

**Prudent Corporate Advisory Services Limited.
Q4 & FY22 Earnings Conference Call
June 01, 2022**

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 and FY22 conference call of Prudent Corporate Advisory Service Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and 0 on your touch-tone phone. I now hand the conference over to Mr. Rahul Jaju from Dickenson World Private Limited. Thank you, and over to you, Mr. Jaju.

Rahul Jaju: Yes, good evening, everyone. A very warm welcome to everyone present here for Quarter 4 and financial year 2022 result call of Prudent Corporate Advisory Services Limited. I want to remind you that today's remarks might include forward-looking statements, and actual results may differ materially from those contemplated by forward-looking statements. Any statements we make on this call today are based on our assumptions as of date, and we have no obligation to update these statements as a result of new information or future events. Today, we have with us the management of Prudent Corporate Advisory Services Limited, represented by Mr. Sanjay Shah, Chairman and MD, Mr. Shirish Patel, CEO, and Whole-Time Director, Mr. Chirag Shah, Whole Time Director, Mr. Chirag Kothari, CFO, and Parth Parekh, Investor Relations. I will like to invite Mr. Sanjay Shah to make his opening remarks. Over to you, sir.

Sanjay Shah: Thank you. Good afternoon and a warm welcome to everyone. This is the first analysts' meet call, post listing of Prudent, and I am going to talk about the financial year results. Let me tell you that the overall financial year FY2022 has been an outstanding year for us on all the parameters. So, before I proceed with the presentation, we have already uploaded the presentation copies and the financial results on the website & exchange's so I assume everybody is having the Investor Presentation copy handy. So, whenever I talk, I will give a reference to the slides which I am going to talk about, so I request all of you to go to the slide number three, which is giving the synopsis of where we are basically as far as mutual fund distribution business is concerned. So, if you look at around 31st March, our asset under management (AUM) was almost about ₹49,473 crore, which went up by 60.4% year-on-year. Within this total AUM, equity AUM is almost 92%. If you look at other significant numbers for us, which represent our retail strength, the number of live SIPs that we manage through our large network of mutual fund distributors was 16.37 lakh as of 31st March. And through this 16.37 lakh SIPs, we collected ₹418 crore for the month of March 2022.. So, if you annualize this ₹418 crore multiplied by 12, that number comes to ₹5,016 crore and that is a very strong number on the gross flow side. This number is 10.14% of FY22 closing AUM giving us a growth leeway. We have a unique business model wherein we are associated with 23,763 mutual fund distributors, whom we term as our channel partners on 31st March. We are witnessing a strong

acceptance of mutual fund distributors joining Prudent platform. The number of mutual fund distributors empaneled with us increased to 23,763 in March 2022 from 16,853 a year ago. Almost 7,000 people have shown confidence and join our open platform in last year. Our retail strength is strong & we are ranked number three as far as managing retail assets are concerned as per CAMS Ranking. With a focus on retail AUM, our share in the Equity AUM of the industry has moved from 1.5% in March 2018 to 2.3% in March 22, which has been a robust growth overall. So, that is all about the mutual fund.

If you look at slide number four, Insurance is a very significant business for us other than the mutual fund distribution. We do the business of insurance in the name of Gennext Insurance Brokers & it's a material subsidiary of Prudent. So, last year in FY22, we collected a total premium of ₹254 crore which include ₹111 crore of fresh premium and through this Rs 254 crores of premium we collected ₹36 crore of commission. If you look at the bifurcation of commission ₹25.85 crores comes from the life insurance business & ₹10.23 crore comes from the general insurance business. I can tell you within the general insurance, we have a strong retail book of health insurance. Another important factor I wanted to highlight as far as our insurance business is concerned is that we have almost 6803 point of sales registered with us who help us in mobilizing the insurance business. So, this is broadly the synopsis of the business.

I would love to take you to take you to page number six, which talks about our key financial highlights of 21-22. So, apart from the AUM number I talked about, I think last year's gross inflow was very robust. So, we had ₹16,828 crore of gross inflow which was up by 57.6% compared to the previous year. If you look at revenue, I think our consolidated revenue grew by almost 57.3%, including all the businesses. But within that, the mutual fund has rapidly increased at 64.4%.

