Nippon Life India Asset Management Limited
Q1 FY22 Earnings Conference Call

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Moderator:	**Mr. Ansuman Deb - ICICI Securities Limited**
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 Nippon Life India Asset Management Limited Q1 FY2022 Earnings Conference Call, hosted by ICICI Securities 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 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. Anshuman Deb from ICICI Securities. Thank you and over to you Sir!

Anshuman Deb: Thanks Rio. Good evening ladies and gentlemen, it is our honor and great privilege to host Nippon Life India Asset Management Limited earnings conference call for Q1 FY2022. I now hand over the call to Mr. Sundeep Sikka, ED & CEO. Over to you Sir!

Sundeep Sikka: Thanks. Good evening and welcome to our Q1 FY22 earnings conference calls. We have with us Prateek Jain - Chief Financial Officer; Saugata Chatterjee - Co-Chief Business Officer; Aashwin Dugal - Co-Chief Business Officer; Arpan Saha - Chief Digital Officer; Fujikake-san - Nominee from Nippon Life, Japan.

Overall, industry assets continued the positive momentum in the quarter driven by higher equity and ETF assets. The increased participation by individual investors indicates confidence by long-term investors in mutual funds. We expect the industry to maintain its growth trajectory over the next three to five years.

At Nippon India Mutual Fund, our priority is to be future ready and capture the long-term opportunity. I am happy to share that Nippon India Mutual Fund's Q1 market share rose by 13 basis points to 7.25%. AUM increased by 33% to Rs. 2,404 billion. We increased our share of Industry's unique investors to 31%, with addition of 6 lakh unique investors as compared to 11 lakhs for the industry. Improved short and medium-term fund performance has had a favorable impact on the asset flows and disproportionately higher accretion in investor base. We have one of the largest retail AUMs in the industry at Rs. 696 billion. The contribution of retail AUM to total AUM is amongst the highest in the industry at 28% compared to 23% for the industry. We are amongst the market leaders in beyond 30 cities category. This category contributes AUM of Rs. 472 billion. 19% of the total assets are sourced from these locations as against an industry average of 16%. As on June 30, 2021, 69% of the individual assets have a vintage of more than 12 months. The annualized systematic transaction book is at Rs. 70 billion. On a gross basis, systematic folios rose by more than 314,000 in Q1. The new digital SIP registrations grew by 59%. In volatile markets, folios with lower ticket size have demonstrated longer vintage and better stickiness. Today, Nippon India Mutual Fund offers the industry-best suite of products in the passive category. With strong growth in Industry's passive assets, our ETF ecosystem is already in place and far ahead of peers, in terms of investor base and mind share. In this segment, we manage AUM of Rs. 402 billion and have a market share of 13%. Excluding EPFO allocations which go to two PSU owned mutual funds, we would be the largest ETF player in the country. The gold ETF is the biggest in its category with over Rs. 60 billion in assets. Nippon India Mutual Fund's share in Industry's ETF folios rose to 51%. In Q1, we added 1.4 million investors as against a similar addition in the previous financial year. Nippon India Mutual Fund's additions represent 82% of the total folios added by the industry in Q1. Nippon India Mutual Fund has 73% share of ETF volumes on NSE and BSE stock exchanges. Our ETF average daily volume across key funds, are far higher than the rest of the industry. As a well-diversified asset management company, we have created our presence in new business segments over the years. Along with government mandates, we manage assets of Rs. 1.3 trillion in non-mutual fund segments. The offshore business has assets of Rs. 101 billion under management and advisory. Leveraging Nippon Life's global network, we continue to ramp up our international presence. As part of collaboration with Cathay SITE in Taiwan, we have already filed the Taiwan Equity Fund for regulatory approvals. The fund will provide Indian investors access to the dynamic and growth-oriented Taiwanese