



“HDFC Asset Management Company Limited Q1 FY20 Earnings Conference Call”

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Morgan Stanley



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MODERATOR: **MR. SUBRAMANIAN IYER – MORGAN STANLEY**

Moderator: Ladies and gentlemen, good day and welcome to the HDFC Asset Management Company's Q1 FY20 Earnings Conference Call, hosted by Morgan Stanley India Company Pvt. Ltd. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference over to Mr. Subramanian Iyer from Morgan Stanley. Thank you and over to you, sir.

Subramanian Iyer: Thank you, Steven. Good evening, everyone. Welcome to HDFC Asset Management's Q1 FY20 earnings call. To discuss the results, we have with us Mr. Milind Barve – Managing Director, Mr. Piyush Surana – Chief Financial Officer, and Mr. Simal Kanuga – Chief Investor Relations Officer. May I now request Simal to take us through the key highlights of the quarter, post which we will open the floor for Q&A. Over to you, Simal.

Simal Kanuga: Thanks, Subbu. And thanks, everyone at Morgan Stanley for hosting this call. Good evening, everybody. And thank you so much for joining in. I will start with a quick overview of the quarter, both for the industry and us in particular. And then as Subbu mentioned, we have both Milind and Piyush who can take questions. You may refer to the presentation that we have on our as well as exchanges website.

In terms of industry, the AUM for the mutual fund industry stood at Rs. 24.3 trillion as of 30th June, a growth of 6% over that of 30th June 2018. Equity oriented schemes saw net new flows adding up to Rs. 96 billion. It would be optimal to actually break this up into monthly flows. As we all know, flows had slowed down in April and May as the investors were probably awaiting clarity on election results. The month of June saw net inflows of Rs. 57 billion, which is higher than combined number for April and May. The trend in July seems healthy with couple of new fund offers garnering material flows. Industry saw flows of Rs. 81 billion in month of June 2019 through SIPs.

For us, we had another strong quarter. Our total AUM as of 30th June, 2019 has moved up to rupee Rs. 3.57 trillion, as compared to be Rs. 3.01 trillion as of 30th June, 2018, a growth of over 18% as compared to 6% for the industry. During the last 12 months we have added over 840,000 live accounts. We continue to maintain our leadership position in actively managed equity oriented AUM which has grown by 15% over the past 12 months, which is in line with that of the industry. Our market share in total AUM now stands at 14.7% as against 13.2% as of 30th June, 2018. And that in actively managed equity oriented AUM at 16.2%. We continue to be the most preferred choice of individual investors with a market share of 15.7% in individual AUM. We enjoy trust of 5.4 million unique investor as identified by the income tax Permanent Account Number, a share of 28%.

During the month of June 2019, we saw inflows over Rs. 12.7 billion through systematic transactions, as compared to Rs. 11.82 billion in March 2019, a growth of over 7% on sequential basis. In terms of financials, the company has adopted IndAS116 on leases which is effective

from April 1, 2019, and applied it to all lease contracts existing on April 1, 2019. The effect of this adoption is not material to the profit for the period and earnings per share. For further details on the same, please refer to slide number 16 of the investor presentation.

In terms of profits, for the quarter ended June 2019, we have reported a PAT of Rs. 2,917 million as against Rs. 2,052 million as of June 2018, a growth of 42%. Our operating profit from core asset management business grew by 44% from Rs. 2,647 million in June 2018 to rupee Rs. 3,815 million in June 2019. The operating profit margin as a basis points of a AUM for the quarter is 42. So, it's now 42 basis points of AUM, it was 37 basis points for financial year 2018-2019.

Thank you for patient hearing. And Steven, we would now like to open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shubhramshu Misra from Bank of Baroda Capital Markets. Please go ahead.

Shubhramshu Misra: Just wanted to understand, I missed out the monthly inflows that you gave for us. Can you please repeat that for April, May and June?

Simal Kanuga: Shubhramshu, that I gave it for the industry, we do not give monthly inflows for us. I just stated that there is Rs. 96 billion that came in the quarter. And Rs. 57 billion came in month of June. So, basically another Rs. 40-odd came between April and May put together.

Shubhramshu Misra: Okay, so that's not our inflows?

Simal Kanuga: Yes.

Shubhramshu Misra: Sure. And what kind of AUM and PAT are we targeting in this fiscal year, sir?

