

ABSLAMCL/PS/108/22-23

February 3, 2023

BSE Limited

Phiroze Jeejeebhoy Towers
Dalal Street Mumbai-400 001
Scrip Code: 543374

National Stock Exchange of India Limited

Exchange Plaza, 5th Floor
Plot No. C/1, G Block,
Bandra Kurla Complex
Bandra (East), Mumbai - 400 051
Symbol: ABSLAMC

Dear Sir/ Ma'am,

Sub: Transcript of the Analyst/ Investor Conference call on Unaudited Financial Results for the quarter and nine months ended December 31, 2022

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Analyst/ Investor Conference call on Unaudited Financial Result for the quarter and nine months ended December 31, 2022, held on Saturday, January 28, 2023. The above information will also be available on the website of Company at <https://mutualfund.adityabirlacapital.com>.

We request you to kindly take the aforesaid information on record and disseminate the same on your website.

Thanking you.

Yours faithfully,

For Aditya Birla Sun Life AMC Limited

Hemanti Wadhwa

Company Secretary & Compliance Officer
FCS No. 6477

Encl: As above



Aditya Birla Sun Life AMC Limited
Q3 & 9M FY23 Earnings Conference Call

January 28, 2023

**MANAGEMENT: MR. A BALASUBRAMANIAN – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICE
MR. PARAG JOGLEKAR – CHIEF FINANCIAL OFFICER
MR. PRAKASH BHOGALE – HEAD, INVESTOR RELATIONS**



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Moderator: Ladies and gentlemen, good morning, and welcome to the Q3 FY '23 Earnings Conference Call of Aditya Birla Sun Life Asset Management Company Limited, hosted by InCred Equities. As a reminder, all participant lines will be in 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 star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jignesh Shial from InCred Equities. Thank you, and over to you, Mr. Shial.

Jignesh Shial: Yes. Thank you, Michelle, and good morning, everyone. On behalf of InCred Equities, I welcome all to this Aditya Birla Sun Life Asset Management Q3 FY '23 Earnings Conference Call. We have along with us Mr. A. Balasubramanian, our Managing Director and CEO; Mr. Parag Joglekar, Chief Financial Officer; and Mr. Prakash Bhogale, Head, Investor Relations. We are thankful to the management for allowing us this opportunity.

I would now like to hand over to Mr. A. Balasubramanian, Managing Director, and CEO of Aditya Birla Sun Life Asset Management for his opening remarks. Over to you, sir.

A. Balasubramanian: Yes. Thank you. Thank you for the introduction, and good morning to everyone. I hope you all had the opportunity to go through the earnings presentation, which is available on the stock exchanges and our website. Let me, first begin by wishing all of you a happy and prosperous New Year, as we begin 2023. And let me start with the updates on the economy and mutual fund industry.

On the economic front, 2022 was the year of re-setting and recalibrating. From the old theme of easy liquidity and extremely low-interest rates, 2022 saw one of the fastest and highest interest rate hike cycles. The highest rise in global inflation was accompanied by the highest fall in NASDAQ stocks. Erosion in equity value and an increase in bond yields resulted in one of the largest mark-to-market losses in the world economy. The US government bond represents an inverted yield curve with a 10-2 year inversion at more than 50 basis points indicating risk-off sentiment as a result of concerns fuelled by recessionary pressures in the US.

We recently came out with our Annual Investment Outlook for the year 2023 and as per our research and analysis, we expect inflationary pressures in India to ease based on expectation of normalization of high food inflation and supply chain. Moreover, the moderation in global inflation will also aid in domestic inflation management and also mean that the pace of rate hikes is normalising. We expect the terminal rate to settle at 6.5% for India in FY23.

We expect credit growth to pick up big time. And while urban consumption will continue to drive growth, one can expect a revival of rural consumption from the slowdown seen in 2022. While global headwinds will continue to pose challenges in 2023, India is in a relatively better

position with a more domestic demand-driven economy, political stability, increased government spending, supported by robust tax collection and an uptick in private capex boosting investment going ahead. And over a longer term, positive levers in the form of strong political leadership driving the pace of reforms, demographic dividend and China+1 strategy, domestic manufacturing, and digital push should drive India to become the third largest economy by 2030.

With respect to the mutual fund industry, during the quarter, quarterly average assets under management for the Indian mutual fund industry touched ₹40.25 lakh crores as on December 31, 2022, as against ₹39.04 lakh crores as on September 30, 2022. The industry grew by 5% to ₹38.19 lakh crores from December 31, 2021.

