"HDFC Asset Management Company Q4 & FY20 Earnings Conference Call hosted by ICICI Securities Ltd."

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Moderator: Ladies and gentlemen, good day and welcome to the HDFC Asset Management Company Q4 & FY20 Earnings Conference Call hosted by ICICI Securities Ltd. 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 call, please signal an operator by pressing * then 0 on your touchtone phone. I now hand the conference over to Mr. Jaideep Goswami, Head of Equities at ICICI Securities. Thank you and over to you, sir.

Jaideep Goswani: Thank you, Raymond. Good afternoon, investors and other guests. We are extremely pleased and honored to get an opportunity to host the quarterly and annual conference call of HDFC Asset Management Company led by Mr. Milind Barve, Managing Director; Mr. Piyush Surana, Chief Financial Officer and Mr. Simal Kanuga, Chief Investor Relations Officer. With this introduction, I hand it over to Simal to give his introductory remarks. Over to you, Simal.

Simal Kanuga: Thanks, Jaideep and thanks team ICICI Securities for hosting this call. We had to delay this call, so apologies for that. So good evening everyone. We trust each one of you and your loved ones are safe during this extremely unusual time. I will start off with the quick overview of the industry followed by key aspects of our performance for the year and quarter ended March 2020. We have Milind and Piyush on the call to take questions there-after.

In terms of industry, the quarterly average AUM for the industry stood at Rs. 27 trillion for the quarter ended March 20.agrowth of 10% over March 2019. The QAAUM, in equity-oriented funds stood at Rs. 10.4 trillion, a growth of 7% year-on-year, as against 10.4 trillion of QAAUM in equities, the closing AUM as of 31st March 2020 for equity-oriented assets stood at Rs 8.3 trillion. The corresponding closing AUM as of March 19 was Rs 10.2 trillion. The fall can be attributed to the fall in markets. The systematic investment plan flows for the month of March 20 were resilient at Rs. 86 billion.

We will now move to us. Our quarterly assets under management for March 20 was Rs. 3698 billion as against Rs. 3423 billion in March of 2019, a growth of 8%. We have 13.7% market share in QAAUM. Our closing AUM as of 31st March 2020 is 3191 billion with a market share of 14.3%. More particularly our QAAUM for the quarter ended March 20 for actively managed equity-oriented assets was Rs. 1574 billion while the closing AUM as of March 20 was Rs. 1200 billion. The fall in closing AUM as compared to QAAUM can be attributed to the steep fall in markets as evidenced by 23% drop in the Nifty50 during the month of March 2020. The rise of markets in month of April had led to an increase in AUM and our future revenues from equity assets would depend on how markets shape up over the next few months. We now operate through 221 branches; we have 9.4 million live accounts and a workforce of 1194 people. Equity as a percentage of our total AUM which was 48% in March 19 has come down to 38% in March 20. Again, primarily due to fall in equity markets. Our individual monthly average AUM for March 20 was 57.2% of total AUM as against 52.2% for the industry. We continue to be the most preferred choice for individual investors with 15% share in individual AUM. Our unique investor count stands at 5.6 million as against the total of 20.8 million in the industry. Our systematic transaction flows for the month of March 20 were Rs. 11.3 billion across 3.29 million transactions. We continue to be the number two players in B30 market with a share of 11.9%. We would like to highlight that our business is fully functional and continues the way it has been despite the lockdown. To give you an illustration, in the month of February 2020, we did 650,000 transactions. In March despite the widespread measures taken in terms of limited workforce along with eventual complete lockdown we did 1.03 million transactions. Slide #15 in our presentation that has been uploaded on our website as well as that of exchanges provides you a snapshot of how we have handled the situation thus far and the continuing steps that we are taking on the matter.

I will now move to financials. Before I get into numbers, it would be pertinent to note that there is a significant one-time impact of unrealized loss recognized in the results for the year ended March 2020. This is in reference to our holdings in securities of Essel Group. The total unrealized loss recognized in the financial year ended March 2020 stands at Rs. 1203.6 million. It is 120 crores. The carrying value of these NCD as at March 2020 was Rs. 294.21 million. So, the residual number is now 29.4 crores. The value of the collateral as of 31st March 2020 is Rs. 358.78 million. In the previous financial year, the nonrecurring expenses amounted to Rs. 400 million. Keeping these in perspective, we are also disclosing our PBT as well as PAT adjusted for this one-off and nonrecurring expenses.

I will move to the annual numbers. So, for the full financial year, the operating profit for financial year ended March 2020 was Rs.15,129 million as compared to Rs.11,931 million for March of ’19 and increase of 27%. PBT before nonrecurring items for the financial year ended March ’20 was Rs. 17,735 million as compared to Rs.14,147 million for March ’19, an increase of 25%. However, due to non-recurring items the PBT for the financial year ended March ’20 was up by 20% to Rs.16,531 million as compared to Rs.13,747 million for March ’19. PAT, again before nonrecurring items for the financial year ended March 2020 was Rs.13,526 million as compared to Rs.9,613 million for March 19, an increase of 41%. However, due to nonrecurring items, the PAT for financial year ended March 20 was Rs.12,625 million as compared to Rs.9,306 million, resulting in an increase of 36%.

