HDFC MUTUAL FUND
BHAROSA APNO KA

Ref/No/HDFCAMC/SE/2023-24/72 Date – October 18, 2023

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

Dear Sir/Madam,

Sub: <u>Transcript of Earnings Call</u>

Please find enclosed herewith transcript of Earnings Call for the quarter and half year ended September 30, 2023, conducted after the meeting of the Board of Directors on October 12, 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

Digitally signed by Sylvia Furtado
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cn=Sylvia Furtado
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Sylvia Furtado
Company Secretary

Encl: a/a

"HDFC Asset Management Company Limited Q2 FY'24 Earnings Conference Call"

October 12, 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 Q2 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 Mr. Navneet Munot, Mr. Naozad Sirwalla and Mr. Simal Kanuga. I now hand the conference to Mr. Simal Kanuga. Thank you and over to you sir.

Simal Kanuga: Thank you. Good evening, and thank you for joining us today. Before we dive into specifics, we would like to highlight a change in reference to some of the data points in our presentation. As against our usual schedule, our results have been advanced by a week or two. The change was made to ensure synchronization with the quarterly results reporting of HDFC Bank. It is important to note that as of now, not all the necessary industry data for September is made available. In instances where September data is still pending, we have substituted it with August data. We have done this to present the most accurate and timely information possible. We'll refresh our presentation in the forthcoming days once necessary data for the month of September is released and the same will be made available on stock exchanges as well as our website.

Let us start with some industry level information.

The quarterly average assets under management continued its impressive growth, reaching INR47 trillion, marking a 20% Y-o-Y increase.

Actively managed equity-oriented funds are getting nearer to the 50% mark of the total AUM with QAAUM of INR23.1 trillion, a notable uptick of INR18.4 trillion recorded a year ago, signifying 26% Y-o-Y growth. During the same period, the NIFTY 50 price return was 15% and the NIFTY 500 price return was 17%. This indicates that the industry growth outpaced the benchmark indices and attracted significant inflows.

Debt funds displayed healthy interest with QAAUM surging to INR10.3 trillion in the quarter ending September '23, up from INR8.8 trillion in quarter ending March '23.

B30 MAAUM category continues to exhibit a healthy growth rate. This highlights the high level of acceptance of mutual funds even in B30 markets. The share of B30 in the overall MAAUM and equity MAAUM remained steady at 17% and 27% respectively. Systematic investment plan continued their upward trend, recording close of INR160 billion in September 2023, a notable increase compared to INR130 billion in corresponding month of the previous year. Over the quarter, SIP flows totaled to INR471 billion, constituting 27% of industry's total gross equity flows.

Now we'll move to our company's performance.

Our quarterly average AUM crossed INR5 trillion for the first time and reached INR5.25 trillion, a growth of 22% Y-o-Y. Our market share demonstrated positive momentum with overall QAAUM market share of 11.2% and when we exclude ETFs, the number is 12.5%. Our actively managed equity-oriented funds AUM based on closing basis crossed the figurative milestone of INR3 trillion and saw an increase of 40% Y-o-Y as against 28% for the industry, resulting in increased market share. Our quarterly average AUM for debt funds moved to INR1.37 trillion, up from INR1.18 trillion in March '23, a growth of 16% or INR0.19 trillion.

Our quarterly average asset mix continued its tilt towards equity with equity-oriented funds now constituting 58% of our AUM, significantly higher than that of industry at 51%. Furthermore, even in terms of customer profile, we have remarkably higher tilt as compared to that of the industry in favor of individual investors. As for August '23, individual investors MAAUM accounted for 68% of our total monthly average AUM, higher than the industry average of 58%.

Our unique investor base continues to expand, reaching 7.9 million unique investors at the end of September '23 as against 40.4 million for the industry. This suggests that nearly one out of every five investors have reposed their faith in HDFC Mutual Fund. Over the last one year, industry did add 4.4 million unique investors. During the same period, we added 1.8 million unique investors. In September '23, we processed 5.86 million systematic transactions, amounting to INR22.4 billion. For sake of comparison, the corresponding amount in June was INR18.9 billion and for September '22 was INR14.3 billion. We have seen a growth of over 50% on a Y-o-Y basis.

We have further expanded our product portfolio, especially in the sectoral thematic space. During the quarter, we launched non-cyclical consumer fund, transportation & logistics fund, technology fund and pharma & healthcare fund. We also launched the NIFTY 1D Rate Liquid ETF.

Our wholly owned subsidiary in GIFT City has secured all necessary approvals and licenses. We have filed documents and plan is to launch first set of funds during the current quarter, subject to necessary regulatory approvals.

Finally, moving to financials.

Our second quarter revenue growth from operations came in at INR6.43 billion, reflecting 18% Y-o-Y growth, while other income amounted to INR1.22 billion as we did experience a healthy mark-to-market growth on our investment portfolio during the quarter. Our operating profit for the second quarter came in at INR4.67 billion, a growth of 20% Y-o-Y. Operating margin for the first six months increased to 35 basis points as compared to 34 basis points in the first quarter of the current fiscal. The effective tax rate has rationalized in this quarter. Last quarter, many of you would remember, it was lower, primarily due to increase in deferred tax charge attributed to holding period of certain investments, transitioning from short-term to long-term.