I will highlight one point as far as our mutual fund revenue is concerned, as all of you are aware that these are trail or recurring revenue's which gives a very consistent & predictable top line as far as P&L is concerned. If I tell you about operating profit, I think operating profit has gone up significantly higher by 86% in the current year to ₹115 crore which has helped us in improving our operating profit margin from 21.6% to 25.6%, which is an improvement of about 400 basis points. Our cash profit has grown healthy by 75.5% to ₹93.7 crore. On return on equity front, despite being at 28.7% on FY 21, there was improvement in this number by 500 basis points to 33.8%. So, I think these are the key financial highlights.

If you move to page number seven, I think a critical milestone for prudent in its carrier was the acquisition of Karvy's Mutual Fund Distribution Business. And Last year, we acquired the entire mutual fund assets of Karvy, which were auctioned by exchanges. We paid ₹151 crore plus GST for acquiring all the assets after due diligence and all the assets got transferred to our code on 28th of November 2021. The Karvy's business is also retail driven and granular in nature. So, what we acquired by paying 151 crores is that we got ₹8,092 crore of total AUM. Of their overall

AUM, 90% is equity AUM. We acquired almost 33.87 crores of monthly SIP Book, we got 1,63,000 live SIPs for Karvy, we got 4,81,000 investors, and 8,58,000 live folio's. So, I think it was a very great acquisition for us. I think that shows that we were able to deploy cash effectively. Before this acquisition, significant cash was available on the balance sheet. Fortunately, we are not required to leverage the balance sheet because the entire cash was available and that has been very, very effectively used for acquiring the Karvy assets. One point I will just want to highlight, which is important from the quarter of Q4FY22 results. Karvy assets were integrated on 28th of November. However, we received commission from AMCs for the entire month of November. On 27th March, we got communication from AMCs stating that they will claw back the brokerage from 1st November to 28th November. So, if you look at the Q4 number, there is a one-time adjustment which has happened. So, whenever I come to that point, I will just try and explain, that. This is all about the numbers.

Now, please move to, Page #8, which talks about the consolidated financial performance. So, if you look at as I already told you that the year has been very robust. So if you look at commission and fee income in totality has gone up by 59.5%. So, our top line on the commission side has gone up from ₹277 crore to ₹442 crore. Within that mutual fund, revenue has gone up from ₹231 crore to ₹380 crore which is a growth of 64.4%. Total revenue from operations which includes a mutual fund, insurance, stock broking, and other products all put together forms 450 crore which was also up by 57%. If you look at the top line grew by 57%. The operating expense expenses grew at relatively slower pace of 49.4%, which has resulted in a significant operating leverage for us. So, our operating profit has grown from ₹61 crore to ₹115 crore, which was a jump of 86.2%.

I think one point I want to highlight here is related to depreciation. So, if you look at between FY21- FY22, depreciation has gone up significantly by about 5.5 crores. When we paid ₹151 crores for acquiring the Karvy assets, I just wanted to say that ₹151 crore has been capitalized as an intangible asset in the balance sheet. These entire 151 crore will be written off in straight line method over the next 10 years which will have some impact on the depreciation side. So, if you add that amount, if you look at the cash profit of Prudent, so profit after tax is at 80.3 crores and cash profit after tax is 93.7 crores, so almost about 16% to 17% is the additional revenue comes in case of cash profit because these Rs. 15 crores right off will happen every year for next 10 years and probably from the analyst point of view I always request all of you guys to look at our cash profit rather than the profit after tax. One another important point, which I already told you that our return on equity had grown significantly from 28.7% to 33.8%. So, I am not touching basically on Q-on-Q - numbers, which we might cover in the question answers.

So, now I just want to go straight to page number 11, which gives you an idea about the Prudent as an organization. So, I think the important highlight as far as point page 11 is that consciously if you look at the history of Prudent, we have established ourselves as pure mutual fund distributor. If you look at the last couple of years, we started moving from pure mutual fund

distribution player to a multiple product distribution entity. Because of that, if you look in FY19, our insurance revenue was only 0.2%, in our total revenues, which has moved to 8.19% in FY22. Insurance contribution is now in high single digits & we believe that insurance with a low base can grow strongly in year's ahead. Point of sales number is increasing very fast which will give traction to this vertical. So, all put together, we have a significant visibility of insurance to grow high in our system.

