“Anand Rathi Wealth Limited
Q1 FY2023 Earnings Conference Call”

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MANAGEMENT:

- **MR. FEROZE AZEEZ –** DEPUTY CEO
- **MR. JUGAL MANTRI –** GROUP CHIEF FINANCIAL OFFICER, ANAND RATHI GROUP
- **MR. RAJESH BHUTARA –** CHIEF FINANCIAL OFFICER
- **MR. CHETHAN SHENOY -** DIRECTOR AND HEAD - PRODUCT AND RESEARCH
- **MR. VISHAL SANGHAVI -** HEAD IR

Moderator: Ladies and gentlemen, good day and welcome to the Anand Rathi Wealth Limited Q1 FY2023 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the belief, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Feroze Azeez. Thank you and over to you, Sir.

Feroze Azeez: Good evening and thank you everyone for joining the Earnings Conference Call for the quarter ended June 30, 2022. Along with me I have Mr. Jugal Mantri - Group Financial Officer; our CFO – Mr. Rajesh Bhutara; Mr. Chethan Shenoy - Director and Head - Product and Research; Vishal Sanghavi - Head IR and the SGA team our Investor Relations Advisors.

We are one of the leading non-bank wealth solution company in India and closely work with HNIs and ultra HNIs to meet their financial goals and objectives. We facilitate their investments in financial instruments using our well-researched solutions. Our performance during the last few years has helped our satisfied clients to achieve their objectives.

AUM of our flagship business Private Wealth is Rs.32,142 Crores as on June 30, 2022. Our strong performance for Q1 FY2023 was backed by addition of new clients and strong net flows. Despite challenging equity capital market scenario, our net flows for the quarters stood at Rs.1,355 Crores which grew by nearly 400% as compared to the same period last year. We have 7,400 plus satisfied client families of which 58% are with us for more than three years and account for 77% of our AUM.

The share of equity mutual fund AUM to total AUM has increased from 39% to 46%. We believe this strong performance will continue in the current financial year with a strong team of 271 relationship managers. Apart from this, the company has two new age technology-led business verticals that is Digital Wealth and Omni Financial Advisor, OFA. The DWM business is a fintech extension of the company's proposition for the mass affluent segment with wealth solutions delivered through a combination of human interface empowered with technology. OFA business is a strategic extension for capturing the wealth management landscape to service retail clients to the mutual fund distributors by using our technology platform. We believe that the wealth management sector in India holds significant growth potential and we remain optimistic about the business potential and will continued drive towards our vision while consistently focusing on uncomplicated solutions.

With this I will now ask Mr. Jugal Mantri to take us through the financial performance. Jugal Sir over to you.

Jugal Mantri: Thanks Feroze bhai. Good evening and Happy Guru Purnima to all. I am happy to share that the company has posted strong financial performance for the quarter ended June 2022 backed by the accelerated growth across all important business parameters. Our revenue for the quarter ended June 30, 2022; stood at Rs.133.5 Crores as against Rs.98.4 Crores in Q1 FY2022 registering a growth of 35.7%. Our PBT for the quarter stood at Rs.52.9 Crores registering a growth of 33.6% as compared to Rs.39.6 Crores in Q1 FY2022. Our PAT for that current quarter June quarter stood at a healthy Rs. 39.7 Crores registering a growth of 33.6% as compared to Rs.29.7 Crores in corresponding quarter of FY2022.

For Q1 FY2023 earning per share stood at Rs.9.5 while annualized return on equity stood at a healthy 42.3%. We are confident that our long-term commitment to provide our clients with the most effective wealth management solutions along with a committed team of relationship managers will enable us to see strong growth in the coming year.

With this we will now open the floor for question and answer. Thank you.

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

Rohan Mandora: Good afternoon, Sir, thanks for the opportunity and congratulations for good numbers. Could you share what was the MLD issuances for 1Q FY2023.

Jugal Mantri: See in FY2023 June quarter the MLD issuances which were there from Anand Rathi Global Finance was more or less same like in the first quarter of FY2022. It was Rs. 690 Crores and about the same amount has been issued from Anand Rathi Global Finance Limited of Rs. 703 Crores in FY2023 quarter one and about Rs. 390 Crores plus have been issued or sourced from the third-party of the similar product.

