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

Dear Sir/Madam,

Sub: Transcript of Earnings Call

Please find enclosed herewith transcript of Earnings Call for the quarter ended June 30, 2024, conducted after the meeting of the Board of Directors on July 15, 2024 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**

Sonali Chandak
Company Secretary

Encl: a/a

HDFC Asset Management Company Limited

CIN: L65991MH1999PLC123027

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“HDFC Asset Management Company Limited
Q1 FY’25 Earnings Conference Call”

July 15, 2024



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

Moderator:

Ladies and gentlemen, good day and welcome to Q1 FY '25 Earnings Conference Call of HDFC Asset Management Company Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing 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 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. The industry continued its upward journey and closed the quarter with AUM of over INR61 trillion, signifying sevenfold increase over the last 10 years. To put things in context, the size of the mutual fund industry as a whole was about INR8 trillion as on 31st March 2014. And now we have seen industry adding over INR10 trillion in the last 6 months. June 2024 was the 40th consecutive month, wherein equity-oriented funds have witnessed positive net flows. Actively managed equity-oriented funds saw net flows exceeding INR1 trillion in the quarter ending June 2024, with INR262 billion of this amount contributed by 17 equity-oriented NFOs.

Debt-oriented funds, including debt index funds, witnessed net inflows of INR709 billion for the quarter, marking a turnaround after 3 consecutive quarters of outflows. Additionally, debt ETF saw net inflows of INR20 billion, bringing the total net new flows into debt to INR729 billion. Liquid funds also recorded an addition of INR510 billion during the quarter, again, following 3 consecutive quarters of outflows. These flows in debt and liquid funds are similar to those seen in quarter ended June 2023. The following 3 quarters were net negative flows. Also, over the last 3 years, the debt and liquid fund categories

have collectively witnessed outflows totalling to about INR2,650 billion.

Monthly SIP flows have continued their upward trend, INR213 billion for the month of June 2024. This quarter saw an addition of 2.3 million new unique customers.

Now we move to us. We surpassed INR7 trillion in AUM. Our asset mix has continued to further tilt towards equity, now at 64.3% on a quarterly average basis. On a closing AUM basis, actively managed equity funds have grown to INR4.4 trillion, market share of 13%. Debt and liquid AUM has seen a Q-on-Q increase of 9% and 14%, market share of 13.5% and 12.7%, respectively.

We continue to be the most preferred choice for individual investors, with market share of 13.3%. Our unique investor count reached 10.7 million, which takes our penetration in unique investor base to 23%. This quarter, we added 1.1 million unique investors and industry added 2.3 million. Systematic transactions for June 2024 stood at INR32.1 billion.

About financials. Our total income adds up to INR9,483 million. Revenue from operations increased to INR7,752 million, a growth of 35% Y-o-Y. Operating profit grew by 40% Y-o-Y. PAT at INR6,039 million, a growth of 26% Y-o-Y.

Thank you and we can take questions now. Neerav, we can start building up the question queue.

Moderator: Thank you very much. The first question is from the line of Bhavin Pande from Athena Investments. Please go ahead.

Bhavin Pande: Congratulations on a great set of numbers. I just had...

Moderator: Bhavin, sorry, your audio is coming a little feeble. Can you speak through the handset?

- Bhavin Pande:** Congratulations on a great set of numbers. First thing sir, the employee benefit expenses, they have gone up. I'm assuming it's on account of variable payout, so that happened in Q1?
- Naozad Sirwalla:** No, employee cost is a function of year-end increments, actual increase in the headcount we added up about from the Q1 of last year to Q1 of this year. There is an employee headcount increase of 280 people. We invest in learning and development, employee engagement, etcetera. So that's an overall increase. It's not just performance pay related.
- Bhavin Pande:** Okay. And secondly other expenses have also shot up. So, what could be attributed to that?
- Naozad Sirwalla:** Yes. So, the increase in other expenses is mainly on account of increase in general business-related expenses, there was a new fund offer expense, there are certain KYC related expenses for mutual funds and outsourced service costs. So, these are the 3 or 4 major heads where Y-o-Y, there's an increase in expenditure. So, had a manufacturing NFO during the quarter, and that does have some extra cost. And you appreciate the NFO expenses are not bad in a sense that there is an additional AUM that will fetch materially higher fees than costs incurred as we go forward.
- Bhavin Pande:** Yes. Okay. Understood. And in terms of branch expansion, so we added one for this quarter. So, would you like to give out some numbers in terms of annual addition that we could look at for FY '25?
- Navneet Munot:** We had 24 branches that we opened in the first week of January. I think in the next few weeks or few months, I mean, we don't have plans to add many more.
- Bhavin Pande:** Okay. That was really helpful. Congratulations again and good luck.
- Management:** Thank you, Bhavin.

Moderator: Thank you very much. The next question is from the line of Ujjwal from Desvelado Advisory. Please go ahead.

Ujjwal: First of all, congratulations on the great set of numbers. I have 2 questions, actually. The first question is currently asking that the percentage of asset under management for equity funds stands at 50%, that is up from approx. 39% a year ago. I wanted to ask like, can you elaborate on the strategic considerations behind the shift and share prediction, whether this is likely to increase, decrease or like remain stable in the foreseeable future?

Simal Kanuga: No. So, I think the way we kind of look at assets are between equity oriented. So, if you just add up the equity-oriented asset for us is 64% odd. So, we are nearing a 64%, 65% mark when you look at purely equity-oriented assets for us. So, you are saying where we expect this to go that. Is that your question?

Ujjwal: Yes. Yes. Equity base, like assets under management in equity. So, is it likely to increase? Or we expect it to like see remain stable considering like in the foreseeable future? And if you can give any guidance about like the update on the margin part?

