



“Reliance Nippon Life Asset Management Limited Q1-FY19 Post Earnings Conference Call”

July 26, 2018



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MODERATOR: MR. ASUTOSH MISHRA – RELIANCE SECURITIES

Asutosh Mishra:

Good morning everyone and welcome to the Reliance Nippon Life Asset Management Company's 1QFY19 Earnings Conference Call. Today, we have with us Mr. Sundeep Sikka – ED and CEO of Reliance Nippon Life along with the entire senior management team to discuss 1QFY19 earnings and key business studies moving forward. So, over to you Sundeep.

Sundeep Sikka:

Good morning everyone and welcome to our 1QFY19 Earnings Conference Call. We have with us Mr. Prateek Jain – CFO and other senior management team members. We have made the transition to IndAS with effect from April 1, 2018. Impact of the transition is mainly on other income, as investments need to be fairly valued on reporting date. For the quarter, the operating revenues increased by 7% to Rs 3.9 bn excluding the impact of notional MTM from investments, profit before tax increased by 35% to Rs 1.8 bn. We remain committed towards our journey of profitable growth. I am happy to inform we have the highest retail AUM in Indian mutual fund industry amounting to Rs 780 bn driven by robust distribution network and strong retail brand. Also, our retail assets have grown the highest in the industry to Rs 196 bn since June 2017. Our retail AUM contribution to total AUM is amongst the largest in the industry at 32%. Our equity assets grew by 37% to Rs 885 bn, while equity assets – as a share of total assets – have increased from 29% to 37% as on June 2018. Our SIP book crossed the Rs 100 bn milestone, while the total number of SIPs rose to over 2.8 mn as of June 2018. Our SIP book grew by 62% and over 75% of the incremental SIPs have tenure of more than 5 years. We continue to be amongst the leaders in the beyond top 30 cities segment. This segment contributed AUMs of more than Rs 391 bn. Over 16% of the total assets were sourced from this segment as against the industry average of 14%. We have strengthened our customer offerings through our multiple channels by penetrating deeper into Bharat and investing into various digital platforms. The company has a PAN India distribution network with presence in 298 locations. We added 16 new locations to our overall coverage during the quarter. We continue to focus on the locations beyond top-30 cities, as the assets from smaller cities have higher persistency and are more profitable. RNAM remains very well-diversified in terms of distribution with no single distributor contributing more than 4.5% of the total mutual fund AUM. Our distributor count went up from about 65,300 in March 2018 to more than 68,000 as on June 2018. As an asset management company, we also operate in ETFs, Alternative Investment Funds and offshore funds segments.

Let me share a brief update on these business clients. RNAM is the second largest ETF player having a market share of 15.4%. It has overall AUM of Rs 129 bn for the quarter ended June 30, 2018. RNAM is the only AMC which has a track record of more than 15 years both for active and passive funds in India. India has also been seeing increasing flows coming from international markets. We have taken various steps towards that and have been working closely with Nippon Life Insurance Japan to leverage the global tie-ups. RNAM presently is managing and advising an AUM of Rs 83bn from offshore business. Reliance AIF has commitments of over Rs 22bn across various AIF schemes as on June 2018. We have always taken pride of our people, practices and culture. In this respect, I am delighted to share RNAM has featured in Aon's Best Employer 2018. Also, a study conducted by Great Place to Work institute. RNAM has featured amongst the India's best companies to work for 2018. This recognition proves that we are moving fast in the right direction. The sector has shown good growth over the last decade. Although the growth

numbers are strong, we expect mutual fund industry to unlock further opportunities in coming quarters. Interestingly, industry folio counts currently stands at 74 mn, which are only 5% of the population. With wide distribution network, retail strength, strong brand equity and digital capability, RNAM is perfectly-poised to disproportionately benefit from this macro tailwind. Our intention is to drive the change in behavior of Indian retail investors into mutual fund industry for long term wealth creation. Our focus as a company will remain on profitable growth. With those comments, we would like to take your questions. Thank you.

