Date: 31.01.2025

To,
The National Stock Exchange of India Ltd,
Exchange Plaza,
Bandra – Kurla Complex,
Bandra (E), Mumbai – 400 051
NSE EQUITY SYMBOL: **PRUDENT**

To,
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400 001
SCRIPT CODE: **543527**

ISIN: **INE00F201020**

Sub.: Transcript of the Conference Call for Un-Audited Financial Results for the quarter ended December 31, 2024

Dear Sir/Madam,

With reference to our earlier intimation dated January 22, 2025 and in terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of the Conference Call with analysts and investors held on January 28, 2025 in respect of the Un-Audited Financial Results for the quarter ended December 31, 2024.

The same will also be available on the website of the Company at www.prudentcorporate.com.

Please take the same into your records and do the needful.

Thanking you,

Yours Faithfully,

For, Prudent Corporate Advisory Services Limited

Kunal Amrishbhai Chauhan
Digitally signed by Kunal Amrishbhai Chauhan
Date: 2025.01.31 11:02:27 +05'30'

Kunal Chauhan
Company Secretary
Membership No: ACS- 60163

Encl.: As Above

"Prudent Corporate Advisory Services Limited Q3 FY '25 Results Update Conference Call"

January 28, 2025

MANAGEMENT: Mr. Sanjay Shah – Chairman and Managing Director
Mr. Shirish Patel – Chief Executive Officer and Whole-Time Director
Mr. Chirag Shah – Non-Executive Director
Mr. Chirag Kothari – Chief Financial Officer

MODERATOR: Mr. Shubham Prajapati – ICICI Securities

Moderator: Ladies and gentlemen, good day, and welcome to the Prudent Corporate Advisory Services Limited 3Q FY '25 Results Update Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shubham Prajapati from ICICI Securities. Thank you, and over to you, sir.

Shubham Prajapati: Yes. Hi. Good morning, everyone, and welcome to the Q3 FY '25 results con-call of Prudent Corporate Advisory. We have with us management of Prudent Corporate Advisory Services Limited, represented by Mr. Sanjay Shah, Chairman and Managing Director; Mr. Shirish Patel, CEO and Whole-Time Director; Mr. Chirag Shah, Non-Executive Director; and Mr. Chirag Kothari, CFO.

Now we would request the management to start with the opening comments, post which we can open the floor for Q&A. Thank you, and over to you, sir.

Sanjay Shah: Thank you, Shubham. Thank you and good morning to everybody. I welcome you all to the earnings call. I thank you all for spending your valuable time to join us today. I hope you have the investor presentation handy with you because, during the discussions, I'll be referring a lot of slides which have been given in the investor presentation.

So before I start discussing the current quarter number, please turn to Slide 20, where we have showcased a compelling story of how mutual fund distributors can exponentially scale their business by aligning with a platform like Prudent. Top 2 bar illustrates how Prudent's AUM has outpaced industry's regular AUM growth for last decade. While the industry has grown at a steady 18% CAGR, Prudent has achieved a remarkable 36% CAGR, growing at twice the pace of industry.

What is even more striking are the 2 charts at the bottom. Here we compare the growth of our top 1,000 MFDs with those of industry's top 1,000 distributors. To ensure a fair comparison, we have excluded banks from the industry data. The results are extraordinary. The industry's top 1,000 distributors have grown their AUM at a CAGR of 18.6%, multiplying their AUM by 5.5x in last decade.

However, in comparison, our top 1,000 distributors have achieved an impressive 41.1% CAGR, multiplying their AUM by a staggering 31x. This data clearly demonstrates unparalleled growth potential of partnering with a platform like Prudent. It's evident that such an alignment is not just beneficial. Even it is essential for the mutual fund distributors who aspire to scale their business exponentially.

Now please turn to Slide 21. This slide highlights how leveraging technology within our platform has accelerated the growth for our top distributors. The slide segments our top 1,000 distributors into the group of 200 each, one in first 200, then 201 to 400 and 401 to 600 and likewise, based on the AUM. The first chart on the left-hand side shows the percentage of AUM on our technology platform FundzBazar by these subgroups.

So from top 200 distributors, you will see that, a significant 72% of AUMs, they have on our FundzBazar, while the 800 to 1,000 distributors group, this figure is only about 52%. The correlation is clear when we examine the 10-year growth rates. Top 200 distributors who use FundzBazar extensively have achieved a 45% CAGR in last 10 years.

In contrast, 801 to 1,000 distributors group has grown at a slower pace of 30%. Technology adoptions directly impact the number of clients a distributor can handle; the top 200 distributors managing an average of 730 clients vis-à-vis the category of 800 and 1,000 who manages 164 clients.

So these Slide number 20 and 21 collectively emphasizes a powerful message; partnering with a platform and adoption of technology are 2 critical driver for the exponential growth for the mutual fund distributors. So we thought we'll just try and tell you what are the growth drivers of people aligning their interests with Prudent.

