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

Dear Sirs,

Sub: Transcript of Earnings Call

Please find enclosed herewith transcript of Earnings Call for the quarter and year ended March 31, 2022, conducted after the meeting of the Board of Directors on April 27, 2022 which can also be accessed on the website of the Company at: <https://www.hdfcfund.com/about-us/financial/shareholders-presentation>

Kindly take the same on records.

Thanking you,

Yours faithfully,

For **HDFC Asset Management Company Limited**

Sylvia Furtado
Company Secretary

Encl: a/a

HDFC Asset Management Company Limited

A Joint Venture with abrIn Investment Management Limited

CIN: L65991MH1999PLC123027

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“HDFC Asset Management Company Limited Q4 FY-22 and FY-22 Earnings Conference Call”

April 27, 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 gentleman, good day and welcome to Q4 FY22 and FY22 Earnings Conference Call of HDFC Asset Management Company 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 conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

From the Management Team, we have a Mr. Navneet Munot – MD and CEO, Mr. Naozad Sirwalla – Chief Financial Officer, and Mr. Simal Kanuga – Chief Investor Relations Officer. I now hand the conference over to Mr. Simal Kanuga. Thank you, and over to you, sir

Simal Kanuga: Thanks. Good evening and thank you so much, everyone for attending this call. As always, we’ll start off with a quick update on what all is happening at this end and take questions from thereon. The presentation is available on our website, as well as that of the exchanges.

Firstly, on the industry:

Equity net sales number for the financial year is Rs. 2.68 trillion and is Rs. 968 billion for the last quarter. One caveat here, Rs. 2.68 trillion includes Rs. 448 billion index funds and Rs. 968 billion includes Rs. 230 billion of index funds. As yet, AMFI publishes one single number when it comes to index funds. By one single number, I mean index funds include funds tracking equity indices, as well as debt indices. AUM of all debt index funds add up to Rs. 276 billion as of 31st March 2022. The corresponding number as of 31st March, 2021 was Rs. 8.8 billion.

On QAAUM basis, industry growth this year has been backed by equity, both flows as well as mark-to-market. ETF, again, both flows as well as mark-to-market. Liquid funds have grown by 10-11%, while debt has lost Rs. 0.8 trillion, 7-8% of the AUM. In anticipation of rates moving higher and some bit of corporate expenditure, both capital and otherwise

on table, large corporates have taken some money off the debt funds. To get a fair picture of the debt fund flows, we need to also factor in the flows into debt ETF and debt index funds. As mentioned earlier, net flow data for debt index funds is classified into index funds while debt ETF into ETF. So, let us just look at the AUM for both these set of funds as of 31st March, 2021 and 31st March 2022. It was Rs. 383 billion in March of 2021, which has grown to Rs. 833 billion, an increase of Rs. 451 billion.

SIP flows, we would request you to look at numbers for the quarter, that is flows in January, February, and March. It was Rs. 353 billion as compared to Rs. 328 billion for quarter October to December 2021. When you look at quarterly numbers, it smoothens out the impact of last working day being a holiday or for that matter a shorter month like February.

I now get onto us:

Our total market share in QA AUM is at 11.3% and the same excluding ETF is at 12.5%. Our systematic transactions for the month of March added up to Rs. 12.3 billion across 3.6 million transactions. Systematic transactions for us includes both SIPs, as well as STPs. Systematic flows for us for the quarter that is January, February, and March was Rs. 35.6 billion. We have set for ourselves an audacious vision to be the most respected asset manager in the world, and the mission is to be the wealth creator for every Indian. The tone across the organization is constant. Everybody, and by everybody, I mean every single employee is working with one vision, one mission. You will hear more on this in our annual report.

There are multiple factors, which would aid in taking up a step further towards our audacious vision. Maybe for this time, I would like to definitely expand on two or three of them.

Firstly, we've been asked about our performance or actually lack of performance. We've been saying the same thing that our investment style has worked over long periods of time, and there are periods in between when it does test our patience. Easier said than done, but our Investment Team stuck to their convention and we are now seeing rewards of the same. In key categories like Flexi Cap, Large Cap, Large and Mid-cap, Focused, Balanced advantage, Hybrid equity aggressive, or Hybrid equity conservative, etc., our funds are in top decile/ top quartile in 1 to 5 years period, albeit some funds might not be in a specific say a 3 or a 4-year period, but I'm sure you get what I'm trying to state here. The numbers are in public domain and you all anyways track it as closely as we do.

Secondly, we have further enhanced engagement with our partners. We've expanded our training team and also increased level of centralized communication. We've engaged multiple external trainers too who get altogether different perspective when it comes to partner, or for that matter, even client engagement.

We have, in past, spoken about expanding our product range. In terms of thematic/ sectoral funds, we have filed for 4 products with the regulator. We have filed for an MNC fund, Business Cycle Fund, Defense Fund, and Non-Cyclical consumption fund.

On back of our success in the Developed World Indexes Fund of Funds, we have filed for a fund that will track the MSCI Emerging Market Index. These two funds put together should give domestic investors an optimal solution to get global exposure.

We'll be further expanding our product bouquet on the passive side. We already have a large number of passive funds and in fact have started publishing a dedicated monthly fact sheet on our passive solutions. The same is available on our website and would request for a feedback on the same.

