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National Stock Exchange of India Limited Exchange Plaza, Plot C/1, Block G, Bandra Kurla Complex, Bandra (East) Mumbai – 400051.	BSE Limited Sir PJ Towers, Dalal Street, Mumbai – 400001.
Kind Attn: Head – Listing Department	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 ended June 30, 2023, conducted after the meeting of the Board of Directors on July 24, 2023 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
Company Secretary

Encl: a/a

HDFC Asset Management Company Limited

CIN: L65991MH1999PLC123027

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“HDFC Asset Management Company Limited
Q1 FY’24 Earnings Conference Call”

July 24, 2023



**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 Q1 FY '24 Earnings Conference Call of HDFC Asset Management Company Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

From the management team, we have with us Mr. Navneet Munot, Mr. Naozad Sirwalla; and Mr. Simal Kanuga. I now hand this conference call over to Mr. Simal Kanuga, who will give us a brief, following which, we will proceed with the Q&A session. Thank you, and over to you, Mr. Kanuga.

Simal Kanuga: Thank you Neerav and good evening everyone.

We'll start with the data for the industry,

The Quarterly Average Assets Under Management for quarter ending June 2023 reached Rs. 43.1 trillion, a growth of 14% year-on-year.

Quarterly Average AUM for actively managed equity-oriented funds stood at Rs. 20.6 trillion, while equity-oriented index funds stood at Rs. 0.6 trillion.

The net flows into equity-oriented funds amounted to Rs. 198 billion for the quarter ending June 2023. The break-up of this number is Rs. 172 billion in actively managed equity-oriented funds, while the remaining Rs. 26 billion came into equity-oriented index funds - approximately 13% of the net flows.

SIPs continued their journey, reaching flows of Rs. 147 billion in June 2023, compared to Rs. 123 billion in the same month of the previous year. Over the quarter, SIP flows totaled Rs. 432 billion, which accounted for nearly 37% of the industry's gross active equity flows.

Shifting focus to debt funds, inflows into debt funds remained strong even post the tax changes introduced in March. The quarter saw net flows into debt-oriented funds, including debt index funds and debt ETFs, amounting to Rs. 642 billion. QAAUM of debt funds grew by 6% YoY to reach approximately Rs. 10 trillion. The QAAUM for liquid funds grew by 7% YoY.

The category of "Others," which includes ETFs, Arbitrage, and Funds of Funds investing overseas, experienced a 15% growth YoY.

We now move to us,

Our company concluded the quarter with a Quarterly Average Assets Under Management of Rs. 4,857 billion, with equity-oriented constituting 54.2%, relatively better than the industry in this regard. Our unique investor base grew to 7.1 million unique investors at the end of the quarter ending June 2023, a share of 18%.

Our market share in terms of QAAUM reached 11.3%, and excluding ETFs, it stood at 12.6%. Our market share for actively managed equity-oriented funds based on QAAUM was 12.1% and 12.2% on a closing basis.

In debt funds, our market share for quarterly average AUM, including debt index funds, amounted to 13.2%, while, our market share for quarterly average Liquid AUM stood at 13.7%.

During the month of June 2023, we processed 5.03 million systematic transactions, amounting to Rs. 18.9 billion. For comparison, the corresponding figure in March 2023 was Rs. 17.1 billion and the number for June 2022 was Rs 12.8 billion.

Continuing our commitment to meet the diverse needs of our customers, we expanded our product portfolio by launching an equity-oriented thematic/sectoral fund ie HDFC Defence fund. The new offering garnered healthy interest and further enriched our range of

investment strategies. Furthermore, we have continued to broaden our selection of passive strategies, reinforcing our dedication to be a one-stop shop for investment needs.

Now moving to financials,

We closed the quarter with a total revenue of Rs. 7,325 million and profit after tax of Rs. 4,775 million.

Our revenue from operations came in at Rs. 5,745 million, a growth of 10% YoY and other income came in at Rs. 1,580 million.

It would be important to spend a minute on other income. Firstly, we have investments of over Rs.3 billion in equity oriented mutual funds – this is to comply with the skin in the game circular. We experienced healthy mark to market growth on this part of the portfolio during the quarter. Also, we experienced a mark to market growth on our fixed income investments due to downward movement of interest rates.

On the employee cost front, it grew by 7% to Rs. 838 million as against Rs. 780 million in the corresponding quarter previous year. If we consider the number excluding non-cash charge on account of ESOP, it stood at Rs. 728 million as against Rs. 677 million in the previous year, a YOY increase of 8%.