- Moderator** Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sudhanshu Mishra of Motilal Oswal Securities. Please go ahead.
- Sudhanshu Mishra:** The first question is with respect to your yields, your fee income on average AUM has largely remained the same vis-à-vis the year-ago quarter. So, how do we look at it, going forward?
- Prateek Jain:** Despite regulatory changes in terms of fee reduction both for close-ended and open-ended schemes and change in additional incentive from beyond top-15 cities to beyond top-30 cities, we earned the similar yields in terms of AUM. Thus, we continue to adjust and pass on the entire decrease on our distributor commission.
- Sudhanshu Mishra:** So, do you envisage further yield compression or how do we look at the yields, going forward?
- Prateek Jain:** See from our perspective again, it is a combination of our product mix. If the product mix keeps improving in terms of the equity, we can see slight positive side of it and secondly, in terms of competition and regulatory framework, we believe that the yield may come down over a period of time, given the regulatory changes that we have seen.
- Sundeep Sikka:** However, from our perspective, I think we will try to improve the yield with right product mix. Equity assets have been going up as a percentage of total assets. They have gone up from 29% to 37% and what is more important whatever reduction due to regulatory changes has been there is passed on to the distributors.
- Sudhanshu Mishra:** And the second question is what is the cost of generating Re. 1 of AUM from B-30 cities versus generating Re. 1 of AUM from T-30 cities?
- Sundeep Sikka:** I think it is more than the commercial value of it, let me give you qualitative part which is more important. If the assets are coming from the top cities and especially the HNIs, the persistency is much lower. So let me put it the other way round. The persistency and longevity of the retail investors is higher.
- Prateek Jain:** Basically the way we see it stickiness is more important than just the cost of acquisition. Also, from a quantitative perspective as Sundeep mentioned, this is more sticky money so it helps us in terms of revenue. Further from an acquisition perspective, the regulator allows us to charge additional fees and pay to the distributors. So, we are agnostic to that in terms of P&L.

- Moderator:** The next question is from the line of Jinesh S from Emkay Global. Please go ahead.
- Jinesh S:** First question pertains to financials, so basically there has been an MTM loss on the investment portfolio and that is the reason why there has been an impact of Rs. 180 mn. Apart from it on the fee income side or on the expense side, has there been any other impact due to this or this is the sole impact, which was recognized during the quarter?
- Prateek Jain:** Yes, so we have uploaded the presentation, not sure you have been able to look at it but I will just take you through the transition. So, what we have put in the presentation are six areas where the Ind AS change could have potential impact. Biggest one is the management fees, which is revenue there is no change whatsoever. The second biggest item in our P&L is the distribution cost, which impacts our expenses, again there is no change whatsoever. The only material change which is coming is the other income which is part of our treasury income, rest all are mainly related to the balance sheet like Preference shares.
- Sundeep Sikka:** Your observation is right. As far as the results are concerned it is mainly about the investment income.
- Jinesh S:** Okay obviously there has been decent growth as far as equity AUM is concerned but if you see on sequential basis there has been a bit decline as far as overall AUM is concerned. So, can you throw some light on how the redemption pressure is getting built up or what is the scenario right now as far as overall redemptions are concerned so that will give little further clarity on that?
- Sundeep Sikka:** So, broadly if we were to see, typically whenever there is a market volatility you see a little slowdown in the AUMs and this happens due to two reasons, one is slowdown in gross flows and other one can be redemption. I mean across the industry, if you were to see what has happened is while the redemptions remained at Rs 200 bn in June, it is the gross flows declined by an average Rs. 110 bn to Rs 323 bn, for which we saw marginal slowdown. However, here I would like to also highlight the fact, typically whenever the market volatility happens, slowdown happens more in the HNI segment, as they typically respond fast. For us if you were to see, Q1 of last year we were doing 75,000 SIPs a month and Q1 of this year doing average about 1 lakh SIPs a month. So, the transactions and the investors from small cities and towns continue to keep increasing due to which the annualized SIP book has reached approx. Rs 100 bn-mark. Effectively for us, we are focusing more on profitable growth rather than the topline growth. Compared to last year you might see a little dip in overall AUM. But for us the good thing is the quality AUM and the profitable AUM continues to grow at a steady pace.
- Jinesh S:** And just lastly, even the previous guys asked, so if my understanding is correct the cost of expansion into or augmenting funds from B-30 cities is generally little higher. But whatever regulatory changes on the cost front happened were passed on to the distributors, so the overall impact would be relatively lower. Is my understanding correct or there is other way to look into it?

