Ref/No/HDFCAMC/SE/2023-24/17 Date – May 2, 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 & year ended March 31, 2023, conducted after the meeting of the Board of Directors on April 25, 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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Sylvia Furtado
Company Secretary

Encl: a/a

"HDFC Asset Management Company Ltd.Q4 FY23 Earnings Conference Call"

April 25, 2023

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

Moderator: Ladies and gentlemen, good day, and welcome to Q4 FY '23 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

From the management team, we have with us Mr. Navneet Munot – Managing Director; Mr. Naozad Sirwalla – Chief Financial Officer; and Mr. Simal Kanuga – Chief Investor Relations Officer.

I now hand the conference 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, sir.

Simal Kanuga: Thanks, Neerav, and good evening everyone.

Let me start with data on the industry:

QAAUM for quarter ended March 23 was Rs.40.5 Trillion a 6% growth on YOY basis.

The net flows during the year in equity-oriented funds added up to Rs.1801 billion of which Rs. 1618 billion was in actively managed equity-oriented funds and balance Rs. 184 billion in equity-oriented index funds. So, if one looks at net flows, index funds constituted 10% - the number for gross flows though would be materially lower.

One more data point on actively managed equity oriented funds which might be of interest is flows via NFOs. During the year, Industry collected approximately Rs. 342 billion via active equity NFOs ie nearly 21% of net flows into actively managed equity-oriented funds during the year. The corresponding number for FY 22 was approximately Rs. 748

billion, which was nearly 34% of the net flows into actively managed equity-oriented funds during the previous financial year.

SIP flows continued their growth trajectory and came in at Rs. 143 billion for the month of March 2023 vs 123 billion a year ago.

SIP flows for FY23 clocked Rs. 1.56 trillion, nearly 35% of the industry's gross active equity flows, the comparable number in FY22 was Rs. 1.25 trillion and nearly 23% of industry's gross active equity flows.

In terms of QAAUM, actively managed equity-oriented funds stood at Rs 19.38 trillion and equity-oriented index funds stood at Rs. 0.52 trillion.

Now let's talk of debt funds – during the year, debt funds including debt index funds and debt ETFs saw outflow of Rs. 582 billion. If one eliminates flows into debt index funds and ETFs, the number is much higher ie. outflow of Rs. 1,569 billion.

Liquid fund QAAUM grew by 8% YOY adding Rs 0.42 trillion. Net outflows during the year were to the tune of Rs 510 billion.

Others which includes ETFs, Arbitrage and FOF–investing overseas grew by 13% on YoY,

Industry recorded 37.7 million unique investors at the end of the fiscal year. Individual investors contribution came in at 58% of the monthly average AUM for March 2023 and the folio count for individual investors increased to 145 million from 129 million a year ago.

Now we move to us,

We closed the quarter with a quarterly average AUM of Rs. 4,498 billion, a growth of 4% YOY. Our market share in Quarterly Average AUM was at 11.1% and the same excluding ETFs was at 12.5%.

Our actively managed equity-oriented market share based on quarterly average AUM is 12.0% and 11.9% on closing basis. We have seen some uptick in recent past.

Our market share for quarterly average debt AUM including debt index funds was 13.3%.

Our quarterly average Liquid AUM market share stood at 13.1%.

Our asset mix, further shifted towards equity and it now accounts for 54.4% of our QAAUM, relatively better than the industry.

We recorded 6.6 million unique investors at the end of the quarter ended March 2023

For the quarter ie January to March 2023, we processed 13.14 million systematic transactions totaling Rs. 50.4 billion compared to 12.02 million transactions totaling Rs. 45.2 billion in the quarter ended December 2022. It is important to look at quarterly data here as February is a shorter month and we tend to see some overflows from February to March. For month of March 23, we processed 4.53 million systematic transactions adding up to Rs.17.1 billion. The number for March 22 was Rs.12.3 billion.

In continuation of our commitment to expand product portfolio, we launched 2 equity oriented thematic/sectoral funds, 1 long duration debt fund which saw healthy interest especially in end of March and range of passive strategies both across equity and fixed income side during the year that went by.

We announced first close of our HDFC AMC Select AIF FOF on 31st March with commitments adding up to Rs.400 Crores. The number is definitely encouraging especially in current market conditions. We will continue to raise further capital in this fund and have some healthy pipeline in place.

Now moving to financials,

We closed the quarter with a profit after tax of Rs. 3,761 million, a YOY growth of 9%. Total revenue grew by 10% to Rs 6,378 million, while operating revenue grew by 5%

We ended FY23 with a profit after tax of Rs 14,239 million a YOY growth of 2%. Total revenues grew by 2%, while the operating revenue also increased by 2% YOY.

On the employee cost front, it has stood flat at Rs.3,127 million as against Rs.3,122 million in the previous year. If we consider the number excluding non-cash charge on account of ESOP, it stood at Rs.2,726 million as against Rs.2,489 million in the previous year, a YOY increase of 9.5%.