market. We will continue to offer domestic and foreign investors more value-accretive avenues to diversify risk and generate returns. In our AIF business, we manage category 2 and category 3 AIFs across various asset classes. Nippon India Digital Innovation Fund has committed funds of USD $100 million and has initiated investment activities. As on June 2021, Nippon India AIF raised commitments of Rs. 38 billion across all funds. Online and digital assets have become a key source for investor acquisition and communication. Nippon India Mutual Fund's digital business has grown at a rapid pace driven by robust strategy, encompassing sharp business focus, relentless partner engagement and innovative transformation endeavors. Our strong digital acquisition and engagement framework with targeted performance-oriented campaigns is driven through cutting-edge tools like Adobe Campaign Manager. These initiatives have helped fuel consistent growth on our storefront and various other conclaves. Our strong collaboration, backed by years of fund management experience, has helped us to cement our position as a partner of choice for distributors. Our focus on perpetual innovation and persistent digital reengineering has ensured that the digital experience is always friendly, futuristic and frictionless for the partners and investors. With an inherent DNA to consistently pivot and innovate in diverse digital ecosystem, we aspire to learn, invent, grow and, stay ahead of the curve in the BFSI space. In Q1, digital platform contributed to 58% of our new purchase transactions. Approximately 600,000 purchases were executed through digital assets - an increase of 28%. Nippon India Mutual Fund has a well-diversified and nimble distribution base. As on June 2021, we have approximately 80,000 distributors empanelled with us. The MFD base rose to over 79,700. Also, we have ongoing tie-ups with over 20 prominent digital partners. Direct channel contributed 55% of the MF AUM. Of the distributed assets, share of MFD was 58%. 83% of the distributed assets are contributed by individual investors. Nippon India Mutual Fund has a strong presence through approximately 280 locations across the country. We continue to review our existing branch network and future branch expansion. Given the new normal, our marketing efforts are increasingly focused more on digital channels, which are cost effective as against offline advertising. Now on our financial performance. For the quarter ended June 30, 2021, profit after tax was Rs. 1.8 billion - an increase of 16%. Operating profit increased by 75% to Rs. 1.7 billion. Operating profit, as a ratio of average assets under management, rose from 21 basis point in Q1 FY21 to 28 basis point in Q1 FY22. Our aim is to create sustainable value through growth across asset classes, cost optimization initiatives, resulting in an expanding and favorable operating leverage. We continue to grow organically through our physical and online channels. Additionally, we remain open to evaluate investments and strategic opportunities that add to the profitability and complement our existing businesses. In June, we took a very important step in our journey towards becoming a responsible corporate citizen. NAM India became a signatory to UNPRI, world's largest voluntary corporate sustainability initiative. We are in process of incorporating UNPRI's ESG principles across all facets of business, including investment management, climate conservation and social contribution. We will continue to enhance capabilities towards successful execution of a stewardship responsibility and give voice to minority investors. Also, with integration of formal ESG principles into NAM India's investment management framework, we also look forward to launching new ESG-integrated offerings in their term. To sum up, I would like to reiterate that, at NAM India, investor centricity remains a key theme. We strive to deliver a complete product suit to the investors, superior fund performance, and efficient client servicing based on a comprehensive digital ecosystem. We are confident to continue our trend of profitable growth in coming quarters. With these comments we are happy to take your questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Viraj from Securities Investment Management. Please go ahead.

