Ref/No/HDFCAMC/SE/2024-25/11 Date – April 25, 2024

National Stock Exchange of India Limited Exchange Plaza, Plot C/1, Block G, Bandra Kurla Complex, Bandra (East) Mumbai – 400051. **Kind Attn: Head – Listing Department**	BSE Limited Sir PJ Towers, Dalal Street, Mumbai – 400001. **Kind Attn: Sr. General Manager – DCS Listing Department**

Dear Sir/Madam,

Sub: <u>Transcript of Earnings Call</u>

Please find enclosed herewith transcript of Earnings Call for the quarter & year ended March 31, 2024, conducted after the meeting of the Board of Directors on April 19, 2024 which can also be accessed on the website of the Company at: https://www.hdfcfund.com/about-us/financial/shareholders-presentation

Kindly take the same on records.

Thanking you,

Yours faithfully,
For **HDFC Asset Management Company Limited**

Sylvia Furtado

Digitally signed by Sylvia Furtado
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Sylvia Furtado
Company Secretary

Encl: a/a

"HDFC Asset Management Company Limited

Q4 FY'24 Earnings Conference Call"

April 19, 2024

MANAGEMENT: **MR. NAVNEET MUNOT – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
MR. NAOZAD SIRWALLA – CHIEF FINANCIAL OFFICER
MR. SIMAL KANUGA – CHIEF INVESTOR RELATIONS OFFICER

Moderator: Ladies and gentlemen, good day, and welcome to Q4 FY '24 Earnings Conference Call of HDFC Asset Management Company 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

From the management team, we have with us Mr. Navneet Munot, Mr. Naozad Sirwalla and Mr. Simal Kanuga. I now hand the conference over to Mr. Simal Kanuga, who will give us a brief, following which we will proceed with the Q&A session. Thank you, and over to you, sir.

Simal Kanuga: Thanks, Neerav, and good evening, everyone. We'll start with some industry-level data points for the year that has gone by. The industry closed the year with AUM of INR53.4 trillion, Y-o-Y growth of 35%. Net flows for the year came in at INR3.5 trillion. The largest contributor to the net flows were actively managed equity-oriented funds. They attracted INR2.4 trillion in FY '24, a notable increase from INR1.6 trillion in FY '23. The contribution of NFOs to this number was INR546 billion. Over and above actively managed equity-oriented funds, equity index funds saw net new flows of INR247 billion.

Net flows into debt funds were INR83 billion. Debt ETF, at INR109 billion. So that adds up to INR192 billion, though debt index funds had net outflows of INR90 billion. So, all in all, net flows of INR102 billion in debt that is active and passive combined.

The industry continues to set records in terms of monthly SIP flows with overall contribution for FY '24, reaching INR2 trillion as against INR1.6 trillion in FY '23. The SIP flows in the month of March 2024 reached INR193 billion.

Furthermore, equity-oriented ETFs attracted flows of INR293 billion in FY '24. The unique investor base for industry expanded to 44.6 million. That means industry added 6.9 million new investors.

Now moving to us.

We concluded the year with an AUM surpassing INR6 trillion, showcasing a growth of 39% year-on-year with a higher tilt towards equity-oriented assets. During FY '24, we expanded our product offerings in sectoral/thematic space by launching 5 new funds. On passive front, we enhanced our bouquet by launching 5 index funds and 2 ETFs.

Our systematic transactions, that is both SIP and STP, saw flows adding up to INR29.3 billion in March of 2024. This number was INR17.1 billion in March of 2023. Notably, our SIP AUM now represents 37% of actively managed equity-oriented AUM, more or less in line with that of the industry.

We witnessed healthy growth in our unique investor account. We saw addition of 3 million new customers during the year, and the total number of unique investors now stand at 9.6 million with 16.6 million live accounts. For FY '24, industry added 6.9 million investors. And of that, 3 million reposed their faith in us. Lastly, we continue to hold the pole position when it comes to market share in individual investor AUM and second highest in terms of B30 AUM.

Moving to financials.

Our revenue from operations for FY '24 came in to INR25,844 million, growth of 19% Y-o-Y.

Operating profit for the year added up to INR19,000 million, a growth of 22% Y-o-Y with a stable operating profit margin of 35 basis points. PAT for the year was INR19,458 million, growth of 37% Y-o-Y. We would like to highlight that the effective tax is lower, primarily due to a decrease in deferred tax charge for the current quarter, mainly attributed to the holding period of certain investment, transitioning from short term to long term.

