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"Anand Rathi Wealth Limited
Q1 FY '25 Earnings Conference Call"
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MANAGEMENT:

1. MR. FEROZE AZEEZ – DEPUTY CHIEF EXECUTIVE OFFICER
2. MR. RAJESH BHUTARA – CHIEF FINANCIAL OFFICER
3. MR. VISHAL SANGHAVI – HEAD, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to Anand Rathi Wealth Limited Q1 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Feroze Azeez, Deputy CEO, Anand Rathi. Thank you, and over to you, sir.

Feroze Azeez: Good afternoon. I thank you for joining us for the Earnings Call for the first quarter of the Financial Year 2025. I am joined by our CFO, Mr. Rajesh Bhutara; and Head, Investor Relations, Mr. Vishal Sanghavi.

Our consolidated total revenues for Q1 FY '25 stood at about Rs 245 crores compared to Rs 178 crores Q1 FY '24, registered a growth of 38%. Trail revenues was Rs 89 crores and grew by about 70% year-on-year. Profit after tax was Rs 73 crores, registering a growth again of 38% compared to Rs 53 crores same quarter last year.

The PAT margin was 29.9% as compared to 29.8% for Q1 FY '24. The annualized return on equity for Q1 FY '25 stands at 42.8%. Total AUM grew by about 59% year-on-year to Rs 69,018 crores as on 30th June 2024, as compared to Rs 42,413 crores as on June 30, 2023.

The total net inflows during the Q1 FY25 grew by 173% year-on-year to Rs 3,364 crores for the quarter. Net inflows in equity mutual funds jumped 462% to Rs 2,091 crores, and all our assets are under regular plan, whereas the industry is witnessing increased share of direct plan. This is a testimony for the deep trust and confidence our clients place in our value proposition.

Our systematic and data-driven approach, along with the realistic understanding of client needs and risks has been instrumental in achieving these numbers. Number of active client families increased by 19% year-on-year and crossed the milestone of the 5 digits, 10,000 client families. We have crossed that number. Our client attrition rate in terms of AUM lost was 0.1% for Q1 FY '25 as compared to 0.2% last year, reflecting our client-centric approach and a strong research-backed solution.

On a net basis, we have added 52 relationship managers in the last 12 months, bringing our total count to 360. We have successfully maintained our zero attrition of relationship managers for the straight fourth quarter, which is significantly because of the culture created in the organization and the transparency between the company and its constituents.

And you would also note that in these 4 quarters, zero regret attrition signifies one of the first few times in the financial services industry, a company of this size of relationship managers who have reported zero regret attrition for 12 successive months.

I will hand this over to Vishalji now, who is our Investor Relationships Head so that I can break the monotony. And Vishalji, can you step in and take forward.

Vishal Sanghavi: Thank you, Feroze bhai. Good afternoon, everyone. As a part of our endeavour to reward our shareholders, we successfully concluded the buyback program of Rs 164.65 crores, which is excluding any charges and taxes.

About Digital Wealth business, which is a B2B2C business, registered AUM growth of 48% year-on-year to Rs 1,727 crores and revenue of Rs 7 crores, a growth of 13% year-on-year.

OFA business, which is SaaS platform has 6,064 mutual fund distributors as subscribers at the end of the Q1 FY '25. OFA business reported revenue of Rs 1.84 crores, which is a growth of 18% year-on-year.

Indian economy is on a strong footprint with the GDP expected to grow at 7.2% for current year, making it the fastest-growing market globally. In this backdrop, Indian markets have witnessed new all-time highs supported by strong performance of Indian companies. With this, we anticipate a noticeable increase in the number of high-net-worth individuals in the country and thus creating a huge growth potential for wealth business. With multiple growth drivers in place, we are confident that our company has a potential to grow by 20% to 25% in the long term.

Now I request operator to start with the Q&A session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bhavin Pande from Athena Investments. Please go ahead.

Bhavin Pande: Congratulations on a great set of numbers. It's such incredible 6 - 7 quarters of this amount of growth is amazing. Congrats on that. And first question is on account of AUM mix, we could see that the debt MF mix has come to 7% if compared to 11% last year. Could we shed some light on that?

Feroze Azeez: Sure. Thank you, Bhavin sir, for your positive comment on our results. And I will take the opportunity to highlight that this is our 11th result. And you would see that all our results have been about 23% - 24% PAT growth year-on-year and the worst one was 24%. And the mean PAT growth has been 33%, and the median PAT growth of these 11 quarters has been 34%.

So thank you so much to trust us as shareholders. Now coming to your pointed question. Why is the debt proportion lower? There are two reasons for it. Because we only try and get that money in, which is intergenerational wealth. More often than not, HNIs have intergenerational wealth. We do a very strong gatekeeping in terms of what assets we onboard to manage. So you would see very small debt proportions because I am looking at in 10, 15, 20, 30 years kind of money.

If there's somebody who has short-term moneys, we are rippled as a wealth manager from it. Why you would see Anand Rathi Wealth having smaller proportions in debt because in 10-year money, debt has very low relevance. Second point is the proportions -- the differentials, the relative change between 11% and 7% is reasonably attributed towards the fact that there is mark-to-market more in equity and structured products.

And we have been reasonably positive on equity markets from August 2020, and we were the only few wealth managers would have been positive for long-term money, still sensitizing clients of 10 - 12% corrections twice a year, which is the norm of the equity market.

