Nippon Life India Asset Management Limited
Q3 FY21 Earnings Conference Call

January 27, 2021

Moderator: **Mr. Jignesh Shial - Emkay Global Financial Services**

Management:
Mr. Sundeep Sikka - Chief Executive Officer
Mr. Prateek Jain - Chief Financial Officer
Mr. Saugata Chatterjee - Co-Chief Business Officer (Distribution)
Mr. Aashwin Dugal - Co-Chief Business Officer (Institutional Business)
Mr. Arpanarghya Saha - Chief Digital Officer
Mr. Hiroshi Fujikake - Nominee, Nippon Life Insurance

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2021 Conference Call of Nippon Life India Asset Management Limited, hosted by Emkay Global Financial Services. We have with us today Mr. Sundeep Sikka ED & CEO, Mr. Prateek Jain CFO, Mr. Saugata Chatterjee - Co Chief Business Officer Distribution, Mr. Aashwin Dugal, Co Chief Business Officer Institutional Business, Mr. Arpanarghya Saha - Chief Digital Officer and Mr. Hiroshi Fujikake, Nominee - Nippon Life Insurance. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jignesh Shial from Emkay Global. Thank you and over to you Sir!

Jignesh Shial: Good evening everyone on behalf of Emkay Global, I would like to welcome the management of Nippon Life India Asset Management and thank them for giving us this opportunity. I shall now hand it over to Mr. Sundeep Sikka, ED & CEO of the company, for the opening remarks. Over to you, Sir!

Sundeep Sikka: Thanks Jignesh. Good evening and welcome to our Q3 FY21 earnings conference call. We have with us, our leadership team, Prateek Jain, CFO, Saugata Chatterjee, Co-Chief Business Officer Distribution, Aashwin Dugal, Co-Chief Business Officer Institutional Business, Arpanarghya Saha, Chief Digital Officer and Hiroshi Fujikake, Nominee of Nippon Life Japan.

The industry assets have increased at a strong pace in the last 6 months and are expected to grow further in the next three to five years. Our priority is to be 'future ready' and capture this long-term opportunity. We continue to focus on four pillars to execute a profitable growth strategy with the 'Investor First' philosophy at its core. The focus areas include superior fund performance in the active category, comprehensive product offerings in the passive category, business de-risking through higher share of non-mutual fund segments, and a robust digitech architecture that provides wide reach and best-in-class customer service.

In Q3, Nippon India Mutual Fund added 233,000 SIPs and STP folios on a gross basis. Also, measures taken in the past quarters have resulted in a positive impact on the short-term fund performance. We expect to improve the fund performance even more in the future. We have consolidated our passive product offerings further through the launch of first-of-its-kind Nifty CPSE bond plus SDL ETF, and the Passive Flexicap FoF in Q3. NIMF garnered about 50,000 investors through both NFOs. With the passive assets gradually gaining prominence, Nippon India Mutual Fund is ready with its ecosystem in this segment and far ahead of the industry in terms of investor base and mindshare. Post consolidation in the last 3 years, we expect to grow our existing funds and expand into further categories in the AIF and PMS segments. From October 2020, NAM India has begun to manage Post Office Life Insurance and Rural Post Office Life Insurance's funds. With this mandate, we manage assets of over Rs. 1,200 billion on account of government mandates. The offshore business has assets of Rs. 102 billion under management and advisory. Leveraging Nippon Life's global network, we expect to ramp up our international presence in coming years. A continuous & consistent pursuit of a digital-ready environment and robust infrastructure enabled NIMF to weather away the turbulent times and come out of the COVID-19 crisis as a stronger and tougher Digital Business entity. NIMF has 3 proprietary apps, and seamless integration with over 100 partners, including fintech players and traditional brokers, who use its APIs for investor onboarding and transactions. With IBM as our strategic technology partner, and tie-ups with other best-in-class service providers, we have a strong digital ecosystem in place.