Finally, Board earlier today has recommended a dividend of INR70 per share as against INR48 per share last year, translating into a dividend payout ratio of 77%. This is, of course, subject to shareholders' approval. I'll hand over the call now to Naozad before we open for questions for his comments on our operating revenue. Naozad, would you take this?

Naozad Sirwalla: Thanks. Thank you, Simal. Good evening, everyone. So firstly, there is a one-off in this quarter due to year-end true ups. We, of course, try to estimate distribution costs with utmost care and precision, but they are still estimates. As we see it, the same should get aligned -- starting this current quarter. You would have noticed a fall in the direct TER of some of our schemes during the last quarter, and the same has been reinstated to an extent starting April 1, 2024.

For example, for the small cap fund, its direct plan TER decreased from 72 basis points on 31st December to 58 basis points on 31st March and subsequently increased to 63 basis points on April 1. In case of hybrid debt fund, direct plan TER decreased from 127 basis points on December 31, to 119 basis points on 31st March and subsequently increased to 124 basis points on 1st April. Similarly, for the credit risk debt fund, the direct plan TER decreased from 97 basis points on 31st December to 91 basis points on 31st March and consequently increased to 96 basis points on 1st April. The direct plan TER for transportation and logistics & dividend yield fund increased by 7 and 5 basis points, respectively, between 31st March and April 1.

Over and above, we also saw a similar kind of adjustments in case of some of our other debt funds. To sum up this point, there is a one-off, which has led to a bit of extra margin compression. And we see most of it getting realigned, starting first quarter of the current financial year. This would just be a fraction of a basis point, statistically, but that itself is a meaningful amount for us, especially when the same is looked upon from a perspective of a particular quarter.

Finally, I can tell you that our management fees on equity stand at around 59 basis points, 27, 28 basis points for debt and similar 12, 13 basis points for liquid. This is for the period starting 1st April based on the current AUM. So, assuming AUM and asset mix being constant, we should be back at around 47 basis points odd from the current quarter onwards.

I think we can take questions from here.

Simal Kanuga: Yes, Neerav. I think you can start lining up questions.

Moderator: Thank you very much. The first question is from the Dhaval from DSP. Please go ahead.

Dhaval: Thanks for the opportunity. So, I just had one question related to the yield in the quarter. You explained that this is one-time readjustment. I just wanted to understand what led to this larger readjustment -- relatively large readjustment in the quarter. And like in the past, we haven't seen this kind of an impact. I just wanted to get a little bit of background around this. And if you could just repeat the sort of broad expectation of yield based on the current mix that you talked about at the end of the commentary. Yes, that's the only question.

Naozad Sirwalla: Okay. Let me try and explain this. So, the regular plan TER is computed based on the SEBI prescribed formula, while direct plan TER is reduced to the extent of distribution commission, right? Now what the distribution system will sell and how much the commissions are moving are variables, so there's this estimate that comes into play.

If we underestimate commission on overall basis, we need to reverse the expense ratio, so on and so forth. So, without getting into accounting complications, again, I would like to reiterate that what we said earlier, that we are now at 59 basis points in equity, 27, 28 basis points in debt and the similar 12, 13 basis points in liquid. So, to estimate revenues for, say, April-June quarter therefore should be based on these numbers and not the Jan-March quarter number. And as I stated, it is a one-off and has already got corrected to an extent or realigned.

Dhaval: Sir, if you can repeat the guidance that you talked about?

Simal Kanuga: So, it is 59 basis points in equity, 27, 28 in debt, 11, 12, 13 in liquids. So, based on that, if you look at current AUM and the current asset mix, that number would be approximately 47-odd basis points.

Dhaval: Understood. Very clear. And just one last data keeping point is on dividend policy. So, should we expect this to be the revised dividend policy for the company? Or I mean, just how do you think about dividend payout from hereon?

Naozad Sirwalla: So, I think over the last 2, 3 years, you would have seen that we have increased the dividend payout ratio year-on-year, and that's the way the Board has been thinking about this. We don't have a stated dividend policy as a percentage matter. But if you see the historical trend last 2, 3 years, the payout has been going up. We obviously cannot second guess what the Board would do going forward. But at least from the trend, you can see that the Board has been forthcoming in increasing payout ratio.