We hope to file a category II AIF PPM with the regulator during the course of this week. It would be fund of funds investing across the entire spectrum right from the early feed stage to late stage. Our team is also working on filing for a category III AIF. We'll update you as we progress further on this front.

As we mentioned on the last call, we have hired a new resource for managing our PMS. We've already started speaking about this service and hope to see some traction over the next few quarters.

We are awaiting regulatory approvals for setting up a wholly owned subsidiary in GIFT city. We hope to build on our international business and subsidiary in GIFT city would be a big help.

Lastly, before I move to financials, let me talk about digital trends. Well over 75% of the transactions we have done have been executed digitally. We now have over 1.3 million users on our investor portal and have added 350,000 in FY22 without drop in engagement levels. Our app is now rated above 4, both on iOS, as well as on android. Our digital nudges have resulted in reduction of redemption to the extent of 2.5% and on the other hand, our analytics-based campaigns have been 2.5x more effective conversion rates. Connekt, which is a new-age digital marketing app for our partners to help leverage the power of digital marketing, has seen a substantial growth of 2x in its user base last year and active weekly engagement rate of over 50%. We have 48,000+ registered partners on our website with active engagement rate, again, of 34%.

Now, move to financials:

The profit after tax for the year ended March 2022 grew by 5% to Rs. 13.93 billion or Rs. 1,393 crores. Revenue from operations grew by 14% while operating profit from core Asset Management Business grew by 10%.

The employee benefit expense for year ended March 2022 stood at Rs. 3,122 million as against Rs. 2,268 million, an increase of 38%. Rs. 3,122 million includes Rs. 633 million of non-cash charge towards amortized cost of outstanding employee stock options. The corresponding number in the previous year was Rs. 73 million. Ex this non-cash charge, employee cost has increased by Rs. 294 million or 13.4%.

Operating profit from core Asset Management Business excluding non-cash charge towards amortized cost of outstanding employee stock options grew by 14% from Rs. 14,069 million to Rs. 16,008 million.

In terms of other expenses, we have seen an increase of 27%. This can be attributed to low base effect due to lockdown during the large part of the previous financial year coupled with expenses that we have incurred for our NFO launches, as well as other regular business promotions in current year.

We have an optimistic view on our business and would not want to shy away from these expenses, which in our opinion, would lead to future growth. We are also investing further into technology and digital infrastructure, of course, in a calibrated manner. For the quarter ended March 2022, profit after tax grew by 9% to Rs. 3,435 million, as compared to Rs. 3,159 million for the quarter ended March 2021.

Finally, our board earlier today has approved a dividend of Rs. 42 per share as against Rs. 34 per share last year, which of course is subject to shareholders' approval. At Rs. 42 per share, it translates into a dividend payout ratio of 64%.

Thank you, once again, for joining the call. Navneet, Naozad, and I are very much available for questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Ravi Naredi from Naredi investments. Please go ahead.

Ravi Naredi: My request, give at least one hour time to study results and then you start con-call so we can discuss everything. Before 2 minutes, you have posted investor highlight and now you are making con-call, so how is it possible to make the question and ask you, first. Second, we have two main intelligent persons of mutual fund industry, Mr. Prashant Jain and Navneet Munot and in spite we do not make any growth in AUM and growth in company. Where we are weak? Will you elaborate your working? Thank you.

Simal Kanuga: Sir, I appreciate the feedback. Our board meeting got extended slightly longer. We would take care of this in future. Of course, there are challenges, we are trying to meet the deadline for the investors sitting on the South Eastern Asia part of the world. So, for them it gets bit delayed if we start the call later, but the feedback taken and hopefully next time, we will take that into account.

Navneet Munot: If I can add, on the growth side, you are absolutely right that over the last couple of quarters, we have seen a bit of decline in our market share. As we have been mentioning over the last several calls that significant efforts have been made to stop the fall in market share and we are quite hopeful that with everything we have done including improving performance, new product launches over the last year (we have done 8 NFO's, this would be more than what we would have done over the last few years), significantly enhanced marketing efforts, engagement with our distributors, several of the digital initiatives that Simal talked about, also enhancing the customer service and a lot of new initiatives that we have taken, we're pretty sure that over the next several quarters, we should start seeing better market share. But, a bigger thing what Simal touched upon briefly is about our vision, as well as mission. The mission we have set for ourselves is to be the wealth creator for every Indian. Over the last 20-21 years, I think we have created a great franchise in the Asset Management Business, which has scale, which has quality and which has high profitability. Mutual fund industry, of course, has scaled

new highs this year. We have almost 37-38 lakh crore of overall AUM. The number of folios has reached almost 13 crore whether you look at equity, fixed income, money market. I mean, industry has done well, but still if you look at unique accounts, there are only a little over 3 crore investors, in fact, a good number of them have got added only in the last 12 months. We believe over the next several years, industry is posed for multifold growth and the franchise that we have built with our people, with our processes, with the pedigree that we have, with the presence, both on the physical side, as well as on the digital side, with our platform that we have built, I think the relationship we enjoy with all the partners, I think with all of that over a period of time, we believe that we would not only be having a higher market share compared to where we are, but we will also contribute a lot to the industry to expand its footprint to increase its reach across every nook and corner of the country. In last one year just like we would have done over the last several years, we are making significant effort not only for our growth, but overall industry growth, particularly on the investor awareness, etc. the significant campaigns you would have also noticed.