Navneet Munot: So, while we want to grow all our segments, but you would appreciate that in case of equity, there are 2 variables, number one, the mark-to-market gain will relatively be higher than other asset classes that will push the equity proportion higher within our overall AUM. And second is the SIP book, which is now a very large part of the overall flows. So, a large part in fact, bulk of the SIP flows are into equity funds. So, the equity proportion by that should increase at a faster pace. But as I mentioned earlier, our intent would be to like grow all our segments of business, including fixed income and other.

Ujjwal: Okay. Okay. Got it. And my second question was like, could you provide any insight into like any upcoming initiatives related to introduction of new fund offers? Like specifically, are there plans to

diversify or expand this portfolio through NFOs in the near term, like in the near future?

Navneet Munot: No, we just had a way an NFO - manufacturing fund, which met with a huge success. After that, we had an index fund just a few days back. We keep looking at our product bouquet, but to a large extent now, we believe that our product bouquet is more or less complete. We've got the full range of products across both active as well as passive side for -- to meet different kinds of investors need. But I consistently encourage the team to consolidate our position in our existing funds and try to aim for top 3 positions across categories. So, I think there may be a few here and there, but I think to a large extent our product bouquet is full on both on active and passive side.

Ujjwal: Okay. Got it. Thank you. Also, best of luck for your future prospects.

Navneet Munot: Thank you.

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

Prayesh Jain: Just harping on the question on employee expenses again. So sequentially when we look at the employee expense it is up 17% Q-on-Q. So, what are the elements, is there an element of ESOP expenses have gone sequentially? What is that is driving this sequential increase because generally I understand that your variable pay gets amortized over the year - over the 4 quarters. So how do you read this and how should we look at the run rate from here on?

Naozad Sirwalla: So, see sequentially the first impact of sequential increase is the annual increments we roll out in the first quarter of the year. So that's one aspect of it. Also, in the first quarter we typically have the initial valuations that come across for leave encashments and all other perquisite benefits that go in. And typically, the way it works is the

valuation comes in which is then sort of -- which gets used up over the rest of the year.

This first quarter we also had a large employee engagement event which we typically do in our first or second quarter of the year. So, these are the elements. I would encourage that you look at expenditure on an annual basis, I think for employee costs we have broadly would be in line with what the market would expect between say 10%, 12% unless we have a very large expansion of people which we have done over the last 12 months.

This year we are still planning on expansion. Otherwise, I would just expect you to look at it on an overall basis on a year-on-year rather than on an annual basis rather than a quarterly basis.

Prayesh Jain: Got that. Secondly, on the tax rate why is it low and how should we look at it for the full year?

Naozad Sirwalla: So, we have explained this. Some of the assets move from short-term bucket to long-term bucket, the DTA benefit comes through which is why we had a similar setup in Q1 of last year and some of it is also flowed into Q1 of this year.

Prayesh Jain: Okay. Got that. And so, if we start looking at from a yield perspective now, we know yield sequentially improved and we guided also for improvement in the previous quarter, but how has been the NFO yield in this quarter given the state of NFOs that have come in the market, how has been the commission from NFOs? Has that been decrease in commissions because there are some market talks about some of the teams getting yield at much lower rate than the existing book?

Simal Kanuga: I think Prayesh more or less the newer NFOs that are happening in the market are happening in a range. It's not like something which is way off.

- Prayesh Jain:** Okay. So there no -- so in the past what we had seen was NFOs were coming at a very high commissions, that's not happening right now?
- Simal Kanuga:** No, so NFO commissions are higher than the normal commissions because that's what kind of tends to happen - the overall activity. But as of now what we hear from players in the market I think it has been fairly in a range.
- Prayesh Jain:** Okay. And my last question is can you give out the yields on each of the assets?
- Simal Kanuga:** Sure. You're asking about the revenue yields on equities...
- Naozad Sirwalla:** Yes, so equity is just short of 59 basis points, debt has been 28 fairly steady liquid 12, 13 so yes.
- Prayesh Jain:** Got it. Thank you so much. All the best.
- Moderator:** Thank you. Next question is from the line of Kunal Thanvi from Banyan Tree Advisors. Please go ahead.
- Kunal Thanvi:** So, I had this question on employee addition. So, if you look at our last 5 years, 6 years employees, they were kind of -- a number of employees they were flat around 1,150 to 1,200 mark. Last 2 years we have seen a reasonable increase in number of employees and Naozad touched upon we're looking to hire more this year.
- Can you talk to us about what are the areas where we are hiring these employees and because typically, we would -- like nature of our business is that you don't need at least a large number of employees to grow our business. So, if you can throw some light on areas where you've been hiring these employees?
- Navneet Munot:** So Kunal as you are aware, we added 24 branches this year. This would have been like a substantial branch expansion after a long time. We have set up a dedicated channel to service HDFC Bank which is a

big opportunity for us over the next several years. Similarly, like we've had a few other dedicated channels where we see opportunity for us to grow. We have expanded our technology team, our digital team. We've hired 5 investment resources in our alternative business. We have ambition to grow our international business.

So, I think roughly 280-odd people that Naozad talked about that we have added over the last year to meet all of those evolving business needs. In fact, I do see the need for further investment in the tech on the digital side, but they won't be like substantially large in numbers in terms of people. But yes, that's where we would add some more talent. But a very large part would be in our sales, core sales and client services in terms of numbers.

Kunal Thanvi: Sure. So, when you talk about these branches, can you help us understand what is the concept of these branches? Are these like very large branches or low -- like a large number of people in the branch what would be their typical size and how do we concept these branches in a way from the unit economics point of view?

Navneet Munot: So, the new branches we put up and we see a certain size where we can breakeven very quickly. We look at the overall AUM in that area and to service the catchment, relative to our distribution there. And these have been like two, three people branches and most of them were in B-30 locations. So, the cost structure is not very high. You would appreciate that in most of these places they don't pay a very high lease rental or even the people cost is not very high relative to the potential.

