Nippon Life India Asset Management Limited
Q1 FY21 Earnings Conference Call

July 27, 2020

Nippon Life india Asset Management Ltd

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Moderator: **MR. Ajox Fredrick Henry - B&K Securities**

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)

Mr. Arpanarghya Saha - Chief Digital Officer

Mr. Hiroshi Fujikake - Nominee, Nippon Life Insurance

Moderator: Ladies and gentlemen good day and welcome to Nippon Life India Asset Management Limited Q1 FY21 Earnings Conference Call hosted by Batlivala & Karani Securities Private Limited. 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. Ajox Fredrick Henry from B&K Securities. Thank you and over to you sir.

Ajox Fredrick Henry: Thanks Nirav. Good evening everyone and thanks for joining the call. On behalf of Bativala & Karani Securities we welcome you all Nippon Life India Asset Management Limited 1Q FY21 post results conference call. I would now request ED and CEO Mr. Sundeep Sikka to start the call with his opening remarks on the results, post which we can start the Q&A session. Over to you sir.

Sundeep Sikka: Thanks a lot. Good evening and welcome to our Q1 FY21 earnings conference call. Hope all of you are safe and healthy. We have with us Prateek Jain – Chief Financial Officer, Saugata Chatterjee – Co-Chief Business Officer, Distribution, Aashwin Dugal – Co-Chief Business Officer, Institutional Business, Arpan Saha – Chief Digital Officer and Fujikake-san – Nominee of Nippon Life, who is on the call presently from Tokyo.

The first six months of the year have been unprecedented in a lot of ways. Equity markets were at an all time high in January and February, and economic outlook was strong. Since March, all of us have faced the great challenges arising out of COVID. These difficult times have led to uncharted opportunities. Human health is of paramount importance. Business activities are fully digitalized, and home and virtual conferencing applications have become the new workplace. This transformation will continue to result in faster turnaround, higher productivity and, ultimately, better operating efficiencies.

I'm happy to state, NAM India continues steadily on the recovery path. Since the transition in October 2019, we have gained more than 120 institutional investors per quarter. In addition, 75 new HNI and family offices, presently, 26 out of top 100 corporates of India have started to reinvest in Nippon India Mutual Fund. As on June 30, 2020, Nippon India Mutual Fund has one of the highest market share of unique mutual fund investors in the industry at 29%. Nippon India Mutual Fund improved its share marginally in this quarter - a testament to the strong retail presence. In Q1, despite branch closure, we added more than 2,08,000 new retail folios. We continue to have one of the largest retail AUMs in the industry at Rs. 460 billion. And the contribution of retail AUM to total AUM is amongst the highest in the industry at 24% compared to 19% for the industry. Our aim is to increase our base of retail investors, especially from B30 locations. We continue to be amongst the leaders in beyond top 30 cities category. This category contributes an AUM of Rs. 329 billion. Over 17% of the total assets are sourced from these locations against an industry average of 15.4%. As on June 30, 2020, 72% of the individual assets have a vintage of more than 12 months against 68% on of March 31, 2020.

Our SIP and STP folios increased to 3.4 million as on June 2020 in an addition of 2,44,000. This progress highlights our retail execution capability during this challenging period. The annualized systematic transaction book is at Rs. 84 billion. During the quarter, new digital SIP registrations grew by 116%. In a volatile market, the folios with lower ticket size have demonstrated longer vintage and better stickiness.

In the new normal, online and digital sales have become our primary source of investor acquisition and communication. Digital platforms contribute to 56% of our new digital purchase transactions. Our early investments in digital ecosystem are yielding rich dividends and Nippon India Mutual Fund executed over 4,80,000 purchase transactions in Q1 through the digital assets, an increase of 43% against Q4 FY20. We have ongoing tie-ups with 20 prominent digital partners. In Q1, we launched Corporate Solution Suite, a distant last full spectrum digital asset for the institutional investor segment.

