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

Dear Sir/Madam,

**Sub: Transcript of Earnings Call**

Please find enclosed herewith transcript of Earnings Call for the quarter & nine months ended December 31, 2022, conducted after the meeting of the Board of Directors on January 24, 2023 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 airdn Investment Management Limited

CIN: L65991MH1999PLC123027

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“HDFC Asset Management Company Limited  
Q3 FY-23 Earnings Conference Call”

**January 24, 2023**



**MANAGEMENT: MR. NAVNEET MUNOT – HDFC ASSET MANAGEMENT  
COMPANY LIMITED  
MR. NAOZAD SIRWALLA – HDFC ASSET  
MANAGEMENT COMPANY LIMITED  
MR. SIMAL KANUGA – HDFC ASSET MANAGEMENT  
COMPANY LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Q3 FY'23 Earnings Conference Call of HDFC Asset Management Company Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. From the management team, we have Mr. Navneet Munot; Mr. Naozad Sirwalla; and Mr. Simal Kanuga.

I now hand the call over to Mr. Simal Kanuga, who will give us a brief, following which we will proceed with the Q&A session. Thank you. And over to you, sir.

**Simal Kanuga:** Thank you and good evening everyone.

Our results for the quarter along with the Business Update Presentation is available on our website as well as on the website of exchanges.

Let us start with a quick overview on the industry: The industry crossed the milestone of Rs.40 trillion and closed the quarter with AUM of Rs.39.9 trillion and equity AUM of Rs.20.1 trillion. Net new equity flows during the quarter summed up to Rs.205 billion, materially lower than what we have seen in the previous few quarters. The index fund number reported includes both equity and debt index funds. We have excluded debt index fund flows, adding up to Rs.177 billion from index fund number and have arrived at Rs.205 billion. The comparable number for quarter ending September 2022 and June 2022 were approximately Rs.346 billion and Rs.642 billion. Net flows in debt index fund for September and June quarter are estimated as difference in AUM of debt index fund at the end of the quarter versus beginning of the quarter, as large part of this growth is through inflows. We continue to observe negative correlation between flows and markets in the short-term. So,

rapidly rising market tends to see muted gross flows and increased redemptions and vice-versa.

Debt funds continue to witness outflows. During the quarter, debt funds for the industry experienced an outflow of Rs.152 billion. However, the rate of outflows decreased from Rs.293 billion in quarter-ended September 2022. We should ideally evaluate flows into debt funds along with flows in debt index funds and debt ETFs. So, for the current quarter net flows into debt funds, including flows into debt index fund and debt ETF, the number is positive; Rs.103 billion.

Liquid funds for the quarter saw net outflow of Rs.12 billion as against net inflow of Rs.191 billion for the quarter ended September '22.

Others as a category, which includes ETF, arbitrage and fund of funds, investing overseas, saw inflows of Rs.100 billion.

Individual folios for the industry crossed 140 million mark and individual investors contributed 57.8% to industry's monthly average AUM for December '22.

Inflows through SIPs continued on their upward trajectory to be at Rs.135.73 billion for the month of December 2022. The number for September 2022 was Rs.129.76 billion. Also, the total number of outstanding SIP account for the industry crossed 60 million mark during the quarter.

Now we are moving to us, At the end of quarter ended December 2022, our total AUM stood at Rs.4,481 billion, with a market share of 11.2%. Our market share excluding ETF on quarterly average AUM basis stood at 12.5%, and on closing AUM basis at 12.7%. We closed the quarter with an actively managed equity oriented AUM at Rs.2,314 billion, with a market share of 11.8%. On debt, our market share for the quarter-end stood at 13.5%, while for liquid it was 14.9%. Our unique investors grew

to 6.3 million in current quarter as compared to 6.1 million for quarter-ended September 2022.

Inflows through systematic transactions continue to remain robust as we process 4.13 million transactions, totaling to Rs.15.7 billion in month of December 2022 versus 3.91 million transactions, totaling to Rs.14.3 billion in the month of September 2022.

Our SIP book commitment for more than 10 years, stands tall at 77% and our SIP AUM as of 31st December 2022 stood at Rs.848 billion.

Our asset mix further tilted towards equity. Contribution of equity-oriented assets to a closing AUM for the quarter ended-December 2022 stood at 54.5%.

Before we move to financials, a quick update on new launches and our subsidiary in GIFT City. We continued on our journey of expanding our product range. During the quarter, we launched the thematic fund, that is, HDFC Business Cycle Fund. The fund saw healthy interest both from distribution partners and investors. We got over 110,000 applications and the AUM of Rs.23.4 billion during the NFO.

We also launched multiple debt index funds. For our wholly owned subsidiary, that is HDFC AMC International (IFSC) Limited, in GIFT City, we have onboarded two experienced and eminent independent directors; we have got in Mr. Shyamak Tata (ex-Chairman of Deloitte India) and Mr. Vijay Karnani (ex co-chief executive officer of Goldman Sachs India operations and head of securities division). The subsidiary in GIFT is aimed at targeting India-focused global capital, along with targeting a pie of LRS capital flowing out of India. We have identified principal officer and have also identified one more resource for our GIFT City company. We'll keep you posted as we progress further on this.

