Anand Rathi Wealth Limited

Q3 and 9M FY25 Earnings Conference Call”

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 and 9M FY25 Earnings Conference Call, hosted by Anand Rathi Wealth Limited. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Feroze Azeez: Thank you, Sejal. Good afternoon, everyone, for joining us in the Earnings Conference Call for the quarter and 9M ended 31st December 2024. We are all joined with our Group CFO, Jugal Mantri, Product and Research Head, Mr. Chethan Shenoy, CFO, Rajesh Bhutara, Head Investor Relations, Mr. Vishal Sanghavi.

Let me give you a quick highlight of the company's performance. During the 9M FY25, our consolidated total revenues grew by about 33% year-on-year to INR 739 crores and our profit after tax increased by 34% year-on-year to INR 227 crores. We have achieved 75% of our revised revenue guidance as well of INR 980 crores on the revenue side and 77% of our revised PAT guidance of INR 295 crores in the first 9M FY25. Total AUM grew by about 39% year-on-year to INR76,402 crores.

In alignment with our policy of rewarding shareholders, the company has declared a bonus share in the ratio of 1:1. We have recorded highest ever quarterly net flows during the last quarter in spite of sentiments not being the best. During 9M FY25, our total net flows registered a remarkable year-on-year growth of 69% reaching INR 9,145 crores. Equity Mutual Fund's net flows achieved year-on-year growth of about 51% to INR 5,831 crores. Share of Equity Mutual Funds in AUM increased to 55% as of December 2024 as compared to 52% last December 2023.

We believe that our company's performance is consistent and market agnostic and numbers say so. If you look at the worst Nifty performance after we got listed was Q1 FY23 where Nifty fell 9.6% and last quarter Nifty fell 8.4%. However, for both the quarters, our profit grew by more than 33% on a year-on-year basis. The mean of the year-on-year growth of our last 11 quarters has been 33.8%. That's the mean quarterly year-on-year growth we have shown. The median is 34%, which implies that we have almost produced a normal distributed curve and the standard deviation of the growth number which I'm sure is something very unique. Most companies don't compute this. We are very possessive about trying to keep consistency as one of the attributes for our shareholders' benefit. The standard deviation is as little as 4.3%. Our quarterly results growth on a year-on-year basis mean is 33.8%, median is 34% and the standard deviation is 4.3%. I'm trying to emphasize this a little more because with the limited articulation skills I possess, I wanted to make sure that it gets registered in the listener's mind.

In our flagship private wealth business, the first 9M FY25, we added 1,515 new client families on net basis, bringing our total number of client families to 11,426. Client attrition rate in terms of AUM lost for the 9M period was as little as 0.28%. Ideally, this client attrition number, we would like to see it as zero because every human being should be satisfied with our services. That's an aspiration which we try to always aim for. But nevertheless, 0.28% is a smaller number relative to what industry sees.

We have added 61 new relationship managers on net basis over the past 12 months, bringing our total RM count to 383. In the last quarter, we have achieved near zero regret RM attrition. We have lost one RM who had an AUM greater than INR 40 crores, which we call regret attrition. So over the last six quarters, this is the first attrition. So 5 previous quarters, we had zero regret RM attrition. And the last quarter, we had one RM who left -- who had greater than 40 crores of assets, which we think is the threshold to cross the bridge of wealth management.

Digital wealth business, which is a B2B2C platform, registered an AUM growth of 23% year-on-year to Rs 1,827 crores. The number of clients increased 24% to 5,772. The OFA business, Omni Financial Advisor business, which is abbreviated as OFA, which is a SaaS platform, has 6,273 subscribers with platform assets of INR1.4 lakh crores at the end of 9M FY25.

Now I would love to hand over the call to Jugal Sir, who's our group CFO, to take us through the financial performance. Jugal Sir, it will be great if the audience could hear you.

Jugal Mantri: Thank you very much, Feroze Bhai. Good afternoon to everyone. And wish you all the first festival of the new calendar year. Happy Makar Sankranti. Happy Pongal. Happy Lohri to all of you.

First, I will speak about Q3 FY25 consolidated financial performance. Our consolidated total revenue for the Q3 FY25 stood at INR 244 crores compared to INR 187 crores in Q3 FY24, registering a healthy growth of 30% Y-o-Y. The trail revenue was INR 109 crores in Q3, registering a strong Y-o-Y growth of 52% from INR 72 crores in last year's same quarter. Our profit after tax stood at INR 77 crores, registering a 33% Y-o-Y growth compared to INR 58 crores in Q3 FY24. Profit after tax margin for Q3 FY25 was at 31.7% as compared to 31% for Q3 FY24.

Now I will take you all through first 9M FY25 financial performance. The revenue for 9M FY25 stood at INR 739 crores compared to INR 555 crores in 9M FY24, registering a 33% Y-o-Y growth. Mutual fund distribution revenue, which is the trail revenue, registered a strong growth of 63% Y-o-Y to INR303 crores in 9M FY25. Profit after tax also grew by 34% Y-o-Y to INR227 crores for 9M FY25 compared to INR169 crores for 9M FY24. Profit after tax margin was 30.7% for 9M FY25, improved from 30.5% for 9M FY24. Return on equity on an annualized basis stood at 44.8% for 9M FY25.

This is all on the financial performance front. Over to you Sejal for the next session of question and answer.

Moderator: Thank you very much. The first question is from the line of Bhavin Pande from Athena Investments. Please go ahead.

Bhavin Pande: Congratulations, team, on a wonderful set of performance. Happy New Year and greetings of Makar Sankranti to our entire team at Anand Rathi. My first question was around operating margins. We can see that at least for the past few quarters, our operating margins have been highest. So the term that we all were looking for a few quarters back, operating leverage, has it started kicking in somehow?