As on December 2020, Nippon India Mutual Fund maintained its high market share of unique MF investors in the industry at 29%. We onboarded over 260 institutional investors in this fiscal. We continue to have one of the largest retail AUMs in industry at Rs. 586 billion. The contribution of retail AUM to total AUM is amongst the highest in the industry at 26%, compared to the industry average of 21%. We continue to be amongst the leaders in the 'Beyond Top 30 cities' category. This category contributed AUM of Rs. 388 billion. 18% of total assets are sourced from these locations, as against 16% for the Industry. As on December 31, 2020, 69% of the individual assets have a vintage of more than 12 months as against 68% on March 31, 2020. The annualized systematic transaction book is at Rs. 80 billion. During the quarter, new digital SIPs registration grew by 62%. In volatile markets, folios with lower ticket size have demonstrated longer vintage of better stickiness.

As seen in our recent NFOs, online and digital assets have become a key source for investor acquisition and communication. In Q3, digital platforms contributed to 52% of our total new purchases. 4.1 lakh purchases were executed through digital assets, which is an increase of 39%.

In the ETF segment, we are one of the largest players with the market share of 13%. In this segment, Nippon India manages an AUM of Rs. 312 billion. Excluding the EPFO allocation that goes to two PSU owned mutual funds, we would be the largest ETF player in the country. The Gold ETF is the biggest fund in its category, with over Rs. 54 billion in assets as on December 2020. Nippon India Mutual Fund has 31% share of industry ETF folios. On a YTD basis, we added 419,000 investors in this segment against only 97,000 in the entire previous year. In Q3 itself, we added 150,000 ETF folios. Nippon India ETF has 76% of volume share on BSE and NSE. Nippon India ETF's average daily volumes, across key funds, is far higher than the rest of the industry.

In our AIF, we manage category II and III AIFs across various asset classes. Launched in 2019, Nippon India Digital Innovation Fund has committed funds of USD 100 million and has initiated investment activities. As on December 2020, Nippon India AIF has raised commitments of Rs. 35 billion across all funds.

Nippon India Mutual Fund has a well-diversified and enabled distribution base. As on December 31, 2020, we have approximately 77,500 empaneled distributors. The MFD base was over

77,100. Also, we have ongoing tie-ups with over 20 prominent digital partners. Digital channels contributed 55% of the MF AUM. Of the distributed assets, share of MFDs was 55%. 82% of the distributed assets are contributed by individual investors.

Nippon India Mutual Fund has a right presence through 290 locations across the country. We continue to review our existing branch operations and future expansion plans. Given the New Normal, our marketing efforts are increasingly focused more on digital channels, which are more cost effective as against offline advertising.

Now, on mutual fund assets under the management as on December 31, 2020. AUM was Rs. 2,207 billion - an increase of 35% as against March 31, 2020. The quarterly average assets were Rs. 2,130 billion as compared to Rs. 2,000 billion for the quarter ended September 30, 2020.

For the quarter ended December 31, 2020, the total income rose by 11% to Rs. 4 billion. Profit after tax increased by 42% to 2.1 billion. In this quarter, overall operating expenses decreased by 22% to 1.3 billion. Consistent focus on cost optimization and rationalization over the last 6 - 8 quarters has resulted in reduction of various expenses. Operating expenses, as a ratio of average assets on the management, reduced from 33 basis points to 24 basis points in Q3 FY21. We continue to grow organically through our physical and online channels in active, passive and non-mutual fund segments. Additionally, we remain open to evaluate investment for inorganic opportunities and acquisition for our strategic growth and partnerships. Against this background, we will consider deployment of IPO proceeds towards more value accretive and strategic initiatives. In today’s board meeting, an interim of Rs. 3 per share has been declared.

Nippon India Mutual Fund has initiated the process to become signatory to PRI, world’s largest voluntary corporate’s sustainability initiative, and adopt ESG possesses across investment funds, and the company as a whole. As the responsible asset manager, we will continue to enhance our capability to carry out our stewardship responsibilities, and give voice to minority investors, who participate in our Mutual Fund schemes.

At NAM India, investor centricity remains our key theme. We strive to deliver a complete product suit customized to investors’ needs, superior fund performance and efficient client servicing, based on a comprehensive digitech ecosystem. We are confident to continue our trend of profitable growth in coming quarters.

With these comments, we are happy to take any question. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer section. The first question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra: Thanks for the opportunity. First question is the AUM growth that we have in this particular quarter. How much is new money and how much is MTM?

Management: Equity AUM rose by 8%, which is predominantly attributed to the market appreciation. Debt, which has gone up by about 10%, is purely because of the incremental assets.