- Prateek Jain:** Your understanding is correct. The additional incentives on garnering B-30 assets is passed on to the distributors. We have added another 16 odd locations in this quarter. Now we have one of the largest pan-India presence and given our presence is already there, it helps us to garner higher proportion of that B-30 AUM.
- Sundeep Sikka:** But in terms of question of B-30 it might be important for everybody to know, we are right now present in 100 locations, where no other mutual fund is present. I am taking into account a lot of flows are coming from small cities and towns. Yesterday also the SEBI chairman after his meeting in the press said more investors are coming from smaller cities and towns, that is growing faster than the bigger cities. We are happy to share, I think we are one of the dominant players there and we are gaining this proportionately as new investors come from these cities.
- Moderator:** The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.
- Abhishek Murarka:** My question is on the SIP book. Now there are two things. One, can you just take me through how you arrived at this annualized Rs100bn? Because, when I look at the flows, I am assuming that Rs 1102 mn is for 1QFY19 that does not translate into Rs 100 bn for the year. So, can you just take me through that? And the second thing is when you say 75% of incremental SIPs have a tenure of more than 5 years, can you just indicate what may be customer profile or the locations from where you have sourced? What is the criteria which helps you to come to that conclusion?
- Sundeep Sikka:** So, let me take the first question. I think the fact that I mentioned our annualized SIP book has reached approx. Rs 100 bn-mark stems from the fact that the monthly SIP book is Rs 8.27 bn that gives approx. Rs 100 bn annualized.
- Abhishek Murarka:** So, sir in Slide #11, you have given the flow number, the new SIP amount of Rs 1102 mn. What number is that? Because Rs. 840 crore or Rs 8.4 bn a month would translate into Rs 25 bn per quarter.
- Prateek Jain:** No, they are two different things. One is basically what you are seeing on slide 11 is the total book which includes all the SIPs which includes historical SIPs as well. So this includes all the 28 lakh SIPs. And what you are seeing in Q1 are the new incremental SIPs which have been added during the quarter. So, I hope it is clear. What we are saying is total 28 lakh SIPs now contribute Rs. 8.27 bn as we talk today.
- Abhishek Murarka:** And that will become Rs 100 bn?
- Prateek Jain:** Yes, SIPs, which have been added during the quarter, are giving an incremental number. What you are seeing is the bottom part of the slide.
- Abhishek Murarka:** Actually I am confused because your slide does not show Rs 8.4 bn a month anywhere, so that is the part.
- Prateek Jain:** It says Rs 8.27 bn in the bar chart.