Thank you. Navneet, Naozad and I are very much available to take questions. Neerav, I think we can open up for questions.

Moderator: The first question is from the line of Sandeep Agarwal from Naredi Investments. Please go ahead.

Sandeep Agarwal: Thank you for the opportunity. My question is regarding SIP flow, it's approx INR16,000 crores and increased by 36% year-on-year basis. And sir, HDFC SIP flow is increased by 56% year-on-year basis. So, any specific reason you want to share for this higher growth?

Navneet Munot: So overall, I think it's been helped by a variety of reasons, including the improvement in performance, products getting approved across all wealth managers, our focus on each and every channel, be it the mutual fund distributors, RIA, fintechs, banks, and of course, HDFC Bank. I think it's been quite helped by a variety of other initiatives, be it on the marketing side, on digital side, product communications side, etcetera. And this continues to remain a very high focus area for us. And we remain quite focused as a team to build our systematic transaction book.

Sandeep Agarwal And sir, my next question is, what percentage of growth you expect in next two years in SIP flow? Any number for industry and HDFC AMC?

Navneet Munot: Over the last several years, you have been seeing continuing improvement in the overall SIP flows in the industry. I think a combination of factors, a great track record of the industry over a long period of time, which is acknowledged by a lot of investors. I think it's focus on transparency, increased transparency of the product relative to any other investment vehicles for people, that's giving more confidence. I think technology is making it easier for people to invest, easier to get more information. And of course, the tremendous focus of the industry and all of us, the players in the industry on investor education. So, I think a couple of these factors have led to this growth. And despite the volatility in the market over the last four or five years, the most heartening feature in our industry has been continuing step up in the SIP flows month-after-month. And we have always been highly focused. I think over the last five, seven years, industry has grown a lot on that front and we have grown. But even much, much before SIP or systematic transactions became a household name, at HDFC AMC, we have always been very, very focused on promoting the concept of disciplined investing and long-term investing through SIP and systemic transactions.

Sandeep Agarwal: Thank you sir.

Navneet Munot: Before we take any other question, I thought I'll take this opportunity to mention something which is very, very close to our heart at HDFC AMC. During the course of this quarter, we launched our HDFC Cancer Cure Fund. As everybody would know, the returns from the fund are shared with Indian Cancer Society. We could raise over 1.8 billion in this fund from over 1,600 clients. And we remain very, very thankful to each and every one of them.

So, I'm very thankful to SEBI, to our distribution partners, to our investors, and of course, the entire team at HDFC AMC and all the well-wishers. We are very proud that the first fund that got launched in 2011 and then second series was in 2014 followed by 2017. And after a gap of a few years, we finally have been able to launch the fund and continue the great legacy. This has been one of the greatest innovations by any AMC in the world. And we are very proud that we are continuing that legacy. So, I thought I'll take this opportunity to thank everyone.

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

Kunal Thanvi: Hi, thanks for the opportunity. So, I had two questions. One was on the debt side of the business. When we look at Y-o-Y growth for the industry in HDFC AMC, we have grown at a slower rate compared to the industry. Can you talk about what's happening on the debt side for the industry and for us? What is the mix of growth in active versus passive also on the shorter duration versus longer duration? So that's on the debt.

And the second was on the yield. So, when we look at our yield improvement, we have seen like there has been a sequential improvement in the yield. Can you break this up for us what was the yield for the equity book and for the debt book separately? These are the two questions I had.

Navneet Munot: Sure. So, on the debt side, your first question, the debt market share has increased on a Q-o-Q basis. The loss that you see on the Y-o-Y basis is mainly due to our lower participation in debt index fund. We have mentioned it earlier that our market share is lower there. Some of the funds that got launched earlier have been able to raise much more money than what we have been able to raise.

But I wouldn't read too much into this. Our market share in debt, excluding index fund on quarterly average AUM basis for quarter ending September '23 stood at 14.5% and was flat year-on-year. In actively managed fund, we continue to enjoy very healthy market share which has been pretty stable. I think the loss is on account of the debt index funds.

Simal Kanuga: Kunal, on equity, we are at 67 basis points. We are at 27, 28 on debt. And around 12 basis points on liquid.

Kunal Thanvi: Sure. And Simal, on the incremental flows that you're getting, like it will be lower than this? Have you seen any improvement in the incremental yields as well for the equity?

Simal Kanuga: No, no, of course, it is lower than the book. So, we are not able to obviously get in flows at 67 kind of basis points. Though -- the NFOs that we did, all of them were at 90, 100 basis points kind of yield, you can see the direct plan expense ratio. They are all in that kind of a range. But flows into our larger schemes that is still in the band that we have mentioned in the past, in that 50 to 60 kind of range.

