"HDFC Asset Management Company Limited Q1 FY '21 Earnings Conference Call hosted by IIFL Securities Limited"

July 23, 2020

MANAGEMENT:	**MR. MILIND BARVE – MANAGING DIRECTOR, HDFC ASSET MANAGEMENT COMPANY LIMITED** **MR. PIYUSH SURANA – CHIEF FINANCIAL OFFICER, HDFC ASSET MANAGEMENT COMPANY LIMITED** **MR. SIMAL KANUGA – CHIEF INVESTOR RELATIONS OFFICER, HDFC ASSET MANAGEMENT COMPANY LIMITED**
MODERATOR:	**MR. DEVESH AGARWAL – ASSISTANT VICE PRESIDENT, IIFL SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the HDFC Asset Management Company Limited Q1 FY '21 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participants' 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Devesh Agarwal from IIFL Securities. Thank you and over to you, Sir.

Devesh Agarwal: Thank you, Nirav. Good Evening everyone and Welcome to Q1 FY '21 Earnings Call of HDFC Asset Management Company Limited. Today from the Management, we have Mr. Milind Barve, Managing Director; Mr. Piyush Surana, Chief Financial Officer; and Mr. Simal Kanuga, Chief Investor Relations Officer. Now, I hand over the call to Simal for opening comments and thereafter we would open the floor for Q&A. Over to you, Simal.

Simal Kanuga: Thanks Devesh and everyone at IIFL Securities for hosting this call. We really appreciate the same. Good Evening everyone and we hope that everyone here is doing well. As usual, I will start off with an overview of the industry and our company in particular. We will be happy to take questions thereafter.

The industry started of the quarter with lower base AUM of 22.3 trillion, principally attributable to fall in equity markets in month of March 2020. Despite the lower base, quarterly average AUM ended up at Rs. 24.6 trillion, which is a marginal degrowth of 3% over that of June 2019. The quarter that went by saw healthy inflows to the tune of Rs. 1.24 trillion across asset classes. Equity-oriented QAAUM stood at Rs. 9 trillion for June quarter and ended the quarter with AUM of Rs. 9.8 trillion. Equity-oriented AUM has seen a degrowth of 7% year-on-year despite positive net new flows in every quarter. The pertinent thing to note here is that industry started this quarter with an AUM of Rs. 8.3 trillion and ended the quarter with AUM of 9.8 trillion with net new flows of only Rs. 63 billion during the quarter. The current quarter that is July to September is starting with the base of Rs. 9.8 trillion as against Rs. 8.3 trillion in the quarter that went by. SIP flows for the month of June 2020 added up to Rs. 79 billion as against Rs. 86 billion in March 2020.

Now moving to us.

Our market share in quarterly average AUM stood at 14.5% for the last quarter as against 14.2% for June 2019 and 13.7% as of March 2020. QAAUM for the quarter ended June 2020 was Rs. 3,562 billion as against Rs. 3,624 billion and closing AUM was more or less flattish over the past 12 months at Rs. 3,575 billion. In terms of actively managed equity-oriented AUM, our QAAUM market share stands at 14.5%. QAAUM for June 2020 adds up to Rs. 1,293 billion as against Rs. 1,645 billion for quarter ended June 2019. The fall can be predominantly attributed to fall in markets in March 2020, which has been partially compensated by rise in April to June quarter and even then after. The closing AUM as of June 2020 is Rs. 1,378 billion against the closing AUM of Rs. 1,200 billion for March 2020. We would like to reiterate that 70% to 75% of our fee income is dependent on our equity AUM. As of June 2020, equity AUM was 39% of our total AUM as against 48% in June 2019. This can be attributed to two things. Large inflows in our liquid and debt funds and mark-to-market loss in our equity AUM. Individual AUM is 51.7% of our total AUM as against 50.5% for the industry.

We continue to be the most preferred choice for individual investors with market share of 14.6% in individual AUM. Our unique investor count is 5.6 million as against total of 21.1 million in the industry. Systematic transaction flows for the month of June 2020 was Rs. 9.6 billion across 3.11 million transactions. The number we are referring to here is based on actual cash flows received. We continue to be number 2 player in B-30 markets with 11.7% share. We have 145 branches in B-30 centres. We have seamlessly moved to our digital infrastructure in this lockdown times. During the quarter that went by, 90%+ of our transactions were processed digitally. It would be pertinent to share that we have further enhanced our digital capabilities including WhatsApp transaction services and also E-KYC or for that matter video KYC. A first-time investor in mutual fund can now transact in our fund without any paperwork. During the quarter, we addressed more than 10,000 partners through webinar and other forms during the quarter and have more than 90,000 participants attend our various programs. We continue to operate out of 221 branches, service over 9.4 million live accounts, and have a workforce of 1,192.