In Q3 FY23, the mutual fund industry witnessed some fall in inflows across various equity and ETF schemes on a quarter-on-quarter basis. A significant proportion of the inflows came from small-cap, mid-cap, sectoral funds, and larger and mid-cap funds. As on December 2022, the total number of mutual fund investors stood at 14.29 crores versus 13.99 crores on September 2022, an increase of 2% on a quarter-on-quarter basis.

Continuous awareness initiatives in SIPs have improved monthly SIP contributions. The overall monthly SIP book was the highest ever at ₹13,573 crores in December 2022. The total number of SIP accounts was about 6.12 crores.

The industry witnessed net equity sales of around ₹12,100 crores, excluding index funds in Q3 FY23. However, there was a reduction in net inflows as compared to the previous quarter, where the net flows were around ₹14,500 crores. NFO contributed around ₹21,000 crores, of which around ₹8,700 crores had come in equity and rest of it came in fixed income schemes. In general, equity flows have been coming down mainly on account of the prevailing interest rate scenario.

On account of continuous awareness compliance by the mutual fund industry, the overall retail concentration in the industry has increased in excess of 57%. However, an overall reduction in fixed income assets is also leading to a higher dominance of individual mix to the overall industry AUM.

Coming to ABSLAMC's performance. ABSLAMC has always been a leading investment manager that has committed to working towards financial inclusion, deepening of the financial market, and development of the mutual fund industry.

Therefore, in order to build business scale and ensure long-term value for our customers and shareholders, our areas of focus are - scaling retail franchises and diversifying product offerings, expanding geographic reach and strengthening multi-channel distribution network, and leveraging digital platforms to deliver best-in-class service. And all of this is driven by strong and robust risk management and governance framework.



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Our total quarterly average AUM for the quarter ending December 2022 stood at ₹2.93 lakh crores. Our total mutual fund quarterly average AUM was ₹2.82 lakh crores with a market share of about 7.9% ex ETF.

Our equity mutual fund AUM for the December 2022 quarter was at ₹1.20 lakh crores. Our overall equity mix stands at 43%.

Customer acquisition remains an integral part of our strategy. We added about 0.1 million new folios in Q3 FY23 and with this, our overall folio stood at 8 million customer base.

Our investment performance has been steadily improving under the pro-investing concept where we are currently promoting such as Large Cap, Flexi Cap, and Balanced Advantaged Funds would remain the core portfolio of every investor. In addition to this, we also have a good performance track record of thematic funds. At the same time, we still have some distance to cover some of the other key funds, which hopefully should help in improving the flows in the coming period. And fixed-income dominance continued to remain a focused area in the current interest rate environment and we have launched products in the fixed-income category to provide solutions to the customers. In fact, we have an early mover advantage of launching the Target Maturity Fund during the year. Our continuous efforts are in leveraging a bouquet of existing products while launching new products to build size and scale. We have been growing our retail franchise over the last few years with a special focus on increasing market share in B30 cities. We have seen a marginal improvement in our B30 market share in this quarter.

Building the SIP book is our current constant endeavour to ensure customers stickiness and long-term value for investors. We are also creating awareness about the multiple SIP feature that eases the process of investing in multiple schemes as well as acts as an effective tool for goal-based investing. In order to further increase our SIP book, we have launched Turbo SIP linked to the market valuation, perquisite SIP that will target mid-sized corporate employees, Sahyog SIP will target employer to employee, and Sampurna SIP on the lines of Freedom SIP.

As a consequence of this, our monthly SIP book increased from ₹892 crores on December-21 to about ₹942 crores as of December-22. Currently, we have around 32.6 lakh live SIP account with us.

Our multi-channel market initiatives to deepen our presence and market share have yielded positive results. The virtual Relationship Manager model has activated 2,200 distributors and through Sampark, our distributor onboarding initiatives, we empanelled over 6,500+ distributors.

Customer loyalty, deeper engagement, and service differentiation remain the cornerstone of our service-to-sales model. Currently, around 230 dedicated trained professionals have been deployed to act as a single point contact for guiding and servicing investors' needs.



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With respect to our overall mix between retail and institutional customers, 51% of our asset contribution comes from retail investors as of December 2022. In the same manner, the contribution from B30 Cities also has grown to 17%. Our focus on building retail both in B30 cities and the T30 market remain an integral part of our overall strategy.