Now, quick update on financials: For the first nine months of the current financial year, we have reported total revenue of Rs.18,448 million and our operating revenue increased by 2% year-on-year. We reported operating profit of Rs.11,600 million versus Rs.11,595 million for the nine months of last fiscal, and profit after tax of Rs.10,478 million as compared to Rs.10,496 million last year.

In terms of quarterly numbers, revenue from operations increased by 2%, while profit after tax reported an increase of 3% on YoY basis. Our operating profit margin as a basis point of AUM, stood at 36 basis points for the nine months ended December '22 with operating revenue margin at 50 basis points, that is of AUM.

We will take a pause there. Thank you very much, everyone. Navneet and Naozad are very much here to take questions if any. So, Nirav, we can start lining up the queue.

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Kunal Thanvi from Banyan Tree Advisors. Please go ahead.

**Kunal Thanvi:** So, I have three questions. One, was on the debt AUM side. So, we continue to see outflows both for industry and for us. Great, if you can take us through what's happening with the yields improvement like, shouldn't we start seeing some inflows from lower yielding assets to the debt side. Second was on our market share, if you look at the month of December, there was a sharp improvement. Is it because of the launch of the business cycle fund or it is a mixture of both the improvement in the performance and usual inflow in the existing schemes? And third was, if you look at for us from 2018, the operating profits are kind of stagnant. From here on, what would be the improvement in the profit both for HDFC AMC, because like earlier the challenge was the market, now we are kind of seeing some green shoot in terms of improvement in

the market share, now, from hereon how do we look at the profit growth levers?

**Navneet Munot:**

As Simal mentioned earlier that debt funds have witnessed outflows and I think overall outflows were 152 billion. Though the rate of outflows has come down from the September quarter, now, we also have to see the overall debt fund flows along with the flows into the debt index fund and the debt ETFs. So, if we adjust for that, including flows into the debt index fund and debt ETF, they saw net inflow of 103 billion. But you're right. Overall, I think with interest rates have been inching up over the last several quarters and given the pressure from the competing instruments like deposit rates have gone up, there has been pressure on the overall net flows. Going forward, there could be factors which could be favorably placed for the overall fixed income market. I think CPI has eased from the peak, and is likely to ease further in view of softening momentum, lower input price pressure and correction in international commodity prices. I think, overall, most of the major central banks, including RBI seem to be close to their peak policy rates in our view. And with that, over a period of time, if the yields remain range-bound with a slight downward bias. As and when the downward bias starts, there is a possibility that investors come back into the longer-dated debt funds also. Your second question was on the flows, the equity market share and all. And you said that whether business cycle, NFO has helped. Of course, the business cycle NFO has helped. It was received very well by our distribution partners as well as our investors. But flows have been good in all the other products as well. I think strong performance across categories and I would add that vindication of our stance on portfolio construct is getting well recognized both by our distribution partners as well as clients, and they should further enhance marketability of our products. I think top-tier performance coupled with new product launches, expanding our product offering both on the active side as well as passive side, significantly enhanced marketing and communication

efforts, further deepening of engagement with our distribution partners, strengthened digital platform, I think all of this should help us further.

**Navneet Munot:** Yes, I think in the last couple of quarters we mentioned about that, as you are aware like post Rs.5,000 crores of AUM, multiple of every Rs.5,000 crores does dilute overall TER by two, three basis points. And during this quarter, we saw three of our large funds; balanced advantage, mid cap opportunities, and flexi cap, crossing that hurdle. So, these three funds are like nearly half of our overall AUM. We do tend to rationalize commissions on new flows into the funds, but that impact will be visible only over a period of time and I must add this is that it is neither practical nor prudent to keep adjusting book commissions based on this AUM change. Secondly, the commission that we pay on flows is higher than that of book. I think there's a point we have repeated several times. So yes, there is dilution. The pace of this dilution was rapid in the last financial year. As you would remember, we mentioned earlier that gross flows as percentage of beginning of the year AUM was 45% approx. In the current year, the same is somewhere in early 20s. So, I mentioned this in past and will want to reiterate that our margins over long term will be determined by the asset mix, coupled with flows and churn. And I belong to the school of thought that states that volumes will more than compensate for loss in margins.

**Kunal Thanvi:** Just a follow up, one on the market share. One of the new launch of products, unlike the industry, which in 2021 we saw a lot of NFOs coming in and there were a lot of commission pressure for the industry. Now when we are launching products at this point of time when the interest is not as high as say it was in 2021, so does it also mean that our commissions are not as bad say that they were in say 2021? Any sense on the intensity of the distribution commission for the new products?