So mark-to-market differentials is one reason why structured products have come down to 24% and debt mutual funds has come down to 7% from 11%. I hope that answers. And we are not very bullish on debt. Even if interest rates going down, the long end of the yield curve is not elevated. So, we have the flat yield curve of Indian context is reasonably sustainable. And we don't see that debt will make too much capital appreciation, either, even if repo rates were to be brought down because the long end of the yield curve is still at 7%, spread between 10-year G-Sec and the repo rate is just about 0.5%.

So on the contrary to the Street's belief that there is a lot of capital gain to be made in debt, but we think that people have not lost money, is why they don't expect to make on the debt side even if they go long end of the yield curve. Does it answer, sir?

Bhavin Pande: Yes. Perfect. It was pretty much concise. Secondly, Feroze, we could see AUM and clients per RM increasing. We have added 28 RMs in this quarter, and I think 52 on a Y-o-Y basis. But in this wealth business, it is specifically known that turnaround time and sort of gestation period for RMs is high and your opex goes up initially. So what do you think lead to this sort of productivity gains from per RMs basis?

Feroze Azeez: Bhavin sir, there is a lot of factors. We think a little dramatically different when it comes to number of RM counts, productivity, all that we have had rights around, but a different thought process. So one is productivity increase is on account of we don't lose RMs, right? So the number of RMs who finished 5 years increases.

So the average tenure of my RM group or my colleagues goes up. You would not see – It is seldom found that 4 quarters, no RM attrition. RM is what everybody bids for. My competitors who bid for my RMs, would want to give them twice the salary, but they won't leave. So productivity increase only happens if you don't have a leaking bucket at a client side or an RM side. So that's one thing which is the snowball effect.

Of course, initially, you don't see that productivity increase. As with times, the lower attrition or nil attrition adds up significantly in a hockey stick kind of a recovery in terms of productivity, right? That's point one. Point two, what happens is when you're a listed company, the credibility in the client's mind itself is higher, right? So there is a flywheel effect. If you are listed, you get business. If you get business, your company does well. So the flywheel effect in a business of trust is the second. As now you have been listed for 2.5 years as a company. For clients, a prospect you meet, it is relatively simpler because the brand building happens because of the listing status and vice versa. So that is second. So you are seeing that effect kick in.

Third is that we are using mathematics significantly more over the last three years to convince somebody. We are finding so many portfolios with different complex products, but the IRRs at 10%, 11% for the last 15 years. It is surprising the extent of complexity with lower IRR. So if you mathematically establish that you are operating at significantly more complexity to get an

11% IRR, In the industry, you will find hundreds of portfolios, if not thousands and lakhs, where you would see complex products.

But if you take the transaction-wise IRR on an Excel sheet, you would see them sub 10 or 11 or 12%. So people are expecting uncomplicated lot more when you use mathematics. So that is why our net flows have gone up because mathematics most people can't deny.

And on English, people can debate till the cows come home, but mathematics has more pointed solutions. So the mix and transmission using mathematics is something which we learned about 2.5 years back, and that is actually adding up.

Bhavin Pande: Sure. Wonderful, Feroze. And just one last question is you mentioned mathematics and all the metrics we have. I think a few con-calls back, we had mentioned that for the structured product to do well, you would require higher levels of interest rates and certain levels of volatility. And my apologies if I am incorrect in the technical, so if you could just shed some light on that?

Feroze Azeez: Certainly I am so impressed that you remember this. I am so happy and thank you that you wanting to understand my business trait there, which is great. So structured product requires high interest rates, at least the structured products we are currently design. You would see that we don't innovate every quarter.

So you have got Rs 3,360 crores without launching any NFO, without selling anything new, same mundane conversation gets you Rs 3,300 crores, then you have a business at autopilot. So for structured products of the current design, which we have been doing for the last 10 - 12 years require higher interest rates. Higher interest rates by which I mean not those double-digit interest rates but sister company, Anand Rathi Global Finance, has one of the lowest borrowing rates, but you need 7 - 8% kind of interest rates, which I think is sustainable.

Like you rightly pointed out, you need a certain degree of volatility. So the implied volatility of NIFTY in fact, has shot up marginally, especially because of the election period. But I think realizing a volatility of 16, 17 on a daily standard deviation is another mandate.

So if both these ingredients are not there in the next 10 years, 5 years, then you design the structure product exactly the opposite. So designing of structured products is like we simulate on different economic variables. What will be the product I will launch is already pre-decided. If 10 years later, if interest rates are at 4% and the vol realized is 10%, I would be buying calls in the product rather than selling puts to express the bullishness.

So to answer your pointed question, these are the absolute two ingredients needed for the current design of the two products, which we primarily do for the last 10 years and done 1,500 times each, both of these. If things were to change and if I get exactly opposite economic variables, like lower vols on NIFTY and lower interest rates, then you can actually become a buyer of the call because your forward rates will be lower and your volatility will be lower, so calls will become inexpensive. So the product will have a call spread as a design. Sorry, it gets a little technical. But yes, I am sure you have picked it up the last call's content as well, sir.

Bhavin Pande: Wonderful. Great, Feroze. Thank you so much for great concise answers and all the best for times ahead.

Feroze Azeez: Thanks for your time and your confidence in us.

Moderator: The next question is from the line of Lalit Deo from Equirus Securities. Please go ahead.