Rohan Mandora: And how would the yields vary between the MLDs issued from Anand Rathi Global Finance and third-party.

Jugal Mantri: Yields on third-party products are marginally better than what is issued from Anand Rathi Global Finance Limited.

Rohan Mandora: And what would be the quantum of MLD that would have matured for 1Q.

Jugal Mantri: The maturity value of the MLD was almost about the same. If you put together Rs. 690 - 700 Crores plus Rs. 390 Crores. So almost about Rs.1,090 Crores of MLDs have been matured in Q1 FY2023.

Rohan Mandora: And in terms of the employee expenses on a Q-on-Q basis, it has gone up from Rs. 52 Crores to around Rs. 60 Crores. So what explains the jump if you could quantify that.

Jugal Mantri: Increase in employee cost you are asking?

Rohan Mandora: Yes, Sir, employee expenses.

Jugal Mantri: So it is like there are multiple factors. One thing is that there is a majority of the RMs expenditure or the provisioning is linked to the revenue and if you look at the revenue and in terms of percentage of that there are hardly any change. If you look at it last year the employee benefit expenses was about 45% of revenue and it is in the same range even in this financial year. At the absolute number you may say that number looks higher but if you compare it with the revenue numbers in terms of percentage, it is more or less same. Besides that definitely there is an addition of the account managers and the employees. The team has been growing but that will have the marginal impact and largely it is being linked to the revenue.

Rohan Mandora: And is your annual hike factored in this or will it be in the subsequent quarters, annual increments?

Jugal Mantri: Of course it will come in the Q2. But in our case the impact of the annual increment is very-very marginal, reason being that majority of the employee benefits are driven by the variables so the impact on the fixed cost is very marginal.

Rohan Mandora: And the fixed cost for 1Q has increased by almost 17% year-on-year so should we consider this as normal run rate for the full year in terms of fixed cost increases?

Jugal Mantri: Yes definitely. Reason being, we have moved from COVID era to the normal era. So definitely the savings which we were having because of the virtual environment and now since offices are running and the administrative expenses, business promotion expenses all have come on track. So in fact this was the normal operating first quarter post COVID era. So the rise is largely on account of these. But going forward it will remain at the same line.

Rohan Mandora: Thanks a lot.

Moderator: Thank you. The next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Umang Shah: Thanks for taking my question and congratulations to the team for a very strong first quarter. My first question is on clearly the new client acquisition as well as the net flow accretion during the quarter has been fairly impressive, if we were to look at it in the context of a very volatile market environment. So if you could just help us, one is clearly what will be our strategy going forward as well and let us say if markets were to stabilize and improve from here on should we expect a similar trajectory or a better trajectory from what we have reported in the first quarter.

Feroze Azeez: Firstly, the net flows have been better and they have been very healthy, like you said. It is because what happens is, in good times of course the wealth management outfit does well. In bad times or volatile times like what we have all seen for the quarter ending June, what happens is the emphasis placed on consolidation. When a person sees good performance relative to other outfits then they start consolidating their money and give me a larger wallet share. That is one reason, second is clients start giving you more references when they see relative better performance. During good times everybody looks identical, risk becomes an abstract word. So in bad times it is very easy to distinguish between good advisors and bad advisors or good distributors and bad distributors. So this is one very important reason and then what happens is once you get a listed there is an extent of transparency goes up and that improves confidence. So that acted as a catalyst or has begun to act as a catalyst. So we believe that this trajectory will improve and if markets stabilize you will get further, the lift in the rate at which net flows and clients addition in the future.

Umang Shah: Perfect this is good. Is this also the reason, I mean, we are also seeing improving kind of vintage both in clients as well as the assets, that we manage which means that it is fair to assume that the assets and clients become much more stickier for us.