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

Prayesh Jain: Just wanted to check firstly on the integration or the merger between HDFC Limited and HDFC Bank. How do you see that helping the business going ahead over the over the medium to longer term, and secondly, I would appreciate your thoughts on overall expenses wherein how does HDFC AMC's expenses pan out? Earlier you guided for around 12-13 basis points of AUM to be there in terms of cost that would stay. Those would be my first two questions.

Navneet Munot: So, your first question on the impact of HDFC/HDFC Bank merger on HDFC AMC. So, the merger announcement stated that upon this scheme becoming effective, the subsidiaries and associates of HDFC Limited will become subsidiaries and associates of HDFC Bank. This will

facilitate more efficient cross-selling of banking and financial services products that includes insurance and mutual funds. I am sure you have heard Keki Mistry on the analyst call. It mentioned that the Bank has also requested RBI to permit the Bank to hold equity in the subsidiaries and associate companies of HDFC Limited. These requests are under consideration by RBI in terms of the letter they have sent dated April 1. So, I think let us wait to hear further on this. Your second question was on the operating expenses. We have been guiding and have been around 13 points, which has been the trend over the last several years and despite the fact that we spent more money on business promotion or marketing, the 8 NFO's that I talked about that we had during the year and of course slightly higher CSR expense. Despite all of that, we've been able to maintain that.

Prayesh Jain:

Just one more on the alternate assets, it has been a few quarters that we've been speaking about the segment, could you give some more thoughts on as to how do you see these alternate assets growing going ahead and what kind of aspirations we have with respect to AUM size and contribution to profitability and revenue for the overall entity?

Navneet Munot:

We've been saying that we are a dominant player when it comes to active equity, active fixed income and money market. We want to be a relevant player, keeping the profitability aspect in mind on the passive side, but want to have the full product book and that's why we launched a couple of products and we are launching more. The third, which is alternative business will also be important for us for future growth, more on the profitability side than the overall AUM, and we are doing multiple things on this front. Let me try and expand on that. I think Simal did cover some bit of it in his opening remarks. Firstly, on the PMS, as we mentioned in the last call, we've got a portfolio manager on the board. We've started talking of our services to key partners and clients. We've started seeing some interest and hope to grow in this space over the next few quarters. Secondly, on the category II AIF, we are filing PPM with

SEBI soon. This would be a fund of funds investing into category I and category II AIF's. Our team has already interacted with over 40 funds and are reaching out to more with several of them there would be second round of meetings or diligence going on. This should go live sometime in quarter 2 of the current financial year, of course, subject to all the regulatory and the other approvals. Thirdly, on the category III AIF, we hope to file PPM for this fund over the next few weeks and we'll keep you posted on developments on this front. So, definitely see enhanced level of activity in the alternative space. We have it very much on our radar and look forward to building a state-of-the-art alternate business.

Prayesh Jain: Alright, that's pretty helpful. Just lastly if I can slip one more in. your thoughts on equity yields, they have been trending down for the entire industry. Do you see the intensity of this fall reducing going ahead or how do we see this yield movement over the next couple of years?

Navneet Munot: So, I think the last call, we had addressed this issue in detail and I would like to request you to refer to the transcript. I remember giving a detailed answer with illustrative numbers to explain this drop in margin, but let me expand further. Let us keep the focus on the revenue margin that is what comes as revenue into the books of the AMC. The fall in this margin can be on account of two reasons and here I am talking mainly of equity-oriented funds margins. We haven't really seen any material change in margin on the non-equity side of the business. So, drop in TER one is due to increase in the AUM of the scheme. As you know, the sliding scale on the TER. So, back-of-the-envelope computation shows that 2-3 basis points drop on the entire AUM once it crosses Rs. 5,000 crore in terms of multiple. To explain that better, when the fund AUM rises from Rs. 24,000 crore to Rs. 26,000 crore, say by market movement, the TER drops by 2-3 basis points on the overall AUM Rs. 26,000 crore. So, as and when one or more of our larger funds go through this change, there is a visible impact in margins in terms of basis points. If you ask me, this is not a bad problem to have. Let me put it this way,