So now please move to Slide number 43. Coming to the Prudent numbers, I would like you to go to the Slide 43. The chart on the left-hand side of the slide states our AUM on a closing AUM basis as of December end. And we are 7.4% higher compared to 9 months average AUM. However, I just wanted to tell you that in the current month, due to significant corrections, as of yesterday, our AUM is down by almost about 6.1% due to mark to market. So from INR1.06 lakh crores, we are now close to INR1 lakh crores.

However, I want to categorically call out that the retail sentiment is very much intact. Our net sales in first 9 months is 50% higher than what we did in last full fiscal of 2024. The redemption ratio at 44% within the last quarter is much lower than the 30-quarter historic average of 60%.

The gross new active investors added in first 9 months of our fiscal is already equal to the number of active investors we have added in last entire financial year of 2024. Our monthly run rate of adding 20 crores SIPs is still continuing, and we are continuing to add the same number in the current month also. So if you look at the chart on the right-hand side. Quarterly average AUM is up by 3.4% sequentially and 44.6% on a Y-o-Y basis.

Now come to Slide 44. We have shared the details of what moved our equity AUM on a Y-o-Y basis and quarter-on-quarter basis. As seen in the left-hand chart, closing equity AUM has moved higher by 38% Y-o-Y to around INR1.02 lakh crores, with 40% of the movement being contributed by net sales, and the balance by mark-to-market gains. Net equity sales, as stated, during the last 4 quarter has been really strong at INR11,654 crores.

If you see the right-hand chart, which shows the movement in equity on a sequential basis, equity AUM has declined by 1.2% mainly due to negative mark to market of 4.7% in last quarter. However, our M2M losses were lower than the Nifty 500 downfall of 7.7% in last quarter.

Now please move to Slide 45, where in our bottom left we have given the data on monthly SIP flows and our market share in SIPs. During the month end, our monthly SIP book has touched INR935 crores. We have added INR280 crores to our SIP book in last 12 months, and we are confident to touch the mark of INR1,000 crores by March 2025.

In the month of September, we collected INR143 crores through systematic transfer plan. This number is reported by us on the actual realized basis. The STP value of INR143 crores is not included in the SIP number which I have talked about. Now let me turn to the current financials, so please move to Slide 48, which is the last slide of our presentation, which talks about the stand-alone number.

Now let us look at the revenue front. On the revenue front, you would have seen a sequential decline in other financial and non-financial product to the tune of 21%. This is mainly triggered by fall in the AUM of P2P product which we are distributing, called liquiloan. With the implementation of new regulations by RBI around August last year, there is no fresh inflow in this segment. And with no fresh inflow, existing AUM is going to run-down due to constrained maturity.

In FY '24, we earned a gross revenue of INR13 crores from P2P distribution. And in first 9 months of the current fiscal, our revenue stands at INR6.6 crores. If you look at the bifurcation of first 9 months, the last quarter alone, which is the quarter period previous to this quarter, that means September quarter alone, we earned INR2.56 crores. And the December quarter, we earned INR43 lakhs only. So there was a significant drop of INR2.1 crores in the P2P segment in this quarter alone.

However, on the other side, there is a strong growth in the PMS, AIF as well as fixed deposit vertical. Our average AUM PMS, AIF in first 9 months of the current fiscal has doubled to INR1,060 crores from full year average of INR605 crores of last year. Our closing AUM in the PMS, AIF segment as on 31st December was INR1,270 crore, so this reflect a significant growth from previous year in the PMS and AIF. And we believe PMS and AIF is a pure, pure trail-driven product which is very, very aligned with the mutual fund business for us.

Now coming to another line item, which is the stock broking. So on the stock broking too, sequentially, revenue has fallen by a third. Large part of this fall is attributed to a fall in transactional revenue owing to a heightened volatility and fall in the market. Also there are some teething issues which we have faced in the last quarter due to the merger of Prudent Broking with the Prudent Corporate, which also led to an incremental revenue fall in the particular segment.

However, in the -- particularly in the broking segment, let me tell you that, in the current quarter, very soon we are going to go live with margin trading facility. A large part of our broking revenue comes from cash segment. And we believe this will be a good value-added product for our broking clients.

Now trying to address another revenue item, which is our treasury income classified as the other income. And if you look at there on a standalone number, our other revenue has also fallen by 26% from INR5.8 crores to INR4.3 crores. It's mainly because of mark-to-market losses on our small portion of money which we have invested into equity. So I'll just tell you that we have roughly about INR15 lakhs, INR16 lakhs of SIP going on per month. And we have hardly about INR10 crores, INR12 crores of exposure in the equity book.

I think in that mark-to-market losses came in the last quarter. So that is also, I think, one of the reasons for fall in the -- so I think there are a lot of things which has impacted the revenue item. And that's the reason you will see that revenue has -- came under pressure in spite of there being an almost 3.4% growth in the average AUM. And mutual fund revenue has grown in the same line.

Now another major change you will see is in the commission and the fee expense item. Sequentially, the payout ratio has increased from 63.4% to 64.6%, so let me just try and address this also. So by end of second quarter, that is the end of September quarter, we rolled out a scheme of additional trail for our partners based on the net sales did by them in the current financial year.

