HDFC MUTUAL FUND
BHAROSA APNO KA

Ref/No/HDFCAMC/SE/2023-24/88 | Date – January 16, 2024

National Stock Exchange of India Limited Exchange Plaza, Plot C/1, Block G, Bandra Kurla Complex, Bandra (East) Mumbai – 400051. **Kind Attn: Head – Listing Department**	BSE Limited Sir PJ Towers, Dalal Street, Mumbai – 400001. **Kind Attn: Sr. General Manager – DCS Listing Department**

Dear Sir/Madam,

Sub: Transcript of Earnings Call

Please find enclosed herewith transcript of Earnings Call for the quarter and nine months ended December 31, 2023, conducted after the meeting of the Board of Directors on January 11, 2024 which can also be accessed on the website of the Company at: https://www.hdfcfund.com/about-us/financial/shareholders-presentation

Kindly take the same on records.

Thanking you,

Yours faithfully,
For **HDFC Asset Management Company Limited**

Sylvia Furtado

Digitally signed by Sylvia Furtado
DN: c=IN, o=Personal, title=0132, pseudonym=c9f9e85fb09a43f689f388d9b8d526e0, 2.5.4.20=2ba7a70e85420d41db39726ef5a05bf9d5b2e3462d9508f4dba3611a8512d899, postalCode=560087, st=Karnataka, serialNumber=c657741e7c20647b09c19a36b505d108588ea658a47cf934129cd9fc4d51aa71, cn=Sylvia Furtado
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Sylvia Furtado
Company Secretary

Encl: a/a

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"HDFC Asset Management Company Limited

Q3 FY'24 Earnings Conference Call"

January 11, 2024

MANAGEMENT: **MR. NAVNEET MUNOT – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
MR. NAOZAD SIRWALLA – CHIEF FINANCIAL OFFICER
MR. SIMAL KANUGA – CHIEF INVESTOR RELATIONS OFFICER

Moderator: Ladies and gentlemen, good day, and welcome to HDFC Asset Management Company Limited Q3 FY '24 Earnings Conference Call. From the management team, we have with us Mr. Navneet Munot, Mr. Naozad Sirwalla, and Mr. Simal Kanuga.

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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Simal Kanuga. Thank you, and over to you, sir.

Simal Kanuga: Thanks, Neerav. Good evening and thank you everyone for joining in today. Just as a first line, kindly note that all the necessary industry data for December is not available as of today. In instances where December data is not available, we have substituted the same with November end data. We'll, of course, update our presentation once the data for December is released and will be made available on stock exchanges as well as our website.

So, as usual, we'll start with industry level information.

As of December 31, 2023, the closing AUM has surpassed a significant milestone of INR50 trillion, a notable 27% Y-o-Y increase. NIFTY 50 Index exhibited a return of 20%-plus over the last 1 year, whereas the AUM of actively managed equity-oriented funds grew by 29%. Equity and equity-oriented funds now constitute over 50% of the industry AUM, reaching QAAUM of INR25.9 trillion.

The upward momentum of systematic investment plans continued, witnessing inflows of INR176 billion in December 2023, compared to INR136 billion in December of 2022. The notable thing is AUM through SIPs has reached a number of INR10 trillion. This means that nearly 40% of the equity and equity-oriented AUM is now contributed through SIPs.

Debt funds reported a QAAUM for December 2023 of INR10.2 trillion as against INR8.6 trillion in December of '22, growth of 19%. The B30 MAAUM category remains robust and the growth continues, with its share in the overall MAAUM for November rising to 18% an increase from 17% as compared to December 2022. This growth observed on an expanding base underscores the significance of acceptance of mutual funds even in B30 markets. The contribution of B30 markets to equity-oriented AUM is even higher - 27% of equity-oriented AUM comes from B30 markets.

Now we move to our company.

Firstly, we are definitely most excited to announce that we inaugurated 24 new branches on 2nd of January 2024. Of this 24, 22 are in B30 cities. This takes our branch network to 253, 173 in B30 and balance 80 in T30. We continue to look for opportunities to further our physical infrastructure.

For the quarter ended December '23, our QAAUM marked a milestone reaching INR5.5 trillion, representing a growth of 24% Y-o-Y, with a market share of 11.2% on an overall basis and 12.5% if one excludes ETFs.

Our closing actively managed equity-oriented funds AUM reached INR3.47 trillion, an increase of 50% as against industry growth of 39%, resulting in increased market share of 12.7%.

Our systematic transactions continued to grow. And in December '23, we processed 6.81 million transactions amounting to INR26.3 billion. The corresponding amount for December '22 was INR15.7 billion, signifying an increase of INR10.6 billion for a single month. As a reminder, our systematic transactions include both SIPs and STPs. STPs are systematic transfer plans. Our closing AUM for debt funds, which includes debt index funds, saw a modest uptick Q-on-Q, reaching INR1.34 trillion.

Our quarterly average asset mix reflects a continued tilt towards equity with equity-oriented funds comprising 61% of our AUM. This figure is notably higher than the industry average of 53%. Additionally, our customer profile leans towards individual investors with a contribution of 70%, showcasing a notable variance from the industry, which stands at 59%.

Our penetration in the unique investor universe stands at 21%, signifying that over 1 in every 5 investor has chosen HDFC Mutual Fund as one of their investment choice.

Moving to financials.

Revenue from operations came in to INR6.71 billion, reflecting a 20% year-on-year growth, while other income amounted to INR1.42 billion, aided by healthy mark-to-market growth resulting in total revenue growth of 23% Y-o-Y.

