Date: 13.05.2024

To,
The National Stock Exchange of India Limited
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 / Ma'am,

Sub.: Transcript of the Conference Call for Audited Financial Results for the Quarter and Year ended March 31, 2024.

With reference to our earlier intimation dated April 29, 2024 and in terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of the Conference Call with analysts and investors held on May 07, 2024 in respect of the Audited Financial Results for the Quarter and Year ended March 31, 2024.

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

Kunal Amrishbhai Chauhan

Digitally signed by Kunal Amrishbhai Chauhan
Date: 2024.05.13 11:20:43 +05'30'

Kunal Chauhan
Company Secretary
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"Prudent Corporate Advisory Services Q4 FY '24 Earnings Conference Call"

May 07, 2024

MANAGEMENT: **MR. SANJAY SHAH - CHAIRMAN AND MANAGING DIRECTOR - PRUDENT CORPORATE ADVISORY SERVICES**
MR. SHIRISH PATEL – CHIEF EXECUTIVE OFFICER AND WHOLE-TIME DIRECTOR – PRUDENT CORPORATE ADVISORY SERVICES
MR. CHIRAG SHAH - WHOLE-TIME DIRECTOR – PRUDENT CORPORATE ADVISORY SERVICES
MR. CHIRAG KOTHARI – CHIEF FINANCIAL OFFICER – PRUDENT CORPORATE ADVISORY SERVICES
MR. PARTH PAREKH - INVESTOR RELATIONS – PRUDENT CORPORATE ADVISORY SERVICES

MODERATOR: **MR. LALIT DEO -- EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Prudent Corporate Advisory Services Q4 FY '24 Earnings Conference Call hosted by Equirus Securities. 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.

This conference may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

And I'll now hand the conference over to Mr. Lalit Deo from Equirus Securities. Thank you. And over to you, sir.

Lalit Deo: Thank you, Neha. So good afternoon, everyone, and thanks for joining the call. To give a brief update on the 4Q FY '24 as well as FY '24 results and address the investor questions, we have the management of Prudent Corporate Advisory Services Limited, represented by Mr. Sanjay Shah, Chairman and Managing Director, Mr. Shirish Patel, CEO and Whole-Time Director, Mr. Chirag-Shah, Whole-Time Director, Mr. Chirag Kothari, CFO, and Mr. Parth Parekh from Investor Relations. Now we would request the management to start with the opening comments, post which we can open the floor for Q&A. Thank you, and over to you sir.

Sanjay Shah: Thank you, Lalit, and good morning, everybody. Let me welcome all of you to the earning call of Prudent for the Q4 FY '24 as well as for the full year FY '24. So I thank you all for sparing your valuable time to join us. I hope you all would have got an access to the investor presentation, which has been uploaded by us on the exchanges yesterday because when I'll be discussing, I'll be giving a lot of references to the slides of that particular presentation.

So before I move to Prudent's financial numbers, I would like to take you through the Slide number 15, which contains broad macro data and talking about the future of mutual fund industry. So if you look at on the chart, left-hand side of the chart -- of the slide, we have shown that how the nominal GDP of India has grown in the last decade and how it is expected to grow until FY '30.

So in last decade, nominal GDP has grown at a CAGR of 10.6%. And over the next seven years, we expect that GDP will grow at a CAGR of about 11%. So this 11% CAGR implies that we will double our GDP and we'll touch the INR566 lakh crores of GDP by FY '30. Now if you see the chart on the right-hand side, it shows the data of gross household financial savings and the proportion of those savings as a percentage of GDP. In last decade, our gross household financial savings has almost tripled. And in next seven years, too, this number is expected to double at the similar pace like we have been projecting a growth in GDP.

So chart on the bottom left shows that proportion of bank deposit plus currency and mutual fund and equity in overall gross hold savings how it has been changing. So proportion of bank FD and currency in overall savings is trending downwards. If GDP moves as estimated, equity as an asset class should do well.. And this ratio should skew more and more towards the equity and mutual funds. So all these factors make us to believe that industry should ideally touch INR100 lakh crores and double from the current level by FY '30. And Prudent being a strong retail dominant player, we will definitely grow faster than the industry over next decade.

Let me take you to Slide 16. So this Slide 16 talks about the fruit of shift to mutual fund industry, which has already been visible in the numbers. So wherein if you look at mutual fund AUM to GDP has grown from 7% to 18% in last decade. Unique investors has also grown almost by 2.5x in last six years to INR4.46 crores. And SIP flow has also grown at a rapid 25% CAGR. But we believe, the picture is not yet left, we understand that the picture has not started, and that is what we believe that is going to be growth story. We feel that we are very, very lucky to be present in this growing industry, and we will reap the benefit in the years to come.

Now let me take you to the Slide number 20, wherein we have tried to highlight the Prudent growth story in last decade. So if you look at these slides talks about the growth of Prudent's number of partners and number of customers in the last decade, which grew almost 10 to 11x.

Our equity AUM grew by almost 39x in the last 10 years, and SIP book also grew by about 29x in the last 10 years. So I think these are the numbers which are important, which I just wanted to communicate that in last decade, Prudent has created a significant base. And in next decade, we'll have a significant benefit of the base, which we have created. So I just wanted to communicate something on the overall industry growth potential and how Prudent has done in last decade.