Feroze Azeez: Yes, Bhavin, good morning. Thank you for your question. See, of course, there's some degree of operating leverage which has kicked in. But we as a business believe that we have a target of 40%-41% of PBT. If operating leverage kicks in, we are going to reinvest that to ensure that this kind of growth which we have shown for the last 13 quarters after getting listed, or for probably 14 years since we've started this business, continues for longest periods of time. To answer your pointed question, as a shareholder, you expecting a larger operating leverage is not something I would like to create as an expectation for you, because we are still scratching the surface in this business, and we believe in a life cycle of a business.

In the initial part, you reinvest to make sure there's longevity to growth rather than efficiency in terms of operating margins. Does that answer, Bhavin. I'm very diplomatically trying to answer because I don't want you to create an expectation of our operating leverage, in spite of having seen it for the last 1 or 2 quarters.

Bhavin Pande: No, no, I was just trying to get a brief perspective. Second thing, Feroze, on the macro front, all the high-frequency indicators are sort of manifesting themselves into a delayed rate cut cycle, which brings me to our structured product, where one of the ideal scenarios is high interest rates, which, in my opinion, might prevail for a while. So how are we looking at that?

Feroze Azeez: Okay, higher interest rates. Okay, perfect. So firstly, from a structured product standpoint, unfortunately, I have to get a little technical. See, what happens is, in a structured product, firstly, the NBFC, which is our sister company, which is Anand Rathi Global Finance, does not borrow at aggressive rates at all. The implied costs of borrowing in those products are going to be very low because why am I calling it the implied cost? Because if there's optionality, a person can't just optically decipher what's the borrowing cost. The implied borrowing cost could be with a spread of not more than 1% with the G-Sec of the corresponding period. If that's the kind of low margins vis-a-vis G-Sec, NBFC borrows at, because the money has to be kept safe. So there's hardly any headroom for a reduction in interest rates. Having said which, when you actually embed a derivative, there is some degree of neutrality to interest rates. What happens is, the derivatives are priced as per the rho of the derivative, by which I mean the carry cost also comes down. So if interest rates come down in the structured product which we design, which are put spread sell, and that's how you express the long position in the derivative side, the cost of carry also comes down. In fact, if the repo rate comes down, the cost of carry, which is nothing but the roll cost of the futures or the synthetic futures market, reduces. So let's assume, if I have to try and make it a little more simpler, if there's an interest rate reduction of 1% on the NBFC side, if at all, which is hypothetical, then the rho, which is nothing but the 1% reduction of the carry cost also comes down. So there is a reasonable amount of neutrality between the row of the derivative and the interest rates of the NBFC, which are there in the product.

Bhavin Pande: Okay, I understood.

Feroze Azeez: Because your roll cost decreases just like the repo rate decreases. If repo is at 6.5% and it was 4.5% on 3rd April 2020, after COVID, it was brought down. From there on, roll cost would be higher because the repo is higher. So in fact, this is very good news if repos are brought down, 10-year G-Sec isn't going to move down. Because today, India has seen the flattest yield curve in the history of at least me being born. So the point I'm trying to get to is, a reduction in interest rate may not reduce the interest rate borrowing cost but can definitely reduce the roll cost.

Bhavin Pande: Okay, okay. And Feroze, so flows numbers, they have defied the odds to a larger extent. So how do we look at the contribution? Is it more of an increased wallet share from existing customers, or new families have also contributed equally?

Feroze Azeez: In fact, both, sir. If I have to answer your question, see, let me not answer it in the typical way an analyst is given an answer. I am just going to tell you, conceptually, what happens is bad markets make us look better. Because we run a model portfolio which has a beta of nothing greater than 0.6 - 0.65 with Nifty. Whereas people in good times also plant several aggressive strategies. When the tide turns, then the risk fructifies. So the point I'm trying to make is, bad quarters collection is generally given. When there is a headwind in the industry, I get a tailwind. Because somebody's win is somebody's loss. That's how you distinguish between a good and a bad advisor. And if you go to the first quarter of this financial year, nobody optically, if you showed him five statements, nobody would be able to decipher who was the best. But in a quarter like last quarter, risk adjusted return is apparent to naked eye. So bad quarters help us similarly to what happened about 4 or 5 quarters back when the markets were bad.

Now coming to, is this penetration on new clients. In fact, we tried to increase our threshold of onboarding a client. We were first okay to accept INR 50 lakhs, now we accept only INR 1 crore, at least for new clients whom we add. In spite of that, we started seeing that people are ready to give us larger money than we were hesitant to ask them. So that has created some degree of fillip. And I think wallet share increase and the mathematical way we are trying to establish. Now, for example, if someone were to come and tell me, why do I do mutual funds with you? I take his 10-year transactions and show him. If he just followed my model portfolio, which is audited by one of the Big Four’s and also in the public domain, if he followed, how richer or how poor would he be? That's why in spite of giving no discounts, we've been able to collect INR 800 - INR 900 crores in equity mutual funds for the last quarter (monthly average). And that should continue. I'm sure that's what you want to know. And I think it'll get forced. Meaning, it will increase, the rate at which it increases. So the acceleration will be higher, not just the velocity.

Bhavin Pande: That's great, Feroze and pretty much encouraging. Good luck and congrats again.

Moderator: Thank you. The next question is from the line of Nemin Doshi from Geojit PMS. Please go ahead.

Nemin Doshi: Hi, team, and congratulations on a great set of numbers. Firstly, I just wanted to get some idea as to how are we seeing our SIP flows increasing from a quarter-on-quarter basis? How has this trend been shaping for the current quarter as to are we seeing any redemption pressure or there have been an increasing volatility, as you mentioned? So how are we seeing trends over there? And secondly, with respect to our digital wealth platform, what are the various initiatives which would be driving this business ahead?