On the digital front, we continue to collaborate with the fintech partners to increase overall digital engagement and also its contributions. We have onboarded 75% of our new customers digitally. Currently, 84% of the overall transactions are done digitally and 89% of customers are now serviced by the digital platform. We also empanelled 91% of our new MFDs digitally in the last 9 months ending December 2022.

Passive and alternate asset business. Our passive products offering grew by 4 times to ₹21,619 crores as of December 2022. Our existing passive bouquet has grown to over 35 products and we have around five products in the pipeline to be launched. The customer base in this category also has grown to around 4,75,000 folios. Also, we are an industry leader in a Debt Index fund, which grew by about 24% quarter-on-quarter and around 5 times on a year-on-year basis.

On the PMS and AIF front, we have raised a commitment of about ₹350 crores in India Equity Service Oriented funds in Q3 FY23. And likely to close this fund by end of March this year. And we also have four products in the pipeline under AIF to be launched in the next few quarters.

On the Offshore front, we have been granted approval by the International Financial Services Centres Authority (IFSCA) which is GIFT City to act as a Registered Fund Management Entity in the non-retail side at GIFT IFSC. The prospectus for the ESG engagement fund has also been filed and we got the approval also for launching this fund very soon.

On the Real Estate side, we are collaborating with Bentall Green Oak, which is Sun Life's arm based out of New York to conduct roadshows for Offshore Real Estate Fund, and soon we'll start seeing the impact of this coming in as we start the engagement at the ground level for raising funds.

Now moving on to the financial numbers, in Q3 FY23, the revenue from operations is at ₹314 crores versus ₹311 crores in Q2 FY23. In Q3 FY23, operating profit before tax is at ₹174 crores versus ₹173 crores in Q2 FY23. For the 9M ending December 2022, revenue from the operation is at ₹930 crores as compared to ₹969 crores in the 9M FY22. Operating profit before tax, excluding extraordinary items, for 9M ending December 2022 is at ₹518 crores as compared to ₹566 crores for the 9M FY22.

With this, I would like to conclude and open the floor for any questions that you may have.

Moderator:

We have the first question from the line of Swarnabha Mukherjee from B&K Securities, please go ahead



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Swarnabha Mukherjee: So, I have three-four questions. First one, if you could let us know whether like we had - there was a comment during last quarter's call that because interest rates are hardening, and we'll get a higher rate on the debt products. So, are we able to now garner higher yields on the debt side? Or is the fact that our overall revenue level yields are holding up is primarily a change in the asset mix? So, I wanted your comment on that.

A. Balasubramanian: We'll have Parag to answer this question.

Parag Joglekar: So, on the yields are holding up, as you rightly said, one of the reasons is our asset base is slightly getting better towards equity and long duration fund. But it's just a starting, it will take a little time, a couple of quarters to see a big impact, which we are thinking that once the interest rate gets hardened, the duration product will see flows in those schemes.

Swarnabha Mukherjee: Sure Sir.

A. Balasubramanian: Just to add to this Swarnabha, we have positioned some of our fixed-income products. The three products we already positioned both for retail as well as for institutional customers. And while we have been promoting it quite continuously, citing the opportunity to build fixed income as asset class this financial year, the real flow is yet to start coming in. Given the fact -- only now we believe that rate cycle -- a big rate cycle will come in soon and portfolio yield will start reflecting the real outcome that can add to the customers. And also, we see flow coming in from now onwards. Probably we have kept ourselves positioned to have those products readily available. So that, the readiness will ensure that flows come in. That's the way we are positioned right now.

Swarnabha Mukherjee: Ok Sir, that's great. So, a follow-up on this. So, does this mean that say, for example, the general -- I mean, a general stance that we see, is that we expect in the industry because of the increase in assets as well as you know what had played out in terms of the commission for the newer flows on the growth-oriented side also that there will be a dilution in the yields also going ahead, more a secular trend. But in the near term, so maybe over the next three, four quarters as this -- what you said it plays out, then should we see some stability in yields for the next three, four quarters? Would that be a right assumption?

Parag Joglekar: Yes. So currently, as you rightly said, equity, we may see some dip due to the new asset coming at slightly higher costs compared to the stock, but if the composition of equity goes up and the long-duration product goes up in the overall AUM, then we may see stability in the yields depending on the what mix it plays out over the period.