So now let me take you to the Slide number 42, which is talking about the business numbers. Yes, so if you look at the Slide number 42, this chart on the left-hand side indicates the huge tailwind for the growth in mutual fund business for the Prudent in FY '25. In FY '24, we earned our revenue based on the daily average AUM of INR69,000 crores. We are beginning with current fiscal with an AUM of INR83,400 crores, which implies there is a 19.2% higher head start compared to full year average of FY '24.

So even if our AUM stays stable at INR83,400 crores for the entire FY '25, our revenue growth in current fiscal will be around 17% considering there will be no B30 revenue in FY '25. Please keep in mind, in FY '24 out of total revenue of INR100, INR2.40 or 2.4% was the revenue that came from B30. So if you take out that, we are expecting that 17% is going to be the overall top line growth based on the current AUM. So that's a massive tailwind with which we are beginning the current fiscal. As far as current quarter is concerned, quarterly AUM in March quarter has grown by 44% Y-o-Y and 12% sequentially.

Now let us move to Slide number 43. So Slide 43, we have shared the details of what has moved our AUM on a year-on-year as well as on a quarter-on-quarter basis. As seen in the left hand chart, Equity AUM has moved by almost 53% year-on-year to around INR80,000 crores from INR52,525 crores. So that's a 53% growth; however, in this particular growth, almost 3/4 or about 78% growth came because of mark-to-market movement. I'll just explain the significance of this mark-to-market movement number. So in the current year, we got the mark-to-market movement of INR21,541 crores. I'll tell you that on May 30, 2020, total AUM of Prudent was INR21,000 crores.

So mainly last year alone, we got a mark-to-market gain of more than AUM, which was there before four years. Now this strong momentum in equity, it has also resulted into a significant growth in our net sales also and that the same thing is reflecting over March quarter. During the full year, our net equity sales stood at INR6,164 crores, which is higher by 25% compared to INR4,915 crores of net sales in FY '23.

Now let me take you to Slide number 44. So it's a slide which talks about overall market share of Prudent in the Equity AUM as well as SIP return. So our market share in the Equity AUM ex ETF has improved from 2.46% in March 2023 to 2.52% in March 2024. On the bottom left, we have given you the data on monthly SIP flow and our market share in SIP.

During the quarter, our monthly SIP book has crossed 7 billion mark and our monthly SIP as of March end has touched INR726 crores. We have added almost INR200 crores towards SIP book during last 12 months, it's a growth of massive 40%. In the same period, industry SIP book has also moved from INR14,000 crores to INR19,000 crores, which is also a growth of about 34%, 35%.

Given our strong focus on SIP, we foresee our monthly SIP flow crossing the mark of INR1,000 crores by March '26, which we have been giving as a guidance since a couple of quarters. Please note that from last quarter, we also started providing the STP numbers. In the month of March, we collected INR95 crores through systematic transfer plants. This number is reported by us on the actual realization basis. The average value of each STP is INR6,800, which is higher compared to the SIPs. Please note, STP value of INR95 crores is not included in the SIP number of INR726 crores.

Now I am coming to the financials, and I will take you to last slide of the presentation, which is Slide number 47, which talks about the standalone financials of Prudent Corporate Advisory Services Limited. So look at the Slide number 47, which talks about the standalone numbers. So I'll discuss the full year number as far as the standalone numbers are concerned. So most positive part for us in FY '24 is standalone profitability of Prudent Corporate, which is profit after tax has grown above INR100 crores, which is a significant milestone for us.

Revenue has grown at a slower pace compared to yearly average AUM growth. While our full year average AUM grew by 32%, revenue from mutual fund grew by 27%. This is mainly as we have been pointing out in earlier calls also, is mainly because of the withdrawal of B30 incentives, which has implemented from February '23, last year. So if we look at the impact of B30, if let us assume B30 impact would not have came, I had got revenue of B30 then in the whole year we would have earned INR36 crores by way of an additional revenue, which is roughly about 6% to 7% of my topline. So if I add that 6% in the 27% then probably this will be -- I'll be able to explain you why my revenue has not grown in line with growth in the average AUM.

So in the overall year in FY '23, our B30 yield was around 8 paise. If we remove that 8 basis points, then in FY '23, our normal revenue, which was regular revenue by way of trail was about 87, 88 basis points. In FY '24 also, on the full year, we earned about 91 basis points as a trail, which includes about 2.4 basis points, roughly 2.2 basis points, which is attributable to B30. If I remove that because in the FY '25 our revenue will not come from B30, it will be practically zero. So ex B30, we are also expecting that the revenue, regular revenue will be similarly in the line about 88, 89 basis points.

So finally, despite a lot of challenges on the top line due to withdrawal of B30 incentives, as we've been explaining about the increasing share of indirect channel in total leading to higher payouts, additional PLC costs, which was a change in the current year, we are still able to grow our operating profit by 28%, which is in line with our top line growth.

Now however, in spite of there being a lot of challenges, we are starting the FY '25 with a strong tailwind of 19% in the AUM, as we discussed in the previous discussions. And we believe that operating leverage is going to play out in the current year, mainly because post current year performance. And another important thing we wanted to highlight that in the current year, once we complete the review of our team, our total employee cost is going to rise about 15.67%.

We assume that PLC and administration costs will probably rise in tandem with growth or probably about 8%, 10%. So assuming if our AUM stays at INR80,000 crores or INR83,000 crores, what is the opening AUM, I think, we expect that the operating leverage will definitely play out in our favour in the current year. Overall, on the standalone profitability, we grew at 42% to INR105 crores on a year-on-year basis.