Coming to financials:

The quarter of the previous financial year saw growing uncertainty due to the emergence of COVID-19 pandemic and its effect on markets across the globe. The fall in equity markets and consequent lower equity AUM affected revenues negatively since a large proportion of the investment management fees earned by the company is from equity schemes. The operating profit for the quarter ended June 30, 2020, was Rs. 3,006 million as compared to Rs. 3,815 million for the quarter ended June 30, 2019, this is decrease of 21%. Profit before tax for the quarter ended June 30, 2020, was down by 12% to Rs. 3,804 million as compared to 4,299 million for the quarter ended June 30, 2019. Profit after tax for the quarter ended June 30, 2020, was Rs. 3,024 million as compared to Rs. 2,917 million for the quarter ended June 30, 2019, resulting in an increase of 4%. PAT for the quarter ended June 30, 2019, was arrived at by applying higher tax rate since the option of lower tax rate under Section 115BAA of the Income Tax Act was introduced during the quarter ended September 30, 2019. Our operating profit margin as a percent of average AUM for the quarter ended June 30, 2020 is 34 basis points as against 41 basis points for the year ended March 31, 2020. We have also showcased the slide giving breakup of our investment book in the presentation. What we announced last quarter, the Board of Directors had proposed dividend of Rs. 28 per share for the financial year ended March 31, 2020, which was approved by the shareholders in today's AGM. Thank you for patient hearing, stay safe everyone. We will open it up for questions now. Milind and Piyush would be happy to take questions, if any.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nitin Jain from SK Capital. Please go ahead.

Nitin Jain: The equity portion of your AUM it has seen a serious fall from approximately 50% almost two years ago to just 37% now and also the company has lost market share of almost 1.5% in just the last one year in the equity segment, so given that equity AUM is the main driver of your Management team, what corrective actions have you thought of to address this concern? My next question is that your Annual Report talks of your investment style in equity oriented schemes, so you mentioned that you are mindful of the fact that there can be long phases in the market alternative approaches to investment perform better and that your bidding capabilities in either side by hiring appropriative initiative so if you can please elaborate further on that?

Milind Barve: Just to take the first question, yes it is true that the equity AUM which at one time say one year back was about 46%-47% has come down to 37%, but you will appreciate a large portion of this is really the mark-to-market fall and most of that actually happened in the month of March when the market had very, very steep fall. You will be happy to know that our equity AUM which was about Rs. 1,20,000 crores in March has been steadily recovering and has recovered to almost Rs. 1,45,000 crores is the latest figure. As on June 30, it may be a little lower than that, it may be closer to Rs.1,39,000 – Rs. 1,40,000, but it continues to grow so we are in the midst of a very clear recovery of the AUM as markets have recovered as we know in the months of April, May, and June, and our equity AUM has been a part of that recovery. While we agree with the fact that there has been some fall in market share, and I think I will come to the second question, the first point is that we believe that given the medium-term outlook on equity and the recovery that we are hoping to see in markets in general, and we are looking at where we will be eventually, and we do not know when exactly very accurately, but we are looking at a market scenario which is post-COVID and so on, we believe that the equity AUM has a very strong sensitivity to how markets do, apart from having sensitivity to the flows, while if you see historically those have added to the book by about 5% or 6% if you go by the last year, most of the increase in the book size of the AUM really comes from the mark-to-market movement, so we remain optimistic that we are positioned reasonably well to be a part of this recovery in the markets which we have already seen from the months of April onwards to June and some of it even going after that. Having said that, yes, it is true that as we have dealt with it very candidly in our Management discussion on investment performance, it would be fair to say that our investment performance in some of our large equity funds has been less than what people expect of us.

We do believe couple of things, number one, we do believe that in investments, like market cycles, investment performance goes through some cycles where for some period of time some of your key goals will not go right or it will take longer for them to actually result in positive performance. Having said that, what we recognized on a more broader basis is that what we need to bring about in our equity book of about 1,40,000 or thereabouts, is an effective diversification of investment styles, so while some of our funds have followed a particular style which has not delivered performance, as we have said in our note, we do believe and we are very careful and very mindful of the fact that we need to build a diversified style eventually. We are in the midst of that, so what have we done to move in that direction. Number one, we have hired two new fund managers, three actually in the team but one of them is in the PMS who are already onboard and we believe and we are happy to say that we have got good feedback from the market about these two hires, they are very high quality resources, they come with different perspectives in the market, different from what we have been following so far in some of our large funds and we do believe that as they manage money over a period of time bring their differentiated approach to investing from what we have been following, it will result in improved performance in some of the funds that we are managing.