Swarnabha Mukherjee: Sure. So, I mean, just to harp on that point a little bit. So, if equity also increases in the mix where it is much higher, even at a slightly lower rate than what we have seen earlier, but it is much higher than the blended yield that we have. And also, we are able to push in a slightly higher yield on the debt side. Then I mean, ideally, it should stabilize, right? So, that's what I wanted to confirm, because both these levers will move on



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A. Balasubramanian: Yes. I think your assumption is right. I think that should stabilize for the reason I already just explained. Even the fixed income, the active managed fund also starts growing, that the incremental contribution could also come from there. So, therefore, these two combinations put together and with the growth of Index Funds, which is lower margin assets. But still, overall, we'll be to maintain at least the near immediate future.

Swarnabha Mukherjee: Bala sir, could you name the products that you mentioned that you have positioned for both retail and institution to capture this higher yield cycle?

A. Balasubramanian: Yes. One is the low duration fund on the 9–10-month kind of category. Dynamic Bond Fund is about two to three years duration period and medium-term plan, again with about two to three years duration and Credit Risk Fund, which, of course, goes down in terms of credit curve to AA, AA-. These are the four funds we have positioned as retail concerns.

As for institutional customer concerns, at this point of time, most of the inflows have been coming from the target Maturity Fund. At the same time, we have positioned ourselves with the elevated yield on the one-year rate as well as about two years rates, right from money market funds to the corporate bond fund we have positioned, including floating rate funds also we have positioned as far as the corporate concerns. And these are the funds that are identified clearly for both HNIs and retail and corporate. Sufficient push is being given around the positioning point of view.

Swarnabha Mukherjee: Okay Sir, very helpful. Sir, now a question on the channel side. So, what I see over the last two quarters, of course one queue in terms of AUM if we look, it will anyways look like a blip because the market was down significantly, so there is an MTM impact. But if I look at Q2 and Q3, what I can see is that a higher share of growth is being borne by the MFDs and the national distributors, while in the bank and the direct channel, there the numbers have been tepid. So, I wanted to understand, so banks I believe that there are also a lot of variables at play, but in direct why it has particularly in this quarter, AUM gone down slightly. So, if you could comment on what is happening on this side?

A. Balasubramanian: Since direct is a combination of one, the reduction in the fixed income assets. I think we have seen net outflows as far as the actively managed debt funds are concerned. I think most of the money has moved to the liquid fund, and some money, of course, which has moved out, I would assume would have gone to the deposits, the deposits during the last quarter, priced by banks are also pretty high. I think mainly this is on account of that. But the channel contribution from IFAs is also looking up.

I wouldn't think we can attribute this to the real incremental growth income. It's more of a mix of assets, it would have also did that contribution coming from IFAs. But the direction is mainly the reason why I just mentioned it.

Swarnabha Mukherjee: So, even in the equity sourcing numbers that you provide in the presentation, I think there is a slight dip in direct this quarter. So that was my question?



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- Parag Joglekar:** So, it is not major. It's a slight dip in direct compared to MFD because there may be some movement that has happened in the direct AUM and institutional customers. And there may be some movement on the MFD side of a higher share of the sales, which has happened. But there is a very small movement that has happened.
- Swarnabha Mukherjee:** Just two bookkeeping questions. One is if you could tell me the reason why the fees and commission expenses were slightly higher this quarter. And second, if you could share the SIP AUM number at the end of the quarter, sir? Thank you.
- Prakash Bhogale:** Swarnabha, it's ₹53,000 crore.
- Swarnabha Mukherjee:** Okay. And on the fee and commission, sir.
- Parag Joglekar:** Swarnabha, the fees, and the commission has gone up slightly because we have launched a new AIF product in the current quarter for which we collected ₹350-odd crores of commitment on which the brokerage, which we have given or commission, which we have paid out, that has been sitting in that line.
- Swarnabha Mukherjee:** Okay, sir. So, this won't be a recurring number, right? So, this is a one-off?
- Parag Joglekar:** No. It will be recurring because it's more of a trail which gets paid.
- Swarnabha Mukherjee:** Thank you so much Sir for the detailed explanation.
- Moderator:** We have the next question from the line of Lalit Deo from Equirus Securities.
- Lalit Deo:** So, I had a question on the SIP inflow. So, while there has been an increase in the absolute inflows, it seems like we have lost some market share also in the inflows as well as in the new registrations also. So, just wanted to understand like how are we positioning ourselves to recoup some of this lost market share. I wanted your comments on the same.
- A. Balasubramanian:** Yes. Thanks, Lalit, for this question. For the SIP flows, what we have understood on the base of the analysis, the large SIPs incremental subscriptions have gone into the funds, which are outside the Nifty and the Nifty 50. Basically, gone more towards small and mid-cap and to some extent on the large and mid-cap, which is what I think has seen net inflows. In our case, of course, these three funds generally do not receive as much flow that we shall receive.
- But most of the flows for us, the registration has come into our existing flagship fund. But from an industry point of view, the large flows have whatever the increment flows have come on to this. That's the primary reason because which our registration rates were marginally low.
- Though industry also have seen a reduction in the registration on compared to the overall basis. In our case, this was the primary attribution. That's something which I just mentioned in my speech as well that there are a few funds where we have to catch up with respect to the