Moderator: Next question is from the line of Madhukar Ladha from Nuvama Wealth.

Madhukar Ladha: Congratulations on a good set of numbers and actually an even stronger sort of operational performance. So, two things from my side.

First, can you talk a little bit about the competitors' intensity that you are witnessing flows were very strong in the last quarter? And are you seeing increased payouts. And as a result, when you had to sort of pay out more, which is why this adjustment is happening right now. Or just in general, get a sense of sort of competitive intensity in the market.

Second, on your staff costs, there is about INR47 crores impact of ESOP charges. I wanted to get a sense of what ESOP cost will be over the next few years? So those would be my two questions.

Simal Kanuga: So Madhukar, on the first one, I think competition intensity, I think the answer is constant. It is as good or as bad as it has been. The distribution commission payouts haven't really gone up in this quarter. The trend continues to be same over the last few quarters. This adjustment, as Naozad explained, has nothing to do with any kind of excess brokerages that have been paid or anything on those lines.

I'm sorry, I'm just answering on behalf of Navneet. So Navneet has got an extremely bad cold. He's is in the room, running a bit of temperature. So just kind of saving his throat a bit. So that is the first one. I think on the ESOP one, Naozad, would you want to take that?

Naozad Sirwalla: Yes. So, I think when we gave -- when we sort of granted the stock options last year same time, we had given a broad guidance that the total cost of the last year grant was about INR55 crores. The way the amortization works is typically 60-odd percent gets accounted as an expense in the first year, then it drops to around 30% and then 20% and then it rolls off. This year's cost includes about INR47 crores of onetime ESOP cost. This is, of course, a noncash charge. For the next year, I think this number is around INR20-odd crores. But it is just a noncash charge for the company.

Moderator: Next question is from the line of Prayesh Jain from Motilal Oswal.

Prayesh Jain: Firstly, could you just give some numbers as to what were the reasons that you've given in -- at the beginning of April on asset wise. It would be great if you could give some color on as to how they were there in the Q4. And secondly, from a more granular growth perspective, what are your thoughts and plans in terms of investing into some branch expansion? Or how do you see the channel mix evolving in the next 2 or 3 years for us? And lastly on HDFC Bank, per se, what has been the traction there? And how do you see the further momentum in HDFC Bank from the next 2 or 3 years perspective? Yes, those will be my 3 questions.

Simal Kanuga: So Prayesh, if you look at for the quarter, our operating revenue reported is 6,955 And if you look at the quarterly average AUM, right, it was 6,129. So, if you look at that, based on that, it's around 45, 46 basis points is what the number is. Now as against that, I think Naozad earlier mentioned, that number starting as of -- and that you can take on the closing AUM. The closing AUM, so that is we opened 1st April at the 31st March closing AUM. So, on that number, if you look at it, we spoke about 47-odd basis points. So, does that kind of answer your question?

Prayesh Jain: I was looking for more breakup in terms of equity. How much -- what was the equity and debt yields in the quarter?

Simal Kanuga: I think we'll just leave that as a composite number. So, you can theoretically go and look at the expense ratios of all our schemes and do that multiplication. But I think this is where it is kind of Naozad gave a breakup about some of the schemes where the expense ratio had fallen particularly during the quarter and again gone up starting 1st April.

Navneet Munot: See, Prayesh, as you are aware that we started the year by opening 24 new branches on 2nd of January. With that, now we are present in 254 locations, out of the 174 branches are in B-30. In fact, the new 24 branches, most of them were in B-30 locations. And also stated that while we continue to invest in our digital infrastructure, we also need physical presence for the want and the relationship and knowledge sharing that we need to do at the local level as well as the servicing. So, we will continue to invest in both.

Prayesh Jain: Okay. And on the HDFC Bank?

Navneet Munot: So, on the HDFC Bank, I think as we mentioned for the last couple of quarters, we've been progressing pretty well. Our teams have been engaging across all levels. We have done a lot of mapping of their clusters with our clusters, their branches with our branches, their people with our people. We are engaging with various teams in the bank to have a greater synergy and to leverage the most from the potential that has arisen.

The opportunity at hand is very big, and we'll do everything in our capacity to capitalize on it. I think I mentioned in the last call or maybe before that, that we have put in a dedicated resource to look after this channel. And I must say that the engagement levels are very, very high. I just mentioned about the expansion in the physical branch network. This also helps us in terms of servicing these branches. And happy to state that our flow market share in bank's book is higher than the book market share. So that's encouraging.

