Nippon Life India Asset Management Limited
Q4 FY20 Earnings Conference Call

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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 - Head (Digital Business)
	Mr. Hiroshi Fujikake - Nominee, Nippon Life Insurance

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Nippon Life India Asset Management Limited Q4 FY20 Earnings Conference Call hosted by JM Financial Institution 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sameer Bhise from JM Financial. Thank you and over to you, Sir.

Sameer Bhise: Thank you, Raymond. Good Evening everyone, thank you for joining this call today. From the Management side of Nippon Life India Asset Management, we have Mr. Sundeep Sikka, ED and CEO; Mr. Fujikake, nominee from Nippon Life Insurance; Mr. Prateek Jain, CFO of the company; Mr. Saugata Chatterjee who is the Co-Chief Business Officer, Distribution; Mr. Aashwin Dugal who is the Co-Chief Business Officer, Institutional; Mr. Arpanarghya Saha, Head of Digital Business; and Mr. Abhishek from Investor Relations. Without much ado, I will hand over the call to Mr. Sikka. Over to you, Sir.

Sundeep Sikka: Good Evening everyone and Welcome to our Q4 FY 20 earnings conference call. We have with us, Mr. Prateek Jain – Chief Financial Officer; Mr. Saugata Chatterjee – Chief Business Officer, Distribution; Mr. Aashwin Dugal – Chief Business Officer, Institutional; Mr. Arpanarghya Saha, Head of Digital Business; Mr. Fujikake, Nominee of Nippon Life, and Mr. Abhishek. I am happy to share that post change in principal shareholding in October 2019, NAM India has grown and has regained its lost market share and investor base. We have seen green shoots with induction of more than 290 new corporate and SME investors who have started investing with us post this transition. The rebranding exercise has been successfully completed and is yielding favorable results. Since September 2019, our mutual fund assets have grown despite a very challenging macro environment. On a monthly average basis, the AUM touched a high of Rs. 2,210 billion in February 2020 as compared to Rs. 1,886 billion in September 2019. Owing to COVID-19 crisis and subsequent volatility in the capital markets, Nippon India Mutual Fund fell in line with the industry by March end and the quarterly average AUM was Rs. 2,049 billion. We continue to have one of the largest retail AUM in the industry at Rs. 444 billion. Our aim is to increase our base of retail investors especially from B 30 locations. The contribution of retail AUM to total AUM is amongst the highest in the industry at 24%. Our SIPs folio increased to 3.2 billion as on March 2020. The progress highlights our retail execution capabilities during the challenging period. The annualised SIP book is at Rs. 97 billion. During the year, the new digital SIP registration grew by 56% and 82% of the incremental SIPs have a tenure of greater than five years. We continue to be amongst the leaders in the beyond top 30 cities category. The category contributes an AUM of Rs. 321 billion. Over 17% of the total assets are sourced from these locations against an industry average of 15.6%. As on March 31, 2020, 68% of the individual assets have a vintage of more than 12 months as against 63% as on March 2019. We are the second largest ETF player in the market having a market share over 16%. In this segment, the AUM rose by 39% to Rs. 295 billion. Excluding the EPFO allocation that goes to two PSU on mutual fund, we are the largest ETF player in the country. I am happy to share that the digital platform contributed 45% of our new purchase transactions. Our investments in digital ecosystem is yielding results and transactions grew by 31% to over 1.4 million in the last financial year. We have ongoing tie-ups with 20 prominent digital partners. Nippon India Mutual Fund remains well diversified in terms of distribution with no single distributor contributing more than 5% of the AUM. We have over 76,200 distributors empaneled with us. During the year, we launched Nippon India Digital Innovation AIF, a fund of fund in technology and venture capital space, which received commitment of approx. USD 100 million from marquee investors in Japan. In our offshore business, the assets under management and advisory rose to Rs. 89 billion. Now, on our financial performance, for the quarter ended March 31, 2020, the revenue from operations was Rs. 2.7 billion. Operating expenses decreased by 34% to Rs. 1.2 billion. Despite 12% fall in quarterly average AUM in Q4 FY20, the operating profit remained stable at Rs. 1.5 billion. On average, overall operating expenses have declined by 10% every year over the last four years. As on March 31, 2020, our financial assets are Rs. 24 billion. Of this, 12% is invested in our equity schemes, 57% is invested in our debt schemes, and 25% in bank FD and tax-free bonds, and remaining is in sundry assets, this proportion has remained similar over the last few quarters. Domestic equity markets witnessed extraordinary volatility in March 2020 whereby the benchmark industry declined by 25% while the midcap and small cap indices declined by 40% and 46% respectively. As a result, there was unrealized mark-to-market loss in excess of Rs. 1 billion in Q4. Due to this, the profit before tax decreased to Rs. 274 million for the quarter ended March 31, 2020. For the year ended March 31, 2020, the profit before tax was Rs. 5.6 billion. The MTM losses are notional and unrealized. We have already recouped a path of this loss driven by the favorable market conditions post March 31, 2020. With regard to our response to the COVID-19 crisis, we implemented 100% work from home in March 2020. Since then, all business operations including investor purchase, redemption, transactions have been executed without any disruption. On average, over 140,000 purchases were executed through digital mode in March 2020, an increase of 30% over the monthly average for the previous 11 months. Since March, our sales team as well as the portfolio managers connected with more than 10,000 investors conducted 80 con calls and webinars. For our distributor partners, we conducted over 135 online learning training sessions and engaged with more than 5000 partners during this lockdown. A strong risk management framework continues to be bedrock of our business. Over the years, we have built a detailed fund casing framework for every fund with an in-depth research driven process and assigned dedicated responsibilities to individual fund managers in line with the fund objective. To strengthen the framework further in these volatile times, the Board decided that to make fresh investments in fixed income in only in assets which are AA and above for all mutual fund schemes except Nippon India Credit Risk and Nippon India Hybrid Bond due to the SEBI categorization. I would again like to reiterate the Board has taken a decision that in fixed income, all mutual fund schemes will be investing only in AA and above. I am happy to announce the Board has proposed a final dividend of Rs. 2 per share. With this, the total dividend for the year is Rs. 5 per share. In FY 20, we consolidated and grew our business amid unprecedented challenges. Post re-branding in October, we saw the AUM recover on a fast track till February 2020. Despite external hurdles, our operating performance remains strong driven by retail strength and control on cost. We will continue investing in our AIF, ETF, and offshore business for future growth opportunities. We are confident towards the gaining the lost market share and increasing profitability in coming quarters. With these comments, we are happy to take any questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We take the first question from the line of Rishabh Dalal. Please go ahead.