Shubhranshu Mishra: The incremental assets, if you can qualify them, is more retail or more institutions?

Management: Predominantly, those are more towards the institutional investors.

Shubhranshu Mishra: Right Sir and if I look at slide number 29 about geographical de-risking. Is it a correct assessment that our cost structure largely remains similar whether we have to reach out to beyond 15 cities or beyond 30, and aim for higher penetration in those cities so the cost structure remains the same or is there any digital intervention. How do we look at opex?

Management: If you see, compared with last year, our opex is significantly down. We have 24% saving in terms of our expenses as against the corresponding nine month period. So we are clearly working towards improving our operating efficiencies, and in terms of smaller cities and towns, we are not opening any new branches. We are using our digitech ecosystem to reach out and further our penetration. Obviously, there is no incremental cost to reach out to any new city through a digitech medium.

Management: To add to it, I think while this is a COVID period and physical interactions has not been very high, we believe both digital and physical channels will co-exist. The idea will be how to leverage digital to reduce cost of operations. We will not be opening any new branches, but we strongly believe in smaller cities and towns, physical presence remains a very big strength.

Shubhranshu Mishra: Got Sir. So if I have to look at opex going forward, is it a fair assumption that to come back to be normalized level pre-COVID?

Management: No. The expenses are predominantly fixed in nature across the employee benefit expenses and other administrative expenses, including rent and other utility expenses of the branches. Most of the variable expenses, related to the schemes, are now part of the scheme expense. So largely, these are fixed expenses and we do not see any significant growth in these numbers, even post opening up of the economy or post COVID days.

Shubhranshu Mishra: Right. So opex remains at similar levels. This number could be annualized for FY2022. Is that a fair assumption? That is what I want to ask?

Management: Yes, marginally it can go up with respect to the travel or communication costs.

Shubhranshu Mishra: Sure Sir. Thank you. Those were my questions.

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

Haresh Kapoor: Thanks for the opportunity. A couple of question Sir, one is. Sir on your side 47, where we are looking at equity exposure, I do understand that the last part is in your schemes. But is there anything outside of that, which we can reduce. Compared to some of the other players, you have meaningful exposure to equity in your investment, which brings in a significant volatility to other income line, so how are you thinking about that and can we act on that immediately.

Management: Haresh, as mentioned in our earlier calls also, these equity investments are entirely into our own equity schemes as seed capital or comfort capital or what we have been investing over years. We have decided to systematically bring it down in this year itself. We have almost brought it down by about 100 Crores. So, we will keep working towards that, but again to clarify, there are not direct investments into equity. These are just investments into our own equity schemes.

Haresh Kapoor: Thanks. Sir, on a bookkeeping question, the SIP number that is 60 Crores. Is that a December, or is that the average for the quarter?

Management: That is average for the quarter.

Haresh Kapoor: Average for the quarter. Sir and next thing in terms of you spoke about focus on AIF business. Sir could you talk through in terms of how was the pipeline in terms of new schemes or may be on MF side or may be on the AIF side, and what could be volume expectation there?

Management: While it would be difficult to give exact details, I think the idea will be to come out with unique product offerings and as I mentioned earlier, the focus will be over a period of next few years to reduce the percentage of mutual fund revenue and increase the non-mutual fund part. So, for us, PMS, AIF and offshore comes under that category.

Management: SIP number is for the month of December.

Haresh Kapoor: What would be the average if we have to get that? The reason I ask that question is we are seeing a pretty bump up in the expected number in terms of December compared to November and that jump itself was like 15% or more even in the industry number so. Wanted to get some sense on that?

Management: The increase is happening because of the fact that there were holidays at the end of November and so, some November transactions are booked in December. So, the 15% increase in the industry, you should see that as almost flat.

Haresh Kapoor: Okay Sir for June, September to December kind of the flat SIP closing number?

Management: Yes. The last 3 days of November are booked in December. So next one will be normalized.

Haresh Kapoor: Sure Sir. Sir last question in terms of acquisition. Now obviously we run a full-fledged AMC and then we also had some acquisition on the ETF front previously. So incrementally, you kind of mentioned that you look at that aspect, now which segment are you looking that if you can throw some color or kind of open to all opportunities, how to think about that Sir?