Moderator: Next question is from the line of Mohit from BOB Capital.

Mohit: So, my first question is in terms of operating expenses. In terms of AUM, it has been around 12 bps, maybe lower than the last year. But I see that it is kind of constant to look at like 3 to 4 years. So, can we actually assume that it is actually difficult even in a good market to go below 12 bps in terms of the operating expenses in terms of AUM?

Naozad Sirwalla: I'll take that. So, see, our total expenses as you said, are 12 basis points for FY 24, right? This is led by people increase, investment in technology and digital. We are quite optimistic on the opportunity in front of us. And we do believe that we have just scratched the surface and are fully committed to embrace any opportunities for investment and expansion. We opened 24 new branches and constantly evaluate additional opportunities for growth and expansion.

Keeping in mind the ongoing evolution of technology, we are steadfast in our commitment to continue to enhance our digital capabilities. So, this year, we saw total cost go up by INR72 crores on an absolute basis at 12%. And if we exclude the noncash charge for ESOP, the costs increased by INR65 crores, that's around 11%. We managed INR6 trillion of AUM, 254 branches, so 1509 people on rolls, around 500 people off-rolls. And for all of this, our total spend is, I think, INR680 odd crores for the year.

So, to put a comparable number that 5 years ago, in FY '19, we have spent a total of INR482 crores. This excludes the fees and commission, there was an accounting change from FY20. And so, our increase over the last 5 years aggregated 42%. So, I think the question of how this will look going forward, we don't want to make any guesses here, but we'd like to state that we have managed the cost well over the last several years.

And there is no reason for us to believe that we will falter on this front. So prudent spending is something that is well ingrained in our culture. Also, let us clarify that we will not shy from investing in the business and we actually go all out and hunt for opportunities to invest. Focus is to create a top-of-the-line asset management company over time.

Simal Kanuga: And actually, if I can just add, right, basically 3-odd years back, we were at 13, 14 basis points. And every bp for us now is INR60 crores. So, we have come down from 14-odd to 12 now.

Mohit: No, no, Right, that's what I'm saying. So, basically in a good market, I mean, is it fair to assume that below 12 bps, it's not possible. And 12 bps -- 12 to 13 bps something that we should expect going forward?

Simal Kanuga: Don't want to make a guess there. Let's see how it goes.

Mohit: Okay, fine. And lastly, in terms of we recruited close on 228 employees over the last 12 months. I just wanted to know whether it's only because of the branch expansion or basically even the general course we recruited these people?

Navneet Munot: I think a large number of them are the salespeople on the ground as we have been expanding and also in some of the other capabilities that we have been building, whether it's alternatives, a lot of people in technology, in digital and client services. So, as Naozad mentioned earlier, that we won't shy away from investing and that includes adding people.

Moderator: Next question is from the line of Saurabh Kumar from JPMorgan.

Saurabh Kumar: Yes. Okay. Sir, 3 questions. So, first is on your run rate revenue. So basically, you said your run rate will now be 47. So, based on that, can we assume that the current mix assumes that your EBIT should come back to the 36 odd basis points now?

Simal Kanuga: 35, Saurabh, right? Last quarter is if you'll take all this -- I think it should remain in that range. So, assume that 47, assume that 12, everything else being constant, then you get to 35.

Saurabh Kumar: Okay. I think I got to 36. Okay, fine. 35 is okay. The second, sir, is essentially, you mentioned that your flow market share is higher, how much higher can you quantify? How much higher will it be?

Navneet Munot: On the flow side, we have always mentioned we don't share that data. There is so much data already available in our industry. From a competitive perspective, we don't share that, yes.

Saurabh Kumar: Okay. Okay. And on the HDFC Bank channel, how much will it be higher with...

Navneet Munot: I talked about HDFC Bank channel. Yes.

Simal Kanuga: So, I think, Saurabh, of out there also, it is higher than what as our book share has been generally in the 25% to 30% range. But the flow share definitely is much more.

Saurabh Kumar: I mean, much more will be like 50% more or 100% more?

Simal Kanuga: So, Saurabh, see I'll tell you where the thing is, right? If you look at overall, our overall share also, I'm talking about ex HDFC Bank also is much healthier because of various factors that you are aware of. And so, if overall share is higher by, say, for example, if our share was x and it is x plus 20% in HDFC Bank, it is better than that. That way I'm saying. 20% is just an example. That's not a number.

