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

**Sub: Transcript of Earnings Call Q1FY-22 conducted on July 16, 2021**

Please find enclosed the transcript of Q1 FY22 Earnings Call conducted after the meeting of the Board of Directors on July 16, 2021 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**

A Joint Venture with Standard Life Investments

CIN: L65991MH1999PLC123027

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“HDFC Asset Management Company Limited Q1 FY  
2022 Earnings Conference Call”

**July 16, 2021**



**MANAGEMENT: MR. NAVNEET MUNOT – MANAGING DIRECTOR &  
CHIEF EXECUTIVE OFFICER, HDFC AMC LIMITED  
MR. PIYUSH SURANA – CHIEF FINANCIAL OFFICER,  
HDFC AMC LIMITED  
MR. SIMAL KANUGA – CHIEF INVESTOR RELATIONS  
OFFICER, HDFC AMC LIMITED**

**Moderator:** Ladies and gentlemen, Good day and welcome to Q1 FY 2022 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 the conference call, please signal an operator by pressing “\*” then “0” on your touch tone phone. Please note that this conference is being recorded.

From the management team, we have Mr. Navneet Munot – MD & CEO; Mr. Piyush Surana – Chief Financial Officer; and Mr. Simal Kanuga – Chief Investor Relations Officer.

I now hand the confidence 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. Simal.

**Simal Kanuga:** Thank you so much. Good evening, everyone. And thank you very much for getting onto this call. Our presentation is available on our website as well as that of the exchanges.

As usual, we will start off with an update on the industry and then follow it up with our company. We will open it up for questions after that.

The first quarter of the current financial year has seen healthy inflows into equity-oriented funds, as against an outflow of Rs. 84 billion in quarter ended March 2021, this quarter saw a net inflow of Rs. 251 billion. We have seen reversal in trend

from the month of March 2021, and that continues as we speak. The interesting thing that we have observed is gross equity flows. The average monthly gross flows for the financial year ended March 2021 was Rs. 237 billion. As against that, average monthly gross flows for the first quarter of the current financial year was Rs. 337 billion. Average monthly redemptions, which were at Rs. 290 billion in last financial year, dipped to Rs. 253 billion in this quarter. Debt funds saw outflows of Rs. 20 billion, while liquid funds witnessed inflows of Rs. 95 billion. Others which include ETF, arbitrage funds and Fund of funds investing overseas, continued to see inflows. Individual folios for the first time has crossed 100 million mark and is at 102 million as of June end. Individual AUM is Rs. 18.3 trillion, with 70% of that in equity-oriented funds. B-30 AUM continues to be at 16% of the overall industry AUM, and 27% of equity-oriented AUM. SIP flows, as you would all know, for the month of June 2021 was Rs. 92 billion.

We will now move to our company. We closed the quarter with AUM of Rs. 4,187 billion, market share of 12.4%, with quarterly average AUM of Rs. 4,169 billion, market share of 12.6%. For the reasons mentioned in earlier calls, we also present market share and AUM data ex-ETF. Our market share in quarterly average AUM ex-ETF is at 13.7%, while of closing basis it is at 13.6%. In terms of actively managed equity-oriented AUM, our market share stands at 12.9% on QAAUM basis and 12.6% on closing AUM basis.

At this point, it would be pertinent for us to mention that we recently concluded a sectoral NFO, banking and financial services fund. During the quarter, we had also launched Asset Allocation Fund of Funds, which has seen healthy response. Our market share in Debt is at 14.5% in QAAUM 14.7% in closing AUM. In liquid, it is at 15.5% and 15.9% in QAAUM and closing AUM, respectively. We continue to have a favorable asset mix as compared to that of industry in terms of higher proportion of equity assets. 57.9% of our AUM comes in from individual investors. Comparable numbers for industry is 53.7%. We continue to enjoy highest market share in individual AUM, and that stands at 13.5%. We processed systematic transactions adding up to Rs. 9.8 billion in month of June 2021, the number we reported is on actual cash flow basis. For the quarter as a whole, we received inflows to the tune of Rs. 28.3 billion through systematic transactions.

When we are on topic of systematic transactions, we would like to highlight an interesting campaign we ran in month of June; we called it “Nurture Nature” and committed to plant a tree for every new SIP that got digitally registered in equity-oriented strategy. We planned the campaign around the World Environment Day and ran it for a couple of weeks. The results were truly encouraging and saw strong interest across the country. Our B-30 market share of 11.5% makes us a distant Number #2.

On the digital front, we are making some material changes. We have recently refreshed our mobile app, it's simpler and more powerful, and the feedback we are getting on the same is truly encouraging. I think rather than stating what all we are doing; it would be good for us to update all of you as and when we get done. You will definitely hear much more from us on this. We continue our journey in creating a state-of-the-art digital infrastructure and leveraging on the same for enhancing customer experience.

We now move to financials:

The company has shown an improved performance during quarter ended June 30, 2021, as compared to corresponding quarter in 2020. Revenue from operations increased due to an increase in AUM as well as more remunerative mix with higher percentage of equity AUM. However, during the quarter, company incurred additional business promotion expenses. Since such scheme related expenses are accounted for in the books of the scheme, they result in lower management fees to the company. The company has also seen some dilution in margin due to reduction in total expense ratio in some equity schemes due to increase in the size. Other income was higher this quarter on larger book size and mark-to-market gain on investments.

In February of 2021, a grant of ESOPs was made to certain employees, and the expense head "employee benefit expense" includes a pro-rata amortization of the fair value of these

ESOPs as required under IndAS accounting framework applicable to the company. This is a non-cash charge, which is not tax deductible and is book value neutral. In quarter one FY 2022, this non-cash charge amounted to Rs. 176 million. Besides this, employee benefit expense also showed increase as the company resumed its practice of annual increment in employee remuneration after taking a break from the practice last year due to COVID-19 pandemic. The dis-allowance of certain expenses and higher tax on company's investment income has contributed to the increase in company's tax rate.

We now move to financial highlights for the quarter. The numbers for the quarter are as follows. The operating profit of the company for quarter ended June 30, 2021, was Rs. 3,652 million, as compared to Rs. 3,006 million for the quarter ended June 30, 2020, an increase of 21%. Profit before tax for the quarter ended June 30, 2021, was up by 23% to Rs. 4,661 million, as compared to Rs. 3,804 million for the quarter ended June 2020. Profit after tax for the quarter ended June 30, 2021, was Rs. 3,454 million as compared to Rs. 3,024 million for the quarter ended June 30, 2020, an increase of 14%. Our operating margin now stands at 35 basis points for the quarter ended June 30, 2021, as compared to 34 basis points for the quarter ended June 30, 2020.

We would now like to open up for questions. As Neerav announced, we have both Navneet and Piyush here. We will

be happy to take questions, if any. Neerav, we can open the line for questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shailaja, from Concept Investment. Please go ahead.

**Shailaja:** My first question is, what is the target equity, non-equity mix for the next two to three years?

**Navneet Munot:** Hi, Shailaja. We do not have a target as such, but you would have noticed that our share is better than the overall industry share. Our overall equity within the overall asset is higher than the rest of the industry, and we would love to see that improving going forward.

**Shailaja:** Okay. And my second question is, like you have been seeing a continuous decline in the market shares for over a year now, so what do you think is attributable for this fall? And what are we doing in response for the same?

**Navneet Munot:** So, I think Simal has mentioned earlier, first of all, when you look at the market share, the more relevant data to be seen would be the data on the Slide #8, which is the market share excluding ETF. Because you know that the ETF AUM has over 80% of the AUM from two AMCs, and also from the government disinvestment program in the PSU Debt ETF. But of course, we have seen a marginal decline in the market share ex ETF AUM as well. But we would not read too much into it. Are we worried? no, but we are definitely doing something



to change it, no doubt about it, of course, yes. We will continue with our efforts and focus which we are hopeful and confident will result in a healthy market share. We believe that we have all the necessary ingredients in place. These things, whether we like it or not, are not a straight line, we do go through gyrations.