In terms of the quarterly numbers, the last quarter of the financial year saw growing uncertainty due to the emergence of the COVID-19 pandemic and its effect on markets across the globe. This led to fall in AUMs across our industry affecting revenues negatively. The operating profit for the quarter ended March 2020 was Rs. 3,562 million as compared to Rs.3,534 million for March of 2019, an increase of 1%. PBT, before nonrecurring item for quarter ended March 20 was Rs.4,250 million as compared to Rs.4,244 million for March 19, an increase of 0.13%. However, due to nonrecurring items, the PBT for quarter ended March 20 was down by 20% to Rs.3,297 million as compared to Rs.4,146 million as of March 19. PAT before nonrecurring items for the quarter ended March 20 was Rs.3,213 million as compared to Rs.2,837 million for March ’19, an increase of 13%. However again due to nonrecurring items, the PAT for quarter ended March ’20 was Rs. 2,500 million as compared to Rs.2,762 million for March ’19 resulting in a net decrease of 9%. Our operating profit margin as a percentage of average AUM for the financial year ended March ’20 is 41 basis points. The corresponding number for the previous financial year was 37 basis points. The Board of Directors has proposed a dividend of Rs. 28 per share which is subject to shareholder's approval.

Thank you for patient hearing. Stay safe, everyone. We will open it up for questions now. Milind and Piyush are very much here to take questions if any. Raymond, if you can start taking questions please.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Parthiv Shah from Trackom Stock Broking. Please go ahead.

Parthiv Shah: Sir, my question is regarding, this entire year is looking extremely tough especially for the profitable equity AUM and especially with the equity portfolios on an average being down by 20% and seeming that outlook also not looking very great for the rest of the year. So, a ballpark figure of at least a 20% hit on your equity AUM in terms of the income, so I was just trying to get sense that how are you planning to recoup this particular loss for this year. Any sort of increase in the direct plans expense ratio or any sort of measures which can help you give levers for lower Opex and thereby increasing your margins. So just want to get a sense of that.

Milind Barve: Thank you for your question. You are right in the way you look at it that this year , we have started the year with the equity AUM or actively manage equity AUM which is materially lower than the average of the last year or average of the quarter. Also, it is equally important that about 73% to 75% of our revenue comes from equity-oriented funds and consequently the fall in the level of equity AUM will have a bearing on the revenues of the company. I do feel feel given that the working environment has changed and predominantly now business at least in the first month of April and in the last quarter of March has predominantly been done from the digital platforms. It will actually lead to some meaningful reduction in operating expenses. So, it would be difficult to make a very accurate estimate about how much of the revenue loss can be recouped. Having said that we remain cautiously optimistic about the recovery in the markets from the levels of the markets on 31st of March which where we have reported our numbers. The markets have rallied close to about 6 or 7 percentage points in the month of April. Accordingly, our equity AUM has grown from level of 31st March but the future is very much predicated on the dispersion intensity and the duration of the COVID pandemic and the lockdown and short-term impact of the lockdown on markets. Having said that I must say that investor interest in equity products remains fairly sound, even in the month of March there was a fairly strong flow into equity mutual fund products almost of the order of Rs.11,000 crores just in the month of March and in fact industry had its highest flows in the quarter of Rs.29,000 crores in the fourth quarter of March '20. So, we remain cautiously optimistic, a) about the recovery in the market, b) we will we fairly circumspect and we will leave no stone unturned in terms of our efforts in reducing the operating cost in these tough times.

Parthiv Shah: And sir, also want to understand, like in terms of the fact that you mentioned that in the month of March there was a growth in the equity AUM for the entire industry vis-à-vis that growth number in terms of percentage, how has HDFC AMC faired in terms of garnering market share in the equity AUM?

Milind Barve: I think my colleague has already mentioned the market share. On a year-to-year basis there was some fall in the market share, but it is important note that we remain the largest manager of actively managed equity funds. So, our product mix still remains fairly strong as compared to our peers and therefore we have a reasonably good product mix, both in the product mix side as well as we have a very good liability franchise in terms of our share in the retail AUM of the industry.

Moderator: Thank you. The next question is from the line of Parag from White Oak Capital. Please go ahead.

Parag: Yes, sir. I have two questions. One is that on the equity AUM, we have TER. So, let us say the AUM actually falls and TER actually comes in the lower bracket by which we can charge little higher TER to the customers. So, in that situation if the payout to the distributors remain same as the earlier TER or it will go up so that, I mean what I am trying to ask is that, is there any room where we can increase our net yield, that is first, and secondly in terms of SIP if you can give some color in terms of the people who are dropping out or cancelling their SIPs, some bit of their profiles in terms of self-employed, salaried etc. that would be very helpful. Thank you.

