HDFC MUTUAL FUND
BHAROSA APNO KA

Ref/No/HDFCAMC/SE/2022-23/40 Date – July 28, 2022

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

Dear Sir/Madam,

Sub: Transcript of Earnings Call

Please find enclosed herewith transcript of Earnings Call for the quarter ended June 30, 2022, conducted after the meeting of the Board of Directors on July 22, 2022 which can also be accessed on the website of the Company at: https://www.hdfcfund.com/about-us/financial/shareholders-presentation

Kindly take the same on records.

Thanking you,

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

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GREGORY
FURTADO

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Sylvia Furtado
Company Secretary

Encl: a/a

"HDFC Asset Management Company Limited
Q1 FY-23 Earnings Conference Call"

July 22, 2022

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

Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY23 Earnings Conference call of HDFC Asset Management Company Limited.

From the management team, we have with us Mr. Navneet Munot, Mr. Naozad Sirwalla, and Mr. Simal Kanuga.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Simal Kanuga: Thank you so much. Good evening and we really appreciate all of you taking time out for this call on Friday evening. The Results for the Quarter Ended June '22 along with brief business update is available on our website under the AMC Shareholder tab and also on the exchanges.

Let me start off on the industry:

So, net flows for the industry continued to remain strong. I'm talking about the equity flows. During the quarter, industry saw net new flows add up to Rs. 783 billion, lower than Rs. 968 billion for quarter ended March '22, but materially higher as compared to Rs. 251 billion for the quarter ended June '21.

What we did mention last quarter does hold for this quarter too. The equity inflow number includes index funds and index funds comprises of both equity as well as debt index funds. We do not have a data separately available for equity and debt index funds as yet. Inflows in debt index funds have seen material uptick and hence does sway data to an extent.

Let us look at it from AUM perspective to get some idea:

AUM of debt index funds stood at Rs. 23 billion as of June '21 and that number now is 417 billion, so nearly a Rs. 400 billion increase. As this is pure fixed income, material part of growth is in form of inflows.

Fixed income funds continued to see outflows. This quarter, industry lost Rs. 1,178 billion. The number for the previous quarter was Rs. 1,046 billion. It would make logical sense to add debt index fund numbers here. Actually, one should even add AUM or flows in debt ETF, which is currently merged in overall ETF number.

Debt plus liquid ETF now account for Rs. 606 billion in terms of AUM. The corresponding number as of June '21 was Rs. 399 billion. Liquid funds saw net new flows of Rs. 133 billion for the quarter and others as a category, which is basically ETF, arbitrage funds and fund of funds investing overseas saw inflows of Rs. 216 billion.

Individual investors continue to allocate to mutual funds and now the live folio account stands at 133.9 million with the overall unique number of investors at 35.3 million.

SIP flows for the month of June was similar to that of March '22 at around Rs. 123 billion.

We closed the quarter on an overall AUM of Rs. 3,966 billion, market share of 11.1%. Excluding ETFs, our market share is 12.4% on closing AUM and 12.3% on quarterly average.

If one looks at actively managed equity-oriented AUM, our market share is more or less constant as compared to March '22.

We continue to enjoy a favorable asset mix as compared to that of industry and also favorable ratio in terms of AUM from individual to non-individual investor. Our market share in B-30 AUM is 11.4% and that makes us a distant number 2.

In terms of systematic transactions, we processed over 3.73 million transactions totaling up to Rs. 12.8 billion in month of June 2022 as against Rs. 12.3 billion in March of 2022.

Before we move to financials, let me quickly update on what is happening in terms of new products and other businesses:

There was a regulatory embargo at industry level on launch of any new mutual fund scheme for the quarter.

We have approvals for nine ETFs, though few of them do need some kind of date extension. AMFI has clarified that earlier today. Assuming all approvals fall in place, we propose to launch all of these during the course of the quarter. We have few more ETFs and index funds which have been filed. We'll launch those as and when the approvals come by.

In terms of Sectoral and Thematic Funds, as mentioned during the previous quarter, we have four funds awaiting clearance and the same will be launched over time subject to those approvals coming by.

We've also filed for a fund that would track the MSCI Emerging Markets Index.

In terms of Category-II AIF, we have filed PPM with SEBI in early June. A quick recap here. We are launching a fund of funds which would invest across the entire spectrum right from early-stage VC funds to mid-markets/growth funds to buyout funds.

In terms of our wholly owned subsidiary in GIFT, we are progressing well and hope to go-live over the next couple of quarters.