As you are aware, there have been periods where some of our equity funds were not doing as well. There has been a significant improvement in the performance. Some of the funds are in top quartile or in top decile in the last one-year performance. Even the performance over three and five years has started looking good and being recognized by our distribution partners as well as clients. We have been making efforts on all counts including better connectivity with our partners to spread this message. You would have seen some of the other marketing campaigns recently. Simal talked about the Nurture Nature campaign that we did as an ESG initiative, but also it helped us in better digital adoption of our digital assets as well as increase in the flows into SIPs bringing new investors and new partners into our fold. And variety of other initiatives that are underway, which gives us confidence that over a period of time you would see improvement in market share.

**Shailaja:**

Okay. And by when do we see our market share getting back to 14%, 15%, like it was earlier?

**Navneet Munot:** So, as Simal talked about, I think, about some of the product gaps or some of the categories where we were not fully present, I mean, as you know that from 2018 onwards, as per the SEBI classification, there are four categories wherein in equity we have been the largest player, in fixed income we are present in almost all categories across duration and credit products, and of course, we are one of the larger players on the money market side. But there are few categories like sector and thematic funds, passive products, both ETF and index funds, international funds, and of course some of the fund of funds. Some of these categories our product bouquet was not full, but over the last couple of quarters we have launched a few products. We are going to have some more products over the next several quarters. In fact, Simal can correct me that last quarter we had two NFOs which I do not remember, when is the time HDFC AMC had two NFOs in one quarter. And both of them met with very good response from our partners and investors. And we believe that all of these efforts, including the performance improvement would be noticed by the market and we should be able to see gradual improvement in the market share.

**Moderator:** Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.

**Aditya Jain:** On the equity AUM growth quarter-over-quarter, Phase 2 have been decent. Can you qualitatively talk about what kind

of market share you are seeing in flows, is it improving?  
Roughly what reason if it is in?

**Navneet Munot:** So, Aditya, we do not give the number on the flows for the competitive reason. I think over the quarters or years, we have mentioned that we have repeated that point. But overall, as you know that in the industry, flows have reversed. For nine-odd months industry was seeing outflows. Over the last three or four months, industry has started seeing positive flows. I think, over the next several quarters equity flow should remain healthy. And specifically, if you are asking about our funds, I think some of our funds managed by the newer fund managers who joined us in last one or two years, they have seen good traction, whether it is a new fund that got launched in December quarter, the dividend yield fund, the large and mid-cap fund, focused equity fund, multi-asset funds, I think, some of these funds have seen a good traction over the last few months. And of course, we have been highlighting the fact that the performance has improved across the board and over a period of time we should see flows coming back across all categories.

**Aditya Jain:** Got it. That helps. On the ESOP cost, could you tell what are the expected numbers for full year FY 2022 and then 2023, I assume those would be pretty clear numbers, but just what they are from a modeling point of view?

**Piyush Surana:** Last call we had talked about the ESOP and the structure of the ESOP, which is vesting over three years, and one-third are

vesting this year, and the second vesting is after two years and the third after three years. So, the costs that you see are upfronted in the first year, because the first year has the full cost of the first tranche, half the cost of the second tranche, and one-third the cost of the third tranche. And since these were granted in February, so one full year gets over in February. So, this cost that you see in this quarter, logically speaking, you would see the same cost in the next two quarters, and the last quarter, it would dip. And then, the next two years would be a lower cost based on the vesting schedule that I just told. So, you could, kind of based on this information, do some calculation, and figure out what would be the likely cost.

**Aditya Jain:** Got it. Okay. And then just last thing. You mentioned briefly about your own digital investment. Could you talk about how significant they are, or how they are placed versus the new digital channels, so apps like Groww and Paytm Money and INDwealth. So, how important is the own acquisition versus through these third-party apps, which are getting good traction these days? Thank you.

**Navneet Munot:** So, I think Simal talked about our refreshed app, I ask you to use the app and have a feel for yourself. We have enabled a voice search on our corporate website, we have enabled API gateway for third-party integration with some of the tech-savvy distributors. We have got an RM to build access on mobile solution to partners, I mean, I can go on. But I think I

will say this that digital is lot about culture, it is about mindset, it is about people's participation and making it a way of life for your people. It is not only about technology, applications, portal, or the app. But it is about ingraining a culture of automation, a culture of customer centricity, removing every possible friction in their journey, moving from, I would say, KYC to UYC, I mean, Know Your Customer to Understand Your Customer, enabling our partners to scale up their business, how do we use data and analytics in every part of our business, how can we automate our processes. So, all I would say is that, I mean, digital is going to be the backbone of everything we do, entire ecosystem. I mean, even at the cost of repeating some of the things I mentioned, how do we serve our customer, how do we make their journey like as frictionless as possible, how do we on-board a new distributor, how do we serve those distributors, how analytics can help them in upselling, how do we deliver our content better, we make it more contextual and more consumable. So, it is about variety of things, and in making the organization future ready. We have good digital assets; over the years we have been investing. We will be investing a lot more in that, as we speak.

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

**Kunal Thanvi:** Congratulation to the team for a decent set of numbers. And I hope team HDFC AMC is doing well and safe. So, I had two questions, the first question was on the SIP market share. We

see SIP market share has been trending down. And just wanted a color on what is the driver in the market share fall? Is it the lower number of new SIPs or higher cancellations? Because what we have been seeing in the overall industry number is that there has been significant rise in the new SIPs and the cancellation has plateaued. So, how you know at HDFC AMC we are seeing this similar trend from the company perspective?

**Navneet Munot:** So, of course, I mean, you would know, Kunal, over the years I think we have been clearly a leader in the SIP. In fact, more than a decade back where SIPs were not as prevalent, I think we were one of the largest players in the SIP market. We have worked very hard as an organization to promote the concept of SIP in the mutual fund industry. But I mean, over the years when you have a cycle which is not in your favor, when performance took a dip we also saw a little bit of cancellation and less addition of the newer SIPs. As we discussed earlier when we talked about the flows coming back into equity, we expect the same thing to happen in the SIP book as well. Couple of other initiatives that we have taken off late, they also include how do we regain our leadership on the SIP front. That is very, very critical component of our business growth strategy. It has always been and will always be.

**Kunal Thanvi:** Sure. I get it. The reason I asked this question, and maybe a follow-up on the same is, one thing that we hear across the industry is that the digital players, be it the Groww, the

ETMONEYs of the world, the PhonePes of the world, they are driving the new addition in the SIP. In the last call, we had also talked about it. So, how are we placed with these third-party apps in terms of getting that new pie of the customers that are entering the market?

**Navneet Munot:** So, every possible thing, I mean, working with all our partners who historically have helped us in building the SIP book, whether they are the banks or the national distributors or the MFDs, large or small, as well as the FinTechs are another set of partners for us. So, we have been a partner with all of them. As I mentioned, as performance gets noticed and we intensify our efforts in better partnership with them as we improve our overall digital capabilities. I see no reason that even in the FinTech space why our market share should not be higher than where it is currently. And couple of other things, I think Simal talked about the Nurture Nature campaign, and we were very pleased by the response of investors and our partners. We will be taking more of such initiatives to ensure that we get our fair share of the SIPs.

Apart from that, I would also say that it is a lot about market making. One is, getting the market share from what we deserve as HDFC AMC. While one can talk about the Rs. 90 crores to Rs. 100 crores of SIP flow, but looking at the overall savings pool, that number should be much larger over the next several years. And I think as a leading industry player, we will do whatever it takes to ensure that we not only work on getting

the market share from the current book, but also work as a collaborator with other industry players, how do we grow that substantially. So, working with millennials, I mean, providing the best possible investor education and providing the best possible transaction tool to millennials, several of them over the last 1 year or 15 months we have seen have got lot more attracted towards direct investing. We believe that for long-term wealth creation, it is important that they do not take the focus away from mutual fund products, particularly through the SIP route. And whether it is our marketing strategy, whether it is our digital strategy, whether whatever initiatives we are taking on being more client-centered, being more customer-centered, I think, and moving from a client services to a client delight or a customer delight, I think all of those should help us in helping the industry and expanding that market.

