Nippon Life India Asset Management Limited
Q2 FY21 Earnings Conference Call

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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 the Nippon Life India Asset Management Limited Q2 FY21 Earnings Conference Call hosted by B&K Securities India 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 from B&K Securities India Private Limited. Thank you and over to you sir.

Ajox Fredrick: Thanks Faizan. Good evening, everyone, and thanks for joining the call. On behalf of Batlivala & Karani Securities, we welcome you all to the Nippon Life India Asset Management Limited 2Q FY '21 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 Q2 FY '21 earnings conference call. 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 Insurance Japan.

It has been one year since the change in shareholding. Since then, the Nippon India Mutual Fund brand has been widely accepted by investors and distributors, especially in B30 locations. In this period, despite a lockdown for over 6 months, we have achieved important milestones towards increasing the investor base and diversifying our asset mix.

Nippon India Mutual Fund added over 281,000 new retail folios. The fixed income assets rose by 21% driven by activation of over 600 institutional clients, including 27 out of the top 100 Indian corporates. We completed one of the largest digital NFOs in H1 for Nippon India Multi-asset Fund. The NFO garnered Rs. 7 billion with the participation by more than 80,000 investors spread across 370 locations. We manage a comprehensive bouquet of products in the passive category. Nippon India Mutual Funds Gold ETF is the biggest in its Category and has doubled in the last 12 months to cross Rs. 51 billion in assets as on September 2020. We consolidated our product offerings further through the launch of India's first IT ETF and the Smallcap 250 Index Fund. The IT ETF has assets over Rs. 7 billion in September 2020. NAM India received a prestigious mandate to manage Post Office Life Insurance and Rural Post Office Insurance Fund. This is the first government mandate after shareholding change and greatly enhances our credibility across domestic and foreign investors.

As on September 2020, Nippon India Mutual Fund maintained its high market share of unique mutual fund investors in the industry at 29%. Nippon India capital Fund improved its share marginally over this quarter, a testament to the strong retail presence. In Q2, despite partial lockdown, we added more than 168,000 retail folios. We continue to have one of the largest retail AUMs in the industry at Rs. 520 billion. The contribution of retail AUM to total AUM is among the highest in the industry at 26% compared to 20% for the industry. We continue to be among the leaders in beyond 30 cities category. This Category contributes AUM of Rs. 363 billion, over 18% of the total assets are sourced for these locations against the industry average of 16.1%. As on September 30, 2020, 69% of the individual assets have a vintage of more than 12 months against 68% as on March 31, 2020.

On a gross basis, Nippon India Mutual Fund added 312,000 SIP and systematic investment folios in the quarter. The progress highlights our retail execution capability during the challenging period. The annualized systematic transaction booked is at Rs. 74 billion. During the quarter new digital SIP registration grew by 117%. In volatile markets, folios with low ticket size have demonstrated longer vintage and better stickiness.

As a part of our de-risking strategy, we have specific focus on ETF, AIF and other option businesses. As one of the largest ETF players with the market share of 13%, Nippon India Mutual Fund manages an AUM of Rs. 286 million. Excluding EPFO allocation which goes to public sector on mutual fund, we are one of the largest retail players in the country. Nippon India ETF has 33% share of the industry ETF investors. In Q2, we added 151,000 ETF folios as against 97,600 for the entire previous year. Nippon India Mutual Fund has 70% share of ETF volume on BSE and NSE put together. Nippon India ETF average daily volumes across key funds are far higher than the rest of the industry. In our AIF business we manage Category-2 and Category-3 AIF across various subclasses. Launched in 2019, Nippon India Digital Innovation Fund has committed funds of in excess of USD 100 million and has initiated investment activities. As on September 2020, Nippon India AIF has commitment of Rs. 34 billion across all funds. Post consolidation in the last few years we expect to grow our existing funds and expand into further categories in AIF and PMS in future.

As seen in our recent NFO, online and digital assets have become a key source for investor acquisition and communication. Digital platform contributes 48% of our total new purchase transactions. We continue to benefit from our early investments in digital ecosystem and executed 4.8 lakh purchases in Q2 through the digital assets - an increase of 31%. We have ongoing tie-ups with over 20 digital partners. Nippon India Mutual Fund has well diversified and nimble distribution base. We added over 400 IFAs in this quarter to take the IFA base to over 77,000. As on September 2020, we have approximately 77,400 distributors impaneled with us. Direct channel contributed 53% of the mutual fund AUM. Of the distributed assets share of IFAs was 54%, 79% of the distributor assets are contributed by individual investors.

