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Kind Attn: Head – Listing Department	Kind Attn: Sr. General Manager – DCS Listing Department

Dear Sirs,

Sub: Transcript of Earnings Call Q3 FY22 conducted on January 24, 2022

Please find enclosed the transcript of Q3 FY22 Earnings Call conducted after the meeting of the Board of Directors on January 24, 2022 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
Company Secretary

Encl: a/a

HDFC Asset Management Company Limited

A Joint Venture with abrIn Investment Management Limited

CIN: L65991MH1999PLC123027

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“HDFC Asset Management Company Limited Q3 FY-22 Earnings Conference Call”

January 24, 2022



**MANAGEMENT: MR. NAVNEET MUNOT – MANAGING DIRECTOR (MD)
& CHIEF EXECUTIVE OFFICER (CEO)
MR. PIYUSH SURANA – CHIEF FINANCIAL OFFICER
MR. SIMAL KANUGA – CHIEF INVESTOR RELATIONS
OFFICER**

Moderator: Ladies and gentlemen, good day and welcome to Q3 FY22 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 the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

From the management team we have Mr. Navneet Munot – MD and CEO, Mr. Piyush Surana – Chief Financial Officer and Mr. Simal Kanuga – Chief Investor Relations Officer. 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 Mr. Simal.

Simal Kanuga: Thanks Neerav. Good evening everyone. And I hope all of you, your families are able to manage the Omicron or third wave, whatever name we call it by. Most of the people in our Company as of now are working from home. The transition to work from home once again has been smooth. Start with quick update on industry numbers. We’ve always spoken about the AUM and net flows, we thought it would be useful to throw some light on gross flows, especially on equity side of the business. For the first nine months of the current financial year gross flows into equity-oriented funds have added up to Rs. 4,273 billion. That is 33.3% of equity AUM at the start of the financial year. Net flows during the same period were Rs. 1,711 billion, that is 13% of the equity AUM at the start of the year. Equity oriented AUM at the end of December stands at Rs. 17.7 trillion up from Rs. 13 trillion at the start of the financial year.

In the debt category, industry saw net outflows of Rs. 584 billion for nine months ended December 21 and Rs. 539 billion for the quarter

ended December 21. Liquid fund have seen net inflows of Rs. 359 billion and Rs. 333 billion for nine months and the quarter ended December 21 respectively. We now move to us. We closed the quarter with an AUM of Rs. 4,367 billion and the average for the quarter was Rs. 4,471 billion with a split of 46:54 in equity to non-equity-oriented assets. We continue to service 98% of PIN codes across the country through our 227 branches and 1,207 employees. This would not have been possible without the efforts of our (+70,000) distribution partners. Our market share in overall AUM stands at 11.7% on QAAUM basis, and 12.9% if we exclude ETFs.

On actively managed equity oriented AUM, our market share stands at 11.6%, 14.6% on fixed income, and 14.8% in liquid AUM. All these numbers are based on quarterly average AUM. Individual investors are now 59.4% of our total AUM. 5.7 million unique investors have trusted us with their capital. For the month of December 21, we saw inflows of Rs. 11.9 billion across 3.44 million systematic transactions. We launched two new funds during the course of the quarter. One was multi-cap fund and other an index fund called HDFC NIFTY Next 50 fund. The AUM of the multi-cap fund as of end of December stands at Rs. 43.53 billion.

Over the next few quarters, we propose to launch few more sectoral and thematic funds, index funds and also some ETFs. We are also exploring passive funds in fixed income space.

We made an announcement in December of setting up a wholly owned subsidiary in IFSC that is that is GIFT City Gandhinagar. We will be launching multiple funds to cater to international investors through this Company. We hope to go live with this Company during the course of the upcoming financial year subject to regulatory approvals.

We now move to Financials:

The overall financial performance of the Company during the quarter ended December 21 is similar to the corresponding quarter in December 2020. The revenue from operations increase due to an increase in AUM as well as more remunerative mix, with higher percentage of equity AUM. However, this increase was tempered by a dilution in margins in some of the schemes. Other income for the quarter ended December 21 is lower than the quarter ended December 20. The Company is in process of expanding its product bouquet, and consequently there is an increase in expenses on new fund offers. There has also been an increase in routine business development expenditure as the business moves towards normalization.

In February of 2021 a grant of ESOPs was made to certain employees and the expense head employee benefit expenses include the pro-rata amortization of the fair value of these ESOPs as required under the IndAS accounting framework applicable to the Company. This is a non-cash charge which is book value neutral. In third quarter of FY22, this non-cash charge amounted to Rs. 173 million. As communicated earlier, employee benefit expenses have increased as the Company resumed its practice of annual increments in employee remuneration this year after taking a break from the practice last year due to COVID 19 pandemic.

This is Piyush's last investor call as HDFC AMC's CFO. He leaves us on 31st of Jan and Naozad Sirwalla takes over from him starting 1st of Feb. Naozad joined us in mid of December and has been working alongside Piyush for over a month. We also have Naozad on the call with us today. Naozad has over 26 years of experience and comes to us from Lupa Systems Investment Advisors. He has worked with KKR India for over six years. And prior to that with Kotak Group, including Kotak Investment Advisors for over 13 years.

Thank you very much for listening, and we welcome your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of the Dipanjan Ghosh from Kotak. Please go ahead.