I mean it is as per regulations. So, for example, we make let's say 80 basis points on Rs. 24,000 crore that is Rs. 192 crore and say margin drops to 77 basis points on Rs. 26,000 crore, we will make Rs. 200 crore. Further, this problem tends to even out to an extent over a period of time as we generally modify distribution cost on new flows in that particular product. It is neither desirable, nor practical to keep changing brokerages on existing assets as and when the fund's AUM keeps moving up and down. So, further flows get aligned to our overall planned margins and with a lag, there is a catchup to an extent. But yes, there is a drop as and when we cross the hurdle as is defined by regulations. In terms of numbers during the year, due to strong markets, we saw a large part of our AUM cross this so-called hurdle. So, our largest product, Balanced Advantage, went up from a little over Rs. 39,000 crore to 43,000 crore, another product Flexi Cap went up from Rs. 23,000 odd crore to Rs. 27,000 crore, so on and so forth. This I am telling you March 2021 versus March 2022 and nearly 70-75% of our AUM would have crossed this kind of hurdle resulting in nearly 2-3 basis points drop in the overall margins in equity-oriented fund. The second is drop in net revenue due to increased brokerages and I talked about it in the last call that this is a challenge industry as a whole is grappling with. Further to what we mentioned in our last call, recent NFO's have been priced much better. We are seeing competitive intensity in terms of distribution cost settling down to an extent. It's not going to be anywhere close to where we were a couple of years back, but are better off as compared to where we were in the first half of the financial year that went by. So, just to reiterate what we stated in last quarter, higher gross sales with not so good gross to net ratio is also a key reason for rapid drop in margins. So, gross sales in equity-oriented funds during the last 12 months have been nearly Rs. 6 trillion on starting AUM of Rs. 13 trillion approximately and as against gross flows of Rs. 6 trillion, net flows were Rs. 2.7 trillion. So, honestly, I'm more excited with this kind of gross sales rather than getting bothered about short-term drop in margins. Indian households are quickly adapting to equity culture, which is very heartening. We are

large savers of capital and over a period of time, as meaningful part of that finds its way into equity and equity oriented mutual funds, in particular. In last 18 months or so, we have seen huge interest in direct equity, Demat accounts, as you are aware, going from 4 crore to 8 crore. We are also seeing increased interest throughout SIPs and mutual funds as well. Over a period of time, we expect much bigger traction on that side. So, AUM can gallop multiple times over the coming years and that's the big picture I don't want my team or me to take eyes off from. We discussed it last time in last two calls that in April 2014, the industry AUM of equity was around Rs. 2 trillion and now we are well over Rs. 18 trillion. This is like 9 times in the last 8 years. So, this is something that you would want to keep your eyes on the potential where we can be as an industry.

Moderator: Thank you. The next question is from line of Kunal Thanvi from Banyan Tree Advisors. Please go ahead.

Kunal Thanvi: Thanks for the opportunity. My first question was on the overall yields, if you look at the industry and HDFC AMC, a part of equity that Navneet just talked about, there's a shift in the mix of the assets that's happening around, which is passives are also becoming a decent size of the overall industry like in terms of growth, if you see the incremental growth has been higher on the passive side and there's has been a lot of push like even if you look at our offerings, most of them would be towards passive. So, from a longer term perspective, how do we look at the yield or the profitability scenario of the AMC industry itself because back in the day, the best way to track the industry was on profits as a percentage of your AUM. However, with passives becoming larger as a percentage of the total AUM, that number will keep on shrinking, however, absolute profit may not. Any color on how should we think about it from the industry and HDFC AMC's point of view?

Navneet Munot: I think there will be growth in all three markets. You talked about the active funds. While of course passives are growing at a faster rate but

there is tremendous potential, I would say, in India for active funds to grow as well, both in equity as well as on the fixed income side. Passive will grow as well over the next several years, of course, margins would be lower there while margins would be higher in active. The third piece, which we referred to in one of the questions earlier is the alternative. It will be like a low volume, but high margin business. Active, I would put as moderate margins and moderate growth, and passive would be like higher growth and lower margins. We want to build the scale and with profitability in all the three spaces, and I see tremendous growth opportunity in all three segments. If you look at blended, it will be a function of variety of things. Your mark-to-market gain versus the flows. It will be like, within the asset classes, what grows more, there could be periods where let's say there is higher growth in fixed income and the money market versus equity or the other way around. So, it will be a factor of variety of things, but important aspect is, are we are we getting our right share in all these opportunities that will present.

Kunal Thanvi:

Sure, and my second question was the side that if you look at the retail participation in India like last one-and-a-half years post COVID, it has done wonders both on the Demat side and lately on the equity flow side as well. So, how do we see in terms of sustainability because in the previous cycles, it has also had a fair share of cyclicity wherein after making a peak, there is a pause for a while before the next cycle picks up. How do we see from an AMC industry point of view in terms of retail participation with the market where it is and where it's headed with a lot of uncertainty?

Navneet Munot:

So, I think all the efforts made by the industry, policy makers, our partners, media, everybody put together in terms of the investor awareness, that has got created that mutual funds from a long-term savings perspective is one of the best avenues. I think the most heartening feature in our flows has been the growth in SIP, both in terms of number of accounts as well as the amount that we have been seeing

month after month. Over the last several years, we have seen a variety of reasons that led to heightened volatility, but still that number has consistently been increasing. So, of course, there is a cyclical aspect. You would see the market's ups and downs impacting the flows into equity and just like I mentioned about the other asset classes as well. But, there is a structural aspect, which is a lot more important for us to keep an eye on. As an economy of \$3 trillion growing at the nominal GDP rate, look at the household savings rate, which has fallen in last several years, but we expect as the job creation comes back, income growth comes back over the next several years to go up, along with that the household savings rate. A larger and larger proportion of that comes into the financial assets and mutual funds would be a beneficiary of that. As I mentioned earlier that we've also seen significant increase in the investors going for the direct equities, but we have seen those cycles before. I think mutual funds, as a product, is definitely a superior product for most of the retail investors, most of the individual investors, and I see tremendous growth potential for a long time. In between, there would be some cyclical aspect as well, which will impact flows a little bit.

Moderator: Thank you. The next question is from the line of Amit Mukherjee, individual investor. Please go ahead.