Nippon India Mutual Fund has a wide presence through approximately 290 branches across the country. We continue to review our existing branch operations and future expansion plans. Given the new normal our marketing efforts are increasingly focused to our digital channels which are more cost-effective as against off-line advertising.

Now on our mutual fund assets under management. As on September 30, 2020, the AUM was 1,929 billion - an increase of 18% over March 2020. The quarterly average assets under management was Rs. 2,000 billion as compared to 1,800 billion for the quarter ended June 30, 2020. For the quarter ended September 30, 2020, the total income was stable at Rs. 3.2 billion. Profit after tax increased by 6% to Rs. 1.5 billion. In this quarter, overall operating expenses decreased by 20% to 1.3 billion. Consistent focused on cost optimization and rationalization over last 6 to 8 quarters had resulted in reduction in employee costs and other expenses. Operating expenses as a ratio of average assets under management reduced from 43 basis points in Q2 FY19 to 26 basis points in Q2 FY21.

With a view to the industry dynamics and prevailing macro conditions we continue to evaluate investments for inorganic opportunities and strategic partnerships. Against this backdrop, we will consider the deployment of our IPO proceeds towards value accretive and strategic initiatives.

To sum up, we are in midst of exciting phase with a partial recovery in equity markets, initial signs of economic rebound and gradual opening of business activity. At NAM India, investor centricity remains the top priority. We strive to deliver complete products suite, superior fund performance and efficient client servicing through extensive use of technology. Despite external hurdles, on the ground execution remains strong driven by retail strength, top-quality digital ecosystem and control on cost. We are confident to continue our trend of profitable growth in coming quarters.

Before concluding, I would like to also welcome our new board members. Mr. Ashwin Parekh, a financial services veteran with a rich experience of 30 years, has joined NAM India Board and has also been appointed the Chairman of the Audit Committee. With reference to Nippon Life India Trustee Limited, leading Chartered Accountant and industry expert, Mr. Nilesh Vikamsey and Mr. Kohei Sano, part of Global Business Risk and Control at Nippon Life Tokyo, have also joined the Trustee Board. We are sure that the induction of such esteemed individuals will further strengthen our board and we will benefit from their valuable guidance, specifically in the sphere of finance, corporate governance and risk management.

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 SIMPL.

Viraj: Just wanted to understand the yield part a bit better. So if we look at sequentially, we have a better product mix in terms of higher share of equity and retail and the B30 book is also much higher. But overall revenue yield has not really moved up much for us, so just trying to understand, has there been any change in the channel commission or if you can just throw some color on that and added to that we have made a lot of changes in the equity investment deal part also in last couple of quarters. But if we look at our overall performance of key flagship funds especially on the large cap and tax saver and other, fund performance is still probably at a lower end. So where are we in that journey in terms of that transition which will be bigger and the better performance, so if you can just elaborate a bit more on that?

Sundeep Sikka: I will request Prateek to take the first question on yield then I will talk about the fund performance.

Prateek Jain: In terms of our realization, our liquid realization remains the same as what it was last year. However due to the asset mix change in the fixed income category, from long-duration and credit fund post the COVID environment and the Templeton issue, both industry and we have seen money moving from long duration and credit risk funds, because of the extreme conservative behavior, to ultra-short-term and liquid category, and therefore, the yields on the debt fund category has come down which is resulted in overall decline in the yield. However, on our equity and ETF portfolio, the yield remains to be same as what it was last year.

Sundeep Sikka: I think with respect to the performance of some of our flagship schemes, we have done a couple of changes. Change in processes and restructuring of the fund managers within the fund, and we also have seen addition of new portfolios managers. Yes, it has taken a little time. I think performance of one or two of our flagship funds has not been as good. But we are very confident, that with some of the new changes that we are doing in processes, you will definitely see the change in performance over the next few quarters.

Viraj: Can you elaborate apart from new fund management hires what other changes done by existing team? Are we seeing a need to actually increase the commission payout to push the AUM in those funds?