Lalit Deo: Yeah, hi. Good afternoon sir, and congratulations on a good set of numbers. So sir, like firstly, just a data keeping question. Like during the quarter, like what was the primary structured product issuance and the secondary issuances also?

Feroze Azeez: Sure, I can give you those numbers, but I will have to rely on my colleagues, Rajesh sir and Vishal. Can you give the precise number, Vishal bhai?

Vishal Sanghavi: Yeah. Hi, Lalit. For the Q1 FY'25, primary gross issuances was Rs 1,735 crores.

Lalit Deo: And secondary issuances?

Vishal Sanghavi: Secondary was near Rs 400 crores.

Lalit Deo: Okay. And like, sir, in the last quarter, we mentioned that we will be doing this portfolio allocation / reallocation of the clients where we would want to change the AUM mix from like 60% currently, let's say, to about 50 - 55%. But now again, with these strong markets currently, our overall AUM mix has been again tilting towards the mutual fund. So how are we looking ahead for the next full year, sir, in terms of the AUM mix?

Feroze Azeez: Yes. as you rightly identified, and I am glad you again remember the fact that I told that we will reallocate assets. And every year, we generally bring our new model portfolio of mutual funds, which had some changes, which is called zero-based bottom up. If I had cash in my bank amount so mutual fund allocations have some minor changes.

During the process of the minor change, we will also do the change between the asset allocation between structured products and equity mutual funds. So what can you expect? You can expect the movement of equity mutual funds to structured products over the next nine months. It is going to be one of the key areas of focus because it is always good to strategically reallocate between a plan A and a plan B, which is how we position both these products against each other because the standard deviation of a structured product is significantly lower than equity mutual funds.

So to answer your pointed question, you will see these proportions again attempt to change and there will be a reallocation done. So you could see 28-30% by the end of the year again. And I am sure people would -- and a lot of you as analysts and several of the industry colleagues would have asked that we have very low maturities this year. And in spite of that, you will see a very consistent growth is what the claim was, and I think the first quarter is a reasonable barometer for that concern to be assuaged.

Lalit Deo: And sir, just lastly on this mutual fund AUM. So like this quarter, we have seen good growth on the equity mutual fund AUM. But in terms of the revenues, that is still not reflecting. So this would be based broadly on account of the period end changes, right? So could you give us more color on how the average AUM is shaping up in the mutual fund?

Feroze Azeez: I think there has been a 70% increase in the revenue, trail revenue.

Lalit Deo: Yes. But on sequential basis, I think the growth was lower, right, on that?

Feroze Azeez: See, don't ever judge. See, all I am saying is numbers are numbers. If you have to understand my business, you have to go beyond numbers. Point one, we are running a business which manages people's hard earned money. So quarter-on-quarter, seeing my numbers is not right according to me.

Of course, I can only submit to the group but the group will do what they have to do. But if I were you, I would never see this business on a quarter-on-quarter basis. If you are managing -- if I was selling iPhones or some phones, I am okay to be measured on a quarter-on-quarter basis. Here, it is hard earned money of people. So I don't see quarter-on-quarter, I request you not to do so. Point one.

Point two, what on a trail revenue basis, there are two indications I want to reiterate from my previous calls. We have told you that we want to get to a 50-50 kind of a mix between trail and upfront, and that is our endeavor. When we put a not a commitment, put an indication in the public domain, we do our best to meet that. Otherwise, we don't sleep easy. So point one, what you can expect on this is a 50-50 ratio over a period of time, at least an honest full attempt of that. That's one thing which I would want to speak on the trail.

Now coming to equity mutual funds. Equity mutual funds, I think everybody should take note. Everybody always told me there is a risk of direct, regular, passive, active. You see a 460% growth in our equity net flows. And I don't give direct as an option to even one client if he offers us Rs 2,000 crores to manage. We said no, I will not do. I will not sell myself cheap. I will add value and earn my 1%.

In spite of that, you see 460% growth in equity mutual funds. How did that happen? And if you see the last full financial year equity mutual funds the net flow into equity mutual funds in the full year and it is a saddening number for me that the fact that if you remove the SIP purchase the net flow was negative in equity mutual funds last year. It is not that there is a huge influx of money from HNI into mutual funds.

Mutual funds are being directed towards more complex instruments. So to answer your pointed question, revenue will set in. The revenue is a trail revenue. Average assets, average per day asset is also something which is so volatile because markets keep moving up and down, but I am reiterating the fact that our aspiration because we have put it on the table, it is now our effort is behind getting it to 50-50 sooner than later and I am also told that we will get to 3% - 4% of equity mutual fund market share in India. And that's the effort and we shall do our best with the grace of God to make it happen.

Lalit Deo: Thank you, sir.

Feroze Azeez: Thank you sir.

Moderator: Thank you very much. Next question is from the line of Vikram from Prodigy Investment Management. Please go ahead.

Vikram: Yes. So thank you for the opportunity. So I have a question regarding the AUM allocation. So you said that your goal is to increase the portfolio allocation of structured products. However, you also said that your long-term aspiration is to increase trail revenues to 50% of total revenues or get a 50-50 split between trail and upfront. So from what I understand, this would entail increase in the allocation towards mutual funds.

So I was just curious how it is possible to increase the share of trail revenues while simultaneously increasing the allocation towards structured products?