Viraj: Thank you for the opportunity. I have four specific questions. First is on the yield. If I adjust for the mix impact in AUM, have we taken some cuts in TER and either equity or debt, because the drop in yield sequentially is higher even if I adjust for the mix. So any perspective you can share and, incrementally how should I look at yield moving forward.

Second is, despite the jump in the AUMs, our cost base has largely been flat year-on-year. So have we restrained from A&P spends in the quarter, and incrementally we should see this moving up for us, because if I look at FY2021, the major drivers between lower opex was cut in our A&P and travel and conveyance, while IT expenses had moved quite sharply for us. So just want to understand the cost part. Third is largely on the distribution and the market share. So if I look at overall mix in terms of source of distribution by AUM between say retail, bank and national distributors and direct and all, the share of bank and national distributor has been relatively weak for us and that has not really picked up despite us seeing some improvement in our overall performance. So just want to see how the overall market share has moved for us since equity dip in T30 cities. A related question is has that been the same for the SIP flows. For the industry we are seeing a pickup, but for us, it is still relatively subdued. So any perspective you can share, and last was on the NPS business. Any thoughts of re-entering because PFRDA has made changes to yield and is looking at a wider participation in terms of competition in the space? Thank you.

Prateek Jain: Viraj, this is Prateek here. In terms of market share, we continue to be the leader in the retail segment. That has been our forte. In terms of the overall AUM, 55% of our AUM assets comes directly. Out of the 45% which is distributed, approximately 60% comes from mutual fund distributors or MFDs, and 21% from bank and 21% from ND. If you look at the other composition, which is the retail versus the HNI segment; while our share of retail is about 28% as compared to the industry of 23%, because of the erstwhile issues, we have a slightly lower market share on the HNI sector, which is predominantly supported by banks. So, by design, we have been focusing on B30 cities, working closely with the distributors to improve and to grow our business more profitably. So that is one reason. Secondly, our share of HNI has been lower and which is also resulting in lower share from the bank distributors. In terms of B30 cities, 19% comes from B30 cities which is healthier as compared to 16% for the industry. With regards to the SIP flows, this has been marginally subdued, and we have seen some decline. We have not had a good run in terms of our performance in the past. But in recent times, our performance has been good. Most of the schemes have been in quartile one and two. Generally, we see the flows coming in after a lag. So, we are expected to do better, going forward, in terms of the SIP flows. As far as the cost base is concerned, we have mentioned that we will keep working towards improving our operating efficiencies and we have mentioned that, with the AUM growth, the expense will not grow in the same linear proportion, and that is where the operating leverage will come in play. However, as you rightly said, the partial decline can also be attributed towards the lower mobility expenses, etc. But, if you look at the last 16-odd quarters, we have been maintaining lower cost to income ratios and we have been trying to manage our costs better, so we will continue to do so. Also, let us say, if the assets grow double from here, we do not see a significant increase in our expenses because most of the expenses are fixed in nature. Coming to the yield part, basically, the net profit yield or PAT to AUM is composition of three or four factors. Importantly, it will all depend on how the asset mix is, within the asset class how the product mix has been changing, etc. We maintained that, in terms of fixed income, most of the money has been coming on the ultra short-term and the low duration funds, where our realization is marginally lower. Further, increase in size of the equity assets will also bring down the realization. There is another factor, which is the new assets which we are raising. Typically, there is no upfront commission. They are coming at a higher trail fees, and the older assets get replaced with the new assets. The realization, because of the full trail model, is slightly lower. So these are the four or five factors which contribute towards the declining yield. But our yield has been broadly flattish. If you see the last two or three quarters, we have clocked about 45 to 46 basis points. I hope I have answered all your questions?

Viraj: On the PFRDA for the NPA business?

Sundeep Sikka: We will continue to keep evaluating it. Last time, we had to exit it because there was the constraint of the 49% foreign shareholding. But we remain open to explore going forward.

Viraj: Just follow up on the market share in T30. If I look at one of the distributors, like the wealth management arms or other national distributors in T30, has there been any progress. Are we able to kind of break in, in terms of either getting up our product empanelled or are we seeing any traction there?

Prateek Jain: We have seen a lot of green shoots. The fact is that the market share, which has increased in this quarter by 13 basis points, is a sum result of all the categories. We clearly see that more and more banks are empaneling our products. Over the last 16 months, we have seen a lot of family offices and new corporate investors returning. So, the numbers will come with the lag effect, but we can see, on ground, there is a lot of positivity. Going forward, in all these categories, whether banks or HNIs, with the performance and the brand getting established, the market share will go up.

Viraj: Thank you, good luck.

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

Kunal Tanvi: Thank you for the opportunity. Hope everybody has been good and congratulations on a good set of numbers. Broadly I had two questions. One was on the distribution side. So, in the annual report, we have been talking about digital aggregators and we have seen the phenomena happening in the entire industry, where for the incremental assets, especially in the SIP side of the business, the digital aggregators are becoming our important source. Can you throw some light on how this space has been evolving in the last one year, in terms of total assets managed by these digital aggregators, and as you had mentioned in your opening remarks that we work with 20 such aggregators, like digital partners, how much of our incremental AUM would be coming through these digital aggregators and what would be the unit economics there like with the AMCs, because what we understand is that they do not charge to the customers. Can we throw some light on the entire value chain in that space?