**Moderator:** Thank you very much. The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

**Prakash Kapadia:** I had two questions. If I look at the last one year per se in the lockdown, the share of HNIs as well as individual investors in cash volumes has been steadily increasing, it has almost been like two-third of the overall cash share delivery volumes. Typically, what happens when this changes? Because somewhere this direct route of investing, market has to rationalize. And when this course correction happens, do



we see immediate flows to mutual funds coming soon or they come with a lag? What typically happens, because we have seen so many cycles across markets, what typically happens? Do these investors come back to mutual funds, and they have a larger role to play in mutual funds because some of them burn their fingers and they come back? Does it happen with a lag? That is the first question. And secondly if you could quantify the amount raised last quarter through NFOs?

**Navneet Munot:** Prakash, if I can interrupt, the question is on direct equity versus mutual fund participation by HNIs?

**Prakash Kapadia:** Yes, because currently, we are seeing this euphoria, so what happens once this changes? Do we see more participation in mutual funds when this normalizes, once they burn their fingers do they come back? Do they come back with a vengeance? Do they come back with a lag? If you could give some color, that will be helpful.

**Navneet Munot:** We have seen that, Prakash. I mean it is not a first for the market. We have seen it earlier also, 2007-2008 or 1999-2000, or in 1991-1992, industry has gone through these phases. I mean, there are always times when moneymaking becomes a lot easier. The way it has been in last 12 months, 14 months, lot of people get attracted to direct investing. Over a period of time, they realize the benefit of professional management and giving money to mutual funds. We believe that, over a period of time, we should be able to start getting that share. I am talking about the industry as a whole and of course, for us as

well. And I think one of the message that for industry as well as we would be working very hard is wealth creation, is not about like trying to make money on a daily or weekly basis but wealth creation, if you have seen some of our recent campaigns, is about what we are calling STP, a sound investment, plus time, plus patience. And we have clearly exhibited that as an industry. I mean, if you look at some of our products, which have got 20 years to 25 years of track record and the compounding that has happened, that people who invested Rs. 1 lakhs 25 years back, they have like Rs. 80 lakhs, Rs. 85 lakhs or Rs. 90 lakhs or a Rs. 10,000 SIP over a 25-year period has become Rs. 8 crores or Rs. 9 crores.

As we go around and spread that message more strongly and make our UI/UX, which they see while trading in the secondary market or investing in IPO, when they see our ease of transaction as easy as that or as, I would say, user friendly as that, hopefully I think we should be able to get that back. But globally, I mean, we are seeing the same thing. There are large number of newer investors who are entering the equity market or rather, I would say, capital markets. And yeah, I mean, as one of the savings option, as long as we are able to provide a better experience and give our story better that in the long run its better you compound your money by giving money to proficient fund managers like us, I think we should be able to benefit from that trend. I mean the trend is welcomed. Honestly, if you ask me, I mean, more than 10 million accounts have got opened in Demat. I think that just

shows the interest in the capital market. It is just that how our industry mix, our proposition is appealing to these investors and hopefully, we should also benefit from that.

**Prakash Kapadia:** Right. And if you could quantify the amount raised through NFO during the last quarter?

**Navneet Munot** So, I think in our asset allocator fund, it was around Rs. 1,100 crores. In our BFSI fund, it was Rs. 1,877 crores, if I remember correctly. Yeah.

**Prakash Kapadia:** And lastly, Navneet, you did mention about this cycle. So, within the cycle, assuming the cycle has to reverse and normalize sooner or later, so flows then come immediately? People realize, okay, I am better off making 15%, 18% rather than making that quick buck and then losing everything. So, does that happen with a lag in terms of these individual investors coming back to mutual fund or it typically takes its own time and effort once the market normalizes and corrects?

**Navneet Munot:** I think a part of this, what we are seeing this time is structural. Maybe I think some people think that they can manage, I mean, they can invest directly in stocks. I mean, there is a good experience they have got, maybe they may continue. A lot of investors who have entered recently over a period of time, as they make money, they might give that money to the professional fund managers and start refocusing on their own profession or their own business. I think that would be a better utilization of time, on a lighter note. I think we will have to

wait and watch, I mean, what is that tipping point where the new mutual fund folios are greater than the new Demat accounts.

I mean, I will just give you a data point. Between 2017 and 2020, if I remember correctly, our unique investors grew at like 70% or so in absolute numbers. And during that time, the Demat accounts increased by like somewhere around 40%, 50%. So, mutual funds were adding more unique investors than the Demat accounts where people were entering the secondary market. Now in last 1 year, maybe 15 month or so, that has reversed. I mean, we have seen around 15% increase in unique investors, while the Demat accounts, I mean, are growing at like 50% or so. But we have seen these cycles before. And as I mentioned, as long as our industry collaborates and the message that we have been delivering, Mutual Funds Sahi Hai, as long as we are able to spread that message, market is very large. I mean, the under penetration is so much that there would be enough scope for us to grow as well.

**Moderator:** Thank you. The next question is from the line of Prashant Kothari from Pictet. Please go ahead.

**Prashant Kothari:** I just wanted to understand the trend of the yields that we have seen. I mean, I understand from FY 2018 to 2020, it was the usual tier calculations with regulations. But why is it that the yields have not really gone up yet equity mix becoming favorable for us in the last quarter?

**Piyush Surana:** Are you talking about margin dilution?

**Prashant Kothari:** No, I am talking about the yields themselves, the operating revenue, which is 49 basis points, why it is not kind of going back to FY 2020 levels while the equity mix has surely become better?

**Navneet Munot:** I think you are talking about the margin compression a little bit. So, I think over the years, we have mentioned that margins are a function of the asset mix that we have, equity or money market. It is also a matter of flow versus stock. And when I say asset mix, within the asset class also, so when you talk about the debt, credit funds versus money market funds where margins are distinctly different. In equity also there are products where margins are lower, there are products where margins are higher. Some of the newer funds where money has been raised recently, payouts may have been higher. I mean the overall commission would have been higher versus the stock that we have, payouts would be lower. So, it is a combination of variety of things. Also, I think there have been some competitive pressure. You might have heard about some of the NFOs that have happened, and the money has come at a higher cost, for the industry, I am talking about overall. And we have to be cognizant of that fact. And it is a fine balancing for us to look at growth versus margins when we play our game.

**Prashant Kothari:** Would you have any long-term view on where these margins would be after, let us say, 5, 10 years?

**Navneet Munot:** So, I mean, Piyush would have mentioned earlier several times that we look at equities for like around 80 basis point or so, in fixed income, it used to be like mid-30s, but it has fallen because the proportion has changed. People have, I would say, a different view on interest rates now, as well as on the credit environment and money has been at the front end of the curve where margins are lower. And of course, I mean, there is a bit of interest coming into the passive fund where margins are lower. I think over the next few years, in India, we still believe that active funds will continue to grow, and relatively we have healthier margins than the industry. Even in the fixed income, the bouquet that we have, we believe that our margins can sustain where we are currently.

And in fact, they were higher some time back, but we hope that at least we should be able to maintain where we are currently, and we are exploring all options. I mean, looking at some of the categories where we are not present, I mentioned in the beginning, some of those products when they provide the exposure to domestic investors to invest internationally, etc., through international funds, over a period of time, we expect that, yeah, our margins could be where they are. But I think, globally, if we see the way margins have been under pressure in this industry, with the move happening from active to passive and markets become more and more efficient, obviously, there would be some pressure and I think we cannot deny that. How will we respond? So, we will respond through, as I mentioned earlier, on variety of initiatives on the

digital and automation side, how we build better operating leverage on that side and also exploring some other revenue streams.

As of now, almost our entire revenue and profits come from our own mutual funds products. There has been a very strong belief, which I agree, that there is so much of a runway for growth in that space given the massive under penetration in India. At the same time, looking at the global trends and also changing taste of various investors, I think we would be open to look at what else we can do on the non-mutual fund side, which includes PMS and AIF where margins could be better. It is on the drawing board. Hopefully, we should be able to share over the next couple of quarters what we are thinking on that front. So, on the core product, I mean, the margin range that I gave you that has been the case over the last few years, we hope that we should be able to sustain, notwithstanding the competitive pressures that are emerging. But over a period of time, yeah, if you look at the global trends, then definitely India is on the higher side.