Milind Barve: No, I don't think we will be able to provide a future guidance on either AUM or PAT. I don't think we do that. But I think we have reported healthy set of first quarter numbers.

Shubhramshu Misra: Can we expect similar growth? Anything that we can model?

Milind Barve: It will be very difficult for me to give any projections for the future.

Shubhramshu Misra: Okay. Just last question sir, I wanted to understand what was the net new money in fiscal 2018 and 2019, if that's possible?

Milind Barve: I think as my colleague mentioned; we have shared industry numbers. The flows into our mutual funds, we don't publish that, because these are not published by any fund house. The industry flows were something like Rs. 240,000 crores two years back, last year it was about one Rs. 119,000 crores for the industry. When I say last year, it was 2018-2019. And for the current year, approximately in the first three months it's about Rs. 9500 crores.

- Shubhramshu Misra:** Sure, sir. But the net new money is an important metric...
- Milind Barve:** This is the net new money by the way in equity-oriented funds, which is largely the representation of retail flows.
- Moderator:** Thank you. The next question is from the line of Madhukar Ladha from HDFC Securities. Please go ahead
- Madhukar Ladha:** I wanted to understand a little bit in more detail the Essel transaction. So, as I understand, in the first quarter, plus 1st of July, as per your disclosure, you have kind of taken about Rs. 450 crores of Essel NCDs on to your books. I want to know at what discount that is to the face value, plus the accumulated interest so far to begin with. And after taking it onto your books, have you brought that down or how have you valued it, have you taken any hit on that specific instrument?
- Milind Barve:** So, at this stage, what we may have to say, and you will have to bear with me, the matter is a quasi-judicial matter, it will be difficult to provide very more details. But I can share with you that the investment has been taken at fair value and it has been valued also as per the fair value as we have disclosed in our notes to the accounts.
- Madhukar Ladha:** Okay. And sir just a clarification on this subject itself, our total exposure in all our schemes is about Rs. 1,200 crores, if I am not wrong, right?
- Milind Barve:** That was the total exposure before we took on some part of that exposure to the AMC, that was about an exposure approximately. I don't have the numbers in front of me.
- Madhukar Ladha:** Right. So, AMC plus schemes is about Rs. 1200 crores, and we have a cover of about 1.2x is what I understand on the total exposures?
- Simal Kanuga:** Madhukar, I think as Milind mentioned, we have some bit of reservations in terms of this particular detailing on this transaction. Matter is as of now called quasi-judicial, and we would want to kind of reserve our comments on that.
- Moderator:** Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.
- Saurabh Kumar:** Sir, just wanted to better understand this cost performance for the quarter. So, your liquid fund AUM of 14% QoQ and yet your margins have gone up on a QoQ basis. So, if you can just tell us or help us what's driving the delta on your operating costs?
- Milind Barve:** Yes, sure. So, there two things, it is true that a part of our growth in the AUM was on account of significant increase in our market share, and the AUM in liquid funds which is relative to the other fund products is a lower margin. However, we continue to benefit from the fact that upfront commission's that we were paying a year back up till about 21st of October 2018 is now no

longer paid. And that has resulted in the savings that was charged on account of upfront commission which was coming into the P&L. So, there is a net savings of commission out go for the company on account of upfront commission's being banned. Although, some part of it has been compensated in the form of higher trail. On a monthly basis there is a material saving. And that is why as you heard from my colleague, our operating profit margin has actually expanded from 37 basis points to closer to 42 basis points in this quarter.

Saurabh Kumar: I mean, if I just look at your long cycle history from like fiscal 3, fiscal 4, you have never been at this margins, I mean, you have been at about 34, 35, so I was wondering is this 40 basis points in your view sustainable margin going ahead under whatever the new structure wherein...?

