborate with a tech-based platform to service their clients, and we are capitalizing on this opportunity. As more and more MFDs join the industry, we expect the incremental benefit to accrue to our company.

Looking at the 2,600 people being added in the last six months, we believe that we could add a total of about 5,000 distributors to our kitty in the full year.

#2 of our growth drivers would be cross-selling other products using our strong network of mutual fund distributors. So, as you are aware, we are moving from a single-product distributor to a multi-product distributor. Our multi-product distribution platform has helped us to capitalize on our vast MFD network. Our multi-product platform has also acted as a great value proposition for our mutual fund distributors to join us. So far company has converted 6,992 existing mutual fund distributors or their family members as a point of sales persons who can also sell insurance products apart from other financial products. In this quarter, insurance revenue formed 9.5% of our total revenue.

Now third would be building a strong SIP book by encouraging and educating our mutual fund distributors to build granular flows. So, as I said, ours is a unique B2B2C positioned retail wealth management company, which has helped us build our granular flows through SIP. Our monthly SIP flow for September was 456 crores. As I said, every second rupee of our gross equity flow came through SIP. Given the strong traction of SIP, we expect the gross flow from SIPs for the full year to be 5,200 crores, which is almost 13% of our opening AUM. So, SIP is strong organic growth driver.

And, finally, the cash we regularly generate in the business & effective utilization of cash for inorganic growth opportunities. We will always be ready to look at and explore the possibilities for inorganic acquisitions.

These are broadly about our levers which will help us to maintain our growth momentum going forward. Now I'll open the Q&A, so the moderator kindly opens the floor for the questions. Thank you.

Moderator: We will now begin the question-and-answer session. We have the first question on the line of Prayesh Jain from Motilal Oswal.

Prayesh Jain: Few questions from my side. You mentioned SIP being a core to your strategy for future growth. Could you give us more details as to what has been the average ticket size for your book and what was the average ticket size for Karvy's book, and how has this been shaping up in the last 12 months? Whether the ticket sizes are increasing or declining, how's the trend there? That would be my first question.

Sanjay Shah: If you look at currently, when I'm talking about the SIP book of 456 crores, we have almost close to 17,80,000 live running SIPs. The average is close to about Rs. 2,600-2,700 which we have, and gradually we have been able to increase our average SIP size in the last couple of years. The new SIP flows is coming at a higher average than the book. Karvy last year, when we acquired, we had about 3-3.5 lakh SIPs of Karvy. Of which, almost about 1,63,000 SIPs have been

transferred to us, and the rest were discontinued during the process. So, there are two sets of SIPs in case of Karvy. One were direct SIPs with AMC, and another set where the mandate was in favour of Karvy. The mandate which was in favour of Karvy cannot be transferred. So that has not been transferred. But close to 1,60,000 SIP has been transferred in our code.

Prayesh Jain: Is Karvy's average ticket size similar to what we have today?

Sanjay Shah: The average ticket price is more or less similar. I don't have the exact number as of now.

Prayesh Jain: Just trying to understand this more. When you say that only the direct SIPs have been transferred to you, would you earn anything on it?

Sanjay Shah: When I'm saying directly, you can start the SIP by giving your mandate in favour of AMC, wherein you will give money directly to the AMC in the regular plan. The second mode is that you issue a NACH mandate in favor of a platform like FundzBazar. Karvy also had its own platform. You issue a NACH mandate in favour of Karvy, and Karvy collects money through the payment gateway and gives it to the RTA. So, the second portion, which I am saying is where the mandate is in favour of Karvy, has not been transferred to us because, technically, it cannot happen.

Prayesh Jain: Secondly, do you think that of late, in the last three months, there has been increased pressure on redemptions?

Shirish Patel: We have not seen any redemption pressure in our system in the last three months. Of course, we can say that the number of gross flows, the fresh money ex-SIP, has come down a little bit. At the same time, the redemption pressure has come down. If you look at our net sales number in this quarter when you compare it with the same quarter previous year, it is almost similar rather it is a little higher. In our system, we do not see redemption pressure. Rather we have always seen that when the market goes up continuously, you might see redemption pressure. I think let us say after a dull period of about two years, the market goes up that time historically, we have seen some redemption pressure, but otherwise, if there is a short-term correction in the market, people probably wait for the money to be recovered and then they redeem. So frankly, the redemption pressure is very less in the last quarter.

Prayesh Jain: Another question is about your life insurance book. What kind of product mix will you have in terms of protection, savings products and within that non-par and par?