In terms of other expenses, we have seen an increase of 17% year on year, this can be principally attributed to expenses that we have incurred for our general business-related expenses and technology spends.

Consequently, our profit after tax grew by 52% year on year and 27% quarter on quarter. As you would have noticed, the effective tax rate is lower, primarily due to decrease in deferred tax charge for the current quarter, mainly attributed to holding period of certain investments, transitioning from short-term to long-term.

Our operating profit margin as a basis point of AUM stood at 34 basis points for quarter ended June 30, 2023 with operating revenue margin at 47 basis points.

Thank You for your time and patient hearing. Navneet, Naozad and I are available for taking questions now.

Moderator: Thank you very much. The first question is from the line of Swarnabh Mukherjee from B&K Securities.

Swarnabh Mukherjee: So, my first question is on the yields. So just wanted to understand in terms of the new flows that are coming in, how are the yield levels, so is this similar to what you have been mentioning in the prior quarters? Or has there been a compression from that, if you could highlight the same? And also, how was the experience in terms of yields for the NFO that we did during the quarter. So that is the first question.

Secondly, I also wanted to understand that in terms of gross flows, how are we seeing the market share develop. I think in terms of SIPs, we do see that the market share is curbing up in terms of flows. But overall, how are you seeing the number? And lastly, on the other expense side, wanted to understand that the slight increase in other expenses sequentially, is this pertaining to NFOs or is this the kind of run rate that we should expect to see going ahead in the years.

Navneet Munot: So, the first question on the margin on the new flows. I think we mentioned last time that we are seeing some bit of rationalization in brokerages in market. The pressure that a huge number of NFOs created last year and year before last, that seems to be settling now. You would have seen the direct plan TERs for our recently launched NFOs - HDFC MNC Fund and recently the HDFC Defence Fund and also the overall numbers. That was the one, second on how the market share has been shaping up.

You mentioned about the SIP flows and we disclose the systematic transaction flows, which include both SIPs and STPs, that has seen a healthy growth. In terms of incremental share in new folios - net new addition of new PAN, we have got a very high market share. Market share on equity across all channels, including distributors, banks, mutual fund distributors, fintechs, direct across all channels, we have been seeing our market share improving.

Swarnabh Mukherjee: Right, sir. Sir, just a follow-up on the first one. So, the slight softening in terms of the yields that we have seen this quarter. This is - - there is no incremental levers, right? So, it is more -- I mean, entirely due to the levers that you have mentioned previously in terms of product mix and slightly lower yields in the new flows.

Navneet Munot: Sure. So, let's talk about the overall margin. The number for this quarter is 47 basis points on quarterly average AUM. The operating revenue for March 23 was Rs 5,409 million, and the quarterly average AUM was Rs 4,498 billion. The resultant operating revenue margin was around 48 basis points. So, net-net decrease of around a basis point. Some of you might have looked at our last full year number of 49 basis points and hence, the fall might have looked more than what one would have estimated. So, let me expand on the margin.

When we are referring to margins, it is predominantly about our equity-oriented AUM. We have mentioned it in the past and continue to say that our book margin is higher than flow margin and would lead to margin dilution with every new rupee flowing in. The impact does get further magnified when the existing low-cost AUM moves out. This is structural. Of course, the pace of dilution has slowed down meaningfully, which I mentioned earlier, due to rationalization of brokerages that has happened in market.

Secondly, the TER formula does clearly entail fall in TER with increase in AUM. To make it easier to understand I have pulled-out data for our schemes in terms of AUM and the TER, the TER is

regular plan TER and is completed based on SEBI's formula. So, this is gross TER number, so no impact from distribution costs, etc. So, say, if I take HDFC Balanced Advantage Fund, for example, the AUM was approximately Rs 52,000 crores, and the TER as on 31st March was 1.5%. The AUM moved to over Rs 57,000 crores, which is a combination of mark-to-market gain as well as the fresh flows as on 30th June and the TER fell to 1.47%. So, 3 basis points fall on entire AUM due to change in the AUM.

And this fall is what, if you remember, even SEBI's Chairperson referred to in our last Board meeting interview, that the economies of scale are being passed out to investors. As we saw a rapid increase in the AUM during the quarter, the same is the case with a couple of our other larger schemes too. So that's just to explain the impact of rise in AUM and consequent impact on the TER and the second was on the flow side. I mean, the newer flows are coming at a lower margin than the margin that we have on the book.