Operating profit for the quarter came in at INR4.96 billion, a growth of 25% Y-o-Y, with a stable operating profit margin of 35 basis points. The effective tax rate is lower, primarily due to a decrease in deferred tax charge for the current quarter, mainly attributed to the holding period of certain investments transitioning from short to the long term.

Lastly, before I close, I would request all of you to give our yearbook a quick read. This has a plethora of data and information in regards to both economy as well as markets. Our investment team puts in serious effort and I can definitely tell you that this will be worth your while.

Thank you very much for patient hearing. Navneet and Naozad are very much here, so we can open up for questions.

Moderator: Thank you very much. The first question is from the line of Devesh Agarwal from IIFL Securities. Please go ahead.

Devesh Agarwal: Firstly, congratulations on a good set of numbers. I think this has been one of the...

Moderator: Devesh, sorry to interrupt you, you're sounding little distant. Can you please speak through the handset?

Devesh Agarwal: Is it better?

Moderator: Yes.

Devesh Agarwal: Firstly, I would congratulate the management for another strong quarter. I think this has been a very good quarter for the industry as well as for the company. Sir, a couple of points. First, if we see your debt and liquid funds, that is where we've been losing market share to some extent. Although it may not be very important from your revenue perspective, but still on an overall basis, we don't see the market share gains that you see on the equity front. So any reason why we are kind of losing, especially on the liquid side, this market share?

Navneet Munot: Thank you, Devesh, for the compliment, and I take that on behalf of all the 1,500 people in HDFC AMC, who have been working with a deep sense of purpose to be the wealth creator for every Indian. I also take this opportunity, before I answer your specific question on debt and liquid market share, to celebrate the achievement of INR50 lakh crores AUM of mutual fund industry. I think this is a testament to the trust that investors place in the Indian mutual fund industry. This is a momentous achievement for us. And to put this number in perspective, I'm sure everybody knows that the total size of mutual fund industry in India was INR10 lakh crores 10 years back. And in 1 single calendar year, we have grown by INR10 lakh crores. So, we take this opportunity to thank and congratulate our regulator, SEBI, for their continuing guidance and encouragement; all our distributors and investment advisors for their support; all other MF industry stakeholders for their untiring efforts; of course, all our peer AMCs and their employees; and above all, the mutual fund investors. So, it's a great moment for all of us, but we all look forward to a lot of growth over the next several years, several decades.

Now coming to your specific question on debt and liquid market share. So Devesh, it's been in a range. First, I mean, let me talk about the debt side. So, I think I've mentioned it in some of the previous calls that we were a little late in debt index funds as we were awaiting certain regulatory clarifications before diving in. Our investment and risk team was a little apprehensive of signing it off. And if you ignore the debt index fund, then our market share has been more or less flat. The liquid market share has also been in range in recent past. There was time when our market share was higher. In fact, during those quarters, we would have mentioned that whenever there is a bit of stress in the market, you see money moving to some of the fund houses like ours, then risk gets distributed to a wider set of AMCs.

And I think despite the fact that we don't get allocation from certain set of institutional clients, wherever the group limit exposure might have got hit, as we've been part of the HDFC group, certain institutional clients may have an overall group limit, but we see healthy allocations from all the other institutional clients. These things, I think, on a quarter-on-quarter basis don't worry as much. They get evened out over a period of time, you would have noticed over a longer time frame.

What I can say is that we have top-tier products and very deep relationship across client categories. I also take this opportunity to mention this point that over the last couple of years, almost all the growth in the industry has come from equity funds. The fixed income and the liquid category haven't really grown much. I think as an industry as well as at HDFC AMC, we think over the next few years, we need to work a little more on growing that segment of the market also. And whenever that grows, we remain confident of remaining a lead player.

Devesh Agarwal: Right, sir. So basically, sir, there has been no change in the strategy, right, towards pushing more of equity products and not focusing on debt and liquid?

Navneet Munot: No, Devesh. For us, I mean, all money is welcome. I think we have mentioned time and again. We have products for all kinds of investors. We want to serve the needs of all kinds of investors across our product range. And happy to get money in all the asset classes where we are present.

Devesh Agarwal: And sir, moving on to the equity side, we have seen a very good performance. Over the last 12 months, I can see that almost 100 basis point market share gain. So, any strategy which you can share, which will give us comfort in terms of this market share gain can continue? We see that the fund performance is strong.

But probably in the sense of, there are some products like, just to mention, sectoral and thematics, where our market share is relatively low and we have seen that even in last 3 months, there have been a large number of NFOs happening in that segment. So, any focus on that segment which can drive market share for us?

Navneet Munot: So first, I think, on the product launches, you have seen, over the last couple of years, we have also done a couple of product launches, wherever we felt the need to fill the product bouquet. But I must say this that, I mean, at our end, the product launches are driven by the views that we have from our investment team, the capability that we have. We don't launch products for the sake of it or just because they are currently fad of the season or they are selling.

We remain quite confident that the product range that we have, the long-term performance track record that we have, very well laid out philosophy and processes we have, and the relationship that we enjoy with our distributors, and all the other efforts we have made, we have a significant growth potential in several categories.

While, I mean, you talked about the sectoral and thematic, but I think there are several categories. If I look at the tax saver, if I look at large and Mid-Cap funds, in our Multi Cap fund, in our focus fund, there are several categories where I think there is significant scope for growth in market share apart from some of the other NFOs that we have done in recent past, where I think over a period of time they will continue to grow.