Feroze Azeez: So when it comes to trends, in our business we try to make sure that we are not trend dependent. Firstly, because you're speaking to the same 11,467 families, we first spend a couple of years for them to think like us. So we keep designing their mind to long-term, to prepare them to fall. See, if I try and prepare a person for a fall when the fall is happening, It will look like a justification. So we prepare them, and we take the cheque. That stands us apart.

When I am taking a check of INR 10 crores, I will tell him, Sir, remember, the market gives a 10%-15% drop every year. If you don't have the preparation in your mind, then please keep this cheque in your drawer. This is how we try and prepare them before the fall. So coming back to the most important question which you asked, how do we see this trend? We see this trend; we are putting in effort for a 30% - 40% growth in net mobilization rate. So if we have collected INR 3,500 crores this quarter, I am just simply rounding it off. I would like to see INR 4,500 crores - INR 5,000 crores for the same quarter next year at least. When I model my business to get to INR 2 lakh crores, I will model only 10% to 12% increase in the net mobilisation. But am I preparing for a 50% increase in net mobilization every year for the next three years at least? The answer is yes. Will I achieve that? Only God knows. Will the effort be there? I am sure so.

Nemin Doshi: Perfect, perfect, perfect. Thanks.

Moderator: Thank you. The next question is from the line of Krishna Raghavan, who is an individual investor. Please go ahead.

Krishna Raghavan: Hi, thank you. Hi, Feroze. Feroze, we have a substantial investment in your stock, close to six digits. I don't mind holding it forever, but off late when I look at the valuations, it's significantly higher compared to an HDFC AMC, or a 360 One. So I am a little tempted to keep looking at it very often. So I am just trying to understand are these deep valuations justified?

Feroze Azeez: See, market gives you valuation. When it was at 13 P/E, some analysts told me that I am very expensive. Now, when I am 13 P/E, more than the next second best in terms of valuation, I am still expensive. Mr. Krishna, let me answer this question, not as a part of the company, but as a shareholder. See, I personally think markets always discount future and not present. So there are 4 - 5 things which stand us apart. In fact, there was one report which came last week, which was comparing 12, 13 businesses across wealth management, asset management, in India and globally. One thing which I was happy to note on the two X and Y axis, Anand Rathi stood out. ROE was the highest out of those 12 - 14 businesses which were listed on that graph and PEG, PEG, which is P/E to the per unit of growth, how much PE are you paying? It was 0.8 in that report. It was one of the reports. It is Ventura report if I am not wrong? So I don't know.

So what I am trying to get to is, Krishna, one is PE. If you look at PEG, I look at PEG as a shareholder. PEG is less than one, which I think is okay. But from a more business standpoint, there are 3 - 4 things which stand out. Attrition in a people's business being near zero is something so unique. So whatever P/E you want to attach, market wants to attach, it is okay. But people say I am a people's business. So in a people's business, if people don't leave you, if somebody is tempting you with them with 100% rise, there must be some reason why they won't leave. Because the client gets the best risk-adjusted return, right? If you measure the Sharpe ratio of my client for the last 10 years, take the top 100, I would be reasonably confident with the significant levels of upwards of 90% that there would be very few Sharpe ratios on wealth management industry, which would beat my average of the top 100, vis-a-vis any other wealth managers top 100 class. So that's why attrition is low. That stands out, I'm just trying to highlight.

No new product launch, okay? We have not launched a new product. Like we've done the same old product, 1,000 times, 1,500 times, the same structure product. So no newness and business continuity is something unique. Generally, even if somebody is manufacturing cars, he launches a new car and then the revenues go up. Maintain, same products, trying to put the business on autopilot stands unique. Does it deserve any incremental premium valuation? I don't know. Only market knows and you know.

The third is consistency. It's something which is so unique, I think, because I was looking at how results of other companies swing between plus 30 and minus 10 and plus 20. We have delivered mean, median of 33% and 34% for 11 quarters, which if you did for the NSE 500 companies, which we are a part of, you'll be surprised. How many fingers would you need to count that kind of low volatility in growth numbers? That's one. Agnostic market results. Most people I speak to in the industry say, you are financial services. The market has gone, you have gone. The market will sit, you will also sit. So last quarter, the market sat a little, but you didn't sit. So we're giving agnostic, market agnostic results unique for a financial services business. That's why our stock has delivered a 0.42 beta because it's a little more market agnostic.

These are some of the reasons which make me feel happy about. Does it justify any premium? Maybe discount? I don't know. But I can just tell you as a shareholder what I see unique in this business. If I have added a few lakhs shares after it has got listed, this is what I saw.

Krishna Raghavan: Great. That's comforting. Thank you, Feroze.

Moderator: Thank you. The next question is from the line of Manan Ashar from Growth Sphere Ventures. Please go ahead.

Manan Ashar: Hi, sir. Congrats for a great set of numbers. Sir, I just had two questions. The first one was from the passive fund industry perspective. So when we see the passive fund as an industry, how is the industry trend currently basically shaping up? Because we are seeing a kind of efficient market in terms where everything is getting priced in and there's a lot of effort which is basically pushed from analysts' side. So how do you think the active versus passive fund industry will compete and how the industry will shape up in the future going forward from here? Basically in terms of competition against active mutual funds and active products that we provide to our HNI families.