I take you to look slide number 12, which talks about key financials of the organization. Our EBITDA margin has been growing consistently, so these are the data of 4 years we have provided from FY19 to FY22. If you look at our EBITDA, has moved from 17% to 25%. If you see below that cost to income ratio; actually, this is the data which we took for expenses without the commission because commissions is a variable expense. So, if your top line increases probably in the same percentage commission will also increase. So, what is important for us to look at is how we are managing our non-brokerage expenses. So, this is the ratio which talks about our expense without commission fee divided by total revenue from operations. That is where the operating leverage has started playing in our favour. We believe that will continue to help us over time. So, which was about 26% of our cost to income ratio has come down close to 20% in FY22 and if you look at commission and fee income, it is also growing at a steady pace of 27.1%, and most heartening point is the cash flow from operations. So, this year we generated 89 crores of cash flow from the operation which is growing at a 93% CAGR in last four years. I think this is a very important parameter for us. So, this was mainly about the key financials.

I will now take out page number 15, which broadly talks about how we should look at Prudent as an organisation, what's our differentiating factors and how we should look at Prudent within the entire wealth management. So, I want to give you a little background, today if you look at the entire wealth management industry, the model which people follow is the relationship management model. Where people hire the employees, an employee manages the customer relationships and the employees are always on a fixed cost, which is very high and variable will be based on the performance. So, that is one business model. While another business model where we are, I can tell you in the same sector nobody's there in listed space. This is a unique position for us, which is aligning our interests with retail mutual fund distributors with whom we work on the revenue sharing model and these are entrepreneurs & we do not have any fixed commitment with them & share the revenue based on the business mobilized by them. We call this model as a B2B2C, which is business to business to customer model.

Globally, there is a very prominent model called the broker-dealer network where small IFAs or small mutual fund distributors align their interests with the larger players. The later who takes care of all activity other than the customer advisory.

So, the same role has been played by the Prudent in the country today and we are very, large in that segment. I can just tell you a couple of differentiating factors between the employer

model and the entrepreneurship model is that we do not carry significant fixed cost pressure in entrepreneurship model. It is a pure variable model. Secondly these are the people who are self-motivated because they own the customer, they own the businesses, so they are continuously driven by themselves. We definitely drive them but they are the self-motivated people and once you reach a particular threshold, you continue to do business on your own. Another important thing would be in case of the MFDs they are the people who take care of customers relationships. The second would be I think it is a business which is very asset-light and we generate significant cash. So, if you look at our business model, it is required to create a branch infrastructure and create the digital infrastructure, and today, when I am talking about Prudent, has already a setup of 111 branches across the country, and we already created a very large quality platform on the digital side called Fundzbazar,, Policy World, Wise Basket, Credit Baskets. So, as far as creating digital and physical infrastructure is concerned, we have invested everything which is required to be done. Incrementally, we might require to invest a very small amount. The third important parameter is to become one stop shop solutions to our MFDs for their customers by introducing new products to our platform. So, I think these are the differentiating factors of the Prudent on the back of these; let me just tell you to take you to page number 16.

So, I think this is very, very important slide sir because this is in case of a mutual fund if you understand, we received the trail income, which is consistent you get the trail on the daily average AUM. If today my AUM is ₹50,000 crore, for example, and I am getting 1% trail of that AUM than divided it by 365 days, so I earn revenue on a daily AUM.

So, if you look at the left-hand side, it represents the daily average AUM for the entire fiscal year of FY21 & FY22. In FY22, we earned revenues on a yearly average AUM of Rs 39,847 crores. We are starting FY23 with an opening AUM of Rs 49,473 crores which is 24.15% higher than the daily average AUM of Rs 39,847 which will provide us with an immense growth leeway. So, when it comes to FY23, we start the year with an AUM which is 24.15% higher than the last year's average. So when we start the year, we already start with a higher base wherein if everything remains constant, our top line is likely to grow up by 24% only because of this number, so that was one important point I wanted to highlight.

We look at slide number 17, which actually talks about how the AUM gets constructed over a period of time. So, if you look at this, we have taken data only for the equity AUM. So, our equity last year was ₹27,049 crore and we ended the year with ₹45799 crore. So, there are three components of this growth in AUM, one is net sales which has happened during the year, which is about ₹5,079 crore which are 18.7% of my last year's closing AUM. Then ₹6,356 crore which is the marked to market gain, which is 23.5% over last year AUM, and we got the inorganic acquisition. So, the Karvy has also supported us. So, if we do not take ₹7300 crore,

then also we had a very strong organic growth, and fortunately, we could be able to utilize the cash for acquiring Karvy. So, all put together it was a robust growth in the last year.