Let me tell you to -- take you to the final slide, which is Slide number 46, which talks about our consolidated figures. On the consolidated front also, it gives me immense satisfaction to see that our consolidated top line has crossed INR800 crores, and we reported a growth of 32% of the top line. On the insurance front, our total premium, including renewal, grew by 23% in FY '24 to INR556 crores, and our top line the insurance stood at INR111 crores in the full year.

So another important thing on the GI front, where predominantly, we do a business on the -- in the retail health business. I think that business has been picking up very well for us. And the fresh business sourced by us in GI in FY '24 grew by almost 37%, and our total book of GI has reached to INR120 crores. Please keep in mind, GI is predominantly a renewable premium kind of a business, renewal business for us. So you can compare that roughly to a business like your mutual fund where there is a significant revenue comes by of trail.

In case of life, one of the main products, which we sell on life front is the saving products. Given the bumper sale, which we had in fourth quarter of last year due to taxation changes, we witnessed a consolidation in the LI vertical. We have been maintaining this trend since the beginning of this fiscal, that last quarter will face headwinds on account of a very high base. Fresh premium in FY '24 in LI is lower by 41%; however, number of fresh policies sourced in LI is down by just 5%. So the large drag came from the average premium per policy, which is lower by 37%. Hence, given a realistic base, which has been set now by us in FY '24, we are confident of a reasonable growth in LI vertical also in the current year.

So overall, on a consolidated front, operating expenditure grew at a higher than the revenue, mainly on back of higher expenses -- higher other expenses as explained in earlier calls in the current fiscal or from current fiscal. We have taken a call to spend on marketing, branding and awareness for the insurance vertical; however, we believe that in the current fiscal, the spend will grow proportionate to the insurance revenue and consolidated operating margin should be better compared to FY '24. Overall consolidated profits have grown at 19% Y-o-Y to INR138.7 crores. Cash flow from operations stood at INR150 crores. Cash flow from operation to profit after tax stood at 108%, and return on equity stood at 28.8% for FY '24. So this is the summary of FY '24.

All in all, when we are entering FY '25, we find FY '25 looks very, very promising to us. On a standalone business, we have faced headwinds in form of B30 additional incentive, which has been withdrawn; payout pressure on account of mix changes and elevated PLC costs. Now we believe that these all things will normalize when we are entering into FY '25.

On the insurance business also, as I told you, that we are now -- we have set a good base in FY '24, and we are starting with that good base. So we are assuming that FY '25 is going to be much, much better as far as your insurance vertical is also concerned. So we are very, very confident when we are moving into FY '25 because a lot of headwind is now becoming a part of our base.

Lastly, we are getting closer to hitting INR1 lakhs crores AUM, which we have been targeting to actually by March '26. As when I'm talking to you, in the current month, we have almost touched INR87,000 crores AUM. Our treasury book has reached INR350 crores, which is giving us a war-chest to grow inorganically. So we believe Amrit Kaal for the mutual fund industry has already begun, and we are aptly placed in this growing industry and will reap the benefits in the years to come. So with this, I'll just say thank you, everybody, for listening to me patiently, and we'll open the floor for question and answers. Thank you.

Moderator: The first question is from the line of Ajox from Sundaram Mutual Funds.

Ajox: Congrats on a very good set of numbers. Sir, my first question is on the payout and the mutual fund. You mentioned that the indirect share has gone up, so how much has it gone up on a Q-o-Q basis and that should have driven the commission increase as well, right, the share to distributors?

Sanjay Shah: Yes. So I think you're absolutely right. If you look at on a Q-on-Q basis versus, let's say, October, November, December to January, February, March, I think share of indirect has gone up by about some 70 basis points. So the AUM in favour of indirect has increased by 70 basis points. If you look at the 60% or 65% payout of that, so 7x6=42. I think in the current quarter, there is a GP competition of about some 50 basis points and the 40, 45 basis points is explained because of this. So you're right.

Ajox: Understood, sir. So can you give me the number, like what proportion of that -- like increase, I understand. Absolute percentage indirect proportion.

Sanjay Shah: Currently, we are around 90% indirect and 10% is in B2C.

Ajox: Sorry, I didn't get that. Sorry, can you repeat?

Sanjay Shah: 90% and 10%...

Ajox: Okay. Okay. Understood, sir. Understood. And sir, secondly, you mentioned about the increase in employee costs. Sorry, I didn't get that. What was the increase expected this year?

Sanjay Shah: I was just trying to explain why operating leverage should play out in the current year, so we already completed the review of entire team for FY '23-'24. And I'm talking about the April '24 salary bill will have a revision of 15.6% to our March salary bill. That I was explaining. So I was saying that my top line is likely to grow beyond 17%, 18%, while the major expenditure for us is salary, which is about 15.6% growth. I will not get much growth in other places. So the operating leverage should be much, much better for us in the current year.

Ajox: Understood, sir. That is very helpful. And my next question is on insurance. So insurance, the commission we receive, for non-life, has it come off on a sequential basis? Because I was seeing some 30% odd, now it's dropped 22%, the commission to premium.

Shirish Patel: Yes, so basically, I think, as we spoke earlier during the call that after this EOM guidelines, the commercials are linked to many of the parameters. So certain parameters are easily -- you can say that x commercial doing some kind of business and x percentage based on certain persistency parameter. Certain commercials, we actually come to know post quarter ending. Whatever is guaranteed receivable or received for that particular quarter is already accrued in the last financial year. Whatever is available based on persistency data and every other data, that we'll come to know in the next probably in a week or so.