In terms of other expenses, we have seen an increase of 18% or in absolute terms Rs 348 million. This can be principally attributed to expenses that we have incurred for our business promotion, travel, digital assets & IT infrastructure, amongst others.

Our operating profit margin as a basis point of AUM stood at 35 basis points for year ended March 31, 2023 with operating revenue margin at 49 basis points.

The Board earlier today has recommended dividend of Rs. 48 per share against Rs.42 per share translating into a dividend payout ratio of 72% as against 64% last year. This is of course subject to shareholders approval.

We would like to highlight and you might have seen in our exchange release that the Nomination and Remuneration committee of the board has approved an ESOP plan whereby 1.05 million shares will be offered to eligible employees at closing price as of yesterday.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Swarnabh Mukherjee from B&K Securities. Please go ahead.

Swarnabh Mukherjee: Thank you for the opportunity, sir. I have three questions. So, sir, my first question is regarding the yield. So, for the first nine months, we were around 50 basis points plus in terms of the yield, and this time we see a slight compression in there. So, just wanted to understand this will be entirely a function of product mix or any kind of impact of the debt mutual fund related taxes and things that has happened or anything else to read into this or maybe something like more incremental flows in the Balanced Advantage Fund and whether there could be any impact of that? That is the first question.

The second question is in terms of the trade receivables, so the trade receivable numbers have remained around 180 crores in first half and also now the balance sheet that has been released. This number was about half of, close to half of that in the previous year. So, how, what should I read into this? Why has this number increased?

And thirdly related to the ESOP plan that you have mentioned. So, if you could give some guidance on what could be the charge on P&L over the next couple of years?

Navneet Munot: So, the first question on this quarter's margin, so, firstly, this quarter was 90 days as against 92 days for the December quarter. So, revenue per day of December quarter was 6.08 crores. So, two less days this quarter would mean a loss in revenue of little over 12 crores, and we have had some year-end adjustment for unabsorbed cost of B30 which was debited during the quarter at fund level. I think this explains the difference broadly. And as you rightly mentioned, also maybe product mix etc., but largely this explains it.

Swarnabh Mukherjee: Sir, if I could follow up on that, you know, unabsorbed costs, if you could give a little bit more color on that related to the B30 that you mentioned?

Navneet Munot: So, you're talking about the cost or margin?

Swarnabh Mukherjee: So, in the margin since there is some impact from the B30 related assets, right, if you could just highlight on that?

Navneet Munot: That's just one basis point on overall basis.

Simal Kanuga: Swarnabh, it's an accounting thing. So, basically whatever we have spent on B30, that needs to be absorbed within the year. So, some bit of year end adjustment and over and above that the 12 crores that Navneet mentioned kind of takes care of your question.

Swarnabh Mukherjee: So, fair to assume that next year with mix stabilizing, we can maybe go back to what we were seeing in the first nine months?

Simal Kanuga: Guidance is something that we have stayed away from. So, don't want to make any guess on what exactly the next year would look like. Having said that, maybe Navneet you would want to expand on?

Navneet Munot: On the overall margin side, we have discussed in past and the commission we pay on the book is lower than the commission on flows. So, new flows will result in some level of dilution. Pace of dilution was like quite rapid in the financial year of March '22 because the gross flows as percentage of beginning of the year AUM was 45% approx. and in the current year the same is somewhere in early 20s. It also depends on the AUM of individual strategies. So, growth in AUM also leads to some level of dilution, but finally the way I look at it is growth in AUM and change in asset mix over a period of time will determine profits of our business, and that is our focus area.

Swarnabh Mukherjee: If you could answer the question related to the trade receivables and the ESOP costs?

Naozad Sirwalla: So, trade receivables, there was just a change in the periodicity of payment. It is the payment cycles from the mutual fund, the fees we receive in the AMC. So, this gets paid immediately after the month end. So, that was a one-time change. It will sort of continue now going forward, but in the subsequent year, you receive that money. So, that's not an issue.

On your question on costing for the new stock option, based on the Black-Scholes model, the estimated cost, that is a non-cash charge which will be debited to the P&L account over the next three years, due to this new ESOP program, would be around between 55 to 60 crores. Of this 55 to 60 crores, approximately 55% would be accounted for in this financial year, around 30% in the following financial year, and the balance will be in the year thereafter. Over and above this, we will have a debit of around 18 crores from the existing ESOPs already issued, which were going through our P&L. Hope that answers the question.

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

Kunal Thanvi: Thank you for the opportunity. Sir, I had two questions. One was on SEBI Chairman recently did the press conference, and they kind of, you know, gave out the thought process of the regulatory in terms of TER. And the basic understanding is that the regulator wants to move from say scheme-based TER to asset class-based TER. So, wanted to understand your thoughts on the same? You know, how does it impact AMCs and specifically large AMCs, which have got very high equity book to start with and we being in the top three? So, that was my first question.

