"Reliance Nippon Life Asset Management Limited Q3 FY 2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Reliance Nippon Life Asset Management Limited Q3 FY2018 Earnings conference call, hosted by Reliance Securities 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 "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Asutosh Mishra from Reliance Securities. Thank you and over to you Sir!

Asutosh Mishra: Thank you Janis. Good morning everyone and welcome to the Reliance Nippon Life Asset Management 3Q FY2018 and Earnings Conference Call. Today, we have with us Mr. Sundeep Sikka – ED & CEO – Reliance Nippon Life Asset Management and Mr. Prateek Jain – CFO to discuss the 3Q FY2018 Earnings and strategies going forward. So over to you Sir!

Sundeep Sikka: Good morning to all of you, and welcome to our Q3 FY2018 conference call. We have with us Prateek Jain – CFO for Reliance Nippon Life Asset Management and Tanaka-San from Nippon Life – Japan and other senior management team members.

I am very happy to share that Reliance Nippon Life Asset Management is India's largest asset manager with the total assets in the management of Rs.3.9 trillion, an increase of 17%. For the quarter ended December 31, 2017 the total income increased by 31% to 4.7 billion. The profit after tax rose by 25% to Rs.1.3 billion and return on equity stood at 24% in Q3 FY2018. We remain committed to our journey of profitable growth. The last year has been very positive for the asset management industry in India and we have seen all-round growth across all our verticals that are mutual fund, pension fund, EPS and alternate investment fund.

The MF industry average AUM reached a record high of Rs.22 trillion. Post demonetization we have seen significant inflows into the industry. Industry has added 5.7 trillion of assets since October 2016. Lots of initiatives such as Jan Dhan, demonetization, GST, undertaken under the leadership of Prime Minister Narendra Modi have been very positive particularly for the financial services. The formulization of the economy is paving the way to financialization of savings. The share of financial savings in the Indian households is on the rise.

Since demonetization industry has seen strong inflows from retail investors especially smaller cities and towns. The industry retail assets moved up by 1.8 trillion to reach 5.3 trillion. I am very happy to share that our retail assets have grown highest in the industry that is over Rs.270 billion since demonetization in 2016. Our strong retail brand and robust distribution network has helped in growing the retail assets by 55% y-o-y to 710 billion. We continue to be amongst the leaders in beyond the top 15 cities category. This geographically contributes an AUM of more than 500 billion, an increase of 34%. The company has a pan India distribution network with presence in over 260 locations.

In Q3 itself we have added 89 locations to our overall coverage. We continue to focus on locations beyond the top 15 cities and assets from smaller cities and locations are more persistent and more profitable.

Reliance Mutual Fund average assets under the management rose by 24% to 2.4 trillion. The number of systematic investment plan also rose to 2.3 billion, resulting in annualized SIP inflows of approximately Rs.78 billion. The new SIP count and inflows have almost tripled since December 2016. RNAM continuous focused on distribution spends with no single distributor contributing to more than 4.5% of the total mutual fund AUM. We have de-risked business model from the perspective of distribution asset class and geographical presence. The clear objective is to create long-term wealth for both unit holders as well as shareholders.

As an asset management company, we also operate EPS, alternate investment fund and offshore fund. Let me share a brief update on the following business lines also.

RNAM is a second largest ETF player having a market share of 19.3% in the segment. It has an AUM of Rs.132 billion and over the quarter ended December 31, 2017. RNAM is the only AMC who have a 16-year track record in managing ETFs. India has also seen increasingly higher inflows from international markets. We have taken steps towards that and are closely working with Nippon Life Insurance. RNAM is managing and advising an AUM of 84 billion from offshore business.

Reliance AIF has approximately Rs.17 billion of commitment across AIF schemes as on December 31, 2017. We have raised 4.2 billion in equity opportunity scheme one in this quarter. We have also launched two new equity schemes in AIF based on the theme of financial services and millennium opportunities.

Summing up India is going through a massive structural bull run. The formulization of the economy, household savings are increasingly moving towards financial assets. With low penetration and less than 3% of the population investing in mutual fund, there is a lot of headroom for the industry to grow. RNAM is on a very strong footing in terms of distribution, retail spend, spanning both online and offline channels.