If we simply assume that number, the percentage receivable has not come down. So mainly you can say that unidentified amount, which is not yet finalized with the insurance company, the difference is mainly because of that. Because first three quarters, data has already come in the month -- in the last financial year. Last quarter data is yet to be finalized. If we had that number, I think what I'm what is this number would be similar like what we saw. In actual terms, there is no difference in the receivable in the first year.

Ajox: Perfect, sir. Just a final question, if I can squeeze in. Other expenses usually gets tied to some portion of insurance also, right? Because earlier, it was separately given as marketing spend. Now it will get at the top end instead of with the other expense level, so what is that expense? Do you give that separately?

Shirish Patel: So I think we never provide you with the separate number for marketing expenditure. But you are right, the -- if you'll see the elevated number on other expenditure has two complements. One is, as we explained in previous calls also, that from the current year, we started spending a lot of money on creating branding, awareness, and marketing for the insurance vertical as well as there was a change in our Prudent PLC program, where we started providing some points to the existing AUM also to be partners. So these two component has gone for a change, that is probably giving you a higher expenditure on the other expenditure front. But important thing is that these are the change, which has been implemented in the last year. And now this is part of P&L, so you'll not see a significant change going forward.

Moderator: The next question is from the line of Swarnabh Mukherjee from B&K Securities.

Swarnabh Mukherjee: Congrats on a very good set of numbers. So two, three questions. First, I wanted to understand in the mutual fund business, the PLC that you were running, how is the weightage between, say, the fresh flows that will be coming in vis-a-vis the existing AUM? So just what I'm trying to understand is that if somebody is able to maintain the existing AUM, but not to be able to increase the flows very significantly vis-a-vis someone else who is doing very well on the flow basis. Will the person who is doing very well on the flow basis get better R&R kind of a thing?

Shirish Patel: I have not understood your questions properly. But what I understand is that commercials are communicated while doing the transaction. Someone has done the transaction two years back and whatever commercial was communicated that time, he is getting the same rate. Or someone, I think, who is doing the business today, whatever the business is commercially, we communicate on a new business today, it is applicable to everybody the same. Yes, there is one difference that is based on the total AUM with us.

So there are different slabs available based on the total assets with us. But there is no difference in the commercial payout to a guy who is doing a fresh business or who is not doing a fresh business. It is, as I said, the commercials are communicated while doing the transaction. The only difference is based on the current assets, depending on the slab in which they are falling in, the rates are similar for everybody. I hope I think this is what you asked.

Swarnabh Mukherjee: So I just wanted to understand more not from the commission that you pass on, but from the PLC side. So is there any commercial benefits from the PLC point of view to a distributor, if he does better flow? My whole focus is to understand that if there is a strong flow generation in the coming year, how should we think about the PLC costs? So that is what I wanted to ask.

Sanjay Shah: Let me address this, Shirish. So I think let us first of all tell you, PLC doesn't provide any commercial benefit. It is mainly the participation in the learning conclave, where probably we will recognize the person based on various parameters. And one of the parameter is AUM, which was not there in previous year. In the last year, we started giving some points on the AUM; however, there are various parameters. So if you talk about the gross sales, net-sales, SIP, net SIP, so there are various parameters.

And based on the various parameters, somebody would be eligible to participate or qualify probably for the PLC. So overall, if you are saying that, is there a commercial benefit? I think the commercial benefit will be that he'll be just able to participate in the learning conclave to understand about. And then it's a motivation for you to meet the people, exchange and probably -- that's just mainly from the point of motivation and driving the businesses.

Swarnabh Mukherjee: Okay, sir. So if I understand correctly, then maybe whatever you are budgeting for PLC at the start of the year, there might not be a very significant expansion even if, say, the business does really well over the year. Would that be a correct understanding?

Sanjay Shah: Normally, budgeting, we will do based on the previous year. So let's say, for example, in the current year, my total expenditure is, hypothetically, INR10 crores. Now I'll assume that INR10 crores 10 to 12 based on the -- so there are two things. Compared to '22-'23, '23 4k in the '23-'24 my expense increased because there was change in formula. That change in formula is not there now. And because of that, now let us assume last year my expenses are INR10 crores, I think we can just assume normal growth, which will happen in line with the business. And that is what we'll provide also every quarter, that is what is happening in the current year also.

We have an expenditure of PLC at the end of the year, but full year provisioning has been reasonably okay. there is not much difference, I think we could be able to forecast properly and if you look at the cost provisioning also, it's not a very erratic. I think it has been very, very smooth every quarter-on-quarter.

Swarnabh Mukherjee: Right. Okay. Understood. So I mean -- so at a base case, maybe a 10%, 12% growth is what we can work with at this point of time on the PLC?

Sanjay Shah: Sir, I'm hypothetically telling you. If, let us say, everything remain constant then the cost might remain the same.

Swarnabh Mukherjee: Understood. Very helpful, sir. Secondly, in terms of the gross profit margin for this quarter. If you could give us a number with which we can work with for the coming year, given that right now, there would be slight differences that has come because of maybe until January you were paying out the B30 commissions, etcetera. So how -- what number can we work with going ahead for FY '25?