Saurabh Kumar: Okay. Understand. Okay. And lastly, so if you just think about your active equity market share over a period of time, so you obviously come down from 17%. It's now going up. It's actually gone up to around that 13% odd mark. So, is 17%, what you were, and let's say, at the IPO during 2018 still aspirational? Or you think that is now a very different -- I mean, that will be difficult to achieve? Because now you have the distribution, you have the performance. Do you think that 17%, you can claw back to?

Navneet Munot: Saurabh, if I remember correctly, we were at 20% 10 years back in 2010s.

Saurabh Kumar: Yes. So, let's say from 2018.

Navneet Munot: As a benchmark -- I mean, on a serious note, the market dimensions have also changed, right? I mean, the largest bank distributor in India, which is almost a closed architecture. You have 3 other large banks, which are highly guided architecture on the retail side. Some of those things also kind of impact the overall growth because you have to compare the right denominator with the right numerator.

But from -- I think, given all the strength that we have, the way we have invested over the years in business, our aspiration is always to keep increasing from wherever we are. And while we feel happy about wherever -- I mean, whatever incremental gains that we have made, but the hunger is a lot more. That's all I can say.

Saurabh Kumar: Okay. And just one final question if I can. So, your slide seems to suggest that of the incremental users which have been onboarded in the industry, your incremental market share is near 40%. Is that like more direct? Or is it because of the bank?

Navneet Munot: It's a combination of everything across all channels, more direct as well as distributor and within the distributor across all channels. So, we've been gaining market share and gaining new unique investors into our fold.

Moderator: Next question is from the line of Saurabh from Multi-Act Equity.

Akshat: This is Akshat from Multi-Act. So, I just wanted to understand one point, the 47 basis points revenues...

Moderator: Akshat, I'm sorry, can you speak a little louder, please?

Akshat: Yes. So, the 47-basis points revenue yield when we think about that, and within that equity when we are understanding that it is 59 basis points, that will be under the assumption of current AUM. But since all the top 3 or 4 funds are now about INR50,000 crores mark, so when we see a mark-to-market gain in these AUM, so what could be the potential impact of 8% to 10% mark-to-market gains in this one on the 59 basis points that we have for the equity as of now?

Navneet Munot: So, I mean, this is what I mention in every quarter, there is no escaping margin dilution due to the telescopic pricing. We did see our active equity-oriented AUM rising by INR1,432 billion during the year. That is like 62% Y-o-Y. And some of our large schemes, if I look at balance advantage funds saw its AUM increase from INR520 billion to almost INR800 billion, resulting in a TER reduction of 13 basis points.

And similarly, our mid-cap opportunities fund grew from INR350 billion to over INR600 billion. That's leading to TER decline of 19 basis point. But this is a happy dilution. I mean, I'll be happy if there is market goes up 10% and we have more gain, because this number is just a statistic. More important is the actual profit that we make or actual revenue that we make on this. I'll any day take higher AUM with lower margin rather than the other way around for obvious reasons.

Akshat: Right. So, when we say higher AUM with lower margins, is the revenue yield or operating -- so on operating profit basis, the incremental AUM would still be around 35 basis points or even that could be lower?

Simal Kanuga: Operating profit, if you look at it, it would not be lower, assuming that the AUM rise, because the AUM will give us extra revenue, right? And thereby, the absolute operating profit will go up. And if you kind of divide it by AUM, it would remain there. So, let's assume that the equity markets go up by, say, 100% in a year, of course, despite the dilution, the operating profit margin would expand. The operating profit is highly dependent on the asset mix, right? The dilution is, as Navneet pointed out, this is a healthy dilution in sense that our revenues go up, maybe the statistical margin doesn't look that attractive.

Navneet Munot: I mean, all this dilution happened because the AUM this year grew by INR1,432 billion. And just to put that number in perspective, that was our AUM, if I remember correctly, on 31st March 2020, equity AUM.

Akshat: So, when we say margin, we mean yields, right? So, the only concern is that the incremental AUM that flows into equity, be it due to flows or due to mark-to-market, our incremental revenue on that would be around 40 to 45 basis points and our operating margins today are at around 35 basis points. So, the incremental cost for this AUM, do they stay at around 7 to 8 basis points? Or they are higher, and hence, this is slightly dilutive to the 35 basis points of operating profit yield that we have today? That is...