And I'm sure all industry data that you would be looking at over the last several quarters, is a substantially higher percentage growth in B30 towns and given our brand, franchise and pedigree, we believe there's a lot of potential for us to make the most of the opportunity that's available today.

Kunal Thanvi: Sure. And like a further follow-up on this like when you look at HDFC Bank one big advantage, of course, is their branch network, they are like huge, largest private branch network in the country. Now with our branch network and their branch network presence how do you one read into it like going ahead as well and you talked about adding employees for HDFC Bank channel, can you talk more about it in what kind of support or what kind of engagement that is?

Navneet Munot: No, we operate independently. People don't sit in those branches, but when we are opening branches or when we are hiring people not only in the newer locations, but even in the existing locations we keep in mind the spread of HDFC Bank in that area. As we have been mentioning over the last couple of quarters that we are very excited about the opportunity that HDFC Bank as a distribution partner presents.

The management team at HDFC Bank, I'm sure you have heard from them has been very supportive of all our initiatives. They are a formidable distribution machine, and we won't leave any stone unturned to capitalize on it. In fact, I might have mentioned in the last call that we have a dedicated senior resource overseeing this relationship and we have strategically mapped their branches and clusters with ours.

And the strategic alignment has not only strengthened our relationship but has also deepened our engagement level and I'm personally very involved on a regular basis even across levels and functions they have in the HDFC Bank. And I can clearly see there is a lot more alignment.

Kunal Thanvi: Sure. One question was from our annual report. We talked about the fact that we are taking strides from client service to client delight. Can you talk more about it give some anecdotes pointers which can help us understand how -- what and how we are making this journey from client service to client delight?

Navneet Munot:

Many things. We need to constantly keep benchmarking ourselves. The way we are servicing our partners, the way we are servicing our clients, and we have done a lot of benchmarking exercise over the last 2 years or so. And based on the feedback I mean what has come out of this benchmarking exercise and even otherwise from our people on the ground, we have continuously been trying to upgrade our service level to them, be it in terms of training of our people there, be it in terms of the way we respond, reducing the turnaround time for every request from the customers. There are many things that we have done. There is tremendous focus on how do we digitize all our operations more and more. We regularly keep looking at the percentage of transactions, both the financial transactions and nonfinancial transactions that come in the digital form so that how we can reduce the turnaround time as well as improve the client experience. We initiated an MD award system which is a fairly objective one. And there is a very healthy I would say competition among various zones and clusters to kind of outdo each other in terms of providing better service to their clients and a lot of this is also driven by the huge amount of analytics that we are putting in place to kind of like measure our effectiveness and looking at like each channel so the way we serve our national distributors, sub-brokers, the way we service our banking partners, the way we service our mutual fund distributors who have been very important, but very large in numbers, the way we service Fintech so on and so forth.

Kunal Thanvi:

Sure. That's helpful. And one question like as an MD and CEO of Asset Management company when you look at our business from a near-term perspective wherein markets are on a slightly overvalued zone like there continues to be on the overwhelming trajectory, some pockets are like maybe in bubble zone. How do you look at because our earnings from a year or 2 years perspective because the equity portion has become like one of the highest in our own history like 64% of our total assets, right? How do you look at earnings from a 2 to 3

years' perspective? Because at the end of the day, equity markets are cyclical and there is reasonable probability that markets may correct in because of any reason that we don't know today? Any thoughts on how you look at this?

Navneet Munot:

So, we all take a lot of pride and do the self-congratulation in the industry in terms of the way AUMs have grown. Simal mentioned about that number that are -- the growth in last 6 months is almost same as maybe the AUM, which was there a decade back or so. But we also need to keep in mind that still a very tiny proportion of household wealth is coming to mutual funds. All said and done, while we have added a good number of investors in the last 3 or 4 years, but their still total count is 47 million, 4.7 crores. Even if we look at number of investors who are participating in the capital market directly, there's still a lot of potential for us, and I'm not going into all the other numbers that we think should be a potential client base. One of the heartening feature of this growth over the last couple of years has been a large part of the money is coming in the form of SIP. That gives us a lot more confidence about the longevity and sustainability of this growth unlike some of the previous cycles where people will look at this product more as a bull market product and then they look at like entering in the market and then booking profit.

This time, it's very different. And the way product is getting sold and a lot of contribution has been made by the AMFI's campaign of 'Mutual Funds Sahi Hai' and all the efforts all of us are putting to educate investors or to increase the awareness about building wealth by systematic investing over a long period of time. So that gives me a lot more confidence about sustainability of this growth than most of the previous cycles. Of course, there would be cycles. I don't think that equity markets -- you know this better, I mean, none of us believe that equity markets can deliver returns in a linear fashion. There will be

quarters or years where markets will witness higher volatility than what we have seen off late.

But I think the efforts in the industry is to ensure that investors don't get swayed by the volatility. This time, we continue to ensure that investors invest in a highly disciplined manner, and we create a great experience for them over a long period of time that they can participate in India's growth.

Another interesting thing I'll add that while you look at the growth on the equity side, but on the fixed income side, the industry hasn't grown much over the last few years. In fact, this quarter was good, but the previous 3 quarters were negative. So was the case last year. The same quarter last year was positive. But before that, a couple of quarters had negative flows. So, we haven't seen flows in fixed income. There is over a period of time, potential to look at that asset class also.

Moderator: The line for the participant dropped. Next question is from the line of Swarnabh Mukherjee from B&K Securities.

Swarnabh Mukherjee: So, I just wanted to congratulate the management on the great performance. So, I have three questions. First is on the employee expense side, I just wanted to confirm that the number that was reported this quarter, whether that has any component of variable costs coming from last year, it doesn't, right?

Naozad Sirwalla: Yes.

Swarnabh Mukherjee: Okay. So variable costs, the accounting method would be pro-rated across 4 quarters? Would that be correct, sir?

Naozad Sirwalla: Yes.