The other thing of course is that even in our existing funds where there is no change in fund manager, we will be endeavoring towards an effective diversification. Right now, we seem to have reasonable overlap in our equity holdings across a number of our funds and what we will do progressively over a period of next two or three quarters is to reduce the overlap, so that each of these funds has a more distinct style and positioning in the marketplace. For our portfolio construct, what we are really trying to achieve is that for a large fund book that we have in equity which is about 1,40,000 crores, we must have clearly at least four or five distinct strategies with reasonably low overlap of holdings of stocks. I think we are moving in that direction and I would remain confident that in the next few quarters, you will see evidence of the different construct in the portfolios, new fund managers who are already hired bringing their skills to the team will create a more differentiated call. So we are mindful of the performance while we do believe that some part will recover through the holdings that we currently have, but we are also preparing the portfolio on an overall basis and I am looking at it more as a CEO, than as how the Board looks at it, and that of the 1,40,000 book we will have differentiated approach which will deliver better investment outcomes over different phases of the market, sometimes certain types of stocks or certain sectors get incredibly highly valued and certain stock sectors become go back deep into value, so we will have a differentiated approach which we think will help us in the long run or even in the medium-term.

Nitin Jain: Just a follow up on that Sir, could we see like any product launches as well from the company?

Milind Barve: Product launches, it is easy to say we will have new product launches, but the reality is that SEBI has now bucketed different strategies by different names, like value you can have only one value fund, or multi-cap fund you can have only one multi-cap fund, so we have more or less filled up with our existing product range most of the buckets which are available, if I am not wrong the only thing that we do not have is like a dividend yield fund, so that is something that we look at if we feel dividend yields are strong. But having said that, we are as a team looking at whether we must do, which we have not done much, is more thematic funds, so the thematic fund segment is more open in terms of not having existing thematic funds and we could look at thematic or sector biased thematic funds in the future. Otherwise most of the equity types of products that are allowed by SEBI, we already have a product in each of those buckets.

Moderator: Thank you. The next question is from the line of Manish Poddar from Nippon AI. Please go ahead.

Manish Poddar: Just wanted to get your thoughts on, will there be any change in the structure of everything post-COVID because if you look at it, in the kind of AUM mobilization by channels that has not changed much, so just wanted to get your sense in terms of let us say you have mentioned some bit on the research part or the investment part of the business in the first question, just on the sales structure, branch network let us say from a three to five years perspective, will there be any change or is there any thought process out there?

Milind Barve: First on the branch, we have 221 branches and as you know when the COVID happened and when the lockdown started, our first priority was safety of our employees and our customers, so we had very, very few branches open, so we were open to transact on the electronic channels, that is we have very strong properties like HDFC MF online and there is one for HDFC partners which is for our distributors. Over a period of time, we had as you know about 221 branches, as we speak now towards end of June and middle of July, we have about 140 plus branches which are opened with very few employees in each of these branches manning critical functions only and we are following the rules of the local regulations on what we can and cannot do. If you ask me in this quarter, there has not been anything structurally different except the fact that simply if I see transactions on HDFC MF online which was 12%-13% is now at 20% plus. If you see new registrations on our platform, which is again HDFC MF online, it has doubled in terms of users registering on our HDFC MF platform as compared to the previous quarter, so there is a shift clearly seen of people who may be a little reluctant in the past when you could still go to the office or send somebody to the office with a form and a check, but now having to some extent being pushed by circumstances to use online channels, but they are doing that and I am happy to say that the properties that we have, the facilities that we have to transact online, we are committing more resources and time and that is helping us and we will probably continue to help. As you have seen, there is no structural change in distribution channel per se except that people are using electronic modes of investing in funds or whether it is redemption or purchase.

Manish Poddar: Just another one if I may, so a basic one, when you say unique visitors let us say about 5.6 million, so how do you define unique as such?

Milind Barve: Unique is decided by unique permanent account number, so sometimes if you have two or three folios, so we have for example 9.4 million customer accounts, but there may be some duplication in that, so if you de-duplicate those accounts and count one pan number only once then those are the 56 lakh customers that we have.

Manish Poddar: This 5.6 million is the live number, it will not be of any individual let us say an individual opened a portfolio in let us say in 2010 and he redeemed this portfolio in 2012, that would not be part of this number at all?

Milind Barve: No, this is live, these are people who are our customers today.

Manish Poddar: Just according to this, would you be having any idea then let us say in this universe of 21 odd million, what would be the lapse rate or some consumer would have used HDFC product and MF product in the last three years or so, so some sort of idea that this is the kind of number you can attain to?

Milind Barve: We keep calculating unique customers and the unique customer count is net of people who are going out, so finally I am concerned with let us say 10,000 people joining and maybe 2,000 people leaving, but I will then say my net number is 8,000, so the unique investor count is a net number, so we are not separately counting additions and minus deletion, we have the data maybe we can answer that offline, but effectively what we are seeing and targeting is that there is an effective addition to new customers net of the people who are going out.

Moderator: Thank you. The next question is from the line of Haresh Kapoor from IIFL Asset Management. Please go ahead.