Now we move to financials:

Revenue from operations grew by 3% year-on-year and 1% on a quarter-on-quarter basis. Other income for the quarter is materially lower due to lower MTM gains in debt mutual funds on account of increase in interest rates as well as the MTM loss attributable to market volatility on mandatory equity mutual fund investments.

Employee cost for the quarter was Rs. 780 million versus Rs. 835 million. If you take the cost of ESOP, which is a non-cash expenditure, employee cost for the current quarter stands at Rs. 677 million as against Rs. 659 million for the quarter ended June '21.

Other expenses have increased by 27% year-on-year basis. First quarter of the last financial year was in time of lock down or say reduced operations. We would like to draw your attention to the expenses for the quarter ended June 2019 that was a normalized quarter pre-COVID. It was Rs. 406 million. So, over a period of three years, the cost has gone up from Rs. 406 million to Rs. 525 million, an absolute increase of 29% or a CAGR of just about 9%. Profit after tax fell by 9% both year-on-year and quarter-on-quarter basis with lower other income being the key contributor.

Before we open it up for questions, I would just like to hand over the call to Navneet to make couple of comments. So, thanks, and we will hear Navneet, and post that, we will open it for questions.

Navneet Munot: Good evening. So, first of all, at the outset, I want to place our sincere appreciation for contribution made by Prashant over the last 19 years or so. You must have heard about the announcement we've made earlier today in reference to his resignation. In 2003, when Zürich Financial Services decided to move out of India, Prashant along with his schemes moved to HDFC mutual fund. As everyone knows, Prashant has a distinction of being the longest serving fund manager in India. I've known Prashant for many years and I have the highest regards for him as a fund manager as well as CIO.

The HDFC AMC investment team is known to be amongst one of the best in the country. I have now spent nearly a year and a half at HDFC AMC and can vouch for the processes and depth that is second to none.

In fact, this has got further verified when I hear the same from fund managers who have joined us in the last couple of years from other AMCs and also the analysts who have joined us from the sell side.

Talking about the fund management team, so on the equity side, we have Chirag with experience of over 25 years, Gopal Agarwal over 18 years, Roshi Jain over 20 years, Anand Laddha over 18 years, Rakesh Vyas over 20 years, Srinivas Ramamurthy over 15 years, and I'm sure several of you would know most of these people well and so all our other analysts.

We have further beefed up our team by adding Rahul Baijal who's just joined us from Sundaram Mutual Fund, again, an experience of over 20 years across sell side and buy side.

We have nine dedicated analysts with experience ranging from 6 years to 20 plus years. Most of them have experience over a decade and are counted among the best in the sectors that they cover.

The combined years of experience of our equity investment team, when I look at all of these people, would come to something like 230, 240 years. Over and above, we have Krishan Daga and Arun Agarwal who manage Arbitrage fund, passive strategies. Again, Krishan has experience of over 30 years. Arun would have experience of over 24 years.

Now let's look at fixed income. Shobhit and Anil Bamboli have been with us for over 18 years. Shobhit has experience of 30 years while Anil would have experience of around 28 years.

Anupam Joshi who manages some of our fixed income schemes, like liquid fund, corporate bond fund, low duration fund etc., has experience of 21 years. Vikash Agarwal, he has experience of over 16 years and of that, 14 with us; and Praveen Jain, he has experience of 17 years and of that, 14 with us. Along with the analysts Sankalp and Bhavesh, we are talking of an experience of over 140 years on fixed income fund management side too.

So, this wonderful team that has worked under Prashant will now be led by an able duo of Chirag and Shobhit. Chirag Setalvad is one of the founding member of the investment team when HDFC AMC got set up in 2000. So, he's been with us from like day one in 2000, but for a couple of years in between, that is 2004 to '07, is now going to lead the equity team. Chirag has been part of the system and that should make for a comfortable transition in terms of equity investment and research process. He's been one of the most respected fund manager in India managing strategies running over almost two decades. Shobhit Mehrotra will take over as head of fixed income. Shobhit again is a veteran fixed income fund manager with over three decades of rich experience in fixed income and credit research. Both of them will be leading a team of 30 committed investment professionals.

At HDFC AMC, we are proud of our people, our processes and our philosophy that has stood test of time. I'm very confident that this team will leave no stone unturned to carry the legacy further north.

Simal Kanuga: Thanks, Navneet. Neerav, what we can do is we can start building on the question queue and are happy to take questions from here on.