**Moderator:** Thank you very much. The next question is from the line of Prayesh Jain from YES Securities. Please go ahead.

**Prayesh Jain:** Firstly, if I look at the equity AUM sequentially, we have moved from something like Rs. 1.66 trillion to Rs. 1.72 trillion. This is just a growth of 3% on a sequential basis, where the market returns itself have been pretty strong in a market where in fact BSE500 itself has given some 6%, 7%

kind of returns, or even higher. So, does that mean that HDFC would have seen some outflows on the equity side?

**Simal Kanuga:** Prayesh, the only thing is, I think, you are watching those numbers that you mentioned are quarterly average AUM. If you look at the closing AUMs, it has gone up from about Rs. 1,654 billion to Rs. 1,805 billion in the quarter. So, if you look at Page #9 of the presentation, on the right-hand side we have given the closing AUM number, and that would just indicate. So, basically in terms of if you look at Rs. 15,000 odd crores in the quarter has been the AUM rank. When you are looking at point-to-point market returns, you need to compare with this.

**Prayesh Jain:** Sir, even if we look at that Simal, there still seems to be, especially considering that the market has seen such a sharp increase in flows, there seems to be some disconnect as to whether are we seeing lesser additions.

**Simal Kanuga:** Yeah, we are. We are seeing obviously, and that is visible in the market share, right? So, if you look at our market share number if the market share is dipping. So, what you are stating is absolutely right.

**Prayesh Jain:** Okay. And similarly on the liquid side, our market share is dipping sequentially as well. Any thoughts there?

**Navneet Munot:** We had a significant increase in our market share in liquid. I mean, when there was a crisis around March and April, obviously, money moved to safe havens and we got higher



flows within the liquid fund. But as the corporate requirement of money has gone up over the quarters, I mean, the overall AUM in the liquid fund category has come down for us. And now our market share is more reasonable there, I mean, it was exceptionally on the higher side last year.

**Prayesh Jain:** I was talking more from Q4 onwards, Q4 to Q1 also, our market share has dropped, so any specific reasons that you would like to highlight here?

**Navneet Munot:** Liquid is very difficult to predict. I mean, there is short-term flows from corporate treasuries, institutions, and some of the other investors, it keeps changing in line with the situation in the money market and could be specific cases of couple of investors. I mean, they are not moving out on those particular days. Yeah.

**Prayesh Jain:** Okay. And lastly, on the other income, there was a very sharp jump, that is primarily on equity side or what was the reason for that?

**Piyush Surana:** The other income has gone up, couple of reasons. We have got some mark-to-market gains on some of the portfolio. Besides that, this whole business of the Essel Group NCDs that we spoke about, that has been set to rest. We talked about it, I think, on the last call also. And so, we made some gains by selling the collateral on those debentures. So, that has also contributed.

**Prayesh Jain:** Could you quantify the Essel part?

**Navneet Munot:** I do not think we want to get into quantifying it.

**Prayesh Jain:** Okay. All right. I was just trying to get the sustainability of the other income trend.

**Piyush Surana:** So, on that, I would not kind of look at this quarter as something that one could extrapolate. There is certainly some which is likely to sustain because of the way interest rates are at this juncture. So, there is fair amount of one-off here. But beyond that, I do not think we would like to give any guidance.

**Navneet Munot:** But having said that, I mean, you can see our portfolios. I mean, we are 88.5% invested in mutual funds, which is primarily liquid and debt product, 13.9% in arbitrage fund, which again, I mean, you would know, where the prevailing yields are and obviously remaining in debentures and tax-free bonds. So, you can look at prevailing yields and you can look at your own estimates on that.

**Piyush Surana:** And also look at the fact that the dividend payment is coming up in the next few days, which will take some money off the books.

**Moderator:** Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.

**Piran Engineer:** Congrats on the quarter. I had a couple of questions. So, firstly, regarding incremental margins being lower than back book margin. Now, that has been a story that has been playing out since October 2018, where are we now in that cycle? Is

most of the back book repriced downwards and probably you will see maybe just a couple of quarters of downward repricing? Or is this going to be a continued trend for at least a couple of years?

**Piyush Surana:** Hey, Piran, we have talked about this a few times before. And so, this is going to last for some time. And as I have always mentioned, it is going to be difficult to project the rate and the time period for which this will happen. The back book, like we have talked in the past, was accumulated in a different dispensation and the flows are coming at a different price. So, till they merge at some point in time, this is likely to continue to happen.

**Piran Engineer:** Okay. But is it fair to say that more than half of today's AUM has come, let us say, in the new pricing dispensation era, like in the last two...?

**Piyush Surana:** Piran, I do not think we can kind of give you any more information than what we have already done on this.

**Piran Engineer:** Okay. Sure, no problem. And secondly, you mentioned about extra scheme-related expenses this quarter. Could you please quantify it?

**Piyush Surana:** No, not really, but some business development expenditure that we have started incurring, for example, things like the SIPs and stuff like that. So, that is some additional expense that has happened. But I do not think we will quantify that.

From a competitive perspective, it does not make sense for us to do that.

**Piran Engineer:** Okay. Got it. And just lastly, you were speaking about partnering with FinTechs and having your fair share of market share in that distribution channel, if you could just tell us how do commission rates look like in that channel versus say traditional distribution channel?

**Navneet Munot:** So, some of them who have been garnering large amounts of new SIPs, they all bring the money in their direct plan. In fact, they have the RIA mode, not in the ARN as mutual fund distributors. Some of them may be mutual fund distributors, it would be a mix of that.

**Piran Engineer:** Okay. But if they put in regular plans, are you all offering at par commissions or lower or higher?

**Navneet Munot:** At par, I guess.

**Moderator:** Thank you. The next question is from the line of Anshu from Edelweiss. Please go ahead.

**Anshu:** My question has been answered. Thank you.

**Moderator:** Thank you. The next question is from the line of Saurabh from J.P. Morgan. Please go ahead.

**Saurabh:** Sir, on the launches, how many more funds are you expecting to do this year, the NFOs?

**Navneet Munot:** So, we have talked about the categories where we would be looking at newer products launch. So, among the four categories, multi-cap fund is something that we would be launching in some time. Among the thematic and sector, you would be expecting an MNC fund from us. On the whole passive side, there are a couple of products that we have lined up, the first to start with would be an Equal Weight Nifty Fund, and there are few more in pipeline at various stage. One international fund, I mean, that is in the pipeline. So, yeah, we have our hands full for next couple of quarters.

**Saurabh:** But sir, for the full year, I mean, how much should we expect, four, five or higher than that?

**Navneet Munot:** I do not know whether it is five versus one, you have seen what one NFO can collect versus maybe many others. I think it is more about which category of products there what kind of money can be collected. I do not think numbers mean that much.

**Saurabh:** Okay. Fair point. And sir on this direct part, one is, if you can quantify what is the IT budget at HDFC AMC? And second is, any sourcing that you get from these platforms is part of that direct sourcing, or will it be part of that national distributor?

**Navneet Munot:** No, so platform that comes, Saurabh, into direct plan is part of direct only.

**Saurabh:** So, how much will HDFC's direct as in from your branches of that 46%?

**Simal Kanuga:** So, Saurabh, we have not broken down those numbers because it is like multi-channel. Some bit of it comes on our website, some bit of it comes through our physical branches and then after the RIAs, as well as the FinTech platforms.

**Saurabh:** Okay. But the FinTechs will be like, I mean, can you give a rough range of where that number will be? Will it be dominant part of this part or?

**Navneet Munot:** Off our current book, not dominant part for sure. Because I think the FinTech SIP creation is a more recent phenomenon than an older one and our book is like much, I would say...

**Saurabh:** No, sir, of the incremental, I was asking.

**Navneet Munot:** On the incremental side, no, I do not think, not in value on it, numbers maybe.

**Saurabh:** Okay. And that technology IT budget will be how much, sir?

**Navneet Munot:** I will give you the break-up amount of money, and as I mentioned, I think part of it is CAPEX, part of it is revenue expenditure, part of it is like partner shares, part of it is like our own development. It is just a combination of various things. So, I think I will not be able to give you an IT budget as such within the overall expenditure, yeah.