I think I will take you to Slide #18, which talks about how our equity AUM is doing, which is supported by a strong SIP book. If you look at this chart, which says that our share in the equity AUM of the industry has increased from 1.5% in 2018 to 2.3% in FY22. One important point I want to tell here, we always talk about a lot of noise of Direct/Passive etc. We always talked about FinTech players getting a lot of momentum, t. So, despite of there being a lot of noise around the FinTech platforms, Prudent is able to capitalize on the growth momentum & grew our market share.

So, I will now take you to page number 19, which talks about the granularity of the business/ So, one important point I want you to look at is the SIP AUM as a % to Overall AUM of Prudent which stands at 41.9 percent.. If you look at the chart below, it tells that the total gross inflow which is contributed by SIP. Now, this number is, very important. In 2021 almost 48% contribution came from SIPs. So, for eg. if I did Rs. 5000 crores gross sale then out of that Rs 2500 crores came from SIP. Just wanted to highlight that SIP shows lot of steadiness and visibility of growth. Last year SIPs contribution to gross inflows fell to 32.9% as we received a lot of lumpsum inflows due to buoyancy in markets.

Absolute SIP number has gone from 8 lakhs to 16 lakhs, which is about 20% CAGR. Monthly SIP flows has grown right from Rs. 205 crores to Rs. 418 crores. Our market share in SIP flows have increased from 2.9% in FY18 to 3.4% in FY22. This is another number to validate that in spite of there being a lot of noise around the FinTech platforms, we are able to grow very significantly.

Slide number 20 is basically about the growing number of mutual fund distributors in our system and it is very, very important because this is our backbone & a strong pillar of our growth and if you look at this, I think the mutual fund distributors of the country are showing significant trust to us. If you look at last two years chart, March 20 to 21 and March 21 to March22 in last two years alone, we got almost about 10,000 people. So, post pandemic, a lot of people has joined the platform. If you look at the right-hand side of the chart how many people are less than two years, how many people have joined between 2 to 5 years and above 5 years. So, if you look at the first row almost 45% people have joined Prudent network in last two years. So, they are still going to become stronger over a period of time. So, here are 10,000 people who have joined in last two years, but their AUM is only 11%. But if you look at their contribution to new business, it is significantly higher. So, in the new business they contribute 15% to gross sales. So, we feel there is a very strong tailwind, which is going to support our growth going forward. The chart below tells what is the concentration of partners in our system and then if you look at my top 50 partners or top 100 partners, so top 50 do not contribute even 9% and top 100 partners were contributing 13.84% for us. right. So, the concentration risk is very low.

So, I think this is all about Prudent, I think I just come to the last slide which is the slide number 21 which talks about finally, if you look at the road ahead and what is the growth momentum, what are the levers of growth, it is not related to any forward-looking statement. But I think this is a business which is purely a recurring trail driven model where you can have a lot of sustainability. There are four five points I wanted to say, which will help us in consolidating our position and generating significant top line as well as bottom line growth. So, first point is that our opening AUM of Rs. 49,473 crores as on April 1st 2022 is 24.50% higher than last year's average that is going to help in our top line by same percentage if everything remained constant. Second is my SIP book which gives me a strong visibility. So, my opening AUM is 49,473 crores and my SIP flows is going to be Rs 5000 crores which is almost about 10.1% of opening AUM. Third important point is as I explained, we are moving from a single product to a multi-product with the help of 23,763 distributors, we will be able to actually scale our product, and which will definitely help significantly in the cross selling opportunities. Fourth point is, within the last two years, about 10,000 mutual fund distributors joined us. If you look at the last five years, we got almost 75% of mutual fund distributorsthat joined us. Their contribution to the overall AUM is 36% only. So, very strong tailwind has been created by us who has joined the Prudent bandwagon, and I am sure they will definitely start contributing significantly over a period of time. Last but not least, it is a company which generates significant cash. Last year we got an excellent opportunity and we wereable to capitalize that on acquisition of Karvy. Going forward, we believe we will continue to generate significant cash which will open a door for us for inorganic opportunity and rewarding shareholders. So, thank you very much. With this, I will just open the floor for Q&A.