**Navneet Munot:** So, as we've been stating for the past couple of quarters, things are getting better on this front. And let me illustrate through a data point, the TER of our recently concluded business cycle fund, NFO, came to



around 55, 56 basis points. Comparable numbers say for our multi-cap fund, which we launched in December of 2021 was approximately 40 basis points. And that number even then was higher than most of the peer funds launched during that period. I am of the opinion that this is still well below our desired TER, keeping in perspective the kind of cost and other investments expected out of top-tier asset management companies like us. I think we also need to keep in mind, actually a low direct TER, which is due to high commissions, hurts our distribution fraternity in medium to longer term more than anyone else. I have mentioned this point to all our distribution partners, customers may opt for direct plan if the difference is materially large, and most of the distribution partners do understand and appreciate the same. And I am of belief that it will fall in balance over the next few quarters.

**Kunal Thanvi:** My point is on the fact that our margins have kind of now stabilized, and over the period of time they should improve with the equity mix getting better. My question was, apart from your margins being stable, do we also see any levers on the cost side, which can help us grow our profits faster than our AUM?

**Navneet Munot:** I think, as I said, there is asset mix keeps improving, also depends on the flows in NFOs versus flows in the existing fund. I think some of those will determine the operating revenue side. And I think as of now, in the last few quarters, we have seen increased spending on business promotion, marketing, and then the digital and tech capabilities and once that stabilizes, we assume that there would be potential for us to have a better picture on that.

**Moderator:** Next question is from the line of Lalit Deo from Equirus securities. Please go ahead.

**Lalit Deo:** On the AUM mix, currently, we have about like 53% to 54% of our AUM coming from the equity side. So just wanted to understand like, from a medium-term perspective, where would this share go because

increasingly in the industry, there's this rising share of the passive AUM. So, just wanted to understand on this front, like how do we see this going ahead?

**Navneet Munot:** One would assume that given the SIP book and given a huge under-penetration of equity products in household balance sheet and plus the mark-to-market would be much faster in equity compared to debt. And then so, logically speaking, equity should grow faster than the debt AUM. Having said that, I must mention this; total mutual fund industry debt AUM was around Rs.10 lakh crores when bank deposits reached 100 lakh crores levels sometime, in 2016 or so. Since then, the debt AUM of the industry has grown to around 14 lakh crores while the bank deposits have grown from 100 lakh to 170 lakh crores. So, debt AUM as a percentage of bank deposits has actually come down. So, there is a lot of potential even on the fixed income side. Given our brand, our long-term track record, our product range, our processes, etc., I think there's a lot of potential for us to grow on the fixed income side as well. If you look at the number of folios on the fixed income in industry, out of the 14 crores folios, less than 6% are in fixed income and liquid funds. So, there's tremendous opportunity on that side as well. Our idea would be to participate in the growth of each and every segment. Having said that, as I said, if I think statistically over a period of time, the equity proportion within the AUM should increase faster.

**Lalit Deo:** On the flow side, so, in this quarter, we have seen a sharp increase in our SIP flow market share. So, could you also indicate how is the market share trending qualitatively in terms of the lump sum gross flows, and how is it going in terms of redemptions?

**Navneet Munot:** SIP now accounts are much larger share of the overall flows, I mean, if you see the flows in the last quarter that Simal mentioned, and you look at the SIP monthly number of last three months, they are accounting for bulk of the overall flows as the non-SIP flows have slowed down. For us, I think over the last couple of quarters, we have made good progress

in building our SIP book. I think we have been one of the fund houses, which have been a pioneer on that front, we were one of the early ones too as a proponent of the power of long-term compounding and SIP. And as our performance has improved across all categories, and with the higher engagement with our distribution partners, and all the other efforts that I mentioned earlier, including the new product launches or improvement in our digital platform, in fact, the transition from customer service to customer delight that we've been talking about over the last few quarters, all of them are helping us and growing faster on the SIP book as well. That's been one of the major focus areas for HDFC AMC, and I think even the next several quarters that will always remain one of the focus areas to keep building our SIP book.

**Lalit Deo:** There seems to be some pickup in the other OPEX in this quarter. So, how do you see this number going ahead in 4Q and also for FY'24?

**Naozad Sirwalla:** I think other expenses are partly attributed to expenses that we incur for our NFO, driving user experience by refreshing our digital assets, some expenses towards setup of our subsidiary in GIFT, new schemes in passive funds, IT infrastructure, we've been discussing, there is some incremental CSR, etc., But if you take a view of the expenses CAGR over three years, excluding CSR, it's about 7%-odd. So, over a three-year view considering the COVID year in between, that's where the expense increases are. I think going forward, some of the investments as you said will continue on the digital front and on the IT infrastructure where we continue to invest.

**Moderator:** Next question is from the line of Mohit Surana from CLSA India. Please go ahead.

**Mohit Surana:** First is that I just wanted to get a sense of when the HDFC Bank become your parent. What kind of synergies do you expect to derive from that and once the merger is complete, do you expect your banca channel to grow faster than your overall AUM? And second question is regarding

your new initiatives. so, if you could indicate some sort of a timeline when new initiatives start to give material kicker in terms of your revenue and profits?

**Simal Kanuga:** You would agree, HDFC Bank is a formidable distribution machine, if we look at the overall branch network, the number of clientele and there is tremendous potential for us to grow within that. We will put in enough and more effort to capitalize on the opportunity. We would like to believe that synergies will increase and impact if any should be only positive. In terms of efforts, as you asked, I think, we are seeing material improvement in the engagement at all levels and we'll continue to work on strengthening it further.