Feroze Azeez: So I personally think the trend from an industry standpoint is clear that the ratio of passive will go up. If you are speaking about smart beta strategies, some people will get wrapped on the knuckles for smart beta strategies. Because everybody has back-tested them. Nobody has used Monte Carlo simulation to front-test this. And I have tested some beta strategies, smart beta strategies using a simulator. So point is, will the industry gravitate towards passive? The answer is yes. Because most of my competitors believe in low-cost, low-value strategy. But let me now come to Anand Rathi Wealth Limited. We don't do anything which is trend-based. I have not sold an NFO. I have not sold any other product than mutual fund and structure product. That was not the trend. I have never touched an unlisted stock. You will not find one direct code client of mine. You will not find ETF more than 0.2% or 0.3%. It is different if someone has bought using my code. So Anand Rathi Wealth and industry may not match.

So as a shareholder, I am just giving you, my disclaimer. If you are trying to derive Anand Rathi Wealth - margin, business, strategy, product offering, client benefit, from the market trend, history has proven that they may not be matching. So that's one thing. So industry will move towards passive because quite a few people don't want to spend energy in talking too much and taking what comes their way. I personally think last two years, if you look at passive, 80% of the AUM is between Nifty and Sensex. Let's assume all the money in passive, which is about 200 odd funds, all of it belong to one human being. And all the money, which is there in 431 active funds, belong to one human being. Who did better? You'll be surprised. Active did better because AUMs of passives are not in NSE 500. NSE 500 is an academic index because the smallest stock will never be able to absorb all the INR 50 lakh crores of AUM, which will go into equity. So to answer your point of question, you will see more passive in the industry. You will see no passive in Anand Rathi till data emerges that my client will be benefited either with a reduced risk or an increased return.

Mann Ashar: Sir, but from the industry standpoint, when we see US, basically bifurcation of active versus passive is approximately 60%-40%. And in India, it's still 85%-15%. So how do you see the numbers panning out going forward? Do you have any internal estimates? Or how do you see or how do you envisage the industry of active versus passive in terms of your products or in terms of industry as a whole?

Feroze Azeez: See, I personally think US has two things which are very unique. One is US throws up more standard deviation than India. I will tell you why in my opinion. But coming back, US has become a valuation agnostic market. Because if you go passive, passive respects momentum. That's how indices are created. The top five stocks of either NASDAQ, S&P or Dow Jones, you will see --because if there's index fund investing, there's more money coming in. If there's more money coming in, there's more valuation. If there's more valuation, there's more weightage. If there's more weightage, there's more money coming in. So it's like that doll with the key. You've tightened that. That's how it is. So valuation agnostic market is what US has turned out to become. So passive has this collateral damage to a capital market that valuation and business models will have lesser respect momentum and price will have more respect. That's one thing which stands apart.

Second, if you ask me the ratio, India will get there. But it will be ironical, and I will be saddened if India got to those ratios because a passive fund guy will buy whichever stock has the maximum weightage, irrespective of whether the price at a 100 P/E or 2 P/E, right? And I had be sad if we go to the US way in Indian equity markets.

Now coming to the point of why India is throwing up. People say India has more volatility. This is what I am crying about as a derivative person, that volatility in India is lower. If you go from 22nd March 2020, which is when NSE brought in a circular which limited shorting in India. I think because there are quite a few financial services professionals here. I am just trying to bring your attention to one of the most important circulars.

After that, S&P 500 has thrown up 18.6 standard deviation on a daily basis and Nifty has thrown up 18% standard deviation. In spite of S&P 500 representing 50% of world's market cap, throwing up a more standard deviation than Nifty, which is 4% of world's market cap is because of that circular which ideally was one day before the lockdown. I am just trying to create curiosity for you to read that circular up. You can't short more than 500 crores in Indian market. So I am very positive about Indian markets because it's a more investor-friendly market than a speculator-friendly. When real estate you can't short, why should equity, which is another growth asset, have unlimited shorting capability? That's why if somebody today, any of us have INR 4 lakhs in our account and I want to buy a Thursday put option, the last one, which is INR 1, you will not be permitted to spend more than INR 2.5 lakhs of premium on buying that because you will beat the INR 500 crores notional, Nifty being at 23,000.

So coming back to your pointed question, I see passive happening, but I think Indian markets are going to be very different. They're going to be different because of this circular becoming tightened from 1st of April. And if the circular was supposed to be withdrawn, I won't bore the group with that circular being highlighted, but on 1st of April, this will become an intraday circular from a day-end circular, which will make the markets more stable.

Manan Ashar: I got it. Sir, one of the discount-broking houses has recently entered into passive funds and are aggressively distributing as well. They have also basically got a significant AUM and are going towards AMC. How do you see the competition shaping up from that direction? Because those guys have already figured out the distribution side of the products.

Feroze Azeez: I am not too worried about competition because if it is good for my client, I will embrace it. And I know how to, as a business, add enough value in a business where the best and the worst equity fund has a performance difference. For last calendar, if I'm not wrong, 42%. If I want to earn 1% in such a dispersed universe, then I think even if I go passive, I will be able to charge that from the client. So it doesn't bother me, but competition definitely makes us become more mathematical and because if I have to say no to passive, I need to have a story of mathematics rather than English.

So if you see, why did INR 800 crores get collected when passive is taking most of the share? Now if you see, sectoral funds took the maximum share last year. If you look at INR 15,000-INR 16,000 crores of sectoral inflows in the last month of December, AMFI number says. I am not doing sectoral, I didn't do NFOs, but I still sold something as mundane as the same 14 schemes to everybody and that too rich people who don't like standardization because it makes them feel that they're not as big as they are.

Manan Ashar: Got it, sir. Okay. It means, you are not very worried about the competition coming from that trend?

Feroze Azeez: I am waiting so that I can get a little more mathematical than where I am today.

Manan Ashar: Okay, got it. That's it, sir. Thank you so much. All the very best, sir.