Sanjay Shah: So the top line, you can assume about 88 to 89 basis points as the earnings. That is what I have told you because in the full year, we earned 91 basis points on average AUM of INR70,000 crores. I think we are starting the year with INR83,000 crores. So on INR83,000 crores, you can forecast about 89, 90 -- 89 basis points as a regular trail, That is number1, which is we are expecting about 17%, too. So plain-plain, you can say that if my AUM remain at the opening level, if there is no change in 365 days, then at least 17% top line growth is something which is visible.

Now you come to a -- so let us assume 17% is top line growth, 17% is the expenditure growth also. Let us assume, on the commission side, commission might be a little bit higher because in the full year, your average has gone skewed towards the indirect. So my assumption is that in the whole year your commission will be INR100, maybe that year it will be INR101 because virtually, from first quarter to last quarter, your ratio has a little bit skewed towards the indirect. So at least you can expect 0.5% more on the commission expenditure, right? Then rest all the thing is probably we are expecting other than salary I've already gave you indication that salary costs will rise by about 15.6% on the March bill. Rest all should be inflation-driven.

Swarnabh Mukherjee: Okay. Understood. And also in terms of your internal targets submitted to, say, the SIP book, etcetera. So you had earlier told that you aspired to reach around INR700 crores by fourth quarter, you have exceeded that. So how should we think about that playing out in FY '25? What would be your internal targets?

Sanjay Shah: So I think we have been very vocal saying that we want to reach INR1,000 crores by March '26. So otherwise, normally, we do not give any forward guidance. There are two numbers, which we have been telling consistently. We want to reach by March '26 INR1 lakhs crores of AUM and INR1,000 crores of SIP. Otherwise, we do not provide forward guidance.

Swarnabh Mukherjee: Okay. Okay. Got it, sir. And lastly, one question on the insurance premium per policy number, which you have given in your presentation. So I mean, since in the life insurance side, you generally focus on traditional products. So I just wanted to understand, I mean, what is the average premium per policy there? And what would be the average premium per policy on the GI book, if you can give some color?

Chiragkumar Kothari: Currently, we don't have the number in hand. So I think we can ask Parth to forward that number to him.

Moderator: The next question is from the line of Nilesh Jethani from BOI Mutual Funds.

Nilesh Jethani: Congrats on a great set of numbers. My first question was on the insurance take rate. Just wanted to understand if the mix in this quarter for the renewable has slightly increased vis-a-vis the new premium, is that impacting the take rates and we assume the increased take rates announced at the start of the year would continue going forward also?

Sanjay Shah: Per se, our commercial arrangement with the insurance company has not changed. Whatever was there in '23, '24 has continued in '24, '25. Commercial arrangement remains the same. But what you are saying is absolutely right. The composition specifically, if we talk about the Health Insurance segment or even the Life Insurance segment.

As and when my renewal book becomes bigger and bigger in percentage terms of the total collection of the premium, gross yield on the total book might come down because renewals are paid lesser compared to the fresh premium. So what you are saying is absolute right. But otherwise, in terms of commercial arrangement with the insurance companies for the fresh rates and the renewal rates, there's no change between '24, '25 and '23, '24.

Nilesh Jethani: Got it, sir. Sir, second question was on the operating expense side. I was just doing some calculation with regards to the consol minus standalone for both employee as well as other expense. So I see on the subsidiary, which is a net outcome that is consol minus the parent, there has been a INR46 crores odd increase in the expenses. Sir, wanted to understand from INR5.4 crores in FY '23, the difference number is looking like a INR51 crores, INR52 crores in FY '24. So can you help me understand the reason for a sharp jump in this number and how to look at these expenses going forward?

Shirish Patel: So I think probably we have been explaining this consistently that in case of insurance vertical, we have started spending a lot of money on marketing and branding for the purpose of generating a lot of awareness and doing the business on the insurance front. And that is what is probably bringing us the increase in the cost. So that is the -- if you look at the ex-mutual fund distribution, or ex-standalone, I think the major contribution or the major expenditure is coming mainly because of your overall marketing costs on and branding costs, that is number one.

Number two, there is some amount of cost on the PLC also, right? Because there are a lot of partners who would have qualified and would have -- somebody who will be participating in the

PLC. There is some components coming by of PLC also; however, one thing I want to tell you as a matter of clarity that whatever is the cost in the current year, you are true, the overall other expenditures are at INR51 crores in FY '24. We are assuming that these INR51 crores is becoming a base and now that number will grow in line with the growth in the business.

Nilesh Jethani: Okay. So why you think this number will become a base. So marketing expense, you think we are doing now at a full potential? Is that the understanding?

Shirish Patel: So we'll continue to spend on creating awareness and marketing because we believe that previously, that amount used to be spent by the insurance company. We believe the insurance is a business where you need to spend a lot of money on creating the awareness. It's not a push product like -- pull product like your mutual funds. Here, we need to create the awareness in branding and that is where we need to continue to spend.

Nilesh Jethani: Okay. Got it. That's -- so this number would be -- growth would be largely in line with whatever the revenues we are earning from the insurance business, growth in the number?

Shirish Patel: Perfect.

Nilesh Jethani: Okay. And one last question from my side. Similarly, we also do an exercise where fees and commission are deducted consol -- apparent from the consol. And I'm assuming the payout numbers, which was approximately 14% in FY '23, say INR10 crores is a differential on INR70.6 crores we made on insurance. This year, the number is INR24 crores fees and commission on the INR110 crores we made on the insurance business. So that number has increased from 14% to 22%. So the take rates where they are. But are we giving a higher proportion as a pass back to the partners? Is that the understanding?

