"HDFC Asset Management Company Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the HDFC Asset Management Company Q3 FY2021 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Praveen Agarwal from Axis Capital Limited. Thank you and over to you, Sir!

Praveen Agarwal: Thank you Faizan. Good evening everyone. From the management team, we have Mr. Milind Barve, MD, Mr. Piyush Surana, CFO and Mr. Simal Kanuga, the Chief of Investor Relations. I would request Simal to give us a brief and then we will put the call over to Mr. Milind for his comments. Simal over to you please!

Simal Kanuga: Thanks Praveen and thanks everyone at Axis for hosting this call. Our presentation is available on the website as well as that of the exchanges. As usual we will start with an update on the industry data and follow it up with details on our company in particular.

In terms of the industry information, the quarter that went by saw Q-on-Q growth of 7.6% and a Y-o-Y growth of 11% in QAAUM. QAAUM for the quarter ended December 31, 2020 was Rs.29.7 trillion. As against that, the closing AUM stood at Rs.31 trillion, a Q-on-Q growth of 15.5% and a Y-o-Y growth of 16.9%. Strong equity markets led to a Q-on-Q growth of 16.5% and a Y-o-Y growth of 11.5% in equity-oriented AUM, which as of December 2020 was Rs.12.2 trillion. Equity-oriented funds saw net outflows of

Rs.440 billion during the quarter while debt-oriented funds from net inflows of Rs.1,518 billion. Liquid funds saw net new flows of Rs.131 billion during the quarter ended December 2020. Other category, which includes arbitrage funds, ETFs, etc., saw inflows of Rs.79 billion for the quarter. Individual folios now stand at Rs.93.8 million. Individual investors contribute to 52% of industry’s total MAAUM and 91% of the equity MAAUM. B30 cities account for 16% of industry’s total MAAUM and 27% of equity MAAUM. Industries saw inflows of Rs.84 billion through SIP in December 2020 and SIP AUM as of December 31, 2020 was Rs.4 trillion.

Now we move to us. QAAUM for the quarter ended December 2020 was Rs.3,895 billion, while the closing AUM as of December end was Rs.4,068 billion. 40% of our total AUM is in equity-oriented assets and balance 60% in non-equity-oriented assets. We have 5.4 million unique investors and 9.1 million live accounts spread across 98% of PIN codes in India, who we service through 224 branches, 1,163 employees and 65,000 plus distribution partners. Our portfolio management service and the separately managed account business are now worth Rs.116 billion. Our closing AUM has seen a Y-o-Y growth of 10% and a Q-on-Q growth of 14.8%, while the QAAUM has seen a Y-o-Y growth of 2% and the Q-on-Q growth of 3.7%. Our market share both in QAAUM and closing AUM is more or less the same at 13.1%. If one excludes ETFs our market share in total QAAUM excluding ETF is 14.2% and closing AUM is 14.3%. In terms of actively managed equity-oriented AUM, our market share in QAAUM is 13.6% while it is 13.4% in terms of closing AUM. Our QAAUM for the quarter ended December 2020 was Rs.1,505 billion while the closing AUM as of December 31, 2020 was Rs.1,605 billion. Our market share in debt AUM is 13.8% in terms of QAAUM and 14.2% in terms of closing AUM. Corresponding number for liquid funds is 17.2% and 17.6% respectively. We continue to have a favourable asset mix as compared to that of the industry with 39.6% in equity-oriented QAAUM as against 37.8% for the industry.

In terms of contribution to MAAUM coming in from individual investors, we are at 55.3% as compared to 52.2% for the industry. We continue to retain our leadership position in terms of market share when it comes to individual AUM and continue to be second highest in terms of B30 market share. We saw inflows of Rs.9.1 billion through systematic transactions in December 2020 and our SIP AUM is Rs.532 billion. To reiterate the Rs.9.1 billion that I spoke of is in terms of actual cash flows. Our digital infrastructure has definitely stood test of time. 84% of transactions in the current financial year have been processed digitally.

We now move to financials. I will start off with quarter ended December 2020. Our financial performance in the initial period of this financial year had suffered due to the effect of COVID-19 pandemic on the markets. While there continues to be some uncertainty regarding how the COVID-19 pandemic will ultimately pan out, markets have been upbeat and our financial performance this quarter has improved further. This is evident from sequential improvements in our profit parameters and even in our operating margin, which has gone up from 34 basis in quarter ended June to 37 basis in quarter ended September and now is at 38 basis points for quarter ended December of 2020. While we usually compare our numbers with similar quarters of the previous year given the COVID-19 reset, we believe that the sequential comparisons are also equally pertinent and hence I provided both. The operating profit of the company for the quarter ended December 2020 was Rs.3,697 million, while this is 7% lower than the operating profit of Rs.3,987 million for quarter ended December 2019, it is 6% higher than the operating profit of Rs.3,491 million for the quarter ended September 2020. Profit before tax for the quarter ended December 31, 2020 was Rs.4,828 million. This is up by about 4% over both the profit before tax of Rs.4,660 million for the quarter ended December 31, 2019 and profit before tax of Rs.4,628 million for the quarter ended September 30, 2020. Our profit after tax for the quarter ended December 2020 was Rs.3,694 million. This is 5% higher than profit after tax of Rs.3,525 million for the quarter ended December 31, 2019 and 9% higher than the profit after tax of Rs.3,379 million for the quarter ended September 2020.