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performance, we have to cover some distance. I think once we are done, then the positioning could also happen.

And second, we also launched a few of the SIPs to like Turbo SIP I just mentioned about. We also launched a few other newer SIPs as a product. And again, it's being driven the distribution community as well as the sales team to bring in some kind of traction. Some of newly launched features in the SIP side.

Lalit Deo:

And sir, like in your earlier comment, you mentioned that there have been some outflows in the fixed income funds where the funds are being slightly moving towards the deposit sides due to the higher rates being offered by the bank. So, how long do you think that this trend could continue in the future? And like since when do we expect that we can get a high good share of inflows in the debt side?

A. Balasubramanian:

I think the way we see is while it will be difficult to actually predict how far the banks will be aggressive in terms of raising deposits. Given the high credit deposit ratio, which is more in the range of about - growth is about 130%. That being the case and our own belief is this may at least carry on for at least this year till March ending. At the same time, we also believe that as the credit demand continues to rise, we will probably see marginal uptick in the yields, especially for spreads widening and that's the time the risk-reward ratio, including adjusted for tax benefit, where mutual fund would become more attractive. Once the rate stabilizes, which is what we believe that once the rate stabilizes, I think there will be stability both in the deposit rates which is being offered by banks as well as lending rate and the market rate stabilizes, then mutual fund will become more attractive compared to the other fixed income instruments. So, that we believe that could happen in the 2023 second quarter onwards.

Lalit Deo:

Thank you sir.

Moderator:

We have the next question from the line of Prayesh Jain from Motilal Oswal Financial Services.

Prayesh Jain:

Sir, just a few questions. Firstly, in December, the SEBI had come out with a press release with regards to reconsideration or the restructure and all the other expenses that the AMC charge. And I think additionally, yesterday, there were some media articles which have kind of outlined some contours, which the SEBI is kind of considering wherein they're talking about capping the TERs at the scheme category level and also subsuming the GST and the brokerages, which are out of the TER currently into the TER. So, your thoughts there as to whether what kind of, what kind of things the SEBI is considering or how this could pan out and how could really this impact the yield for you guys if such things are being brought across? That would be my first question.

A. Balasubramanian:

Yes, sure. Thanks, Prayesh for this question. Of course, there is a deliberation within SEBI and SEBI always drives this decision through with MF Advisory Council, which is setup for the development of the mutual fund industry. In fact, I'm also part of a member of this MF Advisory Council. The deliberation has been how the investors can benefit as a form of reduction

expenses, which basically are coming from the fact that the industry has been growing steadily each year.

Now it has reached about ₹40 lakh crores size. Some bit of scale benefit should come to the investors and at the same time, the overall AMC growth should continue to be the driver of the Indian economy. And these two aspects, they have of course in their mind. There is a deliberation in order to relook at the current infrastructure and look at the merit of whether it can be further reduced. At the same time, the industry continues to add more customer base and go to the next level of growth.

The way I see is and as it is basis assuming the scenario that they go by what they are saying, then of course, there will be a need to look at the cost structure on one side and an operating model on another side. At the same time, focused on volume. The way so far, we have built in the last almost seven eight years despite the fall in the expenses as you would have seen the glide path given in the year 2018, higher the AUM lowered the expenses. And despite living in that kind of scenario, AMCs have been able to adjust and continue to build a scale, continue to build expansion. At the same time, generate absolute profit, which is a free cash flow generation that they do and also bring in absolute profit bringing in which is largely coming on the back of the scale benefit. So, that's the way I will see it.