Shirish Patel: Our major business is happening on the non-par products. Non-par products contribute the most, followed by term plans and followed by the par plans. ULIP business is zero.

Moderator: We have the next question from the line of Neha Sharma from Pearl Global Investment.

Neha Sharma: Can you please give some guidance on the yields going forward?

Sanjay Shah:

We believe that in the near term, we'll be able to maintain the current yield we have, mainly because if you look at last year, the Karvy assets which we acquired. I'm not giving you the exact number. If you look at it hypothetically, our current yield is in the range of 1%, while the Karvy assets which we acquired are in the range of 65 basis points. Historically we have seen that the average life of an asset is in the range of 3 to 3.5 years. Suppose you assume that your assets will get repriced every three years, 3.5 years, we'll be able to reprice this at a higher yield than what Karvy used to have. There is a gap of about 35 basis points. So that might help us, that is number one.

Number two is when we are talking about the yield. There are two parts. One is the current book of 53,000 crores, where the AMC already commits the yield, and we will continue to get the same earnings there. Incrementally, on new business there could be minor yield pressure. That pressure will come only if the money comes into a higher sized scheme AUM. As the scheme size increases gradually, our TER also reduces; as TER reduces, they will start transferring some kind of margin pressure to us. Let's say AUM of scheme moves from 25,000 crores to 30,000 crores bucket, and their expense ratio goes down by, let's say, 3-4 basis points, they might pressure us to reduce our earnings by 1 or 2 basis points.

First, we will ensure that it doesn't transfer to us. But if that is transferred to us significant part of that also can be transferred by us to our distributors.. So more or less, some pressure might come gradually, but that will not be very significantly visible. So overall, there are two parts. One is incremental pressure, if at all it comes, would be very less, and the second we might have the support of Karvy assets being repriced over time, which will help us. We believe the next two years' significant visibility of margin pressure is not there.

Neha Sharma:

One more question. I just want to understand whether our market share would come down at the cost of yields or any other strategy you would protect for a yield at the current rate.

Sanjay Shah:

We track our market share in the equity AUM rather than the total AUM because we do not represent significantly debt side of the industry. Looking at our current asset mix, we have 94.1% of assets coming from equity assets, like your equity funds, balance advantage funds, hybrid funds, or FOF.. We look at our market share in equity segment ex-ETF. ETF is something in which we are not significantly present. In equity segment ex-ETF, I don't see there will be an impact on our market share, and we can demonstrate growth in our markets. If you look at my gross sales, 50% of the money comes through SIP, while in the industry, that number is only 28%. I have a very steady flow of SIP which always helped me in the dull time to rather improve my market share. I believe gradually., we should be able to strengthen our position.

Moderator:

We have the next question line of Silky Jain from Canara Robeco.

Silky Jain:

My question pertains to the insurance business, so we saw that insurance is contributing almost 10% of the overall revenues in this particular quarter. In your commentary, also you mentioned

that cross-selling would be a key point to look for in terms of growth. How are we viewing this particular segment? What potential can it reach in the next two years, and how are we looking at the overall margins in this particular segment?

Shirish Patel:

If you look at our life insurance or insurance business growth over three years, it almost contributed less than a percentage three years back and now it is almost 8.5%-9% of our total revenue. One is the size of the life insurance revenue or the business compared to the mutual fund business is small. That also contributes to the higher growth. But at the same time, we started focusing on insurance as a cross-selling product in our system in the last 3-4 years, which is helping us. We strongly believe that over some time, the growth of the life insurance or the insurance business in our system will be higher than the mutual fund business. Of course, the mutual fund business is growing at a healthy pace, but at the same time, the insurance business will grow faster. Today we are around 8.5%-9%. What we look at, definitely over a few years, it might cross a double-digit number. Another important figure I would like to highlight is that almost 6,900 POSP are registered in our system. If you look at the overlapping of these POSP with our existing ARN holders, it's hardly around 3,500-4,000. So out of our 25,000 ARNs or 26,000 ARN holders, hardly 4,000 ARN holders are converted to POSP. If you look at the potential for us to cross-sell the insurance business in our existing system is huge. The fourth point is that the penetration of insurance, whether life insurance or health insurance, is very low in the country. Specifically, after Corona, I would say that the insurance business's acceptability has increased significantly. Also, we believe this will help us grow this particular business faster. Next few years, we will see very healthy growth in the insurance business.