Moderator: Thank you very much. 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 had three questions. First was on the organization structure. So, what we understand is Shobhit and Chirag will take as debt and equity head respectively. So, will we have a CIO or they will continue reporting to Navneet directly? That is question number one. Second is on industry. If you see that there has been a significant outflow in the debt as Simal also touched upon in his opening remarks. Can you throw some light what are the reasons for it, how do we see fixed income as a category in next, in medium to short term? And thirdly on any thoughts on the buyback with the kind of cash we have in the balance sheet would have? These are my three questions.

Navneet Munot: Sure. So, on the first question, there will be distinct focus on two different asset classes. Chirag will lead the equity team and Shobhit will lead the fixed income team. Both of them will report to me.

On your other question on the debt funds, yes, you are absolutely right. Last year we had net redemption in debt funds as a category and I'm talking of the industry flows as well as the last quarter. Maybe rates have been moving up and the fixed income funds' returns may not have been as attractive, but, I guess, as and when people believe that rates are stabilizing, there is a possibility that money starts coming back into the fixed income funds. They also move along with the overall systemic liquidity, which you would know that has shrunk over the last couple of quarters.

Your third question on the capital allocation, I think that's something that that our Board is cognizant and we will continue to reevaluate best possible options. If and when there is a right kind of an opportunity comes by, we'll keep exploring all those options. You would know that our dividend payout ratio for the last financial year was just a shade under 65% and I would like to believe that they should slope upward.

Kunal Thanvi: That's helpful. If I can squeeze one more question was on the yields. If we look at our overall yields, it's more than a sequential and YOY basis, they seem to have improved. Can you help us understand what has led this improvement? Is it entirely driven by the improvement in the equity mix or the pressure on the yield itself has eased out in the industry and for HDFC AMC?

Simal Kanuga: No, I think it's just basically bit of mix change and some bit of rounding up, but I don't think so you should read much into this.

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

Mohit Surana: My first question is when last year during when we were losing market share in equity, you had alluded that broadly our market share in outflows were stable and we were kind of losing market share in gross new inflows. So, if you could just qualitatively update us on how the situation has changed on that front? Because as I understand, scheme's performance has been quite good over last 1, 1.5 years. So, if you could just update on that?

And secondly, if you could just elaborate on what are the benefits that we can see that will accrue to HDFC AMC on account of HDFC Bank and HDFC merger? Those are two questions.

Navneet Munot: Sure. So, equity market share for the quarter was more or less stable. I can tell you two things. One, that our market share in redemptions is falling which definitely is good news. And on the other hand, our market share in gross flows is getting better by the day. We did lose out on large number of SIP registrations that happened during the last couple of years, but we are catching up on that. We used to be a pioneer when it comes to the SIP creation and we are very hopeful over the next couple of quarters, couple of years. We would look to regain that market share in SIP.

A related question would also be the linkages between performance and the share within outflows as well as inflows. I would say that improved performance and the resulting increase in market share, there is bit of a time delay between those two things. My experience tells me that performance either way, good or bad tends to be ignored for couple of quarters. It then gets noticed but there is a belief that the phase is temporary. Investors and distributors will then start planning an action, but the real action would follow over the next couple of quarters. So, it takes time for one to start seeing results of good performance or downside associated with difficult period of performance. So, to repeat the point, I think we are seeing the market share is stabilizing and fall in the market share in redemption and increase in the market share in gross flows.

Navneet Munot: Merger, as we have mentioned earlier that the impact on us due to the merger can be neutral to positive. I think we will become part of a larger entity with a deep distribution network.

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

Madhukar Ladha: Just harping on the yield question by one of the earlier participants, there is a material uptick in the yield and if I do a little bit of a back calculation, it seems to be coming from the equity side. Any sort of color, comment on that would be very helpful.

The other thing that I notice in the numbers is that the other income has fallen dramatically and so has the tax amount and your tax rate has come off to about 18.4%. Now this probably suggests a loss in the other income or realized loss in the other income and you creating a deferred tax asset. If you could elaborate whether my reading is right and what is this loss pertaining to, that would be helpful. Those are my two questions.

Simal Kanuga: Madhukar, on the yield side, and I think tax one, Naozad will answer for you. I think the yield side as I stated earlier, it is nothing but a marginal change in the mix. And secondly, as I stated some bit of roundups. So, what tends to happen is last quarter you would have seen it at 48, it being at 48.4 and if it goes to 49.6, it goes to 50. So, some bit of rounding up and some bit of asset mix change. So, these two things have led to an improved yield. Also, if you want to really get into a microscope, well, there were zero NFOs in this quarter. So, lower revenue flow into the AUM was lower. As I stated earlier, don't really look into it beyond a point. I think the yields are in line with what we mentioned in the previous quarter and I hope things change for the upside, but that's not the case.