Rishabh Dalal: Just while going through the income statement, I just came across the other income where you have mentioned that 124 crores as a negative figure, if you could please explain the rationale behind it and how much of that has been recovered in the sense that, you said something about mark-to-market losses, but if you can please explain it in detail?

Prateek Jain: Rishabh, basically the company has a net worth of close to about 2,900 odd crores of which 2,400 odd crores are Financial Assets. Predominantly 70% of these has been invested into our mutual fund schemes. If you also take the FD and tax-free bonds together, close to about 95% of this 2,400 crores have been invested into our own schemes, tax-free bonds, or fixed deposits. Of the total amount of 1800 odd crores invested in our mutual fund. We have been allocating close to about 12% to 18% of our total net-worth into our equity scheme, it is part of our seed capital as well as our treasury investment.

A Total of about 400 odd crores of investment was into our ETF/ Equity schemes, and you see from March 1st to March 30th, there was an overall decline in the benchmark indices of about 30% and accordingly we have seen almost similar kind of a decline and that is what Sundeep was alluding to that these are mark-to-market impact on our key investments. Please note, we do not take any kind of direct exposures into any equity or any other mutual funds, all these investments pertaining to are in our own equity in ETF schemes which is due to this unforeseen black swan kind of an event have declined in terms of MTM value.

Rishabh Dalal: Just one more follow-up question on this, you said that 26% of the portfolio has declined in the period from March 1st to 31st due to the unprecedented crisis, but if you could give me some figure as to how much of it has been recovered post the recovery that we have seen in the indices?

Prateek Jain: Basically, this is a dynamic figure, and the same is available from the NAVs of the schemes where we have invested, whichever is in public domain. You will be able to compute and see that a part of it has already been recovered post March 31, since market has come run-up 20 odd percent.

Moderator: Thank you. The next question is from the line of Jatin Kumar from Alpha Capital. Please go ahead.

Jatin Kumar: Sir, my first question would be, if I look at this in mutual fund industry data, April was also degrowth for our AUMs in terms of equity also, while equity markets have recovered, our equity as well as debts AUM have degrown in April, what would be the reason for that?

Sundeep Sikka: It is not that the whole thing has recovered, the fact remains that these have been April has also been one of the most turbulent months, so I would not like to comment anything beyond March 31st right now in this call, but clearly I think these are volatile times, I mean it will always be I think for us the backbone of our growth is we have today 3.2 million SIPs and this is retail flow which continues, so you will always have HNI money which will come and go and which is more specially during these volatile times, but from a sticky set point of view, we are happy that I think our SIPs continue to grow.