Silky Jain:

In terms of cost, there would not be any incremental cost in terms because the same ARN holders would be doing this business. It would be a very much higher margin accretive segment as well. What could be the delta in terms of margin as well if we look at it from the incremental people coming and selling like we get a cross-sell opportunity? What could be the margin delta we will get from this segment?

Shirish Patel:

If you look at currently, we are leveraging the existing set of distributors. Of course, to manage the insurance business, we have a dedicated team in housed in our subsidiary that is the Gennext.. To grow the business, we also might require to hire more and more people going forward in the Gennext as well. The second point is if you look at the contribution of POSP in the total insurance business is growing. Historically main business used to come from the team, our wealth team, or, you can say, online business. Incrementally, of course, more and more business is coming from the POSP side. From a margin point of view, we might not require to incur the corresponding cost as the revenue grows, but I think some kind of cost escalation could be there when we grow the business. The margin, in Gennext, probably might come down because, as I said that the POSP contribution is growing, but delta point of view, yes, if you look at the absolute premium or the kind of premium volume what we are doing there we see a significant growth even if you look at this particular quarter that is July to September quarter. In life insurance, we almost doubled the number compared to the first quarter, which is again the

highest in our history. I would say that is mainly and mainly contributed by more and more POSP contributing to the business. So, I think we are very gung-ho about this particular business.

Silky Jain: Any challenges we see in this particular segment in terms of distribution, or we are much more confident, and we feel that this can create much more growth. We don't have a lead because, overall, many other players are also entering this particular segment. So how do we see that particular area?

Shirish Patel: Of course, I think many players entered this particular space last 3-4 years. They are bigger, stronger and growing very fast. We don't want to go out and acquire the POSP. Rather we try to leverage our existing distributors in the mutual funds. So, we have sufficient growth available as I said, the numbers itself, I think 26,000 ARN holders that are also growing every year by 5,000-6,000 and out of that only 4,000, we are able to convert into the POSP. We have a lot of cross-selling opportunities available here, so for at least the next 3-4 years, I think we are not worried that we need to go out right now.

Silky Jain: Again, checking on this, so almost from this 9%-10%, does this segment has a potential to go to, say (+20%) kind of contribution to overall revenue?

Shirish Patel: That depends on two parts. What will be the percentage growth in the insurance business and what will be the percentage growth in the mutual fund business. We are confident that the mutual fund business will grow very fast. I don't see the next 3-4 years, this will become 20%..

Moderator: We have the next question from the line of Prakriti Banka from HSBC.

Prakriti Banka: You have just mentioned that the yields on the Karvy book have been lower at around 65 bps. What is the reason for that?

Sanjay Shah: If you look at all the Karvy assets are almost three years old or four years old. Before the industry moved to an all-trail model, the situation was that we used to earn higher upfront in the first year & then the trail was perpetual. I think most of the assets are of the old period, which is my understanding. I do not know exactly Karvy's pricing understanding which it had with AMC.

Prakriti Banka: You're saying most of this book right now is probably the end of what we have seen is the typical lifecycle of an investor, and you will see this repricing happen quite quickly?

Sanjay Shah: The average assets stay for about 3-3.5 years, and we see that 3-3.5 years getting completed. It may not happen in current year & get delayed by a year. But I believe these people will be addressed because what was happening in the last 2-2.5 years is that nobody serviced Karvy investors or Karvy's distributors. Now they are also becoming active in the business. They are meeting the customers. When you meet the customers, you might do the restructuring of the portfolio.

Prakriti Banka: When you talk about cross-selling, and you are engaging these POSPs etc. How does that work? A lot of MFD etc., are also getting these licenses to distribute insurance, or how is the cross-selling happening?

Shirish Patel: Yes, if you look at the requirement for distributing the insurance business is that they need to get the POSP license. Another requirement for these guys to get the POSP license is that they should not be registered with any insurance companies. These are the two main requirements. Now those distributors who are already doing the insurance business with someone, let us say LIC or any insurance companies, cannot become the POSP. They cannot take the POSP license because they are already registered with their insurance company. So, they take the POSP license in the family member's name.

The benefit that you are getting with Prudent is that they can distribute products of all the insurance companies because we are the insurance broker. They want to distribute the insurance product with Prudent because everything is available at one place. So, the biggest advantage that we offer to the agents who are already doing the insurance business, they can distribute only one product there, but when they work with Gennext under POSP, they can distribute all life insurance, all health insurance, and all products. So that is the biggest USP, and second, I would say, is the technology we offer, which could also be an interesting point for them.