Devesh Agarwal: Right. But any specific strategy that you're targeting in terms of either a more number of NFOs in particular category or higher incentive to the distributors to promote those categories?

Navneet Munot: No, not really. I think we have been gaining market share, as I mentioned that, across categories, and we have products where we think that there is a lot of scope for us to grow and build a respectable size relative to where we are today and the capability that we have in those products.

In fact, interestingly, if you have seen the flows this year, the large cap category hasn't grown much. And whatever I hear from our investment team and a lot of other people in the market, we would vouch for it that given the relative valuation, I see there's a lot of potential for that category to attract money and we have an absolutely best-in-class product there in HDFC Top 100. And I think we can get substantially larger than where we are today in that product.

Devesh Agarwal: Right, sir. And sir, one last question on distribution. We've been seeing that HDFC Bank share in your total equity share has been declining. It has come down from 8.4% last year to 7.7% now. So clearly, the growth in the equity assets from the bank is lagging the growth that you're seeing on the overall assets. So, any sense by when can we increase our share in the HDFC Bank AUM wallet? And probably what can drive that?

Navneet Munot: So first, let me clarify. HDFC Bank is not selling less of us. In fact, we have large number of products which are approved on its merit. We are working very hard with the bank and all parts of the bank. It is that other channels are growing faster. So, you should look at the data differently. Firstly, this is a pie of overall distribution. So, it is possible that HDFC Bank has sold more of us, but other channels have sold even more.

The big data is also coming from Direct Plan. We have mentioned in the past that the Direct Plan is around 24%-or-so of our book, it is in late 20s in terms of flows. Secondly, the mark-to-market effect because of lower TER in the Direct. So, for example, if there is no flow and no market change in say 1 year, 24% direct AUM, which would have, let's say, 100 basis point lower TER, by default will gain 20 basis points of share due to differential fee. So, because of these reasons, you are seeing slightly less number against HDFC Bank. But I would say that our flow share is higher than the share and stock that we have with HDFC Bank as a distributor.

Devesh Agarwal: Understood. And sir, so if we flip the question, if I am right, I think we used to have 32%, 33% share in the HDFC AUM. Has that number inched up?

Navneet Munot: So, I can say that whatever number that we have in the stock today, our flow share is higher than that.

Devesh Agarwal: Understood. Perfect, sir. Perfect. And 1 last bookkeeping question. If you can share asset-wise yield for the quarter, that will be helpful. That will be all from my side.

Naozad Sirwalla: So, the blended yields reported are 48 basis points.

Simal Kanuga: So, I think, Devesh, asset-wise, basically, I think what will be more relevant, Devesh, would be what are the yields at the end of the quarter, right? And I think Naozad, why don't you just...

Naozad Sirwalla: Yes. So, for the quarter, the equity yields are around 63 basis points. Debt remains steady at 28-29. Liquid has not changed again historically.

Devesh Agarwal: Understood. Perfect. Thank you so much.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JP Morgan.

Saurabh Kumar: Sir, just two questions. One is what would explain this high growth in individual investors that you see in almost 10% Q-o-Q versus industry at like 4%, you're almost nearly 50% of the incremental additions in the industry. So, what would be explaining that? Is this a scheme performance or anything else you've done? And secondly, just on the yields, your mix is better, but the yield is down. How do we explain that?

Navneet Munot: So, first on the higher share from individuals. As you know, I mean, the overall growth in the industry has been in equity as an asset class rather than in fixed income and liquid, where you see more institutional money. Within that, we have done well for a variety of reasons, including superior performance. I think the focus that we have on better distributor engagement, the marketing efforts we are putting in place, brand, infrastructure, it's a combination of many, many reasons. And of course, we've always mentioned that at HDFC AMC what has worked wonderfully for us over the years or decades is continued focus on the systematic transactions. So, if you have noticed, the systematic transaction book has grown by over INR10 billion a month in last 1 year or so and this continues to grow.

The second question was on the margin. So, let me explain this by citing a very specific example, and I think that will make it clear, we might have mentioned this in previous call, but it's better we explain that again, which explains the dilution in margin, particularly in our equity book.

So, in December of '22, our largest fund, that is HDFC Balanced Advantage Fund or BAF had an AUM of INR51,000 crores. The AUM now in INR73,000 crores-or-so. The TER as of December '22 end was 1.52%, which is now at 1.42%. This is a drop of 10 basis points on AUM of INR73,000 crores and INR73,000 crores is approximately 18%, 20%-or-so of our equity-oriented AUM. Now this is nothing but purely computation of TER based on SEBI formula. This is sliding scale structure or telescopic pricing as it is known as. And this is not the only scheme where we have seen this. So, if I give you an example of another fund, HDFC Mid Cap Opportunities Fund, that has come down from 1.63% to 1.47%. That's a drop of 16 basis points, and the AUM here is INR56,000 crores. So, say, 16 basis points on INR56,000 crores. And this would be the case with many other strategies, HDFC Small Cap, Flexi Cap, Top 100 or so, where AUM would have increased by a couple of thousand crores.

Now good thing here is that economies of scale are being passed on to the investor or to the customer. So, the customer in HDFC Balanced Advantage Fund is getting the same fund now 10 basis points cheaper as compared to last year, which in turn makes the product even more attractive.

In fact, if I take the April 2019 as a base, as you would remember, that was when new TER formula came into effect, TER of HDFC BAF that time was 1.78%, and this is now at 1.42% that I told you earlier. That's a drop of 36 basis points. So, the same product, I mean, if you compare 1.78% with 1.42%, this is like 20% cheaper in terms of TER.