Milind Barve: So, the first question was regarding the TER change. Yes, it is true that when the AUM falls down the applicable TER marginally goes up, accordingly from the month of April, to the extent there is a fall in the total AUM of the product, I am talking about equity funds, there will be a marginal increase in the TER that we will be able to charge as per the SEBI guideline. Having said that the distributor commission is not linked to the TER and that will remain constant in terms of basis points as in the past. So, to that extent only, that is we don't believe that will be very material. But yes, there will be a marginal improvement in the margin because of the fall in the AUM and the consequent increase in the chargeable TER. So, there will be probably a small improvement in the margin. I don't know, it will be very difficult to forecast whether it will be material or not. But to answer your question, the distributor commission are always a basis point of the AUM and they will remain constant.

Parag: And sir, on SIP?

Milind Barve: On SIP, I think yes, we continue to see new SIP flows, SIP registrations, there is a period of time when investors opt to cancel SIPs and also tend to either, some SIPs expire in the normal course of their term for which they are signed and sometimes some SIPs are cancelled prematurely. Having said that, I must mention I think it is there in our presentation that very high percentage of our SIPs are signed for 5 years and there is a very high percentage of our SIPs which are signed for more than 10 years. So, in that sense the people who are signing SIPs are actually very meaningful in terms of the commitment. So, it is not that SIP is signed for few months or few one year or two-year, people are still signing SIPs for 5 year and 10 year.

Parag: But on cancellation, this is related, or the cancellations are higher than the previous quarter or previous month or it is constant?

Milind Barve: There is no particular pattern to the cancellation. There is a certain amount of cancellation that happened even when markets are good or whether they are good or whether they are bad. SIP is still material part of our total AUM flow as we have shown in the slide. So that is like the order book that we have in our hands. So, for example we still got 1100 crores from just SIP flows. So, we are one of the large players in the SIP space, that gives us assured flows in our equity funds in the time to come.

Moderator: Thank you. The next question is from the line of Yashwardhan Nerulkar from PPFAS Mutual Fund**.** Please go ahead.

Yashwardhan Nerulkar: I have like 3 questions. I think one of which is partially answered. So, I will just continue with the other two. So firstly, right now, it is a completely different situation, black swan event. So, going forward, once this whole crisis gets over, so what will be your strategy going forward? Will it be something like a work from home, like half the team works from home, how would the transaction be preferred line accepted whether from the digital medium or some other preferred medium. And secondly right now, since almost every one is sailing in the same boat, do you see the need to incentivize the IFAs slightly more or do you see a competition coming from the other players who are trying to incentivize the IFAs, many of them who are actually going through a really difficult period. So just to have more sales or generate more AUM I mean is this what you guys are planning to do?

Milind Barve: I think at this stage it will be very difficult to make a very accurate prediction on how things will unfold on the pandemic and on the lockdown. But one does see that in the near term, the style and method of working by having so many of people in the offices and people walking into offices, at least in the near future does not seem to be the business model at least in the ensuing 1 or 2 quarters because of the need, and rightly so, for social distancing there will be a need and limited amount of travel and commuting being permitted. I think for a considerable period of time, I hope that I am wrong in this, we will be seeing business which comes through on digital platform both through distributors as well as coming on HDFC MF online platforms. As you know there are multiple digital platforms which are available. There are a number of distribution houses who have their own digital platform. There are stock exchanges who have digital platform, there is MFU, there is HDFC MF online. So, people are choosing various type of digital platforms to access mutual funds to do their transactions for buying and selling and I do agree with you that this could be a beginning of a change or what might unfold as a method of working. We would as a company and as a policy encourage more work from home if it helps to mitigate the possibility of risks of the virus and that would be the style and I must mention to you that since the lockdown was announced in the last week of March, almost all of our operations as far as what our client facing are fully operational. We are working from home and everybody has been digitally empowered and connected with the office. Even sales people are doing their calls on the phone without having physically be, so yes, there is a redefining of method of doing business and style of doing business, at least in the near term. I think the hardship of this has been felt equally, whether it is a fund house whether it is a distributor and most importantly the retail investor also. I think we are not at least currently looking at repricing any of our products.

Yashwardhan Nerulkar: That just answers my question. Just have one question if I may? So, currently what trend do you see, is there a shift from earlier investment debt funds or the balance funds and are they moving to equity more, after whatever happened in Franklin Templeton?

Milind Barve: There is no data to really support this across the industry and I think to say whether, yes, people if they are taking money out of certain debt funds, many of them are doing what is called as a switch out to some other funds. Either they are switching out into other debt funds which they are comfortable with, within the fund house also, the request is to switching into some other debt fund of the same fund house. So, it is not necessary that people are taking money out from mutual funds entirely out of the debt. But it is very difficult right now and also very premature to establish and think that there is a particular distinct pattern about where that money is moving out to. There is some trend definitely of moving to within debt funds itself shifting to whatever investor in his perception feels is a safer debt fund.