Jatin Kumar: Sir, on a broad-based figure, what would be our equity revenue as a percentage, our equity AUM how much that would be contributing into our revenue in terms of total?

Prateek Jain: Jatin, we do not disclose the individual breakup, but let me share with you that in terms of our overall operating revenue, for the year we are about 55 basis points and in terms of the net margin, we have improved our margin to 27 basis points, last year we had a net margin of 21 basis points, despite these challenging times because of our relentless focus on operating efficiencies, we have been able to improve our operating margins.

Jatin Kumar: Sir, my last question would be this employee expense and other expense have gone down quite a bit in this quarter, what would be the sustainable run rate for these two numbers?

Prateek Jain: We have always been maintaining that significant part of our salary is variable, we have on record said that approx. 25% of our salary bill is variable, and obviously in terms of the current scenario where for the financial year, there has been certain reversal or the lowering of our near term PLI and the long-term incentives, which has resulted in the almost about 30 crores of reduction in terms of quarterly employee expense numbers.

Jatin Kumar: Other expenses, Sir?

Prateek Jain: In other expenses if you see, again we have been mentioning that there is a reduction of about 20 odd crores when you look at a standalone basis, predominantly it is because we have been working on improving our operating efficiency, but this time the large part of it is from the marketing spend and the other discretionary expenses. We have always been maintaining that we can reduce/ control our discretionary spends in tough times and so this quarter the discretionary spend on marketing and other digital etc. has been lower leading to reduction in our other operating expenses.

Moderator: Thank you. We take the next question from the line of Anand Trivedi from Nepean Capital. Please go ahead.

Anand Trivedi: First question is a clarification, the other income which has come down from 56 to 112 crores negative, is that primarily because of equity or just also some debt mark-to-market component in that?

Prateek Jain: Marginally that would have been the case, but predominantly it is from the portfolio investments into our own ETF/ Equity schemes.

Sundeep Sikka: To answer your question, this seed capital which has been put in equity, mutual funds, and ETF.

Anand Trivedi: Second question is in your expenses year over year, your fee and commission expenses has come down from 56 crores to 3 crores, can you explain why it has come down so much?

Prateek Jain: This is the expenses where industry used to historical pay upfront commission which used to get amortize in the books, but post the regulation change the upfront brokerage is not allowed and paid from the schemes in the form of trail.

Anand Trivedi: The three is then the more sustainable number, is that a fair way to look at this?

Sundeep Sikka: Yes, these are the numbers which is pertaining to the unamortized part of the or close ended and lock-in funds and also some part of it is pertaining to the PMF and AIF in the consolidated numbers.

Moderator: Thank you. The next question is from the line of Nikhil Chaudhary from Akash Ganga. Please go ahead.

Nikhil Chaudhary: Sir, my question was with respect to the newspaper article in Feb '20 wherein the regulator has issued an order in our favor in respect of the Reliance Capital dues, so have we reversed the amount of 320 crores which we had provided like I just wanted to get a sense on that?

Sundeep Sikka: First let me share with you, I think as far as the Reliance Capital, there is no exposure of Reliance Capital in the AMC, the financial assets of the AMC. We do not have any exposure to any Reliance Group company or any other company other than our own mutual fund schemes, that is number one. Number two, the exposure which is in some of the schemes, it is under litigation I think we will not be able to comment too much about it, but I think we are making significant progress on that.

Nikhil Chaudhary: Sir, could you share the Nippon SIP closure rate like yesterday I understand there was an article wherein the SIP closure rate was 72% for the industry, so if you could share some numbers in respect of Nippon that would be great?

Sundeep Sikka: I broadly for us we are in line with the industry. Fortunately, I think the only thing because our SIPs are very retail, the stickiness is much more and we have 80% of our SIPs are greater than five years.

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

Haresh Kapoor: Sir, just coming back to this other income, if you could just talk about the absolute value of impact and the normalized other income excluding the MTM hit what would that number be for the quarter?

Prateek Jain: If you see in terms of the normalized income, this is close to about 140 odd crores of mark-to-market income and the rest is the other income which we would have accrued on FDs or other investments where there is no MTM.

Haresh Kapoor: My question is in the presentation it is mentioned about 1 billion, my question is what is the exact value of MTM hit for your Q4 quarter, so if you could just give that number out?

Prateek Jain: Absolute MTM hit is close to about 149 odd crores in the consolidated PL.