Amit Mukherjee: I would really like to congratulate Mr. Navneet because as a customer, as an investor, I can see the difference in terms of fund performance and also in terms of bouquet that you are offering. As I mentioned to you last time in one of my calls that 90% of my investment I keep in HDFC AMC, but there is one specific element that I want to highlight to you and I really felt that I should tell this experience to you so that you know why the growth is not happening. Around 2020, during the initial phase of COVID, on 23rd March, I invested in multiple small cap mutual funds and last year in September, I booked my profit and the profit was big enough to invest in an AIF fund, that was the size of the profit. Being an

ordinary investor, I immediately called my HDFC AMC branch and I told the branch executive that this is the kind of funds I have. I want to invest in HDFC AMC. Please guide me to what should I do and the first reaction that I got from the branch executive, I won't tell you the branch name because the purpose is not to highlight the branch or the person, I am highlighting the process. I called the branch executive and the branch executive gave a very lukewarm response and forwarded me a 70 slide PPT and told me this is the kind of funds that HDFC AMC offers, you can select whichever you want. So, I told her that okay, please guide me, which one should I choose considering the market situation. Then, there was no response. I said may be the branch executive is not responsible for sales, branch executive is not responsible for cross-selling, I thought let me call the branch manager and then I gave a call to the branch manager. The branch manager told me that sir my executive has already forwarded you the PPT. We can't offer you anything more because each individual is different. They have their own unique needs, so please select any one of the products and invest. After that, there was no interaction with the branch manager again. I then thought let me invest in HDFC Portfolio Management Services and then I called back again to the branch manager and I told the branch manager that couple of months or years back I had tried to contact Portfolio Management Service, pms@hdfcmutualfund, but they just sent me a PPT and after that nobody contacted me. So, can you please help me to connect with the portfolio management team? The branch manager told me that sir your portfolio is so big in this city that nobody is having such kind of a portfolio. We have small investors and we don't deal in portfolio management service from our branch. I said okay then please connect me to someone in Bombay with whom I can talk and he said that okay sir I will figure that out and I will let you know. After that, even the branch manager never contacted me. So, then I understood, even the branch manager is not responsible for sales. Branch manager is not responsible for cross-selling. Anyway, I had all that fund. I invested it in the bond fund or the debt fund and I started searching where should I

invest this amount and then after a few weeks I, again, called the branch manager. I took out that money. I thought let me invest in some other options while I was searching and I called the branch manager, again, and I asked him.

Simal Kanuga: Sir, if I might just intervene, what we will do is somebody senior from our end will reach out to you, in the interest of time.

Amit Mukherjee: I completely agree, but I wanted to highlight it to the senior most management so that you know.

Navneet Munot: Thank you so much for your feedback and we really appreciate your trust.

Amit Mukherjee: Sales and cross-selling I think you should make it as a key important KPI for your branch and institute. That's my request. Otherwise, I am very happy with other things that have happened.

Navneet Munot: Thank you for the feedback and I will ensure that somebody gets in touch with you.

Amit Mukherjee: Thank you so much. This is the only thing that I wanted to highlight to you.

Moderator: Thank you. The next question is from the line of Rahul Picha from Multi-Act Equity Consultancy. Please go ahead.

Rahul Picha: This is Rahul Picha here. Thanks for the opportunity. I wanted to get some insights on the yield side. A little while back you spoke about the gap between gross flows and net flows and the pressure on yields that is coming because of that. So, I just wanted to understand if the current trends persist and gross flows continue to be higher and while the net flows, after considering outflows, continue to be at the similar rate at which they are, in how many quarters like in 2 quarters, 4 quarters or

may be a couple of years, in exactly what kind of a timeframe do we expect the yields to stabilize?

Simal Kanuga: Actually, it is very difficult for us to give a number to this because of the very fact the entire outflows that do happen, they don't happen on a FIFO basis as you know. We have tried estimating this, but we have never got that right. But, look at it this way, the industry size was there just about Rs. 13 lakh crore at the start of the year, we are at Rs. 18-19 lakh crore and of that Rs. 18-19 lakh crore, just take out the impact that is from mark-to-market. The balance entire gross flows that have happened, which has resulted in increase of AUM has happened at a margin, which is definitely thinner. So, over a period of time, as and when the entire book gets replaced, and as I started off with, very difficult to kind of give a timeframe to that, but once the entire book gets replaced, the margin will stabilize. But it is not something that would happen in next 2-3 years. It would happen over a long fairly long period of time because what tends to happen, as you would appreciate, is basically the AUM keeps rising. So, for example, today industry's AUM is at Rs. 19 lakh crore, let's assume that the markets go up by 10%. Another Rs. 2 lakh crore will get added to the number and that Rs. 2 lakh crore would give me the same amount of margin as what is on the existing book. So, these kinds of dynamics come into play. So, very difficult to answer, but yes you pointed it out very right, if the gross sales are very large as a percentage of the AUM and the net sales are not that large that means that the AUM is getting replaced. So, the lower cost AUM is going out and the higher cost of AUM is coming in.

Rahul Picha: Okay, and as a large part of that churn would have already happened because it would be front ended, do we expect the intensity of the fall to reduce going forward?