- Abhishek Murarka:** Sir that is the flow.
- Prateek Jain:** No, that is the cumulative book what we have, every month. We will take your feedback. We will make it more clearer going forward.
- Abhishek Murarka:** Yes, so you say SIP book and you say new SIP amount -
- Sundeep Sikka:** Now that you raised this point I understand, I think this needs to be little clearer from our side, but just to clarify every month the SIP is Rs 8.27 bn.
- Abhishek Murarka:** Okay, because then again that is not for the month, as it is June 18, I am assuming it is a quarter. So, that is why the confusion. Second thing on your tenure of your SIP book, can you explain what criteria you used to arrive at that tenure?
- Sundeep Sikka:** Well I think this depends on the mandate. So it is based on that.
- Abhishek Murarka:** And the general tenure of SIP as in for your outstanding SIP book what is the overall tenure, what is the behavior usually from different like B-30 or T-30?
- Sundeep Sikka:** The general trend is smaller the ticket size they are more stickier. What we have seen typically there is a big difference between SIPs which come at below Rs 5,000 as an average and which come Rs 5,000 and above. There is a marked difference in the characteristics of these two. For our SIP book at this point of time, 75% of incremental SIP's has tenure above 5 years.
- Moderator:** The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** Two questions from my side. I am not sure maybe it was, I skipped on the call somewhere in between so I am not sure it is discussed or not but what is the outstanding SIP book as on date?
- Sundeep Sikka:** Outstanding SIP book annualized is approx. Rs 100 bn and 28 lakh SIPs are contributing Rs 8.27 bn per month.
- Nischint Chawathe:** What I am trying to say is that out of the total AUMs as we speak, equity AUMs are 37%. Of this what is the break-up in terms of SIP and non-SIP?
- Sundeep Sikka:** About 35% of the total equity AUM are coming through SIPs.
- Nischint Chawathe:** Okay, so out of 37% of equity assets, one-third is SIP and two-third is non-SIP.
- Sundeep Sikka:** Yes, correct and the trend is increasing.
- Nischint Chawathe:** Fair point. Just one basic question or just clarification, I am just looking at Slide #29 and I am looking at other income and MTM impact on other income. If I try to adjust for that are we trying to say that other income would have gone up from Rs 122 mn to Rs 300 mn if I try a sort of let

off? Other income and MTM impact on other income, so essentially this Rs122mn goes to Rs300mn is that the way to think about it if the MTM impact was not there?

Prateek Jain: No, In Other Income of Rs 300 mn you have to add another Rs 180 mn , so it will go to Rs 480 mn which is actually the realized income for the quarter. Due to Ind AS, we have an MTM impact of about Rs180 mn. So it is showing in the books as about Rs 300 mn.

Nischint Chawathe: Sure, and last year same quarter was Rs 300 mn?

Prateek Jain: Last year, yes. So, what you have to see is that realized income versus unrealized income. If you look at realized income then it was about Rs 480 mn versus Rs 250 mn last year. But because of the MTM , the reported income comes to about Rs 300 mn versus Rs. 500 mn last year on adjusted basis.

Nischint Chawathe: So, the real number if you have to go back to the old norms and try to see how much you have realized it is basically Rs 500 mn?

Prateek Jain: Yes, so if I have to put it like is, if we would have prepared these numbers of June 18 as per the old IGAAP then our PBT would have been about 22% higher than the previous quarter.

Nischint Chawathe: Sure, and other income would be basically 50 versus 30, that is the point I am talking about.

Sundeep Sikka: That is right.

Moderator: The next question is from the line of Lalitabh Shrivastawa from Sharekhan. Please go ahead.

Lalitabh Shrivastawa: Just wanted your sense on your AUM on equity basis, which has been growing pretty strong but debt funds I think, and liquid funds are the two aspects, where you have kind of stagnated over the quarter, so some sense on where you see this business going forward and secondly on your managed business. If you can share what are the dynamics and how are the fees and commissions earned?

Sundeep Sikka: Let me take the first question then I think Prateek will take you on the managed account commercials and all. Broadly the way we have always articulated, our focus remains on profitable growth. So, effectively when you talk about liquid, if you look at the overall size of the Indian mutual fund industry, out of Rs 23 lakh crore, about Rs 11.3 lakh crore come from institutional investors, which is not very high yielding. So, like I mentioned earlier we will continue focusing on profitable growth and not do any business, which has a negative carry on our business. So, that is the reason consciously some decisions have been taken not to go after market share where it is not profitable. So, that is one of the reasons. Also, on the debt side, while our focus continues, because of where the yields have moved, we have seen some institutional investors and HNIs not having a very favorable view on the debt in the last quarter. But we believe this more of a temporary blip rather than anything else.