Haresh Kapoor: Sir, in continuation to the last question, just want to get some sense on this unique investors and even the SIP pool maybe together or individually as you would like, now if I just look at the details that you are giving out for the unique investors to your company, you know obviously the industry number is going up, but if I just look at March maybe it is a shorter timeframe, but even then there is no real change for you per se in terms of you need to compared to the industry, so the industry has grown, but you have not really grown in that, so maybe if you can just talk through that and you know if you just look at the SIP number, I do understand I think Mr. Simal has also initially in his SIP comments has emphasized on the cash flow on the SIP part and we do know that some money does not come through and there is some rationalization required there, but even then if you kind of just look at the flows data from SIP number from March to June, may be the industry is down 10%, you are kind of down like approximately 15% or so, so obviously you are losing market share on the SIP side, I know the data that you gave is for the entire transaction pool on the SIP side which can have STP and SIP, so maybe if you can just talk through what is really happening there because that is an important customer aspect that I would like to understand on the unique customers and also the SIP side?

Second, if you can just talk through little bit on the cost side so obviously Q4 you had rationalized some cost on the employee, so maybe some normalization on the bonus front, etc., based on how the year had panned out and you are seeing in Q1 some of those numbers normalizing on the employee expense front. Also there has been some rationalization on the other expenses, maybe the discretionary part etc., travel expenses, etc., that you are doing, so if you can just talk through what levers you have because your AUM on a closing AUM though really looks better even on the average for the quarter per se, it is more or less similar, but the mix has changed meaningfully than what we had seen previously, which will have some implications on the revenue line though the closing number is similar, so maybe for some time you might need some cost lever to kind of accelerate that profitability, so maybe if you can just talk through this part?

Milind Barve: First on the SIP, it is absolutely undeniable that we are a part of an industry which is seeing degrowth in the SIP flows and we are very much part of that, I think the simple reason is that today we are in the midst of hopefully I can say peak or hopefully ahead of the peak on the pandemic, so there is a certain degree of, if you look at three-year returns even of the benchmarks, they are very low single digit returns and what will happen in SIP is that while the merits of SIP as a way of investing for small or new investors does not remain unchanged, the reality also has been that investor returns right when we are evaluating in the midst of a pandemic is actually negative or low single digit even after three years, so basically what investors are saying is that, and this is not the right way to look at it, is that this is actually the time to actually sign up a new SIP or increase your SIP contribution, but people actually react based on more recency of their experience and based on that there is the new SIPs or the SIP cancellations has gone up and new SIPs are not getting signed, this is for the industry.

Now within that, it is quite possible when you have a very dominant market share and if you have some sort of slight push back on investment performance sometimes in the few quarter or sometimes even a little longer, you will have some drop in the market share, so it is true and I agree with your comment, and I answered that in the earlier question, that on a year-on-year basis, the market share fall is slightly higher, but if you see on a quarter-on-quarter basis, the market fall is if I am not wrong on closing AUM is 14.8 becoming 14.4, so I think we have now embarked on number of steps that we are seeing to correct the fundamental of what we are doing which is mixing the investment performance apart from simply being patient about it and we are not being complacent about it, I think the investment team, and the CIO and investment team as well as the Board have had a very constructive discussion on performance today morning as we have had in the earlier meetings, so we believe that we will fix investment performance where some of the slippages on market share at least in the medium-term may not be in the short-term, but in the medium-term will get fixed, because once you diagnose the problem and when you apply the solution, we believe that the results will be there for people to see, but it will be difficult to predict these outcomes in very short periods like one or two quarters.

Haresh Kapoor: Sir, before that the question was also on the unique investors, maybe it is a shorter time period but that is not improving as the market is improving, so it is just that should just look through because of shorter time period or is there something to comment?

Milind Barve: There is no meaningful change in our market share, we still have 26%-27% of the unique investors, you could have a quarter in which the new investor addition could have been slightly higher or lower, but as a book and if you see the industry numbers which we have given it is 2.1 crore unique investors we have about 5.6 million unique investors which gives you about 26%-27%. Now, I do not think there is a trend of a 27% becoming 26% or 25.5%, I do not see that as a trend, as I said as investment performance get fixed, we will see a reversal of this as much, but I do not see that as a big trend in losing new investor addition shares in any meaningful manner, but obviously it is a variable that we would like to monitor and we will do everything that it takes to fix that and that will happen in the next two or three quarters as we see going forward.

Your second question on operating leverages, it remains reasonably good as we have demonstrated, if you look at our total cost there is a saving. One of the saving is of course more regulatory driven which is savings in commission, but you have seen a drop in our employee cost. Last year, we had projected a certain level of employee cost and a certain level of variable pay or bonus that was rationalized last quarter. Senior employees have taken a cut of 25% and junior employees have taken smaller cuts and a large number of very junior employees have taken no cuts in the performance pay, but effectively we have created almost an Rs.8.5 to Rs.9 crore saving last year on performance-related pay, now that is being assumed as to be remain consistent and that is why you see a saving in employee cost. The third part is that even in operating what you see as other expenses, this quarter we had a slightly disproportionate spend actually on CSR and the reason for that is that we donated Rs.7.5 crores to the PM CARES fund in the very first week of April as soon as the lockdown was announced, so our pro rata cost of CSR should actually be about Rs.6.5 crores while what you see which is already in the P&L is about Rs.9.5 crores, so if the CSR cost is slightly higher than pro rata CSR cost will not be there in other subsequent quarters, so you will see some savings, but our endeavour is to try to reduce operating expenses on a 12-month basis, anywhere between Rs.35 to Rs.40 crores and that is what we are targeting, which is what we will do and therefore if you see our presentation deck, our operating expenses to AUM has actually reduced by 1 basis points.