So the partial cost of that based on certain projections was provided by in -- for 6 months. However, when we were preparing the result for the December number, we reassessed the possible costs because of the additional trail. And as I've already told you, that there is a significant higher net sales which is done by us or our distributors in the current quarter. And so I think we realize that there is a need to make higher provision for the same due to strong net sales which we are witnessing.

Hence, we need to provide additional 6 crore towards this. And out of the 6 crore, we have done an extra provision of 3 crore in this quarter. And balance, we will be providing based on the actual number in the March quarter. So this was on the payout front. So despite the challenges, our stand-alone revenue and profit in the quarter grew by 42% and 43%, respectively, on a Y-o-Y basis.

Now let me take you to the consolidated number slides, so move to slide number 47. On the insurance front also -- I think the insurance revenue de-grew by 15.6% sequentially to INR28.6 crores, which was led by a fall in the life insurance fresh premium. So if you look at industry as a whole also, if you look at the data for individual new business premium for LI, industry also has de-grew by about 10%.

On account of changes in the surrender value which have been implemented by the regulator from 1st of October, the rate structure were not clear. And because of no clarity which has emerged from the manufacturers in the first month, I think the October month was significantly impacted. So that has led to a fresh premium at a very low level in the month of October and mid of November.

So however, business is much better in January when I'm talking about to you compared to December. We are expecting the business is likely to be reasonably okay in this quarter. So now finally looking at the consolidated profit for the entire quarter, which grew by 35% Y-o-Y to INR48.2 crore. Additionally, our treasury book has reached INR330 crores, which is also giving us a war chest to grow inorganically.

So to summarize the result. Slower growth in revenue is mainly because of non-mutual fund product like P2P, broking, insurance and the treasury book. The dip in margin was mainly led by the management call to announce additional trail based on the net sales to our distributors. Despite challenges during the quarter, our profit grew by 43% Y-o-Y. Our growth is driven by flow through retail investors which is predominantly coming through SIP, which -- with an average ticket size of INR2,900.

This reflect the strength and the resilience of our retail base. The SIP are ingrained as a disciplined habit rather than a discretionary investment, so this solid foundation reinforces our belief in the structural shift towards mutual fund and positions us for the sustainable growth. So I think, with this, I'll keep the floor open for question-and-answers.

Moderator: The first question comes from the line of Swarnabha Mukherjee with B&K Securities.

Swarnabha Mukherjee: Sir, first question is on the flow part of the business. So just wanted to understand that in -- I mean, till the -- December, the number looks fairly strong, but -- and you have given some qualitative idea also in your opening remarks, but if you could give some clarity in terms of quantitatively, like, the INR935 crore SIP flow number that was there in monthly in December. What it will be broadly in case of January because we are almost closing January now.

And in terms of net sales, how it is panning out, again, in January; and given the mark-to-market impact that is there in the market, how much de-growth broadly we should expect here in the 2 particular months in terms of the -- in terms of our overall AUM. So that is the first question. Incrementally, sir, in terms of the MFD activation and getting new business, I just wanted to know from you what is the situation right now.

Because the kind of correction that is there in the market would have occurred after a good amount of time. So wanted to understand how you were seeing in terms of MFD activation in that space. And again, in the -- in terms of the distribution of financial products, we are also seeing a lot of players like fin-techs and entities who were in broking earlier now starting to focus on this line of business both through a digital medium as well as, I think, through an intermediated medium.

So wanted to understand how you are gauging the scenario. Would the competitive intensity go up further in the space? How you are seeing that. So that is on the mutual fund business. On the life insurance business, I just wanted to understand that the blended commission rate has come off this quarter, I guess, because of the surrender value change in the commission structure.

So has it kind of stabilized? Or should we see any further compression going forward also? Your view on that, yes. So these will be my questions.

Sanjay Shah: I'll -- I think -- Shirish to address with -- about the SIP net flows, which is about the MFD additions and the new business, yes. Shirish?

Shirish Patel: So yes. Because of the market correction, I think, last 7, 8 days, we have seen some drop in the new business, but we are confident that we should be able to achieve the new SIP numbers which will be higher than my November and December number. So January till date also, whatever we have done and what remaining days we are anticipating. Probably January business would be higher than what we did in the month of November, December.

Similar would be the case in case of fresh sales as well. So fresh sales also, last, though, 4, 5 days, I think I will say that volumes have dropped significantly, but January month, still we are hopeful that we should do better fresh sales compared to what we did in the month of November and December. Coming to the net sales side, I think we are very, very confident that net sales also will be higher than what we did in November.

We were anticipating January to be a very great month compared to what we used to do in last 1, 2 quarters. Because of the correction, we could not deliver the extraordinary number in the month of January, but surely we'll be able to do much higher than what we did in the month of November, December. So that, we are very, very confident on.

Second point was the MFD activation. So yes, new business has come down. The volume has come down in last 5, 7, 10 days, but MFD activation in current month also is the same like what we used to do in the previous months. There is no drop in the number of MFDs participating in this particular month. MFD acquisition, new MFD acquisition is rather a little higher than what we did in last 2, 3 months, so that parameter also, we are on track, so we are not much worried about it.