Swarnabh Mukherjee: Okay. And also, sir, if you could give me the number of what was the ESOP cost that was part of this employee expense this quarter? And how should we think about it for the full year?

Naozad Sirwalla: It is there on the note.

Simal Kanuga: So last year June quarter last year was INR11 crores. This time, it is INR6.3 crores.

Swarnabh Mukherjee: Understood, sir. Also, sir, in terms of the margins in the flow, if you could give me some color? I think on the stock, you have said it is 59 bps in equity. What would that be on the flow?

Simal Kanuga: So Swarnabh, that remains constant, what we've been always stating. The flows do come in at a bit of a discount to the book. So, depending on the product, which sells more during the quarter, it does range anywhere in the range of mid to late 40s or something or maybe sometimes 50s and slightly higher.

Swarnabh Mukherjee: Sir, was there an impact of the NFO that we concluded this quarter on the number that we have reported? And can that kind of unwind going ahead?

Navneet Munot: Yes. So, as you are aware, I mentioned earlier that we did this large NFO HDFC manufacturing fund and we did almost INR9,500 crores. There is a technical challenge with the NFOs whenever we do it. We are generally able to estimate NFO raise fairly in a range most of the times. So, this time our team anticipated that we would collect somewhere in the range of INR3,000 crores to INR4,000 crores and we announced brokerages accordingly to our partners. And to our positive surprise, the acceptance of the product was way better, and we ended up, as I mentioned, earlier nearly INR9,500 crores. So yes, lower TER and accordingly lower margin for us. I would say a very good problem to have instead of collecting INR3,000 crores and making few basis points higher than if we have got INR9,500 crores and a few basis points lower in absolute terms, that's a larger amount.

So, we do expect the margin to rise from year two as we have sort of stepped down structure from second year onwards. In fact, the fund

continues to see healthy flows post NFO also. So, June end AUM stood at around INR11,800-odd crores. Some part of it is mark-to-market, but flows are good, too. And these new flows are coming in at AUM-aligned commission.

Now that we know this is the AUM, so automatically, commission gets aligned. So, over a period of time, as we get more flows and as I mentioned, the step-down structure from year 2, we do see it getting better from where this is currently.

I mean this NFO alone would have reduced our equity margin on total equity AUM by nearly 0.5 basis point. But as I mentioned earlier, I'm not complaining about it. It's a good problem to have. In fact, I must mention this that you have seen some of our past NFOs, we have done the same at a very healthy margin. Actually, in some of the NFOs, our margins were higher than our book margin. So, from that perspective, this one is an outlier and mainly because we ended up collecting a lot more than what we envisaged in the beginning.

Swarnabh Mukherjee: Right, sir. Understood. Very helpful. Sir, the last one from the industry point of view, so I think in the last 3 months, as an absolute number, we have seen some amount of SIP discontinuation rates in the industry going up, although it is still much lower compared to number of SIP accounts getting added. But just thought I'd take your views on that whether to -- what should we read into this?

Simal Kanuga: Swarnabh, it can be even the other way around because what might happen is if a particular fund is not performing well, people will shut the SIPs there and go to another fund. So those things also will get really factored in. But I think the way we watch this number is look at the absolute monthly flow number in SIP and that number is growing month-on-month, right?

Swarnabh Mukherjee: You're right. Understood, sir. So, for our organization, are we seeing any such kind of trend, or it is fairly steady?

Simal Kanuga: No for us, I think the numbers have been fairly strong when it comes to systematic transactions.

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

Abhijeet Sakhare: My first question is on yields. So, when I look at, let's say, on a sample of top four or five funds, which I guess would be attracting more than 50% of net flows. It seems like the distribution commissions, if you look at it in basis point terms, seems to have remained broadly unchanged over the last 12 months.

Our understanding would have suggested maybe given that adjustment happens not on the back book, but on the incremental flows, at least some pass-through of the reduced TERs to the distribution commissions as well. So, if you can tell us what's the underlying dynamics that are driving this? Is it the contribution of say for general market trends or anything else?

Simal Kanuga: So Abhijeet, it is getting aligned. So, if you look at it, I don't know exactly how you have mapped this data, but it is getting aligned. Also, the commission rate applicable on SIP is on the date of transaction. So whatever commission is applicable on a lump-sum purchase on the new purchase happening, SIP goes at that rate, not any kind of a pre-contracted rate.

Abhijeet Sakhare: Okay. You're saying commission rates on SIP is same as the rest of the book, right? There's no difference because of that...

Simal Kanuga: On the new flows.

Navneet Munot: Your point on the book, I mean, you have seen the distribution commission versus the trend in the TER, of course, there is a gap. And team is thinking of various options on how to deal with the speed of this fall. As I've been mentioning that this is a happy fall in margins

because AUM is growing at a much faster pace. So, in absolute terms, this is good, but statistically, you are seeing lower margin. Are there ways to manage this? A bit early for us to further expand. But all I can say is we are evaluating all possible options, and we will further expand on this once we have clarity internally.

Abhijeet Sakhare: Understood. And second one was that you generally your comments around SIP book starting to contribute meaningfully last couple of years. Is it possible to share any numbers? Of the new customers that we are getting, how many of them would be coming to us through the SIP route itself? And this is a question in the context of there seems to be a lot of performance chasing that has come into the mutual fund industry as well. So, I think that would be a useful data point to have.

Navneet Munot: A good number of that. So, all I can say is whether it's a lump-sum flows, the new unique investors who are getting added to the industry in terms of putting money in a lump-sum form or investors who are starting with an SIP, in both of them, we have a very, very healthy share. And the second part was the performance chasing. Of course, we have always been saying that performance is a critical component in terms of investors' choice of funds at that point in time.

Abhijeet Sakhare: Got it. That's all from my side. Thank you so much.