Our top line of revenue from AUM has come down because of the product mix having deteriorated, but let me tell you this when we are talking of AUM or equity AUM going down as a percentage of AUM, it is true for the whole industry, we are not the only ones, because we had a large book and the large market share, for us it is more visible in terms of the fall in equity AUM and the consequent loss of revenue coming from that, but as it recovers for the industry so it will recover for us also, so we really try to keep, our operating expenses are almost the lowest in the industry as a percentage of AUM, they are barely 6 basis points and as you can see there is some saving in that even in this quarter on-quarter-to-quarter comparison. So we will keep a hawk's eye on operating cost and as you can see 10 crore saving in this one quarter, we think 35 to 40 crores cost saving is what we would like to achieve on a 12-month basis.

Haresh Kapoor: Sir, lastly from my end was largely on the CEO front, so anyone can answer who is comfortable, so regarding certainly you are retiring, so in terms of that process of transition and getting someone onboard where we are on that front and you know have we assessed candidates and if you can just throw some color to get some clarity will be helpful, maybe we can expect something?

Milind Barve: At this stage, it will be only fair to say that the Board has, so we have a Nomination and Remuneration Committee which is called the NRC, that committee is now seized with the task of finding my successor, work on that has already begun. There is a search firm that has been appointed and that search firm has already significantly progressed on that front. It would be premature and inappropriate for me to comment exactly at which stage we are, but that search is very much on and it is the committee, the Board, the external search firm is working closely and looking at prospective candidates, internal and external and will then eventually come up with the recommendation for the final candidate or final few candidates which will be approved by the Board. It will not be appropriate because the timing for me to comment on when we can make an announcement because I do not think we have reached far enough in that process to be able to say that in this month or by this date we will have an announcement, but I think my tenure ends in end of January and I think within reasonable time before that we should have an announcement on that.

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

Nischint Chawathe: Two questions, one is the micro-one which is on what has really happened on the other income line item whether it is big growth this quarter, and the other one is your broad view on what is really happening with retail investors because this was a quarter where we saw market doing quite well, but from an inflow point of view it was a very weak quarter so what is it that you are looking at over the next nine months?

Milind Barve: Your first question was on other income, now basically if you see the March year end which we have Rs.1,262 crores net profit and the dividend payout was slightly lower in terms of percentages, but in absolute terms it is higher than last year, so we are paying out about 595 crores of dividend and the rest is added back, so basically what will happen and will continue to happen is that from the profits we make, although we will try and keep a reasonably high or a good payout ratio, there will always be surplus money which will get added to the AUM of the AMC, and I do not mean the mutual fund AUM. So for example on a year-to-year comparison, the total surplus that is lying in the AMC balance sheet has grown by almost 900 crores or 33% while almost all of it is in debt mutual funds within our own direct mutual funds and in tax-free bonds, so I think effectively what has happened is two things, there is an increase in the other income because the total AUM that we manage is higher by 33%; number two, there has been benefit of mark-to-market gains because of lowering interest rate across the yield curve on debt products where we have invested; and the third thing which we have mentioned is that on our exposure to the Essel promoters, the value of the collateral went up from Rs.36 crores to Rs.77 crores, but we have conservatively revalued our exposure only by Rs.9 crores from Rs.29 crores to Rs.38 crores, so that Rs.9 crores also has come on a pre-tax basis into the other income, these are the three reasons why other income has gone up.

Your broader question about what is happening with retail investors, well definitely we have to be mindful that we are having this conversation in the midst of a pandemic, so people are seeing last one, two, or three year returns either in the negative or in low single digit. There also have been good flows in the month of April, but then flows began to taper in May and were negative in June, so I think people would want to wait to see some visibility of market and economy post the COVID. The market is structuring a world without a post-COVID which is difficult to predict when it will happen. If the retail investors are not committing new funds at this time when we as a fund house at least believe they should be looking at what returns you are getting on debt, on bank deposits, or any other asset class only the exception where you have made huge return is gold, so I think there will be some more time before retail investors sort of reposition their faith in equity funds in specific, but flows into mutual fund debt products continues to happen both from institutional as well as retail investors and that is good for the industry, but we have to live through this period where equity as an asset class is going through some little redefinition where people need to rebuild the confidence of retail investors in this product category and flows will indeed come back. In the past also, we have seen where because of market situations new buying into equity funds goes down or is muted or even negative, but it builds back eventually as markets normalize and they come back to accepting equity as an asset class as what they have to invest in as a share of their wallet.