Milind Barve: Yes, so now the margin is a function of many things. First of all, I must tell you that the reduction because of upfront commission is not enough -- when you compare it with the previous year it may appear as it was there last year and not here this year, but it will continue to not be a part of a P&L in the future, so it is not a one-off. There will be no upfront commissions as we are now not allowed to pay upfront commission. So, the benefit of savings on the upfront commission is a permanent benefit. And we will continue to benefit from that. So, that as such from that point of view is a sustainable margin. What will continue to happen is that as the size of the business and the AUM in each of the product grows, the total expense ratio that we charge to the customer might come down a little bit based on the size of the AUM going above more than by say Rs. 5,000 crores brackets, buckets as they have been now defined. Now, so at every time it goes, the total expense comes down, we may periodically review the commission that we were paying to distributors and we may have to relook at or re-align them. But therefore it might slightly drift downwards from the 42 or 43 basis points over a period of time. So, it is very difficult to comment how sharply it will fall. But the 42 does not have any one off, it is a sustainable margin. The size of the AUM going up, we are now required by SEBI to charge less and less to customers that will impact our TER, and that will require us to recalibrate our commission payout to our distributors. If we don't reduce the commission payout and keep it same, then there will be a small drift down in the margin. It is also a function of what is the composition of assets between equity and non-equity products.

Saurabh Kumar: Sir, just one additional thing on that. Sir, the trail would have added how much to your margin YoY?

Milind Barve: Sorry, can you repeat the questions?

Saurabh Kumar: Sir, this trail going out would have added how much business points to this margin? I mean, if you can help us.

Milind Barve: The upfront commission going out, not trail.

Saurabh Kumar: I am sorry, upfront commission, yes.

- Milind Barve:** We don't have a basis points computation ready with us. But actually, if you see the figure of commission on same level, that's a material amount. So, that is what it will be.
- Saurabh Kumar:** Okay. And sir just one last thing. So, you mentioned your margin is 42 basis points, so I am guessing you are saying quarterly average AUM, right?
- Milind Barve:** Absolutely.
- Saurabh Kumar:** So, that basically works to essentially about Rs. 3.6 trillion kind of quarterly average, whereas your ending number is 3.56.
- Milind Barve:** Average is 3.6. Yes, I think what you have to see is that there are two kinds of numbers that are published by the industry. One is the closing assets under management, which is as on 30th of June or 31st of March, the number that we have to keep in mind when we compute or take into calculation the fee income or expenses is average assets under management. So, if you see our average assets under management, it was Rs. 3.62 trillion, as compared to Rs. 3.06 trillion, if I am not wrong.
- Simal Kanuga:** Saurabh, that is also available on our website, the quarterly average AUM is available on our website as well as AMFT's website. So, that data is available publicly.
- Saurabh Kumar:** No, I get that, I am just saying quarter end is lower than the average.
- Simal Kanuga:** Yes, because liquid outflows tend to happen. So, what happens is at the end of every quarter we do tend to see some larger institutional liquid money flowing out, and which tends to come back at the start of the following quarter.
- Moderator:** Thank you. The next question is from the line of Amit Nanavati from Nomura Securities. Please go ahead.
- Amit Nanavati:** Sir, again my question is pretty similar on the upfront commission moving out, right. So, if I look at first half 2019, your upfront commission to AUM, if I were to look at it that way, would have been closer to around 10 basis point, which is effectively just 1 basis point of negligible now. So, you have a 10 bps of savings. But shouldn't this upfront commission move into trail commissions over a course of three years, which means the net revenue that you report should start reflecting the 10 bps of saving over three years from here?
- Milind Barve:** I am not sure necessarily so, because broadly speaking, the upfront commission was about say if you are paying say 100 basis point, I am giving more as an example, the actual upfront commission was less than that. We have compensated people by giving higher trail. And you are right in your understanding that as the trail over a period of time will sort of increase as we book payout, but that is more a question about how the AUM also grows. So, it will be a good problem to have if you have one, where the AUM also goes up and then the trail also will go

up. The trail is fixed, now it is not going to increase now. So, the trail that we have paid for this quarter is not going to increase in the next quarter, it is going to be constant because we have already reflected that in the payout.

Amit Nanavati: Fair point, yes. And second question is basically, if I look at your fee to AUMs, right, it's a 1 bp of drop, which means if I were to extrapolate it on only equities, it's just around two basis point of compression versus a 25 bps of impact that you could have had, right? I mean, 90% -95% you have passed on. Is that a same proportion you see on the incremental flows as well? Or is it that any other TER increases say in liquid or debt is offsetting the underlying impact?