But let me make this point very clearly that from our perspective, think about it. The example that I gave a Balanced Advantage Fund, Rs 57,000-odd crores into 1.47% gives us higher revenue as compared to Rs 52,000-odd crores at 1.5%. So clearly, I mean, a higher AUM while will lead to a margin dilution given the formula, but for us, it's higher absolute profit.

Now I'm sure somebody may ask a follow-up question then why don't you cut the commission on the book every time this happens. So easier said than done. Also, market movement of 5%, 10% can make this swing one way or other and is not practical. I hope that answers your questions.

Swarnabh Mukherjee: Yes, very clear. Sir, lastly, on the cost side, so the other expenses, there has been a slight increase. I wanted to understand whether this is something that we should expect or this a certain one-off in terms of maybe additional expenses for the NFO.

Naozad Sirwalla: Are you talking of sequential quarter from March 2023 to June 2023?

Swarnabh Mukherjee: Sequential.

Naozad Sirwalla: That's like Rs 4 crores, around 5-odd percent. Some of it is actually because of some CSR expenses, but I would assume that a 5% increase - absolute amount of Rs 4 crores should be a sort of normal that we expected over the year, right?

Moderator: Next question is from the line of Dipanjan Ghosh from Citi.

Dipanjan Ghosh: Just two questions. First, on your SIP book, now your SIP flow market share has increased considerably. But if I look at the AUM market share, that continues to remain broadly flattish. So how should one read into that? Second, on the yield part, you mentioned that there has been some rationalization on payout, but just wanted to get some sense of what will still be the delta on equities between fresh versus existing book. Just give some colour on that because that will give us some colour on incremental trajectory as the flow market share improved.

And lastly, maybe I will just get in one question on the cost side. You have added a couple of fresh employees during the quarter. So, I just wanted to get something of whether the fully diluted cost base captures it as a whole? Or should we see some amount of upward pressure on that going into 2Q or 3Q?

Simal Kanuga: The SIP AUM that is outstanding is Rs 7.9 trillion if you look at for industry as a whole, right? So, for a delta to occur via increasing flows in terms of market share that you are referring to, will take some time to get really reflected, right? You've seen a substantial increase in our systematic transaction book on a Y-o-Y basis. But flow is translating into AUM and gain on market share tends to happen with a bit of lag. Does that help?

Dipanjan Ghosh: Sure, on the other two questions.

Simal Kanuga: Yes. So that was the first thing. Second thing you referred to is the last point you made a mention about is increase in the number of employees. That's what you referred to?

Dipanjan Ghosh: Yes, yes.

Navneet Munot: That's from 1,280 to 1,320 or so. It's not a substantial increase and mostly in sales, client services, I think some of the support staff in digital, etc.

Simal Kanuga: This would be the junior to mid-level kind of employees. So, you will not see this changing delta in terms of cost of people.

Dipanjan Ghosh: Got it. And lastly, on your fresh versus blended flows on equity, and this question was asked by the other participants. But I can give some colour on what will still be the delta between the two so that we can get some idea of how much more drag can be there just because of the organic shift from flows to AUM?

Simal Kanuga: Dipanjan, you really don't get to that number. Having said that, I think Navneet did refer to some of the direct plans of the newly launched NFOs. So, if you look at what we did in the MNC fund, if you look at what we have done in the Defence fund, you can even look at our Noncyclical consumption fund, which closed very recently. All these are running at a direct plan anywhere between 90 to 110 basis points.

Having said that, we definitely don't have that kind of margin luxury when it comes to our bigger funds, right? Because you need to well placed in the market in terms of competition. So, keeping that in perspective, I think you can get a broader idea. So, if our book margin is in terms of the late 60s, the flow margin is at a healthy discount to that number.

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

Lalit Deo: Yes. Sir. I just have two questions. So firstly, like for the promoter changes to HDFC Bank. So, like what are the initial changes which we have done in terms of the distribution or like in the strategy formulation in terms of transferring to the customers of HDFC Bank?

Navneet Munot: So, on the merger, we have a very optimistic view of this opportunity. As you know, bank is a formidable distribution machine, and we will put in enough and more effort to capitalize on it. We already are deeply involved with them across all levels, but alignment of interest can definitely be a big tailwind for us. We are seeing material improvement in the engagement, and we'll continue to work on strengthening it further.