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

Saurabh Kumar: Sir, just had one question, on this market share loss, both from a December basis and from last year March basis, sir, I mean if we have to break it down between basically the front book and the existing AUM, I mean the back book, would the loss be more on the back book side, I mean basis the performance or you would have lost even on the flows as well?

Milind Barve: Actually, we are not disclosing flows because they are not very consistent on a month-to-month basis. But having said that I would say that there is again a slightly sharper fall in our AUM partly because of performance of some of our funds, of some of our larger funds which is also true that we as compared to the industry which has about 10% of its AUM in small and midcaps, we have closer to 20% of our equity AUM in midcap funds where we are one of the biggest, I think it is the biggest mid cap fund, they are originally large small cap fund. And I think the damage or the impact of markets on these group of shares or market cap has been stronger. To that extent our fund house would have been impacted apart from marginal slip on the performance.

Saurabh Kumar: And on this front book, basically on the flows as per your understanding obviously it is difficult for us to get that. As per your understanding would you be maintaining your current market share or…?

Milind Barve: It is very difficult to make projections for example, see we had 67,000 crores of flows in the industry for the last year. Interestingly the last quarter was actually the strongest flow of almost

30,000 crores, so almost like half from the flow came in the last quarter. So, I think the flows react to how the people feel about markets, whether they are reasonably priced and so on. But I think the good thing and I can mention that the number for April was announced yesterday, I think in the evening by AMFI, I think that has published, at about 5500 crores or something like 5000 crores plus, so which is a fairly good number. It is a fairly resilient number to see that flows in interest and equity still remains. It will be difficult to make projections on market share and make projections on flows itself.

Saurabh Kumar: Sir, just one more question. I mean, there are some funds which the parent companies have put up for sale. So, given you have the balance sheet and the market capitalization would inorganic, would you be open to it at least?

Milind Barve: See, as a strategy we are always open to looking at what is tactically synergetic to acquire and use the currency of our listed shares. Having said that it is equally true that there is nothing that is under active consideration at the moment.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: I have a following assertion to make, if you can just help me understand whether you agree with it or not? The management fee as a proportion of AUM is likely to fall gradually over the next four years as the old book churns and new flows come in. Essentially the trail payouts on the incremental source is higher. Do you agree with this?

Milind Barve: The trail is already consistent of, there is going to be no further increase in the trail, the trail is a constant number and that is not going to increase. It will increase pro-rata to the AUM increase. But you are right. If you are referring to the trail on the book as well as or is compared to the trail on the flows then the trail on the flow is little higher than the trail on the book. That is true.

Roshan Chutkey: And therefore, as the old book churns and new flows come in, your asset management fee to MF AUM ratio should deteriorate, the yield on revenue, right?

Milind Barve: In theory you are right. But the reality it is not that the book churns very rapidly. There are lot of investors who are old investors who continue to stay invested for long time. So, there is no data to show that x percentage of the book necessarily churns. In fact, we find a lot of investors who are really long term, long term as in like 5-10-year investors, they don't churn. Sometimes who has come in one-year back, he will churn. So, it is very difficult to make a very accurate assessment of how much the margin will fall because of the flow impacting the book. But conceptually you are right that because of the cost, the trail on the flow is higher than the trail on the book. As you get more flows, into the book, the margin in the book will come down. But just to elaborate on this, this year on 10-lakh crores industry AUM, the flows for the industry was 67,000 crores in equity. So roughly new flows are now 6%-6.5% of the book. So basically, it is not a very material number, I am talking of industry number, just to make the point, the industry flow as a percentage of the book, this year has been as low as 6%.

Moderator: Thank you. The next question is from the line of Umang Shah from Arohi Asset Management. Please go ahead.

Umang Shah: The first quick question is, Q-on-Q we have seen a slight uptick in the other operating expenses, would you please elaborate on what has caused that?

Milind Barve: Piyush, you want to take this?

Piyush Surana: There is one-time item of around 9 crores in that which is related to the settlement that you might have read about, the settlement order. So that is essentially the uptick. Just to elaborate a little bit on that, you would have also noticed the MTM loss. So, with these two things, the whole Essel issue that we were dealing with last year seems to have come to a conclusion, just wanted to mention that.

Umang Shah: But Piyush sir, that would reflect in the other income, right, not in the other Opex?

Piyush Surana: MTM would reflect in the other income, but there was the regulatory matter which was pending related to that, which you would also know. So that is also closed now and we paid some interest to the FMP investors in the concerned FMP and some settlement fees. So that is closed now.