Simal Kanuga: No, no, that is not the way this one works. See, to look at it, it is strategy-wise. So, let me put this in number. So, let's assume that we are running a particular strategy which is INR50,000 crores of AUM. On INR50,000 crores, as Naozad earlier pointed out, say, our margins are, undertaking that illustrative number, say, 59 basis points, right? Now INR50,000 crores becomes, say, for example, INR55,000 crores. Now margin gets diluted, say, from 59 to 57. So, my revenues now are INR55,000 crores into 57, which is higher than INR50,000 crores multiplied by 59.

Right? And then even if you divide that by INR55,000 crores, if I look like that 57 basis points, but the absolute earning is higher. Our cost, if you look at the costs that are debited to the P&L of the asset management company, they are very different so-called number, right? The numerator there is very different. And once you divide that by the total AUM, that will give you the result and basis points of spending on our cost. And the residual or the difference between the two will give you the operating revenue. So even in the example that you are citing, the operating profit margin would look equal or better based on the numbers that we discussed.

Moderator: Next question is from Dipanjan Ghosh from Citi.

Dipanjan Ghosh: Hope I'm audible. A few questions. First, the 59 bps that you mentioned, I would assume that is as on the closing AUM of March

31. So that's the first question. Second would be, I would also assume that current yield on your fresh equity flow will still continue to be lower than the blended book. Qualitatively, can you give some color in terms of the divergence or the delta between the fresh versus the blended? How would that divergence would have changed over the last few quarters compared to, let's say, April 1, 2024 versus, let's say, last year, April or the year prior to that. How that would have changed?

Third would be on the MFD. If I look at your equity growth through the MFD channel versus others, there has been some significant diverging for the quarter and also for the year. So, is it that your flow market share accretion in MFDs would lag other channels? Also, in respect of this, I think you have gained in the direct side. And given the current construct where your yield from fresh is lower than blended, every time you mix in direct increases on the equity, you tend to benefit on the blended yields. So, assuming this trend changes MFDs business through banks, HDFC Bank revise, can that lead to some amount of margin pressure out there? So those are my questions.

Simal Kanuga: So, I think, Dipanjan, I'll try to answer the first question of yours was 59 basis points on 31st March. Yes, that's right. We opened 1st of April at 59 basis points. Current yield is still lower in terms of flows, absolutely. The flow is lower than -- the flow margin is lower than the book margin. So, the flow margin, as we mentioned on the last call, ranges in the 50 to 60 basis points versus the book at 59-odd basis points that we made a mention of. Third point that you talked about is basically the distribution mix. Now distribution mix, this is the flow that is coming in to us, and this is not about the market share that we get from each of these channels.

Now direct, we have also mentioned that in past that the book on direct was at the start of the year around 23-odd percent. But we have always mentioned that the flow from direct channel is materially higher, somewhere in the in the 27%, 28% or even 30% in some of the months. So, because of that, now you are seeing a higher and higher tilt falling in favor of a direct plan or the direct channel, that also includes fintechs and RIAs. If you look at the pie chart that we have depicted in the presentation, that actually gives you the breakup that we have of our AUM across very channels, banks, MFDs, national distributors. But that does not really mean anything in terms of our market share is in those respective channels. And lastly, our margins, whether money comes in direct or through any of the channels is constant, right? The management fees as per regulation has to be a constant number. So, our margins are not kind of impacted by whether the flows coming from direct or from any of the distribution channels.

Dipanjan Ghosh: Just my last point, if I understand correctly, the direct TER is your gross TER minus sir, blended distributed payouts on the back book, not on the fresh business. Now given that fresh books payouts are tad higher compared to the blended payout on the back book, I mean, very mathematically, isn't the net realization on incremental direct flows better than the net realizations and incremental to regular flows?

Simal Kanuga: No more. I think because the management fee number between both are constant by regulation. So that's not the case.

Moderator: Next question is from the line of Lalit Deo from Equirus Securities.

Lalit Deo: Sir, just 2 questions. While you have highlighting that we have added people on the alternative side. So just wanted to know what are the different strategies where if you are looking for FY '25 and FY '26 on the alternative sites? And any product pipeline for the next year on the MF side?