Just a quick update on the nine-month data. The operating profit for nine months ended December 31, 2020 was Rs.10,194 million as compared to Rs.11,567 million for December 2019, a decline of 12%. PBT for nine months ended December 2020 was Rs.13,260 million as compared to Rs.13,234 million, which is more or less flattish. Our profit after tax for nine months ended December 2020 was also similar at Rs.10,097 million as compared to Rs.10,125 million for nine months ended December 2019. It would be pertinent to note that we have successfully achieved a cost saving of Rs.400 million or Rs.40 Crores in the first three quarters of the current financial year. Even if we take out the effect of savings in fees and commissions, cost savings add up to Rs.250 million or Rs.25 Crores. This is in line with what we have targeted at the start of the year. I will take a pause here, Milind, Piyush and I are happy to take questions if any. You can open for questions.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Arun Kumar from Goldman Sachs. As there is no response from the current participant, we will move to the next question from the line of Sagar from PhillipCapital. Please go ahead.

Sagar: Thanks for the opportunity. Sir, what is the strategy to push business in B30 markets given the competitive nature of industry, there is a significant gap between first player and second player in terms of market share? Thank you.

Moderator: This is the operator. Sir we cannot hear you.

Milind Barve: Thank you for the question. I think, see, we are a very strong player in the B15 market marketplace, almost out of the total AUM that we have about 14.4% comes from the B30 space. Yes, I understand if your question is referring to the gap with the number one player. The number one player is indeed SBI Mutual Fund, given the breadth and the spread of the SBI branches, who are sort of captive distributors to SBI Mutual Fund it would be difficult to bridge that particular gap, but as far as we and the number three player is concerned I think we are maintaining the gap. We are very focused, if you look at for example our number of branches, we have 146 out of our 224 branches, which are in B30 cities, so a lot of the new branches are coming up more in B30 cities, so I think our focus on building the business given our strong brand in the B30 cities will continue.

Sagar: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Thanvi from Banyan Tree Advisors. Please go ahead.

Kunal Thanvi: Thanks for the opportunity. My question was more of a broad based thing on the fact that what we have seen in the history is that when markets tend to cross the previous highs, the flows peaks in terms of outflows, so what is your sense on the same with markets at all time high now, what we are sensing in the month of January or what is our sense in terms of where would the outflow in the industry could peak because December we saw the largest outflows in last so many years?

Milind Barve: So again thanks for the question. See, one has to understand just the context of what has happened in the last about nine months to 10 months, we had this absolutely unprecedented pandemic and lockdown and the market saw an absolutely unexpected shocking fall in the month of March, in the last two weeks of March, which was in the order of more than 30% to 35% and clearly after that while a number of economic indicators and high frequency data are now supporting a strong recovery in the economy and lot of the economic activities are coming back to normal, personal individual lives of people are still not normal, people are still wearing masks, there is still work from home, public transportation like trains and metros are not fully operational, so I think what has happened is that and I think it is important to understand behavioral aspect of the reaction of retail investors that people's ability or willingness to take risk or put money on riskier, relatively I will not say risky but asset class, which has unpredictable outcome has not been unlocked as yet and the proof of that also lies in two other things like we have had a significantly strong 10% plus growth in bank deposits if you look at some of the economic data and this bank deposit or a very strong growth in bank deposits is happening when bank deposit interest rates are probably all time low, so this probably is demonstrative about of an element of risk aversion amongst retail investors. We also have seen that in the past and this is maybe going down a lot in history that after the GFC or the financial crisis in 2008 and when the markets recovered by almost as much as 70% there was a period of eight or nine months, seven or eight months I do not have an exact recall when actually equity funds had net outflows. So what we are seeing clearly is that where people have gone through this whole health situation, people have shifted focus towards more safer asset classes like bank deposits, as you can see there is a strong growth in the fixed income business or in debt funds in general, so I think we will have to wait till markets stabilize and if the markets stabilize or remain in a certain zone even if they remain reasonably elevated. See the markets are elevated in absolute terms, but we are also seeing a return of earnings coming back to companies, so it is not just an elevation of absolute market levels or indices. If earnings comeback then the market levels will look more reasonable and as they promised to be nobody can guarantee things, but the earnings of companies are on a come back and one is becoming more optimistic about earnings growth in companies of our underlying portfolios in FY2021 and FY2022 and the years ahead and that will make the market look more reasonably priced. So as this whole phenomenon of fear from pandemic and the sort of lack of normalcy in the personal lives of people, we will see the risk appetite or willingness to put in equity-oriented funds or funds or asset classes of this nature slowly coming back to the retail investors. So yes, one is not happy to see net redemptions in the industry of this order month-on-month, but I think if we remain patient we think it will taper off. It will be difficult to call when the peak will be, but I think as the market stabilize there will be confidence coming back to retail investors that markets are stable and then the appetite to invest back in equity-oriented funds will come back.