While HDFC Bank is committed to maintaining an open architecture approach as a distributor, but given our range of products across various asset classes and brand familiarity, we are confident in gaining a share of HDFC Bank's customer base. And as you are aware, bank has been expanding rapidly in terms of branch expansion and the number of clients that they have, there is a lot of opportunity for us to leverage on that. The kind of support and welcome we have got from them is absolutely overwhelming.

Lalit Deo: Sure, sir. And sir, also like you mentioned that we have been seeing improvement in our market share across channels. So just wanted to understand like in terms of big national distributors or the smaller distributors, could you quantify as compared to like over the last 1 years, how is it -- how much it has improved? And whether it is better. And in terms of like the AUM market share, how much is the difference over there?

Navneet Munot: So, I mean we disclosed at the stock level, but all I can tell you is that across all channels, when you look at the equity inflows, MFDs contribute a little over 30%, then NDs contribute a little over 20%. Banks would be around 20-odd percent. Direct would be 16-odd percent, fintech would be around 9% or so. And across all channels,

our market share has improved quarter-on-quarter as well as year-on-year.

Lalit Deo: Sure sir. And sir, lastly, like any product pipeline which we are having right now in terms of like in equity as well as it in passive funds or in the alternate segment as well.

Navneet Munot: I think now with all the NFOs we have done in the last couple of years, we have an absolutely best-in-class product range. There is one NFO which we'll have now is the transportation and logistics fund. And the other fund, which, in fact, I will take this opportunity to make a passionate appeal through everybody to look at our cancer cure fund for a different reason.

But from an incremental product range, I think we are more or less full on the product side when it comes to equity as well as fixed income. On the passive side, where we have done lots of products over the last 2 years, idea would be to grow all of those products over a period of time. Little bit here and there. There could be some sector fund or a thematic fund here and there. But I think more or less, we believe we have an absolutely best-in-class product range.

Moderator: Next question is from the line of Prayesh Jain from Motilal Oswal.

Prayesh Jain: Just a few questions from my side. Firstly, when you talk about the yield, you mentioned about stock versus flow. Is it fair to assume that a good lion's portion or you can say, 80%, 85% of the book would have churned by now from old to new? That would be my first question.

Navneet Munot: What percentage of book would have got churned by now? So, we don't give those numbers. I mean earlier also, you would remember, people have asked about like when will your entire book be repriced. So, this is dependent on multiple variables and is difficult to predict. I think it will depend on what part of AUM is going out? Is it more recent high-cost AUM or the older AUM?

And we also have to factor in the mark-to-market impact, different funds have different vintage of money. Gross sales as a percentage of outstanding AUM will also guide the speed of dilution. And when the AUM grows multiple times from where it is today, the impact of old AUM on the margin will get fairly diluted. But yes, long way to go is what I would say.

Prayesh Jain:

Okay. Got that. And could you talk us about or talk something about the customer behaviour today on the equity side right now given that the markets are at new highs. And do you think that redemption pressure is that can be expected because generally on up cycles, we've seen that happening. And even the SIP flow for the month of June was flattish compared to the previous month, and there are some statistics which kind of reflect that the net flows have been declining on the SIP side. So, could you throw some light as to what's the customer behaviour on the ground today?

Navneet Munot:

I think over the last couple of years, we have seen Indian investors becoming very mature. You have seen during times of stress in market when valuations are lower, entry opportunities better, you have seen flows increasing. And whenever market has touched a new high, our valuation running a little higher, you have seen a little slowdown in the flows.

But amidst all this, the most heartening feature is the continuous increase in the SIP flows. So even in the month or last 2 months when you talked about slowdown in overall flows, the SIP book has continuously been increasing for the industry. Number of accounts are increasing the overall amount in the SIP flow has been increasing.

And that's the most interesting feature. And I think that is a behavioural aspect that we that we really kind of get very enthused about. And as a house, if you ask me, what is our number one priority for our entire organization. Each and every one of us are fully determined to make the most of it. All of us have been working very

hard to keep enhancing our systematic transactions book because we think that that's the best way of garnering flows and building an order book for the future, and this is very good for the investors also to create their wealth.

Prayesh Jain: Just a couple of more questions. Firstly, on the debt side, post this taxation implication, what has been the behaviour of the customers? And how do you see the debt segment kind of behaving in the say, next couple of years? That last question would on the ETF side as to how do you think, now you've launched a variety of products, but what efforts or what strategies would you kind of implement to increase of volumes on the exchanges? Because that becomes a critical element for the ETF portfolio to really grow and those would be last two questions?