Dipanjan Ghosh: Just two, three questions from my side. One, obviously on the yields if you see that, if I look at the quarterly average AUM and look at the equity mix, that has increased by around 600 to 1200 basis points over the past year-on-year and the yields broadly remained flat. So, if you could shed some light. My second question is, if I look at your sequential increase in investor account, versus your sequential increase in unique customers, there seems to be some dichotomy. So, is it because in most of the NFOs or in some of the new fund offerings probably the existing customer are contributing a higher share of incremental flows. And the third question, if I look at your market share for the individual segment, active equity individual segment and segregate it into channels wise direct and regular, probably the market share losses in the direct channel has been significantly higher be it in T30 or B30 compared to regular. So, if you can shed some light as to what is happening in some of the direct channels and or maybe the incremental gross flows to some of the digital channels, is there some pressure on that. That's all from my side, thank you.

Navneet Munot: So, first, on the margins, this is something that we have discussed many times over the past couple of quarters. The challenge on this front has actually got further magnified due to high gross sales in absolute terms as well as the percentage of outstanding equity AUM that the industry has seen. So, let me try and explain this to you with an example, so the size of equity oriented mutual fund industry is some 17 lakh crores or Rs.17 trillion. Gross monthly sales are around 50,000 to 60,000 crores. So, if you annualize that number the annual gross sales is 35% of industry AUM. While net sales is approximately half of gross sales which is like 17%, 18% of industry AUM or actually even lower. So,

just qualifying that the numbers I'm talking are purely illustrative and nothing else. See industry as a whole is making 70 basis points or so on equity-oriented AUM and 30 to 40 basis points on new flows and net sales over the next two years is let's say 25,000 crores a month that is roughly 6 lakh crores over these two years. So, what will happen to margins. Assuming no mark to market gain, AUM will go up to 23 lakh crores or Rs.23 trillion, but this AUM will have new flows of 12 lakh crores and 11 lakh crores of old AUM that will be the breakup of the new 23 lakh crore number two years later. So, industry will roughly have 50% allocation each from new and old assets. I repeat, just to qualify that the numbers I'm talking are like purely illustrative and nothing else to explain the thing and I'm probably oversimplifying things here, but this is the best way to explain what's happening. So, it would be pertinent to note that lower gross flows or for that matter higher net flows as a percentage of gross flows can alter the situation totally or for that matter rapid rise in the market, coupled with lower gross flows can also make margins look very different. The good news is, industry is realizing and pricing products better. What we saw happening with some of the NFOs in the recent past, is now getting better. Our past experience over the last several years says that far way out of normal pricing can't last forever. In fact, I would say that actually high distribution cost will ultimately hurt distributor the maximum because direct lines will become cheap and migration from distributor folios to direct folios may happen at a much faster pace. So, I guess, key distribution partners are realizing this phenomenon. So, what is our strategy in times like this, so we want to balance between two extremes, and not keen to do business at any price. At the same time, we do want to not be away from all the action, we are doing much more on the other hand, to create the pull for our products via advertising, via communication, the new product launches that Simal talked about, in fact we have done six NFOs this year which would be more than what we would have done in last several years. What we have done in last nine months or so. And our interaction

including the knowledge flow, working on our let say the customer data platform, working on the partner integration through the API Gateway, marketing automation, or variety of other things that we can discuss.

Again, coming back to the pricing pressure in the market, we have lived through the kind of times in past and look at what happened in 2007-08 for that matter, let's go back to even 99-2000. I'm not talking from market or valuation perspective, but the way mutual funds got sold, and as they say history does not repeat, but it does rhyme. And lastly we have all been hungry for growth and have actually paid for our growth. In fact, I would say about our industry that, we are now half a trillion-dollar industry, I am talking of mutual fund industry in India, half a trillion dollar of AUM, but if we look at the profit pool it's around a billion dollars of profits. I would like to believe that with more players getting listed, and some of the listed players with strict margin discipline will change the way we do our business and it's just a matter of time is what I believe.

Dipanjan Ghosh: Sure. On the second question, the difference between folios and unique customer account sequentially, looks a little bit different. So, is it that on the NFOs probably we are kind of getting a lot of the older customers are kind of getting the flows out there?

Navneet Munot: Some bit on that account, some bit maybe some of the older may have booked some profit. So net-net the growth in folios as well as unique account is almost same, that observation is right.

Dipanjan Ghosh: Sure. And lastly, one question if I see your market share for the retail and HNI segment in active equity and break it across channels regular and direct, be it T30 or B30. We have seen much higher moderation in the direct channel in terms of market share, compared to in the regular channel, specifically talking only for the retail and HNI active equity

segment. So, just wanted to get some perspective as to what is happening on those channels. And how do you think about it going ahead?

Navneet Munot:

So, direct also include FinTech as they are the RIAs and feed money into the direct line. And over the last couple of quarters, in fact very pronounced in this financial year so far as well as in the last financial year, not so much in the year before, they are growing at a rapid pace. And just let me give you some industry numbers here this is some broad estimates from the data that we have. The total AUM of theirs is around 55,000 odd crores of which 40,000 odd crores is in equity-oriented funds. More relevant point is that FinTech as a group have registered over 6 million SIPs in the first nine months of the current financial year. So, this is a key distribution channel. And at our end, we are trying our best to integrate our platform with theirs. We have the partnership with all the key FinTechs, our teams are working on and building this further. But just to keep one thing in mind that some of the products which are getting sold there for example, One of the highest selling product on these platforms over the last few months has been technology funds a product that we don't have. We have seen that over a period of time, it's important that we have the right set of products for our customers. And majority of these FinTech customers are young and first time mutual fund investors. So, another big focus at our end has been on the investor education and investor awareness campaigns, et cetera. How do we ensure that we sell the right product to the right investors. And over a period of time, we also believe that our market share within these platforms should also go up compared to where we are today.