Kunal Thanvi: So that is like really helpful, but if we look at the other part of this I think if you look at the behavioral aspects we have seen a significant retail participation in direct equity, which is way far more riskier asset than say equity-oriented fund how should one look at that behavior aspect, so at one point like investors are coming out from mutual funds because of say their risk appetite going down; however, at the same time a lot of retail investors pouring into the direct equity markets how should one look into that thing?

Milind Barve: I understand your question. I do see that when you look at data of demat accounts, newly opened demat accounts in say NSDL or CDSL, I think yes, there is a segment of the retail investor population, which is probably more better informed or believe that they are better informed and they are trying to sort of buy equity directly, but we are looking at a very different audience, I mean, the industry really is not made up only of HNI money or people who do direct trading. We are really looking at the whole length and breadth of the country, a guy in the small or medium town putting Rs.5,000 to Rs.10,000 in an SIP or starting an SIP or buying into a simple equity or debt products he is not the person who is actually opening a demat account and doing daily trading. So while I understand there is a small segment of people who might be directly buying by participating directly into the market, which is nothing wrong systemically, but I think the audience that we as an industry would look at remains very distinct and remains significantly larger than the number of people who are buying direct equity.

Kunal Thanvi: Sure. Thanks a lot. Last question if I can squeeze in is on, so we have been talking about the addition of new fund managers in the team in order to diversify the investment side any update on the same, how we are progressing in that direction?

Milind Barve: We continue to look at diversification of style as a theme. We do believe that this diversification style will take some time before it is fully in place. We are on that journey. For example, some funds, which had very similar holdings and fairly large funds, one of them has been separated out to have slightly different orientation, so it is not just the question of new fund managers it is also the question of existing funds managed by a single fund manager, which will start getting separated out Slowly we will inculcate the style differences and the portfolio differences. So for example we are monitoring very closely portfolio overlapping in our company as compared to that in the industry we are giving feedback to fund managers, the fund managers are appreciative of the need to have a more diversified approach to portfolio construction across various funds at a fund house level and I think I remain confident. I appreciate that it takes a little time because you cannot simply sell out or buy some new stocks particularly in the market of this nature, which has been in a very strong upward momentum. It is very difficult to change the stance and style radically in a very short period of time. So our theme and approach to diversification of style is very much ingrained in our investment team. My belief is that it will take some time before you see the results of that, but we are surely on that path.

Kunal Thanvi: Thanks a lot. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Arun Kumar from Goldman Sachs. Please go ahead. As there is no response from the current participant, we will move to the next question from the line of Nitin Jain from SK Capital. Please go ahead.

Nitin Jain: Thanks for the question. Thanks for the opportunity. So my question is if you look at the top five AMCs in the market, despite the sharp run off in the equity markets HDFC has seen the slowest appreciation in its average AUM like quarter-on-quarter among the top five AMCs so how would you like to comment on that?

Milind Barve: So I will make a generic comment on that. See, we have had in the performance of our funds in the earlier one or two quarters was a little less than what is expected of us, but I am happy to say that investment performance in the December quarter has seen a strong rebound and we remain optimistic of the current recovery in investment performance to sustain itself in the ongoing quarters, but I think fundamentally as performance begins to come back and as now a number of our funds in a short period of time say three months or six months we are in first or second quartile in many of our funds I am not saying specifically any particular fund, but over a period of time we are beginning to see recovery in the fund performance and that is why you will find that if we are able to sustain the recovery in our funds investment performance then we will be able to see some recovery or a growth in our absolute equity AUM, which is closer to the market or at least aligned to what the industry does, but this is not taking away credit from the fact that some of our competitors have had some very strong investment performance and that has indeed helped them to achieve a little higher market share or able to demonstrate higher growth in their equity business in this last few quarters.

Nitin Jain: Okay and my next question is on the SIP numbers, so we know that the December SIP flows were significantly better than November, but our contributions seem to have stayed flat, so have we lost some market share here?