Navneet Munot: So, on the debt side, very interestingly, after several quarters of witnessing outflows, as an industry, we have seen positive flows in the last quarter more at the front end of the curve in products like ultra short, money market and in those kinds of funds, not so much at the long end. Maybe at some stage where people have more confidence about downward movement in interest rates, there could be more money into the longer-dated duration funds. But as you are aware, in the last couple of days of March, post the announcement of changes in the taxation, the industry witnessed good flows in the long-term bond funds also, particularly in bond index funds. There was a question on the flows on the debt side, right?

Prayesh Jain: Yes. So, you mentioned that in the near term, you expect the uptrend in the longer duration. Would that translate into better yields as well?

Navneet Munot: Are you saying for us from a margin perspective, if more money comes into credit funds or long-duration funds?

Prayesh Jain: Yes.

Navneet Munot: That's margin accretive. For us, I mean, I think maybe in a different manner, I would like to repeat this. See, for us, there are two ways to look at it. One is, we get hyper-focused on blended margins. And the other way to look at it for us, we are an asset manager. Our mission is to be the wealth creator for every Indian. Every money that comes in adds to the absolute profits. So, let's say, I mean, the bond index fund as a category becomes more popular, and we get lot of flows where the margins may be slightly lower than credit fund. The margin at the blended level in fixed income will look a little lower, but for us its good because it enhances our overall absolute revenue and absolute profits.

Prayesh Jain: Sure. And my question on the ETF, sir?

Navneet Munot: We have launched a large number of products. Some of them have got good amount of flows in last couple of months. You can see that our Bank fund, IT ETF, Private bank ETF, so on and so forth. And we have put a dedicated lead and hired a couple of people to focus on growing that part of our business.

Prayesh Jain: But sir – Navneet how do you scale up volumes on the exchanges?

Navneet Munot: So as of now, the money that has come into some of the ETFs is from direct customers, we are doing the unit creation at our end. At the same time, we are also focused on enhancing our secondary market volumes and engaging with the market makers and looking at every possible way that we get a higher share in the secondary market volumes also.

Prayesh Jain: Alright. Thank you. All the best.

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

Viraj: So, on the distribution part -- sir in the presentation, I see that we had like the same quarter last year, we had around 80,000-plus distributor

partners while in this presentation, we see it's reduced to 75,000, so anything to read in there?

Simal Kanuga: No, nothing actually, Viraj. It is basically just some of these over a period merged into some of the other entities, some have moved to platform, so on and so forth.

Viraj: Okay. Got it. And so, the PMS and SMA AUM has fallen for us since the last year, so what is happening over there?

Simal Kanuga: So, I think that was what we disclosed. I think a couple of quarters back, we had a large global mandate where the client decided to take money off the table from their allocation to India long only. And that's the reason which kind of has resulted in this change. If you look at on last couple of quarters, the numbers have been in line. So, this happened I think, if I'm not mistaken, sometime in quarter ended September of '22.

Viraj: Okay. Got it. And one more thing on the commission structure basically. So, for a mutual fund distributor in terms of percentage of AUM, it remains the same for them, while the TER will fall for us, is that right, understanding right?

Simal Kanuga: I think there is no one line answer to this. In sense, it is different for a different set of distributors. Also, even within the same distributor, you might see kind of ebbing out over a period of time. So, first three-year commissions can be different, and the fourth-year number might look different. So, depends on product, depends on distributors, so on and so forth.

Viraj: Okay. So, for even for equity, we don't have a single-line answer for this or how is this?

Simal Kanuga: You're right. We don't have a single line thing on this.

- Moderator:** Thank you. Next question is from the line of Srinath V from Bellwether Capital. Please go ahead.
- Srinath V:** Just wanted to find out the blended equity yields for the quarter I think last quarter was around 70bps. So, where are we in Q1 for our equity schemes?
- Naozad Sirwalla:** So, Q1 would be around late 60s for equity.
- Srinath V:** Again, in late 60s, is it like -- so since it's 0.7 for easy calculation, would it be like 0.68 or 0.65 some broad range.
- Simal Kanuga:** You can budget that in 68, 69 kind of a number. You would have to be aware that this would keep changing depending on how the AUM also moves, right? What Navneet referred to when he explained the whole margin thing, where he mentioned that if the AUM increases very rapidly, you might see this going down faster because of the way the SEBI TER formula works.
- Srinath V:** Yes, yes fair. Just wanted a number so that it would be easier to calculate how yields are moving. Thanks a lot. I will get back in the queue.
- Naozad Sirwalla:** Thank you.
- Moderator:** The next question is from the line of Sahej Mittal from 3P Investment Managers. Please go ahead.
- Sahej Mittal:** Sir, just one question from my side. What would be HDFC AMC's share in equity flows being generated at HDFC Bank?
- Simal Kanuga:** Sahej, we don't comment on the flow data. We have commented on the AUM data, right?
- Navneet Munot:** Which is around 5.5% for the overall AUM and a little over 8% on equity AUM currently on the stock.