Feroze Azeez: The client attrition is very minimal for us. And what happens is dealing with this segment of HNI, you are not doing absolute pure play retail. In the private wealth business you basically influence the client behavior during bad times. Because if you speak to a person for two, three, four years and you seasoned him and prepared him for bad times like we saw in the last quarter. When the bad times happens they are wanting to invest more that is why you will see net flows and in equity especially they have been beautiful. So coming to the point now whether the client net flows are going to remain as robust the answer is yes. And what we see is when the clients have all been seasoned and in HNIs you are interacting with a smaller universe so you will be able to influence their behavior with vintage. So to answer your pointed question on vintage, the clients' vintage is increasing as time progresses. As you see 58% of our clients have been with us for three years it also implies that 42% have been added in the last three years alone. So we think as time progresses vintage will happen. What I see as an opportunity is the other 42% also giving us large wallet shares as time progresses.

Umang Shah: Sure that is helpful. My second question is for Jugalji, picking up from the previous question. So given that the large part of our employee costs or a large part of Opex actually becomes more revenue linked or performance driven is it fair to assume that as the overall AUM start expanding our operating leverage starts playing out and EBITDA margins either sustain or start improving from where we are currently.

Jugal Mantri: Yes, I think you are playing my role because the way you have highlighted all the positive sides of our business. That is the great thing since all the financial veterans understand what we have been doing. You are bang on the way we have performed in terms of AUM as well as vintage as well as the new funds mobilization and similarly when you are talking about the point the variability linked to the vintage. You are absolutely right and in-fact you can see when I recall having discussed with you about the operating leverage before the IPO time. At that time, the operating margin which we had those were like about 38%. Which we had and now it has already been beyond 41%. So that is the beauty of the whole structure. When vintage starts playing definitely your operating cost will not grow in that tandem and that is why the margin whether be it the EBIDTA margin or the PAT margin are showing year-on-year growth even though it will be marginal because there is a limit to which we can reach because of the taxation and other impact, but definitely bit-by-bit we are adding to what we were doing in the past.

Umang Shah: And just last question from my end is on yield. So clearly this quarter we have been able to kind of optimize our yields probably because of a larger component of MLD issuances in the net flows. Now, I understand that probably there could be some quarterly volatility, but assuming on a four to six quarter basis what should we assume as base yields for the business, I mean, would we see a higher volatility or we believe that yield should kind of move a narrow band going forward?

Jugal Mantri: No, actually in-case if you will talk about the yield, the volatility impact the AUM but actually the yield. There is not substantial change because the yield will remain constant and it is linked to the asset bucket. So like, if I am having the asset in equity mutual fund the commission which has been paid by the mutual funds that remain the same. So ultimately the point which I am making is that the volatility largely impact AUM but the yield more or less remains same and it changes with the change in AUM or the traction in the AUM. So if I have the increase or I am adding to the AUM by way of increasing market capitalization or growth in equity mutual fund as well as new mobilization the revenue amount will keep on growing. And in terms of yield, I do not see much change going forward and it will remain almost around same level.

Umang Shah: All right, perfect thank you. Thank you so much for patiently answering my questions and good luck for future quarters.

Moderator: Thank you. The next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.

Arpit Shah: Hi, Congratulations on good set of numbers. I have a few questions. It is very basic question for myself. Can you help me with the market size of MLDs in India and who would be the top issuers of this product in India?

Feroze Azeez: So, MLDs market size in India is now reasonably large. But MLDs are broken into two. One are pure bonds which look like MLDs that is a very large market and that is the listed market. Basically you are having MLDs from a listed debenture more or less and not too much market play and second you have the pure play MLDs which actually give you the market play. I would say, I would not precisely know the market size currently but I can tell you, who are the top issuers. The top issuers of course is ARGFL, Edelweiss now the PAG Entity, Centrum, IIFL Wealth and on MNC side - Citi is issuer. There are several issuers seven - eight of them but I have named the top one. If you look at the MLD business - pure play MLD, I would say a Rs.1,500 Crores of net mobilization every month could be the size of the pure play MLD business.

Arpit Shah: I just wanted to understand why our take rates in MLDs are about 2% or 3%. Because if I see other wealth products they would be around 1% or so or maybe lower than 1%. So how do we make money on MLD product that is what I want to ask?

Jugal Mantri: If you will look at any debt product which is sold by any wealth distributor or any financial intermediary, you will find that the commission - say NCD or any debt product typically the brokerages which are being paid are in the range of 1.5% to 2.5%. So in fact the commission structure which is there on the MLDs that is in line with what is being offered on the similar products in the market.