Nischint Chawathe: Just to take this forward, now when I compare this with some of the brokerages, I guess they are reporting record volumes or one of the best quarters for last several years, I am talking about the retail brokerages, so it looks like people are sitting at home and kind of investing directly in equity markets, so do you think….

Milind Barve: That is an interesting question, it is true that retail participation in the market in the turnover has significantly increased, but if you look very closely at the delivery volumes in the market, they have actually come down, which means that the retail investors are probably doing more speculative buy-sell trades, they are not necessarily putting medium or long-term money into equities by buying and going long into equities necessarily, that is my understanding from some of the data points that I have gathered. The delivery volumes as a percentage have come down, which means that people are doing more short-term investing or more speculative investing, but there is yes I agree there is data to show that the retail investor transaction volumes have been very, very high. Also I think they are able to do that sitting at home from the comfort of their house in terms of doing daily trading or things like that, but I think this is a period of time when the market momentum has been upwards, so when this typically happens when you have a one way upward move in the market where people tend to do this daily trading, eventually people will come back to medium and long term investing through funds, so we as a fund house and I personally believe, we have to live through this period and eventually people will come back to buying equities through mutual funds.

Moderator: Thank you. The next question is from the line of Akash Singhania from Motilal Oswal. Please go ahead.

Akash Singhania: Sir, my question is for our surplus money which has been invested into our mutual fund schemes, I wanted to understand like what has been the amount in let us say in March and June, so what has been the change, and as you mentioned most of it is in the debt fund or the tax-free bonds, so is any part into equity also and what kind of yield are we looking in the debt funds?

Piyush Surana: The difference between the March and June numbers would be roughly in the region of around Rs.300- Rs.350 crores in terms of the book size, Akash.

Akash Singhania: What is the book size and what is the yield we expect and is there any equity component also?

Piyush Surana: The book size currently is around Rs.4,200 crores and during the quarter this grew by around Rs.300- Rs.350 crores and the equity exposure is very small, it is the mandatory investments that we have to make in our own equity mutual funds and some other marginal equity exposure that we have in things like the industry platform that AMFI has launched MFU and things like that, so totally it is around 1.6% all things combined around Rs.60-Rs.70 crores roughly.

Akash Singhania: What kind of yield have we earned in the last one year in our debt investments?

Piyush Surana: Over the last one year, we would have earned in the region of around 6% to 6.5%, and this quarter we would have had a little bit of a higher yield particularly because of the point that Milind mentioned earlier.

Moderator: Thank you. The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just wanted to get some sense on credit funds as a product given that piece of the product has just come out of a bit of turmoil, so how are you seeing customers react, distributors react, and what is your sense on that side going forward?

Milind Barve: On the credit funds, it is true there were events in the industry which you are fully aware of that happened around the last week of April and that did trigger a bit of a panic generally in debt funds, but more specifically in credit risk fund, so it is true that credit risk funds across industry including ours and we had one of the larger credit risk funds of about Rs.13,500 crores, all of us in the industry saw a reasonably high degree of redemptions through the first few weeks of May after the announcement of an event by one of the fund houses, the redemptions began to taper quite significantly, so there were periods when the redemptions were as high as Rs.400- Rs.500 crores or even higher than that in a week, they have now tapered very significantly. I mean now our outflow or redemptions are almost as low as a Rs.120 to Rs.150 crores a month, so we are down to hardly Rs.7 to Rs.8 crores of redemptions per day, so I think the environment from this fund has improved significantly, what is more important is that our credit risk fund, yes, we did have redemption which brought that AUM down from Rs.13,500 to about Rs.6,300 crores in the month of June end. Having said that, during this time of redemption, we actually were very conservative, we actually increased our AAA exposure in our credit risk fund from 24% -25% to actually 34%-35%, so if you include cash and net current assets, our credit risk fund today has 38%-39% or close to 40% exposure in AAA cash and net current assets, so the profile of our credit risk fund has improved significantly, but I am happy to say that the panic has almost completely subsided and now the redemptions in these funds are very, very low and fairly comfortable to manage.

Sameer Bhise: But how do you see the reception of this product coming back or how are the customer reacting incrementally?

Milind Barve: I think it is a matter of time where confidence will get back in credit risk funds and the reason I say that is because the safety of AAA funds can never be denied, but the AAA funds are having YTM of 5.5 or sometimes even lower if you look at the medium-term which are only AAA funds, so the yield gap between the credit risk funds, for example, our credit risk fund has a YTM or yield-to-maturity of the portfolio of above 9.5, so for taking that kind of credit risk, not that the non-AAA credit is something which is bad, it is we believe that it is reasonably sound quality, it is very well diversified and so on, so I think as a matter of fact when people will start beginning to hurt on the current yields that they are seeing on AAA portfolios and will therefore, in a measured way buildup back some confidence in credit risk fund at least the credit risk funds there in fund houses they have faith in or where they have faith in the underlying portfolios or the quality of the portfolios and the liquidity of those portfolios, but what surprises me is that the yield gap between the AAA and the credit risk fund with a 40% AAA is almost like 400 basis points and my sense is that gap will narrow and people will come back, but we are in this business and we are into space where confidence needs to be built back into these product categories and we will have to live through this product and be part of that build back process.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Gaurav Kumar: Sir, just two questions, one is on this market share loss is fees or incentives or may be M&A any part of investment and second is on the dividend payout, any thoughts to increase that given the cash which just keeps building on the balance sheet?