Sundeep Sikka: I think I am going to be requesting my colleague, Arpan, the Chief Digital Officer to be talking a lot about it. But before that, I will just say slide #14 to #18 gives a lot of details about our digital initiatives. We clearly see ourselves, as a company, playing an important role both with the digital aggregators, whom we see will complement our growth, and also the offline business. So, from our perspective, both channels will throw big opportunities in times to come. We, as an organization, are taking both the channels very seriously. We are not in the camp that believes that it is going to be one versus the other. We believe, over the next 10, 15 years, taking into account the 2% penetration that we have, both the channels, online and offline, will play a very big role. But the specific questions on digital, Arpan, if you could add some data points on that, please.

Arpanarghya Saha: Thank you Kunal for your questions. At Nippon, we have always believed that a great digital story comes out from a great digital ecosystem. So, for us, our left hand and right hand are firmly embedded in the digital chassis where fintechs and RIAs, as an aggregator community, are a part of it. Therefore, as Sundeep was pointing out, we have a great equitable focus on all digital facets. Now, coming specifically to the digital distributors or aggregators, let me tell you that in the last financial year, digital partners in the non-liquid space grew by 200%, while the digital business from Nippon across RIAs grew by 270%. Now this comes because of our ability to understand where people, who invest in Nippon India Mutual Fund products, would look across common platforms and, invest accordingly. Therefore there is a lot of tech, knowledge, know-how share that we do with our partners to ensure that the consumers' journey is on the three F principle which is friendly, futuristic and frictionless. Even on the SIP piece, as we have pointed out, digital SIP registrations contributed around 59% and, we grew by a quarter-on-quarter growth of 34%. This is our inherent ability to educate our set of investors when they are across the Internet space, to understand the importance of doing a SIP, and the real importance of doing one with Nippon Indian Mutual Fund. We are a very progressive company, and our focus has always been on the millennial. So I think the aggregator space is just a platform where the right-minded people come in to get the right product, which is on Nippon Indian Mutual Fund. That is all from my side.

Sundeep Sikka: Digital remains a very important focus area for us and, as I mentioned in my opening comments, 20 integrated partners. I think all are significant ones and there are a lot more work happening. We continue working with our strategic partners, which is IBM and Adobe, to strengthen our digital business.

Kunal Tanvi: Thanks for that. The second question was on the market share in the equity side. As you mentioned and as Prateek mentioned in his remarks that we have seen the improvement and there is a lag generally when the flows come back. Now if you look at both the SIP market share and the equity market share, it has been trending down even on the improved performance, which of course shows that our flows have been slower than the industry. Now just wanted a sense are we still looking at outflows or is it that our inflows are slower than the industry. Any indicative idea on that would be helpful?

Prateek Jain: As I mentioned earlier, we have seen marginal decline in terms of the SIP value. We have been lagging in terms of the industry growth when compared to our equity. We are coming out of a slightly bad patch when it comes to performance, but when you see today, most of our schemes are in quartile one and two. Typically once the performance comes back, the investors come with a lag, and we are very confident that we will be able to garner higher assets. We had mentioned in the past that first one to come will be the fixed income assets. So in this quarter, while industry was negative 1,500 crores, we have added almost about 4,000 odd crores of assets on the fixed income side alone, ex-liquid. So it is a function of performance and the confidence coming back. We have seen, as Sundeep mentioned in the initial remarks, good amount of flows when it comes to the direct investment to our ETFs, or institutional investors coming on our ETFs and the fixed income side. We are sure with performance back, we will be able to resurrect or gain back our lost market share on the equities. At the same time, I want to share that, on a YoY basis, our SIP folios are up 10%. So on the folio side, we have seen incremental additions. But it is the lower ticket size and also the HNI share, where we are lagging. I think that needs to be worked upon.

Saugata Chatterjee: Kunal, just to add to what Prateek and Sundeep have mentioned. On the equity side, it always comes with a lag in terms of SIPs. Our incremental SIP numbers have started increasing. The SIP book is an aggregator of the monthly SIP acquisition which keeps happening. So, as we go, in the last three to six months, what incremental new SIPs have come to us, it will start adding to the SIP volumes. Likewise, we are seeing similar trends in equity. From a lump sum perspective, the net sales have now started moving into the positive zone, so we are flattish. So that is the trend line we will see going forward. Once the base is created, the incremental sales will start adding market share for us.

Kunal Tanvi: I get it. Thanks so much for this.