Feroze Azeez: Let me add something here Jugalji. See you can look at commissions in two ways. MLDs yield, if you calculate per annum you will not get 2% - 2.5%. See what happens in MLDs, is you recognize it initially as trading income. For example ARGFL has had 985 MLDs maturing, if you compare it with what would you have actually earned per annum yield on market value, which is what you get paid on equity mutual funds it will not be 2.5% - 3%. So point is - if you calculate yield like a mutual fund does, it pays you a trail commission on an annualized basis on market value. At maturity if somebody backward calculated you would make 10% - 15% more. When you actually take your total gross mobilization and the money you made and divide it by AUM the yield will look sharper and larger. So to answer your pointed question the yield per annum is measured in the way a mutual fund-based trail commission, would not be twice that of mutual fund it will be just 15% - 20% more than usual. You understood my point right?

Arpit Shah: Yes I got your point. I just want to understand who will be the underlying borrowers of such products? What kind of businesses of borrower in such format in terms of MLDs?

Jugal Mantri: Borrowers in the sense? These MLDs are issued by the NBFC. The NBFCs are the borrowers.

Arpit Shah: Who would be the underlying borrowers of those NBFCs?

Jugal Mantri: No, it is not necessary. Ultimately the money which is being raised by the NBFC. It is at the discretion of the NBFC that how does they want to utilize these money, which is being raised. So it is not necessary, it is not a structure where these borrowings are being made to facilitate or back-to-back the borrowing arrangements are there. These are plainly the MLDs are issued on the strength of the balance sheet of the issuer.

Arpit Shah: And can you split the difference between fixed and variable expenses on employees.

Jugal Mantri: This is quite simple. Like anyone who is getting the fixed compensation or the fixed salary which is coming every month that is the fixed component. The variable component that is linked to the performance of the employee. So we have got a CTC structure where the overall compensation of every RMs is determined based on his AUM and earnings on that AUM his CTC is being decided and whatever fixed component is being paid to him that gets deducted and remaining amount is being paid as a variable payment.

Arpit Shah: So what will be the fixed amount a quarter?

Jugal Mantri: Fixed amount per quarter? You are talking about at the overall aggregate level?

Arpit Shah: Yes.

Jugal Mantri: That is - say about Rs.12 Crores per month.

Arpit Shah: Around Rs.36 Crores a quarter.

Jugal Mantri: Rs.36 to 37 Crores per quarter correct.

Arpit Shah: So, we do get upfront fees on MLDs, right that is what Feroze meant?

Jugal Mantri: Yes, every product other than mutual fund most of the products which are being sold by financial intermediaries they receive upfront income and that is the case with MLDs also.

Arpit Shah: Thank you so much.

Moderator: Thank you. The next question is from the line of Janakiraman Rengaraju from Franklin MF. Please go ahead.

Janakiraman R: Hi Feroze and team commendable performance, congratulations. See one is again going back to that interplay between the profitability and the cost structure. Now you have gradually improved the profitability, so if you measure PBT as a percentage of AUM, I think this quarter you almost touched about some 65 basis points. Where is the limit to this, to what level can improving efficiency in your operations improve this PBT metric by?

Feroze Azeez: According to us, see like AUM is a photograph, revenue and margins are a movie. So AUM captured on a specific day that will not be a right representation of what yield would you make as a profit after tax or profit before tax. What we believe is that making a yield of 1.3% to 1.5% on AUM is something which is sustainable for good, point one. Point two making more than 40% - 42% of PBT and upwards of 31% - 32% of PAT. These are the three numbers, we look at internally. Right now of course it can be dissected as a percentage of AUM but since AUM is just one specific day and if the market is 5% down that day for example it will distort that number. I do not know whether I am able to articulate, so these were the three numbers we internally focus on.

Janakiraman R: So, 1.3% to 1.5% and about 42% of revenue as PBT.