Navneet Munot: Total headcount was a little over 200, a large number of them were in sales and also as we expand other channels, like I mentioned, whether in the digital side, whether on the alternatives on the investment and the distribution side, servicing side and technology, et cetera. And your specifications on alternatives, so last time we mentioned, we gave the update on the -- on our fund-of-funds.

We had a commitment to the tune of INR9 billion from over 300 institutions, family offices and HNIs and hope to raise more capital. To further expand our product proposition within AIF, we have hired 2 senior resources on private credit side. We do see that category as an opportunity over the next few years. We will soon launch a product there.

Lalit Deo: And on the AMCs, are we looking at any new product launches over there?

Simal Kanuga: So, we are looking at some more thematic funds. So actually, we are going live with the next NFO the manufacturing fund later this -- so actually, next Friday, on 26 is when the NFO opens. So that is something on the cards. And then we'll gradually evaluate if there are any other opportunities that our investment team is comfortable with.

Moderator: Next question is from the line of Abhijeet Sakhare from Kotak Securities.

Abhijeet Sakhare: My first question is that, I mean, what we've seen is that incrementally, I think retail money is sort of also fluctuating across categories and kind of quick to change preferences, right? So, to that extent, incrementally, I think you guys are gaining a lot of share in larger sized funds such as Balance Advantage or large cap or even mid-cap. So, I mean, at some point of time, do you want to optimize your yields given how funds move across categories? Or will it always be like a blended number and whatever the number comes out across different funds?

Navneet Munot: You are saying optimizing by what, like we are encouraging flows in a certain set of funds?

Abhijeet Sakhare: No, like this is in the context of the fact that the fund performance is very strong, right, to the extent that a lot of these people come and ask for these funds, right? So, does it make sense to optimize for yields in the way that you are able to, it's to better protect your yields at an overall blended level?

Navneet Munot: So, you're talking about the commission exactly?

Abhijeet Sakhare: Yes, yes. Exactly, yes.

Navneet Munot: Of course, I mean, it's a balance between 2. On one side, you have to keep the competitive environment in mind. And on the other side, as you rightly mentioned, we also want to optimize -- you're absolutely right. So, I'm going to keep looking at both ends we don't want to lose out on market share when your performance is good, when your products are approved. And when there is demand or pull for the product. At the same time, we remain very, very mindful of the profitability that we want to maintain on these products, yes.

Abhijeet Sakhare: But just broadly, directionally, I think where the incremental money is flowing, should we be really -- I mean, everything else remaining constant, just the blended yield number will have further more pressure this year? Would that be a correct assumption?

Simal Kanuga: Abhijeet, I think we monitor yields internally product-wise, right? And we are definitely very, very cognizant of the fact and we balance it well. Plus, we don't want to have like a very wildly fluctuating distribution commission policy, you need to kind of align yourselves because these are the same set of your partners who helped you in -- when your performance is slightly muted and otherwise.

So, I think we balance that quite well. Yields under pressure, I think Navneet kind of expanded on that, right? That is a fact of our business. The telescopic pricing is what the regulator has kind of defined for the industry. So that is -- but honestly, the more we think about it, we are not really perturbed about with increasing AUM, fall in yields because hopefully, over a period of time, it will get well compensated.

Abhijeet Sakhare: Got it. Second one...

Navneet Munot: Abhijeet, lower TER in that product relative to, let's say, some of our peers would also lead to that much of alpha. And even the sell-ability of that product increase over a period of time in our favor. Rather than looking at from a very narrow perspective of...

Abhijeet Sakhare: The observation was that, I mean, when we look at the fund flows across fund houses and across categories, the there's a very wide divergence to the extent that new funds are very clear winners and are gathering a substantial share. So, to that extent, I mean, is there a case for better pricing power is what I was coming from. But I got your answer.

Simal Kanuga: Yes, Abhijeet. But if you look at most of our products, and I think you can look at just the change of AUM, and I know a lot of you do that exercise in terms of change of AUM and change of NAV. If you look at it in all dominant categories, be it large cap, mid-cap, small cap, balance advantage, focused funds, large and mid-cap, multi-cap, all these categories, we've been getting healthy flows.

Abhijeet Sakhare: Understood, understood. Then my second question was that any comment or color around how the newer fintech channels are now driving flows, any distinct trends out there?

Navneet Munot: Yes. I think over the last couple of years, they've become quite prominent, particularly on gathering new SIPs and bringing new investors to the industry. It's a key distribution channel for all AMCs and it's growing at a rapid pace. In fact, as a group, they have registered 17.7 million SIPs in the current fiscal. We are available across all fintechs and our healthy market share in new flows and new

SIP registrations. We have a dedicated channel which drives the fintech strategy.