Feroze Azeez: It is possible because the proportion of structured products and equity mutual fund is largely dependent on current assets which you own Rs 69,000 crores or which are assets under management. Trail revenue is also going to be driven by the net flows. Now, if Rs 3,300 crores - Rs 3,000 crores of net flows happened out of which Rs 2,100 crores has gone into equity. So the proportion is close to about 65% of the total net flow went into equity mutual fund. Are you with me, sir? So that's point one.

Point two, these proportions of 24% in Structured Product, 7% in Debt and 54% in Equity Mutual fund on these three product classes are also subject to mark-to-market. If you have to understand our business, it is a very simple business because we don't bring assets which we don't earn 1% on. So if I collect Rs 1,000 crores per month give or take what will be my total assets is what you have to try and project and the revenue is going to be 1.2%, PAT is going to be 30% of that revenue.

This is how a business we look at. So to change the proportion it is basically to make sure that the clients have reallocated and sold some mutual funds at market peaks, if at all. That's the science of selling high and buying low. So that's why this proportion could change, but the net flow is also another variable and mark-to-market is another variable. So it is certainly possible to get to 50-50 over a period of time not surgically though like you rightly pointed.

Vikram: Okay. Thanks for that. And so my second question was I wanted some more clarity on what are all the factors that affect blended yield? So portfolio allocation is one, but what effects yield in mutual funds and structured products individually? I want to understand why yields have gone up over the last few years and what are the possible factors that can be an upward or downward force on yield going forward?

Feroze Azeez: Yields which you see as a proportion of the total AUM like Rs 69,000 crores is not the only barometer. Because if I have a yield divided by June 30th's AUM, that's only one day's assessment. So coming to what is the yield dependent on the primary products, equity mutual fund we earn about 1.1% post-GST. In structured products, if you work backwards and calculate the yield I made on all mature structured products you will see 1.16% - 1.17% is the yield we earned on matured products. So the yield of both these primary products are very close to each other. We make about 38 to 40 bps on debt funds and other assets we make little. That's raw material. So this is the yield composition of different asset classes or product classes which are there in the AUM. What does this yield depend on? The yield depends on the size of a fund in the mutual fund. In structured products, you are generally static at 1.15% to 1.2% yield. Yield is always calculated per annum on market value, average market value. So to answer your question yield pressures to my mind are very unlikely. 5 – 7 - 8 bps here or there can keep swinging, but that's our guess. Our yields have been retained for the last 5-6 years.

Vikram: Okay. Thank you.

Moderator: Thank you. Next question is from the line of Shivansh Sood from Desvelado Advisory Private Limited. Please go ahead.

Shivansh Sood: Hi, so congratulations on a great result. So I had a question and like the company's ROE has increased from 35.9% in the last quarter to 42.8%. So what are the specific factors that contributed to this significant improvement, and do you think this level is sustainable?

Feroze Azeez: Yes, so when you are making a PAT which is growing and if you are giving your dividends away, if you are doing a buyback and stuff. As a matter of practice our dividend policy permits us to give away the PAT we' have made of 30% to 50%. Since your reserves don't shoot up so much because it's a cash-generating business and you don't want to hold up money because we don't intend to splurge money on buying businesses or buying relationship managers at obscene prices from competition.

You have given away the denominator is kept in check and that is one reason. The PAT growth and the denominator in check, the numerator increasing and the denominator not increasing is why the ROE is higher to be mathematically correct. Second, are these levels sustainable? Yes, in our belief definitely they are sustainable because you don't need capital as much. It is not a plant and machinery kind of a business. ROEs are possible to sustain at these levels or higher.

Shivansh Sood: Okay. And are there any plans currently in the company to expand internationally beyond the Dubai office?

Feroze Azeez: Yes, we are looking at the opportunity in GIFT city which I think is a very transparent and a good opportunity. Also, two days back SEBI made some changes in the LRS limits to IFSC. So point one is, yes, not from a location standpoint the NRI business could be a very different ballgame over the next 5 years, 10 years and that's a huge opportunity for a wealth management outfit like ours for sure which is India-centric.

And the kind of India popularity globally when I go meet some fund managers which I do every June for the last 6 - 7 years the kind of decibel for India has gone up dramatically. So to answer your pointed question we have not thought of it geographically. From an opportunity standpoint NRI business we are going to be focusing on it because the landscape and the kind of scale this can be built to is very different with the inclusion of GIFT city and the new very correct and liberal regulatory framework.

Shivansh Sood: Okay. And lastly I wanted to know like are there any initiatives being taken before to improve the revenue per client and AUM for RM metrics?

Feroze Azeez: Sorry, I couldn't hear you. If you could go again sorry.

Shivansh Sood: So are there any initiatives being taken to further improve the revenue per client and AUM per RM metrics?

Feroze Azeez: Revenue per client. So are there initiatives? everything we do is for both these. So if I wake up in the morning that's the initiative to do this precisely, but we don't see it as revenue per client. We don't like to see it like that. We don't even like to state it like that. Because it is assets if I can manage 70%, 80% or 90% of one's asset as time grows our clients give us more wallet because they realize that this is not lip service. So clients' wallet is something we want to capture, not revenue. Revenue is an outcome. His money we take immense pride when a 10-year-old client becomes a sole advisory client in-spite of competition wanting to distract him with discounts on mutual funds with the most complex products. If our large client puts all his 100% of his money with us that's how we look at it, not revenue per client. Of course, there could be a larger wallet resulting in larger revenue, but it's a perspective difference glass half full and half empty, but yes both are causes and effect. Larger wallet implies larger revenue. So revenue is the cause. Asset is the effect which results in that cause. But we don't see the effect. We see the cause that's one.

