Ref/No/HDFCAMC/SE/2024-25/64 Date – January 17, 2025

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

Dear Sir/Madam,

Sub: Transcript of Earnings Call

Please find enclosed herewith transcript of Earnings Call for the quarter and nine months ended December 31, 2024, conducted after the meeting of the Board of Directors on January 14, 2025 which can also be accessed on the website of the Company at: https://www.hdfcfund.com/about-us/financial-information/shareholder-presentation

Kindly take the same on records.

Thanking you,

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

Digitally signed by SONALI NITIN CHANDAK
Date: 2025.01.17 17:09:22 +05'30'

Sonali Chandak
Company Secretary

Encl: a/a

"HDFC Asset Management Company Limited

Q3 FY'25 Earnings Conference Call"

January 14, 2025

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 Q3 FY25 Earnings Conference Call of HDFC Asset Management Company Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

From the management team, we have with us Mr. Navneet Munot, Mr. Naozad Sirwalla and Mr. Simal Kanuga. I now hand over this conference call 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 Simal.

Simal Kanuga: Thanks Neerav and good evening, everyone and thank you for joining us today. Firstly, on industry, it witnessed the 32% growth over December '23 and closed the calendar year with AUM of INR66.9 trillion. Equity-oriented funds grew by 40% YoY with their AUM reaching INR39.3 trillion. Calendar year 2024 witnessed net new flows of INR5,420 billion in equity-oriented funds, clearly the highest ever. Additionally, INR1,031 billion flew into debt-oriented funds, INR429 billion into liquid funds and INR1,461 billion into what we call it as Other category which includes ETFs, Arbitrage funds and funds of funds investing overseas. The numbers for the current financial year are INR4,382 billion for equity-oriented funds, INR1,256 billion in debt-oriented funds, INR832 billion in liquid funds and INR1,051 billion in Other category.

Nifty fell by 8% for quarter-ended December 2024. During this quarter, industry saw net new equity-oriented flows of INR1,573 billion. INR191 billion coming in via actively managed equity-oriented NFOs and passive NFOs, both Index and ETF, collected about INR39 billion. SIP monthly flows for December 2024 surged to INR265 billion, an increase from INR176 billion in December 2023. The AUM through SIP is now at INR13.6 trillion.

We now move to us. Our quarterly average AUM for December was INR7.9 trillion, a market share of 11.5%, with equity-oriented funds comprising 65%, well above the industry average of 57%. We continue to be the most preferred choice for individual investors, maintaining a market share of 13.2% of individual monthly average AUM for December 2024.

Our number of live individual accounts grew to 22 million, a growth of 49% year-on-year, and our December monthly average AUM for individual investors grew by 38% year-on-year. Our unique investor count reached 12.6 million, a growth of 45% year-on-year. We continue to strengthen our position as the second largest player in B30 markets, with a 12% market share of monthly average AUM in December. To further expand our presence in the cities, we opened 25 new offices, largely in B30 cities, on 2nd of January 2025.

Our systematic transactions contributed INR38.2 billion in December 2024, a significant increase from INR26.3 billion a year ago.

A few more updates on the business front. Three of our funds are now live in our GIFT subsidiary with AUM exceeding USD 150 million. We aim to have two new products going live this quarter. Secondly, HDFC Flexi Cap fund has completed 30 years of its existence and continues to scale heights. Thirdly, we opened 25 new offices in 1st week of January, taking the total count to 280 offices. Interestingly, 95% of our transactions are now getting processed digitally, a significant increase from 69% in FY20.

I'll now move to financials. Our revenue from operations for the quarter came in at INR9,343 million, reflecting a 39% year-on-year growth, while other income amounted to INR928 million. Other income this quarter did get impacted by fall in equity markets due to its resultant impact on our skin-in-the-game investments.

Our operating profit for the quarter came in at INR7,472 million, a growth of 51% year-on-year. Our operating margin for 9 months of the current fiscal came in at 36 basis points of AUM and for the current quarter, it came at 37 basis points. It would be optimal to not extrapolate this 37-basis point number, as it looks better due to sharp rise in AUM, material part of which is led by mark-to-market growth. In our experience, these things even out over time. Profit after tax for the quarter grew by 31% year-on-year at INR6,415 million.

So, thank you very much for patiently hearing. Neerav, we can now start queuing up the questions.

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

Prayesh Jain: Yes, hi. Good evening, everyone. Good set of numbers, congratulations. Firstly, the SIP data that has been coming from the AMFI, another closure to opening ratio has been kind of increasing in the last couple of months and probably the past few months. Any pillars that you can share what you're getting from the ground? And how should we kind of look at this is an indicator of slowing down in some form, while the gross numbers continue to look up in that sense, but whether the momentum seems to be slowing down? That would be my first question.

Navneet Munot: Thank you, Prayesh. So, on the SIP number, I think as AMFI has repeatedly mentioned, I think we need to look at; one, the gross flows and the redemption from the existing AUM. So, one is the flow, and another is from the stock.

Let me try to clarify this with an example. So, let's assume that I'm doing a monthly SIP of INR10,000 for the last five years. So, by now, I would have invested INR6 lakhs and say the market value is now INR10 lakhs. Now, I decide to pull out INR5 lakhs for any reason and continue with my monthly contribution of INR10,000. So, for this one month, my net SIP will be negative INR4.9 lakhs. So, this is nothing, but book versus the flow issue.

Also, it's possible that I'm not pulling money out. I'm just switching INR5 lakhs from Fund X to Fund Y. This would again mean a negative SIP of INR4.9 lakhs and a positive lumpsum of INR5 lakhs. So, in a nutshell, what I'm trying to state is when we speak of SIP, let's look at gross flows. As far as we are growing there, it is good news.