Management: From our perspective, we have IPO proceeds and the net worth. We remain open for any strategic acquisition, whether it is in the mutual fund space or AIF, PMS, and also on investing in strategic fintechs, which can give us some competitive advantage. So as I talked today, there is nothing under consideration currently, but we remain open for that.

Haresh Kapoor: Sir even a full-fledged, up and running AMC, other than just some products as such, but a large MF you will also consider?

Management: I will not try to get into the nitty-gritty of the whole thing, but from our perspective, it has to be of strategic importance, which is accretive to the shareholders. As we have mentioned in earlier calls, between topline and bottomline, bottomline remains more important. So, it has to add value to the minority shareholders.

Haresh Kapoor: Sure Sir. I think we spoke about the flows and mark to market impact on the equity and debt funds. I just want to understand in terms of gross flows, how was the market share for us and if you want to answer that question at a product level or even overall AMC level. Sir, from a gross flow perspective, are we able to maintain a market share or is that work in progress?

Management: So, if I was to break in three segments, the fixed income segment has seen a lot of positivity. I think we have seen investors coming back, and while the market share has not increased, but the downfall has been stopped. In ETF, we continue to rise. In the equity segment, the overall industry has seen huge outflows, and from our perspective also, we have lost a little market share there. Overall at an AMC level, there are various qualitative data points, such as the type of investor who have started coming in. Many of them have not invested for the last 3 to 5 years. I think, clearly, we see the trajectory will be positive in the next few quarters.

Haresh Kapoor: On the gross flow side, you are saying fixed income is more or less okay. Equity is little lower, and ATF is improving. Is that understanding right Sir?

Management: Yes.

Haresh Kapoor: Okay great Sir. Thanks for answering all my questions. Good luck Sir.

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

Madhukar Ladha: Thank you for answering my question. First can you comment on your market share? Both equity and debt, we have seen a reduction in the market share. I wanted to understand, is it more to do with flows or is it more to do with performance. That is question number one. Second, the other income line item has shot up significantly, so maybe you could explain the components and what has altered for such a sharp sort of increase?

Management: I will take the second question first. In terms of the other income, as mentioned in the previous query that we have some investment into our own equity schemes and, in the last quarter, we have seen the market rising. The corresponding mark to market impact has accrued to us as well, and so that accounts for the increase in the other income.

Madhukar Ladha: Is it only equity because there is probably a big component of debt also?

Management: Of course, the debt accrual is there, but if you see the jump, it is predominantly due to the equity investments. The movement in rates was not so significant, and so there was not significant increase in MTM for the debt. But the MTM increase is more towards equity, what we are holding in our own scheme and the ETF investments. In terms of market share, it is both performance as well as the flows, and as Sundeep was mentioning, there is some work to be done there. We were working towards it. The short-term recent performance has been encouraging and we will continue to work towards improving our long-term performance.

Madhukar Ladha: One more question if I can squeeze in. If I do some back of the envelope calculation, it seems that the equity yields have dropped in this quarter. Am I correct? You have any comments towards that?

Management: I think the overall yields are around the same. As we have mentioned in the previous concall as well, we are likely to see 2 to 3 basis points decline every year in the next 2 to 3 years, because of the old assets getting replaced by the new assets. As you are aware, in the newer assets, it is a purely trail model. Therefore, the long-term realization will be impacted.

Madhukar Ladha: I think that movement was a little big shaper, I just wanted to see that rate if you could sort of comment on a quarter-on-quarter?

Management: At this point of time, I would also say that the new NFOs, we have added, or the new equity assets may be slightly at a higher price, and that could have also resulted in a slightly elevated gap.

Madhukar Ladha: That is it from me. All the best. Thank you.

Moderator: Thank you. The next question is from the line of Ajox Frederick from B&K Securities. Please go ahead.

Ajox Frederick: Thanks for the opportunity. My question is in continuity to the earlier one. In addition to equities, have we seen any change for debt and balanced funds versus 2Q. Also, kind of where the mix has shifted towards debt and away from liquid.

Management: Over the last two quarters, within the debt also, there has been a certain change in the product mix across the industry. You have seen long-term fund investors moving to the shorter-term funds. But, this is more seasonal and keeps changing. So, it is more to do with the overall product mix changing due to a little more risk averse investors. They may be risk off, but like I said, that trend can change very fast.