As a part of our derisking strategy, we gave specific focus to AIF, ETF and offshore business. We are the second largest ETF player, with a market share in excess of 15%. In this segment, Nippon India Mutual Fund manages an AUM of Rs. 258 billion. Excluding the EPFO allocation, which goes to two PSU-owned mutual funds, we are the largest ETF player in the country. In Q1, our gold fund added assets of over Rs. 10 billion to cross Rs. 42 billion mark. Nippon Indian Mutual Fund has 36% share of investor folios in ETF. In Q1, we added over 1,17,000 folios as against 97,000 ETF folios for the whole of FY20. Nippon India Mutual Fund has 76% share in ETF volumes on NSE and BSE. Nippon India ETF's average daily volumes across key funds are far higher than the rest of the industry. In our AIF business, we managed Category 2 and Category 3 AIF across asset classes. Launched in 2009, Nippon India Digital Innovation Fund has committed $100 billion and has initiated investment activities. As of June 2020, Nippon India AIF has raised commitments of Rs. 34 billion across all funds. We continue to leverage Nippon Life's global network for our offshore businesses. Apart from various international tie-ups our three India-focused funds being distributed by 28 partners of Mitsui Asset Management in Japan has been gaining traction. As on 2020, the assets under management and advisory rose to Rs. 95 billion. Nippon India Mutual Fund has a well diversified and nimble distribution base. We added 650 IFAs in this quarter to take our IFA base in excess of 76,600. As on June 2020, we had 77,000 distributors empaneled with us. Direct channel contributed 52% of the mutual fund AUM. Of the distributed AUMs, the share of IFAs was 55%, and 76% of the distributed assets have been contributed by individual investors.

Now on our mutual fund assets under management; as on June 30, 2020, AUM grew by 15% to Rs. 1,881 billion over March 2020, in line with the industry. Owing to the COVID-19 crisis and the subsequent fall in the equity markets in the month of March, industry as well as Nippon Indian Mutual Fund began Q1 at a much lower base than the quarterly average of Q4 FY19, primarily due to equity assets. The quarterly average assets under management was Rs. 1,801 billion as compared to Rs. 2,049 billion for the quarter ended March, 2020.

For the quarter ended June 30, 2020 the total income decreased by 7% to Rs. 3.4 billion. Operating expenses decreased by 24% to Rs. 1.4 billion, driven by lower employee cost and other expenses, which reduced by 13% and 30%, respectively. We further expect to rationalize overall cost in the new normal. Other incomes rose to Rs. 1 billion, led by mark-to-market gains in our investment portfolio. Profit after tax increased by 25% to Rs. 1.6 billion.

To sum up, I would like to state our business recovery continues as planned. Despite external hurdles, our business performance remains strong, driven by retail strength, superior digital ecosystem and control on cost. We will keep investing in our AIF, ETF and offshore businesses to diversify our revenue streams and benefit from the future growth opportunities. We are confident to continue our trend on profitable growth in the coming quarters.

With this, I'm happy to take further questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Amit Nanavati from Nomura.

Amit Nanavati: Just wanted to check on the opex line. So I'm looking at more the overhead expenses and knocking off the brokerage line item, which is a trading line item. So if I look at that line, sequentially, 50 crores kind of overhead cost in 4Q has increased to around 55-56 crores. So just wanted to check on what levers you have or what's the more sustainable fixed overhead trend that you can or one can expect in this year, given the fall in the markets wherever you need to kind of cut down on?

Prateek Jain: Amit, if you see, on the corresponding quarter, the expenses are down by about 24%. And in terms of the other expenses also, the expenses are down from 63 crores odd to about 43 crores odd, these on the other expense side while from an employee benefit cost, it is down from about 82 crores odd to 72 crores odd. However, sequentially, it is higher because in the last quarter, on the PLI provision, we had a onetime reversal and hence, the expenses are marginally higher because the current employee expenses are based on the run rate and does not include the onetime reversal, as it was in the previous quarter.

Amit Nanavati: No, employee expense, I fairly understand. I think it's more like a 5% lower run rate that you're looking at YOY basis on an average cost of 76 cores to 72 crores, more so what I was focusing was one the overheads part where which areas you have more levers to cut down on given that post TER cuts, we had cut down on a fair bit of expenses across the board. So do you see further levers which you can use to kind of manage your EBITDA for the rest of the quarter?

Sundeep Sikka: Amit, again, I think the way we see during this almost now 4 months of lockdown, I think what we are seeing in the new normal, how we operate is changing, so the kind of travel, the events, a lot of other things that we used to do. Clearly, I don't see those expenses coming back again in the short term. And also, I think with the kind of increase in digital business that we are seeing, the cost of operating, the cost of movement of paper, everything comes down. So I think clearly we will see some more operating leverage coming in. And again, while difficult to pinpoint in which area because all these things are evolving. But for sure, you will see I mean we have certainly more cushion to reduce the cost.