Prakriti Banka: Then the people registering with you as POSP is probably already in the family involved in the insurance business in some way which is it's a very different ballgame, right? I mean, will it otherwise involve quite a steep learning curve and how you use insurance versus how to sell mutual funds?

Shirish Patel: I believe most of the mutual fund distributors in the industry have come from the insurance industry. Suppose you look at our data out of the 26,000 ARN holders, our gut feeling is that I think more than two-thirds of these distributors are historically doing the life insurance business or the insurance business. They have migrated to the mutual fund business additionally. So, the experience of dealing in insurance is already there within the family. Learning for this kind of person would not be difficult because they have been selling insurance for years. I think mutual funds might have started in the last 5-10 years, but insurance they might be dealing for the last 15-20 years within the family. More than two-thirds of our distributors are historically selling insurance products. For them, it is not that difficult.

Prakriti Banka: But when would you have been selling the insurance, wouldn't that have been largely more ULIP? You mentioned that in your portfolio, you are doing no ULIP, right?

Shirish Patel: If you look at the majority of the distributors who are right now working with us are coming from LIC, and historically LIC is again either a non-par product or the par product. As is, the contribution in the ULIP is very less. We also would not like to offer ULIPs, which are almost similar products compared to mutual funds. That is our proposition.

- Prakriti Banka:** These POSPs, as of now, are you taking some portion of the commission or is it right now the focus on just building mass in terms of more POSPs attached to your platform or are you taking something?
- Shirish Patel:** We never believe in growth with compromising on the margin. Even if you were to look at the mutual fund business to gain the market share, we would never compromise on our margin and similar strategy we are adopting in the insurance business.
- Prakriti Banka:** But is there scope for margins to improve or are you already at the optimal level?
- Shirish Patel:** Improvising the margin in the insurance space, I don't think there is a possibility, and the same goes for the mutual fund.
- Moderator:** We have the next question from Ronak Chheda from Awriga Capital.
- Ronak Chheda:** My question is on MFD. If you were to see the 24,000-odd MFDs, more than 50% of them have joined us in the last two years, right? So, can you talk about your experience with these MFDs? Can they scale up at what pace once they are past that two years-3 years into the business, and can they bring incremental momentum to the business for us?
- Shirish Patel:** If you look at the number, less than two years of distributors, as you said, is almost 50%. Their contribution to the AUM is around 12% to 13% currently. But if you look at their contribution to the new business is almost 25%. If you look at the mutual fund business, when any new person comes and joins the company or the platform, they start with a small-small business, SIPs or fresh purchases. Their contribution to the gross sales is much higher, but their contribution in the AUM terms is always lower. But when they gain some kind of maturity and become 3-4-5 years old in the system, they contribute a huge amount in revenue. Again, I'm repeating the same number you said: 50% of our MFDs are less than two years old. Their contribution to the AUM is around 12%-1,3%, and their contribution to the new business is around 25%-26%. That itself says the potential from the MFDs as they mature.
- Ronak Chheda:** So, are you experiencing an inflexion point of scaling up MFD base?
- Shirish Patel:** Inflexion point of the MFD I think one I would say that look at the number in the industry; currently, almost 1.2 lakh MFDs are in the mutual fund industry. 23-24 lakhs insurance agents are there, so I think we strongly believe, and recently you would have seen that AMFI is also focusing on MFD' *Karein Shuru'* as a campaign, and they also are targeting 5 lakh MFDs. So, one good thing is happening. We are sitting at the inflexion point where the number of MFDs in the industry is going to grow, so we strongly believe that more and more people will take the mutual fund business as a carrier. Second, as Sanjay Bhai has said in the beginning that almost 20% of the industry's ARN holders are currently associated with us, and we see our trend that more and more MFDs are interested in joining the platform to take advantage of technology and the multiple products and we are very well placed there. Two things are happening yes, more

and more MFDs or distributors are joining the industry, more and more people are interested in joining the platform, and we are very much placed there, so you can say that yes, I think we are sitting on the inflexion point of number MFDs.

Ronak Chheda: My second question was about the yield you partly addressed. As industry AUM grows and as TERs contract, what is your sense? Is it on a percentage basis that we negotiate with the AMC, or is it on an absolute bps basis that our contracts or negotiations work? How does that relationship work? If you could throw some light?