Haresh Kapoor: Basically, if your quarter-on-quarter 57 crores in Q3 would have more or less been like your approximately 27 crores or so for this quarter the normalized other income, is that right?

Prateek Jain: Yes.

Haresh Kapoor: Sir, the second question is around the cost front, so obviously you mentioned the key reasons for that, but going ahead how do you look at for the quarterly run rate in terms of the other expenses because as you rightly mentioned which is also a discretion, but markets are where they are, we might need some push on the marketing front too to kind of get our brand to the clients, so we have reduced in Q4, but how do we look at it immediate quarter or Q1-Q2 where we might need some push on that front too?

Prateek Jain: Haresh, if you see consistently we have been in the range of 150 crores thereabout and importantly if you have seen in the last three years and it is part of the presentation also, our other expenses have been significantly coming down, so definitely I would say it would be north of 150 crores per quarter in terms of overall expenses.

Sundeep Sikka: Just to add to it, we are not trying to cut any cost which will have impact on a long-term growth, I think the discretionary cost that we are talking of, so we keep investing into digital and the cost-cutting is coming. Also the fact that today when 50% of your transactions are coming through digital, I think the operational cost is also coming down, so I want to just assure you that from our point of view, we will be closely looking at all discretionary cost, but we will not be cutting any cost which can impact the future growth of the company.

Haresh Kapoor: I just want to reconfirm, so did Mr. Prateek just say that going ahead it will be 150 crore run rate, so this is 112, 113 crores because 150 crores on a normalized run rate basis where we will be investing in the business and whatever push it needs, is that right?

Prateek Jain: Again, there are multiple components to it. the other expenses are in the range is 46 to 60 crores and there is a bit of variability, the other bigger item is the employee benefit expenses, which has been in the range of about 75 crores per quarter. As mentioned there are variable component to this as well. Now it will all depends how this year pans out, but what I am saying is that in terms of the steady state run rate, it was about 150 crores and given the variability we can always bring it down depending on how much we have to invest in terms of marketing and other discretionary spends as well as in terms providing for the PLI.

Haresh Kapoor: Next question just around this quarterly revenue run rate, now obviously you have had some on a total AUM basis has been pretty steady and you have also started gaining some traction earlier in Q4 was on the tax front and some mixed change there, but little positive on the AUM front, but approximately 9.5%-10% down on the revenue side on a quarter-on-quarter basis, so is it just the mix change front or is it something more in terms of some yields changing or something on that front?

Prateek Jain: Two things, predominant part is the mix front, obviously the mix has changed in the fixed income side most of the duration and the credit funds where we used to earn slightly higher fees has seen outflows and money has now come in the form of a liquid and ultra-short-term category where fees level are relatively lower. Second part is due to yield compression, but to negate that we have reduced expenses.

Haresh Kapoor: Just last thing, April in particular, we had pretty decent trajectory in Q4, some of the debt initiatives, some of the liquid initiatives seem to be on a positive note, but can understand the equity hit that we have had because of MTM but even in April, we had some impact on the debt side and some of the other impact in even, so coming back to that, so is this some particular segments as you mentioned which are seeing that investment and outflow, or how should we read through because debt momentum was good and in the month of April obviously had some decline, so how should we read through on that front?

Sundeep Sikka: When you see this in April, again because we are talking of March results, I do not want to touch too much about April, but just to give an you saw in industry they were a lot of events which happened, we being a part of the industry, we will also get impacted by that, so some of the credit funds we saw the impact because of some industry player, so I will just like to put that there is nothing specific with the debt segment, I mean whenever events as big as what happened in April happened in the industry, everybody gets a little bit impacted.

Haresh Kapoor: No other sub-category or sub-segment that we are seeing, I mean equivalent other than credit funds?

Sundeep Sikka: No, and I would also like to touch this, credit funds for the industry are less than 5% of the AUM.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: I was a bit confused on the expense line side, so I think when you are referring to 600 crores probably you are referring to total expense including depreciation number because last year's full year expense is about 572, so I think are you taking that number in consideration when you say that there is variability in expense and employee expense has variable component and other expenses available component then whatever was your run rate quarterly and what came in the Quarter-4 your expense line ideally should then land up between the two numbers for FY '21, is that the interpretation we should make?

Prateek Jain: Well, we are not in the business of giving guidance, but most of these expenses and as you rightly pointed out would be following this kind of trajectory so obviously the way you articulated it would be between 550 to 600.

Pritesh Chheda: That is including depreciation right, because that is the total expense?

Prateek Jain: Yes.

Moderator: Thank you. The next question is from the line of Ritvik Seth from One-Off Financial. Please go ahead.