Is it bad for us? Will I take higher TER with lower AUM or higher AUM with lower TER? I mean, the answer is obvious. So, let's continue with the example of HDFC Balanced Advantage Fund, HDFC BAF. If one multiplies AUM by TER, the total expense, including distribution commission, will be approx INR720-odd crores on AUM in April 2019, when the size was INR40,700 crores. The number now would be over INR1,040 crores, that is INR73,000-odd crores at 1.42%. So, net-net, it's a win-win for everyone. Customer is getting the same product cheaper. AMC makes healthy incremental revenues. And on lighter note, our fund managers are happier lot too, because a 36-basis point drop in cost means 36 basis point of extra alpha to their performance.

So of course, the dilution of margin due to increased AUM in normal scheme of things would happen at a slow pace and over a period of time. The pace can change when you have a rapidly rising market, something that we saw in the last quarter or maybe throughout this financial year, where the large part of AUM gain is due to mark-to-market.

So, if I'm not wrong, our equity-oriented AUM has seen a mark-to-market increase of over 11% in this quarter. When this happens, you will see number of schemes jumping couple of slabs and pace of dilution picks up. So, I mean, of course, we all know that markets can deliver 10%, 11% every quarter. This does not happen every quarter.

Interestingly, regulators' skin in the game mandate for AMCs has helped in some manner. We have been mandated to invest a few basis points of our AUM in all our schemes. So, this has resulted in over INR4 billion of investments in our equity-oriented fund. So sudden spurts in market would result in increased other income. Of course, vice-versa or way down. But that point in time, our equity-oriented AUM will fall and may see some revenue margin increase. So, it won't really set things off, but it does balance to an extent. Needless to state, higher AUM is more preferred an option as against higher margin. I think the same point we would have made earlier, but I thought maybe we'll give you a more detailed color on that.

Saurabh Kumar: Just 1 additional follow-up on this. So basically, your TERs are going down, but your EBIT margins are broadly sustaining at that 35, 36, because you seem to have some operating leverage as well. So fair to say, I mean, you can broadly sustain this margin structure going ahead as well? The 35 basis point odd?

Navneet Munot: Yes, that's the endeavor.

Saurabh Kumar: Thank you.

Navneet Munot: Yes.

Moderator: Thank you. Next question is from the line of Lalit Deo from Equirus Securities.

Lalit Deo: Good evening, sir, and congratulations on a good set of numbers. So, one clarification, sir. So, like you mentioned that the market share in other channels, the direct channel in equity is in the late 20s. The late '24, was it something else?

Navneet Munot: Sorry, I couldn't hear you well.

Lalit Deo: Sir, so in one of the earlier questions which have been asked, so in the equity AUM channel mix, sir, the direct channel has been increasing at a much higher pace. So, like qualitatively, what would be our market share in the direct channel in the equity space itself? Or any comments around that?

Simal Kanuga: No, no, no. I think what Navneet mentioned then was saying that the flow -- so today, for example, out of INR100 on the book, INR23 have come in from Direct Plan, that is on the book. In terms of flows, that number is late 20s.

Lalit Deo: Okay. Okay. And sir, any comments around the market share in that specific channel?

Simal Kanuga: We don't make that comment.

Lalit Deo: Sure, sir. Secondly, sir, on the product, I mean, on the alternate side, like how is that shaping up going forward in FY '25 and FY '26?

Navneet Munot: As we have mentioned in the past, we have taken a couple of steps to build our AIF and PMS business. The fund of fund that we launched some time back has seen decent traction. We have commitments to the tune of INR8 billion from over 300 clients, which include institutions, family offices, and HNIs. In that fund of fund, we have shortlisted nine funds and have committed capital to these funds. We hope to raise some more capital in this fund during the current quarter.

Now as a further step to build newer lines of business within the AIF, we have added two senior resources on private credit side. We do see that category as an opportunity over the next several years. The product launch here should be in later half of the current calendar year. On the PMS front, we have launched two strategies. We are seeing interest building up. We've also introduced an NDPMS offering for larger customers and seeing some good traction already.

Lalit Deo: Sure, sir. I think just last one is bookkeeping question. So, like in SIPs, we have seen a strong growth. So, like could you quantify like how many new SIP accounts we have acquired -- we have added during the quarter?

Simal Kanuga: We have that in the presentation. So, we've given the last -- so you'll have to -- we can get back to you, Lalit, on this one? I'll just send the numbers post the call.

Lalit Deo: Sure, sir. Thank you.

Moderator: Thank you. The next question is from the line of Abhijeet from Kotak Securities.

Abhijeet Sakhare: Hello, hi. Good evening, everyone. Sir, my first question was that in terms of flow market share across channels, so while you can't give that number, but just qualitatively, would it be fair to say that the lowest hanging fruit in terms of getting the funds included in the recommendation list, at least that part is now already played out, or is there still some scope to gain out of that?

Simal Kanuga: I think, Abhijeet, we are there everywhere. I think, we're there across channels.

Navneet Munot: Yes, yes, across all channels in terms of fund approval. I think the performance has been absolutely best-in-class and engagement has been very, very deep. So, I think between investment teams, product teams, sales teams, everybody working together to make the most of it, yes.

Abhijeet Sakhare: Got it. And just looking at the strong SIP numbers, is there like a channel-wise skew there or broadly representative of the overall numbers, especially direct, if you can give some color?

Navneet Munot: No, I think it's across all channels, be it MFDs, be it national distributors, be it banks, RIAs, fintech, direct. I think across all channels, we have seen continuing increase in our market share.