The another point, the blended yield because of the surrender value. Blended yield has come down mainly because of 2 reasons. One definitely is the surrender value changes post October. And second is some business mix, mainly because in this quarter our new business in life insurance has dropped. So that has attributed some drop. And secondly, product mix also has changed.

So earlier, we never used to do the ULIP product. Now at least 7% of our business is contributed in the ULIP product. And that also has brought down a little bit of the blended yield. Hopeful that the blended yield should stabilize to the current level. I don't think that I think it should change mainly, but yes, I think it should stabilize at the current level. Your another point was the other product with the new competition, fin-techs and all these companies have started selling.

Mainly we talk about 5 products apart from mutual funds. One is the P2P. Our growth in P2P was very high, but mainly because of this rule change or the RBI new guidelines, we stopped selling the P2P products from August, onwards. And hence, there is a drop. So, I think we are not hoping that the P2P revenue will come back. So that could be the major loss in the near future unless we replace it by some other product.

Coming to the PMS side, PMS and AIF side: We have grown that pie, so that is helping us to compensate some loss from the P2P business. FD is a new vertical, new business. Historically the revenue was not great in the fixed deposit business, but incrementally we are doing a better volume in the fixed deposit business, so that is a positive thing. Stock broking, earlier also, we used to contribute around 3% to 4% of our revenue. We don't see a major movement on the stock broking business side.

And insurance, we are very, very hopeful that the numbers should come back. And one positive things which we would like to highlight now, till date, we used to do the broking -- and the subsidiary called Gennext Insurance as a broker. We also have started doing insurance business in the name of Prudent with a corporate agency. And recently we have launched insurance business on our same portal, FundzBazar, where we distribute mutual funds.

So that could be a positive trigger, so we are hoping that the insurance also should become stronger over a period of time. I hope, I think, I addressed all your questions.

Swarnabha Mukherjee: Yes. Understood, sir. I just had some follow-ups on this. So in terms of the product distribution by competitors also, I just wanted to ask that. I mean many -- I think a couple of large companies have also announced getting into mutual fund distribution as well. So is that a risk to our model in any way? I just wanted to understand that.

And second thing, in terms of the chart that you have shared that is very insightful -- but I wanted to understand that, among the 1,000 distributors in the industry, top 1,000 distributors in the industry, how many of our distributors would broadly figure out there? And what would be their growth rate vis-à-vis the remaining in the top...

Shirish Patel: So first part, I think, let me answer second part, Sanjay Bhai will come in. what I understood, I think you are trying to ask that there are a few other platforms who enter in the B2B mutual fund distribution business. Is my understanding right?

Swarnabha Mukherjee: Sir, even B2C also. There have been intend which has been shown.

Shirish Patel: Mainly if you look at -- when you are talking about B2C. Historically all of them -- or majority of them are mainly on the direct plan side. Obviously, if you have seen the number, definitely the direct plan is growing faster than the regular plan, but within regular plan, I think we are very, very confident that we should be able to maintain our market share. Or rather we should be able to increase the market share on regular side.

Direct plans may grow faster than the regular, but that does not mean that the regular plans or the regular distributors might not grow. That is our view which we are holding for last many years, and still we are holding on that particular view. Second part, I think let Sanjay Bhai come in and answer. Sanjay Bhai, are you there?

Swarnabha Mukherjee: Yes, yes, yes. If you can highlight on the top 1,000 distributors part?

Sanjay Shah: Yes, yes. So the top 1,000, what we did is that any -- so what we did is we took the current list of top distributors. We strike off all the banks. And those who are occupying the top league or the top table today, they should be in the business before 10 years. And those are the lists we have compiled, so which includes NJ & Prudent also. Because all the banks has been removed. But I don't think that none of my distributor would be a part of industry because, anybody who is working with me, that ARN would not be there in the industry. Because that ARN would not be forming part of at least top 1,000.

Swarnabha Mukherjee: Okay, okay. So the top 1,000 is not necessarily individual, but includes NDs also?

Sanjay Shah: Yes because that was very difficult because ND, RD and other is a very difficult thing for you to classify. And we got this number audited by a chartered accountant. So it was very difficult for you to classify because it's always based on your own perception. So we just removed the bank and all non-bank top 1,000 players have been taken.

Swarnabh Mukherjee: Okay sir. Understood. Very helpful. Thank you so much and all the best.

Moderator: Thank you. The next question comes from the line of Dhaval from DSP Asset Managers. Please go ahead.

Dhaval: Congrats on good quarter. Just had a couple of questions. First was relating to where we are in terms of AUM and where we closed in December. So assuming the 27th Jan number holds for the rest of the quarter: So from an earnings perspective, it should be like a 5% kind of decline from where we were last quarter. Is that how one should think about it or like just trying to understand mark-to-market it has how much impact from where we are?

Sanjay Shah: No. So if you look at, I think, the -- you look at the average AUM to closing AUM chart which we have provided. So last 9 months average AUM and last quarter average AUM is roughly about -- close to INR1 lakh crores. And today, we are at INR1 lakh crores. So actually if you look at from INR1,06,000 crores to INR1 lakh crores. I think average would be in the range of INR1,02,000 crores.