Otherwise, in most of the other channels, we would be in line with the industry. Of course, you need to keep in mind that couple of bank sponsored AMCs have an advantage where they could be guided, or there could be a closed architecture when it comes to the products sold

by them. But if you adjust for that, then we would be in line with industry.

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

Ansuman Deb: My question was regarding our initiatives on the passive side, we have been taking some steps on that for the last two, three quarters. And you also mentioned some of them in your introductory comments, if you could give some more color in what is our strategy on the passive sides, both on ETF and alternate space and what portion of revenue, or what kind of business we can look from this segment maybe in some three to five years outlook. Thank you.

Navneet Munot: So, on the passive side, we have been repeating it over the last couple of quarters that, at the outset I'm a strong believer in active management. And as an organization, we have stated this earlier and we'll want to repeat that if it comes to it, we will be the last men standing in terms of active management, we will leave no stone unturned, we'll put in all resources required, management bandwidth to sum it up, whatever required to create value for our customers. Having said that, there is a segment which is looking at options on the passive side, we have been filling up our product bouquet. For the last few months, we have done two index products, we have got approval for two more index funds, NIFTY 100 and NIFTY 100 Equal Weight that we'll be launching soon. We've got approval for nine ETFs that we will be launching over the next several months. We are exploring the ETFs on the debt side as well. Silver ETF is another category where we would like to be present. So, there is a whole game plan in terms of filling our product bouquet on the passive side. And I would say that we would like to be a relevant player on the passive side and a dominant player on the active side simply because we also have to keep in mind the pricing and the margins on the passive side and won't like to grow the AUM just for the sake of it. The

HDFC Group moorings in us won't allow us to do that. But we want to ensure that we have the full product bouquet, we remain a one stop shop for all kinds of solutions, be it in the active space or in the passive space for our partners, for our investors and doing everything possible to get a relevant, I would say share, on the passive side as well.

Ansuman Deb: Right, just one. So, basically, in terms of you are saying we will be relevant player, while I get that sense. But in terms of infrastructure, or in terms of employees all kinds of requirements we are all ready with that in terms of these new initiatives?

Navneet Munot: Yes, absolutely. We have a fund manager who's been a veteran in the passive space for a long time. Historically, maybe couple of years back this market was very small. Initially, it grew mainly because of the flows from the couple of institutions, which were a mandate to few AMCs. But as the market is expanding, we are looking at everything to ensure that across all channels as well as in all investor segments we have the right products in place. We have the right processes in place to reach out to all investors on the passive side as well.

Moderator: Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain: Thanks for that explanation on the impact of the NFOs. Just a follow up on that, so if we think of the impact of this on the financials, would you say that a lot of that is already in the AUM. So, the reason I say that is, as an example the multi cap fund was launched in the middle of December quarter. While there is a 4,300 crore AUM at the end of the period, maybe it's share in the average AUM might be much lower. So, in that sense would you say the impact of this sort of pricing pressure it's yet to come and could that lead to a drop in yield in 4Q onwards?

Navneet Munot: It's a matter of various things as I mentioned earlier, it will depend on the nature of gross flows as well as the net flows, how much gain comes from MTM versus the flows. So, all of those kinds of things, NFO's have a certain kind of pricing pressure versus the existing fund. Within the existing funds, the margins are different for various funds. As well as I said, if the market grows, market delivers higher MTM gain versus the flows the picture would be slightly different. There has been highly competitive pricing on the NFOs over the last couple of quarters, which I talked about earlier. And we are hoping that over a period of time industry will realize that we need to have more discipline on that front. And that should happen sooner than later. But broadly just to, Aditya to make one point that, there is a difference between the margin that we have on the book versus the margin that we get when newer flows are coming in. And we need to keep in mind, and again when I say the new flows within that also NFOs versus the existing funds. So, we need to keep that in mind.

Aditya Jain: Right. So, that's what I was asking towards that the impact of the new flows could it make a difference in the next quarter. The second question from my side, if you could just talk about the yields on the sort of not purely passive, but things like the equal weighted index fund, which is not completely passive, but you could say some sort of layer on top of passive what kind of yield do these contribute?

Simal Kanuga: Aditya on the TER of the equal weight direct plan is at 40 basis points so the yield would be somewhere around 30, 32, 33 basis points.

Aditya Jain: Okay. So, somewhere between a passive and active equity?

Simal Kanuga: If you say active equity, NFOs they are cheaper these days. But if you look at it this way, like the NIFTY 50 index fund we run direct plan at 20 bps expense TER, while the equal weight is at 40. And the Nifty Next 50 is at 30.

Moderator: Thank you. The next question is from the line of Mohit Surana from CLSA India. Please go ahead. The next question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Just a couple of questions from my side. Firstly, we have seen a lot of outflows from the debt segment of a overall for the industry. Could you cite some reasons for it, and how do you see the trajectory going ahead for this? And my second question will be on the expenses as to how do you see the expenses trajectory for HDFC AMC going ahead now with the kind of new NFO launches, also some bit more on employee wherein, where are the employee additions and how do you see that trajectory going ahead. So, these are my two questions.