**Mohit Surana:** And on your new initiatives, when do we start to see some kicker in terms of revenues, profits?

**Navneet Munot:** On the alternative side, all the initiatives we are taking on that front, our fund of funds that we talked about in the last quarter has been launched now. The initial response is very encouraging, both from distribution partners as well as our clients. In terms of material impact on the top line or bottom line, I think these initiatives won't really give material kicker in the near-term. I mean, these are businesses that we will build and result should follow over the next few years.

**Simal Kanuga:** Mohit, just to expand from what Navneet stated, right, we are a large top line company. So even if we kind of build these businesses with say 20, 30 crores kind of an incremental fees, even if that comes by over a period of next couple of years, won't really move the needle. But we are kind of establishing these businesses from a perspective of next three, five years.

**Moderator:** Next question is from the line of Madhukar Ladha from Nuvama Wealth. Please go ahead.

**Madhukar Ladha:** So first, we understand the pressure on equity yields. Are we seeing anything playing out on the debt, liquid and the ETF other category, are we seeing any change in yields over there? There was an expectation that with increased interest rates, asset management companies would be able to charge a little extra on fixed income yields. So, has that started playing out, any chance? And second, on the admin and other OPEX, you mentioned that there were certain additional expenses. Can you sort of quantify them in terms of how much is for CSR and how much is for the subsidiary formation, any sense that could help us what will be the recurring versus some one-time items this time around? And last question is on the other income. Interest rates moved up this quarter as well. So, I thought that there would be some mark-to-market impact. I wanted to get a sense on what drove the other income in terms of mark-to-market on the fixed income side versus equity side.

**Navneet Munot:** Yield for debt did not have much change actually, some money that has moved to debt index funds actually does put some additional pressure, but otherwise, the product margins on a standalone basis are very much similar to what it has been in the last few quarters, not much change. You said that whether higher yields will result in our ability to charge higher. What happens is that while the current yield of the portfolios has gone up in line with increase in interest rates, but if we look at the NAV movement, because of the MTM movement, the last one-year returns wouldn't be what investors would be seeing when they compare that with the current yield of the portfolio, and even otherwise, the margins don't move in that fashion, not much of change on that front. Your second question on the expense side.

**Naozad Sirwalla:** So, I think at this point, it will be appropriate for us to give us a breakdown on the expenses. Anyway, it will be available at the end of the year as part of the annual report, right. And CSR is part of the regulation, it's a computed number on its own. Yes, we sort of get the details in the annual report.

**Madhukar Ladha:** On the NFO-related expenses, could you quantify that?

**Simal Kanuga:** We don't get into those finer breakups. So, if you can just excuse us for that, please.

**Madhukar Ladha:** On the other income part, if you could help me?

**Naozad Sirwalla:** Other income is similar to what we made in Q2 actually give or take Rs.100 crores and it includes gains on our equity AUM, which is part of the skin in the game investment that we have and on the debt. So actually, given the duration that we are in, we didn't see any major MTM loss on the debt portfolio in fact for the quarter, that's why it's almost similar to Q2 other income.

**Madhukar Ladha:** Could you split between equity and debt of the other income?

**Simal Kanuga:** We have not gone to that finer thing. Anyways, see, equity is like hardly about Rs.300-odd crores. So, out of the 5,500-crores odd of our asset book, 300 crores are in equity.

**Moderator:** Next question is from the line of Swarnabh Mukherjee from B&K Securities. Please go ahead.

**Swarnabha:** Just one thing on the unique investors side. So, what I see is that our share of unique investors is going down sequentially. So, wanted to understand, how to read this, does this mean that the new people who are coming to the market, the distributors have kind of more focused on maybe smaller funds where their commissions would be higher, given that our performances have also inched up and we are giving top quartile performance in most of the categories, why is this share not increasing? Second is on the employee benefits side. Last quarter you had mentioned the focus on not kind of stepping down on this side because you want to invest in talent. So, this quarter the number was slightly lower. So, ideally, we should expect it to be a higher run rate going ahead, right. So, wanted to clarify that? Again, just on the other income side, just to

clarify, there are no one-offs in this number, right, so, we should kind of broadly expect this to be a run rate given that there are no significant ups and downs in yields or market volatility?

**Navneet Munot:** First, on the unique investors, our unique investors as identified by PAN grew to 6.3 million in December '22, against 6.1 million in September '22. So, that's a growth of about 0.2 million investors as against industry growth of about 0.7 million which is roughly almost 30%-plus share. So, that trend has reversed and clearly very-very positive now for us in terms of incremental addition of unique investors.

**Naozad Sirwalla:** For the employee cost, if you see, nine months-to-nine months period, and if you exclude the ESOP charges, I think it's about 10%, that's the sort of way I would look at it on a nine-month basis rather than on a quarter-on-quarter basis.

**Swarnabha:** On the other income side, if you can just highlight the sustainability?

**Naozad Sirwalla:** As we explained, the other income is linked to our investments, where you have the breakup in the deck that we circulate. So, it is a function of markets across both equity and debt asset classes, and it will move in trend with the market growth.