To what extent the reduction in margins could come at this point in time, is very difficult to gauge. Given the fact that whatever is being discussed, is just deliberation and the industry has been making a representation, the need for industry growth over the next level, the need for distribution expansion, and an increase in further growth in equity AUM, in order to give more stability to the capital market, given the fact the FPIs continue to remain a seller in the market, all these representations are being done.

And till such time, the debate happens, the discussion happens, very difficult to come to any conclusion at this one point in time, how it could impact. Anyway, that comes, of course, the operating model also needs to be suitably looked at to ensure that they remain profitable in terms of absolute growth and absolute profit increase. Maybe the time will come we may have to actually measure the factor on the basis of the absolute profit that is on the table rather than the basis point contribution.

Prayesh Jain:

Bala sir, in this context, would we look at so this is something of the sort is implemented, this would mean two things. One is a reduction in distribution and commissions. Secondly, this could also impact the AMC yield. So, in a way, doesn't this kind of go against the philosophy of expanding the reach, especially in the current scenario where we want to enhance the reach in the B30 and deeper penetration of financial products? if distributor commissions are kind of impacted further, then why would the distributor be keen to distribute these products further?

And like especially on the competitive product, if you look at the insurance sector, we've seen that the expense of management ratio has kind of been completely getting deregulated wherein



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they just capping the 30% expense of management and the commissions could go higher as well going ahead. So, in that sense, the competitive products will get better commissions. So, what incentivizes the distributor to sell mutual fund products over other products?

A. Balasubramanian: Sure. That is the representation, there's the discussion is on Prayesh. As I rightly pointed out, the industry still needs to grow bigger and mutual funds gained significant prominence and under which we have now grown to where are we today in terms of size, ₹40 lakh crores size, the ₹20 lakh core in equity size. We still have a long way to go with respect to penetration. I think the point that you exactly mentioned basis for which the discussion is also happening.

That's why it's too early to make an assumption that I think the regulation also would definitely respect the need for growth and need for expansion of the B30 market or maybe deeper penetration in the country. The need for distribution expansion has happened given the fact we as an industry body have gone and encouraged more and more people to join the distribution community. And we also encouraged them under the guidance of the regulator.

So, keeping all this in mind, I'm sure the representation or the viewpoint that is coming from people would also be taken into account before they come to any conclusion. So, that's why too early to right now say that it will get pushed through. I'm only hoping that whatever the points that the distributor mentioned which we also have echoed as industry players, hopefully, get listened and then they take suitable action accordingly.

Prayesh Jain: And sir, if you can help us with some understanding as to segment-wise, what could be the EBITDA bps for us as an AMC, say broadly, it's not very specific, but equity, what kind of EBITDA in terms of bps you will be earning and debt and liquid and others, that would be helpful.

A. Balasubramanian: Sure. Parag will address this question.

Parag Joglekar: Yes. So, Prayesh the contribution, we monitor and overall and at the asset class level. So, equity is more or less in the range of 70 basis, the liquid is in around 11-12 basis, and debt is in the range of around 25-28 basis.

Prayesh Jain: Yes, that's helpful. So, if we look at the salary expenses and the cost, what would be the EBIT with the respect to EBITDA bps in the segment?

Parag Joglekar: So, we don't disclose these numbers, but basically, equity is more of a retail-oriented product. So, it will have a lot of sales push, which will be allocated to that. But there is no specific number, which we disclose on this.

Prayesh Jain: Yes, I understand. But then honestly, while most of the expenses will be sitting on the scheme. So, on the AMC books, it will be ideally the fund manager and the research team charges, right? So, can you just, even for the equity segment, what kind of EBITDA spread, EBITDA could you be making, could you give sir, that indicatively