And now, as you know that the SIP AUM, if I remember correctly, is over INR13 lakh crores. That number is very significant. So, any movement from there would impact that net number. But my request would be to look at the number that AMFI discloses on the gross side.

Prayesh Jain: My question was more on the number of SIPs rather than the gross and net? So, the closures – their ratio has been increasing -- terminated or the term getting over, that ratio is going higher to the opening. So, is there any trend change that you've seen on the ground on that?

Navneet Munot: So, the number that we disclosed at INR26,000 crores in the last month is the money in the bank. That's the total money. And that has been an increasing trend. Within that, of course, in the last three or four years, the overall number of accounts have gone up exponentially. I mean, industry, if I remember correctly, 10-12 years back used to do around 1.5 lakh new accounts per month. Now, that number is more than 50 lakhs.

So, obviously, you would have a, maybe that gross and net number in terms of accounts moving much more sharply than what we were used to. But most importantly, again, I would repeat the same thing, most importantly would be the gross number of flows that are coming to us.

Simal Kanuga Actually, Prayesh, also we need to look at it on the denominator. So, just we pulled out some data here. If you look at in April of 2024, there were 8.7 crores transactions in SIP. Now, that number has gone to 1,032 lakhs, so 10 crores transactions. And if you look at it, so the cancellation now has gone from 33 to say 44.90. So, that 4% is the cancellation ratio of the outstanding account. Looking at it in absolute sense may not give you the right picture.

Prayesh Jain: Got that, got that. That's helpful. Secondly, on the yield front, we've again seen a marginal improvement in the yield front. I think what portion of our AUM is now kind of equity AUM is kind of linked to the new model that you were adopting from the commission getting linked to the TER. What portion of our AUM of equity is linked and how do we see the yields moving ahead from here on?

Simal Kanuga: I think, okay, so what we did, right, I think Navneet had explained this on the last call. Between 2019 to 2024 whatever AUM we mobilized, on that we have done rationalization, but that has honestly not changed the yields by a material number because again, the AUMs have gone up over the last couple of quarters and that has kind of softened the TER. So, I think some bit of rationalization has worked well for us. We haven't really kind of disclosed the number in terms of what percentage of AUM is where we have kind of changed some bit or done bit of rationalization.

Prayesh Jain: Got that. Could you give us the yields that you have on the current book,' equity, debt, liquid, and others?

Naozad Sirwalla: Yes. So, the yields for equity for this quarter were around 58 basis points, for debt 28 basis points and for liquid is between 12 and 13 basis points.

Prayesh Jain: Well, that's helpful. Thank you so much. I'll come back in the queue.

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

Devesh Agarwal: Good afternoon, everyone, and thank you for the opportunity. Sir, just to clarify, there were no incremental changes made in this quarter in terms of distributor payouts. Is that right?

Simal Kanuga: Distributor in sense, commission -- you're talking about past book rationalization?

Devesh Agarwal: Yes, past book rationalization or cutting down on the distributor payouts for any of these.

Simal Kanuga: That was effective from 1st of August. So, we did bit of rationalization. It was a one-time exercise, 1st of August 2024 onwards.

Devesh Agarwal: Right, right. Okay. And sir, can you share some trend in terms of your market share in the net equity flows in this quarter versus the last quarter? Has it gone up, gone down?

Navneet Munot: I mean, as it is, there's so much data available about our industry. So, what we gave is a combined number which includes both mark-to-market as well as flows. But overall, I think across all channels, whether it's national distributors, whether it's our parent, HDFC Bank, whether it's FinTechs, whether it's MFDs, whether it's Direct, I think we continue to see a very healthy share across all channels.

Devesh Agarwal: All right. And so, what we've been noticing is that of the total net inflows that are coming into equities, a bulk of it is coming from thematics. Nearly 30-35% is coming from thematic scheme where we have always been a bit conservative on that category. So, what would be our strategy for that category going forward?

Navneet Munot: So, while you can say we have been conservative, we always try to do what is the best for our investors as well as for our partners. Having said that, you would appreciate we did probably the largest thematic fund so far in our industry, which was our manufacturing fund, which got over INR9,000 crores of flows and then added a couple of thousand crores after that. We've got the full bouquet of sector and thematic funds now, which is managed by our wonderful analyst team who are sector experts. And several of them have seen decent flows over the last several quarters.

Devesh Agarwal: Right. So, any more NFOs in the pipeline?

Navneet Munot: I think we have now best-in-class product bouquet across active and passive, across equity, fixed income, money market. Within passive, we have products across ETFs and index funds, both market cap-based indices as well as smart beta. So, we have got a wonderful product bouquet in place.

There would be a few products here and there that we would look forward to put in our product bouquet. But otherwise, I think our product bouquet is best-in-class. What we need to do is keep looking at fair share in each of those categories.

So, while in some of the categories, we are clearly an industry leader in terms of AUM and the market share that we have, but there are several categories where we have a lot of scope to expand our market share in those categories.

Devesh Agarwal: Any particular categories that you're targeting?

Navneet Munot: I mean, you can see our market share. There have been a few products which have been around for long, and we have a very healthy market share. But some of the products that have been launched in last couple of years, we believe there is still a lot of scope for us to expand our market share in those categories.

And at the same time, I mean, we just celebrated 30 years of HDFC Flexi Cap fund, and the product has been an outstanding product, loved by our investors as well as distributors. That has a long way to go. It has a healthy share in that category, but it still has a long way to go.

And at the same time, there are categories where we are not number one or number two or number three in those respective categories in terms of AUM. We aspire to have leadership in each and every product.