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

Lalit Deo: Yes, good afternoon, sir. Congrats for a good set of numbers. So, sir, just two - three questions. So one is data keeping. So mostly in this quarter, what were the flows, both primary and secondary, in our structure product? Second, given the market conditions, when the markets look weak, then how do we see mobilization on both fronts? Like while the flows in equity are not so great, how do you see the flows in the structured products in the next one year or so?

Feroze Azeez: So firstly, Jugal sir will be the best person to answer.

Jugal Mantri: So as far as concerned with the mobilization in the primary issuances, this quarter, there was INR 1,347 crores were mobilized in non-principal protected structure product, which was like last year comparable. It was INR 1,231 crores. And as far as concerned with the secondary structure product, it was INR 589 crores in Q3 FY25 compared to INR 427 crores Y-o-Y. And if we look at the 9M FY25 number, then it was INR4,630 crores primary against about INR 4,000 crores in 9M FY24. And secondary was about INR 1,546 crores against INR 960 crores.

Lalit Deo: And the second question was on the flow side in the structured products, like over the next 12 months, like how should we see given the markets, the behavior?

Feroze Azeez: Okay, shall I answer this Jugal sir or you want to take it?

Jugal Mantri: No, no, you can continue.

Feroze Azeez: So the flows will be good. Owing to the fact that quite a few analysts were worried last year saying that this year there is no maturity. How will they survive? How will there be growth? So next year again, since we had moved from 3 year to 5 year in the year August 2020, if I am not wrong. So this was a lull year of maturity. So next year again, those maturities start happening.

So if you look at my gross mobilization, which is maturity plus my new clients - new business and some degree of realignment, all three buckets can fire. Last year means the year which we are sitting in, which we have 9 months gone by. So I think next financial year I am more positive because all the three cylinders can fire. This year, the main cylinder was not there, but still God was very kind. So we have got some growth numbers, which we had projected and realigned.

Now come to the second part is that we are adding more clients with a larger size. See, when you add a new client with INR 50 lakhs, because INR 1 crore was the minimum for structure -- is the minimum for structured products, the new clients couldn't subscribe to structured products, to their underlined portfolios. After we said that we want INR 1 crore, people have started giving us INR 2-INR 2.5 crores.

So new clients also now have the capability with our little push of minimum thresholds being higher, to begin with structured products. So my three cylinders, new clients structured product purchase, maturity and some degree of realignment, all have headroom. So I really pray to the Lord that whatever guidance we end up giving in the next quarter, we are able to again live up to that DNA, which we have under commit over them.

Jugal Mantri: And what, Feroze bhai, you said that we have been like, it is based on the advice, normally what happens that it is targeted that the client should hold between 25% to 30% of their AUM into market link debentures. So as long as we are confident in the AUM growth, this will have the consequential, similar positive impact on the mobilization of MLD also.

Feroze Azeez: Absolutely. Thanks, Jugalji. This is the main point, actually. The sub point is what I spoke of.

Lalit Deo: Right. I just wanted to have some of that color on the equity and the flow. So like in this quarter, we have, like on a sequential basis, we have done very well. So just wanted to understand like, how should we look at this next flow in the equity mutual fund over the next 1 year as well.

Feroze Azeez: Our net flows, so you would see some degree of staticness in our net flows. So in the sense, if we are collecting INR 800 crores, last quarter, how much did we collect equity flows?

Jugal Mantri: INR 2,700 crores.

Feroze Azeez: INR 2,700 crores. About INR 850 - INR 900 crores, right. So will that be the rate at which we will collect the money? Yes, because we have promised people, not promised, promised is a very strong word. We have indicated that our aspiration is to take our market share to 4% in the total AUM. For me to have a market share of 4%, there are two things which influence market share. I should collect at a rate greater than the industry's rate of collection. And my model portfolio should perform better than the average performance of equity mutual funds.

Correct? So if you see our model portfolio of 14 schemes has beaten Nifty by about 7.5% - 8% till day before yesterday in this financial year in absolute terms. So that gives me more market share in AUM. So to answer your pointed question, will the thrust continue? The answer is yes, because we have tried to have a desire to get to 4% market share in the next few years in Indian mutual fund category three as per AMFI.

Lalit Deo: Sure, thank you.

Moderator: Thank you. The next question is from the line of Srinath Sridhar from Infinite Financial Services. Please go ahead.

Srinath Sridhar: Hi, thanks for the opportunity. So when you mean by take your market share to 4%, so currently it's around INR 42,000 crores. So out of a 30-lakh crores equity mutual fund basket, so it's around 1.4%, right? So by when do you target to achieve a 4%?

Jugal Mantri: Mr. Sridhar, I think you have got the old number. Currently our mutual fund AUM is about INR 46,000 crores. To be precise, it is INR 45,875 crores. Out of this INR 41,738 crore is in equity mutual fund.

Srinath Sridhar: Right. So overall industry is around INR30 lakh crores, right?

Feroze Azeez: Yes. Sir, we are speaking of the active. So category three, how many are there, Vishal? So irrespective, so whatever be the... Of course, it's a very uphill task because we are only 383 people and there are lakhs of people in the ARN, right? We just one ARN with 383 current representatives. We are the private banking business. But I think what is happening is, people are, at least in our industry, are moving their monies to AIFs, long only. But we are speaking to mutual funds.

As of now, our market share is 3.37. 1.37, sorry, 1.37. Beginning of the year, how much was it? It was 1.29 right? So it will be a sticky number. A couple of years back, it was 1%, 1.01%. So I don't know, it might take a decade. It might take a decade and a half. It might take 5 years. But yes, that kind of periods, I don't know. But that's the aspiration.