Productivity per RM, that is a natural progression. See, we try and manage 50 clients per person. I am also a relationship manager. So the most important thing, which I always try and highlight, is all of us are relationship managers. So we are able to understand what is happening today. I was not a relationship manager 10 years and then I teach somebody today. It's not contemporary. So coming to the point of whether RM productivity will go up, yes, because 50 clients is what an RM's capacity is to manage with one or two account managers who are apprentice attached to him. So a group of three people or two people manage 50 clients.

If the client becomes big and his RM wants to improve efficiency, he gives away his smaller clients to his apprentice, makes them relationship managers. So like when I promoted my account manager, I gave away some small clients to her. And then she starts her life as a relationship manager.

So it's a win, win, win. What are small clients for me become bread and butter for her. So clients get even better service. So the vicious cycle continues. Not a vicious cycle is a more negative connotation, but the cycle of help continues. So coming back to your question, can RM productivity go up with the same 50 clients? The answer is yes, because he gives away his deadweight. My dead weight is wings for her when she starts her life. So that's how RM productivity is. So there's no saturation. So if an RM gets to 50 clients with Rs 1,000 crores of assets, he can still go to Rs 2,000 crores of assets with different 50 clients. I don't know whether I answered your question, but I attempted to.

Shivansh Sood: Thank you so much.

Moderator: Thank you. Next question is from the Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: Hi good morning sir. So a few questions from my side. First if you can give some color on the flows that come into your business between existing clients versus new clients that we acquire.

And how has the trend been, let's say for the past 12 to 18 months compared to let's say, years prior to that or across different cycles where markets are good versus markets are, let's say, tepid. So how does the old existing money to new existing money really change during market cycles? Just wanted to get some color on that.

Second on your client acquisition strategy, if you can, shade some color on what will be an incremental client acquisition strategy in terms of, obviously, the competitive landscape tends to be shaping up quite aggressively. Most players are ramping up their engine, be it the foreign ones or even the domestic ones. Some of them plan to scale up.

So how do you really kind of want to position yourself? So I wanted to get some color on that. Lastly, two data keeping questions. If you could give your total employee base for the quarter and maybe March 24. And I missed the data on MLD issuance. If you can kindly repeat that, that would be great. Thank you.

Feroze Azeez: That's a lot of questions. Try to remember them. So point one, what was your first question? Sorry go again please. I remember the last one.

Dipanjan Ghosh: The first was on the old to new money?

Feroze Azeez: Got it. The old to new money, if Rs 3,300 odd crores came in, the clients who were not on the system on 1st of April, what proportions did those clients out of this Rs 3,300 crores of net flow, how much did they give? You have to take this number with tolerance unless Vishalji can give you a precise number.

About 20%-25% is from new clients. Because we don't force a client to start big. If the client has Rs 10 crores, he is my prospect. If he has Rs 4 crores, I don't want to go to him because I will only earn Rs 4 lakhs a year and then I can't give him ethical advice. I have to sell him insurance policies or some obscene upfront AIFs. So coming back to the point, 20% to 25% comes from new clients who didn't exist in that quarter beginning.

That's the proportion, okay? And because we tell the client, if you have Rs 10 crores, you start with a crore, I don't have a problem. You start with a crore, if I live up to what I am talking, you will give me more assets anyway because it's going to be in your interest.

Because in the wealth management industry, you can pick up so many portfolios of triple digit crores and measure their Sharpe ratios, which wealth management industry doesn't measure. 0.3 - 0.2 - 0.1, some people have negative Sharpe ratios also and they have Rs 50 crores invested. So you just have to calculate the Sharpe ratio and show for them for the last five years and then it melts it.

So coming back, 20 -25% comes from new clients and 70 - 75% of net flows or 80% of net flows comes from existing clients who were new for the last quarter. May be because we don't force people to start big. Like so many wealth management outfits have a rule saying that if you have Rs 5 crores to start with, then I onboard you.

Dipanjan Ghosh: So sorry, if I can just follow up. So does this, I mean, has this ratio changed in your experience? I mean, you have been in the industry for so long. Or does this ratio remain similar to 20%, 25% across market cycles or equity market cycles?

Feroze Azeez: For a wealth management outfit like ours, it has remained largely static. If I was a broker, it would be very different. Because I am not going to those new guys who got money and they want to start. I am going to a guy who has got invested with somebody else and he has a complex life. I Am simplifying his life, right? Do you understand the business?

So if you look at the median age, you should see this NSE data, which just was released. I should just tell you, this is very interesting data, I am sure. When you are looking at the age, the age bracket in the Demat accounts has come down. The median has come down significantly. Now you have close to about, one second. I'll just tell you this.

I am just bringing your attention to this data. If I was a broker, it would be very useful information. The ratio would change. Less than 30 years of age, the number of broking accounts has moved up in the last six years from 22.9% to 40.1%. So younger people are starting business. So my proportions of new client ratios have remained same. In broking that will change, I would like to assume, because the younger guys are coming in because it's a pull product.