Devesh Agarwal: And any strategy that you're drawing to become top three in this category? Is it focusing on any particular distribution channel or geographical expansion? Any particular thing that you can highlight?

Navneet Munot: Ultimately, I mean, what investors reward is the performance. I mean, the consistency in terms of your performance track record, your investment thesis and clarity of the mandate. And of course, the other thing that we do in terms of providing the right content to our salespeople and the partners for them to enable or help investors understand their product and the relevance of that product in the investors' basket.

So, we continue to focus on all of these things. How do we provide the best possible content on each of the products? And of course, it has to be backed by the best-in-class performance as well.

Devesh Agarwal: Right. And, sir, any clarity on the SEBI-approved new categories that they have allowed for the mutual funds? When can we launch new schemes under that category? Or you're waiting for more clarity before launching any new schemes in that?

Navneet Munot: So, we are awaiting the final set of regulations. We will have products in this space as and when we get the final set of regulations. The team is working on creating the right set of products, which will help us gain share in this space too. It's not necessary that only highly complex products will succeed when it comes to this category. We are working on building products which will stand the test of time, and we are confident that we'll be able to create a mark and track record that we have in our current set of products.

Devesh Agarwal: Any timeline, sir, by when we can expect the final regulations?

Navneet Munot: No, we are all waiting for the final set of regulations. I mean, the way we look at Devesh is that we have a large and diverse investor base and an extensive distribution network. And on the other side, we have a very robust investment capability and risk management expertise, right? So, both are in place. So, we would be able to create and deliver products that align with the evolving needs of our clients.

Devesh Agarwal: Right, sir. And one last question, sir, from my side. In the past, we have spoken about the synergies with the HDFC bank parentage, right? So, do you think that is now completely played out or there's still potential for that particular distribution channel to grow faster than other channels?

Navneet Munot: I mean, the way we look at our end is bank would have more than 100 million customers. And the number of customers who would have done an SIP or who would have invested would be a very tiny fraction of that. I mean, look at the distribution might of the bank, whether in terms of geographic reach of branches or the people servicing or the client base that they have got. So, we have tremendous potential. I mean, the bank became our parent just a year and a half back. The journey post that has been very amazing.

And this is not only in terms of distribution, but overall relationship now that we have with the bank and as well as a its subsidiary like HDFC Securities. We continue to deepen our engagement on all fronts at all levels and are clearly seeing some results of the same. I'm sure many of you speak to senior management at HDFC Bank and will be getting the same feedback on us.

They've been very supportive of what we do and our future plans. Bank strongly believes that a mutual fund SIP product or a mutual fund product is a big need of almost every customer. Team is working harder than ever to take the distribution partnership with the bank to the next level.

And not only the domestic distribution, but even the synergies in our Gift City operations, synergies in our alternative business. So, we see tremendous potential for collaboration with the bank. I think Simal mentioned about our newer branches.

So, I'll repeat that. While bank is growing its physical infrastructure at a rapid pace, and we are also ensuring that we have our presence to cater to their customer base. So, we have set up 25 new offices this year. And this is on top of 24 new offices that we set up exactly a year back. So, 50 new points of presence that we have created in just one year. We have mapped every cluster and branch. We have mapped, of course, for our other distribution partners also will get service. So yes, we have a plan in place and with the kind of support we are getting from not only the senior leadership, but I think from every level, I feel very optimistic on how this can grow over the years.

Devesh Agarwal: Right, great and all the very best. Thank you.

Navneet Munot: Thank you so much.

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

Sahej Mittal: Hi, thanks for the opportunity. First, if I look at your SIP flow market share, right, so over the last 10, 12 quarters, consistently, the sales flow market share has improved, right? Obviously, in line with the performance which we have delivered. But in this quarter, immediately after we rationalized our commission, SIP flows have gone down by 50-odd, right, where we were a year back. So, I mean, is this because of commission rationalization or is there anything beyond that?

Navneet Munot: Not at all. In fact, by the way, I mean, I must clarify, we have mentioned it earlier also that what the number you see is systematic transaction, which includes both systematic transfer as well as a systematic investment plan, SIP plus STP. And sometimes it could be some, maybe a large ticker STP done by maybe an HNI customer or so that may have some impact on this number.

The other thing I must mention that we stopped taking SIPs also in one of our product - defense funds, which was quite popular with some of the distributors and investors that may also have an impact because, I mean, one of the sector thematic funds which was getting a good amount of new SIP accounts because we were only taking SIPs in that fund. But at HDFC AMC for us, it's always about the thinking of customers from a long-term perspective and not trying to maximize the SIP flows or AUM every month, every quarter. But otherwise, yes, our share across all channels and across a couple of products has been pretty decent.

Simal Kanuga: Also, I think, Sahej, one more point, if I may add, the largest contributor to SIPs have been some of these FinTechs, and they have no relation with commission. They put money in the direct plan.

Sahej Mittal: Okay. Got you. Got you. Perfect. Thanks a lot.

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

Madhukar Ladha: Hi. Thank you and congratulations on a good set of numbers. First, quickly on, you know, the equity market share, there's a very minor decline. But I would really appreciate if you could give some comments. Is it because of flows or is it more because of, you know, performance? And I know that, you know, it's too minor to actually make a big deal about, but just some sort of comment on that would be helpful and whether we are sort of confident enough to maintain our market share going forward?

Navneet Munot: Sure, sure. I mean, as you know, it's a combination of both mark-to-market as well as the flows. And it's too small a difference, I mean, over the last several quarters, we have been seeing, you know, an uptick in the market share. There would always be one quarter where, depending on a particular category of fund performing differently, or maybe some bit of change in flows as well. But we wouldn't read too much into it.