**Saurabh:** Okay. And just one final question, sir. I mean, we have seen some of your competition pushing a lot very aggressively now into passive ETFs. And you have Zerodha guys now launching a passive ETF and we have seen what they have done with the broking industry. So, I mean, what is your view on this passive business now? Would you be looking to expand this more aggressively? So, how will you think about this passive ETFs?

**Navneet Munot:** I think if you look at the overall size of the industry, it is still small, and you talked about one player. I mean, we I think mentioned in the last call, the more the merrier. I think, the more participants will only help in expanding the market. The market is very small, I mean, all said and done, we still have like 2.5 crores unique investors in India in 1.35 billion people. We have set a very audacious, I would say, a mission for ourselves that we want to be the value creator for every Indian. So, we have little over 5 million unique accounts. We think we have a very, very long way to go. Some of them will come in active funds, some of them will come in passive funds, some of them will come in solutions-oriented product. I think in India different households will have different needs. I think at our end, the way we are looking at business is not looking at the way, I mean, the asset managers would look at, okay, active versus passive or equity versus fixed income or mutual fund versus AIF, PMS, or within the distribution, direct versus with distributor, within distributors, banks versus NDs versus MFDs or RIAs or looking at T-30 versus B-30, so on and so

forth. I think at our end, the way we are thinking is like, there are 10s of millions of savers in India who are yet to get the right kind of product, which they can use for meeting their financial goals.

As long as we are able to provide right kind of solutions to these people by understanding them better, working with our partners or working with digital platforms, over a period of time we should be able to grow. Surely, I mean, passives have grown tremendously. Globally, I think there is a lot of scope for that product to grow in India as well. In fact, we earlier mentioned about, we would also be launching couple of products to fill our product bouquet. But whether this will significantly dent the growth potential of the other segments of the business, the answer is no. Will it really expand the market? The answer is clearly, yes. And I think I mentioned that line last time that large number of people in India are yet to meet the market. They do not get up in morning, how do I beat the market today or in next six months and one year. So, I think we are very clear there, I think we are going to put customer at the center and how we can help them in meeting their financial goals, meeting their life goals. And as long as we are able to do that, what product and how we construct their solution is something that I think collaboratively we will all do in industry. And newer players will bring new innovation, whether in terms of product, in terms of delivery, in terms of providing different experience to investors, they are all welcome as part of the industry. We will all work



together. At our end, I will say our mission is absolutely clear, we want to be the value creator for every Indian, and we believe that this product has a lot more potential to grow. And we need to reach out to lot many more investors than what we have reached out in last 25 years, 30 years as an industry.

**Moderator:** Thank you. The next question is from the line of Nitin Jain from Fairview Capital Partners. Please go ahead.

**Nitin Jain:** So, based on the data that the company has provided in the last three annual reports, so it seems that it is continuing to lose its distributors. So, for example, in FY 2019, you had around 75,000 plus distributors on your panel, which dipped to 70,000 in FY 2020 and now we are down to 65,000. So, I have asked this question before as well, but all I have got is that the company values its distributors. So, just wanted to get your perspective on why people are leaving us compared to what the listed peers are reporting, an increasing trend of empanelled distributors?

**Navneet Munot:** Okay. I think they are back to more or less where we were in terms of number of those distributors. In between there was a trend where some of these distributors, if I remember correctly, were moving to platforms like Prudent and NJ and all because, I think aggregating technology and the other IT backbone is available, you get better service. So, some of them kind of merged with these platforms, so maybe the number may have gone down, but then newer distributors are starting, and our numbers are there. In fact, I am happy to state

that in our sector fund, the BFSI fund that we had, more than 10,000 MFDs participated in that. So, I think we have a fair, I would say, acceptance among that category of distributors.

**Nitin Jain:** Okay. No, the reason why I ask this is, from the time since SEBI has banned upfront commissions, HDFC has been seeing a consistent decline. So, does it have anything to do with that because the company straight away passed on to the distributors?

**Simal Kanuga:** No. So, see, there are two ways to look at it. One is basically the 70,000 kind of a number that we are talking is the entire universe. The active distributors, the list is obviously much smaller. And I think what Navneet referred to saying that in our latest BFSI, NFO, we saw more than 10,000 distributors participating, which is a very, very large number. So, nothing of that sort. And I think that is the point that Navneet made, some of the smaller distributors have actually moved to platform, and for reasons of efficiency and cost benefit analysis.

**Nitin Jain:** Okay. And the other significant trend that seems to have played out in the last couple of years is the rise of passive investing. So, if you see, they have risen from somewhere around Rs. 8,000 crores to Rs. 9,000 crores. In 2010, they are close to Rs. 2,00,000 crores to Rs. 2,500,000 crores, like the entire passive AUM. So, I have tried to get the company's perspective earlier as well, but it was kind of, the only response was that, no, it is still a very small part of the entire

industry. But if you see the last three years, it is the fastest-growing section of the industry as well. And some of our peers have like 35%, 40% market share in that. So, what is our strategy? I mean, do we want to wait some more time and then take aggressive, corrective actions or how is the company planning?

**Simal Kanuga:** So, let me do one thing. I will give you some data and then Navneet can give the strategy part of it. So, the number, if you look at as of June end, for the passive ETFs is Rs. 3,20,000 crores. Now out of this Rs. 3,20,000 crores, the two quasi government owned entities, they add up to close to Rs. 2,00,000 crores, actually more than Rs. 2,00,000 crores. And that is basically Government of India's EPFO money and some of the other provident funds which tend to mirror image the EPFO. So, the large part of that money where we talk about, out of Rs. 3,20,000 crores, Rs. 2,00,000 crores goes to these two asset management companies. And as of now, all of that money has been allocated to both of those in ratio of 3:1. That is point number one.

Second is, others close to Rs. 40,000 crores is the liquid debt and the Bharat Bond ETFs, and out of that Rs. 40,000 crores, close to around Rs. 34,000 crores is the Bharat Bond ETFs, which is again, government owned entities, the PSU, fixed income capital raise, which has been done through one asset management company. We did not participate in that bid for economic reasons. Then you have some bit of money in the

CPSE and the Bharat 22 ETF, again, that was government disinvestment program. Close to around Rs. 22,000 crores has been from that. Now government has come out and made a statement, so the Divestment Secretary has made a statement that this would no more be the preferred route of further disinvestment. Then there is a gold ETF which is close to around Rs. 16,000 crores. We have a fairly healthy share there, we are the second largest AMC in that space.

So, if you look at all of these numbers, so, yes, the number seemingly looks very large. Having said that, if you kind of break those numbers and look at the target market segment, does not necessarily really kind of fit into the way we look at things. Now, when you look at the retail participation in passive, and that tends to happen through index funds rather than through ETFs, it is close to around Rs. 25,000 crores of AUM in index funds. Out of that Rs. 25,000 crores, we have an AUM of Rs. 5,600 crores. So, we are literally kind of more than one-fifth of that market. And as Navneet mentioned earlier, we recently got an approval from the regulator to launch an Equal Weight Index Fund, which we would be launching it maybe some time during the course of this quarter. Navneet can throw more light on the strategy part.

**Navneet Munot:** No, I think you talked about it, and I mentioned earlier that there would be growth in both active as well as passive as we see India evolving. Even globally, I mean, we mentioned earlier that passives have done very well in terms of

incremental growth. But my sense is that over the next few years, even globally, it may be a little contrarian view that I think active is going to make a strong comeback. In India, I think there is strong growth potential on both sides, passive as well as active. I think even at the cost of repeating, maybe second or third time I would say that the way we would look at ourselves is not like active versus passive, I mean, in those terms, but like putting the customer at the center and then using our capability as an investment manager, right. I mean, we can do active, we can do passive, we can do I mean whatever it comes to investment management, put that along with our risk management, and the overall product capability. And then using the power of data and analytics and providing the right kind of contextual, consumable content, whether it comes through any kind of channel, whether the traditional channel or the digital platform, the idea is that how do we reach out to more number of savers and provide them the right kind of solution with the help of our partners or the digital platforms. That is the idea. If it means like maybe investing a little bit more in passives than what we have done historically, we will surely do that.