Simal Kanuga: Sure. So I think on the SIP thing, as you are aware, there has been some bit of mismatch on data right there has been some article, so without getting into that we have seen our December number from November number going up. So December we have gone to Rs.910 Crores and November to December as you would be aware there was a bit of like the last couple of days in month of November there were holidays and that went into spillover in month of December hence you saw that coming up. The number that I earlier mentioned as in the opening remarks the number that we report is based on actual cash flows what we understand is industry has some bit of lag when it comes to that information.

Nitin Jain: Okay. So, can you please provide the November number for HDFC?

Simal Kanuga: So, we do not provide month-on-month numbers, in public domain we do give in the September and December numbers.

Nitin Jain: Thank you.

Moderator: Thank you. The next question is from the line of Rishabh Kothari from Kredent InfoEdge. Please go ahead.

Rishabh Kothari: Thank you for taking my question. I wanted to ask the management specifically about the performance of two of their funds that is HDFC Equity Fund and HDFC Balanced Advantage Fund, the performance of these two funds have significantly lagged that of the benchmark and it is not expected from an AMC like HDFC to underperform the market so much would you like to comment on that?

Milind Barve: I think I answered that question earlier. The two funds that you mentioned are indeed amongst the funds, which have shown a very strong recovery in investment performance in the last quarter, exceptionally strong recovery and I think they are now very comparable with the peers as far as 90 day returns are concerned and the balanced advantage is leading also in terms of the performance on the six month basis, but having said that they may be lagging the benchmarks, but they are now beginning to improve their position versus the peer group materially in the last quarter and as I said there is some reputation we expect that we hope and we remain optimistic that we will be able to sustain this leadership in performance over the coming quarters and that will help us to regain, that will of course help performance versus benchmark and versus the comparison with the peer set as well.

Rishabh Kothari: Could you just comment on the debt market situation as of now like what do you feel is going to be the situation like in the coming quarters and do you expect further inflows and are you witnessing inflows in your debt schemes and what do you expect would be the inflows in the coming quarters in the debt scheme?

Milind Barve: So, as you know the mutual fund industry as well as us there are two large components of the business that we manage, one is of course the equity-oriented fund and the second is a reasonably large and voluminous value of debt-oriented funds. You will be happy to know that we have not only been able to consolidate but in fact increase our market share in debt-oriented funds on a year-on-year basis or on the financial year-to-date basis. So we are actually seeing fairly strong growth in terms of flows in our debt products and acceptance of our debt products across most maturities and types of products now and therefore we have now actually added to our market share in the last 12 months and even the financial year-to-date on our fixed income or debt business or debt product range, so that remains we are I think the second largest in terms of the size of fixed income debt products in the industry. We are the largest in actively managed equity excluding ETFs and we have the largest liquid funds. So, in equity actively managed equity excluding ETFs we are number one. In liquid funds we are the number one position and we are number two on debt with an increase in the market share in the last sort of as I mentioned year-to-date basis as well as on a year-on-year basis. You asked about outlook I think debt will always remain a preferred choice amongst many investors particularly when the appetite for equity or equity type products is relatively less. In the last year I must comment this was also supported by the fact that interest rates and yields on assets substantially reduced, thanks to a number of positive measures taken by the Reserve Bank of India particularly after the pandemic and after some events in the mutual fund industry, post that yields have begun to come down with significantly systemic liquidity available in the market and therefore that has helped in the returns in the debt funds. If you ask me whether these debt fund returns are possible to be repeated. From what we understand and believe and one cannot get this very accurately, we believe the RBI stance will remain accommodative for a reasonably extended period. It has to be and it is always calibrated with the view on inflation and one has to keep a close eye on whether there is an issue of inflation going up. If the central bank maintains a reasonably easy stance on the interest rates and on liquidity then interest rates may stabilize at where they are, but the possibility or a very strong possibility of interest rates going down and investments or debt funds providing capital appreciation that possibility in the next year appears to be less possible now because this year we benefited and unit holders and all of us benefited from interest rates coming down and that helped the debt funds performances even more. That situation will certainly does not seem likely in the debt markets going forward, but debt products as fundamentally a choice for people to invest money for their own asset allocation purpose will remain so. So, I do not see any serious threat on the debt business per se, but yes the yields because yield to maturities on a number of products have come down materially. Going forward the returns on debt funds might indeed be moderated.

Rishabh Kothari: Could you just give your market share in percentage terms in debt funds?

Milind Barve: On debt.

Simal Kanuga: Sure. On the QAAUM it is at 13.8% and on the closing AUM it is 14.2%, this is both of December 2020.

Rishabh Kothari: Thank you so much.

Moderator: Thank you. The next question is from the line of Abhishek Saraf from Jefferies India. Please go ahead.