Madhukar Ladha: Yes, got it. Second, when I look at your equity AUM channel split, I see that the share of direct has improved substantially. And, even sequentially, year-over-year, almost 270 basis points improvement, and sequentially 50 basis points. And we've seen that. I want to get a sense of, is it more because, more index, passive products, or is it also to do with, changing behavior where, distributors are, or people are, retail people are still preferring to do, rising awareness resulting into this. So, some color, and also, platforms like Coin, Grow, those also probably would be helping?

Navneet Munot: So, Madhukar, I mean, if it is 25%, and it has a lower TER, so by default, this channel will automatically grow higher than the other channels, right? I mean, just the share difference in the TER will lead this to grow higher. By the way, I mean, the distribution data provided should not be interpreted as an indicator of market share within the individual channel. Because it's entirely possible for one channel to grow at a faster pace than another, while our overall market share across both remains unchanged. So, you are right. I mean, you notice that right that over the last 12 months, the direct channel has grown from I'm just seeing the page - 24.3% to 27%. And then it's also to a large extent led by FinTech, and some of the RIAs, the Registered Investment Advisors. Rather than indicating a loss in any channel, I would say this change reflects broader industry dynamics.

Madhukar Ladha: And do you think there's rising awareness towards, retail, HNI sort of investing direct?

Navneet Munot: MFDs have been doing very well. In fact, also, when you look at MFDs, the decline in MFD share, you keep also another dynamic in mind. So MFDs who expand their business geographically, they get recategorized. So, some of these MFDs do move to platforms. And hence the transition happens from MFD channel to ND channel. So, they were getting clubbed in MFD and now they are part of ND channel. Keep that also in mind, yes.

Madhukar Ladha: Understood. And just on the new asset class, is there clarity on what sort of additional strategies you could do? Will it allow like shorting? Will you be able to replicate like what AIFs and PMSs are doing? And second, on the taxation of these products, will it be taxed like mutual funds only or will it be something else?

Navneet Munot: So, we are awaiting the final set of regulations I mentioned earlier. All I would like to state is that we have best-in-class investment capability, risk capability and product capability. And on the other side, we have the distribution network and an investor. So, I mean, any opportunity on the product side, whether it's the standard mutual fund products, which have got the categorization, the products that we can launch, and tomorrow it gets more liberalized, and we are allowed to launch a few other products with a different set of risk return framework. As an organization, we are fully ready to capture every opportunity.

We also mentioned earlier that whether it's active, whether it's passive, whether it's alternatives, whether it's segregated accounts, which is PMS, we want our presence across the board to ensure that we are a one-stop solution provider for every investment need of every investor, be it institutional or individual, and every kind of partners, investment solutions that they would look up to from an asset manager like ours.

Madhukar Ladha: And any clarity also on the TER by any chance? Is there more flexibility on TER?

Navneet Munot: No, not really.

Madhukar Ladha: I mean, the same TER structure.

Navneet Munot: The scale of our industry, I mean, today 67, 68 lakh crores and SIP book that has got built, and still it's usually underpenetrated. So, we wouldn't like to lose our focus from this runway of growth and any additional opportunity that comes to us, we would fully participate in that.

Madhukar Ladha: Thank you. Thanks a lot, sir. And all the best.

Navneet Munot: Thank you.

Moderator: Thank you. The next question is from the line of Shreya Shivani from CLSA India. Please go ahead.

Shreya Shivani: Hi. Thank you for the opportunity. So, I have two questions. First is on this regulation change which happened in December. So, SEBI said that in NFOs, when the switch transaction, the distributors would now get lower commission versus earlier the trend of them taking the higher bit. So, can you help us understand what exactly is going on there and what is the impact on us in our NFOs, what part of it was just simply coming through switch, etcetera? That's my first question.

And sir my second question is, probably I just want to understand the tax rate a little better, because last time was an anomaly, and I understand that you had explained it very well. But going ahead, how should we look at it? What are the factors which moves it around? If you could help us understand, why would it come at 23.6% this quarter versus, say, 25% in some other quarters? If you can help me understand that would be useful? Thank you.

Navneet Munot: So, your first part of question, the brokerage on the NFO, we have always been very prudent, Shreya, on this front. We have been very particular about this. And in all our NFOs, we have ensured that on the switch, we pay the lower of the two. And on the tax side...

Naozad Sirwalla: I think 25% is the corporate tax rate. Only the issue is that for mark-to-market gains, there are long-term, etcetera, you have a deferred tax at a different rate, right? So that would mean that sometimes it comes at 23, 24, etcetera.

Shreya Shivani: Got it. So, it's basically the mark-to-market gains, which basically moves your tax rate around that 25%. And that's the anomaly that could come through, right?

Naozad Sirwalla: Yes, depending on if it's short-term, then it moves to long-term. So those are the impacts.

Shreya Shivani: Got it. And on the NFOs, I just wanted a clarity that you were always paying the lower commission, even before this regulation came, or even before the SEBI document that came in May '23, was that always a trend, or how was it? Sorry, I didn't understand.

Navneet Munot: By and large, yes.

Shreya Shivani: Okay, by and large. Okay. This is useful. Thank you so much.

Navneet Munot: Thank you.

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

Dipanjan Ghosh: Hi. Good evening, sir. Hope I'm audible.

Management: Yes.

Dipanjan Ghosh: Two questions. One is on the other expense side. If I see there has been a sharp decline sequentially, and also on a Y-o-Y basis, it's quite controlled, despite the first half being quite high in terms of activity and engagement. Just wanted to get some sense of how should we see this going ahead in terms of trajectory on the other expense side, if there is any further head room to control it, or what sort of growth should we assume, given that you opened a few branches also here and there in January? And in line with that, also on the employee expense side, should we expect some amount of investment on the sales franchisee or the non-MF side, let's say, over the next 12 to 24 months?