Sundeep Sikka: We have always been very clear. Our focus remains on profitable growth. We do not believe in acquiring business by paying higher brokerages. That is not a sustainable strategy. As I mentioned, we have seen both addition of fund managers, realignment of portfolios and a lot of changes which have been implemented with the feedback of Nippon Life on the risk management side. We are very confident. You will see the positive results over the next few quarters. You may also see addition of new fund managers in the team.

Viraj: Just last question was on the cost side. In the press release in the foot-note we talked about this impact of Social Security code, so what was possible impact could be on our financials?

Prateek Jain: Right now the code has not been notified and therefore there is no impact assessment done. Currently we are unable to assess the impact. We do not have too many employees in the lower salary bands. Beside, all the employees are covered both under gratuities and pension schemes, and hence we do not see any material impact going forward.

Moderator: The next question is from the line of Kunal Thanvi from Banyan Tree Advisors.

Kunal Thanvi: I had two questions broadly; one was on the cost structure. So if you look at the employee cost this quarter has been the biggest improvement. So wanted your sense on how sustainable basis, is this a function of lower or no bonus payment this year and if you go back to normal next year? That is question number one. The second is on what's your trend on the flows in the industry where last time when we were in discussion we talked about market hitting the previous size and then the behavior of an investor generally changes that is what we have done in the H1. So now what kind of flow scenarios that we are looking at and are there any green shoots in terms of reversal of outflows or we are still 2-3 quarters behind that green shoots?

Sundeep Sikka: I think let me take the first question on the employee. We have mentioned in the past, in the employee cost, one-third is variable and that will always be variable depending on the performance of the company. Also, earlier the company did not have ESOPs. Now going forward as majority of the company is covered through ESOPs, I think relatively the PLI part will be covered through ESOPs. So that is number one. Number two, as far as the flows are concerned, the last 3-4 quarters have not been the best for the industry. However we remain confident because over the last few quarters while the market is almost at all-time highs, we are almost touching where it was before the fall. But, from our perspective, the way we see is that across the industry, there has been a slowdown in the equity flows, and we are a part of it. We are trying to build our distribution capability, digital capability and keeping the cost levels low, so that as and when these flows come back to the market, it only adds to the bottom line. However, overall from our perspective, if I was to break the last 2 years, broken down to previous 12 months and 12 month before that, the year between October '18 to '19, we were in continuously negative flows. I think that outflow has been contained. So as we are seeing, the new investors have not been coming to the industry, but what you saw during our two NFOs, whether it's a multi-asset class where you saw almost 800 crores coming in and 80,000 investors, whether the IT ETF we saw the same thing again. So we remain very confident that once the investors come back, we would be able to gain disproportionately. Till that time we are trying to keep our cost structure low, because the positive part is once the flows come and the revenue goes up, the cost structure would not go up proportionately.

Moderator: The next question is from the line of Rahul Nandwani from Centrum.

Rahul Nandwani: One question on the post office AUM mandate that you received, so what kind of a top-line and a bottom-line you're looking at in terms of percentage of area?

Sundeep Sikka: We will not be able to share the bottom line because it is confidential. But from an assets point of view, it adds about 50,000 to 60,000 crores**.**

Rahul Nandwani: 50,000 to 60,000 crores in terms of AUM?

Sundeep Sikka: AUM and out of which about 6000 crores is equity.

Rahul Nandwani: Out of the 50,000 to 60,000 crores, 10% is equity?

Sundeep Sikka: Yes.

Rahul Nandwani: And rest would be in debt?

Sundeep Sikka: Yes, fixed income.

Rahul Nandwani: And also on the international mandates, you have said that you have received 34 billion commitment. So what sort of a drawdown are you looking at? So those are commitments, so when will the flow through the AUM?

Sundeep Sikka: The ones we talked about the Indo-Japanese fund in the AIF. The drawdown has already started. Effectively, we see that in the next 2 to 3 years, we will be able to have a complete drawdown for the $100 million.

Rahul Nandwani: For the technology fund?

Sundeep Sikka: Yes, technology fund.

Rahul Nandwani: So what's the sort of yield do you look at or is it confidential

Sundeep Sikka: The tech fund comes with the carry, it's a 1% fixed fees and plus then there is a carry above the certain benchmark.

Rahul Nandwani: So it's like PE fund?

Sundeep Sikka: Yes, it's a PE fund.

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

Madhukar Ladha: First question on yields side, is there a reduction in yields on the debt AUM on a quarter-on-quarter basis?