Milind Barve: Sorry, your first question was on…

Gaurav Kumar: Would you be open to either reducing your expense ratio in some of your larger schemes or increasing payout to distributors to address the market share or probably look at any M&A, mergers or acquisitions, and the second was on the payout Sir?

Milind Barve: We are not really looking at repricing anything on our equity book as of now. We may practically if you are promoting some scheme which are reasonably small in size, we may look at it, that is something that we periodically keep reviewing. We do not have anything active as a strategy that is being considered to reduce the TER or increase the payout because obviously it has an impact, both of these actions reduce your margins and the profitability of the product in the company, so you would be careful in terms of reducing TER below what we are allowed to charge. They also believe that investors particularly who come in direct plans are now not sensitive to the TER because investment performance significantly overrides the TER consideration and I think as long as we focus on the investment performance and get that right, there is not much sensitivity to TER and I would also say that not as much sensitivity to payout as your payout has to be competitive, but it is not necessarily it has to be at the highest amongst the competitors, so I do not think there is any active strategy under consideration on repricing the TER or the commission payout. The second thing is that we would look at anything strategically available from an M&A point of view. Having said that, there is nothing that is under active consideration where we are looking at any particular target as of now, but yes given the fact that we are listed company which gives us the currency to actually use in an M&A situation actually adds to the regulatory to M&A, but we have to be careful because we have a fairly efficient low-cost structure and high operating profit margin business and you would be very careful that we do not dilute that criteria just for building size, but if you are able to bring size and economies of scale with it, we would look at it, I am just giving you a little color to some of to our thinking, but having said that the short answer is there is nothing actively under consideration.

In terms of cash, yes I agree that cash will continue to get built up in the balance sheet of the AMC. Having said that, the cash also gives out for example now we have got actually if you ask me one of the questions that we answered, our yield on our book is at 7.7% net of tax in this quarter, so if you use it efficiently the surplus does yield you very efficiently returns on without taking too much risk. Having said that, it does dilute return on equity, so the Board I am sure will be mindful of the fact when it considers more normalized and market environments when it decides the payout in the future.

Moderator: Thank you. The next question is from the line of Nishant Chandra from Temasek. Please go ahead.

Nishant Chandra: I had two questions, on Page 14 of the presentation I do not know if you had covered in your opening remarks, but there is a sharp reduction in physical investments by the customers or physical transaction so should we interpret it as pent-up potential to be captured in rest of the year or is it significantly captured already because of your digital initiatives?

Milind Barve: There are two ways in which people transact, one is online and other is physical. Now, during these last three months of the lockdown clearly even after the end of the quarter, we have just barely 140 plus branches which are opening with skeleton staff out of 221, so clearly people's ability to move out of their houses with an application form and a cheque to do a physical transaction is seriously constrained, so you are right in assuming that basically this physical transactions will increase and go back to more normal levels once the lockdown environment eases in different parts of the geographies that we deal in. Right now, we are actually working where physical transactions are severely constrained because of the lockdown and I think it is not at all at the normal levels that we should normally see. Overall, as I did mention, we are at about 65% to 70% transaction volumes overall and the percentage of online has gone up because the physical has gone down, so I would think that the physical has really gone down because of the lockdown situation and should normalize as and when the lockdown are lifted across the country.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Investment Managers. Please go ahead.

Dhaval Gada: Sir, just couple of questions, first if you could comment a little bit about the net yields currently in equity, debt & liquid versus last year and if you could relate this to the fall in yield, I am sorry if I have missed this earlier, but if you could repeat this and put some context in these three product segments. Then the second part was in the initial part you mentioned about some change in terms of thought process on diversifying your investment style, just I wanted to understand at conceptual level what is the benefit that we might lose by sort of diversifying which was working so far over the last 15 odd years really earnings volatility was quite low at a pre-tax level, so any thoughts around that, and the last question was related to two product segments, one is the dividend yield product and the second is overseas feeder fund, any thought on these two products?