Madhukar Ladha: And just to add something here, directionally, do you continue with your earlier commentary of further sort of decline in active equity yields?

Simal Kanuga: Absolutely. I think, see, we have stated this even earlier, right, if you recall. See, what tends to happen is if you look at our book, somewhere at mid-70s versus the flows that are nowhere near that number. So, absolutely, you are right. There is going to be dilution in yield as more and more money comes in.

I think one thing that you need to kind of also consider is the pace of dilution of yields. See, what happened last year when we started the year 2021-22, we started with an AUM base of just about, I'm talking about industry as a whole, started with an AUM base of Rs. 13 odd trillion and we saw inflows, gross inflows adding up to close to Rs. 5.95 Trillion. So, that was about 45% of the AUM in terms of gross flow.

Now, if you look at current numbers in terms of run rate, currently, the run rate is about 50,000 crores or Rs. 500 billion. What was last year is this year. Now, if you look at say another 5.9 trillion even flowing in, it is on a denominator of nearly Rs. 18 or Rs. 19 trillion. So, the pace of dilution of yield might slow down but yes, there would be dilution in yield as more and more money comes in.

Simal Kanuga: On the tax, Naozad you would take?

Naozad Sirwalla: Yes, I will take the question on, so other income we also explained earlier, it is lower largely due to lower MTM gains on debt mutual funds and MTM losses on account of the equity mutual fund exposure, thanks to the skin in the game circular. On the effective tax rate for the period ended June '22, it's lower due to reduction in deferred tax charge on account of MTM losses and also reversal of deferred tax liability on certain investments that were sold and set off against carried forward losses.

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

Prayesh Jain: Firstly, from a distribution angle, if I think about the merged entity or HDFC Bank today, if I compare it with say ICICI Bank or Axis Bank, when they sell the mutual funds, the share of the group AMC is upwards of 60%, and if you look at HDFC Bank, the bank sells close to about now around 30, 35%. This is from the distributors' commission disclosed by individual AMCs. So, why is that low? And do you think that there is a possibility that this can really come back to something like a very high number going ahead. Navneet, we have seen almost 70% or 100% of that of SBI MF. So, do you think that we can really scale this up from the merged entity going ahead? That would be my first question.

Secondly, from a medium-term perspective on the yields front, how do you see the yield moving on the debt side? What I understand is the current yield on the debt possibly the lowest ever in the history and how do you see that moving ahead once the yield stabilizes and that offer some cushion for the falling yield?

And lastly, on the equity side, could you give some understanding as to what is the current book from the legacy side, some understanding there?

Simal Kanuga: Sure. I think the first part of your question was HDFC, HDFC Bank merger. The positive effect of that on distribution. So, Navneet can.

Navneet Munot: Sure. So, I had mentioned earlier that we will become part of a larger network. Of course, HDFC Bank has always been running an open architecture. They may continue with that. However, if we potentially become the subsidiary, there is a greater value alignment and that should have positive implications. Your other question was on-

Simal Kanuga: So, I think if you look at price from a debt yield perspective, I think yields have been fairly more or less constant only at somewhere in late 20s. Whether they are low, so, yes, I think it is lower than what it used to be because of lower assets in the credit risk in some of the other higher yielding funds. Having said that, on the other hand, we are seeing some bit of migration happening in favor of debt index funds. So, even if we think that with the increased YTM on the credit risk fund, we might get in more money there and thereby higher yields. Some bit of that will get diluted by flows into debt index funds. So, I think, if you look at the debt side of our business, the yields should be more or less constant, the way we see it somewhere between 25 and 30 basis points.

Prayesh Jain: One last question was on the share of legacy assets in your current mix, don't want to know exact numbers, any color there on that would be helpful.

Simal Kanuga: Prayesh, we don't really comment on that, but the way we would like to kind of help you understand is on our equity legacy book, our yields are somewhere in mid-70s. And that is as of 30th June. So, you can say that the entire book that does exist on 30th of June is giving us the yield of around somewhere in mid-70s. And the new flows are obviously all over the place, in the sense that when we did our last NFO, the direct plan TER was somewhere in 40. So, you are getting in yields as low as 40, but most of the flows that are happening in our existing funds, they are obviously at a yield better than 40, but nowhere near 75.

Prayesh Jain: And last question, what are the trends on commission payouts in the industry? Is there any competition, increased competition or any trends that you are witnessing currently?