Abhishek Saraf: Thanks for the opportunity. So just following up on the three earlier questions basically on SIP so even if we adjust for the holiday period in November, so is it fair to say that even adjusting for that there was improvement in SIP flows in December and what I wanted to understand is that do you see, this month only 20 days have passed, but are we seeing similar kind of momentum uptick in SIP flows or has it reverted back to the earlier levels of around Rs.7,500 to Rs.7,600 kind of flows monthly, just a broad colour on that will be quite helpful?

Simal Kanuga: Abhishek, it has been more or less constant only. So, I think slowly, steadily, things are coming back like what Milind mentioned that slowly like the smaller cities and the midsized towns' offices have started opening up, action is coming back, but it has been more or less constant.

Abhishek Saraf: Okay. Fair enough. One more thing on SIP will be mostly what could be the breakdown between equity and other products, so is it like all of it is equity if you can give the best understanding?

Simal Kanuga: It is predominantly equity. A very small percentage is in non-equity oriented assets.

Abhishek Saraf: Sure thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra: Thank you for the opportunity. The first question is with respect to the opex any letters that we have done during the COVID-19 lockdown and any structural changes we see to the opex going forward, anything that can come off structurally going forward in the opex structure that is the first question, the second question is in the quarterly AUM change what is the net flow and what is the NPM if that can be answered it will be very helpful?

Simal Kanuga: So, Shubhranshu, on the net flows we do not disclose our net flows. The industry data is very much available, but flow data we do not publish.

Milind Barve: On the opex I can simply say that, as we had mentioned after the first quarter call that we would be doing some belt tightening on costs and as my colleague mentioned in the opening remarks we have been able to demonstrate a reasonably strong sort of savings in costs.

Piyush Surana: We saved Rs.25 Crores over the course of the nine months and just to give you some flavor that is largely in terms of expenses saved some due to the lockdown and the general belt tightening on all sorts of expenses. Going forward some of this will be maintained and as we have always done and always mentioned being very cost conscious all along and we will continue to run the business in the same way.

Milind Barve: Yes. Just to add to what my colleague Piyush mentioned, see we will calibrate cost as we see recovery in the overall business environment and equity assets, which are more revenue generating for us. I think the prudency on maintaining costs at reasonably low level as compared to our own standard benchmarks and versus the peer will continue, but I think we will spend more money if required to support business growth as we see that opportunities in the coming quarter.

Shubhranshu Mishra: Right. So a fair assumption would be that the opex would come back to normal levels before COVID-19 so this is not the structural change in that case?

Milind Barve: No. I will just kind of repeat myself. We will calibrate it with how the rest of the business and revenue generations are in the company. We will keep it in sync with how revenue, the top line is moving only then we will undertake cost increases, which are material. There could be some cost increases, which are inevitable, which may happen. So I am not trying to say that we will further cut costs or something. There may be a need to bring back some cost if required, but those decisions will be taken keeping in mind where the total AUM or the equity AUM and the revenue's trajectory is taking us to. So it will be done in a calibrated manner keeping in mind what the topline and revenue lines are looking at.

Shubhranshu Mishra: I understand that we do not publish the net flow, so, however if we can at least speak of it qualitatively in terms of if we are a significant part of the market share of the net flows or we have a lower part of the market share of the net flows something we can add quality to understanding the flow basically?

Milind Barve: So we do not publish data on flows, but clearly, yes, the industry has seen like Rs.54,000 Crores net outflow in equity-oriented funds year-to-date. We are the large player so we have also seen some meaningful outflows for us also, but as I said we do not publish numbers specifically in terms of flows on a quarter-to-quarter basis.

Shubhranshu Mishra: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Prayesh Jain from Yes Securities. Please go ahead.

Prayesh Jain: Thank you for the opportunity. A couple of questions from my side. Firstly on the B30 bit could you talk some more granularity on the distribution channel on the B30 side, how does the Bank perform and how much do you get from the Bank business and what I have heard is the bank distributes, banking channel actually takes more of importance rather than the mutual fund product in the B30 towns, so is there anything to that and my second question is on the other income what is the reason for such a sharp growth and any guidance there?