Simal Kanuga: It theoretically should, but one really doesn't know. What can happen is if the churn is very fast, it might happen in the shortest period of time.

If it happens at a slow pace, it might happen back-ended, but yes, you are right some part of that has already happened.

Rahul Picha: Okay and one more question, if I look at the quarterly average AUM and the closing AUM, there seems to be a material gap in that in this quarter. So, can you explain the difference and exactly what segment like debt or liquid funds which, is leading to that drop in the closing AUM?

Navneet Munot: Yes, that's right. That's on the debt and liquid side and we see some of that several times in the last quarter of the year in the month of March. There could be significant outflows from some of the corporate investors.

Moderator: Thank you. The next question is from the line of Ajay Ramanathan from Informist Media. Please go ahead.

Ajay Ramanathan: I just had one question. So, recently we have all seen the market being very hyped up for LIC's IPO. Now given that recent reports have mentioned that LIC itself has increased its stake in HDFC. So, I just want to know will HDFC return the favor and look to invest in the coming IPO? What are your plans going forward in that regard?

Navneet Munot: I can't comment on what our investment team will be doing. The investments don't get decided based on who are the shareholders.

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

Dipanjan Ghosh: Three questions from my side. The first one is if you can give some color on the share of equity flow that came in through the direct channel, not trying to understand how much of gross equity flows for the year, but for the direct channel. The second is, while we don't get the absolute gross flow number company wise, if I see your market share in unique investors over the past 8 quarters, that has come down to around 17% from almost 26-27%. So, just wanted to get some color on how the

overall acquisitions work, new customer acquisition who are new to HDFC AMC and what is your strategy around it? The third, you have mentioned that investment in digital capabilities will continue to remain at the current trend and also you plan to have a greater number of NFO's and also on the AIF side, you are trying to come up with certain funds. So, how should really think one build in the cost numbers from here onwards? That's all.

Navneet Munot:

So, first on the color on the share of flows. As you are aware, we don't give granular details on the flows beyond what has been published, but in terms of the share between direct and distribution or some of those matrices won't have changed much if that was the question. On the share in unique customers' market shares, so unique investors as identified by PAN have grown to 33.7 million in March 2022 as against 22.8 million in March 2021. This means that industry has added almost 10.9 million new investors, which is a growth of shade below 50%. This is a very-very significant growth this year. During the same period, we have grown from 5.3 million to 5.8 million. We obviously went ahead and did a deep dive on this data. So, our broad estimates state that more than half of these are investors, who have invested only in ETF's say through Fintech platforms or some of the broking platforms. We obviously need to address this market where our presence has been relatively less. Keeping this in perspective, we have filed and have got approval to launch 9 more ETF's. In today's board meeting, we've got approval for 3 more and these documents will be filed with SEBI over the next few days. So, all in all, we will have 12 ETF's and our product team is working on expanding this range further, but that's on the product launches side having a full product bouquet, but also we are doing variety of other things in terms of increased engagement at all levels, as well as some of the other efforts in terms of marketing, in terms of creating a separate brand, which we are calling it HDFC MF Index Solutions. In case you have not seen, we have a separate fact sheet for

our passive funds and taking a lot of other efforts to have higher share in the ETF market as well.

Dipanjan Ghosh: The third question was on the cost side given that you will be coming out with a lot of new funds and investing in some of the digital capabilities, how should one think of the ex-ESOP cost numbers?

Navneet Munot: What I mentioned earlier that around 12-13 basis points of the AUM that we have been able to maintain over the last several years, we would try our best to keep there. Of course, with the new product launches, business promotion, marketing, technology, building our digital assets further, all of those will be the areas where we will be spending more. There is basically our bullish view on the growth of this industry, but we will keep a tight lid on the overall cost side. I have always mentioned that frugality is something that is very much ingrained in our culture, but at the same time, neither in the past nor in the future we have or will step back from investing in growth of our business.

Moderator: Thank you. The next question is from the line of Devesh Agarwal from IIFL Capital. Please go ahead.

Devesh Agarwal: The first question is I just wanted to understand, you did highlight that the performance of the scheme is improving on equity side. So, historically what has been your experience in terms of lag in getting new flows on the basis of improved fund performance?

Navneet Munot: It takes a couple of quarters for the world at large to start noticing it. Also, depends on the engagement, the product approvals that happen when it comes to channels like banking or the national distributors. For most of the other partners as well as investors, this takes a little bit of time to recognize that. But I think we are clearly getting your feedback from the partners, from investors, from my own sales team that I think everybody is recognizing the sharp rebound that we have in our equity performance and that's across the board, across most of our products,

they are looking pretty good across all time periods and everybody recognizes that. I think incrementally in the new flows; the share should improve over a period of time.

Devesh Agarwal: Okay, has over the last 3-4 months, the share in the net flows or the gross flows have seen an improvement and probably have surpassed the share in the AUM?

Navneet Munot: Yes, so there are green shoots, which are very much visible.

Devesh Agarwal: Okay, and sir on the liquid side, we have been losing market share, equity I understand, liquid are there any particular reasons for losing market share?