There should not be any pain if we got closed around that, but if you fall from here then you have to keep in mind that there is a strong what Shirish also said and I am also telling you. There is strong sales. Still I think the retail is not hugely impacted. So if you assume that my INR950 crores, INR1,000 crores kind of a SIP which I have been getting. If that money stays in, then -- which is almost about a percent.

And if in coming times you don't see too much correction then I should be reasonably with a couple of percentage variation. So frankly Dhaval you need to do a projection of what is going to be impact of mark-to-market and if it remains here then we don't see much impact.

Dhaval: Understood. Sanjay, what I was referring to was the third quarter number, but I understand your point that 9-month average is by and large almost similar, so it should not be too much different. So that point, I understand. The other bit which I wanted to clarify was on the non-MF side.

Directionally, how -- what is the kind of growth that one should expect in next couple of years from this? From a net revenue perspective, what kind of growth you are budgeting in for the non-MF revenues?

Shirish Patel: Yes. Non-MF insurance is our biggest pie. In insurance mainly it is life insurance and health insurance. Life insurance main revenue comes from the fresh business. Health insurance main revenue comes from fresh as well as the renewal business. If you look at our health insurance growth as a book side also, we are growing far better. Our entire focus mainly to grow the total book of the health insurance.

And we are very hopeful and confident that the business is growing and surely it's going to grow faster, mainly after Prudent launching the insurance business under FundzBazar. So till now also the 9 months number in the health insurance business is...

Dhaval: Shirish, we lost you.

Chirag Shah: Yes. Sanjay bhai, I will just come in here. So what we wanted to say was that till 9 months health insurance business has been much better. In fact, we almost also crossed the last full year fresh business of health insurance in the first nine months.

Dhaval: Yes.

Chirag Shah: Yes. And another part was life. In case of life insurance, there may be some kind of a slowdown, but overall health insurance will compensate for the same.

Sanjay Shah: So Dhaval there are three parts. One is the major revenue comes from the insurance and probably what Shirish and Chirag is trying to say then. Overall, we feel that it should be reasonably better. We don't see a lot of pressure on that particular part once things get stabilized on the revenue part.

On the broking and the PMS AIF. So if you look at the non-mutual fund, non-insurance: We do a distribution of all the financial product out of that P2P has been removed and P2P to a large extent in last quarter has been already replaced by the PMS, AIF because the book has almost doubled. From INR600 crores of book which we had in the last full year, this year now that book is about INR1,060 crores and with a closing AUM of INR1,200 crores.

So we believe that revenues generated on INR1,200 crores AUM will definitely compensate the fall of P2P next year. Rather, it will give you more better revenue. I think, the FD business which we started in last 6 months, 9 months that also should better over a period of time and broking, which was the transitory phase. Now broking is also with the M2M and everything. I think it should do because they are very small base.

Except insurance remaining small products are of small base and they should do definitely much better, but we do not have any projection that by which percentage it will grow.

Dhaval: Understood. So Sanjay, just to complete this point. So if you look at 9-month net revenue growth of the non-MF side, that is about 25% roughly INR124 crores versus INR99 crores. So that growth trajectory by and large should continue is what I was trying to get through. That you're very confident, net-net with these new changes that we've made?

Sanjay Shah: Yes.

Dhaval: Okay, got it. And just last bit is on the opex side. Any thoughts in terms of what kind of opex growth one should assume for next couple of years like what kind of growth? Assuming AUM again -- I mean I'm just trying to think on its own, how much should be the opex growth isolated?

Sanjay Shah: So actually the opex also, if you look at the current fiscal we added almost 16 branches. Incremental cost is visible on the opex side, mainly because of rent, electricity, conveyance because this is all related to branch expansion. I don't think today we are at 135. I think Shirish will definitely come in and say, but I don't see significant rise from here onwards.

So you can look at the inflation plus kind of about 8%, 10%, 12% kind of growth on the opex side without assuming significant addition on the branches. On the manpower front, I think the salary growth will still continue to be a little bit elevated than the normal because of the competition which is emerging. So I think salary growth will be there, but overall I think it will be -- overall opex should be within the range of 12% to 14%.

Dhaval: Understood. Perfect. Those were the questions. Thank you Sanjay and all the best.

Moderator: Thank you. The next question comes from the line of Prayesh Jain with Motilal Oswal. Please go ahead.

Prayesh Jain: Sir, just a few questions. Firstly, your SIP market share has been falling: 3.7, 3.6; 3.5 now. So is it because of the competition that is emerging from the discount brokers or the direct route? And how do you see this trajectory going ahead? Second question is on the new arrangement that you have done with MFDs of giving a higher trail.

Now on the other side you have your AMC who were kind of linking their commissions to the TER. And in a growing AUMs times probably we'll see a decline in TER. And that would lead to decline in commissions, so in that period we are increasing the sharing. So is it because there's a -- structurally, does this business change towards much higher sharing now?