Umang Shah: Sir, the other question which I had was, I was just looking at the regular and the direct TERs for several funds in the same category. So, I was looking at HDFC Multicap Scheme, and looking at other Multicap schemes. Now, I will just read out some numbers which I had. For April 20, the regular TER for your Multicap fund was 1.5 and your direct was approximately 0.9. So that left a trail of 0.6. Now for the other funds, I will take some names like Axis, which has 1.7 for regular and direct at 0.4 which leaves a trail of 1.3 and there is a Kotak at 1.5 and 0.6 which leaves a trail of 0.9. So, if you look at the trail which you have, yours seem to be the lowest and that too by a considerable margin. So, we may just want to understand here as to how do you think about this in terms of the IFAs recommending your schemes etc.

Milind Barve: Let me answer this. Let me tell you that some of our schemes like HDFC equity fund which is a Multicap fund, top 100 which is a very old fund, balance advantage which earlier used to be prudence fund, these are very old funds and we have a lot of investors and distributors who have been our loyal investors in it and they are also being paid the commission that was being paid from the earlier time and that commission has got increased and decreased over a period of time. So, there is a lot of old AUM as I was just explaining in answer to another question. The trail fees that are paid on the book are very low and the trail fees that are paid on the flow are relatively higher than the book trail. So today we believe we are reasonably competitive in our trail commissions, as in this example that you gave in the Multicap which is HDFC Equity Fund. So, we are competitive and we always have the option to review our trail commission with distributors if we feel that there is a need to increase it or decrease it. So it is true that maybe it is not possible to be seen as very comparing fund house to fund house trail and trying to equate it. I would say the trail commissions are usually in a band. As long as we are in an acceptable band, I think that is really considered good enough. But it is very difficult to maintain overall business margin if you want to be seen as the highest paying guy who is then the lowest margin guy. So that is another impact from a stakeholder's point of view.

Umang Shah: Got it, sir. And the last question which I had was, if you look at the performance of HDFC AMC from 2008 to 2012 which was the time when GFC happened, there was massive fluctuation in your overall AUM, but despite that you managed to retain your revenues and increase your PAT. So, can you help us understand as to despite AUM fluctuations in that period, how are you able to retain PAT growth and retain revenue numbers then?

Milind Barve: I think there are two things which, I will give you a high level answer, the one is that we have a very strong focus on the high margin equity business which remains the core, as I mentioned almost 75% of our revenue last year has come from the equity AUM amongst mutual fund revenues**.** So, I think one is a very strong focus on profitable part of the market segment which is in equity business or actively managed equity. That is one thing that helps and the second is that we have an extremely strong control on operating cost and expenses. And I think as we understand it, the key to managing this business lies in optimizing the high margin business to the extent possible and maintaining a very prudent level of cost control in order to maintain operating costs. So I think that is the key which is not only followed in those years, but we continue to follow year after year. As we have shown in our presentation deck, our operating profit margin has been maintained at 41 basis points and when we look at some of the key elements of cost in it, we have been able to contain both employee cost and other operating expenses at a significantly low basis points of our AUM. I think we are about amongst the lowest if you consider at these costs, for example employee cost is barely 5.5. basis points of AUM and operating expenses are another 6.5-7 basis points. So, I think focus on cost is as important as trying to optimize the margins by pursuing the higher margin equity business.

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

Haresh Kapoor: So, just trying to understand what has really happened during the quarter. So just on a quarterly average AUM basis your AUM was down 3.3%, equity being down 5.3%. Broadly those are the key indicators on average AUM which are down, but your revenues are down like 10% on a Q-on-Q basis. So, any yield movement that is happening on the debt funds or any other particular line items or such due to which your revenue line item on a Q-on-Q basis will be down like 10%?

Milind Barve: See, on an overall basis when the product mix has less equity and obviously in the last quarter, we saw an unusual, like a 23% fall in the market in just one month, that hurts the averages for the year. It also changed the product mix also. It changed the product mix from more equity in the total AUM versus less equity in the AUM. That reduces the productivity of the AUM overall. So basically, what has happened is not material change in the margins, in fact the margins in the quarter remains fairly stable. It is mostly the composition of the total AUM which had a higher element of equity in the December quarter, now has a lower element of equity in the March quarter, that is the answer.

Piyush Surana: And just to add to that in December quarter you would remember we also had,on our advisory mandate we had some extra performance fee. So that is why the revenue of that quarter is a little higher. So, you are not comparing apples to apples when you are comparing these two revenues.

Haresh Kapoor: Okay. And second thing, just around this SIP, collection etc. So for the month of March the data that you had given on slide #11, obviously that was down but how is the momentum been for you because from December to March that is obviously down, but in terms of going ahead market share loses on the SIP book in particular if you could comment on, how that is shaping up?