Navneet Munot: So, a couple of years back, we used to be more like 7-8%, single digit market share that jumped to almost 20% in FY20 and then FY21. Also, I think the overall risk-off environment given the overall environment in the money market, money moves to safe haven and to the fund houses like us. Over a period of time, as the risk appetite comes back and also the money gets distributed to other AMC's as well, the other aspect is that lot of these investors, their own funding need would have led to redemptions as well. If I remember correctly, in the last couple of calls, I would have mentioned that our market share of like 18-20% may not be sustainable in a product like liquid.

Devesh Agarwal: Right, and sir if we come to your strategy, basically how do you think about your AUM growth? The strategies that you plan, is it more on the market share basis or an absolute growth basis?

Navneet Munot: No, of course, both as I mentioned that our mission is to be the wealth creator for every Indian. There are only 3 crore investors in India who have invested in mutual funds and we talked about it a few minutes back. We believe this number is going to go up very substantially. Overall, as the economy grows, within that savings grow, within that higher proportion comes to financial assets and within that higher comes to

mutual funds and within that we would aspire to have a higher and higher share of HDFC Mutual Fund. We believe we have the pedigree, we have people, we have processes, we have presence, we have the platform, we have the partnerships, and I think we are very-very, I would say, on a missionary zeal to not only grow our share, but also grow the overall pie of the industry over the next several years.

Devesh Agarwal: Perfect sir. One last bookkeeping question. I see that the tax rate for the quarter has been lower. Is there any adjustment that has happened in the last quarter?

Naozad Sirwalla: No. It's not material. The effective tax rate remains pretty much the same and largely it's slightly higher because of ESOP cost not necessarily being a tax adjustable item, but otherwise it's pretty much in line.

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

Aditya Jain: Wanted to confirm on the movement in other OPEX, the 57 crore to 50 crore decline QoQ, this is largely going away of NFO expenses or is there something else also happening there?

Naozad Sirwalla: Yes, largely, that's the cause because of NFO and business promotions being lower in the last quarter.

Aditya Jain: And then if you could just talk about the GIFT city subsidiary. What exactly is it intended to achieve, would you expect it to result in better asset mobilization or maybe lower fee payout or broadly maybe the business plan around why that is being done?

Navneet Munot: That would be our vehicle to attract more global money into India through the GIFT city and of course over a period of time, there could also be an opportunity to mobilize Indian savings through LRS into the global products.

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

Kunal Shah: You had answered these questions in bits and pieces, but more from the industry perspective, there are quite a few challenges. It is becoming difficult to beat the benchmark. Passive is getting a lot of traction. Even direct schemes are growing. Also, there is quite some competition from alternatives, PMS, AIF and lastly also the direct equity culture, which we are seeing with the number of Demat accounts that have been opening up. So, looking at all of these challenges, what are your thoughts for the industry per se? I do understand quite a few under penetration still there, but looking at all of the challenges for the AMC industry per se, yields getting challenged is one part obviously, but also the absolute profitability growth historically what we have seen could be under challenge going forward because of all of these concerns?

Navneet Munot: So, I would look at all that you listed both as challenge as well as an opportunity. You have mentioned about the rise of passive but that is also be an opportunity. We're expanding our product bouquet. People who are interested in just meeting the market through a passive product, will have our offering. Of course, margins would be lower there, I but still see a tremendous potential for growth of active funds in India. Our view on active is very well known. We are big believers of active management and our view is that in India, still there is material alpha on offer. We need to get our communication right on this front. I remember a year back, people talking about last several years, mutual funds have not generated alpha and in future, are we only going to see passive funds selling. Look at the alpha most of our equity funds, almost all, have generated in last 1 year, just when people wrote off active managers. The one thing that we need to get the communication right that alpha is not something that can be achieved on a daily or annual basis. Our funds have generated alpha over medium to longer period of time and I would not mind sticking my neck out and stating that this is something we

believe we will be able to achieve in future as well. If one believes in wider participation by companies in terms of growth, active management should be their choice and vice versa. We are of the opinion that broad markets, over a period of time, will outperform and this makes a strong case for active products. So, we believe that we have the right capability in place, we have the resources in place, right people and processes in place to fully take advantage of the alpha opportunity. You talked about the challenges on the alternative side, but again I would say that's an opportunity as well and earlier I talked about what we are planning to do on the PMS front, on the AIF front, both category II and category III. You talked about the number of Demat accounts that are getting opened up. So, people investing directly versus coming through the mutual fund. Again, I would look at both as a challenge as well as opportunity. Challenge in terms of if people find that investing on their own delivers better results, but I think if some of the recent studies are anything to go by, clearly shows that large number of investors don't have a very good experience or a happy experience of investing on their own. I think professional fund managers add lot of value and I strongly believe that a good number of those investors would convert themselves into investing through mutual funds. In fact, if you see the growth of the SIP, there is also a reflection of like several of these investors while they may be trading on their own are also looking at investing in a systematic or a more disciplined manner. I think these were the things you talked about as challenges, but I think I would look at them as the opportunities. As I said that it depends on if you look at globally, margins have come down in this industry, a lot of consolidation has happened, but there are advantages on the scale side. If that happens, then obviously larger players like us with the resources that we have deployed in growing the business over a period of time would be better off and at the same time, the higher profit segments like alternatives, if we are able to build their franchise over a longer period the way we have built a great franchise on the mutual fund side, I am sure we will be able to reap the benefits on that side as well.