Navneet Munot: So, Kunal, firstly regulator has of course laid down their thought process. Having said that, through the industry forum we are engaged and looking at all implications. We as an organization have decided to put on our thinking hats once the regulations are formally out. SEBI Chairperson did give an overview of their thought process in the post SEBI Board meeting press conference that you would have heard. She did mention that they will do the necessary in consultation with the industry. I am sure you will agree that SEBI's overarching objective is investor protection and market regulations coupled with market development. So, I would say regulations are given. As an organization, we need to make it sure that we do what is fair for our stakeholders.

Kunal Thanvi: Sure. So, basically now like when, you know, if at all that regulation was to come in, then that is the time when we will try to think how the things will work? Because the reason I asked this question is from a value chain perspective, you know, how does the thing everything flows if those kind of regulations were to come up, because it in a way disrupt the entire value chain, right?

Navneet Munot: So, as of now there is nothing beyond what I have already stated that I can expand on at this point in time, and I hope you appreciate the same.

Kunal Thanvi: Sure. Makes sense. The second question was on the LTCG introduction for the long-term debt mutual funds. Can you help us understand how does that impact the industry and HDFC AMC, and what was our exposure to specific 3 year and above debt funds?

Navneet Munot: Yes. So, the finance bill has proposed an amendment in the income tax laws effective April 1, '23, thereby investments in a specified debt mutual funds where equity exposure is not more than 35% of total corpus in domestic equity shares, that will be treated as short-term capital asset, and the proposed amendment will have the impact of one, fresh investments made on or after April 1, '23 will not get benefit of cost indexation and concessional long-term capital gain tax rates. Gains will be treated as short-term capital gains by default and taxed at the slab rate irrespective of the holding period. There will be no impact on investments that have been made up to March 31, '23.

As much as we would have liked the tax advantage to continue, given the policymakers' view on the development of the debt market, particularly the corporate bond market, debt mutual funds still do have some inherent benefits, which, in my opinion, will continue to make them a preferred alternative.

One, that tax gets triggered only on redemption in case of debt mutual funds. Second, I mean, there is no prepayment penalty or liquidity related challenges. I think that debt funds offer good liquidity. Thirdly, the flexibility in terms of part redemption, moving across rate or credit curve, I think transparency on all of that and also the flexibility that you get in debt funds, and diversified portfolio of securities with outstanding long-term track record in the industry level. So, for all the news of securities going bad, the total equivalent of NPA from the debt MF industry has been negligible.

So, we still think that there is hope for growth, but I must repeat what I said earlier that as an industry, we would have liked the tax advantage to continue because I think we were contributing, and we have tremendous potential to contribute to the development of the debt market, particularly the corporate bond market.

Kunal Thanvi: Sure. And in terms of, you know, the share of corporate and retail in the three years and above, what would be that mix for the industry or for us, if you can share that?

Simal Kanuga: So, Kunal, there is no number which basically is like in that form, right? So, we do have in our presentation the breakup between the corporate and retail investors or individual investors as we put them across. But I think there are lots of corporates who stay for long. There are lots of individuals who might use it for a shorter period and like we do have corporates who do tend to stay for very long even in ultra short and those kind of funds.

Kunal Thanvi: Sure. I understand.

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

Devesh Agarwal: Thank you, sir, for the opportunity. So, firstly, I wanted to ask, although we are seeing a good market share gains on the equity side as well as on the SIP side, but somewhere they are getting offset by the loss in the market share on the debt segment. So, can you give me some sense as to why are we losing a market share on the debt side? What are the challenges for us out there?

Navneet Munot: So, our market share in debt on QAAUM for March '23 stood at 13.3. If we look at market share excluding debt index funds, this will stand at 14.6% or so. I must mention we were a little late to launch debt index funds as we were waiting for some clarity in regulation and got off the ground once that was clear. So, the delay in launching debt index funds did hurt us, though we were able to catch up to an extent. Other than debt index fund, in most of the other categories, market share would have been stable to better.

Devesh Agarwal: Understood. And so on a full-year basis, could you share the AMC yields and the gross TERs for the three key asset classes, that is equity, debt and liquid?

Simal Kanuga: 70 odd basis points is on equity side. 27 odd basis points on debt and around 12, 13 basis on liquid.

Devesh Agarwal: Right. And Simal, what would be the TER numbers for the same segments?

Simal Kanuga: I don't have a weighted average TER available off hand. I'll give it to you. We'll send it across to you.

Devesh Agarwal: Sure. And lastly, if we see the OpEx for FY '23, that's roughly 14 basis point. So, do you see there is any scope for any improvement on the cost side, especially given that now again on the ESOP expense, there will be some almost 25, 30 crore hit for FY '24? So, still but the growth that we saw on other expenses in FY '23, you think those would be continue or there would be some moderation in that and on overall basis, this 14-basis point can come down to 13 or something?

Simal Kanuga: Devesh, I think Naozad will expand on this, but just one point here. See, there will be no incremental 25 crores, because what Naozad mentioned, the total cost is 50 odd. Of that, first year would be whatever 55 odd percent, and then what we have from the previous one, but in the current year, that is March of '23, we had a non-cash expenditure of 40 crores anyway hitting the book. So, the delta would be much lower than the number that you are mentioning, but Naozad can further expand on cost.