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

Devesh Agarwal: Good evening, everyone, and thank you for the opportunity. Sir, my first question is around other expenses. You did mention that there were certain NFO expenses and all that in the quarter, which I'm assuming you don't expect to get repeated in the following quarters. So, in that light, can you highlight what would be the one-off in this quarter, which you don't think will be repeated in the following quarters?

- Naozad Sirwalla:** One of the bigger one was the NFO cost, Devesh, for the quarter that we incurred. We don't spell out specific cost for each item. But I think, again, I would encourage you to see it on an annual growth basis and generally that's the way to look at other expenses as well. I think we have been broadly saying 12% to 15% type of expense growth expectation on an annual basis.
- Devesh Agarwal:** Understood. Secondly...
- Navneet Munot:** Devesh, if I can come in. Our total costs are sub INR200 crores. So, every additional INR2 crores increase, our cost goes up by 1%. And I look at the scale of the operations that we run, and -- I mean, I'm sure you would agree with the growth prospects that we have, not only in the mutual fund but also in alternatives, PMS on the international side and even on the mutual fund side, there's a lot more I think that we can do to expand our market. So, I would say that this is a healthy investment in the long-term rather than looking at pure cost in one quarter.
- Devesh Agarwal:** I agree, sir. Secondly, sir, you did mention about the asset-wise yield for 1Q. Can you give me similar numbers for the exit run rate as on 1st of July, what would be the numbers?
- Naozad Sirwalla:** So, this is blended for the quarter, and I think this is -- I mean, that's what we typically disclose, and I think it should be fine for the being. We are happy to disclose it on a quarter average basis, Devesh, for the time being.
- Devesh Agarwal:** Okay, sir. And sir, if we were to understand in terms of HDFC Bank assets for FY'24 end, what was their total mutual fund book? And of that, how much was invested to HDFC AMC?
- Navneet Munot:** Yes, around 30% in the book. But as we have been saying, our flow share has been higher, both in SIP as well as overall.

- Devesh Agarwal:** And what would be the size of the book, sir, for HDFC Bank?
- Simal Kanuga:** You're talking about the equity book or the overall book, Devesh?
- Devesh Agarwal:** The one that they invest in mutual funds.
- Simal Kanuga:** No, but on the equity mutual fund or everything?
- Devesh Agarwal:** Everything put together.
- Simal Kanuga:** So, if you look at it, right, we have disclosed the total AUM, they are 6% -- they are 6% of our overall AUM, right? So, if you look at our AUM of June 2024, they have 6% of that. So, you'll be able to just get that number.
- Navneet Munot:** And we have also put the number for the equity AUM, 7.7%.
- Devesh Agarwal:** Understood. And lastly, sir, if you were to talk about growth opportunity other than the general market growth that is applicable for everyone, the way I look at it is, one is NFOs, which you said that more or less we have already completed all our offering, there would be some but nothing big. And the other is the HDFC Bank where we can see the increase in the market share. Other than this two, any other opportunities that you can call out which you would be targeting for FY'25?
- Navneet Munot:** Devesh, in our existing funds, I think several of them have tremendous potential to grow. There are so many of our products where we may not be among the top 1 or 2 or 3 players in that particular category, I mean, our endeavour should be to have a leadership position in all of that. Now with style diversity, we have different PMs with different styles, managing different kinds of funds. And we need to ensure that not only at the overall level, but we should look at granular level, I mean, in every channel, every product, every zone, we look to expand in our current set of products.

- Devesh Agarwal:** Right, sir, understood. Thank you so much and all the very best.
- Moderator:** Thank you. Next question is from the line of Raghvesh from JM Financial. Please go ahead.
- Raghvesh:** Hi, sir. Congratulations on the strong set of numbers. Sir, only on the top line yields, so last quarter, we saw a one-off and the expectation was that the yields would improve by around 2 basis points. I think the NFO came around 0.5 basis point of the decline. Are there any other one-offs that we can see in the yield, this would be the trend going forward? Because if you see the quarter, the quarterly average AUM is a good 8% lower than the closing AUM. If the trend was to continue, we can see a stronger decline in yields in the coming quarters in this year?
- Navneet Munot:** No, sir, you're right. In fact, we've mentioned about the adjustment in the previous quarter. So optimal would be to compare it to the December quarter. In December quarter, operating revenue margin then was 48 basis points. And for this quarter, it is 46 basis points. But look at how the AUM has moved as compared to December quarter.
- Our quarterly average active equity oriented AUM for December quarter was about INR3 lakh crores and for this quarter, the number is about INR4 lakh crores. This is about INR1 lakh crores increase in last six months. Now at each scheme level, we would see a drop of 2, 3 basis points for every INR5,000 crores increase in AUM, the point that we have been making in last couple of quarters, purely as per the regulatory formula.
- Now due to increase in AUM by about INR1 lakh crores, many of our schemes would have seen an impact of 2 to 5 basis points and some even higher. Actually, the overall revenue margin would have looked even lower if our asset mix would have been constant, right? Because of this INR1 lakh crores mark-to-market gain, the equity-oriented assets, which were 60.6% in December '23 for June is 64.3%.

So, part of the dilution has been set off by a change in mix, and this is what we have always mentioned that part of dilution will get absorbed in change in asset mix. Of course, these are intertwined, increase in AUM of INR1 lakh crores consist of material gain through mark-to-market and not just flows.

So, if market goes up, our AUM will go up and vice versa and fees or margins as we know are inversely correlated. But as I keep saying, every time that it is not a bad problem to have. I mean margins would have looked exactly flat if there was no AUM -- I mean, if there was no mark-to-market growth. So, it's like absolute revenues over statistical margin. And we also mentioned about the manufacturing fund where we added INR10,000 crores and that has led to like 0.5 basis point dilution on the overall equity book. But that, again, is like a good problem to have.

Raghvesh: Okay. So other than that, no one-off. So, this is a trend, which is likely to continue with the AUM gains as they come?