Amit Nanavati: And secondly, if you can just highlight also, you've kind of indicated towards new investors' on-boarding, institutional investor on-boarding on a quarterly basis post the promoter transition. If you can just highlight in terms of, so if I look at market share, clearly after all the market shares have stabilized but on the other side, at least it's not even showing that kind of improvement as well. So if you can just detail around what steps you are taking, what measures we are taking to kind of look at market share gains, at least, in the non equity segment?

Sundeep Sikka: Very difficult to put a number to it at this point of time. But qualitatively, as we have mentioned, about 120 new institutional investors have been every quarter are getting added. And further to this, out of the BSE top 100, 26 investors who had stopped investing, have started investing again.

Now this quarter is not the right quarter to look at because this is not a normal, a lot of things have changed. So similarly, I think a lot of family offices which were not investing or have stopped investing, the kind of traction that we have seen, I think we have not seen in the last 3 to 4 years. So things seem to be positive. I remember the first call after the transition, I mentioned, we expect the recovery to be first in Corporates, HNI, and I think it's going as per the plan.

Moderator: Next question is from the line of Deepak Agarwal from Axis Asset Management.

Deepak Agarwal: I wanted to understand, if we have to look at a revenue line item, so a broad number in terms of what would be the yield on the equity debt and liquid portfolio for 100 basis, 50 and 15 basis. Is this the way to look at the revenue number?

Prateek Jain: Overall realization remains about 46 basis points as compared to 47 basis points last quarter. But you're right, the equity, generally, tend to be around 95 to 100 basis points. In terms of debt, it all depends on the mix because what we have seen over a period of time, the high-yield category where we have propensity to charge more from an industry perspective, we have seen AUMs going down and that money is coming back in form of more of liquid and overnight funds, where our charge is slightly lower. So it all depends on the mix in case of debt funds.

Deepak Agarwal: So the new business in equity, so whatever we will be writing on the incremental basis. So there, how much would be the difference? I assume that's substantially lower than your existing book yield. So any broader numbers you can share, so it's 25% lower or 50% lower, how should we look at revenue number?

Prateek Jain: Look, what has been our philosophy. We have moved obviously, from an upfront to the trail regime and what we share with our distributor is in the range of 50% to 70%. And of course, 50% being at the lower end of the IFA segment and at the higher-end segment, especially to some of our key partners, including banks, etc., where we share about 70% of our total TER. So this is a broad range where we're working on. And Sundeep has always been mentioning about the fact that our focus is not more on getting market share - it is more on a profitable growth.

Deepak Agarwal: But is it not that the new business, anything the rise would be at lower than the book yield or it would be similar to the existing yields?

Prateek Jain: No, so you can deduce from the perspective that it all depends what is the TER we are charging, which scheme. It is all defined by the SEBI as well as the competition. What we are saying is that, currently whatever we charge, we share 50% to 70% of that to the distributor. In the past, since we had given upfront brokerages and hence trail rates were lower at that point of time.

Sundeep Sikka: And also it depends on the quality of distribution, so it's a fragmented distribution as there are no distributor for us more than 5%, and I think it's spread in small cities and towns. That also on a cumulative basis adds a little bit to our profitability or increases our share.

Deepak Agarwal: Just last thing, do we share that equity products would contribute how much of our overall revenues, I believe one of your larger competitors does share that data, so do we share that?

Prateek Jain: Yes, our high yielding assets account for about 70% to 75% of our fees.

Deepak Agrawal: 70% to 75% of overall fees?

Prateek Jain: Yes.

Moderator: Next question is from the line of Shubhranshu Mishra from BOB Capital Market.

Shubhranshu Mishra: I just want to understand, taking the queue from Amit's question, are there any more levers which are remaining with us for opex rationalization?

Prateek Jain: We've continued to look at opportunities and as Sundeep was mentioning, the COVID lockdown has given us new avenues to think in terms of expenses. Of course, this year travel expenses, the expenses related to the distribution events, etc. they are going to be significantly lower, also most of our expenses towards stationary like, for example, new offices. Earlier, we had intended to open about 500-odd branches. Now, from a new normal perspective, we can operate these branches from home itself. So obviously, these are a few things which are evolving and as things evolve, we will look at opportunities to further improve our operating efficiencies.

Shubhranshu Mishra: Right. So how do I model for expenses for the entire year versus FY20? If I could model for it, a ballpark number or a ballpark percentage would be very helpful.