- Parag Joglekar:** It will be more or less in the similar range for EBITDA, which we are currently generating in the proportion. So, it will be similar. I don't have the numbers currently handy. It is more in the same range should be.
- Moderator:** We have the next question from the line of Dipanjan Ghosh from Citigroup.
- Dipanjan Ghosh:** Just two – three questions from my side. One, if you can just, is a data-keeping question – if you can just give your employee count for the quarter. Second, you can split your revenues into domestic mutual fund revenues and PMS and others for the quarter and nine months. And third, in terms of your alternatives, now you have a strong product lined up, and product pipeline. Just wanted to get some sense of the medium-term targets in terms of contribution in revenues or EBITDA level. And also, what kind of incremental cost will be incurred in getting this part of the business up and going?
- A. Balasubramanian:** Yes. I'll just take the last question first, Number of employees, 1,450 total employee count. And I think with respect to the AIF pipeline, as we mentioned, Service Opportunity Fund, we have been running for the last almost six months, rather than four months. We'll be closing in the month of March ending this year, 2023. We've already done about ₹350 crores and incremental collections are still awaited. Once this is closed, we have kept three more products on the pipeline. Again, on the equity-oriented funds and we think we'll launch those funds immediately after that. We also kept one AIF on the fixed income space, mainly taking into account the opportunity that we see on the credit side on a customized product that also we intend to do. And then third, AIF is around real estate. Having now raised about, current size about ₹550 crores in real estate funds. We have been seeing the deployment of money leading to a better result from an experience point of view. At the same time, we are also filling a pipeline for launching one more product on the real estate side. So, this is the pipeline that we have and put together, we'll be launching it as we see an opportune time for each of these segments that we are identifying. What's your second question?
- Dipanjan Ghosh:** No, sir, just -- so one was if you can split your revenues into PMS and mutual funds. And just a follow-up on this part. Would you like to give some colour on your medium-term targets in terms of revenue and profitability coming from the alternatives, I mean, on the non-mutual side of the business?
- A. Balasubramanian:** Sure. Revenue contribution. Yes.
- Prakash Bhogale:** So Dipanjan, our revenue contribution from the PMS and other alternate assets is in the range of around ₹50-55 crores, for nine months.
- A. Balasubramanian:** Yes. In terms of outlook on this segment, right now, having had the team and having now launched, our idea would be to launch continuously to ensure the size that gets built. As you know, in the AIF space, the money is paid upfront, but the revenue comes as the time progress. So, that is we will do it. Therefore, as Parag mentioned earlier this thing to the extent, we have to spend the money to build the future profitability. That's the model in which we will be running



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it. Though, I don't have right now number to give, but clear plan that we have is our product pipeline and the experience that we have created in existing product that has been launched, would help us in increasing our share and for which including fixed income schemes for which we have already getting our products in pipeline.

Dipanjn Ghosh:

Sure. Just one point, Sir, if I had the employee number correctly, it was around 1450, which seems almost an addition of net ratio of around 100 employees' quarter-on-quarter. So, where are these employees really getting deployed? Is it on the MF side or just building up on the alternative side of the business?

A. Balasubramanian:

In fact, two, or three areas. One is the direct HNIs model we are building. We have an almost about 20-member team. They built it only for Mumbai and Delhi, and we'll expand this as we start seeing the success in this model. Second, we also added more people on the service side, customer service side, especially in the service-to-sales RM. And third is the VRM, we have set up a separate VRM cell to increase the number of connections to the people.

And last, of course, is on the retail sales side, an increased number of customers. As for the investment concerns, we added our analysts, about 2 or 3 more analysts we have added, especially, the mid-cap, and small-cap analysts. But these are, of course, one- or two-member addition both in the AIF side as well as on the mutual fund side.

Moderator:

We have the next question from the line of Abhijeet Sakhare from Kotak Securities.

Abhijeet Sakhare:

Bala sir, just going back to the question on regulation again. So, the last round we had the revision was in 2019 itself, right? And the regulator is now wanting to have a relook at it again. And going by what we currently have, it's already like the current framework itself builds some scale benefits to be passed on to the customer, right? So, what is the regulator worried about that they have to kind of have a relook at it again? And secondly, from an industry point of view, like is there a way to sort of have a, let's say, more fair distribution between the AMCs as well as the distributors going ahead? Is there a more permanent model that can be worked out, that kind of protects your margins as well on an ongoing basis?

A. Balasubramanian:

Yes. Sure, Abhijeet. I think the first assumption that, under which the normal review, I think when I go back in the history, to 2012 the first circulars then they revisited in 2015, then they revisited in 2018 and 2019, both the times they revisited. After every five years, or three years, I mean they seem to be thinking that there is a merit for them to revisit if there is a merit for them to consider any reduction expenses with respect to giving investors benefit. That's the primary objective assumption from which they are coming.

Second, I think the last few years as is known for a variety of reasons, the actively managed funds, would not have beaten the benchmark, which is of course not just the India scenario, but even the global scenario. And we also know, of course, for a variety of reasons, the money managers could not have beaten the benchmark more from the point of view of the risk of warning certain stocks which are heavily overweighted in the index and so on and so forth from



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risk management perspectives and that's something also is making them think is there any merit for that to be cut down. So, this is coming from these assumptions only.