Ritvik Seth: Sir, couple of questions on the employee cost is it linked to the NAV of the scheme or?

Prateek Jain: Employee cost is not linked to the NAV, however, most of the research firms just put across into their research reports the expenses as a percentage of AUM or total expenses as a percentage of AUM. Sundeep can dwell on this in terms of PLI how performance is rewarded or underperformance or how PLI are split.

Sundeep Sikka: Broadly it is not linked to NAV, number one, I think it is linked to overall company performance, individual performance, and the team performance, so I think broadly about almost one third of the total compensation is variable for the key people and it is basically that is the discretionary part that we talked about.

Ritvik Seth: Just going on to the expense part on the other expenses, you mentioned that we had lowered the marketing expenses in the quarter, so should we link the April loss of equity market share versus the industry somewhat with this or this is purely because of the NAV and the volatility in the market?

Sundeep Sikka: I do not think so there is a direct correlation between investing money in one month and getting market share in the next month, it is a franchise that has been built over 20 years, so I would like to again maybe this comment has been taken a little differently, we will be looking at discretionary cost, it does not at any time mean we will stop investing in initiatives, activities, and investments which will help us grow in future, so at no part of time I think the cost-cutting will not be done at the cost of future growth.

Ritvik Seth: Last question is on the, what would be the effective tax rate for us?

Prateek Jain: We have chosen to go for the lower tax rate, however, in terms of this MTM losses which is more of an accounting losses, we do not get any kind of tax breaks and hence you see the effective tax rate appearing higher.

Ritvik Seth: I got that, but tax rate would be 25%?

Prateek Jain: Yes, it will be 25%. However, whenever we have other MTM income and we realize it basis long-term gain, the same is taxed at lower rate, and therefore, our effective tax rate works out lower than the maximum marginal rate.

Ritvik Seth: One last question, on the 2900 crores treasury money that we have invested, if I got it right this 400 goes in equity of schemes of our own company and 57% is debt and the balance is tax free bonds.

Prateek Jain: Of 2,900 crore, 2,400 crore is in Financial assets and, yes, the above breakup is for that 2,400 crore of financials assets. Balance is for tax free bonds and other sundry asset,

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

Madhukar Ladha: First on this other income and your composition of investments, so on slide 41 you have put out the complete composition, so what are these other assets of 158 crores approximately?

Prateek Jain: These are the trade receivables and investments into our own AIF and other subsidiaries.

Madhukar Ladha: Trade receivables is also included in this or only?

Prateek Jain: These are the total financial assets.

Madhukar Ladha: Trade receivables come under financial assets?

Sundeep Sikka: That is right, so effectively everything Madhukar whatever is there within the company and within the mutual fund schemes.

Madhukar Ladha: Can you give a breakup of those mark-to-market loss of roughly 150 crores between equity, debt, and anything else?

Prateek Jain: Frankly speaking, there is, first of all we have no investment outside of our schemes, and therefore, if you see the entire mark-to-market loss is on our own investments into our Equity and ETF schemes.

Madhukar Ladha: Understood, but can you just like quantify how much will be equity and ETF and how much will be debt because as of March the equity MTM amount is about 281 crores whereas debt is 1400 crores, now even if you take a 30% debt on equity, then roughly coming into about 100 crores sort of debt number?

Prateek Jain: Everybody is alluding to get this precise number, almost about 415 crores was there and which roughly equally divided between the ETF and in our equity schemes.

Madhukar Ladha: What is written down value?

Prateek Jain: Before that the value was roughly about 400 to 415 of which effectively 30% comes down to about 130 crores negative.

Madhukar Ladha: That negative number is about 130 crores for equity and ETF scheme?

Prateek Jain: Yes.

Madhukar Ladha: On the expenses side, what would be given these numbers now for the full year we have staff cost is about 300 crores and other expenses are about 221 crores so within these expenses, what percentage would be fixed and what would be discretionary, can you give a little bit of color on that?

Sundeep Sikka: As I mentioned earlier, I think in our total fixed salary cost, one-third will always be discretionary which is the variable pay.

Madhukar Ladha: In the other expenses Exclude fee and commission expense?

Prateek Jain: It has been in the range of about 50 odd crores, in good times as Sundeep mentioned, we invest for future through discretionary spend; it would be around 60 odd crores and in bad time where we want to squeeze it, we can bring it down to about 45 odd crores, so you see it will be within this range.

Madhukar Ladha: One final question, you had the phantom stock options at the time of IPO, has all of that been settled now or is there still some mark-to-market pertaining to those in the employee expenses right now or is it all closed out?