Abhijeet Sakhare: Okay. And then just an industry level question in terms of the risk of passive substitution. So, in your experience, do you see customers buying into passive as their first choice of product? I mean, is that a big trend that you see out there? Or not really? The passive, maybe it's the second or the third fund that the person buys. Any sense on that?

Navneet Munot: So, I will repeat what I may have stated many times before that India, unlike some parts of the West, will be active and passive market against active versus passive. I mean, there have been many comments from various circles that majority of active managers underperform. Data is available. Please check out what percentage of AUM is outperforming the benchmark and not number of schemes. The results are healthy and in favor of active funds.

And also, the pertinent point to note is index fund performance is not equal to index performance. I mean, there is cost of running the fund plus employee cost, etcetera. So, alpha versus passive funds get further fueled up by 20 basis points to 40 basis points or so depending on the product you are looking at. So please don't get me wrong. I'm not saying that this will be in future, too. What I'm trying to state is that in 2017-or-so, alpha was a given; in 2020, narrative was that active cannot outperform. The truth is somewhere in between.

The big difference also we see versus the West is that how the fees have been managed by the Indian regulator. In U.S., they had very high fees and, of course, a lot of other allied charges that investors had to bear. And that led to alpha challenges. India, anyways from day one in 1996, has that cap on fees and that has been further managed by eliminating the entry load in 2009, then revision in TER in 2019.

So, I think today you can get a top tier performing actively managed fund for anywhere between 60 basis points, 70 basis points or so, in some cases, even lower. So, lower TER leads to higher probability of alpha, right? So, based on alpha potential, I would strongly state that active management in India is here to stay for a very, very long time. We strongly believe in it as an AMC. We have probably one of the longest track record to exhibit that.

Now coming to passive, there are many investors and advisers who have preference for just meeting the market. They may not necessarily have the aspiration to beat the market. And for them, we have a full product portfolio available. In fact, we are second largest when it comes to equity index funds in India in terms of AUM. And in terms of product range, we have 20 index funds and 18 ETFs. The size of equity index fund is small. I think that's approx around INR85,000 crores, INR90,000 crores, but that's growing fast, and we remain one of the top leaders there. I think, broadly, I would say that Indians are grossly under-invested in equities, and in my opinion, both active and passive will grow at a healthy pace. And then we are fully geared to have a leadership position in both.

Simal Kanuga: Abhijeet, you need to re-read your report.

Abhijeet Sakhare: No, no, I was just curious to know -- in terms of passive, passive has become like the first choice, but I guess that's still playing out on the margin, not a mainstream this thing yet. Just the last question...

Navneet Munot: Abhijeet, I mean, sincere compliments on your report. That's the one I also got to read and sincere compliments, yes. You have done a good work on that. I mean, it's the point we have always been making. And interestingly, I talked about the alpha generation across the industry. And we keep hearing that the large caps can generate alpha, because those are the top 100 most researched companies. And look at the returns of HDFC Top 100, I mean, over the last year or over the last couple of years, -- I'm sure you have seen that, but the others who haven't would be positively surprised.

Abhijeet Sakhare: Sure. And the last question was, coming back to the expense ratio, TER bit. See, at one level, the pricing is inflexible because of our agreements with the distributors at least on the back book. But incrementally, is there a thought process of making it more flexible in line with how the individual distributors are doing as far as redemptions are going on, making it more, let's say, "performance linked" in a way?

Navneet Munot: So historically, we have seen that the distributors, I think, who have kept the money for long, I think, have really benefited in many ways. In fact, in our analysis, one interesting thing we found was that some of the most successful distributors in India are the ones who've kept the money with us for the longest time.

And as you know, some of our NAVs have multiplied so much over the last 20, 25 years, I think for their business expansion, I think it has really helped them. And the pace at which the compounding has happened in India, particularly in fund houses like ours, they've really benefited. And we continue to engage deeply with them to encourage a more, I would say, a longer-term holding.

Moderator: Thank you. Next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: Am I audible?

Moderator: Sir, your voice is breaking a little bit.

Lakshminarayanan: In your direct flows, you mentioned that on the book, it is 25%, but on the incremental cost, it's 20%. So, is direct growing slower than the other channels or is it growing as fast as other channels?

Simal Kanuga: Sir, what we mentioned was, on the book, if you look at it, direct says 24% when it comes to equity-oriented AUM. On the flows, the number is higher. It is in late 20s.

Lakshminarayanan: Got it. Got it. The second question is that in terms of the total distributable TER, right, what is…

Simal Kanuga: Sorry, we didn't get your question.

Moderator: Laxmi sir, sorry, but then we are losing your audio. The line for the participant dropped. We'll move on to the next participant. Next question is from the line of Bhavin Pande from Athena Investments. Please go ahead.

Bhavin Pande: So, our mix of assets in equity has been around 63% of closing AUM. So, in the long run, I mean, what sort of number are we looking at in terms of asset mix?

Navneet Munot: As I said, I mean, we have products for all investors across equity, fixed income, hybrid, liquids, money market, and money is welcome in all products. We make -- I mean, money is made in all those products. But over a period of time, given the higher mark-to-market gain on the equity side, and also the systematic transactions, bulk of it is in equity. Logically, equity proportion should grow higher than the other asset classes. But as I mentioned in the beginning, we don't have a specific target in mind for that. For us, I think, whatever product sells, that brings bottom line to us.