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

Anuj Kumar: Thank you for the opportunity. My question is on the other income side. Why did the other income not move further despite decent moves in debt and equity markets in Q1 FY2022?

Prateek Jain: We have almost 61 crores of other income as compared to 55 crores last quarter. In Q1 FY21, there was a sharp reversal because the market fell on 16th and 23rd March 2020, because of the COVID related lockdown. But in the first quarter, it bounced back. That significant bounce back had led to a mark to market gain. There was a 100 crore mark to market loss that we booked in Q4 FY20. We gained almost the same amount in the first quarter. However, this time around, it is more rationalized. Also, as mentioned in the past, we have pared down our exposure to the equity related mutual funds. So, from the last one year perspective, we have reduced our exposure to our core equity schemes.

Anuj Kumar: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Harshit Toshniwal from Premji Invest. Please go ahead.

Harshit Toshniwal: Sir few questions are on the market share piece itself. So in terms of folios, when we look at our folio market share, then we are right now at 33%, which used to be a 30% market share last quarter. Clearly, we have done a great job over there, but I am just trying to see that so is it that our market share in B30 is increasing but our market share in T30 is something which is remaining weak, and when we look at the HNI category, can you throw some more color on what needs to happen for us to again gain back that market share? Is it the fund performance only which matters, or we need to take some additional steps to regain the market share in the top 30 HNI segments because of which our overall equity market share is not improving?

Sundeep Sikka: So, let me give some initial comments. and then I will request my colleague, Aashwin Dugal, to also touch upon. So, you are right. The new retail folio numbers have been increasing. We have added about 14 lakh investors in the last 12 months and it continues to increase, and 31% of the industry's investors are with us. So I think that is a good thing. I have always believed retail execution is always more difficult. The fact that the retail investors have started coming back, we take it as a very big positive. Now we also need to understand the fact that, in a bull market, a retail investor is someone whose SEBI definition is less than Rs. 2 lakh and our own definition is a SIP of Rs. 2,400. That cannot match up with HNIs, so that is the reason when you see that the increase in folio does not match up with the market share increase in the same manner. But I think, it is a question of which will catch up. Coming to your question on what we have to do in retail and HNI, it is also important to understand that within the HNIs also, we have seen the increase in market share in fixed income and ETF. It is a matter of time before you will also see that happening on the equity, active side. The fact remains that while our overall market share is 7.5%, for HNI, it is 5%. But within ETF, HNI market share is 18%.

Harshit Toshniwal: Sir the reason I am seeing that because in ETF and fixed income fund, return does not play a big role, so I think we are a market leader?

Sundeep Sikka: These are not mutually exclusive. So what will happen is investors will keep moving towards different asset classes. We have already touched upon the fact that, over the last two years, we have implemented a lot of sector analysis and various styles in our fund management, including a lot of proprietary tools from Nippon Life, Japan. Our fund management team has been working very closely with that, and the fund performance in most of our schemes is in quartile one and two. I do not want to go into individual names, but if you see the top five funds that we have based on the size of AUM, whether it is large cap, mid cap, growth or small cap. All these funds come in the quartile one now. So, it is a matter of time. The point I was trying to make is when the same HNI investor has started coming in fixed income, has started coming in ETF, it is a matter of time, he or she and the family offices will also start looking at our active fund management. So the point, I am trying to make is, we remain happy that, on one part, retail, which is more difficult to execute and more stable, has been doing very well. In case of HNI, directionally, we are going in the right direction. Specific to your question, equity has taken a little more time, but the fact that they have come back in ETF and fixed income, it is a matter of time before they come in active also.

Harshit Toshniwal: Just one additional follow-up on this. So when it comes to HNI, you think that our relationship with maybe the larger distributors like for example wealth or the larger bank houses. Do we need to push that a lot for the HNI category because possibly they will not be going on to the digital route, given the intuitive nature of the asset, and secondly, launching more NFOs at this point of time, when we have the performance for the last six months is in favor of us? So launching few new NFOs to gather the market share, you think that can also be an additional approach and if we are planning anything on that?