**Swarnabha:** I just wanted to understand, given this quarter, maybe there was nothing very sharp both on the fixed income side or the equity side. So, in an absence of any kind of such volatilities, should we then expect that given that now the size of the book has also increased, so what used to be maybe 60 crores to 80 crores kind of run rate in a normal scenario, that could well be in this 100 crores kind of a number at a quarter run rate?

**Naozad Sirwalla:** It is a function of yields and how markets react on equity and debt, right. As we said, you can extrapolate it based on what market yields are. But beyond that, you can comment on market movements, the data is there for you to extrapolate.

**Moderator:** Next question is from the line of the Dipanjan Ghosh from Citi. Please go ahead.

**Dipanjan Ghosh:** Just two questions from my side. You don't report the equity on a flow basis, but qualitatively, can you give some color on your equity flow share compared to your equity AUM market share and how it has changed especially on the flow side? YoY or YTD? My second question is, during your last NFO and also during this current quarter NFO, what we've seen is the increase folio count almost double or maybe marginally lower and your increase in unique customer count. So, would you give some color on within your NFO what will be the share of existing customers who contributed to the NFO or some break up on the channel side for the particular NFO, if you can give some qualitative color on that?

**Navneet Munot:** Business cycle NFO, almost 30% of the customers were new if I remember correctly. And your other question was on equity flow share.

**Simal Kanuga:** Dipanjan, we have always abstained from really kind of commenting on the net flow share for reasons that we have already explained earlier. But we can tell you that the flow share for us now is definitely much healthier than what it used to be.

**Moderator:** Next question is from the line of Hiral Desai from Anived Portfolio. Please go ahead.

**Hiral Desai:** So actually, just going back to sort of what Kunal was asking earlier on the operating profit growth, now for a while it has actually trailed the AUM growth. So, I understand that certain funds have you gone above a particular threshold, which is kind of affecting the yield. But, if I look at yield for nine months of this year versus nine months of last year, it's more or less flat or has in fact improved. Now, the other determinant of operating profit is obviously expenses. So, how long are you comfortable with a scenario wherein you know the AUM is growing, but



the operating profit is actually not growing on a YoY basis, because there are two parts to it, right; one is growing the AUM also and growing profitably, so just wanted to get your thoughts on that.

**Navneet Munot:** One of the things I mentioned apart from that angle of the 5,000 crores of AUM and multiple of every 5,000 crores does dilute the overall TER by two, three basis points. Also, the second important thing is that commissions that we pay on flows is higher than that of the book. When the gross flows as percentage of the AUM are higher, which was like almost 45% approx. then, now of course it's come down and in early 20s, over a period of time, I think it should stabilize.

**Hiral Desai:** Navneet, a lot of that will already be in the base, right, for the nine months number because obviously this pressure was much more relevant the year back versus where it is right now. So, wouldn't be the FY'24 base sort of become more favorable if we were to just compare it like-to-like?

**Simal Kanuga:** No. Why would you say that?

**Hiral Desai:** No-no, I'm saying the incremental flow as a percentage of the overall book. You mentioned that the number was 45% last year, which has now come off to about 20%, 25% this year, which essentially means that the pressure that you would see on pricing on a YoY basis, because see, the 45% of fresh flows that came in let's say in FY'22 is already actually in the base of FY'23, right.

**Simal Kanuga:** Let's look at what has happened in the last six-odd months, like one year returns if you look at for most of our equity funds are up by 10% to 15%. So, mark-to-market change has diluted our yield by three, four basis points. Now, if 50% of my AUM has had a dilution of yield of say three basis points, that would actually mean that I lost 1.5 basis points on the entire corpus.

**Hiral Desai:** But, Simal, that is not visible in the nine months yield number no, because –

**Simal Kanuga:** No, it is. So, if you look at for example, our revenue from operations, if you look at nine months number, it is 1,626 crores versus 1,599 crores, so the growth has been 2%. Now compare that with the growth in the AUM and look at the growth of the equity AUM. So, you will get all of those numbers, then you will be able to reconcile.

**Hiral Desai:** No, no, but if I look at the average yield, I think it's been in that 51 to 52 basis points. Now the AUM growth this year is slower because we have seen an outflow in the debt AUM, right?

**Simal Kanuga:** That's what I'm saying. So, what has happened is the margin has got diluted despite the asset mix changing in favor of equity. Let's assume that the margins were constant, with the equity AUM growing by 15% on the QAUM on YoY basis, that 50 should have gone up materially, right. So that's where the impact is coming from. If you look at the operating revenue, that has just gone up by 2%-odd for the nine months period. And even if you look at Q3 FY'22, and '23, again, the increase has just been about 2% despite a 15% growth in the equity AUM. So, some bit of contraction, you're seeing 50 remaining 50, thankfully, because asset mix fall in our favor.

**Hiral Desai:** So, assuming that the debt piece will come back a bit in FY'24, you will tend to see some more pressure on the yield on an overall basis?