Simal Kanuga: So, I think, Prayesh, things are definitely getting better as compared to what it was say in early part of last year. But yeah, competition is definitely intense. Now, again, this whole NFO saga has started. So, more number of new fund offers would put in some bit of an additional pressure. But like what we saw in the first half of last year, we're not seeing numbers anywhere as bad as those. So, things are definitely better. Industry as a whole has kind of realized that it makes sense to do business at a rational price. So, yeah, it is better than where it was last year, lower than where our historic book is.

Moderator: Thank you. The next question is from the line of Saurabh from JPMorgan Chase. Please go ahead.

Saurabh: Sir, just two questions. One is on this SIP and individual market share. So, besides the performance, are there any specific initiatives you have lined up to kind of improve that? The second is, is there any early distributor feedback on Mr. Prashant Jain departing? And do you think there will be an impact on new flows into the AMC? And third is now with the new structuring, what will be the concentration of AUM with the two or three competitors? Thank you, sir.

Simal Kanuga: So, first one was what we are doing on the SIP.

Navneet Munot: Well, there are variety of things as I mentioned that HDFC AMC has been a pioneer when it comes to creating the cult around SIP. We were among the early players to focus a lot on that. I think over the last several months, I think we have tried to regain that in terms of our engagement with the distributors.

Of course, as you mentioned, as the performance has improved across the board, that is also helping us. In all the other initiatives, whether it comes to marketing, if you look at our social media handles and the other form of marketing that we have been doing I think in terms of improving our digital assets, improving our user experience on creating a new SIP or getting a new customer on board, all of those things we have been working and the results are very, very visible.

I think we mentioned earlier that there is a bit of lag between the performance and the flows. And particularly, with the banks and the other national distributors where the products go out of their recommendation list or the focus list when they comeback, there is a bit of a lag between when you start seeing those numbers, whether in SIP or in terms of the lump sum flows, we have started seeing the positive impact as the products are getting approved or getting on the focus list or on the recommended list across most of the banks and the national distributors.

Your other question was on will Prashant's departure impact the flows? The announcement has happened today, but as I mentioned earlier that I think we have a very solid team. One of the data point I can give you is that, if you look at all our actively managed funds, and now we have different fund managers who have been managing funds with different styles. So, when I talked about Roshi or Gopal or Srinivas or Chirag or now Rahul will be managing, most of our existing products have been getting positive flows. So, money has been coming in to almost 90% of our actively managed funds. I mean, the positive flows are there in almost 90% of our actively managed funds. So, I think we remain confident that distributors would continue to support us.

Simal Kanuga: And Saurav, obviously, the concentration of AUM will go down. So, if you look at Prashant manages somewhere around 43, 44% of our AUM and we are yet to kind of make a formal announcement on which schemes will be managed by which manager, but it will be split between one, two or three managers depending on what we finally decide. So, yeah, concentration of AUM would go down as compared to where it was.

Saurabh: Thank you very much.

Moderator: Thank you. The next question is from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: Just two questions from my side. One is tension on the OpEx number and compared it with pre-pandemic levels. Just wanted to get some sense on directions regarding the overall movement in your operating expenses. The second is on the distribution side, if I look at two things, if I look at the disclosure and commissions and just try to get some sense of where the commission kind of inched up during FY22, it seems that the distributors or the larger ones who have been contributing bulk of the flows for the industry and also for you to some extent. There the commissions increase was a little bit higher and also to some extent, if I see the gross flow number, the overall gross flows from the top 10 distributors was significantly higher in FY22. So, just wanted to get some sense on these two things.

Naozad Sirwalla: So, on the cost as we discussed, the increase in other expenses is largely attributable to business promotion, technology spend and life going back to normal. We will have the distributor training. We have travel etc. We've mentioned on the call earlier. So, over the three years, June 2019 quarter we spent about 40 crores of expenses. In the current quarter, it's 52 crores and that's the rough CAGR of 9%.

Having said that, we are, of course, always mindful of what we spend, and at the same time, we don't want to be shy from investing in the business. So, the digital world is changing. We have to spend on technology. Data security is a matter and IT infrastructure is again something we are going to spend money on. So, I think we will obviously be mindful of where we are going to spend money. But cost in some form and shape will sort of be there for us and that's the trend we expect.

Dipanjan Ghosh: On the second part?

Simal Kanuga: So, I think you just mentioned about higher distribution commissions being paid to the larger guys and they being larger contributors to gross flows. See, there has been some level of concentration in terms of larger brokers. In terms of commissions, I think the commissions across the board have been high but as we have always maintained, if you look at it from our three broad distribution channels' perspective, banking, national distributors and MFDs, they tend to be as expensive in that following order, banks being the most expensive and followed by national distributors, followed by MFDs. So, yeah, that has been the case.