Moderator: Thank you very much. Our first question is from line of Shivani Singh from Wisdom Capital. Please go ahead.

Shivani Singh: Sir, I have two questions. My first question is can you tell me the commission structure for MFDs. How is it structured and we have quite young MFDs. So, would commission increase over time once we extend our relationships.

Shirish Patel: Basically, commission structures are not based on the vintage with the company. It is based on the assets or the AUM with the company. For the last 10 years we are following this kind of model. As and when the selling partners' AUM increases, the shares of the commission also increase. At the same time, we keep on adding more and more distributors, so on an ongoing basis to those who are starting fresh obviously their share is lower. But as you asked the question that with the recent addition of the sub-brokers over a period of time the commission structure should increase- I think my answer would be no.

Shivani Singh: Okay. Thank you for answering this, and my second question is, sir, I want to know the roadmap we have going ahead as we generate cash, how we plan to utilize it, and how we are going to invest it.

- Sanjay Shah:** Actually, if you look at the cash that was available till last year, has been used by us effectively in acquiring Karvy. Probably, we believe this is the industry that is growing rapidly. Still, with this rapid growth, I think consolidation is probably visible and we would like to keep that cash balance strong to do some acquisitions. So, we will probably give a year or two years to explore some quality opportunities. Otherwise, we will go to the board to find the solution.
- Moderator:** Thank you. Our next question is from the line of Lalit Deo from Equirus Securities. Please go ahead.
- Lalit Deo:** Sir, my first question is we recently read about some news flows about front running in the mutual fund industry. Have you seen any impact on the recent inflows which we are garnering? Sir, we have been reading news about the front running, and controlling one of the mutual funds so, there was a bit of negativity towards the industry. So, are we seeing any impact of that in the mutual fund inflows which we are getting in April and May?
- Shirish Patel:** I can talk about our business, not about the industry. Looking at our business, we have not seen any impact because of all this news. We looked at our numbers in the last few months and the net sales number are better. So, I don't think that any impact on the negative news coming in the industry has impacted our flows.
- Lalit Deo:** Sure, sir again, in the first quarter, the NFOs are not being as we understand there are limited, no NFO. So, how do we project as gross and we also net fund flows for FY23?
- Shirish Patel:** Gross and net, flow as I said, I think if I didn't hear your question right.
- Lalit Deo:** Sir, I was saying, because in the first quarter and was not there, will you see any impact on the business because of non-NFOs.
- Shirish Patel:** NFOs, if you are talking about last financial year, there were many NFOs that has supported the industry in terms of gross flows, as well as some part of net flows also. Our business, the contribution of NFO in the total gross sales, we believe is lesser than the industry share. So, we don't have much focus on the NFO side. The last two months, gross flows & net flows are better than same month's last year. Yes, NFO many times make some impact on the sentiment side & helps to activate our channel, but there is no specific impact of not having NFOs in the last two-three months, but starting July, we believe that there are a few NFOs lined up. So, if the first quarter probably that will be recovered in next quarter.
- Lalit Deo:** Given that the markets have remained volatile in the last two months, sir, are we seeing any risk for SIP close, or how are we reading about the SIP inflow?
- Shirish Patel:** Despite the market being volatile, our SIP inflows are positive for the last two-three month. On the net book also, we are growing, so even SIP book as of March, and as of now, I think the

book has grown. Over a period of market cycles, more investors are becoming mature, assuming that this kind of volatility is there for a few months or a few quarters probably that might not impact the SIP flows. But if market volatility continues for a longer-term, then probably we may see some kind of volatility on the SIP flows

Moderator: Thank you. Our next question is from the line of Rohan Mandora from Equirus Securities.

Rohan Mandora: In your introductory remark, you alluded to claw back from the Prudent in November. Sir if you can quantify the amount of claw back and the net impact on the P&L level because of that.