Navneet Munot: On the debt side, over a period of time as RBI takes away the excessive liquidity that got pumped in post COVID, that will reflect maybe a bit of like CAPEX starting at some point in time, the corporate money which is there may shrink and maybe some of the other instruments, for example, some bit of money may have moved to the debt ETFs, etc., from the actively managed funds. But otherwise, no larger trend that we can see on the fixed income side. In fact, at our end we are seeing incremental flows, of course it's trickling in not very large into the credit risk fund as the risk appetite comes back and people are looking at the top notch players who did extremely well during the entire credit crisis period. So, we are seeing positive flows in that particular fund and few other funds, but broadly if you talk about the industry number, we have seen decline in the debt AUM.

Your second question was on the overall trajectory in terms of people. So, we added our CTO, we will be adding more people on the technology side, on digital side, on product, marketing, some of those, but otherwise from an overall headcount perspective, it won't have changed much within that as I said, some of these areas which are high focus areas for us, we would have seen people addition.

Prayesh Jain: Just coming back to the debt flow so in the past say like over the last decade or so, we would have seen this debt AUM growing at a decent 10%, 12% CAGR, do you think that kind of trajectory unfold in the next few years as well?

Navneet Munot: So if I look at the overall size of bank deposits in India versus the debt mutual fund. And your observation is right, in fact that percentage hasn't changed, the growth has been more or less in line or maybe slightly lower at times than even the growth on the bank deposit side. So, there is a long way to go. For the last few years, we have seen significant acceptance of equity as an asset class among the retail investors. The SIP flows that we see are primarily in equity fund or hybrid funds. But several of us have grown seeing recurring deposit as a product, which was also kind of an SIP in fixed income that's a concept which hasn't really taken off. But, for a set of investors that could also be an interesting product as an AMC we are also thinking of working on that. And I agree with you, in line with the overall deposit growth, that should be there, in fact should be higher than that because the mutual funds clearly provide a good and convenient diversified, highly transparent, I would say product on fixed income investing as well. So, there's a lot of potential on the retail penetration of fixed income as a product category.

Prayesh Jain: Okay. Sir, coming back to the expense part as well, if you look at our OPEX upon AUM, we are roughly around 12 in terms of that. So, do you think that you will maintain this or it can trend higher, we've been at 12 bps for the last three quarters or so do you think that this will grow higher or this will be at this level and the speed is dropping at the revenue level the EBITDA margins will decline?

Piyush Surana: For some time it should probably remain at this level. Of course, here you would have to take into account the ESOP cost, which is at 1 bp, which that charge kind of whatever we have till now runs out in the next month. So, there'll be a little bit of a dip because of that, but otherwise

we are also investing in other things like technology a little bit more on people here and there. So, roughly we should be there before it starts going down again.

Prayesh Jain: When do you see this trending down the three quarters, four quarter?

Piyush Surana: Let say a year, a year and a half, probably two years. But we still need to, we are putting in a substantial amount of money in business development costs now.

Moderator: Thank you. The next question is from the line of Ritesh Badjatya from Asian Market Securities. Please go ahead.

Ritesh Badjatya: We have seen a good amount of in-flows across the industry past couple of years. And equity is accepted as an asset class as you also mentioned. I want to understand in our present situation, how do you face this deployment challenges because at one end Central Bank across the world is in the mode of rising interest rate to counter the inflation and that is having the implication on the fixed income market and also on the equity side. So, how do we mitigate this transformation time obviously, but how do you face the investors this time and how do you address their investors at this point of time?

Navneet Munot: The investable universe is expanding at a faster pace than the money that's been flowing to us, we are still a very small percentage of the overall free float market cap in India. If you compare us with let's say some of the other developed markets, the total AUM available to invest in mutual funds in India is substantially lower. And, without taking names you would know better the kind of new players who have been getting listed over the next several quarters, the amount of new listings that one can talk about. So, we haven't reached a stage where there is a lot of money chasing few stocks. In fact, as the rally gets broad based the investment universe is only expanding, in the existing universe as

well as the newer listings that are likely to happen over the next several quarters or other years in India. So, we have long way to go in terms of the capacity of the mutual fund industry to deploy money.

Ritesh Badjatya: But sir if we look at last two, three year's performance and we have also seen action is very much concentrated in a couple of stocks. So, does the industry take some more time or how do you see that?

Navneet Munot: It's actually changing so of course calendar year 2018, 19, 20 were the years where you are absolutely right couple of top stocks accounted for bulk of the market return. If you take the NIFTY the top five, seven stocks would have accounted for maybe anywhere between 70% to 100% of the returns. But since last year, the rally is becoming more broad based. In fact, that is also reflecting in our performance and in our yearbook there's a beautiful slide on that, that how active managers have done well in past whenever we have seen a more broad based rally and this time is no different the alpha generation across most of our schemes has been quite good and then last year, year and half rally is becoming broad based so that's the point I made earlier, that investable universe is expanding rather than shrinking if that's the fear.

Moderator: Thank you. The next question is from line of Mohit Surana from CLSA India. Please go ahead.

Mohit Surana: My first question is that obviously you said on an industrial level NFO flows are coming at lower profitability. So, my question to you is, will you not at some point in time increase the expense ratio on these points, because otherwise then it will lead to cannibalization within existing schemes?

Navneet Munot: Expense ratio are at cap, it's the function of the distribution call that has been paid in these NFOs and you're right over a period of time as flows come in at a lower cost, as we see more discipline coming in in terms of

pricing obviously, I would say hopefully you will see better margins in these products as well.