Moderator: Thank you. The next question is from the line of Amey Sathe from Tata Asset Management. Please go ahead.

Amey Sathe: I've got two questions, sir. First question on the dividend payout. At what point you think you can increase the payout to, say, closer to 95 to 100% considering we have around 5,000 odd crores of net worth now?

Navneet Munot: I had mentioned that over the last two years, you would have seen an upward trajectory as far as the payout ratio is concerned and my sense is that this will have an upward trajectory going forward as well. I mean, the slope should move upward.

Amey Sathe: But is there anything that you're looking at in the sense some kind of level of cash and cash equivalent or net worth that you think after that you will be comfortable increasing it to higher levels?

Navneet Munot: So, as I mentioned earlier, the board is cognizant of that and will continue to evaluate best possible options. From the cash requirement perspective, we need to set some cash aside for abiding by SEBI's skin in the game regulation. We need to seed our AIFs. It will help us make a strong business case. We also have to put in some capital into funds, we will set up in GIFT. But otherwise, as I mentioned earlier that payout ratio should have an upward trajectory.

Amey Sathe: Second question is on distributor side. So, post TER cut since we passed on most of the TER cut to the distributors, a lot of them sort of were not keen doing the business. That is the feedback that we got from the distributor community. So, are they coming back to us now? So, is it possible to get some kind of a quality statement how has been the engagement with them?

Navneet Munot: So, across the board we are seeing positive traction whether it's the banks, whether it's national distributors, whether it's the mutual fund distributors. I think in terms of our overall engagement and activity with them has gone up substantially and we are seeing the results. And we feel very positive about the traction across all channels.

Amey Sathe: And just a last question. So, you made one comment that last two years we couldn't do much of a SIP registration. So, were they any specific reason?

Simal Kanuga: No, Amey, that was because our traction was pretty low because of slightly muted performance and stuff like that.

Moderator: Thank you. The next question is from the line of Lalit Deo from Equirus Securities. Please go ahead.

Lalit Deo: So, just wanted to understand, sir, despite the market volatility, the SIP flows in the industry has remained strong and are at a lifetime high. And for that also it has improved during the quarter, but at the same time we also understand that the net-based SIP is growing at about like 40 to 50% in the industry level. So, how has that trend been for us? And recently, we are seeing that there is a slowdown in the new SIP registrations also. So, are we seeing any slowdown in the registrations as well?

Simal Kanuga: Yes, this net SIP is a bit of, we have read these reports, right? Because finally what is SIP? SIP is an inflow that is coming in. The number that we are presenting for our asset management company is based on cash flow basis. So, if we are saying that we are getting Rs. 12.8 billion, we are getting that much amount of money in the account. These are not registrations. These are actually based on the cash flows and what we are reporting is the systematic transactions in total. So, that is one part of it.

Navneet Munot: On the overall, whether the market volatility would impact the flows? You know, it's interesting. When I look at the daily transaction sheet, I tend to see increased number of transactions, especially on the day the market corrects sharply, and it is pretty interesting, which means that investors are actually trying to buy more when market corrects and I'm talking about the number of transactions at our end.

Of course, the returns over, say, a year or two do not look attractive. There would be some amount of inertia. There would be an impact on the flows. You talked about like SIP flows remaining robust and I should give the credit to the entire ecosystem, which is regulators, industry, our distribution fraternity, media, the association of mutual funds for getting the message of long-term investing across and I think volatility is now being taken aside and the best example of that is like growth in the SIP flows over medium to long term.

Simal Kanuga: Also, I think just if I may add there, see SIP itself is a growth? So, we are talking about growth on growth. This, Rs. 12 odd thousand crores is actually additional money coming into the mutual fund industry. It is a step function. We've seen like a rapid growth. If it stabilizes for some time, that will not really concern us beyond a point.

Lalit Deo: The employee expenses if you see excluding the ESOP expenses, so that has grown sequentially 13%. So, any specific reason for the same?

Naozad Sirwalla: So, I think one is, of course, we had our appraisals which have sort of flown through. Also, I think you must see it in context of the fact that over the last three years, the expense has only grown by 6% per annum. So, there is nothing sort of outlier about it. It's just normal increase in year end compensation.

Navneet Munot: And if I can add what Naozad just mentioned, market are is strong and it is important for us to retain our talent. Our industry is clearly experiencing a strong growth. We are extremely excited about the prospects of our business. And there is no reason for us to not invest in our people.