Sanjay Shah: I think overall number of people who has been working in the POSP has increased and probably more and more people are -- POSP qualified people are doing more and more POSP qualified business, and that is the reason your payout has increased from INR9 crores to INR24 crores. So you are right. I think the non-MF cost on commission side, which was INR9 crores in FY '23, INR24 crores in FY '24. That's mainly because of one component is broking. In broking also somewhat, I think the share of indirect a little bit has increased, but that's not very significant. Mainly it is because of the more and more POSP, people qualifying and giving us the business.

Nilesh Jethani: Got it. So assumption is, largely, this number may see a little inch up, but the other expenses will limit the growth from FY '25 onwards. That's the understanding broadly for the insurance piece?

Sanjay Shah: So overall, I believe that insurance, you need to assume that the costs should be in line with top line growth. I think that last year was an exception where everything was setting as a base. Now probably you can look at the entire balance sheet growing in tandem with the growth.

Moderator: The next question is from the line of Saptarshee Chatterjee from Groww AMC.

Saptarshee Chatterjee: Congratulations on the good set of results, sir. My 2 questions, sir, both on the flows. First is on the Slide 23, where you have pointed out our flows through SIP as well as equity net inflows.

But when I see this, it seems that the SIP, although we say that SIP is more like a stable book that we've done and, therefore, it should be coming on. But our net inflow is very volatile if I compare with the SIP book. So how -- I wanted to know your thoughts, how do you see this? Because ultimately, the net inflows, if that remains volatile, then what would be the relevance of the SIP book?

Sanjay Shah: I didn't get your question. But Shirish, if you understood, can you -- he is saying that when -- your question is why netflow is volatile, right?

Saptarshee Chatterjee: Yes. So although we have a good SIP book that is growing, but our net inflow is very volatile. So then every year, then our net inflow should be volatile or we can have over a period of time, it should converge.

Shirish Patel: Basically, there are two parts of the gross business. Let us first understand, gross business, one contributed to SIP and second component is the gross business contributed by the lumpsumsales. Historically, on a normal year, if you look at, lumpsum and SIP is almost 50%, 50%, almost on an average. Even if you look at the longer-term average in the net sales, whatever would be the gross sales by way of SIP input, that remains as a net inflows. So if you see the 10-year base, my net sales would be equivalent the SIP sales, so whatever has contributed to the SIP that is net sales.

But as you said, yes, net sales is very, very volatile. If you see, that also depends on the market sentiments, market behaviour, mutual fund retention and so many other parameters. Last few years, on the net sales front, it was really good, but if you see 2020 or beyond, obviously, I think net sales were not that great. But as I said, in the medium to long term that settles at around the flows as the SIP. The second point, what you said that if the SIP flows are stable, it should be stable, then why the net sales should be volatile.

Many a times, the client continues the SIP on the future side, but sometimes based on the market sentiment, they also redeem the money. So that is where we are saying that it depends on the sentiment because it depends on the market behaviour. But the net sales would be equivalent to the SIP sales in the medium to long term. I hope I think I addressed your question because I have not understood it correctly.

Saptarshee Chatterjee: Right, right, I understood. And secondly, on Slide number 27 and 28, where if your count of mutual fund distributors, in last two years, the growth of MFDs has slightly come down. And we have already gained a good amount of market share in this space about 1.4 lakh MFD. Is it that here onwards, the growth of MFDs will be low and it will be more like a productivity gain? And the second part of the question is, yes, it is thank you for the data that they have shown the flows from more than INR10 crores of MFDs. What is the portion or proportion of these MFDs in this -- in our total AUM or SIP flows?

Shirish Patel: First question, as you said that distributors recruited in this year, that is '24 is reduced compared to what it used to be in year. The first point is there is a big jump in the number of distribution in FY '21, '22. One reason was the Karvy acquisition. That was one reason. Second, post-

COVID, the examination was easy and I would say completely online. Sitting in any location, the prospective distributor was able to appear for an exam, so that was another reason.

These are the two reasons. I think FY '21, '22, we saw a big jump in terms of adding new distributors. Now the examination is to be given on specific centers only, outskirt locations or the villages or towns guys cannot go to the destination for the examination. So that is why that intake has come down. That is one.

Second is this financial year, we have not opened any branch. Unlike other years, you can see that we normally open eight to 10 new branches every year. In FY '23, '24, we have opened only one branch. So one reason also for the lesser contribution is when the new branch addition happens on that locations, the new addition become faster. So new branch addition has not happened in last year. That is one another reason.

And third, consciously, we have moved from the count to the productivity of distribution. So specifically, the KRA of the team also has changed in last year from the number of new recruitment to the number of productive recruitment. So I think because of that also, the count has come down.

Saptarshee Chatterjee: And what is our proportion of more than INR10 crores MFD?

Shirish Patel: As of now, I think that number is anyways given, right? I think top percent of the distribution community or the top 10 partners contribute around 2.73%. Yes, and if you see top50%, I think they contribute almost 9% of our AUM.

Chiragkumar Kothari: Just -- and the people who are about INR10 crores, their number is about 1,565 people in our system. I don't have the exact contribution of theirs in the AUM. I can provide you the data. But the number of people who are above INR10 crores is about 1,565.

Saptarshee Chatterjee: Understood. So this is very helpful. Just one thing and to confirm that the -- if I see similarly the growth in the number of investors, that has also come down. So here onwards, the focus will be also getting more wallet share from the client than the client growth? Is it the current thinking?