Kunal Thanvi: Sure. No, it makes sense. Okay. And on the debt side, what I wanted to understand more about was on the overall industry. How the debt as the category is doing? And how do we look at it from both shorter and the longer duration side of the thing? And active debt from a longer - term perspective, because like in 2, 3 quarters back, we had talked about passive growing at much faster rate. How do we look into the debt side of the business from a longer-term perspective?

Navneet Munot: So, over a longer period we have seen that in an environment where interest rates are flat to declining, we see greater flows into the fixed income versus the environment where rates have been going up in the last couple of years. And that's why in the last two financial years, we have seen net outflows from fixed income. Last quarter was positive, but most of that money was at the short end of the curve.

Over the next several years, if you ask me, there is a lot of potential for us -- when I say us, meaning industry as well as HDFC AMC, for us to grow on the fixed income side, both at the short end and the long end.

On the retail side as well, there's a lot of opportunity. In the last couple of years, the greater growth has been on the equity side.

If you look at the overall fixed income AUM of the industry as a percentage of bank deposits, it has actually come down in last 4 or 5 years. So, I clearly see an opportunity. Of course, as an industry, we would have liked the tax regime to continue, which underwent a change, as you are aware, in the last budget. But, notwithstanding that, we would continue to work hard to promote fixed income funds among larger set of investors. There's tremendous potential.

Kunal Thanvi: Sure. Thank you so much. I'll get back in the queue. All the very best.

Moderator: Thank you. Next question is from the line of Swarnabh Mukherjee from B&K Securities. Please go ahead.

Swarnabh Mukherjee: Yes. Hi, good afternoon and thank you for the opportunity and congrats on a good set of numbers, sir. So first, I think on the yield side, a couple of quick questions. One is that you were mentioning 67 bps on the equity side, the yield is. So just wanted to clarify, does that also include index fund or would that be classified separately under passive? And if so, then what would the yields be for the passive side of the portfolio?

Simal Kanuga: Actually, Swarnabh, that includes index fund. See, index fund is a very small part of the overall pie, right? It is like INR15,000 crores, INR16,000 crores on INR3 lakh crores kind of a number. The index funds, like if you look at the larger index funds, the NIFTY 50 and the Sensex 30, they would be around at whatever 12, 13 basis points kind of a yield. And the equal rates and etcetera would be at around 25 basis points kind of a yield. But that would not really move the needle. It's a small part of the overall equity book.

Swarnabh Mukherjee: Right, sir. And also, just wanted to confirm that -- what you mentioned that the yields for the flows in the existing schemes in that

50, 60 bps kind of a range. So, does this hold steady or because there has been flows that have come in over this quarter, particularly, I mean, if you see the balanced advantage funds also maybe traction additionally, I mean it is think now INR60,000 crores plus.

So is there some dilution because of increased flow and subsequently sizes of this funds are moving up one notch higher. If you can throw some color on that? And also, I mean -- so this kind of yield which we have seen this quarter, what would be your view? Should it sustain in when the security market continues to remain strong or would you still guide for some slow contraction in this?

Simal Kanuga: So, I'll just answer your question on balance advantage and then Navneet can give the bigger picture. So, on the number that I mentioned of 50 to 60 basis points, that's on fresh flows. So, what we do is, when the expense ratio drops because of the change in AUM, for future sales, we also reduce the commissions that we pay. So, our yield thereby would be in that broad band that I mentioned of 50 to 60 basis points. So that was on your specific question. On overall yield, I think Navneet can throw a better light.

Navneet Munot: Right. So, we have always mentioned that book margin is higher than the flow margin and that continues. But of course, the flow margin is now better than where it was, but still lower than our book margin, the industry dynamic that most of you are aware of. Also, you have to keep in mind the whole sliding scale structure. So, we have seen our quarterly average equity AUM increased by 35% over the last 1 year. Many of the schemes have jumped multiple so-called hurdles and the TERs are lower than where they were. So, this, if you ask me, is a good problem to have. In fact, we have been mentioning this on every call because the absolute revenues are rising. But of course, as the size increases by multiple of INR50 billion, you'll see a little pressure on margins. But the other important point is that the pace of dilution has slowed down due to rationalization of the distribution cost.

And I think Simal mentioned earlier that you would have seen the direct plan TERs of some of the recently launched NFOs, not only for us, but even others in the industry. And I must appreciate. I mean, if I look at the Bajaj Finance AMC, for their first scheme, one would have thought that they would pay out the maximum to build a size, but their direct plan TER, if I remember correctly, is close to 70 basis points. So, we applaud them for standing ground. And at our end, I think some of our recent NFOs you would have noticed has come at a much higher margin.

Swarnabh Mukherjee: Understood, sir. Very clear. I wanted to know your thoughts on the expense side also. I think cost structure has slightly increased this quarter, both on the employee expense side and on the other expense side. So, if you could highlight in employee expense side, is this because of increase in manpower that is largely playing out? And then which parts of the team are you augmenting if it is an increase in manpower? And on the other expense side, is there anything else to read apart from maybe the marketing expenditure coming due to NFOs?