- Prateek Jain:** Just to put across in terms of the question, like compared to the industry growth of about 20% odd, liquid growth has been about 18%. The thing is that in this category, realization compared to equity and debt categories, is very low. Also, if you would have seen, on liquid fund we continue to charge about 15 basis points as expenses compared to the peers who have been charging as low as 2 basis points. So, that could be one reason. But having said that in terms of equity we earn about 120-125 basis points on a net basis and on the fixed income about average 50 basis points.
- Lalitabh Shrivastawa:** And on your managed business sir?
- Prateek Jain:** Managed business is predominantly the EPFO and CMPFO of Rs. 1,70,000 odd crores. There is close to about Rs 1100 crore odd of PMS money where we earn about 100 basis points as net fee.
- Moderator:** We will move onto the next question that is from the line of Harish Kapoor from IIFL AMC. Please go ahead.
- Harish Kapoor:** Sir I just want to know on the other income side I want to just get some clarity, so how are we looking at that front moving forward because now we also have to do MTM on that and other income has been strong for us and also if you could give some clarity how things are going to be moving forward on that line item and also if you could mention how would the Q4 other income look if you were kind of doing on Ind AS basis?
- Prateek Jain:** See we have not yet prepared the Q4 Ind AS at this point of time so we would not comment on that. In terms of other income our philosophy of investments is to hold till maturity. However, Ind AS does not recognize that and it is change from the old stance where any product which is held to maturity used to be carried on cost basis and only realized gain was accounted. So, this is a stark change. However, our philosophy remains the same. Our net worth has been deployed mostly in our mutual fund schemes as seed capital and this will remain till maturity and therefore that mark to market impact does not really matter. However, for the time being if we keep this aside, our business continued to grow very strong as Sundeep also mentioned in his opening remark and core operating profit has grown by about 25%.
- Harish Kapoor:** And sir second thing if you could also talk about your direct channel, how much is it contributing and in terms of your maybe productivity there and even the branch productivity etc. so that would be helpful.
- Sundeep Sikka:** I think there are two parts to it. First, the investors coming direct which is based on the direct plan which have been introduced by the regulator. Roughly 14% of our equity business comes directly. The other one is basically the branch network and the digital properties that we have. So at this point of time as we discuss, 16% of our new incremental transactions that we are doing are coming through our digital properties. And as far as the productivity is concerned, I think most of the new branches that we have opened very recently in excess of 100 post listing and

are yet to complete six months. But broadly, the way we see it is any branch which has assets of about Rs 100 mn equity, becomes profitable.

Harish Kapoor: And the direct channel is 14% of the increment.

Prateek Jain: Of the total equity AUM, 14% is direct. A lot of institutional money comes in direct, which will take the percentage higher, so I am not covering them.

Moderator: The next question is from the line of Siji Philip from Axis Securities. Please go ahead.

Siji Philip: Just to expand on an audio question on SIP tenure, any proportion of perpetual SIPs in our SIP book?

Sundeep Sikka: It is increasing but cannot recall the number. However, it's a decent number. I think, one of the healthy trend that we have seen is that earlier typically investors used to come for a SIP of 2-3 years, now 5-10 years is becoming a norm.

Siji Philip: And since we have seen a good growth in our equity AUMs how do we see the trend, going forward as well it will be as robust?

Sundeep Sikka: Our focus continues more on SIPs and small investors. This comes from the fact that our focus continues on profitable growth as our analysis shows smaller the ticket size and AUM coming from smaller cities and towns it is more sticky and more profitable from a long-term point of view. So, we will continue focusing on that.

Siji Philip: And how do we see on the part of brokerage or our expansion if we are planning to do it, so are we spending more on that front?

Sundeep Sikka: Broadly, when we went for IPO we said will like to take it to about 500 locations. We are already present in about 300 locations. At this point of time we want to take a little pause because we are trying to take the new 120 odd locations to the profitability stage and then add another 100 locations. We do not expect any major expenditure investments for future because we believe majority of the investments which have to be done, has been done.

Moderator: The next question is from the line of Harsh Agarwal from Infina Finance. Please go ahead.

Harsh Agarwal: Can you please help us with the marketing expenses for the quarter?

Prateek Jain: See if you look at the other expenses, it has gone down by about 5%. And broadly as we had mentioned that in terms of our distribution, given that we have incremental growth of about 10% so the brokerage and incentive cost have gone up about 10% and as we have been maintaining that the broad general marketing spend, which we have done higher last year has come down and therefore we can see there is a decline in the overall cost despite growth in AUM and increased number of branches and other infrastructure.