Milind Barve: So on the B30 question about which channel works, as you know there are four channels if you say, one is the bank, the second is national distributors, the third is the individual retail IFA or distributor or adviser, and the fourth is not a channel, but it is the fourth source of inflow to the industry, which is the direct channel, which people buy. So in a B30 there is no distinct or very specific channel, which works more or less. A number of banks have got a number of branches in smaller towns, which is in B30 cities and towns, so they contribute materially. The culture of IFAs and national distributors, so there are I will not mention names, but there are a number of national distributors who also have branches and network of sub-brokers or sub-distributors in smaller towns as well and they are very well networked in smaller towns. So they have access to the savings and savings of the retail investors. The IFAs are of course very popular in small towns because they have very strong, deep personalized relationship with clients, so they bring business and I think even in small towns we are seeing the use of digital mode of buying is also present. So there is not a pattern or that in B30 either the IFA or the bank channel works more or less. There is no particular pattern that we have been able to identify. All of these three or four sources are very prevalent and very strong in the smaller towns and sometimes certain banks and branches like for example the State Bank of India and SBI Mutual Fund have a clear leadership in the B30 business. They definitely benefit from the fact that SBI is well penetrated and deeply penetrated in smaller towns in terms of the sheer number of bank branches that they have. They certainly benefit from that, but other players, other AMCs do not have that kind of relative advantage or disadvantage either. So I think the business is reasonably evenly distributed across all channels even in B30.

Prayesh Jain: So any particular strategy you would like to talk about with regards to IFA?

Milind Barve: Sorry, with regard to?

Simal Kanuga: Strategy with regards to IFA?

Milind Barve: Well, I think the IFA has been one of our main stay of our distribution strategy ever since we started business almost 20 years ago. There was a time or a period when the banks or even national distributors were not even present, but we were doing business with IFAs and today as we speak out of the equity-oriented retail business 41% of our AUM comes through mutual fund distributors or MFDs as they are called now. So we have a very strong, very deep, and well-penetrated relationships with the IFA community, as I said out of the equity business, which is more retail almost 41% or 41.2% as our presentation shows comes from the IFA community. We are very strong. For example, recently in the month of November and December, we launched a new fund, HDFC Dividend Yield Fund, which collected about Rs.1500 Crores. We saw participation of more than 6500 IFAs in that product, so we have very deep well entrenched relationships, which we nurture and I think are very important to our business.

Prayesh Jain: My question on the other income?

Milind Barve: Sorry. I think my CFO will answer that.

Piyush Surana; So on the other income, we have got a larger book size and we have also got a better realization during this period, as Milind mentioned earlier that what has happened is because of the yields coming down debt funds have given higher returns and as we put a large part of our investment book in debt funds, so it is largely because of that. Besides that, what has also happened is that the NCDs that we hold, the valuation of the collateral for that has also given us a bit of raise, so both these things put together essentially account for the other income.

Prayesh Jain: Okay. So this kind of a run rate can be maintained, if the yields stay the way they are?

Milind Barve: No, I do not think we can maintain this run rate. As my colleague, Piyush mentioned, there are three reasons, one is the total size of the surplus funds in the AMC, which as what one would call as the book size of the investment has increased and I think subject to what is the dividend that is finally paid that the size of the book will continue to grow, so that is a sustainable part of the other income. The second part of the increase in the other income comes from stronger earnings on the debt fund, as we had a brief discussion earlier this may if yields remain at the same level or they start going up then the income levels or the mark-to-market gains or returns on debt funds might moderate a bit and the third thing is that we had you can call it like a one-off valuation advantage as one of the debentures that we hold, there is a collateral offer in listed shares that you have and the value of that collateral listed share moved up during this quarter and accordingly in consultation with auditors there is a fair valuation of that exposure that is done and that has resulted in an incremental other income coming in this quarter as well. I think it is outlined in our note, so these are the three factors which have led to the other income being higher, but the short answer is this level of other income is not a sustainable one.

Prayesh Jain: Thank you so much.

Moderator: Thank you. The next question is from the line of Ajox Frederick from B&K Securities. Please go ahead.

Ajox Frederick: Thanks for the opportunity. Sir, last quarter, we discussed about three levers like hiring new fund managers and new fund offerings and festive commissions. We did discuss about the first point and to a certain extent last point as well, on the new fund offerings where are we and what is the stance there that is the first question, second question is on the distribution side the direct share has been inching up for us on a sequential basis while the bank share has been coming down are we aligning towards topping up the direct share in any manner?

Milind Barve: Sorry, what was the first question?

Ajox Frederick: The first question was with the new fund offering.

Milind Barve: In this quarter we had one new fund launch, which collected Rs.1,500 Crores. We have in hand an approval for one more new fund launch, which we think we should be bringing to market probably in the next two months. We also have and this is of course in the public domain because SEBI puts all new fund offer requests on their website. We have two more new fund offers, which are with the regulator awaiting approval, so once we get that they will be launched. In today's board meeting we have taken approval for one more new fund, which hopefully in the next 10, 15 days we will file with the regulator for approval, so it will take some time before we get approval. So we have a pipeline effectively of almost three funds more which we can launch in the next, as we get approval we will sequence it in the best way we think given market conditions and we will continue to work hard on new product development as we see in the next year. We do foresee that there is a reasonably good appetite if you look at new fund collections in the last financial year, has been very strong. People are looking at more differentiated products, theme-based products for example or sometimes even sectoral funds and I think that is a space that we are working hard on where we will be creating constantly a pipeline of new products, which we will launch in the course of the next financial year and I am not certain, but maybe one might happen even before the end of this financial year. So we have a pipeline of new products and I think we will only strengthen the pipeline and our new product development effort will get further strengthened so that we are always being able to launch new product ideas and what we think and our investment team thinks are suitable for the market.