Ajox Frederick: Sir, as of now are customers still being risk averse?

Management: Not as much as they were in Q1. I think it is getting better, but what you are seeing is a cumulative impact of investments in debt, especially since the investments are for a little longer term. The bond fund is not a liquid fund, so effectively what you are seeing in the sigma is what happened in the last 3 quarters. So, on an incremental basis, this trend will change.

Ajox Frederick: Understood Sir. Sir there is a question on the SIP registrations I quite did not get a number in your opening comments?

Management: 660 Crores was the amount actually collected. We have started reporting the actual collection from the last quarter, so 660 Crores was the actual collection for the month of December. It can be slightly elevated for the month because the last two days of November were holidays and that number was triggered in December. So September number was 620 Crores and December number is 660 Crores.

Ajox Frederick: I was referring to the new SIP registration. I heard it was 60 odd percent?

Management: 62% increase in digital SIP registration.

Ajox Frederick: That is it from me Sir. Thank you. Thank you for giving me the opportunity.

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

Kunal Thanvi: Thanks for the opportunity. I had two questions; one was your overall sense on how flows for the industry. As markets touching all time high, we tend to see more outflows peaking out and then we see a reversal in the trend. So are we seeing any early signs there? That is point number one. The point 2 is that, again on the yield, when we see the overall yields for this quarter, vis-à-vis last quarter, we have seen a decline in the yields. Is it because of the reasons you mentioned or there is something that we should know?

Management: From the overall yield perspective, from the corresponding quarter last year, our equity asset is down by about 15%. Debt, other than the liquid debt, is down by 2%. So obviously the high yielding assets are down. Within the debt category also, the realization has come down sharply because money has come towards the ultra short-term or low duration kind of funds. In these cases, our propensity to charge is lower. Also, from an overall yield perspective from the debt product, given the liquidity is very high, the propensity to charge in a low yielding asset has remained to be slightly at a lower end. This is predominantly causing the decline in yields. As I mentioned, the equity yields will shrink for about 2 to 3 basis points over the next few years. Just on your earlier question, since market seems to be at an all time high, we have seen profit booking. It has always happened, it is a normal trend, human tendency. If you were to deep dive into the data, things are far better than in the past, in qualitative terms. I think the stickiness that is coming from SIPs and small investors is much more than ever before. But now we also have seen markets correcting in the month of January. I am going to add that we cannot predict which way the trend will go, but again we expect that the investor will keep coming back. Ultimately, you cannot be out of markets for a long time, and our focus will continue on retail and SIP, because that is something that we have very strong stability both from AUM and profitability points of view. So our focus will continue on that.

Kunal Thanvi: Thank you I will get back in the queue. All the very best.

Moderator: Thank you. The next question is from the line of Manoj Baheti from Carnelian Capital. Please go ahead.

Manoj Baheti: Good evening Sandeep. Good evening Prateek. I have a couple of questions. First question is that if you can give us update on our strategy to corner global funds to India and looking at like the current scenario where India is looking a perfect growth destination for overseas investors. So if you can give some update that what is happening on that side and how do we see that portfolio coming to Nippon India?

Management: I think it is a very valid question. Ever since the transaction took place, we have seen the lockdown last almost 6 to 8 months. Because of COVID, there has been a lot of disruption across the world. As a primary shareholder, Nippon Life continues to help and contribute to get global flows into India. Since these are more binary, these are not the retail flows, some of these mandates can take time. So I think, from our perspective, it will be difficult to put a number to it, but as a strategy, the strategy continues.

Manoj Baheti: Any update on like if we have to get the funds from overseas like what are the steps you are taking or what kind of collaboration, which is happening between Nippon India and Nippon Global, so if you can give some update on that side?

Management: Again like I said, it is ultimately leveraging on the network of Nippon Life. One strategy is very simple. Wherever Nippon Life is present, depending on when those treasuries were to look at

India, and how do we get the allocation into India. So I think there is no rocket science in it. So Manoj, just to sum it up, the idea will be to target various companies in Nippon Life's portfolio, especially the ones, who do not have presence in India. How do we work together to get money flow into India, that is the one line strategy that we were working on.