RNAM is well poised to disproportionately benefit from the macro tailwinds. We are expanding in newer markets where no other AMC has been present till now. Our intention is to drive the change in behavior of the retail Indian investor to invest in mutual funds for long-term wealth creation.

In line with our Founder, Shri Dhirubai Ambani's vision of infinite value creation and sharing this wealth with all our stakeholders, it gives me immense pleasure to announce that the Board has declared its maiden interim dividend, post RNAM's successful listing in November 2016, at Rs. 5 per share.

With those comments we would like to take your questions. Thank you very much.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question-and-answer session. We take the first question from the line of Anuj Gupta from Perfect Research. Please go ahead.

Anuj Gupta: Good morning Sir. Sir how are we competing with banks sponsored mutual funds who have a wide distribution reach and which small banks have we tied-up for distribution?

Sundeep Sikka: Anuj, the way we have to see this is I think we have a very well de-risked distribution model. At this point of time, apart from Direct ~50% of our assets are coming through IFAs, 20% through national distributors and 30% through banks. While you are right, I think we do not have an in-house bank but we are very happy to share with you almost every bank in the country whether it is a private sector bank, foreign bank or the public sector bank have been selling our products. Also I wanted to share with you because of the strong execution capability in smaller cities and towns, we have disproportionate market share from public sector banks.

Anuj Gupta: Sir I did not get the 50% of your assets are coming from?

Sundeep Sikka: From (IFAs) Independent Financial Advisors.

Anuj Gupta: What is the proportion of the debt funds to total assets?

Sundeep Sikka: I would like to share more from a revenue point of view, which will be more relevant 58% of our revenue comes from equities and 42% comes from non-equity schemes.

Anuj Gupta: Sir just another follow-up. Regarding we had seen a case of JP Morgan and Amtek Auto Service they were invested in the corporate paper and with the Amtek Auto deposit so it was JP Morgan who have to bear the loss and cut it up a 15% to 20% discount. Sir in our case like what are the measures that we take so that and what is the kind of policy we have for this, if this happens anytime?

Sundeep Sikka: Anuj, we understand the fact that we are managing the fund in a fiduciary capacity. What we have done is we have built up very strong research capability even in debt rather we were one of the first few asset management companies, which started separate research team in debt and at this point also the largest credit team. I think it is more to do with I think till now we have been fortunate because of a strong research capability that we have, we have not had any such unpleasant experience; however, I think more than the policy, I think it is a strong risk management and close monitoring of the debt portfolio, which will help us to stay away from this. Also the fact that we run a very strong retail book, we are conscious of the fact that many retail investors do not understand the risk that lies in debt, because in equity there is still an upside, so we have a very conservative policy on debt. Also if you look at our portfolio 94% of the total assets in our debt schemes are AA and above.

Anuj Gupta: Thanks a lot Sir.

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

Atul Mehra: Good morning, and thanks for the opportunity. I have a couple of questions in terms of on new equity sales for the first nine months how has been the net of distribution yield for us on equity?

Sundeep Sikka: I will request Prateek to take this question.

Prateek Jain: Sorry can you repeat again?

Atul Mehra: For the first nine months what has been the net of distribution incremental yield basically net of distribution yield for the incremental equity book?

Prateek Jain: This has been in the range as was in the past years as well. If you look at our numbers our average revenue realization has been 62 basis points and which has been consistent with the previous quarter as well as the sequential quarter and in terms of the equity realization it has been in the range of 120 to 130 basis points.

Atul Mehra: Would this be net of distribution?

Prateek Jain: Yes so this is net of all the retail and other distribution and except that there are certain upfront marketing tie-ups, which are not accounted as part of the payout from the schemes. So that also gets paid out from the AMC, which part is reflected here in…

Atul Mehra: It include everything, if you would include everything all combined what would be the net yield?

Sundeep Sikka: The blended yield remains at around 62 basis points for all asset classes put together.

Atul Mehra: Secondly in terms of if you just focus on the equity book, what is the persistency of AUM for you in terms of say last two years, three years and if you look at in insurance do you see high churn in equity AUM or if you could give some quantitative numbers on the level of persistency only on the equity active book?