We have our back end well in place to integrate our platform with theirs. This is already operational and smooth. So, with increased product range, all the products that have been launched with strong performance that we have got, the marketing efforts that we make with our communication and content, et cetera, we are confident to get our fair share of this channel.

Moderator: Next question is from the line of Shreya Shivani from CLSA India.

Shreya Shivani: Most of my questions have been answered. I just want one clarification and probably your guidance on the debt AUM. So, you've mentioned in the previous few calls about leaving aside the debt index fund that your market share has been stable. What I can gather is from the monthly numbers that have come out, that the market share on annual basis between March '23 to, say, February '24, or March '24 has also largely been stable. So, any outlook on how should we look at this segment going ahead? Would it be a more stable segment in terms of market share? Or any strategy, anything that you can help you understand the segment.

Navneet Munot: This is the third consecutive year where debt fund as category has seen net outflows. So, this year was a net outflow last year as well as the year before last industry has witnessed net outflow in this category for a variety of reasons, including maybe the overall market environment and also maybe some more money would have come this year, but for the change in the taxation.

But you might have noticed that an industry, we all believe that there is tremendous potential in fixed income category. There is a long-term track record. Some of our strategies are very old, and have outstanding track record over a period of time of managing credit risk, rate risk, liquidity risk, and they offer good value to investors from an asset allocation perspective. As an industry, you might have noticed Association of Mutual Fund India AMFI has a Mutual Fund Sahi Hai investor education campaign, we've just started a new campaign called, Fixed Income Sahi Hai.

This is to create more awareness about this category of funds. And maybe over a period of time, everyone in the industry and particularly the players like us who have a longer-term track record and a brand and pedigree to invest more to cater to that demand as well. I mean, if we compare with the bank deposits, over the last 6 or 7 years, fixed income AUM as a percentage of bank deposits has actually come down. So, over a period of time, I strongly believe that there is potential for us to grow in that segment as well.

Shreya Shivani: Got it, sir. And while you mentioned about the net outflows from the industry, I think a couple of months in the last year, Jan-Feb and probably November as well, there was a positive inflow in that segment, right? I mean has that -- that is a general -- I mean, should we count it as something that going ahead, this would be a positive time or a greenshoot? Or is it just a one-off month?

Navneet Munot: Yes. So, some of the investors who take advantage of the interest rate movement in some of the short-term categories, they moved in the first quarter, anticipating peak in interest rates, peak in policy rates. And we saw some flows. But as I mentioned, year as a whole, the industry has seen net outflows.

Moderator: Next question is from Raunak Singhi from Reliance Retail.

Raunak Singhi: So, seeing the present market scenario and as we are getting across the news that the U.S. fed rates will decrease in the latter half of 2024. So how do you see the sort of potential to increase your debt fund structure, which can be the lower share than compared to the other peers of your group?

Navneet Munot: Sorry, I didn't you get your question.

Simal Kanuga: I think there is a bit of disturbance behind you. But you are saying the U.S. fed rates and the implication of the Indian debt funds?

Raunak Singhi: Yes, yes.

Navneet Munot: Yes. I mean there is definitely some correlation, global interest rates or global liquidity scenario is also one of the factors, but also the domestic growth inflation dynamics, fiscal and monetary policy, all of those are also important factors. Our team has a view that interest rates are close to the peak. And over the next couple of years, I think investors should benefit by allocating some money to the fixed income funds.

We have seen positive flows into our long-term debt fund this year as some of the investors have committed for longer-term looking and locking into the higher rates which are prevailing, the high current yield, which is there in the portfolio currently.

Raunak Singhi: My next question is, what's the share of the ETF among your total assets under management?

Simal Kanuga: You're talking about our assets under management? You are asking what is the ETF share in our AUM?

Raunak Singhi: Yes, yes.

Navneet Munot: That's around 2%.

Moderator: Sir, we don't have anyone in the question queue. That was the last question.

Simal Kanuga: Sure. Thanks. Thanks, Neerav, and thanks, everyone, for joining the call. Look forward to speaking with all of you next quarter. Thank you.

Navneet Munot: Thanks.

Moderator: Thank you very much. On behalf of HDFC Asset Management Company Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.