**Simal Kanuga:** Yes, so, if debt becomes a larger part of our overall AUM, with equity remaining constant, in terms of yield, the statistical number, answer is yes, but obviously the profits overall there will be a positive contribution.

**Hiral Desai:** And if this gap sort of sustains for the next couple of years wherein the operating profit growth actually trails the AUM growth, you guys are comfortable with that?

**Simal Kanuga:** That is the nature of this business, right. At some point in time, it's not about being comfortable, but I think as Navneet mentioned, right, in one of the earlier questions, saying that, we are of the opinion that over a period of time, the growth in the AUM will itself compensate for loss in margin and thereby the overall profit number should see healthy increase.

**Hiral Desai:** Could you just remind us on the specially managed accounts and the PMS AUM, you've seen a sharp year-over-year decline, what led to that? Actually, the number last quarter was also much lower.

**Simal Kanuga:** That's right. We commented on that last quarter. There were a couple of these large accounts who took a call of taking money off the table from India, and we lost those mandates.

**Hiral Desai:** Any initiatives that you're taking on that side to basically revive the AUM growth?

**Simal Kanuga:** Answer is absolutely yes.

**Navneet Munot:** We mentioned about the steps we are taking on the side, and also over a period of time as interest comes back and given our long-term performance track record, I think our team, processes and given our brand, I think we expect that over the years, we should be able to garner money from global investors investing into India through us.

**Hiral Desai:** And the GIFT FOF AUM will be a part of this especially managed pool or a part of the --?

**Navneet Munot:** No-no, FOF has nothing to do with GIFT.

**Moderator:** The next question is from the line of Prashant Kothari from Pictet Asset Management. Please go ahead.

**Prashant Kothari:** I have two questions. The first was on the SIP outflows again. There were some news articles about the SIP outflows. Will you be able to

share some data on what is the kind of roughly the amount of outflows that are there on SIP?

**Navneet Munot:** Are you mentioning to the SIP cancellations have gone up, right?

**Prashant Kothari:** Yes.

**Navneet Munot:** What we have disclosed is the money that we have received on account of SIP on actual flows basis. The total systematic transactions which include both SIP as well as Systematic Transfer Plan (STP).

**Prashant Kothari:** But, what is our usual experience, like when the SIP tenure is over after whatever three, five years, does the money usually stay in or do people tend to kind of move out to something else?

**Navneet Munot:** No, it's not that somebody has done a three-year SIP and after the three years are over they will pull out that money, not necessarily. I think a lot of that money stays in the system and grows over a period of time.

**Simal Kanuga:** Actually, Prashant, SIP AUM is 6.7 lakh crores. For the industry, you might just want to look at slide #7 of our presentation where if you look at the AUM that came in via SIP mode, the number was Rs.5.7 trillion for December of 2021, for December of 2022, that number actually was 6.7 trillion. So, the growth has been fairly healthy in terms of the SIP AUM. Even if you look at monthly flows, what we saw was Rs.113 billion in December '21, that number for the industry was 136 billion in December of '22. So, these are actually net numbers, so that will give you an indication.

**Prashant Kothari:** Second question was on employee cost side. Now that the engine is working much better than what it used to, I would think that the employees would also demand more increments and some of our employee costs kind of flat year-over-year. How are you managing that, could that a source of risk in future?

**Naozad Sirwalla:** I think cost inflation on the employee side is something which is true for the sector as a whole and financial services as well as our sector. So that is something we have to factor in when we sit through our planning for the next year. Difficult to give a specific number, but yes, it will tend to go up a bit is what we feel from what we've done for the last nine months, is around 10%, give or take around that range or a little bit more.

**Prashant Kothari:** I am sorry, 10% is –

**Naozad Sirwalla:** For the nine months period, the cost is up by 10%. If we take that as a base for next year, we would assume that it would be in a similar zip code. We have to apply sort of full study on that, but we believe this is what we should expect for next year.

**Prashant Kothari:** Last question is on your market share. Are you happy with the kind of sales performance because obviously investment side has done very well, but do you think the sales side also kind of done as well, are you happy with the market share that you've gained so far in this good period for your investments?

**Navneet Munot:** Our expectations are always higher, and I think our brand, our franchise, our distribution network, and the quality of our people, I think on the ground, their engagement with the distributors, and all the other things that we have in terms of our digital assets, in terms of our client servicing capability, etc., over a period of time, our expectations would be higher than where we are today. But, we are moving in the right direction, that makes us happy, but we are always hungrier to get a lot more than where we are today.

**Simal Kanuga:** Prashant, if I can just add, basically the sales market share zooms up with a lag after performance gets recognized. So, if you look at, the performance for us has turned around somewhere starting mid of 2021. So, the one-year number started looking good somewhere in mid of '22. And now if you look at it, maybe in this quarter or the quarter next, we'll

start seeing improvement in various ratings. And that generally tends to kind of get our funds into the selected list of various large banks and national distributors. So, we have just come out getting there and hopefully, that should have that a positive impact in times to come.

**Prashant Kothari:** The thought was that the performance tends to be cyclical in this industry, and therefore, you only have a limited time window in which to kind of regain your market share. Are you kind of doing enough on that or not?