The second question is on, again, going back to the gross SIP flow market share. If I just see the ticket size for HDFC AMC versus the industry over the past, let's say, 12 months, both for December and September, HDFC AMC has witnessed a decline in ticket size for both these period ends, whereas the industry has seen an accretion. So is it fair to assume that, and anecdotally, you also know that the ticket size tends to be relatively lower on the FinTech channels.

So, is it fair to assume that maybe there has been some moderation or customer churn or resilience of the customers during this market downturn is a little lower on those channels, and you're facing the heat of that? Just wanted to get some color on that.

Naozad Sirwalla: Right. So, Dipanjan on expenses. So, for the quarter, I think, first of all, I would request that we look at from a nine-month to nine-month point of view, where that's a more reasonable way of looking at expenses. For the quarter, we didn't have so many NFOs this quarter. CSR expense was a bit lower. So that's why you see some decline in the December quarter. I think our request has always been that, see, on an annual basis, overall costs, employees as well as other expenses, should grow between 12% to 13% or 15%, give or take, depending on how markets are. So that's the way I would urge you to look at it, not on an every-quarter basis. So that's broadly where it is. So, this December quarter has been slightly lower, as I said, due to certain costs being lower from CSR. And on what the – you asked about the ticket size.

Navneet Munot: I repeat the same point I made earlier, that what we disclose is systematic transactions, which include both STP and SIP. It's not strictly comparable when you see the industry number on that side. And it also depends on the money coming in from a particular channel or the kind of product. For example, we had a cap on our SIP amount per unique investor in our defense fund, which was like 10,000 rupees that one could do. And also, depending on the channel from which that money is coming in. But otherwise, I think we would be in line with the industry, if not better.

Dipanjan Ghosh: Maybe just a follow-up. I mean, would it be fair to assume that let's say, the accretion that you would have seen in your SIP mix through direct, and without going into specifics of Fintechs, would be, let's say, better than the industry or in line with the industry? Some color on that, if you can give.

Navneet Munot: No, I mentioned earlier that our share across channels has been very healthy, which includes MFDs, NDs, banks, the parent bank, HDFC bank as a distributor and Fintech. And our market share has been healthy across all channels. We focus on all channels. They all are important for us. And we continue to invest in all channels.

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

Moderator: Thank you. Next question is from the line of Raghvesh from JM Financial. Please, go ahead.

Raghvesh: Hi, sir. Thanks for the opportunity. So, I had a couple of questions. The first question is, when we look at our revenues yields, so essentially our equity share in the AUM has come off. None of our funds have actually reduced in a TER slabs. And you have said that there's incremental change in distributor payout. But still, the yields have increased by around 1 basis point, Q-o-Q. So, I mean, how do we, I mean, what explains this increase in yields?

Simal Kanuga: So, I think there are a couple of things, right. One is, if you look at last quarter, we did some bit of distribution commission rationalization effective 1st of August. So, if you compare this strictly with last quarter, it was, last quarter was two months. This quarter, the impact of the entire three months come by, point number one. Point number two, the direct plan change that happens because of the rationalization of commission tends to get affected with a bit of a lag. So, we've seen direct plan TERs go up somewhere in middle of September and then again in middle of October, so on and so forth. So, these things have resulted in a marginal increase.

Raghvesh: Okay. And broadly, this is a good base for looking at Q-o-Q?

Simal Kanuga: So, I think Naozad pointed that out, right, saying that we did the quarter number at 58 basis points. Now, it depends, for example, if the market really kind of shoots up again from where it is, you might see a decline because of increase in AUM. So, the telescopic pricing would work. But yes, otherwise, we start with a base of 58 basis points that Naozad touched upon.

Raghvesh: Thank you. And the second question on the distribution. So, direct is now 27% of the business. So, what portion of this would be to a direct online channel? And has that been the major, driver of growth in the direct channel?

Navneet Munot: I mean, what we disclose, as I mentioned earlier from a competitive perspective, we don't disclose further. But as I mentioned earlier that we have fairly healthy share, whether the investors coming directly to us, investors coming through RIAs and investors coming through the FinTech. Within FinTech also, you have various kinds. There are some who are distributors who take the ARN and are commission-based. And there are some who put money in the direct plan. There are some who are what we call EOP, the Execution Only Platform, who charge a small transaction fee. So, there are different kinds. And we try to optimize our shares everywhere.

Raghvesh: Okay, sir. Thanks for this.

Moderator: Thank you. Next question is from the line of Jayant from Jefferies India. Please go ahead.

Jayant: Thanks for the opportunity. One question regarding the industry broader, we've seen that this quarter, there seemed to be some moderation in broadening of the investor base, whether you look at Demat accounts or active investors on exchanges. And then you sort of marry that with the addition that you had to unique investor base for the mutual fund industry. From these 1.1 million kind of number, we have done 800,000. And the industry also seemed like a 20%-22% drop in this quarter. What are you reading, given that we're already 14 days into Jan? Is it a possibility we may have peaked out on the quantum of investor base addition or incremental investor addition for FY ‘25?

Navneet Munot: I think we still have a long way to go. Last year was outstanding for the industry. Industry added almost 1 crore new unique investors, and almost 6 crores of folios. If you look at the SIP number, I mean, the one-year growth was like some 9,000 crores. This was the SIP book around three years back, right? I mean, what the entire book was three or four years back has got added in like one calendar year.

And the overall equity AUM has grown by like 10/11 lakh crores, which was total AUM of the industry a few years back. So, it's been an outstanding year. Having said that, over the next several years, I think the efforts industry is making, efforts all of us are making, the work that regulator is doing to build more trust in the product to bring more transparency in the product, we feel very positive about the long-term opportunity.