Navneet Munot: So, on the employee side, it has grown by 11% Y-o-Y. For quarter ended September '19, which is pre-COVID, our employee cost was INR57-odd crores. As against that, the employee cost for this quarter was INR92.9 crores. If we take out the non-cash cost of ESOP, then the number is INR79.8 crores. So, this is a CAGR of 8%. On the other expenses, so they have grown by 22% Y-o-Y. But if you look at in absolute amount terms, and this is a point that Naozad and I have been making in the last couple of calls that it's about INR12 crores of additional spend. You would appreciate that the percentage looks higher on a lower base and the increase is primarily due to increase in general business-related expenses, including travel, we had a couple of NFOs, business development, trademark license fee, CSR expense, of course, and we continue to spend on technology and digital. We think this is necessary and will benefit business materially over a period of time.

Swarnabh Mukherjee: Sure, sir. Sir, just wanted to know your thoughts that the employee...

Navneet Munot: I think from the pre-COVID period -- I think that this point was made in the last quarter that from quarter ended September '19, the CAGR on this front is 9%.

Simal Kanuga: If I might just tell you one thing. I think you need to look at also the 6 monthly numbers. So, I think 11% employee cost growth September quarter '23 over '22. But if you look at a 6-monthly number for the current financial year, the people cost has kind of inflated by 9% on a Y-o-Y basis.

Swarnabh Mukherjee: Sir, I was actually looking at a little bit sequentially. So, first quarter versus this quarter, assuming that all the increments, etcetera, were baked in first quarter. So, from there also, the number came in slightly higher. So just trying to delineate that.

Naozad Sirwalla: So, between the previous quarter and this quarter, the ESOP cost is higher by about INR2 crores. That itself adds additional element of cost. And we did mention that the employee headcount has also gone up, of course this was front end level -- at the sales and front end and distribution level. But that also has added a bit.

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

Prayesh Jain: Just a couple of questions. Firstly, on the SIP book. Could you give some understanding at the industry level as to what is the -- I understand a large portion or majority will be equity, but some specific as to what is the direct equity or hybrid at the industry level and for HDFC AMC?

Simal Kanuga: It is well into 90%.

Prayesh Jain: Okay. In pure equity or hybrid will be...

Simal Kanuga: It will be mix of both, equity as well as hybrid.

Prayesh Jain: Okay. Got that. And just extending the point of what previous guy was asking about the employee cost. See, sequentially, we have seen an increase of 10% in employee cost. But you mentioned that there is some additional ESOP cost which was I think closer to INR2 crores, INR2.5-odd crores. Apart from that, headcount increase which caused 8% kind of an increase. So, what was the total headcount that went up during this quarter? I'm just trying to -- the reason why I'm asking this question is to understand when do we see the scale benefits really benefiting the EBITDA margin, profitability and we've been investing into expenses for the last two or three years now. So, when do we really see the scale benefits benefiting the profitability at the company level?

Navneet Munot: It's clearly benefiting. You are seeing the increase in market share, you are seeing tremendous number of new products. Over the last 2.5, 3 years, we have done almost 40 new products. We continue to invest in our active, continue to expand our systematic transaction book. We have continuously been investing into like developing all possible channels. So, I think it's clear the results are very, very visible I guess.

Simal Kanuga: Actually, Prayesh, on a lighter note, we've been kind of asked by some of the global shareholders, saying that how are you guys managing 229 offices, 1,500 people, INR5 trillion assets under management by spending under INR700 crores a year?

Navneet Munot: Servicing tens of thousands of distributors.

Simal Kanuga: Yes. So, if you look at it, I think even on people costs, I think our inflation has been in that just about double-digit kind of number, right? If you look at both 10%, 11%, 12% is what the people cost we are talking about. See, we would request you to not look at Q-on-Q because there are certain things that kind of get accounted for. We kind of look at how the dynamics of the business are playing out. We kind of provision for bonuses because of course people are the key to our business and we need to be fairly sensitive of that.

Navneet Munot: Also, you would have noticed that our operating expenses as a percentage of AUM is now 13 basis points against 14 and thanks to higher growth in AUM as compared to growth in cost.

Prayesh Jain: Great, great. Just one more question. We have almost closer to INR6,000 crores of investments and balance. Any thoughts of utilization of that?

Naozad Sirwalla: So, our dividend payout ratio for financial year '23 was increased to 72%, right? We obviously can't second guess what the board will decide, but we should continue to see an upward sloping into our dividend payout ratio. We of course need capital for compliance with the skin in the game circular. Currently, that number is about INR500 crores is skin in the game investments from. We are intending to seed some upcoming funds in GIFT City. From our balance sheet, we already invested capital from in our AIF that we have launched. And we do look at all acquisition opportunities that come by. So, having cash on hand does help at that point.

Prayesh Jain: Great. Yes, I think that's it.

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

Lalit Deo: So, just wanted to understand, sir like, if we see the equity AUM channel mix, so we see that the share of direct plan originated equity AUM has increased. So just wanted to know your thoughts on the channel-wise market share on the flow side, like where we are seeing the most improvement in our market share across which channels? That would be my first question. And the second question will be, so now with the change of control to HDFC Bank now. So, what are the changes which we have done at the ground level to improve the mix to move the contribution from HDFC Bank to HDFC AMC?