Moderator: Thank you. Next question is from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: Sir. Couple of questions. First is from a three to five-year perspective, how do you see this industry evolving? And how are we placed with those trends? Because there are multiple things which are happening. One is the share of passive is gradually increasing. I don't know what is the recent trends, but last year it was a gradual pickup in the share. I think those trends may accelerate over next five years. And there is pressure on our fees and probably the role of direct money coming directly to the AMC is now also increased over a period of time. There has been quite sharp adoption in last five years. So, in these contexts, how are we placed? And how are we trying to benefit from these trends?

Navneet Munot: Think about our industry for the next three, five years. So, purely from a growth perspective, think about it, we are a $3 trillion economy and one of the fastest growing economy in the world. So, even today the household savings, if you take, let's say, ballpark number of around 20%, we are talking about $600 billion dollars of savings and if you look at the percentage which is coming into the mutual funds and within that into equity, I think it's very small, so a long way to go.

Other way to look at it, if you look at overall household assets today of 9 to, 10 trillion, half of that would be in real estate, 10 to 15% or so would be in gold. A lot of that would actually be in hard cash and the overall equity assets within that is a little over 4%. In fact, that number was like half 10 years back. It's grown but still abysmally low relative to any other country in the world whether you look at equity assets with mutual fund as percentage of market cap, as percentage of GDP, as percentage of household savings, flows as percentage of overall assets, anyway, a long way to go.

You look at 50 crore people who would have a PAN card. Within that, maybe 7 or 8 crore people who file income tax returns versus the people who have invested in mutual funds, if you look at unique accounts are 3.5 crores. So, a long way to go and at HDFC AMC we have set a mission for ourselves which is to be the wealth creator for every Indian. To be the wealth creator for every Indian, we believe this 3.5 crore number can go up substantially over the next several years as the acceptance of mutual fund as the preferred saving vehicle, investment vehicle and within that, I think, more and more people accepting SIP as the way to create wealth over a period of time gains acceptance and we want to lead from the front.

I hope that answers your question and there would be several other opportunities, right? That's on the core mutual fund side. Other than that, there are opportunities in managing money for family offices, Ultra HNIs or the other institutional investors on segregated accounts which are like PMS. We are also looking at AIFs, building the platform on the Alternative Investment Fund side and we see a lot of opportunity there as India grows over the next several years from $3 to $5 trillion economy. We all talk about financialization of savings. We talk about digitalization of finance, but even financialization of assets is also a very, very big trend and there would be opportunity on the alternative side. Even, I think, serving large global institutions who would have interest in investing in India in equity market, in bond market and alternatives over the next several years, there would be another opportunity. So, over the next 3, 5, 7, 10 years, we feel very excited about the opportunity an Indian asset manager with a pedigree like us can have.

Nidhesh: So, I was actually asking from these trends of passives going up share, of direct AUM going up from those trends, so the growth story of Indian mutual fund industry is I think very well appreciated. Looking at the current concerns that most of the investors have is how the revenue pool of the industry will grow? AUM, I understand will grow at a pretty rapid pace, but how the revenue pool will grow and there are concern around disruption from, let's say from direct mutual funds. Also, we are seeing that our own fee yields have been coming down as you mentioned that the lowest yield is around 40 basis points while book yield is 75 basis points. So, in that context, how are we placed with respect to the revenue pool or profit pool base for the industry and for ourselves?

Navneet Munot: See, I can give the analogy of the broking industry. Look at the way commissions have fallen over the years. Few years back, people were extremely concerned about the fall in commission rates. They would have fallen by, like, what? 90% or so. But look at the revenue pool and the profit pool in the last couple of years. So, I think something similar may happen here and as I mentioned that as a company, we believe there is huge opportunity in front of us and we wouldn't like to miss on that opportunity.

Nidhesh: Sure. And second is what we have seen is that there is a very high correlation of inflows with the last 12 months performance, last 18 months performance and because of which actually the investor end up chasing the best performing fund during that period. That might not necessarily be the best strategy and because of which I think investor also loses out. Companies also, AMC also loses out. So, is there a way to correct that to create more awareness among the investor community? Or how do we think about that?

Navneet Munot: So, to an extent, it's happening which is reflecting in the stable flows in to SIPs and you are right. I mean, of course, the short-term performance does impact, but I think people appreciate when institutions like us have a long-term track record, the pedigree, the process, the investment philosophy, all of that. I think lot of investors and distributors appreciate that aspect and as an institution, as an institution we will continue to work harder on that.