Milind Barve: I think yes, we would like to reverse what we hope is not a trend of slightly lower SIP. But as you can see on a year-to-year basis, it is not a material fall and clearly what happens is that there is a little bit of incumbency disadvantage because we have been doing this SIP for the last 10-12 years. We were the people talking of SIPs when everybody else was talking about how, which product, we were talking about doing SIP. So, what has also happened is that there are lot of SIPs for us as compared to the industry which are running through its normal expiry process. Somebody has signed up a SIP for 3 year or 5 year or 7 year, that period is also coming to an end. It is true that there is some cancellation of SIPs, so we will try to focus attention on trying to reverse this trend as much as we can that the SIP still remains reasonably meaningful part of our flows. Having said that we believe that we are reasonably good player in terms of our SIP Book as well as the flow that we get per month, we have I think on our presentation deck, we have presented almost 1100 crores March number for SIP which is a fairly material amount, if I am assured of 1100 crores flows in SIP every month that is a fairly good number. But of course, we do recognize that it has come off from what is there in the previous quarter.

Haresh Kapoor: Okay and just in terms of this market share in the debt side, so obviously we have had some event which has happened in the market with one of the AMCs, previously we have seen during one of the other market shocks that happened couple of years back, you gained market share on the debt funds. So, are you seeing that trend already in the month on April where market share gains are happening on the debt side or it is more or less status quo at the moment where some trends could happen in the future or you have already seen that trends?

Milind Barve: I think there is a shift more in the, to some extent there is some shift away from debt funds into liquid and overnight fund. And as we have probably mentioned our share in the liquid fund has increased meaningfully both in averages as well as closing AUM. And what we see in April is that the size of the liquid and overnight business has increased materially. So, there is some movement or safe haven investing that is happening and I think being blessed with a strong brand we are natural beneficiaries of that trend.

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

Nishchint: Milind, you have been talking to distributors, I am sure consistently, in your latest dialogue what is that they really expect from you? What kind of a support they really expect from you? What is that you should do so that they can do their best? I guess you can't do much about market movements or for that matter appetite or the wallet that can get into equity mutual funds. But in terms of support what is it that they are really looking forward from you?

Milind Barve: I think if you ask me in these kinds of really challenging in many ways, very unusual and challenging times, the distributors are doing an outstanding job in staying connected with their constituents, their clients in turn. Their clients are asking them whether it is about the market, whether it is equity or debt. I think the one thing we and our investment team in particular has been focusing on is that almost every day we are having 3 to 4 conference calls, webinars, many of them are with distributors, sometimes at the request of the distributors with the investors directly. I have never seen such heightened level of investor calls, sharing of information, sharing of views and handholding that the entire industry is doing. We are very much at the forefront where we are engaging with everybody who wants to have a call with the fund manager, anybody who wants a call, so taking up call with these investors, we are supporting that. I think the most important thing that distributors want is at least like a considered view on what we believe are the possibilities in the market, particularly in equity and what are the right things to do for customers at this time. And I think that is where we are very committed and our investment team along with the help of the sales team are doing a lot of engagement. Whenever I am trying to call or speak to a fund manager, all the time I am told he is on a call or he is on a webinar or he is on some conference call with some meeting with either distributor, group of distributors or sometimes groups of clients. Certainly, this is the key to us to the current circumstances really calls for some extraordinary handholding of the distributors who in terms are staying connected with investor and that is what we are engaged in.

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

Madhukar Ladha: First, I just want to check on the question which Roshan asked earlier. I think Milind, you mentioned that there was some 6% of the flow. I didn't really get that part. Can you just repeat that?

Milind Barve: So, I think see a very often when people are trying to model an AUM growth particularly in the equity book, the equity book as you know is influenced by flows, it is influenced by the market movements, these were the two main drivers of AUM in equity. The point I was making is that on an opening asset under management, the industry had about 10 lakh crores of assets under management in equity, as in the equity book at an industry level which is about 10 lakh crores.

And the net flow, that is the net purchases or net inflow into equity mutual funds, in the financial year 19-20 was about 67,000 crores. So, I was trying to, so the point I was making that the flow as a percentage of the book, the book at the beginning of the year and the flow during the year, the flow was about 6.5% or 6.7% of book. That was the point I was making.

Madhukar Ladha: Right. But sir, over here, wouldn't it be important to look at gross outflow and then the gross inflow because if the outflows are higher from a back-book perspective then that could really impact our commission payouts. Commission payouts would increase more. So maybe the 6% number might not really give us the best picture and I believe churn has been quite high as well when you look at the gross numbers?

Milind Barve: There is nothing for me to believe that this is necessary churn, in fact as I was answering the question earlier, there are a lot of old investors who prefer to stay invested, sometime it is a new investor, if he is experienced, the short period is not good. He tries to go out. So, there is no particular data to show that a lot of old investors are going and necessarily the gross flows are coming into the book. Theoretically you are right, you have to look at the gross flow. But on the net, but it is material to know who is going out also and it is very difficult to make a very accurate projection whether the guy who is going out is a high commission guy or a low commission guy.

Madhukar Ladha: Just a couple of other questions. One, our investment book is about 3944 crores on the balance sheet. So, what portion of that is equity?

Milind Barve: Equity exposure, we have a very small exposure which is the mandatory requirement to invest the….