**Simal Kanuga:** We can say that we are doing enough for sure. Let's hope the numbers follow.

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

**Prayesh Jain:** I had a couple of questions. Firstly, if I look at the mix of equity, so that has really gone up on a YoY basis. But if I look at the share of MFDs and looking at the equity side, that has gone down in favor of direct and national distributors. Is there any change that's happening on this side where the share of MFDs is reducing, and the focus on direct and national distributors is kind of increasing, and how do we see this going ahead?

**Simal Kanuga:** Not a big change. So, if you look at it, direct has gone up a bit from 21.5% in December of '21 to 22.1%, I'm talking about equity-oriented AUM. So, if you look at, direct has moved that way, if you look at bank, they've been more or less constant; 13.6 versus 13.5, and national distributors more or less like 20, 30 basis points, that kind of change always can come by.

**Prayesh Jain:** Simal, the purpose of asking this is, is there something that you guys have kind of started paying out more to national distributors, and is there a trend change that we can see, and this is just a part of it, and things could pan out in a similar direction going ahead?

**Navneet Munot:** This is on AUM. I think flows won't make so much of difference to that and it's hardly any movement, right; 23.4 becoming 23.7.

**Prayesh Jain:** Secondly, I think you answered this in some form, but just wanted to reconfirm this. Now, you're talking about 10% increase in employee cost next year, and stating that your expenses on our investments in tech, IT, digital will continue to happen. And I'm sure there is a good product lineup, if you could also throw that for us that would be helpful. But the product lineup would also be there in NFO, that would again be on the cost front. So, do you think that this kind of trajectory of flat profitability will continue to say possibly even in FY'24?

**Navneet Munot:** Product lineup, last year, we had eight NFO, this year in last two quarters, there were like 16, I think we are more or less done. Among the core categories, our product range is now full. On the passive side, we have launched lots of product and wherever we had gap in the sector and thematic or in international fund, etc., by and large is done. There would of course be let's say a series of target maturity funds on the debt side, and maybe few other on the passive. But, they don't require much of the business promotional expenditure or the advertising budget. So, on the new product related expenditure, should slow down quite a bit. And on the overall expenditure side, I think I would have mentioned in my first call joining, as a culture, we are an extremely frugal organization. That culture of frugality is so ingrained in our DNA, that will never go away. And this was some of the investments that we had to make over the last couple of quarters. Also, you would appreciate the fact that post-COVID I think, for one, one and half years where travel was restricted, I think the number of events was restricted, our ability to move around was limited. And things have opened up in last four to six quarters and all of us have been going in and connecting with our investors, distribution partners, our own people, and then all of that is reflecting in the cost. And, of course, I think in light with the technological changes, in light of all the opportunities that can come

through better digital engagement or amplifying our distribution with more digital support to them, so on and so forth, I think that's an ongoing thing, but that's an investment in future. Some of the new things that we have started whether it's launch of PMS, I think we launched two strategies and hired a resource for that, or the AIF related cost or the setup costs for GIFT City and other things, these are all investments in future. But I think by and large, the one point I think you need to keep in mind is that I think that comes from the group ethos. We have a highly, highly frugal culture, and that will never change. I think it's so ingrained in each and every person in the organization from top to bottom. I think we all need to appreciate that. So, if we are making some expenditure, I think you should be rest assured that they are all investments in future.

**Simal Kanuga:** Just a thing to clarify, the 10% that Naozad referred to is for the current year. The growth in the first nine months versus what was there for December of 2021. As you know, right, we don't tend to give any kind of forward guidances.

**Navneet Munot:** Also, I think the CAGR we gave, I think ex-CSR was like around 7% or so. If you look at the total inflation in the country over the last three years, you would appreciate that I think we have done a reasonably good job on keeping costs under control. We always keep an eye on how the flows are moving, how the industry is moving, the prospects in terms of the AUM growth and we adjust the trajectory and then we'll keep an eye on the growth prospects and accordingly we look at our cost.

**Moderator:** Next question is from the line of Vibhooti Jain from Quest Investment Advisors. Please go ahead.

**Vibhooti Jain:** I know you've alluded to this before, but so despite industry-leading performance, if you see the share of HDFC Bank in our distribution still remains at the similar level. Just wanted if you can give some quantitative data on this, for example, if the share from HDFC Bank



improved in the new NFO and the gross inflows that have come in the quarter and during the last two quarters?

**Navneet Munot:** Are you referring to the percentage contribution that we get in our equity and overall AUM from HDFC Bank? I think with the improvement in performance and these product launches, all other distributors have also participated, whether be the MFDs or national distributors, all the other banks. But, as I mentioned earlier, incrementally we are positive on getting better flows from HDFC Bank over a period of time.

**Vibhooti Jain:** But the new flows that have come in there, the share is still the same that was there previously, right?

**Navneet Munot:** Yes.

**Vibhooti Jain:** How do you target that increasing in the coming quarters, is there some set target in your mind?

**Navneet Munot:** As I mentioned that our engagement has been increasing. As you know, that HDFC Bank has been an open architecture for mutual fund distribution. So as product performance has improved, it gets products in recommended list for their clients. As more products come into the recommendation list with improvement in the engagement, over a period of time we expect better flows.