Prateek Jain: This has been an industry wide phenomenon. If you see in last 6 odd months due to the conservative behavior on the part of the investors, either the money has moved from credit risk funds and long duration fund to the shorter duration and, all the new money has come towards the ultra-short-term category. Where our propensity to earn is lower as compared to historically what we used to charge on credit fund and duration fund, and hence because of this internal change in mix of debt fund, realization has been lower as compared to what it used to be earlier.

Madhukar Ladha: But I just want to verify whether this will be in the case even on a quarter-on- quarter basis?

Sundeep Sikka: In Q1 '21, the realization was 22 basis points, and which has come to 20.5 now.

Madhukar Ladha: Your other income has shot up in this quarter considerably; can you tell us the reason? It is almost like 9.5%.

Prateek Jain: Compared to the last quarter, it is slightly lower, and this is a function of the market because if you recollect, in the last quarter of previous financial year, we took a hit because of our investment in our own equity and ETF schemes, which has seen major reversals in H1 because of market bouncing back.

Madhukar Ladha: Largely that nothing extraordinary is there?

Prateek Jain: No, not at all.

Moderator: The next question is from the line of Harshwardhan Agarwal from Infina Finance.

Harshwardhan Agarwal: Wanted to understand on the SIP book which you mentioned on the slide #34, so for the last three quarters and seeing even the past numbers are getting reinstated, so any specific reason for that?

Prateek Jain: In order to give the appropriate disclosures, we have made these changes to reflect the actual cash received. What we have done in terms of improving our disclosures this time what we have put across is the actual cash received each quarter and we will continue with this disclosure going forward as well.

Harshwardhan Agarwal: If you can share the effective count for the quarter, which was the 3.7 million last quarter and if you can share that number for this quarter?

Prateek Jain: It is more or less flat. Overall SIP registered with us is 3.2 million.

Moderator: The next question is from the line of Shreya Shivani from CLSA India Private Limited.

Participant: Just two questions, if you look at it broadly on the revenue yield which is if I look at in the last six quarters, I am assuming sharp downward trend, how do you look this of course some portion as you had highlighted in the one of these questions placed that it has been softer and some of the mix in the AUM also has changed but where do you see the spreading settled over the period of time? That's a question number one. And question number two is that in terms of cost you had explained that one third of the staff cost is typically variable and then probably some sort of the PLI shifting to the ESOPs over a period of time. Does that mean that the cost rationalization primarily is more or less done; probably we are at the bottom of the cost, both on the staff as well as the admin cost which also has seen sharp downward movement? And the question number three is that in terms of the other income you had mentioned that some sort of an MTM gain on ETFs and as well the investment. But can you just give us broad breakup in terms of that investment that will be really helpful.

Prateek Jain: In terms of the realization decline, last year in April, we have seen the regulatory changes and due to which there has been a revised guidelines by SEBI in terms of chargeability on the AUM on the equity side which led to certain decline, and now on a cumulative AUM, you have to charge fees on a declining basis. So that was the one trigger. Earlier from a distribution side there used to be an upfront brokerage, which used to be paid out from the AMC and hence there was a higher realization because the trail fees corresponding would be lower. Now upfront brokerage has been banned and since then all the AMCs are now paying on a trailer basis and hence the overall realization has declined. But if you see for the last 2-3 quarters, it has now become more or less stable, and it has become more of a function of the asset mix, both equity and debt, and in debt also among various categories, like your propensity to charge where the investor earnings are higher, remains higher. So credit fund and duration fund is likely to yield higher realization as compared to the ultra-short-term and money market schemes.

Sundeep Sikka: As far as the employee cost is concerned, at this point of time we feel we are adequately staffed and a lot of measures which we have to take on rationalization, has been taken. I will not say that this is the rock bottom, but we are adequately staffed from a bandwidth point of view as business grows. As business grows, this cost will not go up. So I would like to put it the other way around. Employee cost as a part of, as a percentage of total expenses, that might be rock bottom but otherwise clearly from our perspective as we grow business, as incremental flows come, the employee cost otherwise as a percentage will only go down.

Participant: Anything you would like to comment on admin cost transfer?

Prateek Jain: On the admin cost, if you see in the last 8 to 10 quarters, we have been working towards making our systems more efficient and we will continue to make this effort. As we keep growing, the marginal decrease will be comparative lower, but we will keep our efforts on to further make our systems more efficient.