Sundeep Sikka: If you want to look at it and let me step back a little I think majority of our book is very retail so typically what happens is smaller the ticket size and more stickier the asset is. We do not have the concentration in the top ten cities but beyond that as lot of inflow comes from smaller cities. our average ticket size in systemic investment plans is also lower than that of Industry. So smaller the ticket size, typically the persistency is much higher. If you were to look at it from the industry point of view, typically if you see the retail, I am talking of the retail part, retail is about 48% after 24 months and HNI is about 27%; however, for us if you look at retail we are almost about 60% and HNI also it is about 31% so it is higher than the industry but this comes from the fact it is because our composition of assets is very different compared to the industry and majority of our assets are coming from smaller cities and towns.

Atul Mehra: Thirdly in terms of ETF so you also have among the second largest player in the ETF business. So what is the overall strategy for ETFs along with Actives so how do you see both of them parallelly co-existing for you and how would you go about it?

Sundeep Sikka: I think we clearly see two things happening at the same time earlier touched about the low penetration of mutual funds in India. On one side, you will clearly see the new investors coming into the mutual fund industry. For these investors focus will remain on active funds, they will continue there so we clearly say this 2-3% population investing in MFs will move to 10% or 20% over a period of next five to seven years. On the other side the way it has happened across the world, ETFs will also start becoming more dominant in India. What we are one of the few or rather one of the only companies which has the privilege of having both active as well as ETFs, having a track record of more than 16 years. Clearly matured investors will start looking at ETFs but at the same time institutional investors also shown keen interest in this category, we have recently seen EPFO starting investing in and a lot of corporate treasury is also looking at ETFs so I believe both of them will co-exist. There is huge headroom for both active as well as ETFs.

Atul Mehra: Thank you so much for answering the questions. Wish you all the best.

Moderator: Thank you. We take the next question from the line of Himanshu Taluja from Emkay Global. Please go ahead.

Himanshu Taluja: Good morning. Sir just wanted to check on couple of things. What is the average ticket size of the retail investors on the B15 locations?

Sundeep Sikka: The average SIP size from B-15 will be slightly lower, we will share with you separately.

Himanshu Taluja: Yes, and second thing what is the average holding period in the equity funds and also in the debt fund and one of the questions from the AIF business what fees you are generating from the AIF business and in the financial reporting are this the part of the PMS fee?

Sundeep Sikka: See for the AIF part if you look at the consolidated results it comes as a part of consolidated results as AIF is a subsidiary and the PMS fees is accounted as part of the AMC only; however, what we have done is we have been incrementally raising asset more on the AIF platform rather than using the PMS platform and there the revenue for this nine months have been all put together has been about 22 Crores.

Himanshu Taluja: This is what percentage of the fee to the AUM of the AIF probably even I can also do the calculation?

Prateek Jain: See predominantly we have just raised the equity asset recently as Sundeep mentioned. The earlier assets have been more predominant into high yield debt and there the realization has been almost about 1.2%. We have an AUM of about 2000 Crores as on December 2017.

Himanshu Taluja: Sir second on what is the average ticket size on the B15 locations?

Sundeep Sikka: I will just get the SIP numbers with little more breakup. Just to give you a number again SIP average ticket size for the industry is nearly 3700 and for us in our B15the average ticket size is about 3000.

Himanshu Taluja: Okay from top 15.

Sundeep Sikka: For Top 15 it is about 3500. If you are going to the smaller cities we have got the size gets smaller.

Himanshu Taluja: Sir I guess as currently you have around 20% of your AUM from the B15 location and how do you see this because as your focus is on the smaller town cities how do you see this proportion likely to be over next one or two years?

Sundeep Sikka: I think while it will be difficult to put a number to it but if you were to go by the trend of the last 14 months post demonetization if you see the industry has seen an inflow of 1,80,000 Crores of retail money coming into the system from pan India, majority from smaller cities and towns. Out of 1,80,000 Crores of retail assets, Reliance Mutual Fund has got the highest share of 27,400 Crores. I think the way we have built up a distribution reach and execution strategy.

Himanshu Taluja: 24000 sorry.

Sundeep Sikka: 27,400 out of 1,80,000 Crores of retail AUM, which has come into the industry post demonetization, which is the highest. I think again going with the past and taking into account our strong retail focus, execution capability and the reach today we are present in more than 260 locations, which is almost double of the next asset management company. We believe this percentage will keep increasing and also we believe that the stickiness and the profitability of these assets is much higher than assets coming from bigger cities.