Simal Kanuga: So, I think I'll just take the first part of your direct plan. So, I think we have always maintained. The direct plan book share is around whatever, 22%, 23%. But as against that, the flow share is in late-20s. So, one reason for tilt towards more direct plan is because of that. Secondly, even if you assume flat markets, no flows, the direct plan does have a lower expense ratio. And thereby, you will see a 20 to 30 basis point positive impact on the share there on an annual basis. So that is one part. And Navneet would address the whole HDFC Bank part.

Navneet Munot: So, we are seeing the material improvement in the engagement with HDFC Bank and we'll continue to work on strengthening it further. The kind of support we have been getting from the bank is encouraging. We are deeply involved with them and alignment of interest after the merger is definitely a tailwind. You all know, I mean, the bank is a formidable distribution machine and we will put in enough and more efforts to capitalize on it. We have now created a dedicated vertical to look after HDFC Bank channel.

While bank has been maintaining an open architecture approach as the distributor, but given the range of our products across various asset classes, given our long-term track record that we have built and the brand familiarity and all the other efforts we are making, we are confident in gaining share in HDFC Bank system. And I'm happy to state that our flow market share in bank's book is higher than the book market share for the last couple of months. Hope that answers.

Moderator: Thank you. Next question is from the line of Sahej Mittal from 3P Investment Managers. Please go ahead.

Sahej Mittal: First of all, congratulations on a good set and commendable performance. So, if I look at your September -- so I mean, for the first five odd months, you have been clearly sweeping the table in terms of net equity flows, right? But if I look at September numbers -- September flows, net equity flows, there seems to be some sharp drop in HDFC AMC's market share. So, is there any particular reason for that?

Navneet Munot: I think, see, month-on-month, there could always be volatility. It depends on some of the NFOs that get allocated -- allotted in that particular month or some other factors. So, I wouldn't read too much into it. But overall, the trend has been upwards for us. And as I mentioned, it's across channels and across products. And we have been very pleased by the trend that we have been seeing.

In a particular month, there could be like always one or two NFOs of competition that can impact the market share. NFOs, as you know, in September were lower than the NFOs in August. And within that, if there are one or two large NFOs by some players, that can impact a few basis points here and there. But otherwise, I think whether it's on the systematic side as well as on the gross lump-sum flows, we have been seeing encouraging trends.

Navneet Munot: And thank you for the compliment.

Sahej Mittal: And if I look at your staff cost, even for FY the '23, there has been some sporadic movements. So, from here on, are we saying that the staff costs will remain at these levels, INR93-odd crores in the second half as well?

Naozad Sirwalla: An annual increase of like high-single-digit, low-double-digit type you should expect. And as you mentioned that, you would have seen the increase in headcount. We continue to invest in our business. We remain very optimistic about the potential of our business.

We mentioned about a new vertical for HDFC Bank and couple of other efforts that we have been making to enhance our reach. So, adjusted for both, increase for the existing set of people as well as the new headcount, it should be, low-double-digit kind of number or high-single-digit kind of number that should be. And I also mentioned about the last four or five years, it's been pretty reasonable.

Sahej Mittal: Got it. And some guidance on ESOP bit for the second half and for the next two years?

Naozad Sirwalla: Actually, we had mentioned this in our call in April when we allotted the stock option with the annual cost, which is basically driven by Black Scholes on the basis of accounting. The total cost, if I remember correctly, of the entire issue was around INR55 crores. And it roughly gets spread 60% in the first year, 30% odd in the second and balance in the third.

That's how the investing schedule amortizes the cost of the option. That will continue. So, to your point, next year, for example, the non-cash comp would come down because 60% of the costs would have been taken in the first year of the issue.

Sahej Mittal: Got it. Thanks, and all the best.

Moderator: Thank you. Next question is from the line of Madhukar Ladha from Nuvama Wealth Management. Please go ahead.

Madhukar Ladha: Hi, good evening. Congratulations on a good all-round operating performance. And most of my questions have been answered. Just a couple of small ones. One, you've given your active equity AUM. And you also mentioned, what the industry number was in the beginning, but I missed that. So, can you give me, what your market share is? And how that has moved in active equity AUM, maybe last couple of years, what has happened in there?

Simal Kanuga: Yes, it is there in the presentation, Madhukar. So, we have gone to active equity September QAAUM at 12.4%. A year back, this number was 11.5%.

Madhukar Ladha: That is -- isn't that the total -- on a total AUM basis?

Simal Kanuga: No, that is actively managed. If you go to Slide number 11 on the presentation, it has this detail.

Madhukar Ladha: Okay. Second, if -- you mentioned 67 basis points is Q2 yield on equity that also includes the index fund yield. Can we get the number for the last quarter? What has happened quarter-over-quarter?

Simal Kanuga: I think, it is same. It is -- 67, 68 is...