**Moderator:** Thank you very much. The next question is from the line of Madhu Gupta from Quantum Asset Management. Please go ahead.

**Madhu Gupta:** So, basically, I wanted to know whether HDFC AMC has any scope for driving operating leverage benefits going ahead.

And if that is so, then in which areas do you see the savings coming in from? And the second question would be, as per the new regulation, under the compensation of the key management employees, at least 20% of that should be going to the mutual funds in which they are managing. So, is that going to impact your employee costs in anyway? So, any color on that?

**Navneet Munot:** On the first, I mean, on operating leverage, I mean, inherently the asset management business globally is known for its high operating leverage, right? I mean, a new fund manager at our end is, let us say, managing Rs. 5,000 crores or Rs. 10,000 crores of asset, that AUM doubles in next few years given our franchise, would we have another fund manager for that? No, I mean, the same fund manager is managing that, the same set of branches, the same set of the overall cost which we have. Of course, a part of it would be variable, let us say, the money coming in from the distributor, there is a cost attached to it. But our margins, obviously, if you look at the overall margins, there is obviously a positive operating leverage.

Having said that, I think Piyush has been highlighting it over the last couple of quarters that some of the cost reductions that have happened, particularly, I think the organization ensure that during the tough time of last one year, lot of cost rationalization happened. Some of those costs will come back as we start looking at newer growth avenues and expanding the market and launching the new products, investing in

marketing and business development, investing in the technology and digital, etc. So, some bit of costs will come back. Having said that, structurally, I mean, if your question is about the operating leverage, yes, inherently, this is a business with a very high operating leverage.

**Madhu Gupta:** So, the reason I am asking is like, if you look at HDFC AMC, as compared to peers you are already quite low. So, is there a scope for further reduction in that? Or is this the optimal, which you can reach? And, I mean, beyond this, there is going to be an increase.

**Navneet Munot:** I think more important, Madhu, would be like how these flows kind of come back and build market action on the revenue side I think rather than focusing on the cost side. I think in the last call, we mentioned that some of the cost reduction that we saw last year in FY 2021, yeah, 2021, they were on account of reduction in travel and business development some of the other overheads, etc. Some part of this cost is going to come back. And we would not want to hold that on, because I think we would like to invest and growing our business. So, some of it may sustain, I think the cost rationalization that has happened as you use technology better. Some of it, which could not be spent last year, for example travel, I think would come back at some point in time. But structurally, I mean, again repeating the same point, if you are asking about operating leverage, yes, I mean it is there at a side, it keeps

growing. So, for us, more important would be, how do we grow the revenues and how do we grow the AUM.

**Madhu Gupta:** Got it. And regarding the regulatory change, where now the 20% of the compensations should essentially been making funds which the key management personnel are managing, so would that kind of have any impact on your employee cost?

**Navneet Munot:** No, I think that today in the AGM also our Chairman talked about it, he praised the regulators for bringing this in and he mentioned that we would be happy to implement. Of course, he talked about some bit of flexibility that can be given to the asset managers on how to implement it. But otherwise, I think even otherwise most of our employees as it would have their money invested in the fund also or in their own funds. So, I do not think it will dramatically change the way people look at their investments, and maybe our employee cost not necessarily. All I think the Chairman asked for was like, if some bit of flexibility can be given, a younger employee may have a different kind of risk return expectations or a risk profile or let us say different employees would have their own different financial needs. But otherwise in general, I think it is a welcome move and he applauded it.

**Piyush Surana:** And to your pointed question, will it affect our employee cost? No, it will not.

**Moderator:** Thank you. The next question is from the line of Venkatesh Sanjeevi from Pictet Asset Management. Please go ahead.



**Venkatesh Sanjeevi:** Just a general observation on the domestic mutual fund industry is that a lot of products get sold by distributors based on the ten-year term performance, maybe one year or maybe maximum two years or so, what was done well in the recent past, easy to sell and get sold, even if you see the way international funds are getting closed now, the segments have done well getting closed, it seems to be that case. So, the question is, how can this change? Can other parameters like risk or turnover or other aspects of fund to be highlighted? Are AMCs taking steps to sort of sell the products on things apart from just near-term performance? Do you think it is feasible to get some such structure of maturity over the industry as well?

**Navneet Munot:** So, that is a great point, Venkatesh, you have made that people focus so much on, I would say, a fund alpha on the short-term side, rather than looking at the investor alpha. More important is how do you meet investors goal, and how do you create the alpha for the investors money over a long period rather than keep chasing last funding at our three years' performance. And there are number of studies, I am sure you know that, that where I think churning money based on the recent performance does not lead to better outcome for the end investor. I think over the years, we are seeing good number of our partners understanding that aspect, I think fund houses along with the distributor, along with all the other stakeholders have been making lot of efforts on that front to highlight the importance of staying invested for the long-term.

Initially I talked about our newer marketing campaign about the STP, sound investment, plus time, plus patient, and not trying to chase the head of the season, which really create value for you over the long period. And we hope that as markets become more mature and investors as well as the distributors pay a lot more attention to long-term performance and long-term wealth creation rather than keep chasing short-term performance.

**Venkatesh Sanjeevi:** But do you think AMFI as a body needs to have regulated mutual fund for year campaign came out kind of bring something on that side and try to build awareness and stuff just one or two funds trying to do this?

**Navneet Munot:** No, I think everybody in the industry, and I must compliment every player over the last several years, have been working very hard to highlight the importance of long-term investing, highlight the importance of staying disciplined. The whole SIP campaign that how staying disciplined and keep investing on a monthly basis over a longer period is better than chasing the short-term market movement. I think it has been happening. The entire industry is doing it together. Can we do more? I mean, that is true for everything that the industry can do relative to whatever we are doing. And your point is absolutely right that all the stakeholders need to work together to ensure that investors look at like creating wealth over much as longer period than trying to change short-term performance.

**Moderator:** Thank you. The next question is from the line of Mr. Mukherjee, Private Investor. Please go ahead.

**Mr. Mukherjee:** Basically, 90% of my mutual fund holding is in HDFC AMC, and 90% of my portfolio shares is also HDFC AMC. So, I am viewing this very carefully, and what I have observed is that compared to other AMCs, HDFC AMC is lacking some aggressiveness in their portfolio. For example, if I see SBI Focused Fund, if I see Axis Focused Fund, they are having significant weight on Avenue Supermart, significant weight on Info Edge, and those companies which are growing very fast. Whereas if I see HDFC AMC portfolio, there are funds which are holding Jagran Prakashan, and such sort of stocks in their portfolio.

So, my question is, if HDFC wants to go ahead with value-based investing, this is perfectly fine. But why cannot HDFC AMC offer aggressive portfolio because I as an investor, I as a customer, if I want to invest a part of my money in aggressive funds, then I have to go to other AMCs because HDFC AMC is not offering me any portfolio of that sort. And what is your thinking on that because that is my first point?

**Navneet Munot:** So, I think I mentioned it in the beginning, if we look at the longer-term track record of several of our funds, which have been in existence for a very, very long time, I think the performance speaks for itself. There could be cycles in the short run, but more important is the way money has got multiplied over the years. We talked about our Flexi Cap fund,

which used to be HDFC equity fund or the HDFC Balance Advantage Fund, which was a different name but the same product, over the years the kind of performance that has delivered. At any point in time, one can always pick up like let us say the one or two names I would not comment on the individual stock name, but they do not reflect the aggressiveness or the conservativeness. I think more important is remaining true to the label, remaining true to the fund philosophy that you have, to the mandate that you have and what we have communicated to the investor, and that is what that we have attributed over the last couple of decades.