So first, to get that, I at least need to have a - my market share in NetFlow is 4.8% without SIP. So before reaching the net share of AUM, I mean, in my net, if industry is collecting 100, should I at least start collecting 4-5? That's what we are...First step was that. So don't know, sir, 15 years, 10 years, but that's our aspiration.

Srinath Sridhar: Right. So my other question is, on the MF trail, so you made around 0.74% last year, in the 9 months in the last year, and it's around 0.88% this year. Can you just explain that increase in MF trail in the current year? Is it just due to the increase in the market gone up, so AUM has gone up? Have we moved our model portfolio to smaller AMCs where the trail is higher?

Feroze Azeez: No, sir, we don't do anything. No, smaller AMCs or smaller schemes because it is at scheme level still. There was a circular last December, but that didn't get implemented. So AU trails are or expenses are scheme dependent, not even AMC dependent that is point one. Point two, you might be dividing... My model portfolio, 14 schemes, I can tell you as transparently as it could get, 1.09% post-GST is my trail. If I brought in a crore, I earn INR 1,09,000 post-GST in a year. If there was no market movement up or down.

Now what you're maybe calculating my yield is on the basis of the year end or the quarter end number. And trails are calculated on average assets per AMC. That's our 1.09 is what is our trail. That's the stated trail. Of course, markets could move up and down and some degree of -- pardon me for a tolerance of 2 paisa this way, that way.

Srinath Sridhar: All right, got it. Thank you.

Moderator: Thank you. The next question is from the line of Nihar Dave from IIFL Capital. Please go ahead.

Nihar Dave: Good afternoon, everyone. So my question and apologies if it's already been asked. My audio is a bit spotty, so I may have missed it. So what is the gross inflows into structured products for the 9 months and this quarter?

Jugal Mantri: The 9M we have shared with you, it was INR 4,630 crores in primary compared to INR 3,994 crores last year. And for the quarter, it was INR 1,347 crores compared to INR 1,231 crores last year in primary.

Nihar Dave: All right. Thank you very much..

Moderator: Thank you. The next question is from the line of Arman from Blue Sky Capital. Please go ahead.

Arman: Good afternoon, everyone. Just a simple question to Feroze, sir. Something which you emphasize, I guess, never been answered or more color have never been put on, is that Standard Deviation part which you told which is quite exceptional. If I see just the 5-year standard deviation of Nifty itself is around 18% to 19%.

And you said about their mean to standard deviation is just around 4.3%. So what does make us so exceptionally outperforming in this kind of that we can give consistent return with such a low standard deviation? What does make us that we consistently deliver quarter after quarter for 13 quarters in spite market volatility, despite Nifty moving here and there, we consistently deliver this kind of standard deviation.

Feroze Azeez: So let me clarify again. So I think, sir, I missed your name. Arman. Arman, so when you look at any number, any variable, you can calculate the standard deviation for. Correct? Yes. Like Nifty has a standard deviation, like you rightly said, it has thrown up a daily standard deviation of 18. And client's portfolio standard deviation is a separate topic. That's not what I alluded to. If at all, I was misunderstood. If at all, I'm just saying.

Now coming to the quarterly results, which we have given. So the first two quarters were a COVID based. So we ignored those COVID bases and tried to see how much we have grown year on year for a quarters. And there you would see that we sometimes do 31%, sometimes 32%, 33%. The worst one I could see was. I'll just try and explain it to you. So bear with me. So when I say that 4.3 is the standard deviation, it is the standard deviation of these numbers, which I am now going to read out to you.

Q4 FY23, we grew by the worst after we got listed, which was 23.4% year on year growth for that quarter. Okay, like that, if I look at all the quarters, like Q1 FY24, we grew by 34%. Q2 FY24, we grew by 34.3%. So if I look at all these quarterly growth, 11 data points are very few in a listed company's life. As time progresses, this will become more meaningful data. So we have grown 33% average, 33.8%, median is 34%. And this 4.3 is nothing but the standard deviation of these 11 data points. Yes, right. I'm just trying to make sure that nobody misunderstands me. So does it answer? Why are we able to do that? Now, let me come to the actual question.

Arman: Yes, that was very clear. That's why I'm telling, because in this 11 quarter or 12 quarters or 13 quarters, which is the data which you are telling about, this is, if we see just Nifty or maybe any other listed companies in the same business, that will be, I'm sure a few of the companies I have read, they are more than 15%. So that's what makes us exceptional. So what we are doing exceptionally well in spite of doing the same work which everyone else is doing.

Feroze Azeez: Everybody has their uniqueness in their own right. Okay, right or wrong? Okay, I would so now, let me tell you why. There are two things. One is this business has a huge advantage, where I am speaking to the same 11,467 people quarter on quarter. If I was selling a commodity, which was hard, whether it was a physical commodity, phones, cars, I would be speaking to about 11,000 different customers every year, every quarter. So that's one huge benefit in this business. Now, do you capitalize on that benefit is a separate story.

Second, if you adopt a portfolio approach, not a product approach, then like Jugal sir said, it's an allocation, right? I don't have to resell the same thing. If a person has decided to put 65% in equity mutual fund, 35% in structure, I don't have to again every month go and reinforce that, right? A client I have whom I am a relationship manager myself. I manage about 19 clients as a relationship manager apart from whatever else I do in the company. I don't have to even have a conversation with them. There is a maturity, it gets reinvested.

So if I was going to build this business on new products, then I have to explain him an art fund sometime, I have to sell him a wine fund sometime, which I did in ABN AMRO unfortunately. So this business has been built on portfolio level management rather than product level innovation. So that is the key reason why same set of people, convince them on a portfolio allocation and then just manage it. You don't have to resell the same thing. So that's one of the key reasons or the only reason. And then you don't have a leaking bucket, right?