Navneet Munot: And we have mentioned the reasons also. There are two main reasons. One is that the book margin is higher than the flow margin. And second, also the sliding scale structure. So, if market has gone up and some of the funds have crossed that INR50 billion hurdle, you will see one or two basis point impact on margins on those particular products. And in the last two quarters, we have seen some -- a couple of our products crossing that hurdle, which is like a good dilution to have. Happy with that dilution, because in absolute terms, we are making more money.

Madhukar Ladha: Right. Those were the only remaining question, Thank you and all the best.

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

Sagar Doshi: Good evening. So, I would like to ask, what is the approach for ETFs? So HDFC is playing a bit defensive on ETFs and index fund. So, what is your view of increasing the share of ETFs in our portfolio or what is the structure, like say, five years down the line, how do you see ETFs as a part of the overall book? If you can throw some light on it.

Navneet Munot: See, we have always mentioned that active and passive investment strategies will co-exist harmoniously rather than competing at each other's expense. India is substantially underpenetrated. So Indian markets will chart their own course. And we don't need to move assets from active to passive the way it may have happened in some of the markets, where institutions would have moved their assets.

Our stance on active is very well established. We hold a very strong belief in its potential. We see substantial alpha opportunities are still available in India. If you look at all our equity products, I remember two years, three years back, a lot of people used to say when there was a period of one years or two years where active funds were finding it difficult to generate alpha.

But you look at all our products in the last one year, two years, three years, they've been able to generate very good -- very, very decent alpha. On the passive side, we have significantly expanded our product offering. And now we would have around 20 index funds and almost 20 ETFs, so like 40 products. It's absolutely best-in-class.

We continue to invest in the distribution capability on debt side. If you look at our digital journey or the efforts that we are making on content, marketing, everything. So, our goal has been to serve as a one-stop destination, offering a complete product range to cater to all our customers' investment needs. So, a customer needs an active product, we have best-in-class portfolio. A customer needs passive, we have an absolutely best-in-class portfolio with best-in-class journey.

Sagar Doshi: Okay. So, you are not looking to increase your ETF market share, if I say?

Navneet Munot: Large part of the ETF book in India has been built through the flows from pension funds, which as you are aware, goes to a couple of AMCs, which is based on the allocation by the EPFO and some of the exempted funds also follow the same pattern. And then you have some of the other ETFs like the Bharat 22, CPSE and Bharat Bond, etcetera. There, none of the other AMCs can participate. But barring that, as I mentioned, that we have done large number of products and we have got a dedicated channel with a senior person leading it and people across functions kind of like trying their best to enhance our presence in that share.

You've seen like couple of our products, like our Bankex, which was a very small product, less than INR100 crores or so, is now over INR20 billion. And then we continue to look at the potential of each and every product on an independent basis and trying our best. We have been also doing a lot of efforts on promoting the concept of ETFs, index funds to set of investors who are looking at that segment.

Sagar Doshi: Okay. That is helpful. Thank you.

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

Abhijeet Sakhare: Yes. Hi, good evening. So, a question on net flow market share in equities. So, if it's possible to quantify how that has trended now versus 12 months back, so that would be a helpful number to look at? But more importantly, given the excellent fund performance, do you think the flow market share, specifically in the non-HDFC Bank channel has sort of reached a stage which largely seems reasonable and appropriate or you think, there is still quite a lot of potential for us to improve?

And as far as HDFC Bank goes, if you could give some granular details in terms of how the interests are aligning? You mentioned -- you gave some comments earlier on, but when do we really start see that -- when do we start to see that reflected in numbers?

Navneet Munot: So first of all, aspirations are always doing more than what we have done, doing better than what we have been doing. And the brands we represent, the distribution network, given our top-of-the-line digital infrastructure, given the efforts we are making on the marketing side, product content, every single thing, we continue to aspire for higher market share. And on both sides, getting greater share of lump-sum flows as well as bigger focus has also been on growing our systematic transaction volume.

I'm sure you would have noticed that in September '23 our inflows from systematic transactions, which include both SIP as well as Systematic Transfer Plan, that has reached INR22.4 billion, which is up from INR14.3 billion in September '22. So, it's a substantial increase. And with everything that we are doing, we continue to aspire for higher market share than where we are.

Abhijeet Sakhare: Got it. And just a follow-up on the SIP investor behavior, sort of an open-ended question. But behaviorally, are you seeing people who come in the last two, three years sort of behaving differently in terms of remaining invested for longer or wanting to still cash-out and book gains given how the markets have been behaving? Any comments there would be helpful.

Navneet Munot: So, I can't comment for people who have come in last one year, how will they behave. But the trend is very encouraging. Over the last couple of years, the way -- the concept of SIP, the way it has become a household name and the level of interest among investors from all strata of society is very, very encouraging. And across all channels, we are seeing everyone focusing on building their systematic transaction book. And I mentioned earlier that, we have always been highly focused on that segment of the market. We have always promoted the concept of the power of compounding, long-term investment, disciplined investing and that has kept us in good stead.

And as an industry also, we continue to make efforts that people look at actively investing from a very long-term perspective and don't get afraid by volatility, but take advantage of it by remaining disciplined and SIP is a great tool for that. So of course, in last one year or two years, the newer investors who have joined, time will tell. But we remain confident that with all the efforts industry is making in terms of investor education and what individual fund houses are doing, the behavior will continue to improve.