**Moderator:** The next question is from the line of Saurabh from JP Morgan Chase. Please go ahead.

**Saurabh:** Two questions. One is basically on this dividend. So, is it reasonable that like last two years, the dividend growth should be faster than EPS growth, your payout can continue to increase because we have added cash on balance sheet?

**Navneet Munot:** I think dividend payout ratio for the last financial year was just a shade under 65%. No second guess to the board, but yes, board is cognizant of the cash on the balance sheet and the incremental cash flows.

**Saurabh:** The second is that on this regulation, in December, there were news that SEBI has initiated examination of the fees and expenses charged by the entities, and given that the AMC structure in India is going to be higher versus the rest of the world. Do you think there is a risk of like what we saw in 2018 in terms of some fee capping, and also SEBI also done a study of the distribution done by banks of their own AMC, is there like an opportunity for us?

**Navneet Munot:** I think you are referring to the press release by SEBI in the last week of December that they are conducting a study of fees and expenses charged by mutual funds. The regulator is engaging with industry body and is evaluating on how to optimize mutual funds from the perspective of all stakeholders. Early to expand on this as this is currently being debated at various levels. I can definitely state that our regulator is very much open to discussion and constructive feedback. So, I will put it this way that regulator is mindful of all stakeholders and we'll do the needful which will hopefully benefit the entire ecosystem over time and we'll keep you posted on the developments on this front.

**Saurabh:** Any push towards open architecture will be part of that or the current structure where other banks continue to be service 90% of their own?

**Navneet Munot:** We have not heard anything on that front.

**Moderator:** The next question is from the line of Abhijeet from Kotak Securities. Please go ahead.

**Abhijeet:** In terms of flexibility to manage retentions in case there are any fresh headwinds on the regulatory front, you did talk about tweaking payouts, but can you give some more color in terms of how do you manage that

balance, do you really have the ability to change the yields on the entire book, just some color on that would be really helpful?

**Navneet Munot:** I mean, if it is driven by the regulation, then I think the whole industry has to follow, right.

**Abhijeet:** On an ongoing basis, not much really, right?

**Navneet Munot:** For the better retention?

**Abhijeet:** No, in terms of let's say the steady decline in retentions because of the current regulatory structure itself, is there any more flexibility that you can kind of create with your distribution partners in terms of how we can, let's say, potentially have a much better balance of how the TER get shared between the two partners?

**Simal Kanuga:** What we are doing in that case is like for the future flows, if the AUM go up, and we are kind of seeing some bit of impact on the TER. On future flows, we tend to moderate commissions. So, you might see bit of a lag effect over a period of 6, 12 months with future flows, that would kind of get adjusted, because to keep doing that on a quarterly basis, as Navneet mentioned earlier, might not be really a prudent thing to do.

**Abhijeet:** Just one follow up on the earlier question on the December press release. Do you really see any gaps that the regulator is looking to fill up because I think one would have thought that the mutual fund product today is a very, very clean investment vehicle, but looks like there's still something just missing, right?

**Navneet Munot:** I think press release is in the public domain of the study that the regulator is conducting. And as I mentioned earlier, that it's getting debated at various levels. And I must say this, I think I mentioned earlier, the regulator has always been open to discussion and constructive feedback from all stakeholders and I think we have to wait and watch.

**Moderator:** Next question is from the line of Devesh Agarwal from IIFL Securities. Please go ahead.

**Devesh Agarwal:** abrdn wanted to sell their stake in the company. For that, they said that they want to cease being a co-sponsor in HDFC Mutual Fund. I think we had moved the regulator for the same. Any update on that?

**Navneet Munot:** We are waiting the response from the regulator.

**Devesh Agarwal:** Any timeline that you can share, probably in this quarter, you're expecting an approval from the regulator and then thereafter it may take three months to follow the process?

**Navneet Munot:** No, we are awaiting the response.

**Moderator:** Next question is from the line of Amrish, individual investor. Please go ahead.

**Amrish:** My question is relating to the B-30 market. If you provide some qualitative color on what are some of the drivers that HDFC is growing faster than the overall and how it is different from the rest? Also, on HDFC AMC market share which seems to be flattish. I know you mentioned in the last call that this is an area of focus. Any further update would you want to share?

**Navneet Munot:** B-30 and T-30 growth has remained same. You would appreciate that there is tremendous potential in B-30, but even T-30 are also underpenetrated, I think the overall mutual fund industry is underpenetrated and there are opportunities on both sides. In terms of newer SIP count, if you look at, I think the B-30 contribution in count, not in amount, the contribution has been increasing; so, in the nine months ending December '22, in the growth of the SIP count, 60% has come from B-30. This number was I think less than 50% in the previous financial year for the industry.

**Amrish:** On AMC market share, is there anything you talk about?

**Navneet Munot:** Incrementally, slightly better than the industry growth.

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

**Navneet Munot:** I would like to wish everyone a very happy, healthy, purposeful and a blissful 2023. All the best.

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