- Harsh Agarwal:** So, can we get a ballpark number for this line item as like last year? I believe the number was around Rs1.2bn.
- Prateek Jain:** It has come down by about 20-25% YoY in this quarter itself.
- Harsh Agarwal:** So, you are saying this quarter the number would be around Rs1bn?
- Prateek Jain:** So, that was the total number including the brokerage and distribution. However, if we take that into account, the overall number in terms of the market and distribution itself will be less than Rs 1 bn.
- Harsh Agarwal:** Okay, so this Rs 1.2 bn has actually declined to in the vicinity of Rs 1 bn for the quarter?
- Prateek Jain:** Yes.
- Moderator:** The next question is from the line of Saurabh Dole from Trivantage Capital. Please go ahead.
- Saurabh Dole:** I have a couple of questions on your SIP business and SIP flows. Firstly, you talked about how around 75% of incremental SIPs have a tenure of 5+ years, so I just want to know how has the 75% moved over the period of time? As it gone up, has it gone down also? and the second question is what would be the proportion of equity inflows into your direct business?
- Sundeep Sikka:** Let me take the first one. Clearly the trend, I think what we are seeing is the SIPs are becoming a part of every investor's monthly wallet. So, two things are happening at the same time. One, the base is getting increasing. So, new investors are coming in. Typically the new investors who come in try to test it with may be 1 year, 2-year, 3-year. But I think what happens after that, once he is introduced to the system the next SIP that comes in is typically for 5 or 10 years. So, both the things are happening at the same time and while we are trying to play a role on both the sides, we are getting a lot of new incremental SIPs and also the answer to your question is over a period of last year or rather 18 months there has been a steady increase in the tenure of all SIPs that we have received. As mentioned earlier in the call, total 14% of our equity business is direct.
- Moderator:** The next question is from the line of Himashu Taloja from Emkay Global. Please go ahead.
- Himashu Taloja:** I just want to have a couple of questions. First, basically on the yields that we are making as you provide the break-up of the yields and the mutual funds, can you give us what yields we are making on the managed business and the offshore business?
- Prateek Jain:** As I mentioned earlier, the managed part is mostly and predominantly the EPFO money and there we are almost at break-even.
- Himashu Taloja:** And on the offshore funds?

- Prateek Jain:** See, offshore has basically two parts. One is the amount, which we advise and the other one is, the one we manage. So, where we managed in terms of our subsidiaries, we make about 70 bps to 90 bps and in terms of pure advisory money, we make about 35-45bps.
- Himashu Taloja:** So, it means basically on the offshore, that international business?
- Sundeep Sikka:** Yes, that is right.
- Himashu Taloja:** And on the managed it is basically EPFO, which we make hardly any yield?
- Sundeep Sikka:** EPFO PMS both are there. So, it is about Rs 11bn of PMS also that we manage, where we make 1%.
- Himashu Taloja:** And also, how much we make on the ETF, as we are the second largest player and we have been building this?
- Sundeep Sikka:** On ETF it is around 19bps.
- Moderator:** The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.
- Shailesh Kumar:** This question is directly towards Sundeep. I just wanted to know, I mean is there any internal metric, where you are targeting certain kind of a secular AUM growth say over next 2-3 years kind of period irrespective of market conditions and if it is, what is the kind of growth which you are targeting?
- Sundeep Sikka:** The way we see it is irrespective of market I mean clearly, we are at a stage, where I think more and more Indians are investing into capital market and mutual fund is becoming first preferred route. Clearly at this point of time, in spite of the fact that the mutual fund industry has touched 23 lakh crore, only 7.4 crore folio are there and while the industry has doubled in the last five years, the reality is folio count has only gone up by 11% CAGR. We clearly believe ourselves playing a very big role because of strong reach that we have and the distribution capabilities. Further with the very strong campaigns which we were doing at industry level, Mutual fund is becoming more and more popular and acceptable product. I would expect this 7.4 crore folios to go to about 15 crore folio over a period of 5 to 7 years and I think we clearly see ourselves playing a bigger role there.
- Shailesh Kumar:** Do you have any kind of metric like AUM per employee?
- Sundeep Sikka:** We do not see AUM per employee's basis because like I said 50% of industry is direct. There are some internal metrics, which I would not like to elaborate on the call. However, everything is more linked to profitability rather than market share.
- Moderator:** The next question is from the line of Rahul Marathi from Akash Ganga. Please go ahead.