Sundeep Sikka: As I mentioned that the reduction in the salary for this quarter is predominantly part of the two things, one is the immediate for the year PLI and also in terms of part is due to the long term incentive which is in form of phantom, the valuation of that so it is a combination of these two things.

Madhukar Ladha: When do all the outstanding, see right now we are not issuing any more phantom, and when do all the phantom stock options get closed, so when do they finally get settled, what is the outer date on that?

Prateek Jain: Next financial year, it will complete the four-year period, so next the next financial year it will get closed.

Madhukar Ladha: March '22?

Prateek Jain: Yes.

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

Kunal Shah: Just two questions in the quarter, the fee and commission expense has increased from 12 crores to 19 crores, if I understand correctly, these expenses are the ones which were prepaid before those circular come in where all these expenses had to be debited directly to the schemes so any reason why this is gone up from 12 crores to 19 crores and what is the pending amount going ahead which would be debited in the next financial year, that is the first question? The second question was pertaining to now you are seeing a flight of safety where lot of money be it liquid or trade moving to probably say banks which have got AMC houses and also as far as the equity schemes go, it is more kind of a link to the performance of the scheme where it gets pushed by IFAs. Now, looking at both the scenarios where probably we do not have a bank as a channel partner right and Nippon is new when it comes to branding as it was earlier known as Reliance and also on the backdrop of equity schemes having a lackluster time what is the feedback that we get from IFAs when it comes to getting incremental business?

Sundeep Sikka: Firstly, I think I like to highlight the fact yes, we have not been a part of the bank, we are not a bank sponsored asset management company and we do not take that at any point of time that as a disadvantage, but we are today supported by all banks and our biggest strengths have been the IFAs, so I think I do not see that being a part of the bank is the extra advantage or you are not having it because as long as you have a well-diversified distribution mix, the sigma of that put together takes care of it, that is number one. Number two, I think the question of whether investors will now move to bank sponsored for safety, I do not think so, I think that is not the case, I think today every company comes from the, it is more to do with the institution which is backing it. Today, we clearly see specially the HNI as an institutional investors clearly see Nippon as a fortune 500 company and the kind of response we are getting from these investors post the name change has been very, very positive. Coming to performance, flows coming to few schemes, yes, we have had some schemes which have not been doing well, but at the same time we have had couple of equity schemes which have been doing very well, the value fund, the growth fund, and some other funds, and we have been seeing good flows coming into it. Having said that, our long term approach will be that we will be working on consistency of the performance of the schemes rather than being in the top three because we believe that it is not top one or two because that type of performance is not sustainable from a long term point of view, so the way you have seen we have done in fixed income I think we are one of the first asset management companies to put out to the formal this thing to the Board a policy that we will not be going below AA, I think we are moving more towards conservative approach in fixed income and consistency in equity.

Prateek Jain: In terms of your first question, if you see the two set of our results, one is the standalone. There the fee and commission expenses have come down from 7 crores to 3 crores while when you look at the consol basis, it has gone up from 11 crores to 19 crores, the reason for that consol fee and expenses going up is because in the fourth quarter, we were able to manage to raise asset in our other businesses where upfront commission is still allowed and therefore, the expenses are higher.

Moderator: Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial: Just two quick questions, one how is the trend happening right now on the, this is not about March but post this quarter because of the fund has seen trouble on the debt fund side, so how is the flow on the debt fund side right now in this quarter, just a flavor not the number and post COVID if you can give me some sense of how you are thinking about the distribution side, how changes would be happening to reach to the end consumer if this kind of lockdown or this kind of social distancing continuing, so any strategy you have that how you guys are planning to reach to the end customer more easily or more digitally and any platform has been developed or not, if you give some color over this that would be really helpful?

Sundeep Sikka: Let me take the first one on the fixed income, I think clearly because some of the events which have happened in the industry, we have seen the flows which are coming in, I think they have been moving away from credit funds and have been moving more towards the high quality and lower duration, we have seen. We have seen good flows in some of our schemes like Nivesh Lakshya, which are more to do with and the gilt funds, so there is clearly a change which we have seen, but having said that is this going to be long term trend, it is very difficult to comment at this point of time because this has just happened very recently, many times these kind of change in behavior maybe temporary or maybe permanent only I think we will come to know after couple of quarters. Coming back to distribution, we are very happy and proud of the digital capability that we have built up over the last five years. The fact that we have been in this lockdown for such a long time, we still have been doing roughly about 10,000 subscriptions per working day without offices being open. We are doing roughly one incremental SIP every 20 seconds through our digital properties, so I think one good thing is that whatever investments we had done in our digital properties is showing results. Clearly, we will see more and more digital happening, but I am also the way I see is once things come back to normal whether it is going to be three months, six months nobody knows that, in financial services there will always be a set of people who will like to physically come to the branches, meet with the distributors, and everything cannot move digital, so what is happening right now, while it is a big advantage for us because of the investments in the digital which we had done, but it is not that the branches will close, it will not happen that the distributors will not be having a face-to-face interaction, so I think we need to see how things play, you have to always keep diversifying and keep building and investing for future so I think we are happy today both whether it is physical or digital, I think we are ready on both the fronts.