Feroze Azeez: Yes, so sometimes we would like to discover further value-added services in our research and product group to spend some money to get a further lift in the revenues. So sometimes when we go to 43% - 44%, we like to see what else value-added services can be given to clients. So we are not very ambitious to bring PBT to 45% - 47%. Also because then you might be missing out on several other opportunities which can give you growth. Now so we spend that little money and not try and get to 47% - 48%. So 40% - 44% is what we look at as a percentage, i.e. PBT as a percentage of revenue.

Jugal Mantri: I think I will just add what Feroze bhai has said. Mr. Janakiraman. One simple point which he has made. If you compare the AUM on point-to-point basis definitely there is a variation because if you see from 31st March to 30th June the NIFTY was down by say about 9.5% and mid cap, small cap they were down by 10% to 13%. So wherever the clients who have invested in different asset classes either being managed by you or anywhere else their annual numbers are down. But we have been getting trail on day-to-day basis. So when AUM at any particular point, if it is lower that can have a variation if you compare on point-to-point basis. But ultimately all three objective as highlighted by Feroze bhai those are the key parameters These broad numbers even whether you compare it today or after one year based on the operational efficiency, it might be we can better it by another say 2% to 5% or it can come down by 2% to 5% whatever operating leverage which we have that would be the end result but directionally we will be moving in the similar way.

Janakiraman R: Feroze, when I look at the growth in AUM - how to look at that number? So you have the increase in per ticket, per client the AUM side as well as the total client count both of them contribute. So how do you see that mix working?

Feroze Azeez: It is very simple. I will just tell you how we internally look at the growth engines for AUM. So the four growth engines for AUM are as follows and all of them seem to be very consistent. One is the embedded growth of the portfolios. Since the asset mix of how we have deployed our AUM is poised for an expected return of 12% to 14%. We expect at least a 10% growth in AUM by the virtue of the growth in portfolios that is first leg which is the embedded growth which this business has unlike several other businesses. The second engine of growth is the capacity utilization of our RMs. Our RMs today managed 28 - 29 clients per head. But in our belief before COVID the capacity of an RM to efficiently manage and keep his clients and family satisfied is 50. That means as a unit, I can double or close to increase our client strength by 80% without using a new RM machinery, so that is capacity utilization vertical of AUM growth. The third is existing clients like there are 42% of the clients of the 7,400, who have come within three years. So they start believing us more as you start establishing credibility to what you have said and they start giving you a large wallet share that is the third source of AUM growth. The last source of AUM growth is my 300 account managers, who are currently being trained to become RMs and that is the fourth leg of growth. So with this four legs of growth the first one which is the most certain one which is a 10% - 12% plus the other three, gives us a 25% AUM growth belief over years to come. Not just one or two years guidance, I would say that I personally very strongly believe 20% - 25% AUM growth is with all these four cylinders of the engine is what has happened in the past and I would say that is how we look at AUM growth on a yearly basis 20% - 25%. AUM growth in a bad quarter where market like for example the last one, we added Rs. 1,355 Crores but our AUM did not go up because market took away from. So next quarter if God is kind for example if this Rs.1,300 Crores, we again add Rs.1,500 Crores for example and then market gives back the Rs.1,300 Rs.1,400 Crores then you have Rs.2,800 Crores of AUM growth. So I am not making a guidance I am just giving you in an illustrious way of how we look at it.

Janakiraman R: Understood. And these are the early days for Anand Rathi as a listed entity, but have you taken any decision in terms of distribution. So this is an asset light business, so of the free cash that it generate how do you plan to deploy that.

Jugal Mantri: See there are two things. One thing is that we do have very clearly spelled out the dividend distribution policy that the guidance is about 30% to 40% of the cash accrued will be distributed and rest of the things as you have rightly said that these are the early days for us and this is the first time any of the group company has been capitalized. So there are a lot of opportunities in the market and as and when those opportunities will come up so better to keep certain cash on the balance sheet and scout for other opportunities which may come up in future.

Janakiraman R: Thanks Feroze, thanks Mr. Mantri all the best.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, thanks for the opportunity again. This was a follow-up to an earlier question on operating efficiency. In terms of the employee Opex, employee expenses to total revenues where do we see that in next two years' time because for the RM, employee expenses would probably move in line with the growth in revenues but how should we look at the non-RM employee expenses growth trajectory that was one. The second, the slide on guidance we have not given this quarter - so does the previous guidance hold or is there a change in the guidance with respect to the FY2023?