Sundeep Sikka: I will take your first question. We have a multi-pronged strategy. We continue working with all distributors and advisors, family offices and RIAs, who are the gatekeepers for these family offices and HNIs. Clearly the approach is to work closely with them and we have seen initial success. To your question, for a lot of these HNIs and family offices, uniqueness of product also plays a very big role. From our perspective, we are trying to see wherever there is a vacuum in our portfolio, we keep launching new products. But on the last part, will we launch NFOs just for the sake of garnering market share, the answer is no. Our focus remains on profitable growth. We will only launch schemes which we believe have scope in our portfolio and, are sustainable and scalable in the long term. So let me give you an example. Two quarters back, we launched IT ETF. Then we launched the pharma ETF. We have filed Taiwan fund with SEBI, which will be the first Taiwan fund from India. So clearly, seeing the shortage of semiconductors in the world, we see that is an opportunity. So what we are trying to say is that, it is a market within market. In the micro markets, the approach has to be very different. It is not one push thing. So what gives me satisfaction is that the team is working in the right direction. Whether it is HNI, retail and corporates, they have started coming back. The lead product or category could be different, but all of them have started coming back.

Harshit Toshniwal: Perfect, great. Thanks a lot for the performance.

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

Prayesh Jain: Congratulations on a good set of numbers. Firstly, on the yields. Can you give some qualitative comment as to why it has come down? Could you give some quantitative flavor as well in terms of whether the equity yields would have been down by say around 2 or 3 basis points over the past twelve months or something like that?

Prateek Jain: We do not talk about the individual product pricing. But on overall basis, the yields have been broadly flat. Also, as mentioned to you, we have a larger proportion coming from mutual fund distributors as against banks and, also larger amount of money coming from B30. As Sundeep mentioned, if we are able to raise further assets, you will see there is an uptick in terms of the overall realization. Also, we believe that over a period of time, there will be shift in the fixed income side. Today, a large part of the money in this asset class is in the low duration or ultra short-term category. The moment it starts chasing yields and it moves towards the credit and the higher duration, our propensity to earn will improve.

Also, one has to stop seeing this business from the yield perspective. There were some industry reports which say that even if the industry grows at about 12% to 13%, the industry will be about three times the size where we are. I think that is an understatement because, given the underpenetration and the 20% growth in the last five years, if we continue this kind of a growth, then conservatively, the total assets will grow three times. Our revenue, at the same levels, becomes three times and the expenses are not going to be increasing by 25% to 50%, because they are largely fixed in nature. Therefore, you will see an improvement on PAT to AUM or PAT to revenue basis. So that is what I think we should see at the end of the day. The overall growth in the total assets under management, the change in the mix and, also the last bit is the realization.

Prayesh Jain: Just extending that point. A bit on the legacy assets versus the newer assets, how much time do you think it would continue to impact the company.

Prateek Jain: I would say this is ongoing but that, it will keep tapering off. So it is a kind of telescopic, where it keeps reducing. So it is like a railway fare, as the distance grows, the ticket price does not go up as much. So today, a large part of the fluid money is with the banks. The money, which was to move out, has already moved out. There is the large part that is with the smaller investors, and we have seen that these are more sticky. So whatever, in terms of the old asset movement was to happen, has largely happened. We will not be impacted by that and as far as the new asset is concerned, it will all depend on our strategy which is more towards the MFDs and the smaller cities and towns. Also, as we have to compete in the marketplace, so we have to align our strategy with what the competition is giving, balancing both the sides.

Prayesh Jain: Broadly, when you talk about your distribution strategy, we have been telling about growth in terms of B30 clients and thereabouts. So what we have understood is that these customers would search online but eventually depend a lot on MFDs. So from an equity brand standpoint, do you think that we are back to the levels we were say probably five years back where the other brand name was very strong, but now Nippon, as a brand, is growing up the ranks?

Sundeep Sikka: I will take this one. Broadly if you look at the fact that 14 lakh new investors have been added. Now, if I go with the same analogy of searching online. 50% of the new investors in industry have been added by Nippon. This is a testimony to the fact that both the brand and the execution are going in the right direction. So again, it is a journey. Also, it was a new brand in India, but the good thing was, it was the same old team. So 14 lakh investors give me a lot of satisfaction and confidence that this base will keep increasing and, we have always believed that, for us, the business has to be very granular. The long-term stickiness of assets comes from smaller investors. So we have continued focusing on more and more retail investors from a long-term point of view, because there is a lot more scope for further top-ups, when you get a smaller ticket size. So to your question, I will leave it to you to gauge. Since 50% of the investors in the last 15 months have been added by Nippon, both the brand and the execution are going in the right direction.