Prateek Jain: So this is more of a representative numbers, if you look at it this quarter and we can build in some kind of further efficiencies, marginally. But on a long-term sustainable basis, obviously, we are looking at the new models, which are evolving in terms of co-location, in terms of whether do we need 100% of our people to have a seat or we can work with 70% efficiencies in terms of office spaces, etc. So obviously, over a period of time new expense model will involve.

Shubhranshu Mishra: So it would be a fair assumption to analyze the first quarter number. Is that the correct assumption?

Prateek Jain: Yes.

Shubhranshu Mishra: So we've had an increase in the end-of-period AUM of roughly Rs. 130 billion. So how much of it is from the MTM, mark-to-market and how much is it from the flows?

Prateek Jain: So industry flows itself was almost 4 months low. So obviously, predominantly, it is because of the mark-to-market impact.

Shubhranshu Mishra: And I've got two more questions. One is that why do we have such a low contribution from the banks in terms of our AUM, given the fact that most of our schemes have more than 3 years of vintage. So that is the prime criteria of the banks to have the mutual funds empanelled. And we are a fairly old brand, and why does that they contribute only like 20%-30% of our AUM distribution, while IFAs contribute such a high percentage or am I thinking that too much? If you can clarify.

Sundeep Sikka: So let me clarify. I think it's not the banks are low. It's the IFAs are high. We take it the other way around, today to build up an IFA network in small cities and towns gives us a very-very strong advantage. So at no point of time, it should be seen the banks are low because today, every bank, public sector, private sector or foreign bank, I think we are empanelled and are selling our products. In percentage, the IFAs are much more than the banks for us. And as you're aware, the IFA business model is much more difficult to replicate.

Shubhranshu Mishra: That's true, sir. And has there been any SIP reclassification?

Sundeep Sikka: Yes, we have. If you see the numbers, I think they have been reclassified based on the new AMC methodology. And if you see in our presentation, we have reclassified and also for the last 4 quarters.

Moderator: Next question is from the line of Ashish Sharma from ENAM Asset Management.

Ashish Sharma: Just one on the other income part, on the MTM, we had taken on Q4, any adjustment of that or is it a normalized other income for Q1?

Prateek Jain: Obviously, if you recollect that we have mentioned in the last call, we had almost about 12% of our financial assets into equity and ETFs as part of our seed capital and comfort capital. We have not put any additional allocation to these assets but into our own schemes. However, because market has rebounded from the March low. This year, the other income is higher because of the mark-to-market positive impact on these equity and ETF schemes.

Ashish Sharma: So the net reversal on an MTM how much would that be for this quarter?

Prateek Jain: So overall, we have booked about 99 crores of income as against 125 crores of loss last quarter.

Ashish Sharma: But as you mentioned in the Q4 call that minus 125 crores there was MTM impact of 152 crores, so should we assume that most of the MTM losses are already sort of adjusted in Q1 itself?

Prateek Jain: Actually, if you see this is as on date of June 30. Since June 30 also, the markets have run up. So obviously, some part of it will now likely to come in the July quarter if the market remains the same levels.

Ashish Sharma: And just a second question would be on the equity yield, so given that we are seeing the higher stream of digital transactions. So when we are talking about digital transition direct, in terms of yield on profitability, I mean what sort of a difference the yields, there is a difference in yields when we are talking about a digital direct transaction as well to our distributor?

Prateek Jain: So if you see the net revenue of our AMC, whether the money comes in a direct or in a regular scheme, it is almost the same. There are certain transaction costs which you save in a digital transaction because you don't incur those physical cost of processing those transactions. Otherwise, the net TER charge as management fees is the same across both regular and direct assets.

Sundeep Sikka: So, effectively while on one side, the realization for direct distribution, because of the SEBI formula, remains the same, there's a big difference in operating cost. So let's take an example, as we have highlighted in the presentation, we are doing one digital transaction at every 11 seconds. We are doing one new SIP every 22 seconds. Now just imagine if there was human intervention, people, branches, paper, everything involved, the cost is there. So effectively, these efficiencies come to play now.

Ashish Sharma: So you are saying for opex it is beneficial?

Prateek Jain: Yes, that's right.

Moderator: Next question is from the line of Madhukar Ladha from HDFC Securities.

Madhukar Ladha: Can you give me a break down of your closing assets, equity based, liquid and the others?

Prateek Jain: So it is about 38% equity, and that overall liquid was about 35,000 crores odd and debt was about 52,000 crores odd, ETF overall, was 22,000 crores.