Bhavin Pande: Okay. And sir, in terms of channels, we have seen a pretty decent traction from digital and fintech players, but simultaneously, we also have witnessed sort of a dream run in the Indian equity market. So, do you think this contribution from digital channels is sustainable in the long run when markets do not deliver the way they have delivered recently?

Navneet Munot: A large part of that growth thankfully has come through the systematic transactions. And that gives us confidence that it's a lot more structural rather than cyclical. Of course, we have always mentioned that flows have two parts. One is the structural that comes in the form of systematic transactions. And there could be like cyclical part of it, which depends on the overall market momentum, the relative attractiveness of equity versus other asset classes, so on and so forth. But given that through the digital channel, bulk of the money is coming through systematic transactions, we think it's a lot more sustainable.

Bhavin Pande: Okay. And just one bookkeeping question on employee expenses. So, do we think they should keep going up for us to sort of continue retaining talent vis-a-vis industry competition?

Navneet Munot: A couple of people in this room, and they are all smiling, why it should not go up. I mean, on a very serious note, I think in India, all of us are very excited about the India macro story, about the under penetration of mutual funds, and the growth potential that our industry has. We are a people organization, and I'm sure we'll have to ensure that we are able to attract in the best quality talent, and we have to compensate well.

Bhavin Pande: Okay, okay. Wonderful, wonderful. Thank you so much, sir

Navneet Munot: Thank you.

Moderator: Thank you. Next question is from the line of Sagar Doshi from Fintuit Investments. Please go ahead.

Sagar Doshi: So, I have a couple of questions. First one being in your business split between what has...

Moderator: Sagar, your voice is sounding clear. Can you please speak through the handset?

Sagar Doshi: Is it better now?

Moderator: Yes.

Navneet Munot: Yes.

Sagar Doshi: Okay. So, the first one is, can you give me a split between what has been an organic growth and the market-driven growth? So let's say, if we compare our AUM to last year and the great growth that we have had till December '23, so what has been the market growth and what would be the net inflows growth? If that could be cleared off.

Simal Kanuga: Sagar, we do not publish the net flow growth numbers.

Sagar Doshi: Okay. Just if you can give a rough percentage idea, if that's possible?

Simal Kanuga: No, there is no rough or fair here.

Sagar Doshi: Okay. The second one would be like, can you let me know like what are your plans for entering any other adjacencies or maybe getting our AIF book more in number, so that it contributes significantly to the revenue? A long-term plan apart from our core business, anything else that you are looking at?

Navneet Munot: So, our major focus remains on continuing to build our core business. We think there is huge runway of growth there. At the same time, I've mentioned earlier that we are focused on building our alternative and PMS business in a slow and steady manner. Over a period of time, that will continue to grow. But if you look at our overall size of the mutual fund revenues, I mean, in the next several quarters or even years, I don't think that will become so significant relative to the mutual fund revenues that we have.

Sagar Doshi: Got, got it. Okay. Thank you and all the best for the future.

Navneet Munot: Thank you.

Moderator: Thank you. Next question is from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: So first one, data keeping question, which you answered earlier. If I heard correctly, on the equity yields of 63 basis points, was it the exit run rate for the quarter? Second, on the opex side if you see, and you correctly mentioned that you have been investing in kind of growing the franchisee and the potential in India.

So just wanted to get some sense, let's say, over the last, let's say, next 12 to 24 months, if markets were to kind of remain relatively lull, in that sort of a situation, what sort of flexibility do you have on the expense side, be it on the overheads or fixed cost variable on the employee side, if you can give some color on that? Those are my two questions.

Navneet Munot: Naozad, can you add more? But all I would say is that we run a very, very tight ship. I think if you compare us with any large global asset manager, who manages $60 billion, $70 billion of AUM, serving more than eight million customers, serving more than 80,000 distributors, offices over 250, and then best-in-class capabilities, and if you look at the total expense, I think we're a very, very tight ship.

And you would have seen like the growth that has come from -- because of the mark-to-market as well as the flows, it's not that expense also have to grow in that line. If there is a bad year -- I mean, let's say markets fall next year, I think that large part of the cost would be like fixed. I don't think there would be much to do on that. But Naozad, you can add more.

Naozad Sirwalla: No, I think it's summarized very well by Navneet. As you know, most of the costs are people and opex, office led. So very little variability there, frankly. The costs will be pretty much what they are. On your first question on the 63 basis points, it's for the quarter, margin for the quarter.

Dipanjan Ghosh: Got it. And just to follow up, if you can kindly mention the exit run rate, if that's possible? The equity yield, let's say, maybe for December, or exit run rate, whatever.

Simal Kanuga: It is actually the same. Yes.

Dipanjan Ghosh: Got it. Thank you and all the best.

Navneet Munot: Thanks.

Moderator: Thank you. Next question is from the line of Gaurav Jani from Prabhudas Lilladher. Please go ahead.

Gaurav Jani: Thank you, sir, for taking my question. Firstly, just an extension to the opex that we've added about 24-odd branches in Q4, right? So, I assume the cost would come in Q4, right? So, the point being, from the base of Q3, should we expect 11%-12% in tandem growth in other opex, or should be lower considering it's in B-30? And how should we look at it?

Naozad Sirwalla : Yes, I'll answer that. So basically, we have a well-established process when it comes to taking decisions for opening new branches essentially. The input that go into our industry AUM, distribution channel spread in that region, acceptance of the HDFC brand in the market, etcetera. So, we don't really rush into opening branches. And when we build a business in a city or a town through branches in neighboring cities, then a decision to open a branch is only post the desired optimal AUM.