- Sahej Mittal:** Right. No, sorry.
- Navneet Munot:** For their flows sorry this is...
- Sahej Mittal:** This is for their flow I'm asking, yes, yes. So, for the overall flows being generated at HDFC Bank, what would be our shares?
- Navneet Munot:** Yes, that will be in the handle of 30.
- Sahej Mittal:** Okay got it. Thanks, and all the best.
- Moderator:** Thank you. Next question is from the line of Amit Jain from Axis Capital. Please go ahead.
- Amit Jain:** Just wanted to check that you said that in the other income, there was a component of MTM. So, is it possible to quantify that?
- Naozad Sirwalla:** So largely, the Rs 158 crores other income, is largely all MTM, it's a function between equity and debt. Since the skin in the game circular has come into play, we have a sizable amount of our investments in equity mutual funds, and they have given returns in line with the market and based on our fund returns and the debt is largely as we explained due to the interest rate movement.
- Amit Jain:** And sir, in that case, sir, how should we look at this income for the remaining part of the year? I mean, is it going to be in this ballpark range, or any guidance would you want to give?
- Naozad Sirwalla:** It is totally market linked. I mean whatever the market will perform on the equity side, the equity funds will perform accordingly. And the debt investments in mutual funds will go in lines in with interest rate movement. So, you guys can predict based on how markets move.
- Amit Jain:** Got it sir. Thank sir. Thank you so much.
- Moderator:** Thank you. Next question is from the line of Madhukar Ladha from Nuvama Wealth Management.

Madhukar Ladha: Hi, good evening. Congratulations on a good set of numbers. And more importantly, I think operationally, things are looking better every quarter for the company. So, couple of questions. One, with these changes in the taxation on the debt side, how do you expect investor behaviour to change? And maybe you can talk a little bit about corporate HNI and retail investors. And over the longer-term perspective versus pre this change in tax regime and now in this new tax regime, what sort of impact could it potentially have? I know it's not very easily quantifiable, but I would like to get some sense from you on this?

Navneet Munot: Madhukar, first of all, thank you for your compliments. I think the team is working very hard. And I'll pass on that to the entire team at our end.

So, as I told you earlier that interestingly, in quarter ending June, industry had positive flows - large positive flows in funds like ultra short-term fund, money market fund, etc. And a lot of investors may have wanted to kind of like take advantage of declining interest rates at the front end of the curve which is different than what we have seen in the previous 8 to 10 quarters.

While as an industry, we would have liked the tax advantage to continue, but I still believe that debt mutual funds have a lot of benefits. And in my opinion, it will continue to make them a preferred alternative both for institutional investors as well as retail investors. You don't have liquidity related challenges. I think the debt mutual funds provide good liquidity; the tax gets triggered only on redemption. So still, there is some tax advantage there, who have flexibility in terms of part redemption, and you can also move across interest rate and credit curve in debt funds. And I mean a diversified portfolio of securities, where industry has delivered a very good track record for a long period of time. I think still there is a lot of potential for the industry to grow that segment of the market.

Even on the equity side, it took a long time for the industry to convince people that in the long run you get very good returns if you can stomach much some volatility. So, it took like 25 years for the industry to reach, let's say, the first Rs 5,000 to Rs 6,000 crores of SIP book. And then the next Rs 5,000 crores would have got added in a few quarters.

I think it's on the fixed income side as an industry, the work is cut out for us. If you look at the size of opportunity, I mean, if the bank deposits are Rs 180 lakh crores and when we compare that with mutual fund debt plus liquid AUM, it would be around Rs 15 lakh crores. The debt and liquid AUM as a percentage of bank deposits has actually fallen in the last 5 years or 6 years, if you compare with 2016, 2017 versus now. Of course, I think in the last two years or three years, maybe the movement in interest rate and some of the credit events, also played a role in this.