Dipanjan Ghosh: So my second question was on the client acquisition strategy. Obviously, you have been ramping up your RM engine, as in apprentices getting promoted and so on. But in terms of new client acquisition, that is also going very strong. So what's the strategy out there? Because competitiveness will increase in this industry, is what I would expect over the next five years.

Feroze Azeez: Yes if you look at it see, because our total 360 RMs have 50 capacity, that means 18,000 clients. That's my capacity with the current plant and machinery. Okay, and I have a capacity of 7,000 more with the same people, same colleagues of mine can handle 7,000 more families.

Forget that I have to acquire, I have to do branding, I have to do advertisements. I have to just go to these 10,000 guys and say can I meet five people in your society? Can I do an event for 10 people? Those we call homogeneous groups, whom we address.

So that's how it's been our acquisition strategy, rather than picking up the phone and disturbing people at odd hours, selling ourselves is one way of doing it. We are trying to reduce that proportion and go to a satisfied client. And now that there are so many clients above five years and they know that risk adjusted return, mathematically is great with Anand Rathi Wealth, we go and tell them, so if you go refer a restaurant or a movie to your friends, don't you think if something helped you in wealth management, should you not refer it to the five best friends?

And I think clients are being far more positive today with some credibility behind us now. So that's the client acquisition strategy. And I think when you tell the clients that I don't want to make cold calls to random people, can you just have support and give me five names or organize a small little tea party or a high tea for your friends and I can come and talk, people are more welcoming than they used to about five years back.

Dipanjan Ghosh: So it would be fair to assume that basically the network referrals through your existing client machinery is the biggest sort of lead generation tool for you?

Feroze Azeez: Yes absolutely. And I think every financial services firm would have this aspiration, word of mouth. But if I told him that I made you 14% with 0.6 beta on NIFTY, now do I deserve a reference after 10 years of delivering you 2% alpha on NIFTY with 0.6 beta on NIFTY on your overall debt equity, then the client mathematically is forced to give me a reference. Not because I want to go sell him an insurance policy.

Dipanjan Ghosh: So lastly, the two data keeping questions on the employee number for the quarter and March 24 and also the MLD data, which you mentioned earlier?

Feroze Azeez: Yes, Vishal

Vishal Sanghavi: So total employee count is 1,093 as on June 30, 2024. And total gross inflows for the non-principal protected structure product is Rs 1,735 crores.

Dipanjan Ghosh: Okay, can I get the employee number for the last quarter, March 24?

Vishal Sanghavi: March 2024 - 1,016.

Dipanjan Ghosh: Thank you and all the best.

Feroze Azeez: Thank you sir, for your question.

Moderator: Thank you very much. Next question is from Chinmay Nema from Prescient Capital. Please go ahead.

Chinmay Nema: Good afternoon, sir. Thank you for taking my question. Some general questions around tech infrastructure. Could you talk about your strategy with respect to tech from a medium to long-term perspective? How are tech in terms of on boarding and client monitoring differs from the industry? And moreover some general sense what can be done with tech in this business in terms of client productivity and to what extent this business is always going to be a high-touch business. Some general sense around tech in this business.

Feroze Azeez: Sir, I missed your name. So sorry.

Chinmay Nema: My name is Chinmay.

Feroze Azeez: Chinmay. Thank you, Chinmay. Sorry, my mistake. Yes. So how we see tech is, tech in this business can only augment an RM not replace an RM. That's our thought process or whatever is our understanding. It is not wishful thinking. Because this requires -- client requires handholding during bad days.

In good days, he can click a button and buy. But he sells it on the worst days if there is no RM. So we see technology as augmenting the RM making him more powerful rather than replacing him. That's one very important thing, which we very passionately feel with the experience and client behavior, understanding client behavior that's point one. Point two, the technology in this business - anybody who uses technology just for reporting and on-boarding, I would say it will be ironical. But the most important technological benefit Anand Rathi is reaping because 60% - 65% of our meetings still date are now on technology platforms. Before COVID, all the 100% of the meetings were physically done with clients. Now the clients I manage, I have not visited their office for maybe 12 months but done very efficient meetings 12 times in the last 12 months. So, RM productivity goes up significantly if you force the system to use technology to deliver advice on Zooms and Teams and stuff but quite a few times clients push back and say I want a physical meeting. So, we have been very clear, we will at least have two-third of the meetings on Zoom and Teams unlike most of the wealth management outlets have gone to physical in HNI business.

If some system can retain it I think that will make it very powerful. And most of the numbers you see now have a large impact of the use of technology or the forceful use of technology not going back to the physical mode of delivering advice. So that is -- and of course, technology in terms of generating advice, which is not used so much. We have been testing a lot of models using several mathematical formulae which are there. There are 5 finance formulae which have won Nobel Prize, we are using technology to try and simulate those to get better risk-adjusted returns.

Moderator: Thank you. The next question is from the line of Sanidhya an individual investor. Please go ahead.

Sanidhya: First of all, great set of numbers. So I just wanted to understand how do we see the revenue potential going forward in terms of the AUM? So will it totally be dependent on how does the market performs and how much we can grow the AUM? Or are we looking for other opportunities in other sectors other than this?

Feroze Azeez: Like I have told in the previous calls, we are trying to build our financial services business, which is reasonably market agnostic. For you to check this claim out of the 11 quarters where we have published results, you have to look at the worst 3 quarters from a market sentiment standpoint and then see the corresponding result of our business.