Prayesh Jain: Just a last question. Any outlook that you would like to share on the foreign funds that we are planning to increase?

Sundeep Sikka: There is nothing specific to share at this point of time. A lot of things are happening. As we go ahead, the one that we can discuss is our MoU with Cathay Taiwan, where the intent will be to give an access to Indian investors to invest in Taiwan and give an opportunity for Taiwanese investors to come into India. A lot of things are happening, so rather than sharing at this point of time, I think we will share the details at the moment, it is closed.

Prayesh Jain: All right. Thank you so much and all the best.

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

Madhukar Ladha: Good evening. Thank you for the opportunity. I have joined a little late so maybe this is a repeat, but I see that there is a very big drop in yields. Now can you explain that is it because of very high churn in equity and the legacy assets, or is there a mix change within the equity only that we have gone to sort of larger schemes, as a result of which that has happened, or maybe some of the other asset classes, has there been any sort of major change over there to explain it?

Prateek Jain: I had mentioned in my comment earlier as well that the yields can be attributed towards five factors. One is, of course, the change in the asset mix. We have seen higher growth in terms of ETFs versus the equity. Also, within the asset class, how the product mix is behaving especially on the fixed income side. In terms of the overall investment growth, it has been coming predominantly on the ultra short-term and the low duration kind of fund where our realization is lower. Further the increase in size, whether it is MTM or with new flows, will also lead to a decline in the realization. Further, there is a part of the churn, as you rightly mentioned, that the older assets getting replaced with the newer assets. The old assets were with the lower trail and higher fixed model, but the new assets are being added at a full trail model. So, yes, these are the combination of factors which have resulted in a marginal decline in the yield. But compared to the last quarter, we are marginally lower or almost flattish at 45 basis points.

Madhukar Ladha: Well, but Sir if I look at it your equity proportion in this quarter has actually increased and while ETFs have increased in share that is largely from liquid, so again sort of, they are compensatory. Maybe you could probably do a little bit more analysis on this and get back to us, that will be more helpful. Second on the HNI segment, maybe you can elaborate a little bit more because the share of their still sort of lags and what are we doing and what is sort of the timeline that we see how we can improve our market share again over there?

Aashwin Dugal: This is Aashwin here. As Sundeep also mentioned in his earlier comment that in the HNI segment, market share is about 5.3% versus overall market share at 7.3%. So, our first objective is to try and build again, take it closer to that number. But the nature of the business is such that you may not be able to assign an exact timeline, and there are many efforts being undertaken. One, of course, is that in the last one and a half years, we have seen a large number of HNIs and family offices participate in the ETF business, and our share in the HNI AUM of ETF is 18% versus the industry percentage of 2%. Now, as the performance on the equity side continues to improve, like if you look at our flagship equity schemes in the last one year, most of the schemes are in quartile one and quartile two. Again, the nature of the businesses is that the impact, in terms of flows, will be seen sequentially with the lag. We already are seeing uptick in market share over the last three to four months in the HNI category, but we will really dwell on it once we see a more linear increase in share. On the other hand, with the support of top performance of these schemes, on the fixed income side, we are seeing robust flows. Our empanelment with large wealth counters and private banks is work-in-progress and we have seen some success. We are seeing regular empanelment of those schemes with these banks. So, it is a two-pronged strategy viz. direct interface with large family offices and through these large channels, we reach out to the HNI fraternity, in general.

Madhukar Ladha: What does it take, in terms of do you need to add manpower, what do these efforts sort of require in terms of resources? Do we have that, or we are looking to add more people, how are we going to took this from here?

Aashwin Dugal: I think we have all the elements. It is just a question of execution and the initial numbers tell us that we are moving in the right direction.

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

Moderator: Thank you. The next question is from the line of Viraj from Securities Investment Management. Please go ahead.

Viraj: I just had one question on the surplus cash. So if you look at an annual report, it also talked about last year, there was a lot of uncertainty and we were not really looking for any acquisitions. But given the environment now, is there any rethink in terms of use of surplus cash?