You don't do RM attrition, then clients will not leave. Client attrition is 0.28, RM attrition in 1.5 years, 1 person that also is a cleansing. I will not get into that, but people have to fit into my culture. If they don't fit into my culture, then I would let them go irrespective as a company, not as Feroze. I may sound pompous; I would let them go. I mean ARWL whom I'm speaking for.

If there's no cultural fitment, commercial attractiveness doesn't lure us at all, right? So these are some of the reasons, no leaking bucket and portfolio level management to the same set of people, you don't have to re-market. If am launching one structured product for the 2,000th time, do I have to again explain in the future? The collateral benefit of the marketing to the same person at the fourth maturity. Fourth maturity is 30 seconds. 30 seconds are spent on email. So I am trying to cascade the marketing benefit by not being overly innovative at the product level.

Arman: Got it. Thank you.

Feroze Azeez: I tried to capture the essence. I know longish kind of answer.

Arman: Yes. Thanks a lot.

Moderator: Thank you. The next question is from the line of Sunil Shah from SRE PMS. Please go ahead.

Sunil Shah: Thanks for the opportunity. Congratulations, Feroze and the entire team at Anand Rathi for such wonderful performance. Great, good to always hear you on a quarterly basis on the minimum side. Feroze, one data point that you shared, which was 4.3 standard deviation, which is about the profitability growth rate. That's really very, very impressive. And as my previous colleague also shared, so that's really very, very positive thing to know.

And we always want to ask for more. So perhaps we could also do a study on the net profit margin as well and the standard deviation around it. So that would also be one more important message to communicate that not only the growth rate is secured and positive, but also the margin is pretty intact. Lastly, from a shareholder's point of view, the ROE ratio as well. So if the return on equity is also having a very low volatility, that also would help. We can also do the calculation at our end. Perhaps an exercise from your side on a quarterly basis would help us immensely. So a soft request on that. That was one point.

Second is on the clients. We have almost close to 11,000 odd families or clients that we address to is what I understand. Is that correct?

Feroze Azeez: Yes, sir.

Sunil Shah: So how about now tapping the global markets? India has arrived and we have done that. We have faced volatility, everything. The ticket size that we are now talking about INR 1 crore in the domestic market could be significantly higher in the global market. And we have a track record which is so phenomenal of generating wealth for clients. So any thoughts around that? Are we looking at that as a market for the next leg of growth? Anything that you could share with us?

Jugal Mantri: So Sunil bhai, we have got a very large presence in Dubai where we have got a full-fledged rep office. And in the board meeting concluded yesterday, it was proposed and decided that we are going to form a subsidiary in UK to kick start and explore the wealth management opportunities in UK.

So, though it is going to take 6 to 9 months to have the subsidiary come up and it gets incorporated, but there is a plan that having successfully settled and come to a stage at Dubai, let us go out in other market and explore the same. So the plans are already approved for the same.

Sunil Shah: Sure. So Jugal sir and also Feroze, now that the Gift City window is also opened up to serve the global clients and where we can also save on the tax side. So anything there where we can have a PMS or an AIF, which can then indirectly invest also in the mutual fund industry, meaning PMS or AIF, my guess is PMS can certainly do that to invest on behalf of the clients in the mutual fund industry, which will still further up our share of 1.15%, 1.2%, to slightly higher and save on taxes as well. So just a food for thought, just something to think upon or work on that direction or have we evaluated such an opportunity? Can I understand that better?

Feroze Azeez: Yes. Firstly, let me promise you that Vishalji has taken note of the analysis you needed and we will try and produce that on a quarterly basis or at least Vishal sir, you know Sunil sir, right? So we will send that to you. Second, I think just a comment on the positive comment you gave. I think we deserve to give, we are duty bound to try and be as consistent and predictable to a shareholder. That has always been our aspiration.

So we're trying our best to keep this standard deviation low because I think equity investor should have a little bit of predictability. I agree that FD's return is 7% fixed, second decimal. Equity, we have tried really best and we promise, one thing which I want to assure you is with our effort to bring in consistency is going to always supersede super normal growth in a few years, right? You can grow 70% but it's okay, but you have to try and bring consistency. That is what Rakesh sir, who is our professional guru has always guided us saying that become a little predictable, that's where it comes from.

Coming to the ROE and margin bid. Margin, Rakesh sir says that he is not on the call. So let me articulate his mandate to me as one of his direct reports. He says, PBT should not be less than 40% and PAT should not be less than 30%. There we are not too worried about the volatility, but we are very much worried about the benchmarks. It should not be less than this. Even if 44 becomes 42. But that's the key mandate which is given to me, and I try my best to not disappoint my boss, which is Rakesh sir. So that I thought I should highlight. Definitely this volatility numbers will be computed. Jugal sir has answered that about UK market.

Now coming to Gift City, we have this litmus test saying that, if someone else can do it for us, then do not do it. With that, so in the Gift City thing, I am talking to a couple of very - very good friends in the industry who run a couple of large asset management companies and if they have an AIF license already there, I will not try and be so possessive about having an Anand Rathi AIF license.

We have an AIF license, the normal AIF license, which we have so far not used it, but that's a backup product testing platform yet. So yes, sir. We are thinking ahead. Especially what you mentioned, the tax benefits at a subsidiary level, those are also being explored. But since you have asked, we will work a little harder. To be honest, I did not work so hard, I just explored.

Sunil Shah: Sure, sure. Great to hear that. Just my two senses on what we can do as investors or you people running the company to be better. That was the only idea there. That's just food for thought.

Feroze Azeez: Very useful.

Sunil Shah: Sure. So thanks for the opportunity. And I am done. So operator can move to the next question.