And we should assume that this sharing ratio that we've reached in this quarter or probably slightly less than in the current quarter because some of the effect would have come in on the previous quarter and this in 3Q. So do you think that structurally we could assume a higher sharing going ahead for the next couple of years?

Sanjay Shah: Shirish?

Shirish Patel: Yes. So coming to your first point, that SIP share is reduced by around 10 basis point or something. Here, obviously, I think the market share of all these Fintechs in the direct plan is growing. I think that today if you look at the direct plan contributes significantly in the SIP growth. More and more SIPs are coming through the Fintech and directly through the AMCs. When you look at the total industries also, direct will grow faster than the regular.

So obviously, I think, when you look at the total market share on the industry, we might be similar or a little lower, but when you isolate into the only regular we are gaining the market share. On -- in terms of regular, I think definitely the growth rate is much higher than the industry's regular growth, so there I think you -- we are very, very confident on.

Your second point is that when AMCs are talking about pressure on the margins and why Prudent has increased the cost by offering the higher additional trail. Obviously, I think we believe that this is the time when the sentiment was really good. I think if you exclude last 1, 2, 3 months, if you see that -- we believe that I think this is the time to pedal up to the growth on the business.

So obviously and that actually has helped us, if you look at our net sales-to-gross sales ratio has improvised. Obviously the more and more contribution is also coming in last few quarters. If you add in the total costing, the new business what we have done in the last quarter also will increase some kind of costing. Third important and the most important point I would say that more and more -- as you know, that our commission structures are the tiered structures.

So as the distributor becomes bigger and bigger and bigger, obviously they get a little higher share. In terms of AUM share. Now I think more and more people have migrated from the smallest to the little higher structures. So that also has contributed a very little thing on the higher sharing, but I don't see that incrementally it is going to be very costly affair or it will impact the margin in a big way.

Obviously, percentage margins, we'll be able to maintain. Absolute margin might come down because as the size of the scheme grows, the receivable comes down. We'll not be able to maintain the absolute margin, but obviously I think the percentage margins, we should be able to maintain. So we are not seeing any big problem in that.

Prayesh Jain: So the current level should sustain, right?

Shirish Patel: Yes, it is sustainable at least for the near future.

Prayesh Jain: Okay, got it. And just the clarification: If -- you mentioned you have 1,200 crores of AUM in AIFs and PMS together?

Shirish Patel: Right.

Prayesh Jain: And what kind of revenues would you have earned out of that product in the quarter?

Sanjay Shah: So it's about INR4.31 crores in the current quarter, so if you annualize that it's roughly about INR16 crores. Based on the current quarter, I think the yield will be in the range of 1.3, 1.4.

Prayesh Jain: Got that. And sharing is similar as mutual funds or other products?

Sanjay Shah: No, it's much better than the mutual fund. Because mutual fund blended yield which we report is 90, 91 basis point. Here I am talking about 1.3 basis point because here you get the GST over and above your regular yield while in case of mutual fund, whatever you receive GST has to be paid out of pocket.

Prayesh Jain: Okay.

Shirish Patel: Same absolute margin is higher.

Prayesh Jain: Absolute margin is higher. Okay, got that. Thank you so much sir and all the best.

Moderator: Thank you. The next question comes from Lalit Deo with Equirus Securities. Please go ahead.

Lalit Deo: Yes. Sir, just two questions actually. One -- so right now we are hearing that a lot of AMCs has been rationalizing their distributor commissions. So just wanted to get a sense like how should we see our commission yields, gross yields, for the next couple of years going ahead? And what would be the impact of the same on the top line as well as the bottom line?

And secondly, like, when we look at the insurance business. So just wanted to know like how is this business trading, doing in the month of January? Are we back to the normal volumes in the life insurance or is it still lower than what we have envisaged?

Sanjay Shah: Shirish?

Shirish Patel: So yes. I think few AMCs have cut their commission in last few quarters. We believe that the bigger ones already have started or they already cut. This is mainly because -- if you see the AUM growth in last 2 years, 3 years and that has impacted AMCs' margins severely. And hence they have cut commission. Whether this kind of cut will continue or will go to all the AMCs, I think the opinion might be a little different compared to what you might be thinking.

Yes, I think few AMCs might come in to cut historical assets. Obviously, when the historical assets on certain schemes is reduced, it might impact the gross yield, gross revenue at the aggregate level, but the impact might not be that great. Because, last 2 years as and when the sizes become bigger and bigger, the AMCs have already reduced the commissions on the new business.

That depends on how many AMCs do come in to cut the commission and which all schemes they cut the commission. So today, if you see, I think hardly four, five AMCs have cut the commission on the historical assets and that too on -- not on all schemes. So only time will say that I think which all AMCs and which all schemes they cut the commission, but till now whatever they have cut is already absorbed in the system. And you can see that, I think, we could be able to maintain the margins on the gross side.

Coming to the net side, net yield side also because we believe that as and when the AMCs cut the commission for us, simultaneously they also will cut the commission for the MFD community or other distributors as well. So whenever they cut our commission, we are also able to pass it on the commission in the -- almost the sharing ratio to our distribution, so we don't see that, that might impact our net margin in a big way.