Sanjay Shah: So, Rohan, I think it is the approximate number, which I can tell you about Rs. 3.4 crore is the top line which has been clawed back by the AMC. Either in the month of March or in the month of April and against that in November we paid 97 lakhs to the channel partners which was related to the Karvy business that also be recovered from those channel partner so if you look the top line impact is about 3.4 crores and bottom-line impact is about 1.24 crores in the month of March. So, actually if you look at when you want to compare Q3 and Q4 I think the impact on the top line will be the Rs. 3.4 crores multiply by 2 because for your next quarter it was plus Rs. 3.4 crores and in this quarter, it is minus so here we have to plus and in next quarter we have to minus. So, it's actually a 7% impact because last quarter topline was 107 crores against that if you look at the 7 crores input it is almost about 7%.

So, it is one-time impact so the bottom line is impacted by Rs. 2.4 crores, top line is impacted Rs. 3.4 crores, that's a onetime impact so if you look on the totality, I think it's impacted by 3-3.5% on 80 crores P&L.

Rohan Mandora: And sir, in terms of the business the year mix which is currently origin in-house what was that mix out of the total Rs. 49,000 crores of AUM. Sir the AUM which is a originated by not by the MFDs but by the employees which earlier was around high single digits of the year. So, where would be that mix be now as of FY 2022 end.

Shirish Patel: We will see almost 8% currently contributed by B2C channel and 92% is contributed by the B2B business.

Rohan Mandora: Okay, because Karvy had a relatively higher share of B2C direct to customer so despite that it has fallen to 8%.

Shirish Patel: Earlier we were around the 9-9.5% in B2C as you say that the Karvy has a bigger share of B2C by right now is almost 8% in B2C and 92% in B2B.

Rohan Mandora: Sir lastly, what do you understand about the RM bandwidth that we have now, how it is split between say servicing the MFDs of greater than two-year vintage originating new MFDs and servicing the new MFDs or having a new MFDs who are having vintage below two years? How

should we look at that and in terms of the capacity that is available and the productivity that can flow in from that segment of less than two years MFDs?

Parth Parekh:

So, as a trend we believe that two things are happening because of this online adoption. The bandwidth of RM has increased. Earlier, everything used to be manual, physical meeting used to be there, a number of transactions which used to happen in the mutual fund were more on a physical side. Two things have happened- One majority of the mutual fund transactions have moved to online, so the servicing availability at the branch level has increased. Secondly, earlier the communication or distributor meeting or the channel partner meeting used to be only physical mode. Now because of various online modes available and acceptability of online meeting modules, the bandwidth of RM also has increased so that one single RM can handle more and more distributors now. The second question- irrespective of the market condition every year there is always a focus on adding new distributors in our kitty. All over RMs are having KRA to recruit also the new distributors every year. So, that focus always remains. Servicing is one part but partner acquisition also remains our primary KRA as well.

Rohan Mandora:

And sir lastly, could you share the data keeping question what is the split of trade payables and receivables across businesses as of March?

Chirag Kothari:

So, with regard to trade receivables, the total amount was 93.75 crores, out of that 43.36 crores pertains to mutual fund business. So, outstanding from AMC is at Rs. 43.36 crores and the balance receivable is from some broking clients. So, as you are aware, this is a consolidated number and Prudent Corporate, Prudent Broking and Gennext are the key component's. So, the number is from Prudent Corporate & Prudent Broking. With regard to trade payable total outstanding is 120.56 crores so out of that 44.76 crores are payables to MFDs and Rs. 75.67 crore pertains to the stock broking client.

Moderator:

Thank you. Our next question is from line of Neha Sharma from Pearl Globe. Please go ahead.

Neha Sharma:

Sir, my question is, what would be a steady-state, a steady-state number of EBITDA margin, as we have seen our margins have expanded this year, can you throw some light on that? That would be very helpful.

Sanjay Shah:

See your question is, what is EBITDA margin or how much EBITA margin are we going to sustain that inflation? We believe that operating leverage is going to play out in our favor. I will just give you one example, I already told you that you could look at my March AUM and the SIP book. I assume that even if you assume the same number to remain constant, my topline can grow by about 25 to 30% in that range, while we already completed our FY22 review, and the total salary is likely to grow up by about 11.75%. to 12%. See if you look at the major cost component in our business is the employee cost and then all of the administration cost which are pertaining to rent and others which is very small and that is not likely to grow more than 5 to 7% or 8%. So, overall, I believe that the operating leverage will continue to play out in our

favor and hence EBITDA margin will continue to grow. At least the near-term visibility is very clear.

Neha Sharma: Okay. Do you think that this margin is sustainable or there is further scope of expansion?