I mean, while we can celebrate all the numbers that I talked about, but we need to keep in mind there are only a little over 5 crores unique investors in the industry. Can we say that we have peaked at 5 crores unique investors in the industry? I mean, no way. You would know that better, I mean, if we compare ourselves with, I don't know, maybe the vehicle ownership or passport holders or the number of people who file income tax returns, many numbers, I think we still have a long way to go.

Jayant: Just to follow up, sir, while the long-term trend, we all agree…

Navneet Munot: Even in fact, sorry to interject, I think even if I look at the Demat accounts, which are like around 19 crores or so, I don't know how many unique investors in that, but I assume that number is substantially higher than what we have as an industry in terms of unique investors. So, people who have already invested in capital markets, but are yet to invest in mutual funds, that number is also like quite large. That would be like another, I would say, a cohort of, investors that we would like to target as an industry.

Jayant: Yes. So just following up while the long term, trajectory we all agree on, could there be a sort of healthy consolidation in the near term where we see this large base of current year not being repeated at least for the next three, four quarters?

Navneet Munot: See, one healthy thing is to see is that I think the market turned volatile sometime in September, I remember, and last quarter was extremely volatile with so much of foreigners selling and some of the other, you know, I mean, for other reasons that caused volatility in the market. And in this quarter, we have seen record flows in the mutual fund industry. I'm talking about the equity funds.

And in terms of SIP addition, in terms of new account addition, it's been very, very pleasing for everyone in the industry. It shows the maturity of the investor. It shows that mutual funds are getting sold as a product where investors need to invest in a disciplined manner with a long-term orientation. Having said that you are right, there will be some cyclical aspect.

If let's say we remain in a bear market for an extended period, it may impact overall sentiment that may have impact on whether the new investor addition or, a topping up of amount by the existing investors also. But I feel positive that this time a good part of our growth is structural in nature and not completely cyclical.

Another interesting thing from our interaction with the distributors and investors, the one thing we notice is mutual funds have performed substantially better than what investors have witnessed in their own portfolios where they've invested directly. And they can clearly see the comparison and the advantage of investing through professional managers like us. I think this will also keep us in good stead and will help the industry in building more trust among the investors that this is a better vehicle than, doing on your own.

Jayant: Great. Just one last question if I could squeeze for the December quarter investor addition. Is it that the sort of this 20% drop was more in FinTechs versus the NDs? Anything qualitatively that you can call out?

Navneet Munot: I don't have that handy. But the industry, as I said, in one calendar year, the total number of unique investors four years back, four and a half years back, I remember was 2 crores. And in one calendar year, we added more than 1 crore.

As an AMC, we have added 40 lakh new customers in last 12 months or so. These are like phenomenal numbers. I also keep thinking that one investor addition, but the two, a big opportunity for us is also to ensure we get more allocation from the existing investors.

Industry has done a very good job in spreading the word about Mutual Funds Sahi Hai, investing through SIP. But have you invested the right amount? Do you need to invest more to meet your goals? I think a lot of potential for us. And as an organization, we are putting a lot of effort as an industry, we are putting a lot of effort on that. I don't know if you've noticed, some of the media channels where our next target for Mutual Funds Sahi Hai is that are you investing rightly? And then are you investing the right amount that you need to invest? So, there's a lot of potential to get more money from existing investors also.

Simal Kanuga: But Jayant, what number has dipped 20%? Because unique investors have grown from 5.01 crores to 5.26 crores, quarter on quarter.

Jayant: So, I was saying that in September quarter, we added 3.2 million new unique customers in the industry.

Simal Kanuga: Do you mean the growth has slowed down by 20%?

Jayant: Yes, incremental addition.

Simal Kanuga: So, you are talking about growth on growth is not happening. Growth on growth is happening at a slower pace. At that pace, I think unique investors will beat Indian population.

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

Saurabh: Just one question. So basically, just on this SIP and the net new money in equity, given that Nifty return is now in the mid-single digits. And now, if this market continues like this, probably FD returns could start becoming better than equity, at least in a one-year view. You think there's a case that the net new money accretion in the industry and the SIP accretion starts to tone down from here?

Navneet Munot: I mean, I kind of answered before, but also that there's a lot of opportunity for us on the fixed income side, right? If you think that, where the interest rates are, there could be investors who want to allocate some bit to fixed income also. Last two, three years, because equity markets have done so well, investors have allocated, a larger proportion of their money into equity funds. But there are hybrid funds, we have asset allocation products, we have fixed income products. And I'm sure there is an opportunity for us to position ourselves for that allocation also.

Saurabh: So, my point is basically...

Navneet Munot: I think if you have an extended bear market, that may have some impact. But what as an industry we have been trying over the last five, seven years in particular is to educate investors that you are investing for the long run. I just talked about 30 years of HDFC Flexi Cap fund.

And what we try to showcase is that there have been many, many, many cycles, economic cycles, business cycles, profit cycles, political cycles. And across all of those periods, if you just stayed invested, what kind of returns you have got over a period of time, what kind of experience you had in terms of compounding your money with a disciplined investing. And I'm hoping that, as entire industry is making these efforts, I'm hoping that investors take a more longer-term view and don't get swayed by the volatility.

But of course, I take your point, there are a lot of investors who come in last three, four years, they haven't seen a severe correction, first time they've seen some bit of correction in the market. And we have to wait and watch for their behavior in this cycle.

Saurabh: Okay, thank you.

Moderator: Thank you. Next question is from the line of Mohit Mangal from Centrum Broking, please go ahead.