Kunal Shah: Sir, would you like to share your thoughts basically on the absolute profit growth or operating profit growth, historically what we have seen kind of tapering down now going ahead with all the opportunities and challenges that we talked about, any thoughts on that absolute profitability growth perspective?

Navneet Munot: In a way, you are right, in fact in the context of some other question on margin, I mentioned that look at the growth potential over the next several years where the AUM's can gallop many folds over the next decade or two decades and that's a big picture one needs to focus on. I was looking at a large fund manager in U.S., Fidelity, in late seventies or Capital which had an AUM of like single digit in terms of billion dollars. So, Fidelity in mid-70's or so were like \$4-4.5 billion dollars and would be like \$4.5 trillion dollars. It is gone up 1000x and U.S., the mutual fund industry in 70's was like five decades old. It wasn't like a nascent industry or it wasn't like a startup. It was like five or six decades in existence with good participation and still you look at the growth over the next several years, I think something similar is likely to happen here and all the forces that led to that kind of growth in U.S. are very much in play when you look at India today.

Kunal Shah: Fair enough, sir. Just one question if I may pull in, again, which you have answered in bits and pieces, but engagement with distributors. What actions are we taking out there to improve our engagement with distributors if you could help understand a little bit more because the feedback that we get is that there has been an increase in engagement for sure, but still some resentment, so just wanting to understand what actions we should look forward as far as engagement increase with distributors go, both national distributors and other distributors?

Navneet Munot: You are absolutely right that engagement is very-very critical. Performance is one part, but in terms of engaging with all of them to explain our performance, to explain our philosophy, to explain our investment process, is very-very critical and I think given the large

presence we have across the country with 228 branches and large number of people on the sales side, constantly do that. The number of calls that we have increased from our product team as well as from the fund management side. In fact, as we speak, on another call, Chirag is addressing several of our partners. On the content side, I think we have continuously been working to improvise our content that we share with our partners, as well as investors. On the digital support, there is a lot of work that has happened over the last several quarters in terms of amplifying the distribution. In his opening remarks, Simal mentioned about the distributor app that we have, another product called Connekt that we have, which helps them in amplifying their business and all of those efforts are very much on, which over a period of time given the strong partnership we have with our partners, should give us good results.

Moderator: Thank you. The next question is from the line of Kunal Thanvi from Banyan Tree Advisors. Please go ahead.

Kunal Thanvi: So, in the earlier part of your conversation, you had mentioned about the merger of HDFC Bank and Limited from a shareholder perspective. Can you also touch upon from the distribution perspective because now with HDFC Bank becoming the parent for HDFC AMC, how does it change the distribution or it remains the same? The reason I ask this question is if you look at the other competing banks led AMC's, their parent would have very high share of distribution when we look at distribution whereas for HDFC Bank, number would be lower than the median of the industry and even very low compared to say a player like SBI. So, just wanted to understand on the distribution side, as a mutual fund company, do we stand to benefit out of this merger? Any qualitative data would help.

Navneet Munot: I think you have mentioned about few other banks, I think, they either have a closed architecture or a very guided architecture. HDFC Bank has always believed in open architecture. Having said that, we've

become part of an entity, which has a much wider network with a much bigger scale. So, we move from being a sibling of them to a parent-child relationship, and I hope that that gives us lot many more opportunities to look forward to.

Kunal Thanvi: Sure, and just if last, I can squeeze in. One of the key indicators for flow of market share has always been the SIP market share. There also we still are lagging compared to the market in terms of market share. Any thoughts, any early signs that you see on the SIP book, which of course would translate into the overall market share over the course of period?

Navneet Munot: Kunal, you are absolutely right. If you look at the overall equity flows, a good part of that comes from the SIP and if the market share is lower on that side, that also impacts the overall market share. We are one of the pioneers of SIP in India, we were one of those fund houses who took huge amount of efforts to spread the word around SIP, to create the awareness of long-term investing, disciplined investing, power of compounding, which we have been beneficiary of creating the stable equity AUM. Having said that, surely, I think our market share has come off for a variety of reasons, which we may have discussed over of the last several calls, but all the efforts that we are making today and they are highly focused on gaining market share back in SIPs and we have huge potential there. The way we used to be several years back in terms of absolute leadership in SIP and where we are today, there is definitely a gap and we want to close that gap as early as possible. So, whether it's the engagement with our partners, whether in terms of content, whether in terms of marketing, whether in terms of the new product launches or creating more awareness about our existing products, spreading the word around the bounce back in performance, every single thing that we need to do. I have made some references to all the digital efforts that we have been making whether in terms of what we are doing on our website or app, we believe we have all that's required very well in place and all the other efforts that we are making hopefully should result in better

share in SIPs going forward. We don't want to be where we are today when we look at our share in incremental SIPs. I think we deserve a much higher share compared to where we are today.

Moderator: Thank you very much. In the interest of time, that was our last question. I would now like to hand the conference over to Mr. Navneet Munot for closing comments.

Navneet Munot: Thank you so much for being with us this evening. As I mentioned earlier that we have set a mission for ourselves, which is to be the wealth creator for every Indian and the vision that we have set for ourselves is to be the most respected asset manager in the world and each and every member of my team is highly committed to realize this mission and this vision over the next several years. Thank you so much for your support.

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.