Navneet Munot: So that is one. Of course, I mean, as I mentioned earlier in one of the questions that we are definitely thinking of various options because the MTM growth has been so fast that how to arrest the speed of this fall, while, as I mentioned, in absolute terms, we make more money, but still margins get impacted and are there ways where we can manage this better. But as I mentioned earlier that a little early for me to further expand. But we are -- I mean, the team is evaluating all possible options, and we will get back to you when we have more clarity internally.

Simal Kanuga: I think the only thing I would like to add here is also coming from the fact that every six months, we don't see an increase of INR1 lakh crores of AUM. So, the speed of dilution has been more magnified because of a very rapid increase in AUM.

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

Shreya Shivani: Hi. Thank you for the opportunity. Most of my questions have been answered. I just wanted one -- that clarification on the tax bit. Is this -- I am probably not able to understand this better but is this going to be on an ongoing basis or is something that has happened in the past two quarters because of the move from short-term to long-term assets? I mean, if you could help us understand that better and how should we look towards the coming quarters on that matter?

Naozad Sirwalla: Actually, if you see it on an annual basis, it sort of evens out more or less, right? Then the year end changes some of the assets do move from the short to the long-term. It is not like an annual thing, and it is not like that this effective tax will continue through the year. By the end of the year, it will get more normalized towards the overall company's tax rate.

Shreya Shivani: Got it. So, it is probably something which impacts you in your quarter end, some quarter end, right? Not something which normalizes over the year is what you are saying.

Simal Kanuga: I think, Shivani, so what Naozad is saying is, when we make an investment from the prop balance sheet, till it completes the period. So, let's assume that we make an investment in an equity fund. For the first 12 months, it is deferred tax needs to be approved on the gains that have happened. For the first 12 months, it is classified as a short-term capital gain and thereby the tax provision is made at 15%. But once it crosses the 365-day number, it becomes a long-term capital gain and there is a reversal of entry of that 5% which reduces the overall deferred tax and hence the tax efficiency kicks in. But as Naozad pointed out, it is not something that will happen every quarter. Over a period of time, it will kind of get back to the normal corporate tax rate.

Shreya Shivani: Got it. Very useful. Thank you for explaining sir.

Moderator: Thank you very much. Next question is from the line of Darshan Shah from Multi-Act. Please go ahead.

Akshat: This is Akshat from Multi-Act. So, I have two questions. So Naozad mentioned two things on employee cost as well as on other expenses. So, on the employee cost, we said that we should look at a full year basis and on a full year basis, it should grow in the range of 12% to 13%. So, this 12% to 13% growth in employee cost, is it including ESOP that we are guiding, or we should look at it more from excluding ESOP?

Naozad Sirwalla: Yes, it's all included. It's 12% to 15% range I gave, and you can assume all including here.

Akshat: Okay. Because in last year, we had a higher ESOP base and this year, the ESOP cost is going to be lower. So ex-ESOP employee cost this year could be slightly higher, right?

Naozad Sirwalla: Yes, that's why we are giving you a blended rate.

Akshat Hariya: Right. And on the other expenses side, we are saying that we should grow other expenses in the range of, again, 12% to 15%. Historically, our guidance has been that we should look at other expenses from pre-COVID till now, the growth rate was around 8% to 10%, and that should be our growth rate on the other expenses side. So now we've changed it to 12% to 15%. So, any specific capacity building or gaps that we feel that needs to be filled in because of which we have upped this guidance of other expense growth?

Naozad Sirwalla: Yes. I think Navneet actually gave a very detailed answer earlier on the call, right? He explained the entire rationale of where the investments will go, the branch banking side, the digital side, technology. I thought that there was a very detailed answer Navneet gave. Probably if you will hear the call again, you'll get the answer.

Simal Kanuga: And also, one more thing, if I may just add. If you look at even pre-COVID till now, our expense -- other expenses have been growing at the range of nearly 12% CAGR. So also, the very fact, right, if you do a new fund offer, the market has expanded. Look at the size of the business that has kind of come up, the opportunity in store. So, keeping all that in perspective, and I think I'm sure you would appreciate the fact, right?

If things are not looking as good, expense curtailment is something that we would obviously act upon. We have kind of exhibited that very well during COVID times and even in past. But if there is a growth that is visible -- I think we always made this comment, we'll never shy away from spending money when the business opportunity is something that we kind of find favourable.

Akshat Hariya: Absolutely. So, the question was also from a similar point of view that we are being mindful of the fact that the expenses that we've been adding, they are more variable in nature rather than being very sticky in nature because we all are aware of the markets and the levels that we are at. So, the nature of the expenses are more on variable rather than being fixed or sticky in nature?

Simal Kanuga: So actually, on a lighter note, we aren't aware about where markets are going. I think we would have exactly stated the same thing 12 months back. And if somebody would have lost out on the following 12 months, it was one of the so-called good times of Indian market. So, one needs to be very cautious when you tread that territory, right?

In sense, I'm sure you appreciate the fact, right, and I think Navneet did touch upon this point, we now manage upwards of INR7 lakh crores, so we have like 250-plus branches, we now have an alternate business that is getting set up. All of this is getting done for like sub INR200 crores a quarter.

Naozad Sirwalla: And 1,600 people.

Simal Kanuga: Yes. So, I think we are definitely very mindful. And I think as an organization, we have been fairly tight-fisted when it comes to spending money. So, nothing changes there for sure. But for example, if we feel that by hiring the right set of people in analysing our data, that would help us immensely over a period of time in terms of doing business. I think that's the call we would like to take positively.

Navneet Munot: Our last NFO has made our product tally -- I mean, has made our product tally to 100. And to put that number in perspective, in March of '21, exactly 3 years back, our total number of products we had on offer was 43. We have added 57 products in last 3 years to complete our like product bouquet, to meet investor needs of all kinds or needs of distributors of all kinds on active as well as on passive side.