Manoj Baheti: Right thanks. Thanks for taking my question.

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

Prayesh Jain: Good evening Sir. Thank you for the opportunity. Sir firstly just extending that point on the yields part again. Is there any impact of ETF out there, where the share of ETF would have gone up and that would have impacted the yield?

Management: Of course, the ETFs yields are lower in the overall scheme of things, and hence definitely an increased ETF allocation would mean that the realization goes down. But, they do contribute towards the absolute profitability.

Prayesh Jain: Sir my second question is on could you give some granular details on the employee cost reduction in terms number of employees?

Management: In this year, we will be done with the entire cost absorption of the ESOP, granted in 2017, 2018 and 2019. Almost 80% will get absorbed by this financial year. So going forward, as we mentioned, it works in a telescopic way such that in the initial years, the cost is higher and as the years pass, it keeps coming down.

Prayesh Jain: Going ahead we can expect the routine costs to rise?

Management: No. This is not going to rise. Employee cost predominantly will remain the same, barring whatever increments are there.

Management: At this point in time, in the mutual fund business, we are managing an AUM of about 220,000 crores, which is lower than the peak. So on one side, the almost 80% of the provisions for ESOPs have been taken care of. However, as the incremental AUM grows, there will not be any further incremental costs rise in salaries, so that remains constant. So that will aid operating leverage.

Prayesh Jain: Sir my last question is on the strategy for growing faster in the B30 towns. As you mentioned that you don't plan to have a lot of new branches. So while digital is accepted, there are also the lower tier towns. What the strategy there in terms of increasing market share in the B30 towns?

Management: I would refer to my comment early on that we will not open new branches. I think this is more relevant as we talk today, from next 6 to 12 months' point of view. At this point in time, we have good coverage, which is the largest in the industry, and through a hub and spoke model, we are covering more than 1,000 cities and towns. So from our perspective, we may revisit this, but I think, the strategy to grow will be both a mix of digital and physical, and the key to this will be execution.

Prayesh Jain: Thank you Sir.

Moderator: Thank you, the next question is from the line of Viraj Kacharia from Security Investment Managers. Please go ahead.

Viraj Kacharia: Thanks for the opportunity. I just have three questions, first is in the past may be a year back, you know, we talked about our losing market share in institutional and HNI category, now fast forward, a year and a half now, how is that market share now moved up for us, so if you can just provide some colour on that and how is that split between existing and new customers, which we have added? So that is part one and part two is what is the communication we are getting from those institutional or HNI customers, so if you get this towards some qualitative perspective of how things have been for us.

Management: I think, rather than getting into the numbers, let me first touch on the qualitative side. Post the brand change, we have seen a lot of family officers and HNIs come back. This period has been a little volatile, so some are coming in fixed income and some are coming in ETF. But they are coming back to the AMC. Out of the top 100 companies in India, we have seen almost 25 companies restart their relationship with us. Some of the largest IT software companies, which had stopped, have started investing again. Some of the largest public sector banks have started investing and there are lots of other government companies. Both HNI and institutional investors are coming back. Also, we are gaining market share amongst the MNC corporates in India. Going forward, we will be having a special focus on the Japanese companies in India. We will be working closely with Nippon Life on this. So there are going to be a lot of the strategies, but overall to your question, in HNI and corporate, things are qualitatively getting better with every passing quarter.

Viraj Kacharia: Sir just to get a little more perspective on this, you said of the top 100, we have managed to restart 25 and kind of getting back a lot of customers, who left us in the past. So, compared to the ideal wallet share which we used having to past, where would we be in that journey. Is it still early days or we are seeing no acceleration coming to us? How should we understand this is coming back to the first part again? What is the communication we are getting from them in terms of comfort?

Management: Like I mentioned, whatever was the reason due to which they stopped investing, that does not exist anymore. However, now once the institution starts investing, it is not that the allocation that was given to us earlier, will be given on day one. It gradually builds up. So, effectively, like I mentioned, a lot of new counters, corporates, HNIs and family officers has started investing again. Now how much time will it take to reach earlier market share is very difficult to predict. I think that depends on the market, various other things and their own investor philosophy.