Naozad Sirwalla: So, I think if we go through the cost, Devesh, on the employee cost side, if we take out the non-case expenditure i.e., ESOP cost, the employee cost for last three years CAGR is about 8%, and Y-o-Y was 9.5%. You come to other expenses. The CAGR for that over the past three years is around 6%.

Now let's just try and look at it from an absolute number point of view. Our other expenses are 1,954 million in March '20, and for the current year, they were 2,326 million. So, that's an absolute increase of 372 million over three years.

So, we have spent 37 crores extra over a three-year period. And of the 37 crores that I am referring to, 10 crores actually has gone up due to

CSR expenditure. So, if we exclude CSR expense, we have spent 27 crore extra over the last three years, a CAGR of less than 5%.

On a Y-o-Y basis, the increase in cost was attributed to business development, NFO spend, IT and digital infra spend, and marketing. So, needless to say we have been and we will be prudent when it comes to expenses, but at the same time, we were not abstain from investing into the business for future.

On your 14-basis point question, I think some of the heavy lifting that we have done on the IT and digital side has gone through this year. I think we don't give guidance on that, but we would believe that we should be able to at least maintain the 14 basis points going forward.

Moderator: Thank you. The next question is from the line of Pujan Shah from Congruence Advisers. Please go ahead.

Pujan Shah: First question will be on the let's suppose so if we compare Y-o-Y, the industry has grown over all of 6%. Overall our revenue has gone over 2%. Now as we have reached on every pin codes and almost every like we have penetrated all across India, so what are the strategic initiatives we are taking to get a better trajectory growth coming years ahead for HDFC AMC and better revenue growth model for that?

Navneet Munot: Aside from the debt side because of the Debt Index Fund, I think our equity market share has been inching up, which is a heartening feature. Our SIP market share or the systematic transactions that we disclose which includes SIP and STP, that market share has been inching up. And as you rightly mentioned, I think we have a large platform presence across 228 our own branches and a large distribution network and trying to make the most of it. Our performance has improved. Product approvals from different distributors or advisors has been improving, and we have been investing in on our digital assets, on marketing, on various other initiatives and which have started paying fruits.

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

Lalit Deo: Good evening, sir. Thank you for the opportunity. So, sir, I have two questions. So, firstly on the improvement in the performances of major equity schemes. So, we are seeing like in major schemes we are back to like quartile 1 and 2. Sir, now in terms of the flows, so like how has it, how has the market share improved across different channels like the direct channel or a distributor led channel? Any comment on the same qualitatively for that?

Navneet Munot: You are absolutely right. I think our performance across most of the categories is top tier, and I think our investment team is being complemented for sticking to their beliefs despite living through periods of underperformance, and I am sure you appreciate that this is easier said than done. We have been working on increasing our systematic transaction book and have seen decent results, which I also spoke earlier. It has been showing results in various numbers.

I think if you look at our number of unique investors, that have grown to 6.6 million, and that's an increase from 6.3 million in the previous quarter. Across the industry, the number of unique investors has increased to 37.7 million, up from 36.7. So, during this quarter, nearly one-third of new unique investors chose HDFC Mutual Funds.

Systematic transactions, Simal talked about earlier, has increased from 12.3 billion in March '22 to 17.1 billion in March '23. Systematic for us will include both SIP and STP. Of course, we also had a couple of new thematic funds business cycle and MNC fund during the year, but I think most of our strategies which have a good long-term track record and have shown very strong performance recently. They are clearly resulting in increasing market share.

And it's across channel. So, I think your question was on channel. So, I think whether you look at direct, you look at national distributors, you look at our MFDs, look at other banks, I think almost across all channel partners, we are seeing improving trend.

Lalit Deo: Also, like one more thing is, sir, at this point of time, since we are seeing some performance improvement also, and now with change in control of the promoter also like from HDFC Limited to HDFC Bank, so do we see that the share of yours which is coming from HDFC Bank to HDFC AMC should increase over the period of time because of our performance improvement also? Like how do you see that potential over the next year for the mutual fund?

Navneet Munot: So, I mentioned earlier we are definitely excited about the opportunity and look forward to working closely with HDFC Bank on the distribution front and given that we have top quality products across asset classes, we are confident of further wallet share from HDFC Bank.

Moderator: Thank you. The next question is from the line of Prayesh Jain from Motilal Oswal Financial Services. Please go ahead.

Prayesh Jain: Sir, firstly, do you think that there is a market for hybrids between, you know, having 35% to 65% equity now that they have as they still continue to enjoy the indexation benefits?

Navneet Munot: I think funds will have to get sold on their merits. I don't think just because of the tax treatment, there would be a certain category which I think the industry would like to push. I think we have products for all investors' needs, and I am sure different investors depending on their needs, their time horizon, their liquidity preference return expectations, and the risk appetite, they would choose different products.