Himanshu Taluja: Sir one last question from the B15 is it the part of the coming from the direct clients or the regular clients and mainly it is coming from through distributors and how do you see this?

Sundeep Sikka: Majority of this is coming through distributors. We are agnostic to it whether the money comes direct or through distributors because as per the SEBI regulation whatever is the distribution fees has to be reduced and the incentive has to be passed on to the investor, but however I think so from our point of view to answer your question directly majority of this money is coming through distributors and also for us roughly 20% of our incremental purchase transactions is now coming through our digital properties whether it B2B or B2C so that is also I just thought I like to highlight.

Himanshu Taluja: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Sir my question is a little more on the retail book. One is Sir I wanted to know what are the, whatever retail AUM that we report like is it purely equity AUM or it is equity plus debt and how much of it would be pure equity?

Prateek Jain: It is equities plus debt we don’t have the exact breakup handy but this is predominantly equity and also in terms of debt this is more of a long-term retail debt product. We get almost approximately 66 % on the equity side.

Sundeep Sikka: But I think one thing just trying to touch on what Prateek mentioned even the debt coming from smaller cities and towns is long-term debt assets wherein the realization is higher. This is not money market fund. This is because most of this you see the corporate treasury is in the bigger cities and not in the smaller cities and towns.

Digant Haria: So now this retail 66% of retail AUM is equity, I wanted to know like and what is your SIP run rate per month in your overall AUM like specific from these retail investors if you have that number or if you track that number?

Sundeep Sikka: We are doing roughly in excess of 100000 systematic investment plan per month.

Digant Haria: That would contribute to how much inflow per month like would you have data right now?

Sundeep Sikka: If you look at the number annualized for that 100000 will be about 650 Crores per month and 7800 Crores annually.

Moderator: Thank you. We take the next question from the line of Utsav Gogirwar from Investec Capital. Please go ahead. As we have lost the line for the current participant. We move on to the next question, it is from the line of Siji Philip from Axis Securities. Please go ahead.

Siji Philip: I have a couple of book keeping questions. In the standalone breakup was expensive so what would be advertising cost and the brokerage cost?

Prateek Jain: The overall expenses in terms of marketing is about 132 Crores and in that the larger part I would say is on the advertisement because we have taken a large brand campaign this year. We have not been advertising as much in the previous years and this year we created our brand campaign "Wealth Sets You Free" across all mediums whether it was TV commercial, whether it was digital and I will come back to you in terms of the exact number but predominantly this includes a lot of creative production cost etc., and so about close to about 25% to 30% of the cost is towards the brokerage, rest remaining is all towards the marketing and publicity. However the amount paid to distributor towards marketing and publicity also gets clubbed as brokerage.

Sundeep Sikka: Which is a discretionary cost.

Siji Phillip: And more on the expenses side, other expenses has gone up this quarter comparatively has there been some new addition, which has come up?

Prateek Jain: If you look at it the way we have been conducting the business, 50% of the total expenses are variable whether it is R&T, fund accounting and the other outsource services. So from the last quarter obviously the AUM has grown about 25% to 30% so correspondingly those expenses have gone up further we have invested almost about 9 to 10 Crores into the technology enablement as Sundeep has mentioned also what we are getting into the retail franchise across 89 branches. So those spend were about close to 10 Crores, 3 to 5 Crores have been towards the IPO expenses, which is to be charged to the P&L that includes increasing authorized capital etc., which is again one time and including the IT spend what we did in the quarter are actually a long-term investment but due to the accounting standard need to be written off in the same quarter and barring that the normal expenses have increased just about 8% to 10%.

Siji Phillip: One more thing about this shareholder presentation, which we have on our website so the slide 2 gives the breakup of the AUM so we have mutual funds manage accounts international and the AUM size of 3878, but I am adding the three together it comes to around 3902 so what has not been included over there?

Prateek Jain: Yes the advisory part . of 54 billion is not included in the asset under management. So you are adding 84 billion but you need to remove 54 billion from it, because that 54 billion is under advisory and therefore when we use the phrase asset under management (AUM) we have just added the 30 out of that.