Shirish Patel: Insurance business, I think, still now -- so I'll answer 2 ways. One is the health and life. As I said that health insurance, we are very, very bullish & aggressive. And definitely, I think, last few quarters, we have improved our health insurance business, and that we believe it is most sustainable and long term in revenue.

Health insurance, probably, January, we have done the highest-ever number with a huge margin. So that is a very, very strong message we would like to give. Life insurance side, yes, we might not be able to see the numbers what we did in 2023, but compared to the last quarter, definitely we have done the better number till now in the month of January. And we are hoping to continue similar kind of number in the next 2, 3 months.

Lalit Deo: Sure, sir. And sir, just 2 data-keeping questions. So one was just a confirmation. Like, in the MF commission payout ratio, that has increased to about 54.6%. Is that right?

Sanjay Shah: So Lalit, I think, the payout ratio which I just gave you, there is some additional provisioning of about INR3 crores, INR3.5 crores in the current quarter because of additional trail linked to net sales which we announced at the end of last quarter. And that's the reason there is additional provisioning of INR3 crores.

So if you adjust that -- so I think we -- there is additional cost of INR6 crores in these 2 quarter -- this and next quarter. If you rationalize to full year, I think the impact will be about 1 basis point.

Moderator: The next question comes from the line of Dipanjan Ghosh with Citi. Please go ahead.

Dipanjan Ghosh: Just a few questions, first on the mutual fund business, if you can kind of give a qualitative understanding of how do the commission yields really get restructured. For example, when you -- when the AUMs have declined at such a sharp pace, I had assumed that the absolute quantum that you will be getting from your asset management partners would also go down.

So in terms of the commission yields, are they on a daily basis of AUM? So how does it really work, both from what you get from the asset managers and what you pay out to your underlying agents on an absolute basis? How does it kind of -- how does the construct really behave?

Second, you mentioned that your December-to-yesterday AUMs are down 6.1%, but if I look at Nifty mid-cap, small cap, mid-cap is down like 9%, small cap more than 10%. So I just wanted to get some sense of is it the underlying scheme mix or asset management mix? Or what is really driving this relatively better AUM movement compared to what we are seeing in the broader market?

Lastly, on the MF yield part, while you've already answered. One of the asset management companies seemed to be suggesting that, on incremental flows, they are moving to more of a mirror pricing -- or rather linear pricing of the expense ratio with the distributor commission bill? Do you see that more of a structural trend, or is that specific to 1 or 2 asset management companies? So these are the questions on the mutual fund side. I have 1 or 2 questions on the insurance also?

Shirish Patel: AMCs are adjusting their payouts based on the latest TER. I think, last few years, AMCs are repricing the new business every month. So every month, we are getting the commission based on the latest DTR or the latest marginal TER of the AMC. So I don't see that -- any changes in the AMC's business in the new pricing.

The only new thing which is happening in last few quarters is the repricing the older assets. That has been done by few AMCs. And mainly I think those schemes wherein the AUM has grown very, very significantly. And that is where few AMCs have done it. We don't see that all the AMCs will follow to cut the historical AUM, but on the new business, all AMCs are doing. And they are doing for last many years. It is already in routine, daily routine, daily pricing, so we don't see any impact on that.

Second point you said, that -- the average AUM. So if you look at last quarter's, average AUM was around INR1,02,000 crores. And today -- this month, our average AUM till now is around INR1,02,000 crores, around. As on right now our average -- our AUM is INR1,01,000 crores, around. So as of now our average AUM in the month of January is almost similar to the average AUM of last quarter, but as of now we don't see any big change in the commission.

Your third question was the -- I could not understood your first question, but it was, I believe, the absolute commission, what we should be or will be getting from the AMC, and the absolute commission, what we'll be passing on to the distributors. Is that the question? I couldn't understand first question right. Dipanjan?

Sanjay Shah: No. He wanted to understand how you get. So it's basically based on the daily average AUM...

Shirish Patel: So it's an industry norm that the commission is based on the daily average AUM. Same is the rule for what we distribute.

Sanjay Shah: And Dipanjan, your question regarding our ability to do better than the industry -- than the Nifty 500 is you are very, very true. Because if you look at -- we said in our commentary also last quarter our AUM, due to mark-to-market, has fallen by 4.5%, while Nifty 500 had fallen by 7.7%. Similar is the case in the current quarter also.

Overall broader market, and the small cap, mid-cap has fallen at a pace more than what we have fallen. So if you look at -- if you add the net sales, roughly about INR800 crores to INR900 crore, then our fall is definitely better than -- we are able to control the losses of the investor because we are reasonably about 18%, 20% in the multi-asset allocations and the hybrid category.

And the exposure is definitely -- I think it's a -- we have the versatile book which is having an exposure to various category and that is the reason. And my belief is that even the fund management industry is also doing better in this fall, recent fall.

Dipanjan Ghosh: Sorry, as I got dropped off, but yes -- sorry. I have 1 or 2 questions on the insurance side. In the last participant's question, you mentioned that Retail Plus Life is doing well, but on the Life side, the volume should be lower than '23. Did I understand correctly, the '23? Or '24. I mean last year or the year prior to that. When I look at the life new business, let's say, this year, Jan '25, versus, let's say, Jan '24 -- how that is shaping up?