Ajox Frederick: Sir, on my next question on direct.

Milind Barve: Sorry, I did not answer that. So on the direct, there is no conscious effort at all to increase direct. What we have seen is that when the debt business goes the fixed income or debt mutual fund grows you do get some more allocation from high net worth individuals, family offices and some bit of institutional money and when you get money from these types of investor categories they tend to invest into the direct category more than coming through an intermediary. So typically when the composition of the asset mix goes, tilts more towards fixed income or debt-oriented products, you will find that the direct business in the total business tends to inch upwards, but there is certainly no strategy that we are doing independently that we want direct business. We believe that there is a very clear role for distributors and advisers to intermediate in this market and create the awareness of mutual fund products. So we think that is something that as a market, as an economy, we need as we try to penetrate deeper into not just the smaller towns but even in urban areas. So I do not think we want to have at least any design of planning or wanting to create more direct business. It becomes more consequential to people being able to access these products directly and where they feel like institutional investors, corporate investors, high net worth investors or family offices as they access debt funds they try to use the direct channel.

Ajox Frederick: That is very helpful. Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Just trying to understand the movement on the debt AUM side. Now that we have seen a substantial increase or shift from liquid to debt funds, does it mean that from next quarter onwards we should start seeing some improvement on the revenue side?

Milind Barve: I do not want to make forecast on next quarter. We do not really look at this business in a quarter...

Nischint Chawathe: I was just trying to say that from here on now that it has been a while should start seeing a meaningful improvement is what I wanted to know?

Milind Barve: No. It is difficult to say what meaningful means, but having said that, the debt business has grown very well in these last two quarters. First quarter there was some challenge because of certain events in the mutual fund industry and particularly there was pressure on credit risk funds, where there was a fair bit of redemption requests, but those pressures have abated, interest rates of yields have come down, flows have come down, there is confidence coming even in the credit markets. So all of these factors put together have created the sort of the environment for strong growth in the debt market. We see a number of our competitors also being able to grow very smartly in the debt business, but the debt business is not a particularly high-margin business. So for example, of the total revenue that we make as you will roughly about 72% of our topline just on the revenue comes from equity-oriented funds and 28% comes from let us say non-equity, which includes debt, liquid funds and all other types. So whether debt business and the growth in business will certainly add to the revenue in absolute terms, but how much it will move the needle is difficult to say.

Nischint Chawathe: Putting this differently, has there been any change in the TERs for debt funds I know you are operating way below the regulatory threshold, but has there been any change in the last two, three months?

Milind Barve: No, we have not proactively made any change. The change happens by a few basis points because of the size of the funds going up and so on, but we have not made any change. In the first quarter there was some redemptions in the credit risk fund, which was a little higher-margin fund. To that extent there was a fall in the overall margin in the debt business, but after that in the last two quarters the margin is more or less stabilized and we have not made proactively any change in the TER, in the debt product except what is regulatory required.

Nischint Chawathe: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Madhukar Ladha from HDFC Securities. Please go ahead.

Madhukar Ladha: Good evening everyone and thank you for taking my question. First question is a little bit qualitative. Logically performance should impact flows and given that the performance has been lagging would it be possible for you to comment a little bit on how flows got impacted because of that, second question I want to ask is on these NCDs, so can you tell me what is the current value of the NCDs that you hold on your balance sheet and what is the amount of equity that is backing this and what stopped us from unwinding this position and are these NCDs being serviced as of now, those would be my questions?

Simal Kanuga: Actually, Madhukar, the details of these NCDs are there on page whatever you asked is available on Page #26 of the presentation, so maybe I think if you can just go through that you have all the details in terms of collateral and otherwise.

Milind Barve: So the collateral value and everything is there in that note, just have a quick look at it. If you still have a question, feel free to ask again. Having said that, this particular debenture has not been serviced in fact it is in a default rating and that is why the value of that is being driven by the value of the collateral and the change in the collateral value is what triggers the change because these are fair valued based on the market price of the collateral and when you fair value them it results in a mark-to-market gain or a loss based on the value of the collateral, which is what has happened this quarter. There is a fair value gain because of the appreciation and the value of the collateral. Sorry, was there another question?

Madhukar Ladha: What prevents us because these are in default why cannot we sell the securities and recover our money or what is the logic there?