Mohit Surana: Understood sir. Sir the second is alternative strategy, obviously in the past you said that you are on drawing board. So, is there anything concrete coming out of there and what value will these kinds of alternative strategies bring to the Company?

Navneet Munot: So, you're right, in the last one or two calls we mentioned about plans to enter into alternatives and in the next financial year you will see us launching a product on the category II side. We have filed an application with SEBI for permission to launch a category III fund. Over a period of time we have ambition to build our presence on the alternative side as well. So, that's very much on track. You would have heard about our plans to set up a wholly owned subsidiary in the GIFT City.

Mohit Surana: Got it, sir. And any particular value you think that these strategies will bring to the table in terms of profitability in terms of bringing more investors, et cetera?

Navneet Munot: These are early days and as I said that we have ambition to put up the whole platform over the next several years, but it's like too early I would say to talk about the exact numbers.

Moderator: Thank you. The next question is from the line of Kartik from Mirae Asset Management. Please go ahead.

Kartik Maira: I just want to understand if you can give me a ballpark figure on the yield on NFOs versus your existing funds?

Navneet Munot: Different products would have different numbers. In fact, it's all kind of you can say the direct TER of the funds of not only of us but the industry and can also look at the distributor plan versus the direct plan. And you can definitely kind of do the full scan.

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

Sahej Mittal: So, my first question was around, I know you answered that but to better understand things given that NFOs are coming as very steep distributor commissions. So, what is our strategy, going forward could we see some revision over there by increasing our yields or how do we go about it and the second was around, if you could indicate some ballpark numbers, what the proportion of back book in our current AUM, current quarterly average AUM on the equity side to better understand what could be the pressure and the yields in the foreseeable future. And the third was around, are there any one offs in the other income given that we have seen some good returns on a sequential basis, so those were the three questions.

Navneet Munot: So, again on the NFO side, on the core categories we only had one fund category left, that was multi cap the NFO that we did a few weeks back and last year in December we had dividend yield fund. Now our core categories is like almost full, there are few products that we have launched to fill our product gap on the international fund side. On the passive side thematic is one area where we have done BFSI fund, we have few more funds in the pipeline. But overall, we have been saying that our intention would be to grow as much if not more in our existing funds, having the performance has been looking up, we have one of the best-in-class product range across all categories, we have one of the best product lineup on the hybrid and solution side, where we believe there is tremendous potential for us to grow. Some of the other categories for example, focused equity which is like very small for us relative to the size of that category and Roshi will be managing that fund and she has a brilliant track record over the last decade or so, and there's tremendous scope for us to grow, Large and Midcap is another category which Gopal is managing and there is huge scope for us to grow in that and on the

like balance advantage or variety of other products where we have a lot of potential. So, while I talked about the overall margin pressure, because over the last few months financial year till date out of 1,70,000 odd crores of equity flows. 40% or so have come through the NFOs but I would assume that over a period of time, incrementally higher amount of flows would be into the existing funds and the money which is raised in the NFOs and within the NFOs also we are hoping for I would say more better pricing going ahead. Does that answer your question?

Sahej Mittal: Sir, but my question was around, can we see some mean reversion in the distributor commission given that these are at elevated levels, so is there a possibility over there?

Navneet Munot: As I told you earlier that, distributors also understand that too high a payout in an NFO means much lower TER of the direct plan. And as Simal on a lighter note, but I would say on a serious note as well mentioned when somebody asked the question on the TER of the passive fund that some of the actively managed funds TER is lower than even the passive fund and you have to invest heavily as an organization to deliver alpha over a long period of time, and I'm sure investors and distributors would understand that the fund houses will have to be well compensated for that. So, we have seen these periods earlier and I'm sure over a period of time we will see mean reversion.

Sahej Mittal: Got it. And the other bit was around what's the opportunities of our AUM for constitute back book on the equity side?

Simal Kanuga: We can't give that Sahej, so we don't give breakups so we just give the total AUM.

Sahej Mittal: Some number to understand for next three, four quarters or we could do the envelope calculation to understand for how long this yield pressure can continue, if it is?

Simal Kanuga: Sahej, Navneet explained the yield pressure can continue if the gross flows in the industry are substantial or material part of the outstanding AUM. So, if that continues, we can look at gross flow numbers, because finally gross flow and net flows, what gets added to the AUM is net flows. But what kind of gets repriced is the gross flow number, but we can't give that split.

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

Abhishek Saraf: So, many of my questions have been answered, I just wanted to understand some qualitative colors if you can give, on AUM market share which has been sliding and so if you can just give some understanding in terms of the end-to-end market share or the gross flow market share, and net flow market share where actually we are getting hurt. And also sir just one thing that we have also been trying to address this market share losses, and now it's been almost around two years that we took some active steps towards that. However, it appears that the results have still not fallen in line. So, what according to you still needs to be done that we can start to rest back the market share especially in the equity AUM?

Navneet Munot: Sure. We have in part discussed this at length, and we are aware of the reasons behind loss of market share. So, let me today spend some time on the AUM and net flow numbers category wise, then this should help in understanding how we go about analyzing market share and also the action plan at our end for way forward. And this process, I might tell you too many numbers and so do pardon me for that. So, let me start with some of the categories which have grown and have become quite large. Where our market share in these respective categories is something that we need to address. Just few minutes back I talked about the focus funds which are now like 95,000 crores nearly 5.5% of the industry AUM and our fund is less than 1,000 crores or so. So, we are

like 0.5% of our equity-oriented AUM and we have catch up to do there, Roshi is going to manage this fund now, she was managing Templeton's focused fund which is among the best performing fund in the category. Our team is working on doing a re-launch of this fund, TR communication of our strategy and back it up with the information and the distribution which is required. So, we hope to grow our share in this category. I'm just giving you two or three examples so you can understand the things that we are doing at our end.