Madhukar Ladha: Sponsor commitments.

Milind Barve: That is the only thing that we invest in equity. And other than that, we have some very small amount in some venture funds, that in turn might have some equity non-listed and all.

Madhukar Ladha: Piyush, what is that total percentage, if you can give a total ballpark percentage number?

Milind Barve: It is very small, Piyush you want to mention how much it is in a range?

Piyush Surana: It is roughly around 100-125 crores including the mandatory investments that Milind just talked about it.

Madhukar Ladha: Okay, got it. Your tax rate is a little low. I am guessing it is partly to do with how this M2M is actually taxed. So, can you just…?

Piyush Surana: It is also low because we keep investing and keeping our investments for 3 years before we kind of redeem.

Madhukar Ladha: Right, so their tax is long term capital gain, that is why?

Piyush Surana: Yes.

Madhukar Ladha: Okay, great. And I think, Piyush you mentioned that last quarter there was the international mandate, I guess, some advisories seen coming from there and that got recorded in last quarter. Doesn't that accrue every quarter or why is it there in December and…?

Piyush Surana: There are two components of these sort of mandate. One is the regular fee which is usually quite marginal and the performance fee which is larger chunk when it meets performance parameter, so that is what happens in December and that is why we had that uptick in December.

Madhukar Ladha: So that is the performance fee led thing. And finally, on, can you talk a little bit about what cost levers do you have going into FY21? I mean, we have done really well on the cost side, what additionally can we do and given that we are going to face some pressure, have we sort of thought of some plan of how we could reduce loss further?

Milind Barve: I will just mention briefly and Piyush you can add to it. I think what we will like to do that as we will have to have a fairly hard look at all our discretionary cost items in our operating costs and to see how much we can save out of that. We believe that there is some spending that is done discretionary whether it is holding events and things like that which anyway now cannot be held. So, we think that some of these discretionary expenses can be saved upon. We also will look at rationalizing employee cost which is to some extent we have done this year. As you can see that in spite of having hired about 70-80 new employees during the year, our employee cost has gone up if I am not wrong in low single digit, it is 4%. So, there is some bit of rationalization of employee cost which is already underway. So, we will use all these levers and I think the new method working that is we have all being, although for a different reason we hope that changes for the better, but it will lead to some savings in operating cost which we foresee.

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

Shubhranshu Mishra: This is on the closing AUM, where we have slid by around 50,000 crores. Is that entirely MTM or is it also some bit of redemption. If one can get the breakup it will be helpful.

Milind Barve: It would be fair to say that, almost most of it is, I would say entirely if you say last quarter, see the markets in the quarter fell by almost 30% and within that as I mentioned earlier there was slightly bigger book which is much bigger book than the industry on small cap fund and mid cap fund, we have the industry largest midcap funds. So obviously in times like this, in the last quarter the midcap fund has fallen by 31% and this small cap has fallen by 38%. So therefore, the impact of the MTM on the book has been slightly higher given the character of the composition of the equity AUM.

Shubhranshu Mishra: And 50,000 crores is MTM, not redemptions, correct?

Milind Barve: Right.

Shubhranshu Mishra: Okay, sure. Now we have almost a one lakh crores liquid fund and I believe we are gaining more in the liquid which is almost like the entire TER flows down to your PAT**.** So how do we look at the PBT going forward, we have been averaging that around 39-40 bps of core PBTs. Is it a fair assumption that it will remain in a similar range?

Milind Barve: You are talking about PBT margin?

Shubhranshu Mishra: Because the liquid funds might my sense is we will gain a little more in liquid funds going forward as well, so that is correct or not?

Milind Barve: No, on liquid funds which contributes about 6% or 7% of the total revenue we will earn more because of the size of the liquid fund going up. But more importantly we have to deal with the fact that there is a reasonable degree of fall from the equity AUM book on which the margins are much higher than liquid funds.

Shubhranshu Mishra: Okay. So how do we look at the core PBT in that case? Would it be remaining in the same range, around 39-40 bps, so would fall by 5-6 bps?

Milind Barve: Honestly, I don't think we can give any guidance on PBT number to be honest because given the fact that our business is fairly closely linked to the equity markets in general because of the fact as I mentioned earlier that almost 75% last year of our revenue came from equity oriented funds. So, the level of equity markets, our level of equity, actively managed equity AUM, that becomes the primary driver to our revenues and consequently on our profit before tax and after tax.

Shubhranshu Mishra: Alright, sounds good. And just one last question. How do we look at the dividend payout, are we going to conserve cash for any eventuality in FY21, the payout ratio comes off than FY20, is that a correct assumption?

Milind Barve: Yes, I think the Directors considered the various options between the payout ratio. There was a need felt that it is important to be probably a little more conservative, increase the dividend. We have increased the dividend from Rs. 24 to Rs.28 per share which is an increase and, in this environment, it is necessary to be a little bit more cautious and prudent rather than having a very high dividend payout and conserve more cash.