You would see stupendous growth when markets touch 15,300 and 15,400 twice or thrice in the last 2 years, which was the FY22 last quarter and FY23 second quarter or first quarter then Ukraine war had happened. So, the point I am trying to make is you would consistent revenue growth during bad market sentiments. That's the aspiration. So far, the God has been kind, we have been able to deliver that. Most people will take this with a pinch of salt but be it as it may, so that's point one.

Point two, our business model like I always explained, it is reasonably simple. If I have Rs 69,000 crores today there is a growth embedded in it. If I deliver good return as a company for my client then 10% - 12% growth comes God's gift with virtue of time. These 3 other variables, which is new RMs, new clients from existing RMs can manage 8,000 - 7,000 more clients. That's my second lever of growth. The third lever of growth is existing clients giving me new money. With these 3 levers of growth plus the 10 - 12%, which is the growth in assets with the virtue of time and efforts. If these 4 engines are put together, 20 - 25% growth is part of course, for the next 10 - 15 years consistently. We are one of the few companies which have given a median growth of 33% for the 11 quarters (it is for last 9 quarters).

So, when we look at other revenue streams the answer is no. If my client needs more product in his portfolio because of his risk-adjusted return, if he we want to improve the alpha, if I want to improve the Sharpe ratio, if I need a PMS or AIF or whatever it be, if it helps my client meet a better objective then is when new revenue line will be added not because shareholders want new revenue lines or the company wants new revenue.

Sanidhya: Fair. Yes. Okay. So just to add on question here. So, do we see runway for new client additions within the range of Rs 5 crores to Rs 50 crores? Or do we see shifting it to different range, like say, Rs 10 crores to Rs 100 crores now looking at how markets are performing in the pipeline, how do we see the base shifting with years?

Feroze Azeez: Absolutely, sir. That's a very important and a good question, sir. Our segment has been Rs 5 crores to Rs 50 crores. When we on board a client, we check whether he has total wealth of Rs 5 crores to Rs 50 crores. That's first step. So if he start with Rs 1 crores but if you have Rs 20 crores, great you get him on board. That's the first step. Now with time, if you do well for the client, most of our clients now we had 280 clients, who have finished 10 years. And they had large monies then also. They automatically will go above Rs 50 crores. But if you don't -- if you don't give me 1 penny and if the money compounds at 15% in 6 years a Rs 10 crores client becomes more than Rs 50 crores.

So, we have been trying and we have also launched something called the Anand Rathi Platinum client base, which is growing rapidly because our existing clients are giving us more wallet. So, to answer your pointed question will we still stick to the segment of Rs 5 crores to Rs 50 crores? The answer is a big yes. For the last 17 years, it has been consistently the same on the Rs 5 crores to Rs 50 crores. Okay, way back from 1st April 2007, when Rakesh Rawal, who is the current CEO and who was the CEO then has decided to keep that segment. So we will always have that as a segment. But we have to also being a wealth management outfit passionate about client returns. We have to learn the art of managing the adjacent higher segments. The adjacent higher segment is Rs 50 crores plus because if the Rs 20 crores guy gets to Rs 80 crores, I need to be able to do justice to that guy so that he can eternally stay with me and doesn't have to look outside. So does that answer, sir?

Sanidhya: Yes, that's what I had looking. So we are doing efforts to maintain the level that the new clients or the existing clients will grow up to that level. We are maintaining that. Yes.

Feroze Azeez: Yes, absolutely. We have significantly larger clients than Rs 50 crores also. One client of mine who I manage has Rs 800 crores - Rs 1,000 crores also with us.

Sanidhya: That's great. Yes. Just a last question, it's a bookkeeping one. So you have Rs 8 crores as other income this quarter and Rs 13 crores in the last quarter. What is the source of income? And is it on a continuous basis we should see?

Feroze Azeez: Vishal ji, can you -- because I don't have these numbers on my screen. Rajesh ji, other income?

Vishal Sanghavi: Yes. Can you ask your question once again -- yes. Can you repeat the question, please?

Sanidhya: Yes. So we have Rs 8 crores in other income in this quarter and it was Rs 13 crores in the last quarter. What source of income is this? And do we see this as a continuous basis?

Vishal Sanghavi: Yes, I just give you that one, one second. So, the interest income is Rs 6.87 crores. And the small amount is the gain on sale of investments.

Moderator: Thank you. The next follow-up question is from the line of Bhavin Pande from Athena Investments.

Bhavin Pande: Just on account of corporate actions after the dividend in the bypass, could we expect some sort of split of bonus on cards?

Feroze Azeez: Bhavin, sir, yes, we will surely consider like our in our AGM also somebody asked our Chairman and he rightly said that we will consider corporate action because we like to reward our shareholders. I can't say more than this. But, yes, I think it is going to be considered by the Board.

Moderator: The next question is from the line of Bhuvan from Tiger Assets. Please go ahead.

Bhuvan: I would like to know how is the wealth distribution scenario in the country? How is the top...

Moderator: Sir, your voice is breaking.

Bhuvan: Yes. I would like to know about the wealth distribution scenario in the country? How the top of the pyramid is growing? And how would that be in the next 10 years?

Feroze Azeez: Yes. So in our opinion, the number of HNIs can very easily compound at 15 - 17% over the next 10 years, number of HNIs. And the wealth effect with the current HNIs, which is about 8 lakh - 9 lakh families, is also stupendously growing. So point one, I personally think that this number can quadruple in a decade, 8 lakh families can very easily become 32 lakh families, which are HNI, which is our segment, Rs 5 crores to Rs 50 crores or Rs 8 crores above.