And of course, all the tech capability, the digital capability, the client services, somebody asked about, moving from client service to client delight, the new channels that have opened up or the opportunities that have come up our way, be it the HDFC Bank or some of the other opportunities and of course, initial days, but we are investing and building the non-mutual fund business as well and, of course, on the international side.

Akshat Hariya: Thank you. That's all from my side.

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

Jayant Kharote: Sir, two questions. First, on the wealth Tech. Can you just tell us what is the share of these wealth tech apps, in your SIP count and SIP flows? And also, how do they...

Simal Kanuga: You're talking about fintech?

Jayant Kharote: Yes, fintech's.

Simal Kanuga: Well, you scared us here by saying wealth tax. So, I was -- but yes.

Jayant Kharote: Yes, sir. And also, our wallet share and market share, how -- is it in contrast to our overall market share and how is it progressing in these apps?

Simal Kanuga: So, we don't give specific channel-wise market shares as such. But yes, we can definitely comment, it's fairly healthy.

Jayant Kharote: And sir, the total share of these apps on your SIP flows or any indication how big have they become for you?

Navneet Munot: So, more than half of the new SIPs in the industry come through fintech channels. A larger proportion of that comes from B-30 towns. And on the incremental SIPs that come, we have a healthy share. They are more prominent in the new SIPs rather than on the lump-sum side and our share over the last 3 years has been inching up. So, it was lower on the lower side 3 years back and almost every year it's been inching up.

Jayant Kharote: Sir, secondly, on the alts business, if you could help us understand how you hired/ you invested in that business. What are your timelines and expectations? And what would be the sort of early harvest or early launches that you see over there? Any clarity on your aspirations over there?

Navneet Munot: So of course, as of now, the biggest priority for us, the way management bandwidth gets spent is like continue to build our Mutual Fund business. As you are aware, the kind of growth that we have seen over the last couple of years, and in fact, particularly on the SIP side, so we put all our energy on that side.

But at the same time, we are cognizant of the fact that over a period of time, this is another important opportunity for us, and we don't want to miss out on that. So, we launched our fund of fund investing into VC/PE fund that has crossed INR1,000 crores in commitments. And I'm very happy to see this progress over the last 2, 2.5 years on this

side. We have already started investing and have seen participation from 4, 5 institutional clients and a little over 400 other individual clients, so definitely encouraging. And the way the whole portfolio construction on one side and the client engagement on the other side has been evolving that makes us feel very happy about it. This is also helping us in terms of going up the lending curve on the overall alternative business. The second, on our private credit team, which has joined us in the last few months. So, our product here over the next couple of quarters, you would see. So, we are laying foundation stones for our alternative business, and you will keep hearing from us on this front.

On the PMS side, the business is building up slowly and steadily. There's a lot more that we need to do. There is potential on that side as well, and we are cognizant of that. On the international side, regarding our GIFT City subsidiary, we have received all the necessary approvals for the launch of funds and have started onboarding clients and distributors. Yes, so in alternates and international, this is our -- another focus area apart from mutual fund where we want to see further growth.

Jayant Kharote: How much are you targeting from the GIFT City this year?

Navneet Munot: Early days. The whole thing is evolving. We are very confident that over a period of time with all the efforts that policymakers have been putting in and the structure that we have got and the setup that we have put in place, this will have a good opportunity over a period of time. But difficult for me to share the target.

Jayant Kharote: That's okay. Congratulations on a great set of numbers.

Moderator: Thank you. Next question is from the line of Rahul Agarwal, individual investor. Please go ahead.

- Rahul Agarwal:** Congratulations on a good set of numbers. My question pertains to the investment book, which declined on a sequential basis by INR500 crores, INR600-odd crores. So, what is the further plan of deployment of this amount?
- Simal Kanuga:** No sir, that has happened because we have paid out dividends.
- Naozad Sirwalla:** We duly paid out dividend of almost INR1,500 crores. So that is the fall you'll see in the balance sheet.
- Navneet Munot:** He's saying what is the deployment...
- Naozad Sirwalla:** The deployment schedule is already actually attached as part of the shareholders' presentation, sir, at the end. You will see the breakup of the investments made that's available in your sheet and...
- Rahul Agarwal:** My question is like such a big amount is standing on the balance sheet, so which is yielding us around 7%, 8%. So, my -- like for that only just 10%, which is in equity, that is in the part of the regulatory requirement. Apart from -- so I need to just want to know that the remaining INR6,000-odd crores, so do we have any further capex plan, or do we have any plan for giving out dividend or buyback?
- Naozad Sirwalla:** So sir, for this year, the dividend payout ratio for March '24 was increased to 77%, which was 72% last year. Also, we have to adhere to the skin in the game, which is a SEBI formula, so capital that is invested in our scheme and that's something which we cannot touch in that's the mark-to-market gain, which has to be reinvested. The treasury surplus is invested largely debt mutual funds. We are obviously seeding our alternate platform. We have mentioned in the past that in our alternatives, own alternate FOF we have committed significant capital from the balance sheet that will get committed and deployed over a period of time.

And we always keep evaluating any and all M&A opportunities that come through to us. Given our size in the market, we get to see every transaction. We have not done a deal over a period of time just because it's a function of valuation and whether it's an appropriate fit for us. But we do keep exploring all options on the strategic front as well.

Rahul Agarwal: Thank you. All the best for the future.

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

Dipanjan Ghosh: Yes. Sir, just 2 questions, sir. Just wanted to get some sense of the distribution mix for that particular NFO? And was it materially different from your equity-oriented distribution mix on the back book? And second, your MFD mix in your equity-oriented business or AUM has been on a declining trend. So just wanted to get some understanding of whether is it a factor of other channels growing very fast, or you are seeing some amount of maybe counter share pressure? So, in terms of the top 100 MFDs or to 1000 the data that you track, if you can give some qualitative understanding on that?