Prayesh Jain: And secondly on the cost front, if I look at sequentially from Q3 to Q4, there is a good decline in the other expenses or overheads. So, how should we read that? Is there anything specific that you would like to highlight out there? And whether this is sustainable run rate what we have seen in Q4?

Naozad Sirwalla: You should not be tracking quarter-on-quarter, but effectively in the last quarter, we had lesser NFOs, business development expenses slightly lower. Certain CSR spend was in Q3 versus Q4. So, that's the primary reason for the drop from 66 crores to 58 crores. You should see our year-on-year expenses, I mean, not every quarter.

Prayesh Jain: And you know the other part of the SEBI's discussions was on the broking charges that the AMCs pay. Could you highlight as to what are the broking charges as a percentage or bps of equity AUM that we would have paid in FY '23?

Navneet Munot: No, I don't think I can discuss that.

Prayesh Jain: Okay, and whatever commentary has been around it to be included in the TERs, do you think that would impact us in what ways?

Navneet Munot: If brokerage is included in TER, it will definitely be a regime change, and I think yes, all of us will have to deal with it accordingly. We will do what is in the best interests of our unit holders and other stakeholders. So, I think it will be prudent to strategize on the same once we know of exact regulation.

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

Dipanjan Ghosh: Good evening. Just two questions from my side. One, you know, just going back to the yields, you mentioned it was a factor of unabsorbed cost and accounting impact on B30 and second was, you know, bearing that less days, it was also some product mix change. So, if you can just kind of qualitatively give some understanding of the B30 impact? And also, you know, what would be, or if maybe quantify the impact of the product mix change during the quarter?

Second, you know, on the expense part, again, going back, given that you are focusing on rolling out your non-mutual fund strategy and also kind of spending on the tech side, and how do you kind of intend to maintain the current cost ratio, if you can give some color on that?

Simal Kanuga: I think first point as you understand, right, how the B30 accounting works. So, basically, the B30 spend is accounted for, and then over a 12-month period, it gets amortized. Now if you are not able to do it as per the SEBI formula, there is a formula saying that what percentage of sales is happening from B30 so on and so forth. The balance needs to be absorbed in the TER. So, there are some adjustment in reference to that. So, that was the B30 thing that we refer to, Dipanjan.

Dipanjan Ghosh: Sure. On the expense side.

Naozad Sirwalla: So, expense, I think we have mentioned that some of the spends have already gone through this year. Some of it will continue going forward. So, I don't know exactly what you are looking for because we don't necessarily give forward-looking guidance.

Dipanjan Ghosh: I just wanted to understand, you know, what will be the incremental quantum of spends on the, the cost of rolling or the non-mutual fund strategy, and if that will be material to your overall P&L?

Simal Kanuga: It will be minimal, and I think most of that in terms of setting up of our AIF and the related costs in reference to legal, accounting, tax, all of it has already been taken care of. So, we don't anticipate anything material from on that for sure.

Dipanjan Ghosh: Sure. And just maybe one question, if I can flip in. Your product pipeline for FY '24, I mean, just wanted to get some understanding. Will there be any NFO spends that, you know, kind of on the equity side that can come up?

Simal Kanuga: So, we will be doing few NFOs, not many. And I think if you kind of recall, right, I just kind of referred to that NFO as a percentage of the net sales number in FY '23 has been at a pace lower than as compared to FY '22. Most of the standard categories we already ticked the box. Even in terms of sectoral and thematic, we have been able to expand our product portfolio. On the passive side, we have kind of done sleuth of products both on the ETF as well as on the index platform. We don't expect many more NFOs to see the light of the day during the course in terms of high spending kind of NFOs. We will continue to expand our portfolio on the sectoral thematic side.

Navneet Munot: In the core categories, I think our product book is almost full. I think we have mentioned earlier we had eight NFOs in FY '22. We had like 25 including a lot of passive funds in FY '23. Yes, there would be a few sector thematic funds here and there, but I think our product portfolio is almost full. We have absolutely Best in Class when it comes to active, absolutely Best in Class when it comes to passive on the product side.

Moderator: Thank you. The next question is from the line of Srinath V from Bellwether Capital. Please go ahead.

Srinath V: Just wanted to find out, you know, what was the equity yield contraction year-on-year? 70 bps was the number for the current year, but what was the kind of equity yield contraction?

Simal Kanuga: See, actually difficult to kind of look at it. In any way, it will not tell you anything for future. That's what we can tell you because what happens is whenever there is a contraction in yield due to increased AUM, that tends to have a follow-on effect over a period of time whereby that kind of neutralizes itself.

Srinath V: More not from the future, but largely want to reconcile the current numbers. If you actually see the yields reported for the year have not changed much, but because of the mix change, you know, we are not able to see how yields are moving to reconcile the gap between asset growth and revenue growth.

Simal Kanuga: I think we have moved from the mid-70s to early 70s for the weighted average AUM of the year.

Srinath V: Okay. That's for equity, right?

Simal Kanuga: Yes.