Shirish Patel: What the focus, I think, client growth focus is also there as well as the wallet share growth -- wallet share focus is also there. So we can't say that I think our focus is only the wallet share and not the clients. We are trying to tap both the things.

Moderator: The next question is from the line of Rohan Advant from Prad Capital.

Rohan Advant: Sir, my first question was that we understand that in our MF distribution business, we get a better rate from the MFs versus what a distributor would get on its own. Is that true in the insurance business as well?

Shirish Patel: First of all, the point is that the IFA or the MFD we get better rates from like Prudent than the AMC, that is not right. So we are not saying that the one reason for distributors to join Prudent is they are getting higher commercial. Rather, I think commercial, obviously, it is competitive but not higher. So that is one part.

Secondly, the same logic doesn't prevail for the insurance business. Also MFDs don't work only for commercial, higher commercial with us. One reason for them to work with us is the -- one is all products is available under one basket. Educated person supporting in the growth of the business and the technology. These are the main reasons why these guys who work with us not only on the commercial side.

Rohan Advant: Got it. Sir, secondly, recently, you have started FD distribution also on the FundzBazar platform. So could you just elaborate on it and what are your expectations from this in the near term?

Shirish Patel: Basically, we were not focusing on the fixed deposit business until the FY '23. Last year was the first year, midyear, we started focusing on the fixed deposit business aggressively, the first year. And specifically, we started focusing after the debt mutual fund taxation change. Last year, the expectation, the experience was good. This year, I think, we are very, very hopeful that the volume in fixed deposit business will improve. This is not a great margin business. But yes, I think the FD business focus helps us in acquiring more distributor. And second, it helps us giving one more product to our existing set of distributors so that we can help them improve their revenue.

Rohan Advant: Okay. And sir, lastly, there was a regulation change with regards to the commission that they'll continue post a six month cool off versus them not being there earlier. So any positive impact or negative impact you're seeing? Are more and more RMs looking at Prudent as an alternative post this change, RMs working in investment firms or banks, etcetera. Any comment on that would be helpful.

Shirish Patel: Yes, theoretically, it is very right that any RM working in a bank wanted to start on his own, this is a good start point for anybody. When they start the business, obviously, they need some platform where they get the product, they get the research and they get the technology. So we at Prudent is one of the candidate for them to join. Yes, this is very, very positive for us.

Rohan Advant: Okay. But sir, have you seen any traction because of this already?

Shirish Patel: I think it's hardly one or two months for this particular thing. Yes, we already started seeing some kind of traction. But as a momentum, if you see, I think it started not yet. But yes, we are hopeful that during the year or after a few months, I think great amount of traction will start.

Moderator: The next question is from the line of Prayesh Jain from Motilal Oswal.

Prayesh Jain: Sir, just firstly, the insurance bit again. So your -- you said that the Q4 number is not something, which we should look at because the data is still not out. So you'll possibly -- would it be fair to take a number for FY '25 to be as a number, which will be there for the full year of FY '24 in terms of commission to premium ratio, adjusting for some increase in the renewal to new ratio. Would that be the right way to think on both life and general?

Shirish Patel: Yes, basically, as the commercial arrangement, which the insurance company has not changed between '23-'24 and '24-'25. Yes, I think we said that last quarter, certain people are yet to be confirmed, so that is where there could be a drop in the growth, if you can, the last quarter. But yes, I think yearly, if you take this thing, then yes, I think, what you are saying is right, subject to the adjustment of the composition of renewal and the fresh revenue.

Prayesh Jain: So if there is any upward revision, then it would benefit in 1Q, right?

Sanjay Shah: Let me just add something what Shirish has said. Let us say in case of insurance, I think we have been telling in a couple of previous quarters also that we recognize the revenue only once we get a very clear clarity from the insurance company, then only it is going to be provided in the books. That is number one. Number two is if there is some spillover of current quarter to next year, there might be a possibility that in the beginning of the year also, it would have happened that last year, some spill over would have came in the current year. So probably let us understand, let us assume this number as the number of current year only, right?

So some kind of variability would always persist and, hence, probably look at this as a standalone number and probably what Shirish is again trying to tell you that overall, there has not been any change as far as commercials are concerned. But if you see one or two basis points here and there, there might be some reasoning because of the reconciliation issues, which might be pending in the insurance stage.

So far, you understand, as far as the insurance is concerned, even revenue also arises after 15 days of free look period post the policy gets logged in. There is some time line also goes there. So there is some differences. It's not like straightforward mutual fund, where based on the average AUM on 31st March, there will be a very clear cut clarity that you will earn this much. Because there is a free look period also, there might be cancellation of the policy afterwards. So I think, the spillover here. So look at FY '23, '24 number as standalone clear number. '24, '25 because If the spillover of this year comes next year, then the spillover of the end of that year can also be done next day.

So I think we need to look at the standalone number. But I'm just trying to explain what Shirish is trying to tell, there is no difference in rate.. So there is another thing also, if you are trying to understand the overall earning on the total book, you need to understand the composition change also, right?

Because let us assume that in the current year, if my book in GI moved to INR120 crores, the first year and the renewal have a difference. In LI, there is a big difference in the first year and renewal. So when you look at the overall earning only on first year, then it's a different thing. But if you look at the first year and renewal combined, then also that composition will have an impact on the overall rate.