Shishir Shah: It's a difficult question to answer because there is no standard mechanism of negotiations because every AMCs dealing would be different. Certain AMCs might be talking in percentage terms. Certain AMCs might be talking in absolute terms. If you look at, as Sanjay Bhai also said in the beginning, and if you look at the historical data, gross sales, I think the rate would change only on the new business and not on the old business, so that is what is the most important thing for us to understand that whenever the size of any scheme increases, it is not going to impact whatever earnings we have on the existing business and if you look at historically our gross sales that is the new sales is almost you can say 20% to 25% of our AUM. If I go with that logic, you can probably say that my entire assets will come at the new price in 4 years. So whenever even there is one basis point, let us hypothetically assume that one basis point margin is impacted in this financial year. So that one basis point margin is impacted on the 25% of our AUM or the business or 20%-25% of our business of our AUM, you can probably say that my gross yield may come down by 0.25 basis points. So, as I said, it is not impacting the historical AUM, it is only and only impacting the new sales, and new sales are around 20% to 25% of the AUM, so overnight, it is not going to change our yield and again coming to your point, there is no fixed formula. It is some AMCs with a sharing basis. Some AMC is an absolute negotiation.

Moderator: We have the next question from the line of Pawan from Renaissance Investments.

Pawan: I just had one clarification. So, 7,000 crores odd of Karvy book, what percentage of that is contributing to revenue as of now for us?

Sanjay Shah: The segment reporting has not been made by us. Monthly accretion to the bottom line would easily be close to about 1.5 to 2 crores.

Pawan: From that 7,000 crores AUM you are earning about 1-2 crores per month basis?

Sanjay Shah: 1.5 to 2 crores because there are a lot of payouts to the partners and also because it's a business driven by the mutual fund distributors. So, there's a payout, so the net earning we have from Karvy assets would be close to probably 1.75 to 2 crores. We will not have the exact numbers, or it's not an audited number. I can give you approximately 1.75 crores of earnings which we have on a month-on-month basis.

Pawan: Regarding the repricing of this book, what is the expectation in terms of timelines by which we think this entire book will get repriced?

Sanjay Shah: In the next 2 to 3 years, at least a significant part of these assets might get repriced, but it's going to be a gradual process because now the servicing of those customers, servicing to those distributors has started and once they'll come into a regular servicing to the client, I think you'll see the restructuring will be happening, I believe in next three years that entire assets which were actually if you look at today, it's almost about 16%-17% of my total AUM. 8,000 crores and 49,000 crores of my equity AUM - so almost 16%-17% of assets will likely be churned in the next three years. The possibility of adding 35 basis points is a significant change that will come.

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

Prayesh Jain: Firstly, on the debt segment, our share in that 94% of the equity, 94%, while the rest of it is very less and primarily, I have understood that would be debt. But if we look at the industry, within the retail book around 70%-75% would be equity, and debt would be a good share. Are we strategizing anything about getting the incremental flows on the debt side because most of the customers elsewhere would also be putting money on fixed deposits or lying their money in some saving banks account? Are you planning to get a push and incremental AUM on the debt side?

Sanjay Shah: On strategy, let Shirish address that, but if I give you the industry number, the total AUM of the industry in September was close to 40 lakh crores. Out of that, almost 15 lakh crores were from non-equity AUM. Within that, the individual was only 4 lakh crores. Overall, out of 40 lakh crores, individuals investing in non-debt is only 10%, and our share is 6%. So, we are purely representing, so if you look at the composition of Prudent's AUM, almost 50% of AUM has been built up through SIP, and SIP is mainly into equity. You look at the granularity of the book. That is number one.

Number two industry represents 10% of retail AUM, which includes the HNIs, while we are pure-pure retail, and that's why I think if I talk about 6%, 6% fair share looking at the industry, number one. Number two, when I'm saying the debt, we may not be exposed to debt through mutual funds; otherwise, we have a very strong debt desk. We do secondary market and primary market bond dealing and distribute the fixed deposit. In terms of retail investors, they do not have a tax arbitrage. Hence, probably, a mutual fund may not be that lucrative, or what you call attractive for them to invest into a pure debt segment, and whatever assets we might have in debt also mean for probably short-term parking or a lot of money might be getting transferred to equity by the systematic transfer plans, this is broadly on that. Strategically let Shirish address that.