And we see no reason that most of our funds will not be able to deliver that kind of performance that investors expect from us over a long period. I think our focus has always been on risk-adjusted return. There are various kinds of products, the investors who are looking at, let us say, a small cap fund, they can invest in a small cap fund versus who is looking at a concentrated portfolio of couple of high conviction ideas. They can look at our Focused Equity Fund. Those who are looking at a more diversified across market cap can invest in Flexi Cap. Those who want a little bit of fixed income within the portfolio can look at Balance Advantage or the Hybrid Equity Fund. And within that, different fund managers have thought different investment style. And while this whole value and growth and quality and I just say that I mean, I do not know who said this that every investing is value investing, because when you do not say I do wet swimming, I mean

every swimming is like you get wet. I mean in investing you look for value which is more than what we are paying today. So, different managers have a different lens of looking at the stocks and a different style, but I think all I can say is that the history has clearly proven that we have an investment strategy, an investment philosophy, an investment process, and the people who have been able to demonstrate high quality, I would say, performance for very long period of time. Thank you so much and really appreciate your confidence in the AMC. Thank you so much.

**Mr. Mukherjee:** My second question is, how do we incentivize the fund manager? Because if I see, I have my fund in all the small cap, mid cap, whatever you say, I have my investment in all these funds. But when I see their portfolio, there is a significant amount of overlap between all these funds. So, I want to know how you incentivize fund managers, because if the AMU is increasing, it is increasing because of maybe inflation, or maybe new fund that is coming into that particular fund.

So, what weightage you are giving to automatic increase in the AMC because of inflation and what weightage you are giving to new fund that the investor is devoting or putting into that particular mutual fund? Because that shows the trust that I am having on that, suppose, if I believe that HDFC focused fund will do very good, then I will pour in more money into that. So, what is my share of wallet? How much of that is

coming into the incentivized system? How is it getting tracked?

**Simal Kanuga:** Mr. Mukherjee, if you do not mind, maybe this would not be the best platform to discuss this, but if you are okay, if you can just drop in a mail to us or give us your contact, we will call you and address this query of yours.

**Mr. Mukherjee:** Okay. And my last question is, I see on YouTube, although we have lot of trust on HDFC brand, everybody is positive about it, but there are several YouTube videos which are talking negative about the HDFC AMC, its fund managers, its performance. Now, if a small guy from a small town is viewing those YouTube videos and he is also viewing the video of some other competitive AMCs, he may get biased, how do we counter that?

**Navneet Munot:** So, I mean, you cannot respond to the millions of tweets and millions of comments on the social media, that will not be possible for a company. But I think the proof is in the pudding. So, I mean we can clearly see the recent NFO or our Nurture Nature campaign or some of the other flows, the response that we get from the smaller towns is highly encouraging. I think our brand is highly respected across the country, whether it is large town or a small town. And I think the people look up to us as a highly trustworthy brand and I do not think that some comments here and there really impact investors' decision making. Thank you. I mean you have 90% of your money with our fund house. I am sure there would be many other investors

like you, and I hope there are more and more investors like you who have their faith in an AMC which has put the purpose at the center of everything that we do, which is to be the wealth creator for every Indian.

**Moderator:** Thank you very much. The next question is from the line of Utkarsh Solapurwala from DAMOS Capital. Please go ahead.

**Utkarsh Solapur Wala:** So, recently, Navi has launched its index fund at a very low TER ratio. So, going forward with many other digital-only AMC will launch that at the lower TER, there would be price-based competition. So, what we sort of view on the price-based competition in India?

**Navneet Munot:** I mean, in our industry, competition has always been there, I mean it is not something new. But of course, I think there are innovations and product, there are innovations in terms of delivering those products etc. As I mentioned earlier that given the opportunity in India and this industry, the more the merrier, more and more of these participants will help in expanding the market. When you just have 2.5 crore investors, I think for a lower fee for an AMC's, I mean, if they are able to bring in not many more investors, I think as an industry participant, I would welcome that. Having said that, as I have been repeating a couple of times for us, it is like how we provide the right solution to each investor and each of our partner in meeting their financial goals. We would not really look at one particular product that has got a much lower cost, there would be various things that every investor would need.

I mean, if history is any guide and every investors' experience would clearly state that it is not about saving few basis point here and there that really helps in meeting their all-life goals or financial goals. I think it is about the overall package that an AMC or an asset manager delivers. I think we always believe that together with all partners, both the mutual fund as well as the other stakeholders should work on enhancing the investor alpha, while we, the manufacturer, continue to work on delivering better fund alpha. And I think that is a more important part. For us, I mean, we have mentioned it several times, our business over the last 20 years has got built on this premise that we aspire to have scale. We are one of the largest player, we aspire to have quality, which is reflecting in our asset mix and in the way, we source our business, the way we have built our business and of course, very volatile industry-leading profitability and would not really sacrifice one for the other. And all of this with purpose at the center which is to be the value creator for every Indian.

**Moderator:** Thank you. The next question is from the line of Hiral Desai from Anived Portfolio Managers. Please go ahead.

**Hiral Desai:** So, I actually had a question on the cost side, Navneet, but you sort of answered that in one of the earlier question, and I think you covered it fairly in a detailed manner. But just wanted to understand, out of this sort of the total 10 basis points of cost that we had last year, what proportion of this would be variable in nature? Just a ballpark number.



**Piyush Surana:** In the past, we have talked about, roughly, out of our costs, between 20% 25% are variable.

**Hiral Desai:** Got it. And lastly for Piyush. Are there any other collaterals still sitting related to the Essel NCD or it has done?

**Piyush Surana:** From a financial perspective, there is nothing else. It is pretty much done.

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

**Kunal Thanvi:** My question now relates to; we have seen a lot of traction in the national pension business after PFRDA changing the realization there. And HDFC being the largest private player there, can you throw some light on that business and from a very long-term perspective, we are, if I am not wrong, at Rs. 18,000 crores of AUM. Now, how do we look at that market? Because the large part of that market is locked with PSUs, how do we look at it from, say, 5 years to 10 years, let us say?

**Navneet Munot:** So, I mean, that's part of one of our group company. I am sure you would have an opportunity to ask them about, specifically about that company and that business. But in general, I mean, of course, in India if you look at the overall savings pool, if you look at the demographics, if we look at our need for investment product, I think all investment products will coexist. I think mutual funds have a play, pension products have a play, some of the other products have a play, and everybody can coexist, and there is enough opportunity for all

the players. But specifically, on that business and how it is evolving, I think I may have a view, but it is better you ask HDFC Life.

**Moderator:** Thank you. The next question is from the line of Kapil Agrawal from Itus Capital Advisory. Please go ahead.

**Kapil Agrawal:** So, my question is regarding, I mean, your flagship equity fund has seen significant growth in the last one and half years, and that has made up for some under-performance from 2015 to 2019. But when it comes to raising capital, some of your competition has been quite aggressive and they fared much better in this regard. So, how are you looking at growing your AUM, both in terms of inflows and new fund offerings? Can you give us some color in where you are targeting also?

**Navneet Munot:** So, first of all, on the performance, as you mentioned that there was some time when there was an issue in terms of performance of some of the key schemes and we have seen a material reversal on that front. And as I mentioned earlier that some of those schemes are now in top decile, in fact, some of them are in top quartile in one year, and of course even three years and five years has started looking good. And it is being recognized by our distribution partners as well as clients. Of course, it takes a little bit of time for them to recognize the reversal. But we are hopeful that the ones that we are doing and giving that message and people have been noticing it.

And have we done anything differently? Honestly, I mean, not really. What was not working in the last couple of years is now working. So, our investment team has seen few such cycles in past and that makes them stick to their conviction, because they have seen some of these cycles before and this has been like another cycle. And we are very happy to state that interest on those positions or on those convictions have got vindicated. It does take time for the market to recognize this fully, but we can today confidently state that things are improving on the ground. I also mentioned, I think in the beginning we mentioned about the style diversity, which even some of the earlier calls, we have talked about. The whole idea of achieving a style diversity is working out reasonably well. So, some of the newer fund managers are now managing almost 15% of our AUM and some of those funds have seen traction. We also have a good product pipeline in place, while we expect flows to start increasing in the core flagship products, which have one of the best-in-class long-term performance track record, though, they went through a cycle of underperformance and are now coming back.

**Kapil Agrawal:** Could you highlight something regarding the new fund offerings, any particular markets, any particular types you are targeting? Could you highlight something there?