We've also spoken about our miss, though by design on sectoral and thematic space. We strongly believe that market was not ready and more often than not risk is something that does not get enough due. But sectoral and thematic funds are now finding some space in investor's portfolio. The AUM for the industry here is 1.47 lakh crores, as against let's say at 84,000 odd crores as of December 20, largest contributor to this growth has been technology fund. And then we would like to believe that this is more to do with the recent performance than anything else. And our AUM in this entire space, the sectoral, thematic space is 4,000 crores. In fact, within that the 2,200 crores came when we launched the banking and financial services fund, we have filed or in the process of filing couple of documents in this space with the regulator and we'll be launching these funds over the next few quarters. Again, even at the cost of repeating which we have been saying over the last several calls that we will launch only those funds which we think have long term potential and are good investments as of launch date and not something that is just because its flavor of the season, HDFC AMC has never done that and we would like to be very, very conscious of that fact.

Another category for example is large and midcap fund, we are at 5,000 odd crores but our market share is shade under 5%, our performance is strong and we'll be able to build on it, multi asset allocation fund for that matter the entire hybrid and solution bouquet that I talked about. We

are one of the best in class I would say product bouquet with the long-term performance track record in that category and there is tremendous opportunity there. So, whether it be large cap, Flexi cap, mid cap, small cap, we are looking at each and every category, wherever there is scope for us to grow and won't leave any stone unturned. Earlier, I talked about some of the other categories where there are more product launches likely to happen, for example on the international fund side, on the fund of fund side, et cetera. And I'm not talking about passive here we are talking about active funds because the market share loss is something that you asked about.

In fact, one of the largest category to see flows has been dynamic asset allocation category or what's known as balanced advantage, it's seen (+50,000) crores net flows in these nine months, and 20,000 crores of that has been through NFO we have a top Tier performance across time period one year, two year, three year, four, five even longer in the category. In fact, over a 25-year period it's one of the best performing fund in mutual fund industry in India. And I would request you to check out numbers for yourself and in our opinion, our thought process, our style for this category. If there is some misunderstanding in the way people bucket us we would like to address those. So, better times ahead, we have seen flows in Flexi cap and multi cap categories, because of some of the larger NFOs. We have reasonable share in these flows, because of our recently launched multi cap fund, but still there is huge scope for us to grow there. I can go on, so we are on the ball, as you would appreciate these things don't change overnight, I would like to mention that we are doing everything possible and hopefully should see results sooner than later. Whether things on client services side, whether on increasing engagement with our distributors across all channels, engaging them through NFOs which also helps us in our multi cap NFO we saw participation of over 13,000 distributors, whether it's the communication, more segmented, more targeted, whether enhancing our

digital platform, our customer analytics, providing both investors as well as our distributors newer modes of transacting with us. So, we are on the ball and hopefully that you should see the results as I said earlier sooner than later, including couple of other things that we are doing.

But lastly, I would like to add one thing that as an organization we would always want to balance between market share and margins because we do not necessarily subscribe to the idea of doing business at any price. We are of the opinion that market share at any margin might not be the best idea. People respect us for that balancing over the last several years. And we would also like to believe that getting share at any price is not a sustainable strategy and hoping that industry will see rationalization at industry level sooner than later.

Abhishek Saraf:

Thanks Navneet very comprehensive response to that. Just one follow up, so does this imply that as you mentioned that in many funds our market share is low in many categories. So, we would be continuing with more NFOs would be expected in thematic and sectoral kind of funds. And so that would be a right assessment right. And secondly, you had mentioned that recently the NFOs pricing has been more favorable towards the manufacturers. So, you can just give some color on what was the earlier net TER which was accruing to the mutual funds and what would have been the recent experience?

Navneet Munot:

The pricing is not favorable to the manufacturers, but on the other point on the NFOs, as I told you earlier that on the core categories we are like almost we have presence across all categories. After the SEBI classification where the categorization of funds, we have presence in almost every category there are four categories, thematic funds, thematic or sector funds, international funds, passive funds and fund of funds. These are the four where we have some more work to do in terms of filling our product bouquet. But otherwise, on the core categories our

focus would be on enhancing market share that we deserve in each one of those categories.

Moderator: Thank you. Next question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Just a couple of more questions. So, when you say that the gross flow in the overall AUM increases, so basically we are talking about legacy assets versus new assets, any sense on HDFC AMC mix between say pre-TER norm change, in the last couple of years how this has changed?

Simal Kanuga: Pre-TER you are saying, what was the AUM before on say 1st of April 2019 that way?

Prayesh Jain: Yes, sir that way mix how that change from the legacy so let say in FY20 what was the AUM on the pre-TER and today, what is the share of that?

Simal Kanuga: We don't have that break up.

Prayesh Jain: That would be the impact that you will be talking about, when the new flows come in which are at much lower yield not just the NFO, but even in the existing schemes, when the older AUMs are going out of the system and the newer AUM is coming in the newer scheme as well that would also cause the impact right?