Milind Barve: No, I think your understanding is right that basically, as we had mentioned in our earlier quarterly calls as well as other meetings, that we anticipated an impact of 24 to 25 basis points on account of the TER reduction, which is what it finally crystallized into. We were approximately able to charge off almost 22 basis points of that 25 basis points, by reducing the commission paid out on the distribution commission. So, the net impact, the way to understand this is, approximately 3 basis points on approximately 48% of the average AUM. So, if you are working out on a model then you have to see that if that would translate to a little under 1.5 basis points on the total AUM. So, you are broadly in line with your understanding. This also will sort of, I think we had this on a couple of analysts call this question about how we are going to deal with the reduction in TER, I think our first quarter results we have been able to do exactly what we had said we would like to do. And that has been pretty much as accurately achieved as it was possible.

Amit Nanavati: And the payout ratio on stock to the distributor versus the incremental flow would be exactly the same or the incremental flow is where you would be absorbing a little higher impact than what you see on the stock?

Milind Barve: You are right, the payout on the incremental flow is pegged at a slightly higher level than what is being paid on what we can call as the book. So, the overall composition of our net margin will depend upon how the composition of the book will get changed over a period of time by the new flows that come in.

Moderator: Thank you. The next question is from the line of Vinod Rajamani from HSBC. Please go ahead.

Vinod Rajamani: So, I had a couple of questions. First is on this new liquid products guidelines which have come out recently, what do you envisage as a result of that? The other is that, so the regulator has also come out with some regulations on trying to segregate debt funds and so on, but except for probably one fund no one has actually gone down that route. So, what do you think is holding back the industry and important players such as yourself?

Milind Barve: Sorry, what was your first question?

Vinod Rajamani: The first question was on all the liquid fund new regulations.

Milind Barve: Liquid funds new regulations. So, I think it is a very welcome suggestion that has been made, it is still not translated into a circular. But there has been an announcement of the SEBI board meeting, and it's a very welcome change because it actually makes the liquid fund a more safer product. There are two important changes in it, one, it caps the exposure to NBFC and housing finance company, which is one thing. Secondly, it requires you to maintain a certain amount which I think is about 20% in near cash or liquid assets like T-bills, CBLO and so on. So, I think it will make the liquid fund more liquid in a way and also more safer as a product. And I think it reduces the possibilities of systemic risk on liquid funds, it reduces the possibility, it doesn't take away the risks. But it significantly mitigates the risks which were there. And it also helps in having reasonably uniform behavior by different fund houses on how they maintain adequacy of maintaining liquid investments like overnight investments, investment in T-bills and sovereigns as a part of your cash. So, I think it's a very welcome suggestion and a change that is going to come about, and we would be happy to be complying with it. Even currently, as we speak, we are maintaining significantly comfortable level of liquid balances in our liquid fund, they are well above their 20%.

Vinod Rajamani: Thanks for that. The other question was on the segregation.

Milind Barve: Sorry, you asked the questions on segregated mandate. My understanding is that you can do portfolio segregation, provided there is a fundamental attribute or it is already a part of your scheme document. Now, most of the industry has got earlier scheme documents which did not have the right to do side pocketing as it's called, segregated portfolios as it's called. So, that is the reason, if my understanding is right, that is the reason why many in the industry have not been able to do side pocketing because you have to first go and change the fundamental attribute of the scheme to provide or give you an enabling provision to be able to do side pocketing. And in this environment at least, people have not found it optimal to go and seek a change in the fundamental attribute and take an enabling provision to do side pocketing.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Just had two questions, first is on the commission part, just wanted a bit of clarification. Post the regulation the understanding was that with the front-end commission going away we would see a slight increase or some increase in the trail part. So, if I look at the overall say two year, three year perspective, one would think that there will be some impact of increased trail, as that kicks in because of the net revenue. But your commentary seems to be the other way around, so just want to understand why is that?

Milind Barve: Sure. See, the reason what I said is that effective operating profit margin will depend on the rate at which the book is replenished by new flows. The new flows are coming in at a higher trail commission and the book has a certain trail commission. Now the trail commission on the book will remain constant, while the TER may go down, and we may have to then consider further reduction on the book. So, the final operating profit margin is a function of two things, one is

our chargeable TER limit going to go down because of an AUM increase, which as I said before, is a good problem to have if our AUMs are going higher and higher, we will continue to benefit from the operating leverage. Number one. But number two, it also is a function about how what is the level of new flows coming into the book, because the new flows are coming at a slightly higher trail cost. So, it's a function of two, it's very difficult to predict or project this or model this or put this into a model.

Piyush Surana: We have a very large book which acts to our advantage in that.