Viraj Kacharia: Second question is based on our own channel checks. What we realize is there is still good sizeable amount of wealth management, institutional firms where we are not yet there, so how are we going about getting that part of the market back to us and what will be the opportunity, or the size of the market still not catered to, by us.

Management: I will not able to answer this because it is specific, but I think the endeavor really is to be everywhere in the counters that you mentioned. I think it could also be function of little bit of slippages in our equity performance. There could be some other reasons, but I am very confident that majority of the wealth outfits has been aggressively selling our fixed income schemes.

Viraj Kacharia: Last question if I can. You talked about an annual impact of 2 to 3 basis points because huge flows coming in equity. Now in the past also we talked about us probably looking at close to 500 distribution centers. We are close to 300 right now. I know for the next 6 to 12 months we are probably not looking to add anything, but if we were to look at the period beyond that how should we understand the overall expansion and the investment behind it, and in that aspect, you know, because of the elements?

Management: If you see, because of revamped digitech ecosystem, we do not see much need to have larger office setups in these locations, but as Sundeep mentioned, having a physical presence surely helps in terms of garnering the higher percentage share of the wallet. So, we are revisiting the entire strategy. We will have some physical presence, but not in the same manner as we used to have earlier. Also, the cost of operation will not be significant because it will be a kind of satellite office or one-man or two-men kind of an office, which can also be operating on third party locations. So the cost will not be significantly higher.

Management: To sum it, it is not a strict no that we will not open branches. We are not saying, we will go for 500. We will evaluate the situation and we will go ahead with it, but the incremental cost of opening branches in very small cities, is very low. So it will not have any major impact on the opex.

Viraj Kacharia: Thank you very and good luck.

Moderator: Thank you the next question is from the line of Madhu Gupta from Quantum Asset Management. Please go ahead.

Madhu Gupta: Thanks for taking my questions. I have two questions one is how is the Nippon Life brand acceptability in the retail segment? That is the first question. The second question is I think in the last concall you mentioned that you are taking steps to improve the fund performance in terms of realignment of the portfolio and hiring new portfolio managers. You would give some more color and whether there has been yielding results are not? That is my second question.

Management: As far as the brand is concerned, we will break it down in the three categories. Amongst institutional investors and HNIs, the brand acceptance is very high and very strong. For retail investors, which are serviced through distributors, it is the same management team, same relationship manager, and therefore, it is good. Further, as we mentioned earlier, we continue investing in building up the brand digitally. From a cost point of view, we do not want to go very aggressive. I think it is a gradual process, but overall within retail also, it is a positively accepted brand. On fund performance, we had been taken some steps, and if you would look over the last two quarters, there has been good improvement in the fund performance. But again, it is too early to say. As we mentioned earlier, we continue expanding our investment teams. There will be two new fund managers, one in fixed income and one in debt, joining us shortly.

Madhu Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Sunil Shah from Turtle Star Portfolio Managers. Please go ahead.

Sunil Shah: Sir thanks for the opportunity. I think one of question has already answered, but this one point on the offshore fund that you know in the course of talk, you mentioned about 10,200 Crores. Sir could you do some understanding about how much of that would have been due to Nippon's contribution. How much would Nippon have added to our AUM?

Management: Again, about more 50% would be Nippon and 50% would be others. I am just giving a breakdown, but again a lot of initiative, which have been taken with Nippon, will show results in times to come.

Sunil Shah: Thanks Sir. I got all the answers. Thanks.

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

Kunal Thanvi: Thanks for the opportunity again. My question was on the employee count in last two years. Have we seen any reduction in number of employees, or do we see any scope for rationalisation in terms of employees?

Management: So, overall number of employees have gone down, and as we have mentioned in the past as well, we have done a lot of automation and on this basis, there has been some redundancy. Whenever these redundancies are created, we move people, wherever they are compatible. So we are not hiring wherever some kind of replacement is required, and also there will be some attrition. So, overall numbers have been marginally lower than previous two years.

Management: Also we have looked at the compensation structures. There was the variable portion and a fixed income portion. With the ESOP coming in, the variable portion reduces.

Kunal Thanvi: Sure and we say ESOP will get down by the end of this year we mean FY2021 by this March ending. That is where the 85% impact goes out?

Management: By FY2021, almost 80% impact of the ESOP will be absorbed.