Piyush Surana: Yes, so that's what we've been talking about many quarters, in each quarter we kind of mentioned this and it's a continuous process which is going on and that is one of the main factors which are leading to this dilution in margin.

Prayesh Jain: Okay. And secondly, any color on what kind of age these alternate assets can make the scheme that you're planning to launch and on a gross basis, and as well as on the net basis?

Navneet Munot: So, alternatives is like a vast space, the way you think of likely to say what kind of a yield on a hedge fund, but there is an alternative strategy or there is another alternative strategy. Would be difficult to give any number at this stage, it depends on what kind of product segment, what kind of investor segment that we target over a period of time. So, you will hear more from us, maybe a few quarters down the line in terms of what we are doing in that space.

Moderator: Thank you. The next question is from the line of Hiral Desai from Anived Portfolio Managers. Please go ahead.

Hiral Desai: Just had one question. So, to your comment, wherein you said that HDFC would always want to balance market share and profitability. So, as investors what is the one metric we would sort of look at for this to sort of play out. So, should we look at the operating margin, and is there a threshold below which you guys don't want to go and let's assume that pricing remains irrational for a while then sort of how do you guys think about it?

Navneet Munot: As I mentioned a balance between the two. Over the last 21 years in this organization what we have always tried to balance is scale that's important for us, quality that's important for us, the quality of AUM, the quality of business that we do and profitability, and ensuring that we have a balance in all of these, not chasing scale at the cost of profitability. At the same time, not missing on opportunities which could from a strategic perspective could be important for us to be presenting, I mentioned earlier that we would like to remain a dominant player in active equity, active fixed income, active money market. But we would also like to have a relevant market share on the passive side, because there would be a segment of investors who are looking at those kind of products, and we have to have a one stop shop to provide all solutions to our investors. So, we'll do a good balancing among all of these.

Hiral Desai: Navneet, I appreciate that. So, as investors just wanted to know, is there a quantifiable outcome that we can focus on. So, I appreciate sort of the way you guys are approaching it. So just wanted to get some thoughts on that. So, like, is there a focus on a threshold OPM number, is there a threshold on maybe the profit number, so just wanted to get thoughts on that. Is there a quantifiable outcome that we can track?

Navneet Munot: This is also the market structure as it evolves, a few years back that would have been a different number, because passives didn't exist. A few years later it could be different because we will also have the alternatives at our end. So, it also has to be seen in the context of where the asset management industry is and where it has been and where it will be. All we are trying to ensure is that we have a scale in the business, we are a dominant player, wherever there is an opportunity in the asset management side or want to be a one stop shop to cater to all investors, whether if they are institutional investors, or the individual investors to ensure that we have a share across product categories to ensure that we have fair share across channels of distribution. And tomorrow if there are other alternative channels like FinTech that we talked about some time back or there are other channels to be present there, at the same time ensuring that we have best in class profitability. That's how I would like to put it.

Hiral Desai: Got it. And the other question was, on a nine-month basis since you don't want to quantify the impact that NFO flows are having on the yield overall, can you just give us some sense, so on a nine month basis what is the kind of impact that some of these flows would have on the yield so would it be like a half basis, one basis point kind of impact on the yield, just the noise because of NFOs?

Navneet Munot: So, just to clarify it became NFOs as an example, but it's also the existing book versus the new flows and within the new flows again, margins are different in NFOs, versus the money that is coming into the

existing fund. The fresh flows into existing funds come at a lower margin than what we are earning on the book and of course, NFO's are the ones where the pricing pressure is more intense, or the competitive pressure is more intense. So, it's a question of gross flows, net flows within the gross flows existing funds versus the new funds or within the existing funds also different products will have different kind of profitability. So, it's a mix of all of those things. Just to clarify, not only pure NFOs.

Moderator: Thank you. The next question is from the line of Kaushik Agarwal from Haitong Securities. Please go ahead.

Kaushik Agarwal: Sir there are two questions that I wanted to ask. Sir first is around the PMS AUM, we have seen a decline on quarter-on-quarter basis. So, just wanted to know the reason for the same and how is the top line for the Company during the quarter has been impacted, that's number one. And number two, I wanted to understand like excluding NFO what would be the component of NFO in our total expense. So, just wanted to understand on sustainable basis what would be the quarterly run rate for the operating expenses for the Company?

Navneet Munot: So, on the PMS side, one large client book profits, and that's reflected in the PMS AUM. And on the other side, we don't really give that number in terms of the breakup of out flows NFO versus the other flows. You are asking about, Kaushik the cost part of it associated with NFO's, right?

Kaushik Agarwal: Yes.

Navneet Munot: So, the fund breakup of the operating expenses is not there. But it would be couple of crores.

Kaushik Agarwal: Understood sir and sir just one last question on around this outlook regarding this PMS AUM, how do you see this book growing in medium to long term perspective?

Piyush Surana: So, just to add on your earlier question in terms of expenses, if you look at the difference between the trailing quarter, that would be the incremental cost in NFO's and some degree of business development. So, we don't really give exact numbers, but that will give you a fair idea.

Kaushik Agarwal: Sir just follow up on this PMS AUM your outlook over the period of time, how do you see this book growing for the Company and just wanted to understand what kind of yield are we making in this book?

Navneet Munot: So, again, as I mentioned about alternatives, that included reviving our PMS business as well. And you will hear more on that front over the next few quarters what we are doing on the PMS. So, when I talked about the alternatives. Earlier, I mentioned about category two and category three funds, but that also includes what we do on the segregated accounts on the overall PMS.