Milind Barve: Your first question was whether we have had any meaningful change in margins, there has been very small change movement downward in the margins in equity, nothing meaningful, so the margins on product groups have remained broadly same, just some fall in the margin on debt because the credit risk fund which we spoke about earlier had a very high margin and that has now depleted by almost Rs.7,500 crores in this quarter, so the overall margin and also money is coming in to slightly more lower margin liquid with liquid plus funds, and therefore, the margins on debt have also come down a little bit, but they have come down because of the fall in the flows into the high margin products. Having said that, the larger reason for revenue to drop is because of the product mix falling not much of the margin loss, because debt was anyway 25%, if you see our last year's presentation on March, equity represented 76% of the revenue, so debt even if there is a fall in the margin all of the debt and liquid is all put together 25% of revenue, so that does not impact total revenue, but if there is a fall in the product mix of the equity that has a sharper impact on the total revenue which is what has happened and we believe that it will correct itself as we go forward in the future quarters.

I will be brief because I had a long answer on your other question, as I mentioned and it is there is a part of our management discussion in our annual report, we have said that we are a large equity fund house, we manage as we speak Rs.1,45,000 crores of actively managed equity minus some small amount of index funds. Now, what we are seeing is that if we have very similar overlapping strategies across different funds then there can be a period of time when a number of your funds are not delivering good performance, so as a fund house or as a company or as a business we suffer when we go through that phase of the cycle, so what we are doing is actually fairly simple. We want to see that of the Rs.1,40,000- Rs.1,45,000 crores that we have, we should have a reasonable amount following a particular strategy, so at any point of time if we have five or six strategies at play then may be one or two are not doing well, one or two are doing average, but one or two are doing very well and at least because of that the flows into the business or the AUM gain because of mark-to-market gains will get normalized. What we have diagnosed as one of the things that we need to tackle is that we have reasonably large amounts in similar strategies and that is the present situation that we are trying to correct and I did mention in my earlier answer what we are doing towards it, that is the broad approach that we as a large fund house should have and that is what we are doing, that is what we have understood as a challenge that over time the Board, our investment team, Prashant and all of us are seized with.

Dhaval Gada: The third question was related to the dividend yield at the feeder part for the overseas product and one follow up on the first answer, I understand the product mix impact, on the debt side from 40 basis points net yield, how much decline would have like, some ballpark there?

Milind Barve: I think our net yield for this quarter if I am not wrong, Piyush correct me if I am wrong, is it about 28-29 basis points as compared to 37-38. REVIEW

Piyush Surana: We would have lost around 4 or 5 basis points.

Milind Barve: As I mentioned we would have lost 4 or 5 basis points in debt, but all of debt and liquid is only 29% of our revenue, so a margin fall does not impact the total revenue, but if the equity portion falls down then as I mentioned that has a bigger impact.

Piyush Surana: Just to add there in the fall in the revenue, you know if you try and put an attribution how much is margin fall and how much is fall due to AUM, almost 80%-85% is due to the fall in the AUM and very little is the margin fall and the margin fall is something which kind of sometimes is a little seasonal because some expenses get debited, sometimes less, sometimes more and that kind of you need to look at the whole year, so I would not read too much in the margin fall as Milind said.

Milind Barve: On the products as I said, the dividend yield I do not know we have to engage with our investment team whether we believe this is a, there are of course pockets of the market which have very high dividend yields, right now we are holding some reasonably high dividend yield stocks in our portfolio, whether we should launch a very specific dividend yield funds, the number of utilities for example are having high dividend yields, we will discuss with our investment team whether we need to have a separate fund for that. As far as investing abroad through feeder funds again as I mentioned we must be clear about it, we do not have currently expertise to select stocks, we may have to do a feeder fund of another global fund manager which we may tie up with, it could be Standard Life, it could be some other fund house, we will speak with of course our sponsors, Standard Life, first, so we will approach that. Right now, if you ask me is there something that you are about to do in the near future, the answer is no, but yes this is an option that we will look at. There is one existing fund which we are repositioning which is the multi-asset fund, in that fund we have kept an enabling provision to invest in international securities.

Moderator: Thank you very much. Ladies and Gentlemen, due to time constraints that would be the last question for today. I will now hand the conference over to Mr. Devesh Agarwal for closing comments.

Devesh Agarwal: Thank you everyone. On behalf of IIFL Securities, I take this opportunity to thank the team of the HDFC AMC for giving us this opportunity to host the call.

Milind Barve: Just a short closing remark, once again thank you for your time and your patience for being on this post results first quarter call. We, as I said in the beginning, as my colleague mentioned we are going through unusual times as a fund house and I personally believe that we have to look at a time when things get normalized, we do not know when that will be but we remain confident that eventually we will be in more normalized environment of the markets and economy, and I think as long-term investors, we remain very reasonably optimistic and quite optimistic about where our business is positioned, the operating leverage that we have in our business, the high level of profitability that we have on our business and the control on cost that we have as we continue to remain reasonably more profitable than any other fund house and I think that is something that will remain as the core of our strategy. We have a job in hand on fixing investment performance, which we are very much seized of and I remain confident that will happen as we go forward. Once again on behalf of my team and myself, thank you very much for being on the call and I hope you all stay healthy and safe. Thank you.

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