Madhukar Ladha: So of the investments in mutual funds, it's about 1,934 crores as of June end. Can you tell me how much of it is in the credit risk scheme and our equity exposure is a little bit high? So what's the philosophy behind this, why don't we reduce our equity and kind of smoothen other income as a line item for ourselves?

Prateek Jain: So Madhukar, as mentioned last time also that these investments were made over a period of last 8 odd years as form of our SIP contribution to some of the schemes. In terms of the ETF, it was more put as a seed and comfort capital for the institutional investors as an investor-to-investor philosophy. However, in terms of the volatility, Board as well as management is considering, looking at the new revised investment framework. And if there is any change at any point of time, we'll definitely come back and inform to the shareholders as well as on the analyst call.

Madhukar Ladha: And the other question, how much of our debt book is in the credit risk fund, if you can share that information?

Prateek Jain: Less than 12% to 13% of the total scheme assets.

Madhukar Ladha: That's about.

Prateek Jain: Across all, yes. Across schemes.

Madhukar Ladha: 190-200 crores of the debt or are you talking about the entire mutual fund book?

Prateek Jain: No. Sorry, come again.

Madhukar Ladha: When you say 12% to 13%, are you talking about limited debt book or the entire book?

Prateek Jain: No, of the total financial assets I'm talking about.

Madhukar Ladha: Total financial assets?

Prateek Jain: Yes.

Madhukar Ladha: So that is 2,600 crores. So that would be at about 320 crores, odd, plus.

Prateek Jain: Yes but this is across the credit schemes while most of the amount has been invested into the high-grade assets and the liquid assets.

Madhukar Ladha: No but I understand that. So you have 1,600 crores in debt. Of that, you're saying about 320 crores odd is in the credit risk funds?

Prateek Jain: Across all the funds, yes.

Moderator: Next question is from the line of Abhishek Saraf from Jefferies India.

Abhishek Saraf: I had just one question; so basically, we have seen that there have been some kind of dichotomy in this quarter that the mutual fund actually the flows have been rather tepid. But on the brokerage side on the direct or the retail participation has been going very fast. The broker side we have been reporting very good numbers. So just wanted to understand how are we internally right now viewing this trend, although I admit that this is right now still in a nascent state but how are we viewing this trend internally from our own strategy perspective? And what are we doing in this, how you think that the thing will play out over the near to medium term?

Sundeep Sikka: If you were to look at the data, especially the July numbers of the industry, it showed that equity has come down. A lot of things does not get reflected in the true picture. If you were to see, we have stated during the quarter in this lockdown, we have added almost in excess of 2 lakh new investors. Now just take a scenario, the debt in the industry is actually increasing. A lot of redemptions that you saw came from savvy, institutional or family offices. But the retail participation continues to increase. Similarly, as I mentioned earlier, in ETFs, the whole of last year, financial year, we added 97,000 new investors and in the first quarter itself, we have added 1,22,000 investors. What that tells you is you are seeing new investors coming in, you are seeing the debt getting increased and specially for a player like us which has very strong distribution across the country, I think we are able to reap advantage of that. This may not get reflected in the AUM because what happens is, as we know some of the bigger players, investors, they try to time the market. I mean, definitely, we have seen a lot of flows coming in ETF, investors taking a tactical call, this money might go out in may be next 3-4-5 months. But I would say from our perspective, we remain very bullish. I think I'm very happy to see the new investors coming in during this quarter which was something a very pleasant surprise.

Abhishek Saraf: The second question is on credit funds, so if you can just give some color on how the flows have happened, how they've panned out for credit funds as such?

Sundeep Sikka: From our perspective I had mentioned in the last call also, our credit fund has been almost been, it's flat for the last quarter after one certain industry events which happened because to be fair we had lost a lot of AUMs in the preceding 12 months. So in the last 4 to 5 months we've been almost flat. We have not seen neither much flows, neither further redemptions.

The only thing I think I'd like to also add to it as mentioned in the last quarterly earnings call, as last time the Board had taken a decision going forward as a company as a mutual fund, we will not be investing in any security below AA. So that's something, so it will be a more conservative approach going forward.

Moderator: Next question is from the line of Alpesh Mehta from Motilal Oswal.

Alpesh Mehta: The first question is on the yields part, when I look at the AUM mix on a sequential basis—I'm talking about the quarterly average AUM—the mix obviously has moved more towards the low-ending assets. But when we conclude the basis points in terms of yield, the drop has not been that sharp, any specific reason? Have you changed some commission rates from the distributors, anything related to that?