Shirish Patel: Sanjay, you have already covered that point. I think to give you more statistics. Out of the industry's total of almost 40 lakh crores AUM, individual investors' AUM is almost 22 lakhs;

out of that, debt is around four lakhs. If you could take the percentage of the individual investor's debt, AUM is around 20%, but HNIs are included this mix. If you look at our average AUM per PAN is around Rs. 3.5 lakhs. So practically, within individuals who are participating on debt front, I believe they are more and more on the HNI side. Our target segment, our clientele, is more on the retail side. The number of retail clients having the investment in the industry in debt is really very less and, as Sanjay mentioned, is around 10%, we are around 6%. Second, we have got multiple products, as Sanjay Bhai said to offer to the debt & I think last 3-4 years debt component we are replacing rather I would say that with the hybrid category or BAF category funds. There is a conscious call which we have taken to target the bank deposit money or the debt money by way of hybrid funds or even the BAF category funds.

Prayesh Jain: Secondly, regarding commission payouts to your distributors, what would be the rough numbers for MF and insurance?

Shirish Patel: We don't have a proportionate sharing model, so we don't say that this is the percentage we share on our receivables. If you look at our historical payout ratio at the Prudent level, it ranges between around 60% to 62% of our gross receivables, as we have communicated earlier. Also, this is on a total receipt of Prudent, a total payout from Prudent.

Now roughly, if you look at Prudent's composition of the AUM, almost a 10% fee is contributed by our B2C channel, and our B2B channel contributes almost 90%. With 10% of our clientele scattered by our B2C channel, there is no payout, and so 90% of our AUM is where we pay the brokerage, which comes to around 60% to 62%, as I said. If you put the ballpark number roughly on the distribution side B2B channel, our gross payout is in the range of around 67%- 68%, so that is what the rough payout is. It is not a standard practice. Again, I would say that we also have a tiered structure. The smaller the distributor, the lesser the sharing and the bigger the distributor, the higher the sharing, so roughly, you can say that our weighted average cost is around 67%-68% on the mutual fund side. On the insurance side, currently, in the POS, as you said industry, there are multiple things available, so there are base commissions and rewards. If you put it this way, the combined composition of our total sharing on the insurance side also remains almost similar.

Prayesh Jain: Regarding the POS fees, you all mentioned that you had converted them down at one point. You have some (+6,000) POSPs, including the family members, and on the other side, you mentioned 4,000 ARNs. Is it right to assume the remaining 2,000 family members from the existing ARNs?

Shirish Patel: Majority of them definitely, you can assume that way that the remaining 2,000 odd would be the family members, the majority because we don't target to go out in the market and acquire only POSP, so yes, you can say it is safe to assume that 2,000 would be a relative.

Prayesh Jain: Secondly, the IRDA might allow individual agents to also tie up with three Life, Health and General insurance companies. Would that kind of hamper the growth going ahead?

- Shirish Patel:** I think I would say that time would only say whether it would impact the growth. The most important part today is the technology part. What is prudent business all about?? Prudent business is nothing but technology and product, and servicing. My point is our proposition of technology, service, people, product in one place. I think that proposition still lasts. I don't see that if IRDA comes up with this particular thing, it might impact our business, so I think we don't see that thing.
- Moderator:** We have the next question from line Rohan.
- Rohan:** I just wanted to understand the direct channel, which is currently 10% of the AUM. How have the new flows in that channel, and what is the average folio size in that channel right now?
- Shirish Patel:** We have not expanded that business in the last few years. Over a period of time, if you look at the percentage contribution of that particular channel is coming down. If I give you the number currently from that particular side, out of the total gross sales, almost 400 crores of gross sales have happened through the B2C channel, so even if you take the percentage, it is almost similar compared to what we have done this year.
- Rohan:** And the folio ticket size and the customer segments in this where we are getting the new customers?
- Shirish Patel:** We don't have a specific segregation of that thing, but on the B2C side, we don't cater to retail clients. We only cater to the HNI clients, so obviously, the folio average folio size would be higher than what we have at a Prudent level.
- Rohan:** Can you just share the insurance commission payout for the quarter and the first half for the POSPs?
- Sanjay Shah:** We don't have a segment reporting, yes, but what Shirish said is that a very small percentage of business currently comes through POSP and the POSP payout would be reasonably higher and that segment reporting is not provided.
- Moderator:** Thank you. As there are no further questions, I would like to hand the conference over to the management for closing comments.
- Sanjay Shah:** Thank you very much to everybody for participation, and yes, thank you, thank you.
- Moderator:** Thank you very much. On behalf of Equirus Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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