Milind Barve: Yes, I think that's a very valid point, Piyush makes. Our book is very large and it is not easy for the whole book pricing to change because of flows, it will take long period of time before flows can change the cost of the book.

Viraj Kacharia: Understood. So, basically the existing book for that while there is a change in the way we pay for the distributors, there is no change in the rate which we pay to the distributors. Am I right in thinking that way?

Milind Barve: No, there is a change because now the upfront commission has gone completely. So, if you get up front commission and if the money did not stay for you for very long, beyond one year, then the cost of that AUM was much higher. So, now that anomaly is taken care of, you pay the commission only as long as the asset stays with you.

Viraj Kacharia: So, what I meant, if I were to think about a particular asset which has historically escaped for more than one year, the payout in percentage terms what you used to pay to distributor, either earlier it used to be front-end or upfront or now it's been more of a trail, that percentage is why not the same for existing book, book that has matured more than one year?

Milind Barve : Over a three year period it will equal out, let's say somebody is interested as a distributor with a certain amount of AUM, his book remains the same and the commission remains the same, assuming there's no change. Then his revenue or three years will add up and catch up, and become equal.

Viraj Kacharia: Okay. So, the second question was on the mix and the net yield. If I look at sequentially Q1 versus Q4, we have seen a relatively more diverse mix, starting this quarter we have seen an impact of around 1.5 bps because of the reduction in TER and equity. Still our overall net yield is kind of flattish QonQ, so why is that? I mean, just trying to understand.

Milind Barve: See, 1.5 bps is on the revenue.

Viraj Kacharia: Sir, I meant on revenues itself sir.

Milind Barve: But we have a saving on the upfront, so that's why the operating margin we still have a positive.

- Viraj Kacharia:** Sir, my question was more on the net yield which is the net revenue. And when I look at in bps we earned something around 56, 56.5 in Q2 and the same is in Q1, despite the mix being adverse, despite us taking that 1.5 bps impact because of reduction in equity.
- Milind Barve:** No, once if you talk about other net revenue, then you have to take it after the upfront commission benefit. If you talk about net revenue, then it is after upfront commission. If you take gross revenue then you will not find much change.
- Moderator:** Thank you. The next question is from the line of Arjun Usher from Envision Capital. Please go ahead.
- Arjun Usher:** Do you have any plans to launch dedicated products for international equities? And what is your sense of the appetite for such a product?
- Milind Barve:** Investing domestically, internationally? I think our sense right now as we speak, there's not much appetite for Indians investing outside of India. We have looked at the space quite carefully, but if you look at the industry AUM I don't have the numbers in front of me, but it is a very, very small, it's only about \$400 million or so out of the total.
- Simal Kanuga:** Rs. 3,000-odd crores out of Rs. 23 lakh crores is money raised domestically invested globally.
- Milind Barve:** So, that's a very small part. So, I don't see that changing in the foreseeable future.
- Moderator:** Thank you. The next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.
- Adesh Mehta:** Sir, I see that the commission amount in your P&L has reduced from what it was last quarter, so it was around Rs. 30 crores last quarter, it has come down to Rs. 11 crores. So, what can explain this this decline?
- Piyush Suranan :** Adesh, this is a rundown of the old upfronts. If you remember, when we were paying upfronts they were amortized over a period of 12 months. Now in October when we stopped paying upfront, it was just the old book that was running out. So, this is the old book which is running out, and now what is left after 11 is only the next three months till October 22nd. So, you would have seen, if you look at June 30th quarter, it was 83, then it's gone down to 30, and it's now 11.
- Adesh Mehta:** Okay. So, it will go to zero over the next two quarters?
- Piyush Surana:** Yes.
- Milind Barve:** Close to that, not exactly.
- Adesh Mehta:** And sir this finance cost, will this be relating to IndAS116?