So HNI is defined as that family which has more than $1 million other than the home they live in. So, that could easily quadruple in a decade in India. Second, the current 8 lakh families' wealth can also compound at 20 - 25%. Because if they are well placed to grow 12% - 13% of the current wealth at 12% - 13%, they are adding at least 7 - 8% to their wealth with their savings.

The savings rate of an HNI has gone up dramatically, in our opinion. So, that's our experience. When we captured the savings potential of our current HNIs in a group of about 350 - 400, which I saw the data of their savings potential grew at least 5 - 7% of their current net worth.

Bhuvan: And I would know like, how is the bottom of the pyramid growing and how their wealth would contribute to equity markets in coming years?

Feroze Azeez: See, there is a paradigm shift in the thought process of Indian favor today. So, to answer your pointed question, sorry, there was some little disturbance in the network. So, if you look at the wealth of Indian HNIs, there is a paradigm shift in how we are seeing assets. The receptiveness of equity has gone up dramatically, point one.

Point two, there is the newer generation or the next generation, whenever there is an inheritance or a transmission of wealth from one generation to another, which you see in your client families, the next generation's affinity towards physical assets is dramatically down. So I personally think this Rs 21,000 crores SIP number, which I had predicted about 5 years back, but this can be by March '25, it will be Rs 25,000 crores, that seems to be on the cards. That's point one.

Point two, the kind of influx the Indian capital market is going to see from domestic money, I wouldn't be surprised if that grows significantly. Today, it's almost like a proportion of 50:50. The FII ownership could come down dramatically with -- individuals' participation. Currently, out of the Rs 800 lakh crores of savings, Rs 800 lakh crores of savings as per RBI data of Indian households, 51 - 52% is in financial assets.

And only about 6.7% is in equity or direct equity and equity mutual funds, only 6.7% is there. That number should become 15%, which implies a great influx over months and years to come. So out of the Rs 800 lakh crores, today, only about Rs 52 lakh crores is there in equity, both individual ownership of stocks and equity mutual fund ownership.

Moderator: The next follow-up question is from the line of Bhavin Pande from Athena Investments. Please go ahead.

Bhavin Pande: So of course, the first question was on the bonus or any of the corporate actions that could be on cards. And secondly -- in this year's Annual Report, I think in the AGM, there is snippet on ring-fencings of portfolio and intergenerational transfer of wealth, which, again, is an extension of wealth creation, which would come about the plan to make money and the call to be taken in terms of how the wealth is going, which again, is gone by taxes and government policies. So, if you could just shed some light on the, of course, economies of that business and the market that exists, it would be of great help.

Feroze Azeez: I couldn't understand that too much. Bhavin sir, you're speaking about transmission of wealth?

Bhavin Pande: Yes. First question, of course, on the bonus issue. I am sorry to sort of making you repeat that. And secondly, the ring-fencing of portfolio and intergenerational wealth transfer as a service that we offer to our clients, right?

Feroze Azeez: Yes, so like I already told, that I think bonus or splits could be seriously considered by our Board. That's the only thing I can say. We did a buyback efficiently, finished that. Bonus, that board has to consider. But I think it will be considered on the merit basis. That's point one.

Point two, coming to your question of ring-fencing of portfolios. See most of HNIs have external potential liability on their personal wealth for some unforeseen events. So ring-fencing is very critical. And that, I think we have been propagating for the last 14 years -15 years ever since 2009 - 2010.

So that business, we don't charge money for unlike most lawyers and wealth management outfits charge, but we don't charge for that because we think that that's a collateral minimum service you will give a client because we want his interest to be protected and his liabilities to be protected. So that's one.

The estate planning, we have done about 6,000 wills for families. We have tried to comprehensively make the learnings we have had in the last decade and try and extrapolate those learnings. Because India is a very complex game in terms of transmission of wealth. Some places probably it is needed, some places probably it is not needed. The laws as per religion are different, as per geographies are different and as per asset is different.

So it's a 3-dimensional matrix to solve. So, wealth management outfit like ours takes all the learnings it has had and makes a checklist of 10 ,- 12 items, which each of us, in fact, all of us on the call are mortal beings and we have a finite life. We try and do that for free as well because client's interest is paramount.

So, we don't charge for these services because that itself becomes a deterrent for a person to do it. We use to charge a decade back. And then we realized when you charge people for this service, they think you are wanting to do it just because you want the fee rather than the -- so we said we will not be charging.

So, this is that collateral service you give without being charged. So, will this keep happening? Yes, it happens. And we push it extensively in spite of it not impacting the revenues whatsoever directly. But the client's affection towards us expressed in the form of his wallet is very strong.

Bhavin Pande: Feroze, that's really helpful. And just I appreciate the exhaustive back and forth on the call and for all the information that you have provided. Thank you and good luck again.

Feroze Azeez: Thank you for your questions, sir.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference back to Mr. Feroze Azeez for closing comments.

Feroze Azeez: So thank you so much everyone, to patiently sit through 1 hour and 6 minutes of the call. Point two, I think if you have any further questions, please feel free to get in touch with Mr. Vishal Sanghavi, who is our Head Investor Relations, and we would love to answer them. And thank you. Have a wonderful week, the residual week, and thank you so much.

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