Mohit Mangal: Yes, thanks for the opportunity and congratulations on a good set of numbers. Just one question. So, we have seen the SIP discontinuation rate to be high in the industry. So just to get a sense for HDFC AMC was the ticket size for SIP less than say 5,000 or was a higher ticket size, or more than 25,000? Any color on that, would be very helpful.

Navneet Munot: Sorry, I didn't get that. You're asking for the ticket size of the SIPs?

Mohit Mangal: Yes, SIP discontinuation rate. Obviously, we would have seen something for the quarter, right, for the company. So just wanted to get a sense of the ticket size of those SIPs. Were they higher, say greater than 25,000, or were they less than say 5000? Just wanted to get a sense of that.

Navneet Munot: We mentioned earlier that you look at the total number of SIP accounts, and then you look at the new addition and the cancellation. This is not really so material as you are making out to be. And also, as I mentioned that we don't give the SIP number, we give systematic transactions, which include both SIP as well as the STP. STP is a Systematic Transfer Plan.

Mohit Mangal: Yes, I just wanted to understand as to, we are seeing in the industry that discontinuation rates to be high. So just wanted to get a sense as to why, are the ticket sizes a concern or basically it's just the market returns?

Navneet Munot: There are many factors. Somebody can start with, let's say, in five different funds. And then depending on the view, they may change. They may add another two funds and stop SIP in the existing two funds, right? Now, those two where they have stopped will go as cancellation. Those two where they have started the SIP will go as new. It could be the same fund or; it could be a different fund out. So that there are many factors at play.

Mohit Mangal: Okay. Thanks, and all the best.

Moderator: Thank you. Thank you. Next question is from the line of Priyanka from Trident Capital, please go ahead. Priyanka, may I request you to unmute your line and proceed with your question.

Priyanka: Yes. So, my first question is that what is the strategy for attracting passives, especially EPFO flows, considering they are the biggest investor in this segment? There was an EPFO tender in 2023, which was open to private AMC players also, but I guess we did not win that.

So is this tender up for renewal or any new talks on getting some share of this EPFO flow?

Navneet Munot: As and when that happens, we will consider that. It will surely be, I mean, we will surely consider that as and when it comes back for tender.

Priyanka: So, is there, when will this tender come up for renewal? Is there any particular date, a periodic tender or anything?

Navneet Munot: Everybody will come to know at the same time. So, I don't think we have any prior information.

Priyanka: Okay. Next thing, just there was this question on employee expenses earlier also. So, I'm just looking at the employee expenses for the last nine months. Okay. The employee expenses have gone up 9% compared to nine months, the previous period. But our branches have increased by 25. Is this the rate that, we are looking at that, the employee expenses goes up by 9% to 10% assuming a branch expansion, or how is it that we take into consideration for employee expenses?

Naozad Sirwalla: I'll just clarify. The employee expenses is the total expense you're looking at. That has a component of the ESOP cost as a non-cash component of employee expenses. So, for the previous nine-month period, that was INR37 crores. The same number for this nine-month period current is INR17 crores.

Priyanka: Okay. Okay.

Naozad Sirwalla: So, if you take that off, then you will see a reasonable increase in employee expenses.

Priyanka: So, what is, on an annual basis, considering the 25 branch increases, what is the employee expenses increase that I should, look at for my modelling purpose?

Naozad Sirwalla: So, we don't give out guidance specifically as a general matter. I think employee expenses across the board, as this is financial services sector, and we would do what is appropriate given the business cycle where we are in for employees when we look at costs for next year. We've always been very prudent and rational on our costs for these employee expenses or other costs.

At the same time, if you have to invest in people and technology and network, etcetera, we'll do it at the right point. Again, to clarify, and we did mention this in our previous quarters call, when these branches are while they are, the offices, as we call them, are still small offices manned by a couple of people. It's not a very material, from a cost point of view or a people point of view, that it really changes. Of course, you have to man the branches etcetera, but it's not like a material increase in cost because of 25 new branches or offices.

Priyanka: Okay. Yes, thanks for that answer. That's from my side.

Moderator: Thank you. Next question is from the line of Bhavin Pande from Athena Investments. Please go ahead.

Bhavin Pande: Congratulations on a good set of numbers. So, sir, how do we look at protecting fund performance in a down cycle if we were to extrapolate this kind of scenario, panning out maybe for a longer horizon? And secondly, again, not going too granular on flows side, have we seen any reorientation both from direct and non-direct channels in terms of allocation towards funds where belief is that certain sectors are overheated or maybe performance might not come. So, they have reoriented to other strategies which had not done for maybe last couple of years?

Navneet Munot: Yes. So, we have seen some bit of change in terms of the categories that get more flows. While we try to educate as much as possible that, investors should not have a recency bias, don't look at the returns of last six months, 12 months or so and then allocate your money, accordingly, focus on the larger goal planning, asset allocation and then the fund selection.

Having said that, the recent performance has some implications while industry tries very hard, as I mentioned earlier, to educate investors to ensure that they invest from a longer-term perspective. What was your other question on the fund performance? Actually, I mentioned it earlier that, in fact, in the presentation, Chirag was showing that when you look at number of stocks that have fallen from the 52-week high versus, I think, if you look at the fund performance or if you look at, the alpha that has been generated by several funds, I think fund managers have done a very good job during this period of drawdown.

Bhavin Pande: Okay. And so macro funds, given the high-frequency indicators pointing towards maybe an extended period of higher interest rates, would we sort of ramp up our efforts towards scaling up the debt business as well, barring the fact that equity might not do well, again, just purely from a debt perspective?

Navneet Munot: We have a full bouquet of products to meet every need of the investor. Having said that, our message to investors has been that they need to think from a longer-term perspective. I don't think that they need to stop the allocation because equity markets have not been doing well over the last few months or may or may not do well in the next few months.