Sanjay Shah: So near term I believe the margin is sustainable because virtually because if you look at it's an industry, which is going at the rapid pace. So, your call has to be if you believe that the industry will grow at a higher double digit over the period of next five years that is number one and number two is within that what is the potential scalability which we have without spending a lot of money on the infrastructure as well as on the operating side. So, I think second question, I am very clear that we created a lot of infrastructure on digital side, physical size, we have the quality in house team who is handling this customer servicing and so all that part is very steady & we need not spend much. On the top line if you look at the industry estimates, we believe industry is likely to grow at a very rapid phase & within the industry we have grown significantly at a better pace if you look at any period of growth, we have shown our capacity to grow at rates better than the industry. So, growth is good on mutual fund distribution side. On the insurance side, we have seen that potentially we are feeling that the significant growth trajectory is still visible & so if we combined both factors- topline visibility is good. I think operating costs will remain control.

Shirish Patel: One more point, we would like to say that last few years our focus on adding multiple products has increased. As Sanjay Bhai, already said that infrastructure is ready. At the ground level we have 111 branches & the back-office support is in-place and, 23,000 MFDs are working with us now and when we add any new product, the additional cost incurred in launching a new product is very low. So whatever we get as a business adds to our net margin. With that logic also, we believe that operating margin or operating leverage will sustain or improve.

Moderator: Thank you. Our next question is from the line of Ansuman Deb from ICICI Securities. Please go ahead.

Ansuman Deb: My question was regarding the employee cost. So, this has jumped this year for many reasons. Obviously, we have grown also, so if you can just give us some guidance on the way ahead for employee costs and also in terms of the number of employees, which are there in various business divisions, in the sense that when we expect going ahead operating leverage to play out this number has to be more or less stable or not grow at that rate, because this is the main item of cost. So, if you could just spend some discussion on the employee cost, it will be really helpful.

Shirish Patel: So, if you look at employee cost our major employee cost comes by way of the sales team. If you look at the cost in last financial year or rather, I would say the last few years we kept on adding more and more branches and in our IPO presentation, we had shown that in the sales, last four financial year, we added almost 50% of the sales team member. Now we are sitting at

such a situation that incremental manpower required for servicing is very negligible. So, those who are not contributing to the revenue side, adding that kind of manpower requirement will be very insignificant. To cater to our existing set of distributors, there is no need to add any manpower, whatever manpower we are intending to add in this financial year that is mainly if we add new branches or if we believe that there is a potential in any branch or any market, wherein by adding one more manpower, we can get more distributors. So, that kind of things are happening. Percentage cost escalation, because of the planned manpower growth is very less and as Sanjay Bhai already said the wage bill additions for this financial year could be in the range of around 11 to 12%. Additional manpower plan, probably the total cost could be in the range of 13 to 14% escalation on the employee costs. As long as we believe that revenue growth is higher than 13-14%, operating leverage will play out.

Ansuman Deb: Just a follow up on that in the sense that apart from this sales force as the people in your employees were catering to the CRM holders, apart from that, the internet properties etc. would have very little employee cost involved with them.

Shirish Patel: Current infrastructure can cater to the increased business volume as well as assuming a normal growth what we are talking about 20, 30, 40% growth in the volume, we do not require to add any manpower in the servicing line. However, assuming that the volume becomes two times three times probably that time we might have to add 10% 20% of the manpower, but in the normal business situation, as we said that servicing staff or the servicing manpower apart from those who are in sales is very insignificant.

Ansuman Deb: Right and you said it was like 13% kind of growth in employee cost which can happen.

Shirish Patel: Yeah, of course it can happen in this year.

Moderator: Thank you. Our next question is from line up Akshay Che from Exponent. Please go ahead.

Akshay Che: Sir I want to understand if we have a long-term trend year. Let's say look at FY17-18 your revenue as a percentage of your AUM. How has it changed only on the mutual fund business or equity part of the mutual fund business that needs to be more specific compared to let's say FY22? How has it evolved? How has it grown. that would be great to hear some trends on it?

Shirish Patel: Basically, I think these two features are not comparable. Two reasons I will say. Till FY19 to be specific October 2018 there was up front revenue in the mutual funds. So, whatever business we used to do during that time we used to get the upfront revenue as well. Secondly, from April 2019, there was a TER cut in the industry on the entire book, if you look at the total commission had come down by almost 15-16 basis points. That is a reason even if you look at total revenue growth in 19 and 20, probably you might see that gross revenue growth was not there mainly because there was a cut in the TER and hence the brokerage was reduced on the book and second is the earlier upfront revenue in 2019 and 2020 there was an adjustment.