Kunal Thanvi: In other expenses you are saying that improvement we expect to see in next 2 to 4 years because of what I understand is in this quarter and last two quarters the improvement as we have seen largely we will manage, so any flavour on the other cost item as well?

Management: As we mentioned earlier, we do not see very significant reduction in other expenses. Whatever we could achieve in the last 10 to 12 or quarters, we have done that. We are working hard towards getting more operating efficiencies. As Sundeep mentioned, it will get reduced, in terms of basis points, once our topline and AUM improves.

Management: Also from our point of view, while we will be very conscious of cost, we do not want to cut cost, which could compromise future growth.

Management: I think we are maintaining the right balance.

Kunal Thanvi: Thank you so much Sir. All the best.

Moderator: Thank you. The next question is from the line of Nikhil Choudhary from Kriis PMS please go ahead.

Nikhil Choudhary: Thank you for the opportunity. I have just two questions. Sir we have been speaking a lot about a digital initiatives and digitech systems that we have been building. Sir just for simplicity, we have a slide #16, can you tell us through initiatives, what we have done in one year, what all that we tried to fill, and where we are now doing that will be helpful. Sir, second question was with respect to the number of SIP accounts that have terminated like in the past one year because I happened to come across a data where in the top 30 cities, the SIP accounts continuing for the less than a year was 23%. So is there any data that we maintain with us to keep a track like what is the termination rate in the SIP accounts. Is that in the same range or we are better than the industry?

Management: I think we may not be able to immediately share the data point, but intuitively, I can say that, because our average ticket size is much smaller than the industry, and the small ticket size typically remains stickier. Given the same market volatility, any kind of redemption or termination of SIPs is more into larger ticket size compared to the smaller. So that is number one. I think regarding your digital query, I will request my colleague Arpanarghya Saha, Chief Digital Officer, to just take you through some of the initiatives that we will drive.

Management: Thank you for the opportunity. To build a Digital Ecosystem for the future, we focused on three main pillars. There were users in the high-end space and how would we keep them in. The second one was our platform ecosystem, which we ensured, was futuristic and most importantly, frictionless, so that when any consumer comes, he sticks to our platform, thus enabling great service and garner business. Third one, of course, we went where the traffic goes. So, we have had a great digital distribution strategy. Our entire digital ecosystem has evolved with the AI integration and, the management supporting it in a big way.

Nikhil Choudhary: Sir just last thing like can you throw some light on the cross sell and upsell sentiment analysis that is shown in the slide 16?

Management: We have a journey, with getting IBM as a strategic partner and working with Adobe, etc. So again, these things are evolving. I do not want to give a colour right now, because it is a journey, which we have embarked on, but the initial results have been positive. Maybe a few quarters from now, we will start sharing the number also.

Nikhil Choudhary: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Jinal Sheth from Awriga. Please go ahead.

Jinal Sheth: Thanks for taking my question. I just have one question is that you mentioned that the yields are coming of around couple of days because of the shift from the older assets to the newer assets. Would then also flow down to the bottomline margins or if you can offset with the operating leverage at play?

Management: The expenses will not grow in the same proportion as the asset growth, because predominantly they are fixed. So, in terms of the overall margin, the entire amount on the incremental money will straightaway flow into our profitability. Hence, the overall net profit realization will go up from hereon, even if there is a marginal decline in the equity realization.

Jinal Sheth: Secondly your dividend policy last year you paid not around 80% plus of your profit. Is that also broadly intact?

Management: It remains the way it is.

Jinal Sheth: Okay. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line both Utkarsh Solapurwala from Damos Capital. Please go ahead.

Utkarsh Solapurwala: Can you reiterate the steps that you are taking to improve the equity performance apart from changing fund managers or hiring upon fund managers?

Management: I will not be able to get into the individual steps, but there have been a lot of new initiatives that have been implemented, and this is where Nippon Life from Japan has been contributing a lot. I think, rather than getting into the nitty-gritty of this, I will let the numbers talk for themselves in two or three quarters.

Utkarsh Solapurwala: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Jignesh Shial for closing comments.

Jignesh Shial: Thanks everyone. Thanks to the Nippon Life India Asset Management Limited Management for allowing us to host the call and thanks everyone for participating. Thanks a lot and have a nice day.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.