Srinath V: Perfect. And given the kind of gross flows you guys have had, especially because of the share again in the last 12 months, would it be kind of fair to assume that large part of this repricing where our back book had significantly lower payouts, it's kind of either, you know, we are like halfway done or we are largely done? How do you see this, you know, book repricing because if now like 70% of the assets we hold are assets that are like, you know, two, three years old, then the repricing should be largely done, right?

Navneet Munot: So, we have mentioned this earlier, this is dependent on multiple variables and difficult to predict. It depends on what part of AUM is going out, more recent high-cost AUM or the older AUM. And we also have to factor in the mark-to-market impact. So, mark-to-market impact versus flows. So, gross sales as percentage of outstanding AUM also guides the speed of dilution. So, we have been asked this many a times, but honestly, we ourselves find it difficult to put a precise number. The endeavor is always to have better retention of the existing assets, at the same time, continue to get higher share of the gross flows.

Srinath V: Got it. Navneet, any views on stock buyback given that we are now going to see an equity dilution coming in in a business like ours which, you know, ideally needs no capital? Wanted to understand what is your broad take on buybacks, as well as do we need any specific SEBI approval over and above what any other normal company would need to do a buyback?

Navneet Munot: So, I mean, I mentioned earlier on the overall payout ratio or the usage of capital is something that we keep discussing in the Board. This time you would have seen we have an enhanced our payout ratio. Have we discussed this specifically buybacks not really, but yes, I mean all options are always open.

Srinath V: And the last one is, would it be possible to quantify the brokerage payout in value terms because, you know, as we try to assess what is the likely risk that we are going to face? So, I am not asking you what the law will be or how you will deal with, but would it be possible just to disclose the value number so that at least we can figure out what is the value at risk?

Navneet Munot: I think it will be prudent to think over the same once we know of exact regulation. There is no point speculating at this point in time.

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

Kunal Thanvi: Thanks for the follow-up. Can you help me with, you know, what is our yield for the new flows that we are getting? Do you see any improvement in the competitive intensity in this quarter? And like are we seeing some improvement in the new yield for the new flows that we are getting? That is question number one.

Second is, you know, from a longer-term perspective, if you can help us understand the remuneration, you know, policy for the company, because we have seen like ESOPs coming back. How does one, you know, kind of equate between the variable fee and ESOP with ESOPs coming in like, and also at what level will be giving the ESOPs? Will it be company-wide? And you know, what would be the impact on the variable salaries that we see in one of the quarters during the financial? Will that kind of subside because of the ESOP? How should one look at it?

Navneet Munot: Sure. So, on the, your first question on the commission payout trend, I think we have been saying for past couple of quarters that things are getting better. If you observe the direct plan TER of recently concluded NFOs, they are much healthier than say NFOs launched say a year back, and even non-NFO flows are coming in at better margins. In fact, actually, I have mentioned this earlier, that a low direct plan TER due to high commission hurts distribution fraternity in medium to longer term more than anyone else since customers may opt for direct plan if the difference is materially large, and most of the distribution partners do understand and appreciate the same.

Your second question on the ESOP side. So, as Simal mentioned in the opening remarks, our NRC has approved a grant of 10.5 lakh ESOPs to the eligible employees. You would appreciate HDFC Group has been a strong believer in culture of shared ownership and align interests, and we believe by giving employees a stake in the company, they become more invested in the success and are further motivated to work towards achieving the shared goals.

People are our biggest asset. This business is all about people. On distribution and other things that you ask for, so we have engaged services of a Big Four firm for advising us on this. This is broad-based covering more than 50% of our people. Dilution is less than 0.5% over a three-year vesting period. And I think Naozad has already mentioned the financial impact and accounting impact of this, right.

Kunal Thanvi: Sure. The reason I was asking this was, of course, our industry is people based and, you know, once we issue ESOP to 50% more of the employees, does it mean that there will be the variable payouts that we make because of the performance links? Will that kind of smoothen up or that continue to be the way it has been over the period of time?

Navneet Munot: I mean, we consider all of that in the NRC and of course in the management team, when we look at the fixed pay, variable, and then of course the ownership through the ESOP plans. And I think Naozad mentioned earlier that if you look at a three-year CAGR, it's been like single digits.

Kunal Thanvi: And last question if I can squeeze in is on, Naozad mentioned that, you know, we strive to maintain 14 bps in the total cost that we have, right? Now when we look at our business on the way things have been moving, it is probably very apparent that the yields would kind of come off, and since it's an operating leverage business, one would believe that the cost per AUM could kind of also come down and hence the falling yields could get subsided by that. So, can you throw some light on how do we think about our cost structure not from a year perspective like five years respective in terms of, you know, in relation with the AUM growth? Because given the fact that our TER will kind of come down with this increase in size. Cost as a percentage will decide what kind of profit growth we as a company will achieve in next four or five or maybe 10 years from now.

Naozad Sirwalla: So, I think if you take it over a long-term period and operating leverage, as you rightly said, is a focus for everyone. So, if you say that over a 3, 5, 10-year period, our endeavor would be that our costs grew at a slower pace than the AUM, and by that mathematically the basis point should come down, right. So, that obviously is the endeavor for our business.