But as an industry, what we have done on the equity side, if we do something similar on the fixed income side, and we're just talking about the inherent benefits of debt mutual fund as an investing vehicle, there is a lot of scope for us to grow in that space as well. And particularly for us, in HDFC, given our brand and pedigree, there is a bigger opportunity for us as and when that segment starts growing faster.

Madhukar Ladha: Thank you, sir for the answers. And all the best.

Moderator: Thank you. Next question is from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijeet Sakhare: Hi, good evening. So, when you look at your net flows in the context of excellent alpha generation that has happened, what is your feedback or comfort around flows that you've been able to gather either on an absolute basis or relative to industry? Some broad thoughts would help.

Navneet Munot: You are asking from a deployment perspective?

Abhijeet Sakhare: No, from your ability to gather assets in the market in terms of the strong fund performance. Whether based on your expectations, maybe four quarters, six quarters back, whether the incremental flow market share is spanning out as per expectations or if there's anything that you would like to kind of share on that regard?

Navneet Munot: Yes, in fact, it's improved substantially relative to where we were. Of course, we always want a higher and higher share. So, we don't feel satisfied with any number given the pedigree we have, given the platform we have, and you talked about the performance, which is absolutely best-in-class and the product suite that we have built. So of course, our expectations would be higher. But if you look at the numbers in terms of our increase in share across channels. Also, the percentage of new investors that we have been able to garner in this quarter, the percentage of new volumes that have got created in the industry, the share in systematic transactions, all of that are like very heartening to us. But of course, our hunger is always much higher than, whatever we get, we remain hungry for more.

Abhijeet Sakhare: I'm just speaking, is there a possibility or need for some recalibration on pay-out across any of the large channels. Looking at some data, which we can see from outside, it does appear that HDFC AMC is sort of at the lower end of the band, in terms of pay-out ratios. And in fact, some of the distribution channels even ask for higher pay-outs in the first year or second year. So, I'm just thinking, whether in terms of the rules of the game, is there a need to be a little more aggressive on pay-out or at the current level itself, you're kind of happy or satisfied with the flows that you're able to gather?

Navneet Munot: Some of your peers are asking questions on margin. But, if we look at from a holistic perspective for us, market share is important. We want to garner as much share of the flows as possible. At the same time, profitability is very important to us. I've mentioned those three words

several times in previous calls. Being part of HDFC Group, what is important for us is to build a business that has scale, that has quality and that has profitability, not one at the cost of other. We constantly look at on all three parameters, and that's how, we build our business.

There were times, last year and year before last, on several calls, we would have mentioned that, given the competitive intensity, we had to increase our pay-out particularly, when we were launching a lot of products in the NFOs to garner our share. And now in the last few months, when that competitive intensity has come down, you can clearly see better margins on some of the NFOs that we have launched in the last few months. So, we keep calibrating all the time, idea is to have a healthy growth and look at the interest of all stakeholders.

For us, our partners are very, very important. They bring like on more than 3/4 of our business. They are our face to the investors, and we ensure that, they make good margins at the same time we ensure that, we have a very healthy margin on every rupee that we gather.

Simal Kanuga: Abhijeet, if I can just expand on that, see, there is not a direct correlation between paying higher brokerages and getting higher market share. So, one of our larger funds, where we pay the least possible brokerage is seeing healthiest of the flows. So that kind of proves the point. And I'm not talking about one AMC versus other within the HDFC AMC scheme offerings.

Abhijeet Sakhare: Got it. Thanks a lot.

Moderator: Thank you. Next question is from the line of Anirudh Agarwal from ValueQuest Investment Advisors. Please go ahead.

Anirudh Agarwal: Thank you for the opportunity. First question was slightly over the medium term. So, there is going to be a structural pressure on yields like you've been discussing. So, what kind of delta do you think, you

will see between the AUM growth rate versus our top line and bottom-line growth over the next three years, four years in your estimate?

Navneet Munot: I've mentioned earlier, because it depends on a variety of factors, our asset mix between equity and fixed income and within equity also a different kind of products. The growth that you see from mark-to-market versus flows, flows in existing products versus newer products. So, there are lots of variables there and difficult to, I would say, predict that. Naozad, would you have?

Naozad Sirwalla: No, I think as Navneet rightly mentioned, there are various set of factors that will determine our sort of top line growth and then in turn, the operating profit growth, right? So, it's difficult to put a number on it or a trajectory on to it.