Jugal Mantri: So very important, I will take your first question first in terms of like variable cost you rightly identified in case of fixed cost that is where you get the operating leverage at one reason being that the cost of the product team, operation teams and other support and services function that remains constant even and it is not directly commensurate with the growth in your business. And we are capacitized to even like as of now if the AUM supposed from Rs.32,000 it runs up by 50% or 100% the incremental fixed cost increase will be marginally up it will not grow with the growth in the revenue as well as in AUM. So that is the scenario with the fixed cost and the second point with regards to the guidance we thought that if somebody will look at the guidance number, we have already achieved the 27% in Q1 of FY2023 and normally like the first two quarters are the lean period for the BFSI sector so we thought that since we are already on the track with the guidance and having slightly over achieved that so we thought there is no need to reiterate what we have given in the guidance. It is up to you people to make a sense that how we are going to fare with regard to the guidance which have been given.

Rohan Mandora: Thanks a lot.

Moderator: Thank you. The next question is from the line of Nityanand Parab. Please go ahead.

Nityanand Parab: Congrats on a good set of numbers Sir. I have one question on OFA platform value. So in Q1, in this quarter's presentation you have shown that we have increased the overall clients to 18 lakhs, but the platform value is shown Rs.79,511 Crores. So if I compare it to the Q3 FY2022 presentation you have shown it 17 lakhs with Rs.84,596 Crores, so just wanted to check how we can read this. Is this a right number or is this a typo or something like that.

Jugal Mantri: No, if you will see the number which has been given for OFA is that we have got 5,368 MFDs which are Mutual Fund Distributor and the assets on the platform is Rs. 79,500 Crores at the end of June 30, 2022. This if you compare it with the June 30, 2021, at that point of time we had 5,058 MFDs with an AUA of Rs.58,586 Crores.

Nityanand Parab: I was comparing with Q3 FY2022 in the presentation the figure which was shown was Rs.84,596 Crores.

Jugal Mantri: I do not have that presentation right now but I am giving you Y-o-Y number that what was the number at the end of June 30, 2021, and what is the number at June 30, 2022.

Feroze Azeez: I will just add one point. It could also be mark-to-market and stuff like that. This was at 15,800 Nifty and at that time it was 17,800 and generally retail is more equity than debt this will impact the AUM.

Nityanand Parab: The second question is related to the digital wealth AUM. So we can see that it has de-grown slightly for this quarter so what is the outlook for this and if you can share what will be the percentage of the digital wealth in overall business for next three years, five years? What is the overall bifurcation we can have within the overall business?

Feroze Azeez: Basically, like we have always stated during the IPO as well, these two businesses which are the digital businesses, we are learning and we are making sure that we adopt to the changing environment. So what we look at from a three to five year perspective is a robust growth of 30% - 35% on a lower base like this. But since we are in the stage where we have come to the level, digital business which is not burning cash and that is something which we are reasonably clear. I think about 30%-35% growth on a lower base of AUM is something which is reasonable as we learn and we adopt and develop a strategy which will make it more monetizable. And for the OFA business of course today, we have used it as a SaaS platform. We have some ideas of monetizing it very effectively, but I would not like to comment and create an expectation on businesses which we are wanting to build over the future. That is why giving a guidance of three to five years on a business where you are trying to develop something to be making sure that you capture the adjacent segments is something we should look at it on a yearly basis.

Nityanand Parab: And the last question was on the guidance, the last participant has also asked. So we are on the path to achieve the guidance which we have shared last year for FY2023? So are we going to up the guidance overall or what is the overall take on that?

Feroze Azeez: Like Jugalji said that now you have to extrapolate. In a quarter like how it has been April to June if we have done 26% - 27% whatever that second decimal penetration into the guidance and generally we do 22% - 23% in the first quarter. It is for you to extrapolate and these were not periods where it was as easy to breathe, April to June quarter. So it is for you to extrapolate and see. We feel very - very confident about the guidance.

Nityanand Parab: Okay thank you.

Moderator: Thank you. The next question is from the line of Ajox Frederick from Unifi Capital. Please go ahead.