Jignesh Shial: Just confirming it, absolute loss number that is given for the other income part have been 149 crores, is that number correct?

Sundeep Sikka: No, the overall number for the quarter is 125 crores on a consol basis.

Jignesh Shial: Since market has already recovered in the month of April and May, you will see the reversal happening in this quarter or wait for it and all?

Prateek Jain: This quarter is still long way to go and let us say if market goes up significantly from here the entire loss could be recovered. So obviously it is very difficult to predict from our side, but of course all those investments which we have made, we have not realized these losses, so it will be subject to MTM effect.

Moderator: Thank you. The next question is from the line of Aadesh Mehta from Motilal Oswal Asset Management. Please go ahead.

Aadesh Mehta: Sir, we have seen a very sharp drop in other expenses from around 60 odd crores to 40 odd crores, so how should we read this trend, should we conclude that we have exhausted all levers in this line item and this should be the new normal or you have further levers to reduce this?

Prateek Jain: Obviously we are working towards more and more automation and more and more efficiencies, so I do not think we have exhausted all of it, yes incrementally, the Delta from here will not be significant. While we do not give any guidance, however as I mentioned that it would be in the range of about 45 crores to 60 crores where we have the liberty of deciding discretionary spends depending how the market conditions are. However we will keep focusing on every opportunity to bring in even some small savings by improving the efficiencies.

Aadesh Mehta: Sir, we also hold some asset management rights of around 240 odd crores on our balance sheet, so any write-off or provision provided on that this year?

Prateek Jain: We have got the external valuation done and at this point of time the carrying value is lower than the valuation carried out by the independent agency and hence it does not require any kind of write-off.

Aadesh Mehta: Sir, last question from my side, this 1400 crores of debt exposure you have everything is there in the thing, you do not have any exposure directly to bonds or NCDs?

Prateek Jain: We do not take any kind of direct bond or fixed income exposure (other than tax free bonds).

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

Pratik Chavan: My first question was is it uncertainty due to the COVID-19, what would be the impact on our offshore mandate, any sense on that, and the second question is in terms of market share, will we slice it up in terms of institutional, retail, and HNI, so could you share what was the market share across the three categories in September and what was it in Feb 2020?

Sundeep Sikka: If I got your question market share between Feb and April-March?

Pratik Chavan: Between September last year and Feb in terms of HNI, retail, and institution?

Sundeep Sikka: Broadly to put it very simply, over the last two years, let me break it while you are going six months back I am going two years, I think the highest market share loss was in the institution investors and HNIs and as we have mentioned, we are already seen about 290 corporate investors coming back and along with that, I think we have been seeing good traction coming in from HNIs and even more especially a lot of HNIs coming in ETF also, so I think while I will not right now have the number ready, which I think Abhishek can share with you off-line, but these are the two segments where we can and we will see highest growth.

Prateek Jain: Just to add to what Sundeep said almost as against the industry, our retail contribution to AUM is about 24% as against 19% of the industry and our B30 contribution is about 17.5% as against 15.6% of the industry.

Pratik Chavan: Next question in terms of mandate during the COVID-19 situation, any sense of what can be seen in terms of next one year in the offshore lending?

Sundeep Sikka: I think since the last quarterly call, there is nothing much to share on that, but as we mentioned in the last call whereas Nippon being the primary shareholder, we are in the process of leveraging the global network of Nippon to get money into India; clearly, this is going to be a function of how the overall investors view India from a long-term point of view, we are very confident, I think we will gain market share in this segment leveraging Nippon's network across the globe.

Prateek Jain: Just in case if you are interested, our UCIT equity fund performance has been in top quartile in one year, three-year and since inception-till-date category, so obviously fund has been doing well, when the opportunities come and investors believe that India is likely to grow faster than the rest of the world, they will invest money into India, then obviously this performance will surely help.