Prateek Jain: So if you see obviously, the realization from that perspective, on the debt side which has already happened in the last quarter itself, predominantly while it may not be reflected completely in the average AUM, but it has already happened. And where in terms of the other part is, you are right that somebody had asked in the last year, we saw that in some cases, you've increased the broker percentages etc. So those are tactical aspects. We keep working on that. In terms of our sharing percentage with the distributor, where we believe that we need to push or support our sales team. I think that is what we can disclose at this point of time.

Alpesh Mehta: Just let me rephrase my question. Would the equity realization be better than the previous quarter?

Prateek Jain: So if your AUM goes down from a SEBI regulation perspective also, your realization goes up. So that is also one of the reasons.

Alpesh Mehta: Secondly, on the offshore fund has there been any decrease into the managed assets within the offshore fund, any specific mandates?

Prateek Jain: No, mandate has not gone down. But because of this volatility we have seen some reduction, both due to MTM as well as for some institutional investors would have redeemed.

Alpesh Mehta: And can you just help me out with this change in the definition from the AMC side on the SIP book and what would be the SIP book contribution to our overall AUM, if you have that number?

Prateek Jain: So from a flow perspective in terms of June, the annualized book works out to be about 84 billion.

Alpesh Mehta But what has been the change from the AMC side because we have also restated the previous quarter numbers. So in the fourth quarter, our March month number was 8.1 billion, which has come down to 7.2 billion. What has been the change from the AMC side?

Sundeep Sikka: I think earlier, it was SIPs registered. Now it's been it's more to do with the money hitting the bank account. So there's been industry-wide reclassification which has happened. So that's why you see the numbers have been changed because there were a lot of SIPs which were there while they continued to be registered. But I think even, if assuming, the installment did not come in that month, it was still counted. So this is actually money hitting the bank account.

Prateek Jain: So we have also given the pause facility on these things and therefore now what we are showing is the actual amount hitting into the bank accounts.

Alpesh Mehta: So effectively our SIP average ticket size is around 2,200, which is to be around 2,600 under the earlier reporting.

Sundeep Sikka: Yes.

Alpesh Mehta: And just the last data, what would be the IFAs share here? I didn't find it in the presentation.

Prateek Jain: So of the distributed asset it is about 54%. So 53% is our direct AUM, 47% is your distributed asset, out of 47%, 54% is IFA assets.

Alpesh Mehta: And the single distributor continues to be around 5% of your assets.

Prateek Jain: Yes.

Sundeep Sikka: So it's on the presentation, if you see Slide #35 and 36.

Moderator: Next participant is Gaurav Jani from Centrum Broking Limited.

Gaurav Jani: I assume the other income would have been largely driven by our own AMC-AUM, right? And out there, I think the equity portion is lesser than the debt and the favorable movement in terms of debt is much higher than equity. So I just thought or how should I look at it?

Prateek Jain: Obviously, on debt, you predominantly accrue your income on an accrual basis. While equity also has a MTM impact and therefore the equity contribution to this gain is correspondingly higher. So of the total, if you see, we have other assets which is a fixed deposit etc. which had contributed aswell. So overall, if you see the debt and the fixed deposits, etc. which would have contributed close to about 35%-40% of the total other income and remaining is from the equity mark-to-market.

Gaurav Jani: And secondly, just on the other income again, how should you look at it from a sustainable basis? I mean, although, obviously it's tough to project but just a sense as to how do you project that?

Sundeep Sikka: Broadly, as we mentioned earlier to Madhukar's question also. I think gradually what we'll do is, the Board and the team is working on, the new investment process of the AMC money so that there is no volatility. So we are working on the new process but over a period of time you'll see no spikes and volatility will not be there.

Moderator: The next question is from the line of Ritwik Seth from One-up Financial.

Ritwik Seth: Again, my question is on the other income. So we have approximately 2,500 crores of cash, north of that. So what is the kind of realized other income that we could do per annum, I think that is what everyone is trying to understand?

Prateek Jain: On a sustainable basis, the 12% to 13%, which we have in equity, I'll leave it for your judgment. But on the rest of the other assets since the yields have come down, and most of them are into high-grade assets, so it should be in the range of 6% to 7%, at best.

Ritwik Seth: 6% to 7% for about 85% of the portfolio.

Prateek Jain: Even south of it because yields are coming down.