I think it's about the allocation. I'm sure in several of the presentations, people from our industry show that if you missed out on a few good days or a few weeks of, let's say, up-cycle, you miss out on a very large part of the market. And that's why it might sound like a cliche that it's the time in the market and not the timing that really adds to the wealth creation.

And over the last couple of years, this is what I think industry has done very well in delivering this message that you need to invest in a very consistent and disciplined manner and don't get swayed by the volatility but actually take advantage of the volatility. Over the last few months, we feel very positive looking at the investor behavior, and I feel that investors should continue to invest with a long-term horizon.

Bhavin Pande: That was helpful, sir. Good luck to the entire team.

Navneet Munot: Thank you so much.

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

Lakshminarayanan: Hi. A couple of questions. First is that what has been our market share growth in or how are we seeing growth in the hybrid and balanced advantage funds when compared to the market? Are we growing faster or do we have any product gap there?

Navneet Munot: No, I think we have been a pioneer in that category. Our balanced advantage fund is the largest actively managed equity-oriented fund in India, hybrid fund, and dynamically managed I mean, current AUM would be like in excess of INR90,000 crores. And across the board, whether it's the hybrid equity, conservative debt product, asset allocator fund, multi-asset fund, there are like many products that we have got to meet various kinds of needs of investors and our partners.

Historically, we always had a high share in that segment, and we continue to build that portfolio. In terms of product gap, I don't see now. I think almost all the products which are allowed as per SEBI Categorization, we are already present.

Lakshminarayanan: The second question is related to the VWAP rule or some kind of contours of some certain things that came up by either AMFI or SEBI. Does it actually affect you, how you have actually taken up that? Because I understand the effects of Mid Cap and Small Cap in particular, and that we have a large Mid Cap and Small Cap Funds. So, can you just tell me more about that? Is it actually becoming difficult for you to manage large sums of money in those schemes because of this rule?

Navneet Munot: No, I have not heard that from our fund managers. By the way, I mean, we at AMFI and regulators, we work very closely. I mean, SEBI always talked about the co-creation of regulation and best practices. Everything that we do is to enhance transparency. Everything that we do is to build more trust in the product. And we work very, very closely with the regulator from AMFI side.

Lakshminarayanan: Thank you so much.

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

Kunal Thanvi: Hi, thanks for the opportunity and Happy New Year to the team. I had two questions. One was on regulations. In 2023, there was a lot of talks about TER from scheme-based to fund-based. Anything that you've heard on that incrementally from the regulators in your sense of the same?

Second question was in terms of last 2 years being very good for the industry. Talking about in terms of growth, SIP, growth in the unique investors. What are the key risks that you see from here on in the business, both medium term and long term? Can you talk about these two?

Navneet Munot: Thank you, Kunal, and wish you too a very Happy New Year and wish everybody on the call a very, very Happy New Year. On the TER, in fact, I've been stating that the telescoping structure, especially in case of equity-oriented schemes, does have an impact on the TER. And the current formula incorporates this mechanism, and its effects have been evident over the last couple of years. So, in our opinion, further regulatory intervention may not be necessary to pass on the benefits of scale to the investors. The scale benefits have been passed on to the investors over the last couple of years.

The risk to our business, of course, because if you look at our AUM, the growth consists of two things. One is the mark-to-market. The second is the flows. If markets don't do well, which is the last couple of weeks, it impacts our AUM. If this kind of market trend continues for an extended period, it may also have an impact on the flows, while we believe that a good proportion is coming in the form of systematic transactions and that should continue. And it may offer other opportunities to look at fixed income and some of the other categories. But yes, that would be one of the key risks given our business, yes.

Kunal Thanvi: Sure. Thank you so much. All the very best.

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

Lalit Deo: Yes. Hi, sir. Congratulations on a good set of numbers. So just two questions. One was the non-cash charge which you're talking about in the employee expenses. So right now we have the existing plan which is going on and for the next full year, do we have any new plans which are there in the pipeline, in terms of outlook on the non-cash charge?

Navneet Munot: We haven't discussed that so far.

Lalit Deo: Okay. And so just lastly, when you're talking about in the systematic transaction, so can you just give us like how much would be the SIP book and how much would be the STP book on a qualitative basis?

Simal Kanuga: Lalit, we don't give that split.

Lalit Deo: Sure, sir.

Moderator: Thank you very much. Next question is from the line of Ajay Jain, Individual Investor. Please go ahead.

Ajay Jain: Sir, this is regarding accounting entry. Can you explain other income that has been a big difference in quarter 2 and quarter 3? What constitutes other income in your accountings?

Naozad Sirwalla: Sir, largely other income is what we earn on the investments we have made from our balance sheet. And the movement that you see between the September quarter and the December quarter is largely on account of the equity mark-to-market loss of the investments that we have to make.

Those investments are largely due to the SEBI skin in the game circular which requires the AMC to put its own balance sheet capital into its own fund in a pre-prescribed formula. And since the markets were lower in the quarter, there is a mark-to-market loss on the equity investments.

Ajay Jain: Fair enough. Can I conclude it? What I have understood of it is that if the market increases, the value of the shares increases, then you have a better margin in other income and vice versa. Am I so, sir?

Naozad Sirwalla: Yes, sir. So, we have to mark-to-market our investments.

Ajay Jain: Mark-to-market. Fair. Got you, sir. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question. I would now like to hand this call over to Mr. Navneet Munot for closing comments.

Navneet Munot: Thank you so much. I wish you all a very Happy Makar Sankranti, Pongal and of course I wish you and your loved ones a very Happy New Year. Thank you so much.

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