Moderator: Thank you. The next question is from the line of Nikhil from ICICI Prudential Life Insurance. Please go ahead.

Nikhil: Just one clarification. Could you explain the other income for the quarter, it is negative and we have not seen a negative other income for the past many quarters, just if you could throw some more light on it?

Piyush Surana: So, the MTM hit on the NCDs that we talked about earlier, there is a note on it below the numbers , so it was 25 crores as of the end of the third quarter and now the year end it is 120 crs. So, the residual amount of MTM which is come in has created that negative other income.

Nikhil: Sure. And also, sir, on the equity AUM is it possible to disclose how much has come after say September 2018 and the current year, AUM?

Simal Kanuga: You want the September 18 AUM and you want the current AUM, that is what you are looking for?

Nikhil: No sir, basically after the TER regulation change, how much of the AUM sitting on the book right now would have incurred after that day?

Simal Kanuga: We do not give a split in that fashion. In sense we don't give a split between what was the AUM before that and what is now because it can even get undergone a churn or something. But if you look at the September 2018, our equity AUM, I will just give it to you. September 18 it is 1,47,000 crores.

Moderator: Thank you. We will be able to take one last question. We will take the last question from the line of Piran Engineer from Motilal Oswal Finance and Services. Please go ahead.

Piran Engineer: I have a couple of questions all around distributor and commissions and one of which is the follow up to Parag's question. So when the TER goes down because you all have entered the higher slab, then do you all take the full hit or when do you all pass it on to the distributor, because in the other case you said that you retain all the benefits when you go in the lowest slab. So, what when you go in the upper slab?

Milind Barve: See, when you go into the upper slab also the distributor commission remain the same. So, the distribution commission as you may be aware is a certain basis point of the AUM. So, suppose I am a distributor and I have a 100 crores AUM with us. And let us say I am paying certain basis points, x basis points. When that 100 becomes 110 in that product he also gets a 10% increase in the revenue because of the increase in the AUM. But the basis point doesn't change. So, for example if the TER goes up because of a fall, optically appear as there is an improvement in the margin, but similarly when the AUM goes up, the TER comes down but we don't reduce his commission. His commission remains the same.

Piran Engineer: So how often are broker commission renegotiated. Is it an annual sort of process or is it as and when required, what is the process?

Milind Barve: No, we don't renegotiate. It is not something that we have a timeframe for renegotiating. We don't renegotiate it at all if you ask me. I don't think there is a system that we talk every quarter or every year. There is no resetting of trail commission. Usually change in commission and the basis point of the commission is triggered by some event. So, it is regulatory or it is something that is changed, materially changed the landscape of commissions and margins. For small events we don't keep going back to renegotiating either upward or downward based on AUM movements and all. There is no timeframe at all, yeah.

Piran Engineer: And sir, to one of the other questions, I think Madhukar's question you said that the impact of commissions on incremental flows is higher but it depends on which customer is going out.

Milind Barve: Absolutely.

Piran Engineer: For the same customers, for the same distributor same scheme etc. if say NJ Invest sold your HDFC Top 100 to a customer in 2010 and same thing say to another customer on 2012, could you be paying him different commission rates, for those two different?

Milind Barve: Yes.

Piran Engineer: So, it is not harmonized?

Milind Barve: It is not harmonized because whatever was applicable and committed to him in 2010 will continue to be paid on that 2010 asset and whatever has been committed to him to be paid in 2019 will continued to be paid as long as that asset remains. So actually the way our registrars and that is the method in the industry itself, the commission amount is tied to an individual transaction. So, it is not even a distributor, within a distributor there could be different pricing for different bucket of transactions given to us over an over a different period of time in different products.

Piran Engineer: Fair enough. Sir, if you can give me a ballpark figure, what is the maximum difference paid to different set of customers for the same product? So let us say again HDFC Top 100 scheme is distributed by distributor A and distributors there, what could be the maximum variance in commission.

Simal Kanuga: Piran, we don't disclose that

Piran Engineer: And just lastly what percentage of your equity is distributed by individual RIA and is that going to be impacted by this new regulation or proposed regulation?

Simal Kanuga: So Piran, if could check, we have a pie on our presentation which says if you look at IFAs, now they are called MFDs, that is around 40% of our total equity business.

Moderator: Thank you very much. That is the last question. I would now like to hand the conference back to Mr. Jaideep Goswami for closing comments.

Jaideep Goswami: Thank you. I take this opportunity to sincerely thank Milind and the entire top management team of HDFC AMC to take time out and address all the questions patiently. Milind, any final thoughts from you before we close?

Milind Barve: No, I think there were a couple of questions and I think we would stay with what we have presented in our presentation pack and the answers we have given to the various questions. We would like to thank all the people who have asked questions, we would like to thank all the people who are on the call and thank you to Isec for hosting us. Once again on my personal behalf and on behalf of all our team, hope that everybody stays safe and healthy. Thank you.

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