Ajox Frederick: Thank you for the opportunity. My question is again on the OFA, what quantum of revenue is coming from that particular business.

Jugal Mantri: See as of now in case of OFA as it is being said that this is the IT platform and where we are charging fixed fee from these MFDs. So monthly income is in the range of about Rs.40 to Rs.50 lakh fees which we are collecting from these MFDs in total per month.

Ajox Frederick: And some of our peers are using a similar model and charging the AUM as a sub broker or whatever you may call it and they are charging 30 bps on the AUM so what stops us from doing that.

Jugal Mantri: The thought process is that - anyway we are the largest player and once you grow it and you penetrate the market to the fullest extreme. Thereafter only you should focus on the revenue. As Feroze bhai has said that these are the experimental businesses where we are into it and initial objective is to gain the market share thereafter explore it from the revenue perspective to the fullest. So as of now when you are building up the size, capacity and penetration. The focus is on acquiring the market share not on generating the revenue because both these businesses are positive contributors to the growth.

Ajox Frederick: Just one question on the MLD, to a new customer how is MLD being positioned as a guaranteed product or how is the sales it is being done in a very generic manner.

Feroze Azeez: To any customer for that matter we look at a portfolio with a plan A and a plan B. We create portfolios, it all animates from client objectives. If the client objective is - let us assume 12%, we try and see what is the minimum three-year standard deviation at which this can be delivered. So the team which actually simulates several portfolio combinations as percentage of these three-products equity mutual fund, debt mutual fund and MLDs. Depending on the risk return profile i.e. 12% then we try and backward calculate what is the minimum standard deviation at which that can be achieved and then we draw what is the most efficient portfolio which can achieve an expected return of 12% and then we give a client an alternative of having a certain percentage in MLD 10% - 20%, 30% - 35%. If the client understands and says 30% in MLD then we tell them the standard deviation of a portfolio with this much amount of mutual fund, this much amount of debt mutual fund, equity mutual fund, and MLD this is the three year standard deviation, this is the beta, this is the maximum drawdown you could expect on a three-year holding period and then when the client signs up for that portfolio MLDs is a resultant outcome of that decision. MLD is not sold standalone. If I went in the marketplace and if somebody said take this Crore put it in MLD that is not the way we work. We like to design a portfolio on the risk return objective and then work backwards and whatever is the MLD proportion which gives an efficient combination that is how an MLD is sold and that is why you see such repeat buying. I am sure a few of you would have seen during IPO presentations close to 78% - 80% of repeat buyers. The reason why it is repeat buyer it is not being sold as a standalone product, it is a proportion on a portfolio when there is a maturity automatically there is a void and the void gets filled with a new fresh issuance. Does that answer?

Ajox Frederick: Yes, that is very helpful and I am assuming current MLDs are three-year products right? Whatever is being there right now?

Feroze Azeez: This is both three year and five year. We issue MLDs on the basis of the probability of its success. If the markets are obscenely overvalued then you would rather have a five-year MLDs. So to answer your pointed question it could be three year and five-year proportions. Could be two thirds favoring five years and one third favoring three years at the moment.

Ajox Frederick: All right that is very helpful and all the best for your future. Thank you very much.

Moderator: Thank you. The next question is from the line of Mr. Bhuvnesh Garg from Investec Capital. Please go ahead.

Bhuvnesh Garg: Hi! Sir thank you for the opportunity. First question on your digital wealth and OFA. So just want to understand the difference between these two. Because I see in your presentation in digital wealth you had mentioned that it is a partner led distribution whereas OFA also you are having a MFDs as your partner. So just want to understand, what is the difference between these digital wealth and OFA that is my first question?

Feroze Azeez: Digital wealth business is a kind of a sub broker model. To cater to different segment for MFDs, very retail, SIP driven - OFA is a SAS platform (Software as a Service). A digital wealth management is providing the HNI proposition to a mass affluent using the help of technology powering the human. So the capacity of managing clients could be 150 - 200. In DWM you are trying to make sure that the HNI proposition is delivered to a mass affluent with an internal team or an external team of relationship manager who can reach out to three times - four times and make it a more profitable business to go to a Rs. 1 Crore client or a Rs. 50 lakh client. That is the difference. So DWM is an interpolation of the private wealth business to the mass affluent. OFA is a SAAS platform for a fee. MFD uses our technology and white labels it and shows it to the client, is that clear?