**Navneet munot:** Maybe you have missed it earlier, we have talked about the categories where our presence has been less. I think after the SEBI classification, as far as the core categories are concerned

across equity, fixed income, gold, we have our product basket almost full. We would be launching a multi-cap fund at some point in time, of course, subject to all the approvals and other things in place. We would be launching new passive funds, maybe some on index side, some on the ETF side, we would be launching some international funds, we would be launching some funds on the sector and thematic side. Last quarter, we had this NFO of banking and financial services and some more on the thematic and sector side are in the pipeline.

Having said that, I think I might have mentioned this on the last call, my first call that I have always praised and appreciated HDFC AMC for one thing that this AMC would never launch a product because this is a fad of the season. Unless the investment team believes in it very strongly, unless we believe that at any point in time, at least a segment of investors would have the need for that product in their overall investment portfolio, unless we see a sustainability as well as the longevity of that product. We would not launch just because we want to do an NFO. I mean, we have never done that, and we would never do that. But wherever there are product gaps, we would fill that over the next several quarters or years.

**Kapil Agrawal:** Sure. Thank you. I have one last question. And you have touched upon this before earlier in this call, regarding some of the newer entrants to the market investing directly. How are

you looking to target these people? Could you highlight something, any particular steps that you have taken or going to take to target these markets?

**Navneet Munot:** So, I think our belief has always been that partners are very important. This is a large country, there are hundreds of towns and 6,00,000 villages in India. There are 1.35 billion people across the country. If we look at the number of advisors today, there is like one for 17,000 people. Investing is not only about like an ease of transaction or doing it, but also a lot about behavioral aspect. And that is where the importance of a good advisor or a good distributor is very critical to do the hand holding at the right time that in the month of March 2020, you do not move out of equities and maybe the other way around. So, we strongly believe that partners have a big role to play. Having said that, I mean, there would be investors who will kind of do it yourself, DIY, just like they do for several other aspects in their life, and they would like to do even investing on their own and we would have the best-in-class platform for those as well. But our fundamental belief is that partners are important for us, and there is no reason to believe that they will not remain important for our business to continue to grow.

**Moderator:** Thank you. The next question is from the line of Franklin from Equentis Wealth. Please go ahead.

**Franklin:** So, right now, one of the main issues which is there in our minds is the shift that is happening between the increase in the

number of Demat accounts and in the mutual fund accounts. So, I mean, right now also we have discussed this a bit in the call as well that when the market increases, you actually see a lot of increase in these Demat accounts. So, my question is actually based on your experience in the past, when the market turns around or even remains subdued or even goes negative, what percentage of these incremental new additions that are happening into these Demat accounts actually come towards the mutual fund category?

**Navneet Munot:** I think we quoted that number earlier that between 2017 and 2020 if you look at the proportion of the new accounts that got added by the mutual fund industry versus the Demat accounts, I think mutual fund industry was adding a lot many more unique investors than the new Demat accounts. Now that trend has got reversed over the last 15 months for variety of reasons, of course, markets have been favorable to people, the work from home may have made a difference, maybe some of the platforms which have made investing into secondary market a lot easier. I am sure that may have made a difference. And of course, some of the millennials and some of the younger investors are liking that experience. And it is not only in India, but I also think it has been a global trend, the so-called Robinhood effect.

Now, how do we respond? I am talking about the entire industry and for us as well. So, I will not look at it as a challenge, I mean, I would look at both. Of course, if

everybody thinks that making money is so easy and they can trade and can create wealth over a longer period of time, I mean, that is concerning. The other way to look at it, it is a big opportunity. It just shows the interest in the capital market, it just shows that the investing habits are changing. I think some of the earlier ways of investing versus maybe people are thinking that capital markets are a better place to put money. So, from that perspective, it is an opportunity.

So, how do we need to respond, both as an AMC as well as an industry? And I would say that, I mean, if you look at why this trend is happening, keep aside the near-term market movement, etc. and all, I think we need to, as an industry do a more, I will say, faster digital adoption, provide a better user interface, a better user experience when they are investing in mutual funds, relative to let's say when they are investing on their own through some of these platforms. We need to do a lot more, I would say, deeper focus on investor education. How do we highlight the importance of long-term wealth creation that happens through the power of compounding by remaining disciplined? I mean doing, setting the right goals, doing your asset allocation, remaining discipline across market cycles and that is how the wealth gets created and spread that message in the language that these people, I would say, absorb better.

We also need to redesign the product and marketing strategy that how do we deliver this message. As I mentioned, I mean,

a while ago that in language that they would prefer, we will make that content a lot more, I would say, better consumable, better contextual. And of course, a right kind of partnership that some of these platforms which have been able to attract a lot of these investors, they themselves have mentioned that large number of their investors do not make as much money as they can make by just investing in fixed deposits. I am sure you would have heard or read their comments, because they have the experience of what their investors are doing by trading in the market. So, at our end, I mean, from a mutual fund industry perspective or as an HDFC AMC, you need to partner with them and ensure that our products are there for investors to see with the right kind of messaging and right kind of packaging. I think, if we do all of this together, I have no doubt in mind that next few years we would also be able to attract a lot of these investors into the mutual fund fold.

**Franklin:**

Okay. And my next question is on the equity AUM share, both for you and as the industry. If you see the longer-term trend, the share of equity AUM has been constantly increasing and that has probably largely got to do because our interest rates are declining on a structural basis. So, probably maybe 5, 10 years down the line also, it is very much possible that the interest rates may not hit the peak and it makes equity investing much more attractive compared to debt investing. So, is it possible that we could see our equity share moving to like somewhere around 60%, 65% kind of a level, if you have to just take a slightly longer-term view?



**Navneet Munot:** We would love to see it that way. I mean, if you look at the profitability, but that is not how the world works. So, let us say, I mean even in other countries where interest rates are very low, is it that people only invest in equity? I mean, even at negative yields there are trillions of dollars invested in bond funds and money market funds. Different investors have different income needs, different investing needs, and I think we need to have products for all investors. In India, I mean, if you look at the total size of the fixed deposit market and some of the other fixed income products like bonds and post office and all of that, I mean, that is like a large market. And there also I think mutual fund have a good proposition to attract those investors. So, I think, yeah, both will grow. I do not see any reason that only equity will grow and there is not much of scope for us to grow on the fixed income side. I think on the retail side, particularly, there is tremendous scope for us to grow in individual investors' book.

**Moderator:** Thank you. Ladies and gentlemen, we will take the last question from the line of Nitin Jain from Fairview Capital Partners. Please go ahead.

**Nitin Jain:** Net of the increased ESOP expenses, what would our operating margins have been like in basis points?

**Piyush Surana:** I think it is 36.5.

**Nitin Jain:** And Navneet mentioned sometime back that the funds managed by the newer fund managers are getting increased traction. So, is it possible to spell out the funds?

**Navneet Munot:** Sure, we can. So, there is a gentleman by name of Amit Ganatra, he manages the HDFC Capital Builder Fund, he manages HDFC Multi-Asset Fund, he manages the HDFC Asset Allocator Fund of Fund. He also now manages the HDFC Tax Saver Fund. Gopal Agarwal, who is one of the other managers, he manages the HDFC's Focused 30 Fund, he manages the fund called HDFC Large and Mid Cap Fund, he manages the HDFC Dividend Yield Fund. These are the funds.

**Navneet Munot:** And now Anand Laddha would be managing the Banking and Financial Services Fund. And other fund manager, of course, that fund has not grown, but I think yeah maybe the investment cycle turns, then Rakesh Vyas, who manages our Infrastructure and Housing Opportunity Funds.

**Moderator:** The line for the participant dropped. I now hand the conference over to Mr. Navneet Munot for closing comments.

**Navneet Munot:** Thank you so much for being with us. And I hope you and your loved ones are doing well, stay safe, stay healthy. Thank you.

**Moderator:** Thank you very much. On behalf of HDFC Asset Management Company Limited, that concludes this



*HDFC Asset Management Company Limited  
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conference. Thank you for joining us. You may now disconnect your lines. Thank you.