Ritwik Seth: And so going by your commentary just on the previous question, it seems that we are looking to sell-off the equity portion and move towards probably more of the fixed income to reduce the volatility, would that be a right understanding?

Sundeep Sikka: We like to avoid volatility, that's the key thing. So how we realign the portfolios is yet to be decided but what we'd like to do is we'll try to avoid. I mean while we can say this is one of the black swan events which happened in the last 2-3 weeks of March. But I think the learning from this is, we'll try to keep or avoid any further volatility going forward.

Moderator: Next participant is Sunil Shah from Turtle Star Portfolio Management.

Sunil Shah: So I believe we have a representative from the parent also on the call, is that the case?

Sundeep Sikka: We have Fujikake-san. He is in Tokyo right now.

Sunil Shah: Just a thought or a perspective which we would like to get is, when and how do we leverage on the global platform of the parent to gather AUM for us because world is flushed with funds and there is limited opportunities worldwide. So what are the parents’ thought about the Indian investments which have been done? Could we get some understanding on that?

Sundeep Sikka: Sure I will request Fujikake-san to answer that. The only thing I can say, as the process started we had COVID hit us and the world came to a standstill but there are plans for that but I think Fujikake-san if you could please share that.

Hiroshi Fujikake: I answer to the question by the two parts. Half part is the product import and export. So the Nippon Life has a global network so for example we have 26% of holdings to the TCW which is the American AMC, based in L.A and also the stake NLI holds in DWS. Other than that, we have a variety of asset management network globally. So co-operation with those companies, we can import or export Indian products to the overseas or the global products. That is the first part, and the second part is with that kind of the global network, we have global practices such as the risk management or governance stuff and so we are trying to import such good practices from the global standard into India to strengthen our capability.

Sunil Shah: My question would be like because you just stated that some products were just started and unfortunately the COVID thing happened, could you give us some more understanding about these products and what was the kind of size of opportunity that the Indian company was looking at, if you could give us some sense on that?

Sundeep Sikka: It was not product, but some of these initiatives and projects to work closely. So just what Fujikake-san mentioned is working closely with a lot of companies where Nippon Life parent has a stake. So like Fujikake-san mentioned, whether it's TCW where Nippon is a 26% shareholder, DWS where Nippon is the second-largest shareholder after Deutsche. A lot of these and MLC in Australia where Nippon is an 80% shareholder, there are a lot of things, discussions are on. It's too premature for us to say but one thing is very clear, a lot of this global money which has the potential to come into India which earlier we could not access, we will be leveraging the network and the shareholding of Nippon Life in various companies for that.

Sunil Shah: I have one another question which is in the call you just mentioned that our average yield is 46 basis points. So from that we still have to shell out to our IFAs and all those distributors. Is my understanding correct on that?

Prateek Jain: No, these are net realizations at the AMC level. So this is because post the change in the regulation, all the IFA or distribution cost is paid at the scheme level itself from the TER and what we mentioned about this is a net realization, or rather at AMC level this is gross realization.

Sunil Shah: From which the expenses and all, so it's not the commission which is pass through but other expenses which are deducted, right?

Prateek Jain: That's right, the administrative cost as well as the employee costs are the only ones to be borne out of these realizations.

Moderator: Next question is from the line of Utkarsh from Damos Capital.

Utkarsh: We are the pole bearers of ETF in India, so if we see for the last 20 years we were first to launch true benchmark and now if we see almost 90% of the large-cap active managed day large-cap funds underperformed the index. So going forward if more and more ETF investment will come through ETF route then our TER would decline which will equate, which will further decline the revenue and profitability of our company. So what are the plans to diversify that?

Sundeep Sikka: I think broadly the way we have to see is we, as an asset management company, will keep offering different products. We clearly think ETF remain important for us but we believe both active and passive ETF will co-exist. They cater to different set of investors, there will be investors who will move towards ETF but we have to also understand there is only 2% of the population of India which is investing in capital markets/mutual funds. So the market will keep increasing, new investors will come in active funds, will come in SIPs, some investors will go through go into ETF. As far as the revenue is concerned and realization, we, as an AMC, clearly believe that AMC is a volume game. Two things have to be important, one is to keep increasing the volume that is to keep increasing the AUM and to keep the expense low. We are working on both the things; we don't see ourselves predicting that whether active large-cap ETFs will become the substitute to active large-cap funds but I think from our point of view what is critical is we have both the products ready. One thing is very clear within the ETF space that we are in a very strong position in India because for ETFs two things remain very important. One is the tracking error, other one is the liquidity, because if there is no liquidity, the impact cost takes away the entire advantage, and taking that into account, today almost 80% to 90% of the volume on the stocking is ours. We believe we are in a strong position as the ETF market is growing in India. Having said that, like I said I don't want to take a bet that whether ETFs will overtake active or will replace active. In my view both will co-exist and I think we need to be ready with both.