Siji Phillip: Earlier in the day you have mentioned that you expect the investment and mutual funds to rise from 2% to 10% so are you thinking of specific timeline by which it would happen?

Sundeep Sikka: I think it is whether this scale happens in five years six years or four years, I think it is very difficult to predict. Directionally the way things are going, to give an example the kind of response that we have seen from small cities and towns where no asset management companies was ever present, I think the kind of response and the business we are getting makes us believe that trigger has already started, the catalyst was the demonetization and with our execution capability, we believe that we should achieve this number faster. Overall if you see the mutual fund today is becoming a part of a monthly wallet for every investor so the change that is happening is much faster than what we have seen in the previous ten to fifteen years.

Siji Phillip: Thank you.

Moderator: Thank you. Next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: I have a couple of questions Sir. If you can give breakup of your equity AUM into top 15 and T15 and also what is the share of that in both B15 and T15?

Sundeep Sikka: Do you have any other question? I think we will just come back to you on this one breakdown between B15 and T15 on equity.

Anand Laddha: Sir if you can give some color in the first nine month and in the quarter what is the new inflow we have got in the equity scheme and what proportion of this new inflow could be in the form of direct plan?

Sundeep Sikka: See broadly in incremental equity inflows, direct is in the range of about 15% to 20% that is what we have been seeing.

Anand Laddha: Is the 15% to 20% of the equity Sir?

Prateek Jain: Yes majority of this is in equity though I am not talking of the institutional investors who come direct these treasuries are different and will distort the number but typically the HNIs which come direct has been in the range of 15% to 20% from starting of the year till now. Earlier question, I think we will just come back to you. I think if you have something else we will give the breakup.

Anand Laddha: Sir if I have to look at same quarter last year what proportion of this direct would be last year? What number could be last year?

Prateek Jain: I think we have not seen much change in direct plan.

Sundeep Sikka: So we have not seen any significant change in that.

Anand Laddha: Sir also you mentioned that today in the month SIP for us it could be around Rs.650 odd Crores what about this number last year same quarter?

Sundeep Sikka: It was less than I think it was about 525 Crores.

Anand Laddha: One last question. I just want on incentive?

Prateek Jain: I am sorry it was 410 last year same time.

Anand Laddha: Same quarter, the 410 have now become 650 Crores per month number.

Prateek Jain: Yes.

Anand Laddha: Sir if you can give the breakup of your topline into what proportion of topline for this quarter and for nine months has come from AIF and what proportion has come from advisory business so what was the period this was scheduled?

Prateek Jain: Yes, so if you see almost close to about 80 odd Crores is coming from the other businesses now so 50 Crores if you see from the AIF and Offshore and advisory business and 30 odd Crores from the PMS and other subsidiaries .

Anand Laddha: Is it fair to say 50 Crores will be largely AIF fees and 30 Crores will be the PMS fees?

Prateek Jain: No, it is like as I mentioned earlier almost 22 Crores is from the AIF and the remaining is from advisory and other offshore mandates what we are having.

Sundeep Sikka: I think again the way if you see, if you see the last full financial year also out of our total revenue approx. 85% has been coming from mutual fund and 15% comes from all of the things which is to do with AIF International Fund, ETF and others. I think the way we believe is in a core business whether 85% comes from mutual fund, just to avoid a cyclical approach because first at the mutual fund level also as I mentioned earlier, it is evenly spread between debt and equity and also the 15% additional this gives us with a core and satellite thing which gives us that additional thing even if there was to there was a due to cyclical nature of any particular asset class in India, this 15% will be a cushion for that. And also on the international side, as we motioned earlier we have at this point of time we have been along with Nippon Life of Japan. We have been driving various initiatives and at this point of time we have three funds in Japan. We have recently launched India Fund in Thailand with a company called Bangkok Asset Management Company whereas the company we have Nippon Life is a shareholder. We have a UCITS fund in Europe and we are also doing something in Taiwan and US. Why I am trying to highlight is all these things are going to be mirror images of the funds in India. There is no incremental cost and whatever is the revenue from this typically comes down to the bottomline.

Anand Laddha: Does that breakup of equity AUM with this B15 and T15?

Sundeep Sikka: Yes now to that question on T15 out of our total assets in equity T15 is 65% and 35% of our assets equity assets are from B15.