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

Pawan: Sir, couple of questions, number one is like this is a very basic question I want to understand how the arbitrage funds are classified whether as equity or debt, another thing is solutions-oriented schemes like retirement or children's fund and closing the schemes, are arbitrage funds classified as equity or debt in the asset classification that you show as average yield?

Sundeep Sikka: Our arbitrage if you were to look at it is included in the equity segment for our data.

Pawan: What about the solution oriented schemes, retirement funds?

Prateek Jain: Whichever is equity related scheme will come in equity whether there are close ended or goal based fund. For retirement solutions, we have both equity and debt-oriented schemes.

Pawan: Sir, second question is related to investment, but not related to the MTM losses, just wanted to understand the thought process here because you have close to 2300 crores in terms of investments, cash, FDs, but considering the operating cash flow positive nature of the business you do not really need that much cash on the balance sheet, are you considering extraordinary dividend or buybacks whenever the share price goes below intrinsic value as per your estimates?

Sundeep Sikka: I will not be able to comment on this, I will let the Board decide this and I think from our point of view over the last many years, we have been giving higher dividends and that thought process will continue, but however, very difficult to comment on that question at this stage.

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

Madhukar Ladha: Would we be losing little bit of market share both on the equity and debt side, and that is little concerning, so can you talk a little bit about what the thought process is and how you will regain this market share over the next couple of years?

Sundeep Sikka: Madhukar, if you were to see again like I mentioned I think if you were to break down the last full financial year in three parts, I will say from April to September I think when will change took place to the Nippon Life, we came from an AUM of 2,40,000 monthly AUM to 1,82,000 and from there till March 1st, we moved all the way up to 2,20,000 for 20% growth, so post last month I think we have clearly seen because of whether mark-to-market credit events happening, I mean it is a more industry phenomenon, but I think the way you need to really tell, yes we lost in past. If you were to look at the last six months minus the month of March, I think you can see the recovery story or to regain market share has already started. Even if you were to see the April data, I think whereas few basis points, but we are gaining market share, so we are clearly getting our market share bank. Having said that, I would like to also highlight the fact while we will keep talking about the market share, but as a from a Board point of view, the thought process is to continue focusing profitable growth and profitability rather than market share, but I am just trying to both the sides, we have been gaining, I think we are seeing positive response, but for us if it is between market share and bottom line, I think it will be bottom line.

Madhukar Ladha: Just a follow up, you said that obviously we are looking more at profitable growth, but if I do a little bit of back of the envelope calculation of this quarter's numbers and I try to derive the yield on equity, I believe that the equity yields have dipped pretty significantly in the fourth quarter, I have also seen the commission sort of disclosures in terms of normal TER minus direct TER, for March commissions have also increased, so can I get some comment on whether these are sort of a continuing high commission payouts?

Prateek Jain: Madhukar, what Sundeep mentioned is our strategic intent. Technically, we keep working on, the market, or where ever we see that there is an opportunity. In few instances to get the traction back we might have slightly increased our brokerages, but these are with tactical intent and which as a policy we do not share publicly. However, would want to highlight specifically that despite overall decline in the realization, our operating profit for the quarter is about 29 basis points and for the year is about 27 basis points as against 21 basis points for the previous year.

Moderator: Thank you. We take the last question from the line of Mohit Surana from CLSA. Please go ahead.

Mohit Surana: Sir, I just wanted your thoughts in terms of, you said that your digital initiative etc. has helped during the lockdown phase, but just from a regulatory point of view of KYC etc. and all of that, you mentioned that the fact that people want to visit branches etc., so I just want to know what has been your experience in terms of daily or weekly accounts opening rates post slowdown and pre-lockdown and how do they compare and your comments and thoughts?

Sundeep Sikka: While I will not have the exact number and data to share at this point of time, but clearly the fact that we have been in lockdown, we are doing about 9000 to 10,000 transactions per day, we are getting incremental investors, what you have to understand is the digital ecosystem is also evolving and maturing, the E-KYC. Today, we have come to a point, I mean it is lot more smoother easy for someone to on-board somebody digitally than what it was one year back, so I think I would say things are very positive. Regarding E-KYC it is not a challenge anymore the way earlier it used to be, so from the fact that in only last year itself we added 1 lakh SIPs only through digital on additional properties, so I think it is evolving, we remain positive on this.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Sundeep Sikka: Thanks a lot everyone, thanks for being on the call evening so late and hope to talk to you all again after the Q1 results in June. Thank you.

Moderator: Thank you very much. On behalf of JM Financial Institution Securities Limited, that concludes the conference. Thank you for joining us, Ladies and Gentlemen, you may now disconnect your lines.