Moderator: Thank you. The next question is from the line of Prayesh Jain from Motilal Oswal Financial Services Limited. Please go ahead.

Prayesh Jain: Just one question on if I divide your distribution of financial products revenue by the AUM of the non-PP SP AUM, right, the yield seems to be dropping consistently. OK, now, how do I look at this? And why has this declined?

Feroze Azeez: Firstly, let's take the hypothesis whether my yield is declining consistently. That hypothesis might not be true if you divide it by the average assets. Not quarter end assets. Because market if it runs up, then AUM is a picture, means one click, right, at the end of the quarter. Profit is a movie, right? So movie will have to be compared to the movie. So my yield doesn't drop because we don't give discounts on yield. Even if the client gives INR 1000 crores, I don't give even one paise discount on mutual funds. You won't get a single application.

So yield of our structure products which have matured, if you calculate the yield, yield is always per annum. However, it's been recognized upfront, later, all that. If I look at the yield of structure products which have matured at market value, it is 1.16 -17 and our mutual funds is 1.09. Ok, sometimes what happens is you bring a lot of raw material that could definitely be the reason. Sorry, I didn't highlight that. Now what happens is a client tells you, these are my mutual funds, these are my stocks, take them all. So I will do a change of broker which will eat me nothing for the first 6 months. So my yields will drop on an overall AUM basis. Because I have brought in. If I do a good job of transferring assets and establishing that I am a better mutual fund distributor, that drops my yield unless it gets realigned. Just because I want him in the 14-scheme basket, I will not book his taxes. I would want to wait till it gets into long term sometimes. I will never do surgical cut, right? If somebody says, this INR 5 crores mutual fund and you do a change of broker code. So we will analyze it. If we its require change of Rs 1 crore then we will do only INR 1 Crore now. Because I will also have to look at his tax. and I will also have to see that the scheme is going well, so why should I do it so soon?

So I will not earn anything on that asset. So better my business, sometimes yield will drop. I am just giving you an illustration. And that's the most practical illustration. Because quite a few clients of ours realize that we are one of the okay distributors in mutual funds and they transfer their broker codes, change of broker, as you call it. 6 months, you earn nothing. Does it answer, sir?

Prayesh Jain: I'll come back and probably discuss it with Vishal separately on this. Secondly, on the AUM bit of the structured products, how do you think about the growth there?

Feroze Azeez: It will be in the range of 25% to 35% of my total AUM. If market drops, mutual fund drops, so it will show a larger number. Sometimes when market rise very sharply, it will show like a smaller number. Last year, means at the beginning of FY24, we had 29%-30% in structured products. Now it is lesser because the extent of mark-to-market on the long-only side is greater than in the structured product. So it will range between 25% and 35%, depending on how the market performs. But in a client's portfolio, it's generally in the range of 30% to 35%.

Jugal Mantri: Feroze bhai, I will add to what you said on yield. Mr. Jain, as Feroze bhai has rightly said that as far as concerned with the yield on individual product, there is no change which has happened. So fact of the life is that the yield which I am earning, be it on equity mutual fund, or debt mutual fund, or on the market-linked debentures, the rates are -- in last 3 years, it has not moved more than say a few percentage points. But what happens that when your proportion of one asset class in overall AUM changes, that impacts your overall average yield.

So if you'll see the equity mutual fund, the mutual fund proportion, which has gone up from say 52% to 55%, okay, in the last 1 year, in my overall AUM, there you will find because of this, there is a slight drop. And on top of it, the second point which Feroze bhai has already added, that you will have to consider the daily average balances of the mutual fund AUM. And if you calculate the yield, that will give a clear picture instead of taking only the period-ended number. So anyway, you are more than welcome to have a detailed discussion with Vishal, on the yield computation front.

Prayesh Jain: Awesome. Just again on that AUM bit of the structured product. So you mentioned about mix, right? But given the interest rate trajectory and scenario, would you say that this is a product which could give better returns in the case that the interest rates would decline? And resultantly, you would possibly want to grow this business at a pace which could be better? It is unrelated to the mutual fund business.

Jugal Mantri: Mr. Jain, that is not the objective. To this versus that, the overall solution which as Feroze bhai has explained, I think, Feroze bhai, you can repeat the same about the asset allocation which we have been doing instead of focusing on a single product.

Feroze Azeez: Yes. Mr. Jain, how we look at it, like Jugalji said, we don't do anything which is top-down. If my client's objective is my only reason why I exist. If he has to deliver 14% return with 0.6 beta, whatever helps me achieve that is where I will be married to. Macroeconomic, if interest rates have dropped in some product and my commission is going up, I won't do that. Even I am dying. Now coming to the point of how this works is, if a person has a certain objective, 14% with least risk, 13% with the least standard deviation possible, if there is an allocation of 65%-35%, that will be the allocation.

We will not take a single product and say, this product is being sold, let's sell it. So, we have counseled in fact, Rakesh sir has sacked a person who had more allocation in his book for structured products. I am just telling you this. That's the cultural attribute. A few years back, he found an RM who was in the lure of upfront income, he was selling more proportions to his client of structured products. So, mutual funds or structured products not sold as a combination for a portfolio objective is frowned upon internally.

Prayesh Jain: Got that. That answers. Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we will take this as the last question. I now hand the conference over to Mr. Feroze for closing comments.

Feroze Azeez: Thank you so much, everyone, to join us on this call and be patient with us. And we hope we tried to answer your questions. If you need more information, Vishal Sanghavi, sir, our Investor Relations, Head and Rajesh Bhutara, sir, our CFO are always there. And please reach out to us. We are duty bound to answer them to our best ability.

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

Jugal Mantri: Thank you, everyone. Wish you all a happy 2025.