Anand Laddha: Sir what was this number last year same quarter?

Sundeep Sikka: I think it is increasing and if you were to see every quarter the B15 contribution is increasing..

Anand Laddha: Thank you.

Moderator: Thank you. We take the next question from the line of Hitesh Gulathi from Haitong Securities. Please go ahead

Hitesh Gulathi: Thank you for taking my question. Sir firstly I wanted to just ask you is distribution fees that you pay in the B15 area, I think in AUM if it allows us to pay extra by a certain 1% so what is our exact number that we are allow to pay to the distributor in these areas and if that is the complete pass through to the investor is that understanding correct?

Prateek Jain: Yes see that is a complete pass through. There is a formula basis which it has been derived for each scheme. It depends on the what is the total asset you are managing for B15 location and what is the kind of inflow you are getting and based on the formula that rate gets calculated and that effectively works out to a payout, which can be as high as 2% for any given scheme.

Hitesh Gulathi: This 2% on an upfront basis right?

Prateek Jain: Yes 2% on upfront basis at a maximum. So for larger fund like us it would range somewhere in between 1% and 2% depending on what kind of assets we are managing from these locations and what kind of inflow what we are seeing from that?

Hitesh Gulathi: For T15 and B15 will there be a 1% gap would that be a correct understanding?

Prateek Jain: No, so the way it happens is that you can charge at a maximum of 30 basis points on the overall portfolio basis this calculation, which effectively works out to total 2% which gets paid out to the B15 pay out on the asset, which we have aggregated from B15 location.

Hitesh Gulathi: Sir just one question I think it was asked early but I missed the number so you spoke something related to persistency after 24 months you said retail is 60%, HNI is 37% is that correct?

Prateek Jain: Correct yes.

Hitesh Gulathi: Sir just wanted to understand how do you guys look at persistency like we understand how it looks in life insurance but in the AMC business like you look at 24 months, how do you actually view it internally and what is the good metric to look at?

Sundeep Sikka: I think while there will be no industry benchmark for persistency available but for you to understand I think the basic thumb rule is more retail, smaller the ticket size is, I think the persistency increases. because I think there is no detailed data available but it is a very simple thing the way we see typically investors coming from bigger cities through wealth management and wealth management trying to take market calls, I mean persistency of those clients is lower compared to investors coming who are investing to Rs.500, Rs.5000 coming from very small cities and towns they are typically investing for longer period of time.

Hitesh Gulathi: Thank you Sir. That is it from my side.

Moderator: Thank you. We take the next question from the line of Hiten Jain from Invesco Mutual Fund. Please go ahead

Hiten Jain: Brokerage will have broker incentive and would also have some kind of marketing expense which is discretionary?

Prateek Jain: That is right.

Hiten Jain: So just to understand correct that in this quarter you said you had lot of 50% is variable because that expense would have grown only 8% to 10%, which is linked to your topline, so how do you look at? What is the outlook in terms of discretionary expense so should we look at your expense growth in FY2019, 8% to 10% and FY2018 would even in fourth quarter we would have elevated expenses so what is the outlook on the expense part?

Sundeep Sikka: As I mentioned we are consciously working to bring down the fixed expenses or we are curtailing that whatever we can spend on the fixed side. Variable expenses will continue to keep growing and as a proportion also we are making sure that the variable part becomes larger so entire variable expenses will move in line with the AUM growth and the remaining part of the expenses will grow in the 8% to 10%. Also that there are expenses which happens like for example as I mentioned on the IT and marketing spend the benefit of that cannot be taken as though there can be they are actually amortized in the same year but the benefit of that accrues over the multiple periods.

Hiten Jain: Thanks.

Moderator: Thank you. We take the next question from the line of Prajesh Maroo from Money Curve. Please go ahead

Prajesh Maroo: Good morning. I have just one question that I have doubt of the entire mutual fund equity AUM, which you have how much percentage of that is direct?

Sundeep Sikka: I think like we mentioned earlier total equity out of the total equity proportion is about 15 to 20%

Prajesh Maroo: Thank you so much.

Moderator: Thank you. Next question is from the line of Abhishek Shah from Valcour Capital. Please go ahead

Abhishek Shah: Thank you for the opportunity. I just had a broad based industry question. With the mutual fund industry AUM going up drastically the first few years, do you expect SEBI to put a cap on the expense ratio at some point in time and how are you looking at and perhaps other industry participant in the mutual fund?