- Piyush Surana:** Yes.
- Adesh Mehta:** Okay. And the impairment on IL&FS investments we had, I guess that's fully done, right?
- Piyush Surana:** Yes, its fully done last year itself.
- Adesh Mehta:** Okay. So, from here on in terms of cost we have only this additional lever of around Rs. 11 crores of more fees and commissions which can reduce, but would it be fair to say that from here on the cost reduction levers we have fairly exhausted that?
- Piyush Surnana:** Yes, I would say that. Of course, whatever we make in terms of operating leverage, that of course will continue.
- Milind Barve:** See, the operating leverage will continue to remain as we have seen, if you look at employee cost is grown by only 5%. That average is very strong in any business like this of this scale. And that we will continue to benefit from.
- Moderator:** Thank you. The next question is from the line of Manish Shukla from Citigroup. Please go ahead.
- Manish Shukla:** So, on the Essel thing, as of now this stance is till September, right?
- Milind Barve:** Yes, you are right. Yes, there are some milestones which have to be achieved before that. But effectively the final drop-down date is 30th. September.
- Manish Shukla:** So, my only point is, by the time we discuss your next quarterly results, this would be resolved one way or the other?
- Simal Kanuga:** Hopefully one way.
- Manish Shukla:** Okay. And that additional Rs. 500 crores you have not borrowed anything to fund that or how has that been funded?
- Milind Barve :** No, we have not borrowed anything to fund that.
- Manish Shukla:** Okay. Lastly on the OPEX leverage bit, right. I mean, employee is the only lever which is there which currently is growing at about 5% odd. So, I mean, revenue growth at about 10% odd, so the leverage is essentially left only in the employee line, what you mentioned in answer to the previous question?
- Milind Barve:** No, so in any asset management business there are two important costs, one is the employee and other is the rest of the operating cost of running the business, which is things like rent, for example, travel, and so on, so forth. So, these are the two broad items under which the costs fall, and these two add up together provides operating leverage.

Moderator: Thank you. The next question is from the line of Rahul Picha from Multi Act. Please go ahead.

Rahul Picha: My question is on depreciation. So, it's gone up by 300%, 400% this quarter. So, what is the reason for that?

Piyush Surana: So, if you would have read in the notes, there is a new standard that has become applicable, IndAS116. So, the effect of that is essentially that all the leases that we have they are accounted in a different manner. Earlier that cost of those leases which is essentially all our branch offices, and all the offices that we use come in other expenses in the form of rent. Now, and I am giving you a shortcut answer here, the effect of that expense comes as part of depreciation and finance costs. Overall between the two quarters ending March 31st and June 30th, the net difference is around Rs. 40 lakhs

Rahul Picha: Rs. 40 lakhs in the other expenses part?

Piyush Surana: No, as a total.

Moderator: Thank you. The next question is from the line of Shubhranshu Misra from Bank of Baroda Capital Markets. Please go ahead.

Shubhranshu Misra: Sir, I just wanted to understand how are you splitting your expense, the commissions which have gone down with the banks and national distributors? IFAs I understand its easier, but banks give you a channel out, right, as well as national distributors. So, how are you tackling these two channels?

Milind Barve: No, I think for us all the three channels are very important, which is the bank channel, the national distributors as well as the IFAs. And whatever reduction we have done in the commission payout, we have done it uniformly across all the three channels. We have not tried to make any distinction for a type of distribution category versus the other. It has been consistent in terms of whatever we have done across IFAs, national and bank distributors.

Shubhranshu Misra: So, that when you talk about banks, you are also referring to HDFC Bank, which is our parent, so we have done that commission cut for HDFC Bank as well?

Milind Barve: You are right that we have done the same with HDFC Bank also. Just one small correction, its not our parent.

Moderator: Thank you. The next question is from the line of Manjit Varia from Solidarity. Please go ahead.

Manjit Varia: I just wanted to understand could you give us sense on whether the other larger player which we were able to stand alone.

Milind Barve: We missed your question, can you repeat?

Manjit Varia: I just wanted to understand if you have a sense on whether the other largest players in the industry were also able to pass on the TER cuts to the distributors, or were you able to do it standalone in the industry?

Milind Barve: No, my understanding is that almost every fund house has passed out the reduction in TER by way of reduction in the distribution commission. The extent of the commission paid or the reduction in the commission paid must have differed based on the size of the scheme that each fund house managed.

Manjit Varia: Got it. And from what you see on ground there is nothing where distributors are now inclined probably to favor someone else more than HDFC or how do we think about that?

Milind Barve: We have absolutely no evidence to suggest that there is any discrimination against any fund house on the basis of the commission paid.

Moderator: Thank you. We take the last question, which is from the line of Nitin Rao from Alpha Ads. Please go ahead.