Second, in terms of now, let's say, competition from some of the other POSP players. Now incrementally you are also doing ULIPs. I would assume that some of them are also selling ULIPs and other products. So do you see a possibility that, over a period of time, some of the POSP partners can make a shift?

Then second question and last question is on the expense growth. When you mentioned that your expense growth will be like 12%, around, for the next year, that only includes core employee expense, other expense, depreciation and finance costs, right?

Sanjay Shah: So let me address the third question first. I was just giving a general expectation that, in the current year, the employee costs and the operation cost is a bit elevated because we have added a lot of branches in the current year. So if I consider that, next year, growth is not going to be as significant as what we did in the current year, then the operating costs of rent and others would remain more or less in the range of 8% to 10%.

And employee -- we still continue to believe that the cost of salary rise would be a little bit higher than an average, so I'm assuming that would be in the rage of 12% to 14%. All in all, you can expect that 12% to 14% growth should come on the operating expenditure. I think the depreciation would be rock steady because we do not have any significant addition which will bring more cost from the depreciation side.

I think finance cost is practically 0 so there will be no change in these two items. Overall, we expect that the next year growth -- looking at the current year base, then 12% to 14% should be the range for operating expenditure, which include the employee costs also. Shirish, now you can address the insurance and the ULIP.

Shirish Patel: So the point what you asked that -- it was 2023 when this rule of INR5 lakh taxability has come in, so 2022, '23 was the best year for the life insurance business. So that is the reason why I said that, this quarter, we don't -- we will not be able to break what we did in '23. We are not talking about '24, but '23 was an exceptional year in the life insurance business. So that was the point.

Coming to the other POSP: Yes, I think -- the insurance business side, I think there are many other companies focusing on the POSP business, but we always have focused on the POSPs from the cross-selling perspective because we already have more than 34,000, 35,000 distributors; ARN holders working in mutual funds with us. We normally are not in the competition in the open market for the POSP business.

We always believe that all the mutual fund distributors or the ARN holders who are doing insurance business either somewhere outside with the manufacturer or the insurance companies directly or those who are not doing the insurance business -- I think we'd normally try to cater to that segment of distribution.

So there is no overlap with other companies focusing aggressively on the POSP market from the open market. They are in existence for last 4, 5 years in the similar business, so -- they are doing their own business. We are doing our own business, so there is no overlap, big overlap, between the POSPs.

Dipanjan Ghosh: Okay. Sir, just one small follow-up. I mean when I look at 4Q '23 insurance numbers. Obviously, I mean, across the industry, it was obnoxiously high, which I think many of the companies might not be able to -- or distributors might not be able to repeat in this year also, but if -- if you exclude the one-off sales that would have happened in 4Q '23 -- if I just look at 4Q '24 as a relatively normalized base.

On that, do you see a positive traction? I mean because I think the industry might still end up with a positive Y-o-Y in 4Q. So would you be in line with the industry? Or do you see the challenges of last quarter still persisting?

Shirish Patel: We might be in line with the industry, but obviously the impact of surrender value is visible, in this quarter, in the industry's number as well and probably our numbers as well. So probably our number also will be in line with by industry's number. We are not saying that we should be able to do the FY'23 number, but yes, it will be better than what we did in the previous quarter. Or think -- or the average number of the -- during the year in the life insurance side. Health insurance side, definitely our numbers will be far better than what we used to do in many years.

Moderator: The next question comes from Nikhil Suresh from Kotak Securities.

Nikhil Suresh: Sir, can you give some color on what is the mix between NFO and non-NFO flows for this year, in the first quarter? And my second question would be is there any update on the back-book revision of commissions, in terms of is there any effect on swinging flows towards other AMCs incrementally, looking at the market dynamics? That's all.

Sanjay Shah: The first question, he was asking more the percentage of sales of NFO in our net sales. So I think that number, we normally used to talk to them. So last -- second quarter, it was roughly about 30%. First quarter, it was roughly about 21%. Last quarter, Shirish it came down to 14%. So last quarter NFO it was roughly on the total net sales, I think the contribution of NFO has came down to 14%. That was the first question. Second, Shirish, you can address.

Nikhil Suresh: Yes, is there an effect on swinging flows towards other AMCs incrementally because of the back-book revisions of commissions?

Shirish Patel: So distribution level. Lately, we have seen there is some movement but not significant, some movement, happening to the flows from the bigger AMCs to mid-size AMCs, but that is not going to impact the overall yield in a big way. Incrementally, yes, few percentage flows might go to the mid-size AMC, which can help us, distribution improving a little yield, but it is not going to impact the gross yield or the book level, so not impacting much.

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

Sanjay Shah: Thank you. I think we could be able to answer all the queries of all the participants. At this time, the -our Investor Relations guy, Parth, is not part of this call. However, if you have any query, you can definitely come back to us or Shirish or anybody who is a part of this call. And even Parth, who handle our IR, he'll be available to address all your incremental queries. Thank you.

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