Sundeep Sikka: I think the way we see it will be very difficult to comment what SEBI will do I think I am not privy to but clearly mutual funds inflows today have become very strong. For last three years if you see the flows in the market are higher and domestic inflows have become a counter balance to the FIIs. I would clearly believe that going forward SEBI will also like to see that the domestic flows keep coming into the capital market; however, I would not like to see this purely from a SEBI point of view, I am sure market forces will also have an impact on this. We have seen in debt, where you are allowed to charge up to 150 basis points, clearly within the 150 basis points there are many schemes in the industry, which are not charging the full amount. For us while institutional is not a very high focus you can see institutional money market fund some of these are run at 2 or 3 basis points so I think market forces will define that. From our point of view the way we see this is we are in a state of readiness. Our acquisition of Goldman Sachs and the Benchmark was with this thought process. Typically on equity even if a pressure on fees comes it will come in the large cap and I think we clearly believe we are in a very strong position with the track record and the portfolio we have in the ETF so again it will be the market force more than the regulator that we need to look at.

Abhishek Shah: So in our company as putting that in perspective our current average yield is around 62 basis points do you see that going down and in a significant manner?

Prateek Jain: We do not see that blended yield coming down on a significant manner even if it was to be impacted by a 1 or 2 basis points, it will be more than compensated by the increase in volumes.

Abhishek Shah: Got it sir that is all from my side. Thank you.

Moderator: Thank you. We take the next question from the line of Utsav Gogirwar from Investec Capital. Please go ahead.

Utsav Gogirwar: Thanks for the opportunity Sir. Most of the questions are answered but one question related to AUM, so if you look at the income fund the share of income fund is declining over the last few months just wanted to understand the reason behind this?

Prateek Jain: That is basically driven by investor interest and outlook on the yield curve, yields has been little volatile so we have seen flows coming in the shorter end of the duration.

Sundeep Sikka: But I think I will request to not to see that as a trend. there is a natural preference of investors I think like I said what we will try to do going forward is to avoid any cyclical approach in the P&L of the company. We will try to have equal revenue from both debt and equity. Our focus remains on long-term debt and profitable assets.

Utsav Gogirwar: Thank you.

Moderator: Thank you. We will take the next question from the line of Aditya Jain from CLSA. Please go ahead.

Prakhar Sharma: Good morning everybody. This is Prakhar. Just one thing I wanted to check this consolidation of mutual fund schemes could you just give us a sense of how does this pan out for you and at an industry level how if it increases your competitive position?

Sundeep Sikka: I think the way we see it is and I have personally also gone one record in press to say that we support this because it is a very good move by the regulator. I think from our perspective, I would have to give an number we are with the regulator allows you to have multiple schemes in debt and equity, we are allowed to open or launch four new schemes in equity and four new schemes in debt. Having said that I think while I will not get into from the competition point of view from our perspective our objective of launching a new scheme is always if it is scalable and we see value in it so while someone might see that one as Reliance Mutual Fund we are allowed to launch eight new schemes four in debt four in equity is a big positive. I think our objective remains that we need to launch simple products which the retail investors can understand on the mutual fund aspect or all other things we have our AIF business so while we are allowed to launch eight new schemes I will not say neither it is a great positive or a negative but we are not at all impacted by the SEBI circular.

Prakhar Sharma: Thank you.

Moderator: Thank you. Next question is from the line of Dhiren Shah from CIMB. Please go ahead.

Dhiren Shah: Actually Sir we have added almost 90 odd locations in Q3 and these are largely in B15 cities and what I understand is that these are not full-fledged branches and the employees are not on full-term basis. Can you just give us some qualitative color on what how does this pan out and also the cost dynamics on this front?

Sundeep Sikka: I will let Prateek take you through the cost dynamics, I think what you mentioned is not right. All these locations have full time employees of the company who work in corporate office for a period of 30 days, get trained and then are sent to these locations so I just thought first I will clarify that part that these are only full time employees of the company.

Prateek Jain: In terms of cost metrics these locations will not have a very large full-fledged branches these will be more like a workstation kind of a branch and also the employees will be on a higher variable pay. The other expenses for these branches will be minimalistic and we expect to breakeven from these locations in next 24 months.