Simal Kanuga: I think, Dipanjan, one thing I'll just take the second question and Navneet will expand on the first one. See, if you look at what has happened is if you look at last 12 months the direct has gone up from 22.7% to 25.6%. That is 2 counts. One is basically the mark-to-market change in direct is more favourable because of lower fees. And overall traction in direct has been higher. So, if you look at that mix it is not about, we're losing a share in a particular channel. It is about how the overall pie kind of shapes up because of the varied channel that does business for us.

So, if you look at national distributors has been more or less flattish over the last 12 months the banks have been -- have ticked up marginally and MFDs have gone down. So that would be the overall

scheme of things nothing to do with losing a share in the MFD channel or anything on those accounts. Does that help?

Dipanjan Ghosh: Yes. Sir, if I can just extend that point. So -- let me ask you in a reverse way. If you can give breakup of your direct mix in terms of -- and I think Jayant also asked this direct would be a combination of both maybe direct money coming in some of the wealth platforms maybe some of it to your own website and maybe some others to the FinTech partnerships. So which channel would be probably growing the fastest or some color on those parts.

Simal Kanuga: So maybe I'll also explain you one more thing. See, what tends to happen is off late, over the last year or 2, we have also seen a lot of integrations of some of the MFDs into national distributors, so on and so forth. So, what happens is MFD goes to a particular size, and he gets acquired by a national distributor.

Now he might be under the MFD in June of 2023 but in June of 2024 his assets would move because of the integration into the national distributor channel. So, those kinds of adjustments have also been taking place over the last, whatever 12-odd months. Now as yet, we have not got into dissection of the direct assets into RIA into fintech and the direct-direct as it is known. So, we haven't really gone to that level of disclosures.

Dipanjan: Got it, sir. And on the first question, on your NFO origination mix if you can shed some color?

Navneet Munot: Directionally would be similar. I think we have seen very good participation from all sets of distributors be it banks, be it MFDs, be it all national distributors, be it fintech's and of course, HDFC Bank as a distributor and investors who came directly. So, there was very good participation from all distributors. But still, there will be some difference between the book and the incremental because there are some people who participate in NFOs as distributors, some people who

focus more on the existing funds. So, some bit of difference but otherwise, directionally that would be in line.

Simal Kanuga: Dipanjan, historically always NFOs and even in this one the NFO it is more distribution led rather than direct led.

Navneet Munot: Rather than the direct led. So direct investors come later.

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

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

Mohit: Looking at the unique investors, so unique investor, I think the industry added around 2.3 million and I think we have kind of 50% market share that as overall, we have around 23%. So, which distribution channel was I mean kind of responsible for this kind of an addition. I mean, if you could just throw some color on that?

Navneet Munot: So, all -- we are seeing in terms of the incremental client acquisition in all channels, our flow share is higher than our stock share in terms of client acquisition.

Simal Kanuga: So also, see, this is not necessarily a market share. In sense, the same investment -- he might have invested. So, this is a penetration, in sense that the same investor possibly would have invested in 3 funds. For the first time, if he is invested in us, for us he is a new customer.

Mohit: Yes. No, I understand but I mean I just wanted to know, I mean which distribution channel HDFC Bank or MFDs are kind of if you have some data on that?

Navneet Munot: In absolute numbers, fintech's would be very high but otherwise all channels.

Mohit: Fine. My second question is the debt. I mean we have seen industry data that we have got inflows after 3 quarters of outflows in the debt

segment. So, any particular strategy we are -- kind of taking. So that we could further increase our debt portfolio as well?

Navneet Munot: So, I think it's a mix, some part of flows at the shorter end. And we have seen some flows from the individual investors at the longer end. They think that interest rates have almost peaked and there is a possibility over a period of time rates go down and they want to lock in these rates through duration products. But from an amount perspective, a larger proportion is at the shorter end like money market, ultrashort, low duration, et cetera.

Mohit: Got it. Thanks. That was helpful.

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

Gaurav Jani: Congratulations. First question is to Naozad. Naozad, if I am stripping off the ESOP cost last quarter versus this quarter there's been an INR18 crores increase in the staff cost. So, would you like to call out as to how much of this is sort of onetime in nature and what's the normal run rate we're looking at?

Naozad Sirwalla: So, there is -- I wouldn't call it onetime, some of the employee engagement events we do, sometimes they spill from 1 quarter to the other something may have happened in Q2 last year, happened in Q1 this year. So, in that sense, it's not a one-off. It's just an inter-quarter issue. And that's I would encourage you to see on an annual basis and it will just smoothen out over that period.

Gaurav Jani: Yes. I understood. The second question is from a more structural perspective. So, if I had to look at actually the kind of growth we saw in FY '24, overall equity which is why our blended sort of shrunk by about 2.5 basis points obviously, an outcome of decline in equity yields. Now all things being equal assuming a similar sort of a -- let's assume that similar sort of equity growth comes through. Technically,

the revenue growth should actually be better than the last time around that we saw. Considering that if you have telescopic pricing, a lot of the funds would have reached a certain threshold. So just wanted to understand that.

Simal Kanuga: Gaurav, if the AUM will go up, the yields will come down. The revenue basically the SEBI telescopic pricing formula will tick off. So overall yields will come down. Profits, you are right profits will go up. But the basis points that you are referring to would of course, come down.

Gaurav Jani: No, sir. So, what I meant is the pace at which they actually have been declining that should actually reduce?

Simal Kanuga: Yes. Obviously, so if you look at the absolute numbers being same as a percentage of a higher denominator it will kind of come down. Yes, the steepness of the slope will go down.

Gaurav Jani: Yes, correct. So, what I was just trying to understand the kind of decline that we saw assuming a similar sort of growth same kind of decline may not happen in future?

Simal Kanuga: You are right, yes.

Gaurav Jani: Okay. Thanks. That's it.

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

Navneet Munot: 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.