Coming to your last query on MTM impact, as mentioned the total other income for the first half year has been almost about 160 crores, and out of that close to about 50% is because of the MTM on our investment in equity schemes and rest is returns what we have generated on our debt scheme as well as interest on FDs and Bonds etc.

Moderator: The next question is from the line of Manoj Bahety from Carnelian Asset Advisors.

Manoj Bahety: Just one question I had that if I see your overall yields, it has come down which you were explained, maybe because of change in product mix but just taking forward the previous participant question; like a drop in employee benefit expenses from 85 crores to almost 68 crores YOY basis as well as other expenses from 56 crores to 44 crores. So just wanted to understand like what contributed to this kind of decline? Is there a headcount reduction and the objective is that, how do we see this expenses moving going forward with increase in AUM and as we return to normal situation?

Prateek Jain: From our employee benefit expenses, we have three portions. One is the fixed cost, second is the variable cost, which is the PLI part of it, and third is the ESOP head. As we use the Black Scholes model to account for the ESOP cost, hence, it is likely to be higher in the initial years and it will keep coming down going forward. We are likely to see another 5% to 10% decline in our employee cost over the next 2-3 years due to reduced ESOP cost. About PLI, it remains the function of our business. If the business does well, obviously we will put a percentage of profit towards our PLI, and vice-versa. Also, more and more people who become part of the ESOP will continue to earn the money from the ESOP valuation, and the dependency on the variable PLI will continue to go down for better alignment of the individual versus the company. And as regards to the administration cost, we have been working very hard, given the feedback from the analyst and investors, and we have been able to bring it down considerably. However the propensity going forward to further decline or a larger decline remains muted but will continue to put in efforts to further improve our operating margins.

Manoj Bahety: Secondly on yield part also if you can cover like where this quarter is an aberration in terms of change in product mix, do you expect yield to move by on FY trajectory, this kind of product mix is you are expecting to be new normal?

Prateek Jain: Let's say if everything remains normal and just the market moves 20% up because of which equity proportion goes up. What you will see is that the realization suddenly becomes better because the proportion of equity will be higher. However let's say if equity market remains muted, and more and more money comes in the liquid and overnight fund, then probably the realization would look comparatively lower. So this is becoming more of a function of what kind of asset growth is happening in the industry. But in terms of realization, we remain committed to profitable growth and we are not going to be paying excessive distribution fees to garner the assets.

Sundeep Sikka: And Manoj, also even in fixed income, in this quarter or the last two quarters, with real risk aversion, people are moving towards short-term, liquid funds. That cannot remain like that. We have seen human nature. Investor sentiment keeps changing and it changes very fast. So to your question, in the fixed income also I expect this change happening faster. I think from complete risk aversion where everybody is moving towards more liquid, ultra-short-term floating, you will see people again move back to a long-term product.

Manoj Bahety: I have one more question that is in your treasury allocation like if I see overall 2600 kind of treasury cost us, only 281 crores is equity. So are we saying because this money is there with us for long-term and in today's ultra-low interest rate and you are managing others equity so just wanted to understand that are you looking for some kind of change in this allocation or it will remain like this?

Prateek Jain: So Manoj, we mentioned last quarter that all this investments were made only in our equity scheme to show the skin in the game. This was more of a comfort capital into our own schemes, both equity and ETF. However looking at the volatility, which we do not want, we have started paring down our exposures in both in equity and ETF, and in the last six months we have almost reduced our equity and ETF exposure by 80 crores.

Moderator: The next question is from the line of Viraj from SIMPL.

Viraj: I just had a question, couple of questions, first is on the ETF business. In the past we used to have a much higher volume share and the market share and if you look at bulk of the industry is largely catered by two schemes index schemes completely clear. So, in the past we talked about us looking to scale up this business and have a higher share. So how are you going about with that?

Sundeep Sikka: From our perspective, we remain one of the largest. If you exclude the ETF money which is invested by EPFO and given it to public sector mutual funds, we remain by far the largest player having almost 40% market share. We have 70% market share on the volumes at our stock exchange and 33% of the investors of ETF. Presently, we have 19 products spread across equity, both domestic and foreign, sectoral and, fixed income segments. During this quarter, our focus will remain that we are here to provide to the investor what he feels is right. We are one of the few asset management companies which will continue focusing on active, and ETF and passive assets. So we launched IT ETF, which has assets of about 700 crores by the end of the quarter. You will see us continue launching new ETFs in this quarter also. So ETF remains as a very important part of our strategy. We run it as a separate vertical and we clearly believe there is a big market, and based on the liquidity that we and the track record that we have, we are in a very dominant position as far as the ETFs are concerned.