Abhijeet Sakhare: Got it. Thanks a lot, and all the best.

Navneet Munot: Thank you.

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

Dipanjan Ghosh: Sir, you mentioned that your net yields on the equity funds is around 67.5 bps. Now I would assume that this is average for the quarter. But because over the last three months, which is July, August, September, most of the equity schemes have changed slab. So, has the entire impact of changing slab, reduction in gross TER captured in this net realization number or the exit run rate, let's say, in September or October will be somewhat different from 67.5 bps, assuming mix has not changed?

Simal Kanuga: So Dipanjan, if the AUM remains constant where it is for the next 90 days, it would be 67, assuming there are no inflows, no outflows.

Dipanjan Ghosh: Got it. Second question on the distribution part. On the equity mix, we have seen increase in national distributors and decrease in MFDs, considerably over the last 12 months. I would assume that the flow movement would be even higher or more skewed toward NDs. So just wanted to get some -- and in this context, on your equity-oriented market share gains, if I split it between retail and HNI based on AMFI classification, it seems a lot of it is driven by HNI segment. So, can you just triangulate this distribution mix change and your equity market share gains and what is really happening out there?

Navneet Munot: Not much on that front. I think few basis points here and there, there could also be a possibility. I'm just guessing that some of the national distributors who also do aggregation by kind of the JV or an acquisition of some of the MFDs. And if that AUM shifts from an MFD and get classified as an ND, that could be one reason. But otherwise, not much of a change in the overall trend. I think almost all the channels continue to grow their book. Your other question was on...

Dipanjan Ghosh: Yes, this was the part. I mean, so broadly, you're saying that it is more of a movement of agents towards more of a sub-broker, sir?

Navneet Munot: I am just guessing. I think a few basis points here and there.

Simal Kanuga: Also, I think some large transactions can sway, right? One large private bank with like, say, somebody like a Julius Baer goes into a national distributor and they're getting some large money from one family. Those things can kind of skew things here there, -- I think there's no distinct trend as such.

Dipanjan Ghosh: Got it. Lastly, one data-keeping question. See, when I look at your employee base movement during the quarter, obviously, it has increased quite a bit. I just wanted to get some sense of whether the entire fixed cost of that has been captured in this quarter's base or some of it might get captured in 3Q or 4Q?

Navneet Munot: We were around 1,250-odd in March '21 and now we are at 1,439. So, if you look at the overall growth of our business, that's not much. We continue to believe that business has a lot of runway for growth and the headcount increase is on account of -- we are also developing new businesses, but a large number of people would be in sales and distribution where the heavy-lifting is. I think lot of heavy-lifting has already been done. This would have got captured. But of course, I think somebody joined yesterday, their salary will be there for the rest of the year, but I don't think it's really going to substantially move the needle.

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

Navneet Munot: Thank you.

Moderator: Thank you. Next question is from the line of Saurabh from JPMorgan. Please go ahead.

Saurabh: So basically, on Page 17 of the presentation, so you guys have added almost 40% of the incremental unique investors in the industry. Can you talk about like what's driving that? Is it just performance or is there something else?

Second is based on this HDFC Bank point, how much is bank -- I mean, how much are you as a percentage of bank distribution of mutual funds? And the third is, any thoughts on the revised consultation paper side? Thank you.

Navneet Munot: So, on the unique customers, I think, yes, you noted it rightly that I think we've been able to capture a very high market share among the new -- I mean, the unique investors that have got added to the industry. And the reasons are, I think a mix of several things. Of course, our performance in most categories is top-notch. That's clearly helping us with all the other efforts that we are making, whether on better engagement with distribution, a top of line digital infrastructure with all the marketing efforts, so on and so forth. And it's across channels -- whether it's national distributors, banks, MFDs as well as fintechs who have also been growing quite fast in terms of number of new investors that are coming to the industry and we are present across all channels and remain highly focused on that.

Simal Kanuga: Second question of his was HDFC Bank book market share and flow market share.

Navneet Munot: So, I mentioned earlier that flow market share is higher than the book market share.

Simal Kanuga: So, of their book, Saurabh, book market share would be in the 25% to 30% range. On flows, we are definitely getting more than that. And lastly was the new TER regulation.

Navneet Munot: So there, honestly, I have nothing new to say on that. The status quo is where we are. We have discussed this before, so I won't repeat much on that. But one thing I would like to add that the idea of regulator was to pass the benefit of economies of scale to the investor. And in that regard, we as an Association of Mutual Funds of India as well as individual AMCs have presented the data to regulator.

And in fact, it is interesting to cite data for one of our funds for reference that what is that has been presented to the regulator by the industry. So, let me give you one example that our largest equity-oriented fund is HDFC Balanced Advantage Fund. The current AUM of that is around INR64,000 crores, INR65,000 crores and the regular plan TER as per formula comes to 1.45%. Regulations were modified in April 2019, and at that point in time, this fund had an AUM of about INR40,000 crores and the TER at that point in time was 1.78%. So, over the last say three, four-odd years, TER has gone down by 33 basis points or for that matter by around 19%, 20%. So, economies of scale have actually been passed out to the investor. And I will take this opportunity to sincerely compliment SEBI. They dived into data and heard us out. And you all have heard what Chairperson had to say in the following press conference. But yes, we have nothing more to say on that.