During those days, there was two components of the commission that was an up-front and a trail and now only there is one component that is a trail. The trail we earn on current assets are equal to better than the trail we used to earn earlier. So, trail has not come down in last two three years rather it has gone up.

Akshay Che: If you could say after regime change how has it changed to let's say X month. So, from the quarter after that to now, how has it changed or is it expanded?

Shirish Patel: So, basically from 2019 onwards if you will now compare with will after 2019 how the yield has moved up there are two three things, I would attribute towards that obviously, as we all know that with higher or increasing the size of the scheme, the Commission reduces or the chargeability or to the scheme also comes down by the AMCs as well and hence the commission comes down but this is the ongoing process that every month AMCs will reduce assuming that this AUM size goes up the **TER** ratio comes down hence the commission level on the scheme may come down. So, from 2019 onwards every month the new business whatever we are doing new business is already priced in so it is not like that we just changing the size of the scheme might further commission people down it is not happening because whatever business we have done, it is not getting impacted whatever new business we will do that will be based on the new commission what the AMC is announcing now, if I look at the trend in last three years, probably the trend is still stable. I won't say that the trend has come down. Two reasons again I would say because many old assets which were there prior 2019 where the upfronts were taken, on those assets that trail commissions receivable were lower rather I would say that last two-three years whatever money is moved out and come in, probably the commission chargeability on those assets has gone up. There was loss on upfront may be because of repricing that will say that because of the churning that has helped to increase the yield. Net in last two-three years, I think the yield on the asset is same that there is no difference. Incrementally also, we do not see there will be a major change. As I say that every month yield is adjusted because the new business is happening on the new rates only. Look at the trend even if you look at my last year's business also, to almost you can say that 25% of our AUM whatever is AUM end of the year or the beginning of the year, 25% by way of the new business last year. So, we take last year's AUM so almost 25% is on our new pricing so this is the ongoing process, we do not see there will be a major impact on the yield price. Having said that, going forward, we do not see that the gross yield might improve. Gross yield might not improve but the mutual fund side, but when you look at Prudent as a consolidated level, because of our focus on other products because of the cross-selling opportunities, what we are looking at, of course the yield on the Prudent total portfolio might go up but not on the mutual fund portfolio.

Akshay Che: So, sir just as a small clarification. So, let's say if I invest one crore rupee in 2019, when scheme has a certain expense ratio, the commission percentage is decided at that point and then irrespective of the TER of the scale, the Commission gets fixed at the basis of that one crore AUM growth right. Is that correct?

- Shirish Patel:** Assuming that your investment has happened in 2020 whatever rate AMC has given me on that particular day that will continue today also.
- Akshay Che:** And the rate is a percentage of the expense ratio they charged is that correct?
- Shirish Patel:** Average AUM yes, so I think you have invested ₹1 crore today the value is ₹1.2 crore. We get the percentage on ₹1.2 crore that is the value.
- Akshay Che:** Yes, sure just so what I was trying to better understand is, let's say, I invested ₹one crore in 2020 at 1% and at the end, the TER of the scheme was 1% Let's say of which they are spending a certain x percentage, let's say 50 basis points on generating distribution, right. So, that 50 basis points is constant right, or 1% divided by two stays constant.
- Shirish Patel:** AMC do not communicate the rate based on the percentage of the TER. AMC always communicate the rate on the percentage of the investment value or the current value.
- Shirish Patel:** Obviously the methodology could be whenever they announced the new rate, their methodology internally could be the percentage costing, but when they announce to the distributors, they just announced a percentage of the business
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management from Prudent Corporate Advisory Service Limited for closing comments.
- Sanjay Shah:** Thank you very much. I think I just wanted to say thank you on behalf of entire management team who was part of this call for all the participants and the other business analysts who have been part of this call. Any additional information which you can require any point of time, I think the number of paths has been provided or you can reach out to the Dickenson for that. Thank you very much.
- Shirish Patel:** Thank you so much.
- Moderator:** Thank you. On behalf of Prudent Corporate Advisory Service Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.