Utkarsh: How much percentage of our direct equity inflows add through our own NAM India for that?

Sundeep Sikka: 16%.

Moderator: Next question is from line of from Nischint Chawathe from Kotak.

Nischint Chawathe: Sorry I joined a little late, so just in case this is not a repetition and if I look at slide #43 and look at the breakup of operating expenses; if you could just explain what fee and commission expenses are and what comprises other expenses.

Prateek Jain: Fee and commission expense line is the erstwhile brokerage amortization which we have paid on upfront and these are all related to the close ended funds, so over a period of time it will be going down. In terms of other expenses these are all other administrative costs.

Nischint Chawathe: So I can expect these 9 crores odd going down to maybe zero by next year, is that the way to think about it?

Prateek Jain: No, if you look at standalone one, it used to be about 19 crores odd, it has come down to 1.76 crores but in terms of consol you will still have some amounts in this line item because of the AIF. So in AIF we will still pay some upfront and something to do with the our offshore subsidiary where some part of the expenses which have to do with upfront cost which may fall into this classification but those are not going to be very significant given the size of those operations versus our domestic mutual funds.

Nischint Chawathe: So now when I am looking at the quarter-on-quarter basis 19 crores going to 9 crores odd then that possibly means that the payout on the AIF side reduced drastically, is that the way to think about it?

Prateek Jain: When you look at 9 crores then you have to compare with the 25 crores. So this quarter being an unprecedented one, while mutual fund have seen the lowest flows, we have correspondingly seen lower flows on the AIF as well.

Nischint Chawathe: So basically 19 versus 9 and if I you look at quarter-on-quarter, it's essentially the AIF flows because mutual fund obviously the number is negligible?

Prateek Jain: Yes.

Nischint Chawathe: And just second one was on the distribution mix, on slide #35 you have direct and distributed. What would be this breakup for equity AUMs?

Prateek Jain: Predominantly as we said the 16% of our business is direct. So just 84% consist of its distributed assets and as Sundeep mentioned largely IFAs are the one who contribute in excess of 55% of that assets.

Nischint Chawathe: So basically what you are saying is that of the direct, 16 would be direct on equities and then the balance would be distributed?

Prateek Jain: That's right.

Nischint Chawathe: And what is corporate asset in distributed because I thought most of the corporate business would be direct right and it's mostly debt?

Prateek Jain: While predominantly you are right but many corporate do come through distributor models.

Nischint Chawathe: And the debt side, on the liquid front and debt side?

Prateek Jain: Yes and because it is not just corporate, there are other body corporates and trust etc. as well.

Moderator: Next question is from the line of Shubhranshu Mishra from BOB Capital Markets.

Shubhranshu Mishra: I just wanted a data-keeping question. What was the net new money in FY20 and what is our expectation in '21 and '22 for net new money?

Sundeep Sikka: We don't give future guidance but for the quarter as I mentioned earlier we have added about 2,20,000 new investors, about more than 1,08,000 new ETF investors, equity we have added 1000 crores of net number. Future guidance will be difficult to give, as a policy we don't give.

Shubhranshu Mishra: And in terms of the cash or debts used in first quarter for redemptions what would that number be?

Sundeep Sikka: For redemptions means, just I understood clear?

Shubhranshu Mishra: We would have some amount of cash and there could be some amount of bonds which could have been an illiquid. Did we use cash or did we borrow in order to, for the redemptions?

Sundeep Sikka: No, from the AMC balance sheet no bond has been bought or the entire investment has been disclosed. As far as the borrowings in the schemes are concerned it's a disclosed in the fact sheet. In one of our schemes that our total outstanding borrowing was less than about Rs. 200 crores odd.

Shubhranshu Mishra: Can there be any negative surprises in the credit risk fund or that's largely sorted out?

Sundeep Sikka: You have the portfolio in front of you; I'll leave it to your judgment. We are very confident; there will not be any negative surprises.

Moderator: Thank you very much really. Ladies and gentlemen that will be the last question for today. On behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.