Dhiren Shah: Thank you.

Moderator: Thank you. We take the next question from the line of Kanishk Gupta from Ketmox Business Services. Please go ahead. Well these seem no response from the current participant. We take the next question from the line of Siji Phillip from Axis Securities. Please go ahead.

Siji Phillip: Sir just to elaborate on the variable spends you said it will be roughly 50% so that would be because we would be spending more on advertising and such like so you expect this trend to be in a couple of years to be slightly different?

Sundeep Sikka: I will firstly take it. I think we are a very capital light model.Typically if you were to see the two fixed cost for us The employee cost and the admin cost both put together which are the only two fixed costs that we run is about 42%, balance everything else is discretionary, variable depending of the market condition and all that will depend on there will be time when we feel it is time for us to accelerate growth, I think we might try to increase those expenses but they are not fixed in nature. I just thought of clarify that part first.

Prateek Jain: See when you have to compare with the earlier quarters there are two or three other things which are important to be understood that beside higher marketing and IT spend t we have CSR spend has also been covered so as the profit grows the CSR contribution goes up at the same time if you look at the GSAM amortization, which will not be there in the corresponding quarter and therefore those are the expenses, which has gone up which is one time and a going forward as a base you will not see this kind of incremental number hope that answer your question.

Siji Phillip: Sir more on the guidance part as in what would you envisage the equity proportion would be in a couple of years and that what would be the retail, the SIP and the B15 proportion?

Prateek Jain: Clearly the way we see last one or two years have been very good for the industry. Having said that as you can see we have a lot of growth coming from small cities and towns where our execution capability and infrastructure gives us a very strong footing also with the other asset classes not being so attractive whether it is gold, real estate and also the bank deposits we clearly see lot more money coming into the capital markets through mutual fund and we believe we will gain disproportionately because of our strong execution capability in smaller cities and towns.

Siji Phillip: So any kind of percentage at any ballpark that you can give?

Sundeep Sikka: Only thing I am trying to avoid we will not give you a number. I think it is going to keep increasing all I can say.

Siji Phillip: That is all from my side thank you.

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

Atul Mehra: Thanks for the opportunity once again. Sir what would be the yield for the ETF business and how would the distribution be for ETF versus MF?

Prateek Jain: Yield is in the range of 15 to 20 basis points on the ETF business and in terms of the distribution it is through the broking house and also it is listed so you can go on the various platforms and buy and sell as you do any equity script.

Sundeep Sikka: Also because of the fact that today if you want to look at it our ETF growth a) because of track record and also the lowest tracking error, \there are a lot of corporate treasuries and other investors also have been and looking into it. So it is not the conventional distribution model. It is basically more of it is direct investors and matured investors who understand this, the wealth management firms, which try to select and also now with the new regulation coming on your treasury side we clearly see our strong position in ETF that is also going to benefit us.

Atul Mehra: The traditional what we spoke about earlier was IFAs, national distributor banks so none of those would be selling ETFs this would be more direct people coming on directly on the website and buying?

Himanshu: Himanshu, this side. as we said the traditional IFAs do not sell ETF it is the national distributors who predominantly are broking houses, as we define them and broking houses has a natural tendency of selling ETFs and that is increasing and they are becoming part of their model portfolios as well.

Atul Mehra: Secondly how do you see this in terms of this transition that we are hearing about in terms of distribution where you have advisory and distribution being quite distinct so in your view how will this play out and what is your understanding and what will happen?

Sundeep Sikka: I think we clearly see the white paper has been put out. I think the way we see AMCs, which are very highly dependent on money coming from HNIs and banking will be impacted both but it is too early for us to comment on it because SEBI has come up with the white paper it is still inviting comments. I think maybe I will be in a better position to answer this question in the next quarterly meeting.

Atul Mehra: Thank you so much.

Moderator: Thank you. That was the last question for today. I now hand the floor over to Mr. Asutosh Mishra for closing comments.

Asutosh Mishra: Thank you all investors for actively participating in the call and thanks to management for giving their perspective. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Reliance Securities Limited that concludes this conference. Thank you all for joining us. You may disconnect your lines now. Thank you.