Prateek Jain: So Sundeep, in his initial comments, has mentioned that we remain committed to both organic growth and will also keep evaluating the inorganic opportunities, which come by. But we believe that growing this business organically is much cheaper. So if we get something which is reasonably priced or synergistically adds to our values and ethos, only then will we look at acquisitions. But having said that, we are open for any kind of inorganic growth opportunity, which may come by.

Sundeep Sikka: Viraj, I think it is not only going to be in the mutual fund space. As we have been highlighting, our long-term approach is to be an asset management company. We will also continue looking at opportunities in asset management which could be in the non-mutual fund space.

Viraj: Sir but even if you consider potentially for those inorganic opportunities the cash will keep on building up. Currently we pay somewhere between 60% to 90% in terms of payouts so is there any thought process in terms of increasing the payout or probably giving a one-time special dividend because cash at the books is having a suboptimal usage, just a thought.

Prateek Jain: We are completely mindful of that and therefore, we are sharing 85% of our profit year-on-year as dividend. Rs. 2,700 crores have been paid out in the last seven years, and I think we will continue to do so. As regards the balance amount of cash, as Sundeep mentioned, we will keep evaluating the various options and, at the same time, we will keep paying higher dividend. At this point of time, obviously, it is the Board's as well as shareholders' prerogative to give any kind of one-time dividend. But I think, having a good amount of networth and keep the dry powder ready for any opportunity, is a better strategy at this point of time. So, I would say to a certain extent, we will keep this amount available with us in cash.

Viraj: Thank you very much and good luck.

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

Mohit Surana: Sir I just wanted to understand two things. First, is there are any one-offs in the other income part because I think it rose close to 10%, 11% quarter-on-quarter. So is there any one-offs in the other income?

Prateek Jain: Almost 80% of our investment is in our own mutual fund schemes, which is into fixed income, equity and ETF. We have been reducing our exposure to equity every quarter. So this income is predominantly part of our equity assets as well as the ETF mark-to-market. There is no one-off. Of the total 100% of our cash, almost 80% percentage is in our own mutual fund scheme, almost 12% is in FDs and, I think 3% or 4% in tax free bonds etc. All of them are fairly liquid and are marked-to-market, for our accounting purposes, on a monthly basis. So, there are no one-off. It is just the MTM impact as per the Ind-AS.

Mohit Surana: Sir you mentioned that you can assume maybe a flattish trajectory on opex going forward. So if you want to break it up between staff costs and other opex. Staff costs, I understand that a large part of your ESOP has been expensed out in prior two years. But it has risen quarter-on-quarter so was there may be a hike in employee salaries this quarter which has resulted in higher staff cost and, also, I just wanted to understand the fall in other opex from last quarter?

Prateek Jain: From a year on year basis, there is a 2% decline. This is mainly because of the fall in expense attributed towards ESOPs, as you mentioned. On a quarter-on-quarter basis, there is a 7% increase, as we have a cycle of increments and bonuses from April to March. The increase is a reflection of the increments, which have been awarded to the employees.

Mohit Surana: If you can just comment on the other expenses part do you expect it to remain flattish from here on?

Prateek Jain: We have been mentioning that there are two parts to the expenses. One is the fixed expenses or the semi-fixed expenses, which are more operating in nature. We are working hard to keep bringing it down. Then, there are two or three set of other expenses which is to keep ourselves future ready, in terms of any kind of technology for IT purposes, on the digital side to keep ourselves cutting edge, in terms of our acquisition strategy on the digital space and, the third is in the marketing space, from our brand building perspective. So, these are the three areas where expenses are not linear. So based on the market cycle, based on our fund launches and based on the traction and fund performance, we will keep looking at these expenses. As and when these expenses are incurred, they should be accounted for. But they are not going to be coming into one quarter together and, also, they are not going to be significantly higher. So you have to build in some 10% to 20%

percent kind of expense towards these kind of elements on a quarterly basis, which may come in one or two quarters. But predominantly, the fixed expenses part will remain in this range.

Mohit Surana: Got it Sir. Thank you. This is all from my side.

Moderator: Thank you very much. That was the last question in queue. On behalf of ICICI Securities that concludes this conference. Thank you for joining us. Ladies and gentlemen, you will now disconnect the lines.

Sundeep Sikka: Thank you.