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

Abhijeet: First is a broad industry question. I think there was another guideline that SEBI put out around the responsibility of mutual fund trusts versus the AMC Boards. So, anything to read there because it seems like SEBI probably wants to give more strategic decisions to that trust rather than the AMC Boards? So, does that change things in a material way in the way the business runs in terms of how performance is looked at, in terms of how fees are charged?

Navneet Munot: I think both the Trustee Board as well as the AMC Board look at all of these things. The performance is closely tracked. The fund performance I am talking about and all the other things related to risk management, compliance, and a variety of other things. Of course, as I mentioned earlier SEBI's overarching objectives have been market regulation, investor protection, and they keep doing lots of things to ensure that the industry performs well, take care of the unit holders to the best of our ability over a period of time.

Abhijeet: No, what I meant is generally in terms of being able to let's say make more day-to-day decisions around let's say what fees are to be charged, how to ensure better performance, if that requires any changes anywhere in the business, on all those aspects, do you see anything materially changed in the way the business is run today?

Navneet Munot: No.

Abhijeet: Got it. Second one, again on fees. Again, just a broad question. Amongst the industry, is there an industry view on whether the industry is sort of making more money than what is desirable or what is justified? And I mean, of course, I may not have put that question in the right way, but is there a consensus in terms of, you know, what's the right level of profitability across different buckets of AUM sizes that the industry operates in today? And how are you sort of putting it across to the regulator?

Navneet Munot: So, if I remember correctly the combined PAT, the aggregate PAT of the industry was around 8,000 crores, and we are managing 40 lakh crores. So, that's 20 basis points. But that profit would also include other income, and so if you adjust for that, operating level would be around 6,500, 6,700 odd crores for the industry. On a 40-lakh crore, that's how much? 16 to 17 basis points. Up to you. I mean, when you compare with let's say the business we run, whether 16, 17 basis points, is this too much to us? Not really.

Abhijeet: In terms of a follow-up, it's clearly like the larger guys including HDFC do have the benefit of the profitable back book, but would it be fair to assume that the regulator would not look at it in a very negative way compared to where the rest of the industry is because, I mean, just in terms of how the fees would be arrived at?

Navneet Munot: You would appreciate the hard work that would have been put over two decades to build that book and to get to this profitability. It's not easy to serve millions of investors, creating long-term, you know, wealth for them, tens of thousands of distribution partners across the country, I mean, across 228 physical locations serving like close to 99% of pin codes, delivering the performance that we have delivered over two decades plus, I mean, if you look into that, you will have to see the profit number in that context.

Moderator: Thank you. Next question is from the line of Sahej Mittal from HDFC Securities. Please go ahead.

Sahej Mittal: Good evening and thanks for the opportunity. So, first is on the net yields on non-NFO business, the non-NFO flows which are coming to you. So, if in the current quarter you are getting say, for example, 60 bps hypothetically on your equity AUM, so what was this number for non-NFO equity flows for the last quarter versus year-over-year? That is first.

And the second is that given that the industry is going hard on the asset manager, so what is your view that, you know, are they also given the kind of commission payouts which happen in the industry right now, so is the regulator even looking at these, at the profitability of these distributors and the kind of back book which they have? Those are my two questions.

Navneet Munot: So, on the commissions on the incremental flows, I think we have answered that. I think the environment is improving a bit, whether you look at the NFOs or the non-NFOs flow in the industry. The second question was on, I missed that.

Sahej Mittal: Distributor, the regulator going or how is the regulator looking at the commission payouts for distributors?

Simal Kanuga: Actually, the chairperson had kind of clearly stated, right, let the industry decide on how they want to manage that. So, our limited understanding suggests that regulator will not kind of get to that level of discussion. At least that's what the chairperson stated at the press conference.

Sahej Mittal: Right, and sequentially on the non-NFO flows in the equity segment, there is no dip in net realizations. Is it fair to assume?

Simal Kanuga: Commissions have gone down. See, net realization will be a different story because what tends to happen is if the AUM crosses that 5,000 crores multiplier, you will see a dip in the revenue, but if you are looking at dip in commission, over a period of last 12 months, as Navneet mentioned, we have seen numbers get marginally better from where they were.

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

Prayesh Jain: Thanks again. Just on the AIF thing, you know, you mentioned that you have raised 400 crores of commitment. What are the other plans with regards to, you know, new launches over the next one or two years?

Simal Kanuga: So, Prayesh, this is our first one. So, I think as of now we are focused on this one. Maybe over a period of time, we will kind of further expand our product portfolio when it comes to AIFs. But I think as of now we want to focus on building this one to the level next.

Prayesh Jain: And this is another question similar to one, you know, it's about earlier possibly. But, you know, if I look at your ROEs that have come down from 35%, 36% range to now 25%, how should we look at this, you know, from the profitability of AMC say, two years, three years down the line? Do we think that, you know, this could say trend upwards in some form going ahead in any way? Because it doesn't seem appears to be the way the regulatory moves are kind of, you know, coming across, it doesn't seem that the profitability in terms of ROEs could really trend on the higher side.