Viraj: Second question is on the use of surplus cash. So in the early part of the call, you mentioned about us looking at acquisition. So what particular product areas we will be looking at and what are the criteria internally we will be evaluating in terms of pursuing the acquisitions?

Sundeep Sikka: From our perspective, in 2017, when we came with an IPO, we had raised 580 crores for various heads, which included branch network expansion, advertising, digital and acquisitions. We have already invested a certain amount in couple of these heads. Last 12 to 18 months, post the shareholding change and 6 months of lockdown, we are re-looking at our strategy on how to deploy this money. Our approach will be very simple, whatever we do has to be value accretive for the minority shareholders. We will continue exploring acquisition or strategic partnerships over the next 1 to 2 years, but again, our approach will be very simple. It has to be Shareholder accretive as well as add to the bottom line or has to complement our existing businesses, which is very similar to the ETF acquisition which we have done of Goldman Sachs way back in 2016 and that helped us to create a very strong foundation. So our approach will be that it will be nothing to do with AUM, and will be so that either it gives as a competitive edge or a strategic advantage.

Viraj: To put it differently given our existing portfolio and segments we are, where do you see gaps or where do we see opportunities where we can pursue these kinds of routes?

Sundeep Sikka: I may not be able to get into the exact details of this, but broadly it will be either to do with getting something which complements what we have in the area of asset management, it does not necessarily be in mutual fund. So again, I am saying it covers asset management, it covers strategic partnerships or anything that can help us in business. Since there is nothing specific as of now to share, I will not be able to dwell too deep into it, but will keep you updated as we go ahead.

Moderator: The next question is from the line of Prayesh Jain from Yes Securities.

Prayesh Jain: Firstly I wanted to understand the strategy with regards to the B30 market and where I understand is the IFA is playing a much important role as compared to any other channel. So how do you think you would be able to maintain the confidence of the IFAs under the new proposal and what is the strategy going there?

Sundeep Sikka: From our perspective, this has been one of our strong areas. That is the reason, in my address also I mentioned, percentage of total AUM in B30, industry average is 16% and we are 18%. These markets have a high entry barrier. We will continue to have a high share with the strong execution capability that we have shown in the past. Along with that, the new digital capability that we have built up, both put together, will remain a focus area for us. And, to add to it, if I was to look at the NFO that we launched, which happened during the complete lockdown, the fact that we got investors from 380 locations in India tells you about our B30 strength.

Prayesh Jain: Overall how would you strategize to improve your market share? Over the years we have seen a consistent fall in the equity market share particularly on the equity side, so apart from the entry into B30 towns so how do you see this? What are the other strategies you would be implementing for future market share?

Sundeep Sikka: From our perspective, the key lies in execution. Let me again go back to last 12 months post the shareholding change. We have seen a very good qualitative data points whether it's to do with 600 new institution investors, 100s of family offices coming back. Again the inflow in fixed income has been faster. In ETFs, we have been gaining both AUM as well as new investors. In equity, selectively in certain schemes, we have been getting good flows. As I mentioned earlier, there have been 2 or 3 flagship schemes which have not done so well, but we are confident with the steps that we are taking, we will see flows coming back into those categories also. But one thing remains constant for us - the fact that our focus remains on retail and smaller ticket size that adds to the stickiness of the assets. So we will continue focusing, it may not get reflected in the market share directly but it is going to get reflected in the stickiness of the assets. Also, during this period, we saw our Gold Fund doubling in size, is the largest and continues to grow. So again, other than certain pockets of equity, we have seen good qualitative growth across all asset classes, all investment sides and different investment categories.

Prayesh Jain: Performance will be a key to improve the market share. That would be your key draw down from here?

Prateek Jain: Performance will be one of the important parameters. It will not be the only parameter. Only performance, without execution, will not yield anything. It's a package. It is one of the important ones.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Securities.