Moderator: Thank you. The next question is from the line of Madhukar Ladha from Elara Capital PLC. Please go ahead.

Madhukar Ladha: Question on the AUM, the average AUM is up about 5% 2Q while the AUM is up only about 1.2%. I know that there was mark to market impact in December especially. What should we read this more, is it more because of performance or did we lose some further market share and slow because December was a very strong and as active equities flows are concerned, so that's my first question. The second question is, on other income this quarter again other income sort of spiked up, is there any one off, so that will be helpful.

Piyush Surana: Hi, Madhukar. So, I'll answer the other income first. And then Navneet will take the other one so, on the other income you know that we have

got a very large book of investments in our own debt mutual funds and the interest rates have varied. So, part of it is that and part of it is like you said, the one offs that we have. So, last year, we had some one offs and this quarter also there is some one offs because we have also got investments in other things besides this. So, there's some MTM gain there. So, I wouldn't take the number that we have this quarter as something which can be factored in every quarter. So, there is some one-off there.

Madhukar Ladha: And we quantify the one-off element?

Piyush Surana: I don't think we want to do that. But, if you look at the trailing quarter then you probably get a good idea of where it should be given, where interest rates were at that point in time.

Navneet Munot: And the other question on the market share. So, you are right, you can see it in the investor presentation market share has come down and it's a combination of a few things, including maybe slightly lower share in the inflows, the gross flows that I talked about earlier, that would have come to us relative to the market share we have overall in the equity segment. But, I've given the, I would say comprehensive answer in terms of the categories where we have the potential to grow, and some of the other things that we are doing as an organization to stem the fall in the market share.

Madhukar Ladha: Right sir. Sir anything more that you're doing on the performance side.

Navneet Munot: Performance as I mentioned earlier, that if we look at the last one, two years, as the rally has become broad based when the markets were extremely polarized, and we had a certain view on the economy and markets versus the way markets have played out over the last one or two years, our performance has improved very, very significantly. Nothing much has changed in the portfolio, it's just that we had a certain view

on the economy. And in sectors finally it has played out that way and in the very long run, we have one of the best performance track record. They still maybe if you look at three, five years it started improving and you will see that the improvement in performance over the last one, two years in couple of categories would start reflecting in the three, five years as well. While the longer-term performance, has been absolutely when I say longer term I'm talking about like 20, 25 years has been absolutely best in class. So, it's in the right direction and we feel very confident that more and more investors, more and more distributors, all our partners would start noticing it and hopefully sooner than later, we would see that reflecting in the flows as well.

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

Abhishek Saraf: My question was answered, thanks a lot.

Moderator: Thank you. Ladies and gentlemen, due to time constraint we'll take the last question. The next question is from the line of Devesh, Individual Investor. Please go ahead.

Devesh: Just a quick question Navneet from comments you made that our performance has been visible in terms of improvement trajectory from two, three years. A quick research as you were talking, and I took HDFC balanced advantage funds and I could see that many of the platforms we are rated as single star compared to other competition, which is on all time frames lesser returns on TR higher than us. Still, we are rated as single stars. I know, these are external properties and assets. But do you have a team who sort of tracks this reports, to sort of communicate to market. How do we sort of work around this?

Navneet Munot: Absolutely, while of course the best part of our industry is that it's extremely transparent, you get the daily NAV and there is a tremendous,

I would say media scrutiny, there is tremendous scrutiny from lots of analysts across the board. And we get all of these rankings, ratings, and the commentaries from various experts. At our end, whether it's the investment team, our product team, everybody keeps a very, very close track of that. And over a period of time, as I told you that the improvement in the performance that we have witnessed, and you talked about the balance advantage fund, and I would request you to look at this, to check out the numbers for yourself across all time periods, 1, 2, 3, 4, 5, or even longer. It's appearing right at the top, there's a category which has got the highest amount of positive flows. And at our end, also, we are hopeful that as a performance gets noticed, and this fund has one of the longest track record in the industry as well. So, the investors and distributors notice that improvement in performance, I'm sure it should reflect inflows as well.

Simal Kanuga: As far in terms of ratings what you mentioned, this generally happens with a lag. So, hopefully, those one and two stars should start going up in case of balance advantage.

Devesh: Right. And just as follow up, do we have sort of communication with these platforms or we leave it to them for sort of reflect those changes on their own timelines, the reason I'm asking is direct retail advisors, they sort of research and probably get misguided by just looking at ratings and things like that?

Navneet Munot: Exactly. You are absolutely right. So, two things, one is that of course these are independent agencies, we usually respect them. They are objective and of course one can argue with the different, how do I put it, there's a different methodology but over a period of time all of them have, I would say the investor's attention on those ratings. But on the second part is, the job at our end is to go and explain our investment style, our investment philosophy, our investment process, and the way team has been managing these funds, that there are cycles in market,

there are cycles, one style of investing performs better versus the other time periods. And how should one investor or a distributor or an advisor should look at those funds across times, across market cycle in the job at our end and that's what our product team, along with our investment team, along with our marketing team, that's the job at our end. But we respect all the rating agencies who give an independent and objective rating. As you rightly said, investors look at that. Our job is to ensure that investors just don't look at what happened in the recent past, but a more longer term track record as well as the philosophy with which these funds have been managed.

Moderator: Thanks very much. I now hand the conference over to Mr. Navneet Munot for closing comments.

Navneet Munot: Thank you for attending this call and I wish you all good health, and a great year ahead.

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