Milind Barve: At this stage, Madhukar, it would be premature for us to disclose what we are doing to recover the money with the collateral, but we remain optimistic that whatever we are holding we should be able to recover a number, which is very close to that or if market permits better than that, but every effort is being made to recover the money as early as possible. You made a comment about performance and flows. You are absolutely right, flows follow performance and I think it would be fair to say that, but it follows performance with a lag and that lag can be considerably long very often. So right now, as I mentioned in the earlier part of this call that we are seeing a distinct strong recovery in the investment performance across many of our funds in the last quarter, in particular, in the quarter ended December. We remain hopeful and optimistic that if we are able to sustain that investment performance and the leadership in that investment performance it will help us to get the better recall of investors and then will have an impact on the flows, but the impact is between flows and performance is indeed very strong, but it happens in a considerable amount of lags, sometimes even two or three quarters.

Madhukar Ladha: One final question if I may squeeze in. Sir you have a sizable amount of treasury now, any thoughts on giving out a special dividend?

Milind Barve: I do not want to prejudge what the board will do. Right now at least there is no proposal to have a special dividend, but the point about the free cash on the balance sheet is something that is very well debated by the board when they decide on the dividend payout and I am sure they will be mindful of that when they decide the next dividend payout.

Madhukar Ladha: That is it, all the best Sir.

Moderator: Thank you. Ladies and gentlemen, we will now take the last question from the line of Raj Mehta from Raj Mehta & Associate.

Raj Mehta: Thank you for taking my question Sir. I wanted to ask now you have already appointed new fund managers and you are diversifying the strategies so going forward how do you feel that how can you regain the market that you have already lost?

Milind Barve: Yes, the basic core of this diversification of style theme is that as a large fund house managing number of products across equity, equity products, managing money through equity from equity products. We would like over time to see that many of our funds or each of these funds has a distinctive style and portfolio construct position as compared to each other. If we have any similar overlap in holdings then all the funds tend to do well or they do not tend to not do well, this is the learning that we have had from the past that we have seen and therefore we are now looking at a more diversified style in terms of the total money that we manage in equity and if we do that then the best way to look at it is that at any point of time at least a few of these styles will deliver superior returns. Some may be probably average and some may be a laggard. Some may lack behind at some point of time, but as a company as an organization we will always have some of our investment products doing well and that will help to maintain, sustain the flow of money into our company. So that is the sort of the high level or broad objective or diversification. As I mentioned earlier, we are on the path of diversification by style. It does take some time because style and diversification of a fairly large pool of assets is not easy to be done within one or two quarters it takes a little bit of time, but we are very surely on that path.

Raj Mehta: My second question was with respect to the new fund offer, which we had in this quarter compared to that even ICICI and Kotak has their new fund offerings, so how are we in the position, how are we satisfied with that position with the amount of money which we raised Rs.1500 Crores, were we able to manage the proper equity funds, which we wanted to raise or we underestimated or overestimated what was the sentiment, which the investor gave you during this new fund offer because we are offering new and our products will be there new from next quarter or maybe next financial year, so how is the investment sentiment with respect to HDFC Mutual Fund compared to the Kotak and ICICI?

Milind Barve: In the industry there are players who have raised Rs.200 Crores or Rs.300 Crores or Rs.1000 Crores, there are players who have done Rs.2000 Crores and maybe some would have done more there is a lot of space in the industry to absorb new products as long as they are well-conceived ideas. We were happy with the Rs.1500 Crores collection. I think we had targeted an amount very similar to what we have been able to achieve and I think going forward we will look at market conditions. Sometimes there may be a product, which may have limited sort of appetite at the beginning of the product. This is an open-ended fund. We will continue to grow money as time goes by. So a new fund collection is not an absolute amount that remains constant. These are not closed-ended funds these are open-ended funds. These can, if we do well, continue to grow, if we have a good positioning of the fund as it delivers performance. So I think the whole objective of new fund is to have a number of new product ideas available on our shelf in the market. New fund offers, new fund collections are important, but they by itself do not make any conclusions on whether a product is good or bad.

Raj Mehta: Okay and Sir, thank you for giving everything to the HDFC Mutual Fund. I guess this might be your last concall. Thank you for everything Sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Milind Barve: Once again, just on my personal behalf, as I think one of the things is that this is indeed my last analyst call or a quarterly analyst call. We have just filed with the stock exchanges. As we had announced in the earlier board meeting, Navneet Munot, who has been appointed as the new Managing Director and CEO of the company. He comes on board from February 16, 2021 and my term, which has been sort of extended by 15 days, so I will be here as the serving CEO till February 15, 2021. I just want to take this opportunity to thank all of you for your interest in this company and I am sure with the new leadership we have good days to look forward to as we expand the market and grow our business profitably. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.