Nischint Chawathe: Just two things, one was if you could give some perspectives in terms of when the mix and the debt side sort of start becoming a little bit more favorable and as in when do you really see the credit funds picking up again? And the second question was really to understand a get a little bit of color on the distribution side. I believe some of your competitors are launching new funds and in which they are having incentive programs etc. for distributors. So how do you really see that, how do you compete with them or do you see that more incentive programs are going to be the order of the day?

Sundeep Sikka: So I will start with the second question first. As mentioned earlier, we do not believe growth in market share should happen by paying extra incentives. It has to be a package of product, uniqueness of product, performance and execution capability. Any product or relationship which is built up only on brokerage cannot be a long-term solution. So we will never be getting into this risk of paying higher brokerage to get AUM. As far as the earlier question, we have been talking to our smaller branches, and clearly from a very-very high risk-averse environment in April and May, we are seeing that things are getting a little better. It is very difficult to put a number to it, by when you will see investors and especially in fixed income or in equity coming back to normal, but things seem to be far better. We have always seen that investors sentiment plays a big role. On this question, I may not be able to give a defined date, but our on-ground pulse tells us things are much better compared to what they were 2 months back.

Nischint Chawathe: That is just a bad episode behind us is what one can say.

Sundeep Sikka: I hope so. I don't know want to give that feeling that I can read that, but like you, I also hope so.

Moderator: The next question is from the line of Sanjay Shah from Alfaline Wealth Advisors.

Sanjay Shah: My question was regarding that you cited very optimist view about the growth on ETF side. So that ETF products are what, are we marketing and right now launching? Are the product preference of the investors nowadays or our product is such a way developed that they are attracted towards that?

Sundeep Sikka: From our perspective, I think the way we see, we are a supermarket. We need to keep offering whatever different investors want, and at this point of time as far as the ETFs are concerned, they will always be investors. To the earlier question which was around B30 or smaller locations, you have investors coming from smaller locations who invest say Rs. 500, they will always come in active. There are family offices who take a directional view on the market. For them, ETFs become an important thing. The way we see is that we need to provide for whatever there is a need in the market. And there have been certain investors, and especially the savvy investors, who have been moving towards ETF and, we are just trying to cater to their need. One of the two criteria, whenever anybody is investing in ETF, is the tracking error, and liquidity. Because with liquidity, comes the impact cost. Different investors are coming into ETF due to a low-cost, and if there is no liquidity in the market and he ends up paying an impact cost of 2%, the purpose is defeated. So liquidity plays an important role. From our perspective, we remain nimble, we continue evaluating the opportunities. In this quarter we launched one ETF, we have already got SEBI approval for certain more ETFs, and we will continue completing our suite.

Sanjay Shah: My second question is nowadays we read much about your points on the individual investors going towards individual selection of equity as far as equity investment is concerned and mutual funds are not favoring the investment into AMCs funds. Is that correct? If yes then what is the trend, we would like, to develop the cult of mutual fund again in Indian investors?

Prateek Jain: We have always seen that when these markets are volatile, you see the cyclical nature and investors do turn towards equity. But if you see in the past also, once this volatility dies down, people will return and go back to their offices. The bulk of their money again will be invested with the professional investment manager. So the good part is because of direct investing, if new Demat account has been opened, now at least, we are happy that more and more people have been exposed to the capital market, and some point of time, they will also start allocating towards mutual funds.

Sanjay Shah: Majority of the fund could not even outperform the benchmark index point to point. My worry was that is why the investors are shying away for, what is the trend that was I wanted to understand.

Sundeep Sikka: The way we see different market cycles, there will be times when active funds will do well, there will be certain segments when passive will do well, and from our point of view, like we said, there are two different business lines within the AMC, and we let the investor make that choice.

Sanjay Shah: My last question is regarding our current strength. How we are encashing on it, what are the strategies to use the world over huge fund lying across the border and what are the strategies our fund to bring that fund to India?

Sundeep Sikka: On the lighter side, right now all borders are closed because of COVID. Nothing can come inside India and I don't think can go outside India. So right now, for the next couple of quarters, we want to continue focusing on building up what is there. As I mentioned in the past, Nippon Life remains committed in helping the business and leveraging all the businesses of Nippon Life. Also, more than only the flows, Nippon Life shares some of the best practices There is not much to talk about that in this quarter, but this remains an important focus area for us, and in subsequent quarters, we will keep updating you on this.

Moderator: Thank you. Ladies and gentlemen due to the time constraint we will take that as the last question. On behalf of B&K Securities India Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.