Prayesh Jain: Got that. Sir, and secondly, on the life insurance side, is our mix changing in some -- compared to what we would have done last year in FY '24 in terms of the product mix?

Shirish Patel: Definitely, I think the percentage contribution from the endowment plan or the guaranteed or non-par plan was much higher in the last financial year. This year, there is a significant drop in the endowment or the non-par plans post the taxation chain. Obviously, the percentage has moved in favour of term, annuity and the ULIPs.

Prayesh Jain: Okay. And does that impact your commission ratios also? No, no?

Shirish Patel: Compared to annuity, compared to the endowment plan, ULIP might have little lesser commission, but this time also the contribution from ULIP is not that high, so we can say that the reason of drop is because of the composition mix.

Prayesh Jain: Okay. Okay. Got it. Sir, with respect to PMS and AIF products, is there any quantum that you would have -- you can mention about how much we would have done in FY '24? And what is the vision for this AIF and PMS possibly, by say, in the next four or five years, what is the kind of scale that you want to achieve?

Shirish Patel: We would not like to give you any guidance. But as we said the last two, three years, there is an aggressive focus on the PMS AIF business. If you see the current AUM of -- this PMS AIF combined, we are already to INR800 plus crores of AUM, 100% growth in last 1 year. But I think that says that incrementally, we are very, very bullish on this particular product. Acceptability of -- because when we started, I think PMS always was considered as the wealth product. We started pushing this particular product in the platform side. Now I think the team and my distributors also have accepted that they also have their HNIs wherein they can choose this particular product. We are very, very hopeful. We are very optimistic in terms of PMS AIF business would be higher than the mutual fund AUM business.

Prayesh Jain: And what would be a gross realization of AIF PMS?

Shirish Patel: Percentage, we would not like to give exactly the number. But yes, I think it is 30%, 40% higher than the mutual fund rate.

Prayesh Jain: Means sharing is similar with the...

Shirish Patel: Yes, the percentage sharing maybe the similar.

Prayesh Jain: Will be similar. Got that. And sir, last question, in terms of pin codes penetration with respect to reach of Prudent MFDs, where we are and how do we want to scale this up, deeper penetration into the country geographically, whether any further expenses would be needed to go deeper into the country?

Shirish Patel: Many things can be done on the penetration side. I think India is very, very vast. And still, you would say that Prudent can penetrate in many cities or towns as well. Last year, we just wanted to consolidate, and that is the reason last year we have added just one branch.. This year, we are planning to add 16 branches, but mainly very near to the locations where our strength is there. So this year, we are opening 16 branches, which is again the highest ever. But all the branches where we are opening is near to our strong base.

Prayesh Jain: So that would incur some additional costs, right?

Shirish Patel: The cost expense and the capital cost in our branch opening is hardly anything because we don't have lavish offices. The manpower cost at the ground level is not that costly. Obviously, that will add some costs, but it is not -- the capital expenditure is not that high.

Prayesh Jain: Sir, can I just slip in one more question. Sir, we have a gamut of products now. You have mutual funds, insurance, fixed income products, AIF, PMS. Are we looking to kind of start off with a wealth management kind of a product, where our offering to our customers or MFDs where they can become wealth managers rather than just distributors?

Shirish Patel: Specifically, we are offering all set of products. I don't think that any products towards the wealth manager or the banking wealth managers are selling, we are not selling. So practically on a product suite wise just we do offer all the products what the wealth manager offer. The only difference is the focus. Yes, as I said that last few years, I think we started focus on the wealth product as well. And that is where we could attract many of the clients.

Moderator: The next question is from the line of Nidhesh from Investec.

Nidhesh: Can you just share some trend how the churn of MFD happens today? What is the stickiness of MFDs? And what is the number of MFDs which are having more than INR50 crores of AUM with us, to understand if their AUM grows, whether they remain with the platform or they move out of the platform?

Shirish Patel: I think earlier calls also we have said that any MFD, when he becomes bigger, it becomes very, very difficult for them to move out because most of them -- when if any MFD -- and what are the reasons for any MFD to move out? One reason could be the commercial difference. There is some disturbance. Repeatedly, we have communicated that we also have the tiered structure when the MFD becomes bigger, we also shared the higher commercial, so there is no big gap between what he gets from Prudent and what he might get from AMC.

So there is no commercial aspect. Technology-wise, yes, we keep on focusing on improving the technology. And I think we are very, very proud to say that in technology terms, I think, we are probably the best or at least not the best, at least we are at par with the industry. So I don't think that there is other reason for them to move out. Third, here, they are getting all products from one platform. If they go to the AMC, obviously, they have to go and discuss and negotiate for every product with a different manufacturer.

So that is again a positive aspect for any distributor to work with. And hence, I think the attrition ratio in the MFD segment is very, very less. Third, I would say that, anyways, even if somebody wants to move out, it is possible mainly on the new clients or the new business. But otherwise, existing clients, it's very, very difficult for them to move out. And hence, the attrition is very well balanced.

Nidhesh: Sure, sir. Can you share the number of MFDs with more than INR50 crores of AUM?

Shirish Patel: Currently, yes, so we have got, I think, around 230 or 240 partners are above INR50 crores.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Sanjay Shah: Thank you very much. I think we could be able to try and address all the queries; however, if anybody has any query left to be answered, you can definitely reach out to Parth, who will be able to provide you all the necessary explanation. Thank you very much.

Moderator: On behalf of Equirus Securities Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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