Bhuvnesh Garg: So in digital wealth, if I understood correctly, your RM is your employee, right? So whereas OFA is again it is an MFD?

Feroze Azeez: Yes. See OFA has only technology. DWM has an HNI proposition as similar as it is possible to the mass affluent because if we send a conventional relationship manager who can manage only 50 - 60 clients. To a client who has only 50 lakhs it is not a viable business. So for it to become a viable business technology should be able to power an RM to manage 200 clients then it becomes a viable business. That is why we call it an experiment because you learn as you go along. A private wealth division is 20 years old, 18 years old or whatever that number is this, you are learning so you will strategize and learn and have the agility in the initial part of the business that is why we have been so clear that you should not extrapolate it 5 - 10 years unlike most technology businesses who extrapolate and then say this should be the valuation and stuff. So we are trying to learn be a very agile in these businesses.

Moderator: Thank you so much. The next question is from the line of Devesh Agarwal from IIFL Securities. Please go ahead.

Devesh Agarwal: Good evening everyone and thank you for the opportunity. I just wanted to know in your private wealth business, I see on a sequential basis there has been a 60% growth in the net flows. Can you share the breakup between the different products how the flow has been?

Feroze Azeez: Jugalji you will have the précised numbers or I know more the tentative one.

Jugal Mantri: Yes if you will compare it like on the mutual fund front as against Rs. 15,400 in June 30, 2021, it has grown to Rs. 18,600 and in case of MLD against Rs. 9,200 Crores. You wanted AUM mix.

Devesh Agarwal: No, the net flows Rs.1,355 Crores breakup.

Feroze Azeez: I remember that number Jugalji. So Rs. 800 - Rs.900 Crores of equity mutual fund Rs.100 – Rs. 200 Crores of debt mutual funds and other securities of another Rs. 200 Crores, this is the breakup.

Devesh Agarwal: And when we say Rs. 200 Crores of MLD flows so the revenues that we made in the quarter if I assume a 7% yield that would imply itself Rs. 1,100 - Rs.1,200 Crores. So how do I tie-up these two numbers.

Feroze Azeez: So you are mixing them with net flow. The commission you make is on the gross flow like a previous participant ask the question, what is the net flow in MLD. This quarter could be miniscule but there is maturity and there is reinvestment. What you earn is a percentage of gross mobilization, does it answer?

Devesh Agarwal: So what was the gross number?

Jugal Mantri: The gross mobilization for MLD was about Rs.1,100 Crores.

Devesh Agarwal: And that includes your secondary sales or secondary sales are different.

Jugal Mantri: No this is primary mobilization.

Devesh Agarwal: And how much would be secondary sales Sir.

Jugal Mantri: Secondary might be about 40% of this.

Devesh Agarwal: Around 40% and third-party Edelweiss MLDs that you do would be one third of your overall number.

Jugal Mantri: Yes, Rs. 390 Crores out of the Rs, 1,100.

Devesh Agarwal: And one final question if I see the portfolio mix of the AUM - product mix. In last one year the share of equity has gone up from 39% to 46%, this would have also helped you in your blended yields. So do you think that there could be some churn that you would be doing from equity to debt and that can have some impact on your yields going ahead?

Feroze Azeez: So to answer your pointed question is NO. We have different clients with different return objectives. We generally look at allocating money into equity and 46% is a reasonable representation of what we currently recommend to our client on aggregate basis.

Devesh Agarwal: Perfect that answers my question. Thank you so much.

Moderator: Thank you. Due to time constraint that was the last question. I would now like to handover the conference to the management for closing comments.

Jugal Mantri: Thank you. I take this opportunity to thank everyone for joining on the call. I hope we have been able to address most of the queries, but it appears that there was some pending in queue. So we will request for all the participants' who have not been able to raise their questions or put up their questions, they please kindly get in touch with our investor relations team or Strategic Growth Advisor our investor relationship advisor. Thank you all.

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