So yes, we did mention that of the 24 branches, 22 are in B30 locations. The overall cost of these branches tend to be much lower. Our rental, etcetera, are very low. If you add up cost of all these branches, it won't really move the needle in terms of on overall quarterly cost basis. Again, we will sort of be prudent when we open branches as we go along. So yes, I don't think it's a material movement in that sense. These are small branches with couple of people at each branch.

Gaurav Jani: Sir, the last 12 months, other opex totals to -- I mean the opex per branch totals to about INR1 crores. So, what you are alluding to is this number per branch for the new branches would be much lower?

Navneet Munot: No, no. I think he is looking at the total opex divided by the number of branches. No, you cannot look at it like that.

Simal Kanuga: No, no. See opex includes travel, opex includes everything else. Like every time we launch a product, we have to pay SEBI fees, everything. So opex is not divisible by branch.

Naozad Sirwalla: And I won't do that math in that sense.

Gaurav Jani: Understood, understood. Fair enough. Thanks a lot. The last question from my end is, so somebody mentioned 63 bps, right? So, when do you stagnate in terms of yield bottoming out, right? So, from when -- I mean, what I mean is, sourced, whatever AUM growth that comes in over the next two, three years, at what level do you see yields actually stagnating, and then operating levels playing out on a consistent basis?

Simal Kanuga: So, you are saying when the dilution would stop. That's what you're asking, right?

Gaurav Jani: Correct.

Simal Kanuga: I'll tell you, the way we look at it is that the entire book will never be repriced, right, as such unless all the existing AUM goes out. The impact of lower cost or higher margin AUM will definitely get diluted further and further as new AUM keeps coming in. Also, we do see some existing lower cost AUM also growing due to mark-to-market. So, multitude of factors would play a role here. The good thing is that the distribution commissions are now much more in acceptable range.

If you recall, on the last call, Navneet had pointed out that the Direct Plan TERs of all recently launched or most of the recently launched NFOs are in more acceptable a range, right? That gives you a good indication of where market is. Lastly, what has worked well is the AUM denominator, right, because that also plays a very big role. So, if you look at our equity-oriented AUM now at, whatever, INR3.4 lakh crores, INR3.5 lakh crores, the impact of new sales with lower margin would be felt lesser, right, as compared to a year back when it was like INR2.5-odd lakh crores.

So, if you are saying that when would this 63 keep -- kind of get to 63, a difficult one to kind of make a guess on. And this, I think, as Navneet, kind of earlier on the margin question, explained that very well, saying that this particular quarter, we saw a rapid dilution, not because of anything to do with market commission, but because of AUM growing and the tiered formula kind of coming into play.

Gaurav Jani: Understood, understood. I'll probably take it off hand with you. Thanks so much.

Navneet Munot: Sure. Thanks.

Moderator: Thank you. Next question is from the line of Kunal Thanvi from Banyan Tree Advisors. Please go ahead.

Kunal Thanvi: Hi, thanks for the opportunity. So, I had three questions. The first was on, you know, if you look at the unique customer addition, both for the industry and HDFC AMC, it has been growing at a very fast rate for now almost three, four years.

But last year, what I remember is, you know, large part of this addition was on the passive side of, you know, things. Now with, you know, active doing well, not only for HDFC AMC, but as a category itself, it has been doing reasonably well, is the -- can you throw some light on the new unique client addition towards active versus passive?

Is there any change or still, you know, the large growth in the number of unique customers is coming from the passive side of the things?

Navneet Munot: No, for us, the larger part of growth has come from the active side and a larger part of the growth has come through the systematic transactions.

Kunal Thanvi: Yes. And again, that will be large, will be towards the direct plan, because as you said, the flow is like, you know, late 20s and that book is 24%.

Navneet Munot: It's a mix of both, direct as well as across all distribution channels.

Kunal Thanvi: Sure. That's helpful. The second question was on, you know, the distribution channel. Like, you know, one of the early participants asked about, you know, the falling share of HDFC Bank in the distribution, Y-o-Y, in the equity book. Whereas when I look at the overall, you know, AUM, the share seems to have, you know, jumped up Y-o-Y as well. Wanted to understand, you know, apart from equity, like is there any change in the distribution with the bank in terms of, you know, ex of equity products? If you can throw some light on that.

And second, like, we've done this branch expansion and there is, you know, much possibility of our higher engagement with the HDFC Bank post the merger. Can you take us through the thought process on, you know, physical presence of HDFC AMC? Because one would think that with HDFC Bank, you know, distributing more of our products because of both change in parentage and the performance improvement, you know, we would naturally get, you know, geographical expansion because of HDFC Bank. So, if you can, you know, throw some light on that.

Simal Kanuga: Actually Kunal, I think Navneet will expand on the whole bank relationship, but just I'll address the first part of your question. See, what has happened is this is the period end data, right? This is end of December. So, if some large client of HDFC Bank has come through into our liquid fund also, that would change the dynamics. So, I would not honestly read much into that 5.8% becoming 6% on the overall AUM basis. So that was the first part of your question. But I think the bigger picture on HDFC Bank as a parent and the distribution, Navneet will take that.

Navneet Munot: So, I mean, we have been mentioning over the last couple of quarters that there's definitely much more engagement at every level post the merger. I also mentioned earlier that the flow market share in bank's book is higher than the book market share. We have not set a target for ourselves, but we believe we have a huge opportunity in our hand and will most definitely capitalize on the same.