As I mentioned earlier, these are deliberations and not necessarily what is being currently assumed would come. Of course, we also cannot rule out any marginal changes also coming in after multiple rounds of discussion. That's what normally they do more of the evaluation process that they have, evolving decisions in a consultation with the industry. So, let us wait for that. As far as the cost concerns, naturally, if this is going to be continuous affairs in terms of reduction of expenses, in terms of TER, then naturally, the cost structure also needs to be re-looked at both at the distribution level as well as the other cost is involved also need to be revisited. Alternatives are to be revisited and that's something my own belief is that will evolve as we move ahead gradually. At the same time, keeping in mind the real need for distribution expansion to happen, more and more people should join the mutual fund industry to distribute mutual fund products, therefore, helping the industry to grow on one side. At the same time, build other alternates, such as the direct in order to reach out to the customers also on the other side. So, I think all will have to go hand in hand and then keep in mind the growth needs. At the same time, be conscious of the cost element that all of us at AMC have to also pay attention to it. That's I think that's something that my own belief will evolve.

- Moderator:** We have the next follow-up question from the line of Prayesh Jain from Motilal Oswal Financial Services.
- Prayesh Jain:** Sir, just on this regulation bit again. So, what is the current brokerage roughly being paid on the equity and the debt side and also the GST rates?
- A. Balasubramanian:** Talking about the market transaction?
- Prayesh Jain:** Yes, for the transaction, what would be the brokerage that would be paying to the broking companies?
- A. Balasubramanian:** Roughly in the range of about 8 basis points.
- Parag Joglekar:** So, 8 basis points on the equity side and derivative in the range of 4 or 5 basis points.
- A. Balasubramanian:** Yes.
- Prayesh Jain:** And what will be that cost on the debt side?
- A. Balasubramanian:** Debt is very minimal Prayesh. Debt is insignificant actually. It will not be going to come into the fourth decimal of basis points.
- Prayesh Jain:** And what about the GST rate?
- A. Balasubramanian:** GST is as applicable, right? It's not GST, STT is here.



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- Parag Joglekar:** You're talking about STT or GST?
- Prayesh Jain:** GST.
- Parag Joglekar:** So, GST will be depending on the scheme. So, 18% of the fee. So, if it's 71 basis for this thing, it will be in the 18% of it.
- Prayesh Jain:** 18% of the fees. And secondly, sir if you think about the debt schemes, there has been a significant increase in close towards the passive category as well over the normal duration side, right? So, how do you see this? Eventually, even when the cycle picks up, do you think that the flows will be towards the passive categories only? Or do you think that the active can see further improvement in flows?
- A. Balasubramanian:** No, the way we see is there will be a switch from Target Maturity Funds, of course, Target Maturity will continue to grow given the fact it has the element of certainty on return expectations. In fact, even Target Maturity Fund also, we all are aligned to the minimum expenses that we're also charging. Therefore, it is not something non-profitable per se, like a liquid fund where you get about 20 basis points. The same thing has been being followed in the Target Maturity Fund as well in order to be fair to both investors and even from AMC's point of view. While that's been the case, we believe that some bit of more acceptance will come for the duration funds, one, in the duration funds we don't have any restriction in terms of we'll buy only in G-sec, SDL or AAA whereas, Target Maturity Fund large there will be a restriction in terms of, we'll invest only in the AAA names or PSUs and SDLs and G-Sec. But that is not the case as far as the open ended funds are concerned. Also keep in mind, as we go down the credit curve, even to AA, AA+, the pickup in yields has been ranging about 30-40 basis points, which nobody would like to ignore given the fact a basis point adds to the overall return as on fixed income concerns. That is why we believe that more participation could come from the HNIs and retail and in the actively managed duration funds in the range of about two to three years or two to four years.
- Moderator:** Thank you. As that was the last question for today, I would now like to hand the conference over to Mr. A. Balasubramanian for closing comments. Over to you, sir.
- A. Balasubramanian:** And thank you very much, ladies and gentlemen, for tuning in and with this, we conclude our Q3 & 9M FY23 earnings call. Do feel free to reach out to our IR, Mr. Prakash Bhogale for any queries that you may have. And thank you and have a nice weekend.
- Moderator:** Thank you, sir. Ladies and gentlemen, on behalf of InCred Equities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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