Saurabh: Thank you sir. It's useful.

Moderator: Thank you. Next question is from the line of Tejas from PEFD. Please go ahead.

Tejas: First of all, congratulations on hitting INR5 trillion mark. My first question is, what will be your guidance for the upcoming financial year?

Simal Kanuga: Tejas, we don't make any guesses. You appreciate right, our business does kind of depend a lot on how the equity markets move. So, we don't want to even hazard a guess there.

Tejas: Okay. So, my second question would be what would be the important factors that would be the biggest reasons in making you hit the 5 trillion mark as well as gaining such a huge market share?

Navneet Munot: Variety of things. I mean, I've mentioned maybe in different context, I think the brand that we represent, the presence that we have, the partnerships that we have built over the years, I think our product range, the performance track record that we have, one of the longest running track record of our funds. It's a combination of all of that.

Tejas: Okay. Sure. Thank you.

Moderator: Thank you. Next question is from the line of Mohit from BOB Capital Markets. Please go ahead.

Mohit: Yes, thanks for the opportunity and congratulations on a good set of numbers. Just one question. In terms of unique customers, now we have got good 20%, so just wanted to understand their behavior in terms of how sticky they are? And if you could throw some light in terms of who are these customers in terms of age group, profession, that is salaried or self-employed, that would be helpful?

Simal Kanuga: We don't have that data readily available, Mohit. Maybe we'll reach out to you and try and share that information. In terms of staying on equity side, if you look at it, the average holding period, now there is no real science behind it. One way to do that would be based on existing book that does rest with us. But that would kind of get skewed because of large amount of new additions in the last 12 months, 24 months, 36 months. The other way to look at it is, look at people who are exiting out of us, but that would kind of ignore people who continue to stay with us. So, there is no real science. But some data that AMFI has published dictates that the average holding period is sub-three years.

Mohit: Okay. So that sub-three years I think it's for the industry. So that holds true for you as well?

Simal Kanuga: It is slightly better for us.

Mohit: All right. Thanks, and all the best.

Simal Kanuga: Thank you.

Moderator: Thank you. Ladies and gentlemen, we'll take the last question from the line of Amrish, Individual Investor. Please go ahead.

Amrish: Congratulations. And there's one particular operational number I'd like to get some further input on. So, a follow-up to the individual investor -- to the individual customer question, if you look even at our individual folios, this has now really accelerated in the last few quarters, and of course, this quarter has been fantastic. Our average AUM seems to be more or less holding steady at AUM per folio. So, we are getting more than just what customers are getting multiple folios from them. And this now number looks similar to what we were maybe in March '21. Is this -- is it fair to interpret this that this should therefore then follow on and we should maybe see even revenue market share go up -- AUM market share go up to similar levels at a later date?

Simal Kanuga: We didn't exactly understand your question. So, you are saying AUM per customer is good. That's what you are suggesting?

Amrish: Yes. So, the number of folios is increasing very fast. So, our share of folios today is now at a level which was similar to what it was in March '21. And in March -- and you could say folio can go up, but the average AUM portfolio can go down, but that's not happening. So, our folio -- also average AUM per folio is staying more or less constant. So, it's not just people being added for the sake of it. So, if that's the starting basis, which means it's a strong foundation, as a lead indicator, in March '21, we were probably 13.5% or 13.6% AUM market share, we are today slightly less. Is this a fair way to interpret that maybe -- not forward guidance, but is it a way to interpret that some of the markets -- the AUM benefits actually come later after the folio has been added?

Navneet Munot: I don't know if you are -- because you are looking at the overall AUM where there could be institutional investors and there could be like flows into the ETFs, etcetera and then trying to divide that number and arriving at that conclusion.

Amrish: No, no, individual. Only individual AUM. I'm not looking at institutional.

Simal Kanuga: No. Sir, but what happens is, see, when you look at the total AUM and divide that by individual folios, it might not really give you the right data because there are large institutions who are investors in liquid funds and debt funds. Also, Navneet earlier mentioned about this whole ETF business.

Amrish: Sorry, individual AUM divided by individual folio. I'm not separating the institutional.

Simal Kanuga: Right, because some part of that growth would have also come in from mark-to-market changes in equity, right? So that's the reason you might be kind of getting that data.

Amrish: Yes, of course. But if I look across last 16 quarters, this number have not changed and it is higher than the market average. So, our folio -- AUM per folio is higher than what the market has. So, if our market share of folios is increasing and our average revenue per individual folio is higher than the market...

Simal Kanuga: Your inference is right, saying that this is a positive signal. We agree to that, sir. Absolutely. Let's hope the trend continues.

Amrish: Okay. Perfect. Thank you. All the best.

Navneet Munot: Thank you all for attending the call.

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.