Nitin Rao: Sir, two quick questions. One is, you mentioned that you don't see distributors discriminating against our company with other AMCs. But do you see a trend of distributors going towards higher commission products like ULIPs, etc? That is first question. The second question is, in the AGM today the Chairman sir had mentioned that he is very excited about foreign funds investing in India through us. So, I would like to know your thoughts upon that and what is size of the opportunity there?

Milind Barve: No, I think over a period of time now the distribution community as well as the investing community has matured well enough to understand the buying of the product is not driven by the suitability of the product or the understanding of the products other than whether a commission is high or low. For example, my understanding is that a number of insurance products give very different type of commission, very high, much before this TER cut came. But still insurance was bought for people who wanted it and mutual funds was bought for people who wanted a mutual fund product. So, I don't think any change in the distribution commission or the drop in the TER is going to create any differential incentive for people to shift out of the mutual fund industry to sell other product. We have seen absolutely no evidence. It is of course three months down the road in this, but we have seen absolutely no evidence of that. It has not differed from anything that was different, it is the same difference that was there earlier, continues to be so even now.

I think a second question was about global funds into India. I think that was more, if I recall right, it was more a question about international investors buying into Indian equity products. And I think it was mentioned in the context of somebody making a comment on international interest rates going down. And I think that answer was in that context that if rate globally go down and the ability that India could potentially benefit from the higher allocation to emerging

markets, and within that India as a growth market to buy in. It was in that context the comment was made.

Nitin Rao: Okay. I got the answer to the first question. The second question is, we do not any products or you are not looking at anything where sovereign wealth funds or anybody like that invest in India through us, am I right in understanding what you said?

Milind Barve: No, the way many foreign investors, there is two ways in which they can buy into an India, one is of course by what they do very often, which is buy equities directly. The second thing is, they are eligible as registered FIIs to buy into our mutual fund products. So, there are some foreign institutional investors who have bought into our existing mutual fund products like say an HDFC Equity fund or HDFC Top 100 fund and so on. There are some people who would participate in the Indian markets or give us money to manage by buying our fund. The third way, which is very popular, particularly with sovereign funds, is where they provide a segregated mandate, that is like a separately managed account or they are called SMAs, where the money is managed for them. They don't invest into an existing mutual fund pool, but they give you the mandate to manage a particular pool of money separately, which is only their own money. And we do have funds like that which we manage for international institutional investors, including sovereign fund.

Moderator: Thank you. We take the last question of the day from the line of Anand Swaminathan from Bank of America. Please go by.

Anand Swaminathan: I just want to get some color on kind of how the retail behavior has changed post some of the shocks they have had in the debt related funds? And also kind of overall macro uncertainty, are you seeing any changes on the ground, does it help the bigger players when there is no uncertainty? I think any such color would be useful. Thank you.

Milind Barve : So, I see two trends that we see. One was I think, as my colleague pointed out, in the run up to the election the flows into equity products in the month of April and May was relatively muted. But that has changed in the flows on equity flow products buying into June. And we think the flows in July would be even better. So, that is one thing as far as the behavior on equity funds is concerned. I think the interest. For example, if we look at our new registrations in SIPs for example, it continues to grow. Even on a sequential basis the amount of money that we have received in systematic transactions, which is like SIP and STP, actually went up by almost 7%, just sequential over just three months. So, I think the interest in equity products seems to be on the rebound and we hope and think that that will continue to play out. There have been some issues on debt exposures, largely in credit funds or exposure with credit fund, but we think for a period of time even that the redemptions or the flow or the lack of new flows is also beginning to change and there will be some normalization of flows coming into debt funds. If you look at the AMFI data, the debt funds as an entire category has actually de-grown, largely on account of some of these events around the credit events around the industry. To my mind, given the size of the industry, the credit events are not significant. But that has probably -- but I think over a

period of time we expect this will normalize and investors will come back to funds. I also see, I mean, very difficult to distinguish between big and small fund houses. But I do see strong brands and strong franchises being rewarded with more flows by retail investors as well as institutional investors.

Moderator: Thank you. I would now like to hand the conference over to Mr. Simal Kanuga from HDFC for closing comments.

Simal Kanuga: Thanks, everyone, for joining in. Thanks Subbu for hosting the call. Thank you.

Milind Barve: Thank you from all of us. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Morgan Stanley, that concludes this conference. Thank you for joining us. And you may now disconnect your lines