Naozad Sirwalla: See, ROE is driven by the base effect for us given that we have a large balance sheet. So, of course, as we increase our payouts as we have been doing it structurally in the last two, three years, but ROE impact will be there just because of the base effect largely for us.

Prayesh Jain: So, you know, because the margins have also gone down and that would have also played out, so it was more from that perspective. I understand the balance sheet size has gone up but, you know, it was more from a margin perspective if you look at, they have kind of come off. So, you know, from a longer-term perspective, do we see that returning anytime soon?

Naozad Sirwalla: Margins have been around 35 basis points. So, have been over the last several quarters 35, 36 basis points.

Simal Kanuga: Actually, Prayesh, see profits have grown. So, basically, if you are looking at ROE, means we definitely appreciate your question on margins having gone down. Yes, that has been the case, right? And I think Navneet did make a mention that our margins are kind of governed because of the book being at a different price and the flows being at a price higher than the cost of the book. So, yes, margins are going down, but that would not have any kind of direct impact. So, ROE is profit divided by the net worth, and out there we are sitting on slight bit of an extra cash.

See, the way we see it is we are an infinite ROE business, theoretically in a sense. Today, apart from what is required by regulation in terms of the skin in the game circular and the minimal net worth criteria of 50 crores, everything balance is sitting on our balance sheet. If that is not there, then, of course, our ROE will look very, very different.

But yes, with you on the margin side. I think our business has undergone bit of pressure on the margin side over the last few years. On the regulatory fund, we honestly don't know what's going to really play out. Having said that, if you rewind yourself to 2019, right, I think we did see a regulatory change and post that we have been able to kind of tackle things as it is. So, I think, let us see how this comes up and we will decide then after.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Good evening, and thanks for the opportunity. There is one question in terms of like typically the way we see it is on the mutual fund business, the regulatory issues like we discussed on the call are generally increasing in terms of fee pressure and so on. So, while in terms of it might not contribute very much in the near term, but would you want to from a medium to long-term perspective incubate a private equity venture capital business where the long-term value that we can derive is much higher although near term obviously will not move the needle given how large our public market business is, but the profitability and the scope there could be much larger when you look at it from a long-term perspective? So, any thoughts on these two businesses?

Navneet Munot: You shouldn't look at a business from more regulated or less regulated. In fact, the regulation on alternative, as you will be aware, is also changing. I mentioned earlier, I wouldn't comment much on the regulation side, but we remain committed that over a period of time, there are tremendous opportunities in this business.

Our mission is, I have repeated it several times, to be the wealth creator for every Indian, and that includes, SIP of Rs. 100, Rs. 200, Rs. 500 per month, somebody who was contributing that, to serving the ultra HNIs and family offices and institutions who are looking at maybe other kinds of solutions.

Within the asset management business, we are building capabilities across the Board. We have been best-in-class, I mean, in terms of our product range on the active side. We have significantly expanded on the passive side. So, as that market grows, we are absolutely ready to capture that, and all the alternatives, as you mentioned, the first product on the fund of fund is being launched.

So far, I think we are pretty happy with what we have done on both sides, building capability on the investment side as well as our reach to the investors. I think over 200 investors have participated in our first close. I mean, that's very, very heartening. And over a period of time, we would like to build that. So, we've launched two strategies on PMS, and over a period of time, there will be opportunities on that side.

On our subsidiary on the Gift City, I think another quarter or two once we start, once that's fully set up, we will look at launching products both for global investors who want to invest in India and at a later stage even providing opportunities for domestic investors through the LRS route to invest globally.

So, I mean, we want to capture every possible opportunity on the asset management side, and I don't think the lens through which we will look at is like what is more regulated and what is less regulated. We really appreciate I think the way regulators have played their role in India. I think tremendous credit to them for the market development over the years.

I think Indian capital markets, I am sure you would agree, are one of the most, I would say, robust, I think one of the most liquid and transparent markets, and over a period of time, transparency really helps in building trust among the investors, all kinds of investors.

So, whatever regulator does, I have mentioned it earlier, even at the cost of repeating apart from market regulation and investor protection, they also have an objective of market development, and we are all hopeful as an industry, we engage with the regulator, with other market participants on how do we grow together for the betterment of investors and, of course, for the growth of the economy over a period of time.

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

Gaurav Jani: Thank you for taking my questions. Just wanted to understand from a mix perspective, you know, in terms of equity direct to indirect, are we materially different from the industry?

Navneet Munot: Our equity mix is better than the industry. I think on the closing AUM, the equity was 56% of the total assets. On average, it was 54% of total assets. Industry would be 49%, yes, it is better than the industry.

Gaurav Jani: No, so I meant actually the direct contribution in equities versus the industry. So, that will be about 80/20 right, I mean 20 direct and 80 indirect so.

Navneet Munot: Oh, on the management fee is same in both direct as well as in the distribution plan.

Moderator: Thank you. Ladies and gentlemen, that was the last question. 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.