Anirudh Agarwal: Right. Okay. The other thing is like giving the regulators focus also now on getting the benefits of better economical scale passed on to customers, will be see significant operating leverage benefits playing out with this kind of growth? Or do you think, a lot of that will have to get passed on in some form or the other?

Navneet Munot: You're asking about the SEBI TER regulation?

Anirudh Agarwal: Yes. Not just on a regulatory perspective, but even in general, supposing top line growth at 15% for the next few years, do you see bottom line growth significantly outpacing that or a lot of the operating leverage benefits will in some form or the other get passed on to customers or the channel also?

Simal Kanuga: No, I think some part of the operating leverage will get passed out to the investor, and that is, the regulator's clearly stated mandate. Having said that, of course, our business the way it functions is the cost growth is not directly correlated to the growth in AUM and thereby some bit of operating leverage advantage will also fall in our favour.

Anirudh Agarwal: Right. So just final question on the competitive side. So, there are a lot of new players essentially that are either that have either entered the industry or you're looking to enter the industry, any changes on the ground that you're seeing in terms of competitive intent?

Navneet Munot: At any point in time, there have been many competitors. If I remember correctly, our license number was 44 or so, when got setup 23 years, 24 year back. We were the 26th AMC at that particular point in time and some people were thinking that a lot of multinationals who have a lot of global experience would end up doing very well. Before that, in early '90s, if you remember, some of the public sector bank sponsored asset managers were doing very well because of the distribution franchise.

At different points in time, people thought that competition could be from that particular space. Given the huge opportunity of growth, financialization of savings is at such an early stage in India. All said and done, we talk about the highest ever AUM and the growth in the industry over the last couple of years, SIPs, etc, the fact is that we are only 3.8 crores unique investors. So, we haven't really touched the surface.

Even if I compare with people, who have passport or filing income tax returns or doing foreign travel or own a four-wheeler. With all of that, the total addressable market is substantially higher. And I'm sure, people would be eyeing this space. It's a very beautiful business from a long-term profitability perspective. So, this will invite a lot of players. Having said that, I think that the way we have built in terms of our people, our processes, our product range, our presence, both physical as well as digital, the partnerships that we have built, the platform that we have built and on top of that, if I can add two more, the passion with which we are working and the deep sense of purpose that we have put for ourselves to be the wealth creator for every Indian, we believe, we will continue to do well.

- Anirudh Agarwal:** Right. Got it. Thanks for that. And all the best.
- Navneet Munot:** Thank you.
- Moderator:** Thank you. Next question is from the line of Mohit from BOB Capital Markets. Please go ahead.
- Mohit:** Thanks for the opportunity. Just 1 question. Seeing the bank share in the distribution stands stable at 10.5%. Now if you see anything pre-2019, this number used to be 13%, 14%, now with bank as a parent. Do you think the share will go up in the future?
- Navneet Munot:** That's what our expectation is. But at the same time, we want to grow across all channels. One of our strongholds has been the MFDs, Mutual Fund Distributors we will continue to grow there. With the national distributors, we enjoy a very good relationship, we work very hard with them. With all the other banks, we continue to work with them. The fintech channel - which has been bringing newer SIPs, we continue to engage more with them. So, we'll continue to grow all of that. But of course, over the next several quarters, a lot of our focus will also be on, how do we make the most of the opportunity that has opened up with the merger. Given the network of HDFC Bank and the pace at which they have been expanding, we believe there is tremendous opportunity for us to grow together.
- Mohit:** Okay, sir. Thanks, and wish you all the best.
- Moderator:** Thank you. Next question is from the line of Sarath Jutur from Zen Wealth Management. Please all ahead.
- Sarath Jutur:** Thank for taking my question. It was interesting to listen that, the competitive intensity has reduced off late. Can you please elaborate and...
- Navneet Munot:** On the brokerage side, you are saying?
- Sarath Jutur:** Yes, exactly.

Navneet Munot: This industry has always been competitive, will always be, I think, yes. That was in the context of brokerages, yes.

Sarath Jutur: Okay. That's fine. Actually, it was answered in the last question and my question was answered in the last question. Thanks. Thank you very much.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Navneet Munot for closing comments.

Navneet Munot: So, thank you all for joining this conference call today. We are enthused by the potential growth our industry has to offer. Thank you once again, and look forward to speaking with you all again next quarter.

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.