Management team in the bank has been extremely supportive of all the initiatives that we take. They are, of course, also very happy with the new branches that we have set up. Of course, those branches will serve all our partners and investors. We have our dedicated senior resource looking at this relationship. We have mapped our branches and clusters of banks with our branches and clusters. So, to sum it up, I think we do understand the potential and the opportunity and will go all out to capitalize on the same over the next several years.

Kunal Thanvi: Sure. Thanks. The last thing was on, you know -- so we saw a notification of Mr. Rangan coming on the Board of HDFC AMC representing HDFC Bank. Can you talk about the current Board structure after the change in the ownership? How many people will be representing from HDFC Bank?

Navneet Munot: So, the new addition to the Board is Mr. Rangan, who is also the Executive Director on the bank's Board. Renu Karnad is on bank's Board. She has already been there on the Board. And then, of course, we have five independent directors. Board is chaired by Mr. Deepak Parekh and I'm on the Board.

Kunal Thanvi: Sure. And both Mr. Rangan and Renu were part of HDFC Limited. So, from HDFC Bank's Board, we will not be having anyone else, right?

Navneet Munot: Both are on HDFC Bank Board.

Kunal Thanvi: Sure. Got it. Thanks. That's all from our side. All the very best.

Navneet Munot: Thanks.

Moderator: Thank you. Next question is from the line of Sandeep from Banyan Tree Advisors. Please go ahead.

Sandeep: Can you hear me?

Navneet Munot: Yes, Sandeep.

Sandeep: So, if I look at the total number of unique investors in the industry, I think it's about INR4.1 crores or INR4.2 crores?

Navneet Munot: INR4.2 crores, yes.

Sandeep: While the number of tax payers, people who actually pay tax, is about INR2.2 crores or INR2.3 crores. Would we not see a headwind in terms of number of unique investors?

Navneet Munot: I think the way we look at the number of people who file income tax, the number of people who have passport, the number of people who do foreign travel, if you look at -- I mean, whichever way you look at, we think the target addressable market in the near term is significantly bigger than what we have in mutual fund industry.

In fact, you should -- the other number you should look at is the demat accounts. The accounts are 14 crores, but even if we look at the unique PAN level relative to mutual fund industry, that number would be almost double or so. So, the people who are investing in equity market directly versus the people who have come through a mutual fund route, I think there's tremendous potential for us to grow.

I think the SEBI chairperson has talked about making SIPs viable for the industry at INR250. I mean, if I look at the Indian households, the number of Indian households who have potential to invest INR250 SIPs, this number should be manifold over the next several years. We are hugely underpenetrated. And we have very, very strong belief on that.

Sandeep: So, I agree with you that the number of people who file taxes is 8 crores. But people above INR5 lakhs of income paying taxes is only 2.3 crores.

Simal Kanuga: Sandeep, not necessary. So, we have tons of clients, right, who are large investors in equities and they don't pay tax till they redeem money. So, there are 50 crores PAN cards in India. So, people have taken PAN card with some level of intent, right? So, this would include even companies. What you are registering as of now is people who have paid tax.

Now we know many people whose portfolios are very large, they don't churn, for whatever reason, and they kind of have managed taxes through family offices, companies, everything. So, we don't want to get there. But what we are trying to state is there are 4.2 crores unique investors identified by their permanent account number in mutual fund industry as a whole, point number one.

50 crores people-plus in India have taken PAN cards. So, we are relying on that data. I think Navneet pointed out about even demat accounts, and I think that data is also publicly available. So, we are definitely of the view that...

Sandeep: Demat accounts, unique number is also about 4 crores.

Simal Kanuga: Perfect. Okay.

Sandeep: And they are probably the same people.

Simal Kanuga: Sure. So maybe some other day for demographics.

Sandeep: Okay. Thank you.

Simal Kanuga: Perfect, thanks.

Moderator: Thank you. Next question is from the line of Dr. Sakha from EquityVedh. Please go ahead.

Dr. Sakha: Congratulations for such a set of numbers. Can you please put a light on penetration of...

Moderator: Sir, your audio is not coming clear.

Dr. Sakha: Can you put light on the penetration of our company regarding rural population and urban population? What will be the opportunity size within next three years for our company?

Navneet Munot: So, I think, in the beginning we mentioned about our branch expansion, and in the mutual fund industry, the term that we all use is B30, the top 30 cities and beyond 30 cities, and in our total number of branches that we have 253 branches, 173 are in B30 cities, beyond top 30 cities. We serve customers across 99% of all PIN codes in India. And thanks to the digitization in the industry, I think money can come from any part of the country, and we have seen significant digitalization of finance in India over the last several years, the last eight or nine years. I think that the story of financial inclusion in India has been fascinating and our industry has benefited a bit, but I think will benefit immensely over the next several years from that.

Dr. Sakha: My point is particularly that regarding rural demography, where is my company in rural demography?

Navneet Munot: We as I mentioned that we look at -- I mean the data that we get for the industry is for top 30 cities and beyond 30 cities. I mean, India, of course, is a large country with 600,000 villages. Over the next several years, as the industry's efforts to make mutual funds more accessible and increase the awareness about the product, I'm sure there will be interest from all kinds of investors. But if you have heard the previous question where we were discussing about so far only 4.2 crores unique investors have invested in mutual funds, I think related to the population of India, we think there is significant scope for us to grow continually.

Dr. Sakha: Thank you, sir.

Moderator: Thank you. I now hand the conference over to Mr. Navneet Munot for closing comments.

Navneet Munot: Thank you so much, and wish you all a very happy 2024. Thank you.

Moderator: Thank you very much. On behalf of HDFC Asset Management Company Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.