Moderator: Thank you. Next question is from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: So, just one question with respect to the fund of fund GIFT City that we spoke about. So, just thinking about it conceptually, for us like we've primarily been a more retail oriented in terms of asset management offering and we don't have our own distribution like most of it is relied on through banks or IFAs or wealth managers. So, for a fund of fund offering, wouldn't you see that a wealth manager carry out a fund of fund offering by themselves or the HNI client through the LRS would just go out and bypasses on many of these platforms like vested or something. So, how do we see in terms of earnings for us here? Because it's a more HNI oriented product and it is also something that the HNIs and the wealth manager can do themselves. So, maybe if you could talk a little bit about this? Thank you so much.

Navneet Munot: Market is very small today and I think over the next several years as the amount of wealth increases, people diversify more. People look at various opportunities across the world, across asset classes, across different markets. So, we will create products which will invest internationally in GIFT City. The idea here is to attract the LRS capital as well as capital from NRIs. But the broader other idea on this since you asked about the GIFT City, so the wholly owned subsidiary we have created in GIFT City will be our gateway to the global world. We will create products in GIFT which would help us showcase our domestic investment management capabilities to global investors and we see lot of opportunity in this space over the next several years.

Atul Mehra: So, it's more from both from an inbound perspective as well a outbound. So, inbound is also an angle for value setup in GIFT, right?

Navneet Munot: Absolutely. Inbound is a larger angle.

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

Hiral Desai: So, Navneet, just wanted to check of this 5,500 crore of investment book that we have, how much of that is blocked because of regulatory reasons? And on the remaining part, can you actively manage it, like, take a call on the rate cycle etc.?

Navneet Munot: No, a very large part of that is invested into our own fixed income fund. So, we don't take aggressive calls on interest rates or duration or any such thing.

Hiral Desai: And that would be because of regulatory reasons or because of the call that you guys have taken?

Navneet Munot: That's the call we have taken. Over a period of time, we will have to seed our AIF products. As we have mentioned earlier, we are launching a fund of fund in Category-II. Over a period of time, we'll look at more funds in the AIF category and we will have skin in the game and then we'll be investing there. Otherwise, on the fund side, from a SEBI regulation perspective, I think there is a skin in the game which like a certain percentage of our AUM across equity and fixed income funds that get invested.

Naozad Sirwalla: And so that number is 388 crores is what we have to invest as per the SEBI circular. 258 crores of that is in equity and balance 130 is in debt. It's anyway part of the disclosure on the website.

Hiral Desai: And Navneet, just conceptually to understand, so let's say you launched an NFO last year where obviously the pricing was very stiff. Now, currently, we don't really have an upfront payout. So, it would be based in form of trail. So, is there like a lock in period? So, let's say, if you've launched an NFO, you can change the dealer payout only after a year or you can change it let's say within that year also? Like, how does that nuance work?

Simal Kanuga: So, Hiral, basically, what we do is when we go and do a new product, we tend to commit commissions for a period of time. So, it's not something that is changing every year. And it's different commission levels for different set of distributors. So, there would be certain places where we would have committed for three years, certain places committed for a year so on and so forth. But yeah, obviously, we can't go and just keep changing the number there. Most of the distributors do expect us to give them three years kind of committed trail commissions.

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

Abhijit: So, you made a comment that the market share on the active equities is broadly flat for the last few months, but given your earlier comment that there's been some improvement on the redemption and the gross flows, one would have thought that would have seen some improvement on the market share as well, because the construct of the AUM for us is probably a little more on the balanced side of things, right? Is there something that we are missing in this overall map here?

Simal Kanuga: No, sir, not exactly. See what we said is the gross flows have improved from where they were and redemptions have gone down. But see, our market share is 11.5%. So, for new flows, net new flows, our market share has to be above 11.5% for the share to improve, right? So, what we are stating, if you look at the previous few quarters, we were kind of losing share quarter-on-quarter. That is not what has happened in the most recent quarter.

Moderator: Thank you very much. The next question is from the line of Siddharth, individual investor. Please go ahead. Siddharth, may I request you to unmute your line from your side and go ahead with your question, please.

Siddharth: Could you detail little bit more about the AIFs and the venture capital fund that you've launched about the investments that you have made and what you are looking at investing in through these?

Simal Kanuga: So, basically, we are yet to launch it. We have filed a PPM with SEBI. This is going to be a fund of funds, which is going to invest in the entire spectrum. More or less, half of the fund would be invested into venture capital funds and the balance half would be invested into mid-markets/ growth funds. Some bit of it might also get into buyout funds. So, we are awaiting approval for this product from SEBI and once that happens, we get into a capital raise mode. Post we raise the capital, we'll start committing capital to underlying set of funds. We have started the process in terms of meeting up with underlying set of managers, have started the screening process and we are just trying to get a HDFC institutional overlay on this whole fund.

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