- Rahul Marithi:** Can you just provide us with the guidance for utilization of IPO proceeds?
- Prateek Jain:** We had raised Rs 5.88 bn and so far we have used Rs 1.63 bn and part amount have been set aside for acquisition as well for investment in our AIFs schemes. We are working on this. We will be launching certain AIF scheme soon, where we will be investing that money as seed capital. In terms of inorganic opportunities, we keep looking at the available opportunities and we have time of two years to utilize this amount and we will judiciously utilise the same.
- Moderator:** We take the next question from the line of Yashodharan Nerurkar from PPFAS Mutual fund. Please go ahead.
- Yashodharan Nerurkar:** Could you just through some light on the current ICD status?
- Sundeep Sikka:** There has been no change in this quarter.
- Yashodharan Nerurkar:** What could be the rough figure inclusive of loans given to subsidiaries and unrelated parties?
- Prateek Jain:** Except for subsidiaries, they are all unrelated parties from accounting standard perspective. However, there are certain group companies but then there is nothing to RCOM.
- Yashodharan Nerurkar:** Okay so this does not include anything to Rcom.
- Moderator:** The next question is from the line of Pawan Kumar from IIFL. Please go ahead.
- Pawan Kumar:** I have two questions. One is you mentioned that the AUM shift has moved from 29% and equities to 37% over the last years so per se it will move a 700 bps over the AUM the revenue should increase can you please throw some light on how this increase have been off set moving from B15 to B30 and then any changes in the commission that are paid. Second question is on the holding portfolio what is the accrual yield that you look at 7%, 7.25% and do you see any changes over the next one, two years?
- Sundeep Sikka:** Can you repeat the second question please?
- Pawan Kumar:** On the holding portfolio where you invest in the mutual funds on bonds what is the kind of accrual yield you are looking at 7%, 7.25% or like higher yield and how do you think it will move over the next two years?
- Prateek Jain:** So, we target about 8.5% to 10% kind of a yield and at this point of time for the near future we expect that this is quite realizable. In terms of your first question obviously there have been a couple of changes, while the equity AUM has been growing over a period of time. So, you have to see one is a part of average growth and also the fact is that marginally because of that one is the decrease in structure and marginal increase in trailed brokerage. The realization is slightly lower in terms of equity compared to what it should be 125 bps is now in the range of 121 bps to 120 bps.

- Moderator:** The next question is from the line of Hamesh K from JM Financial. Please go ahead.
- Hamesh K:** Sir, as you said the SIP book from on QoQ basis has moved up from 75,000 to 100,000 per month so that is heartening. My question to you is that at what stage do you think this volatility in the midcap space and SEBI realignment stuff that has happened and at what stage it might if at all impact the sentiments of people and may be how our investor reacting to these midcap challenges on the performance side are they shifting to NIFTY/ETF kind of funds where on the ETF side were strong or at what stage it might impact so just wanted to understand your 6 to 18 months kind of a view vis-à-vis the kind of uncertainty that is happening on the political reform where we have an election do you see the challenges on that side?
- Sundeep Sikka:** Would like to answer face to face because it is going to be a long answer, but I try to keep it a short. We are part of industry, where I think, market volatility is always going to be there and the business is always going to cyclical and it is going to have some impact. Our job, as a management team, is to ensure that the impact is as minimal as possible. What we see is even in the last six months, ever since the volatility has started, the impact has been more to do with the HNI rather than the retail and the SIP as I talked earlier have only been increasing. I think you can get the pulse of this from the fact the Q1 last year we were doing 75,000 SIPs a month, this year first quarter we are doing 1 lakh sips a month. The trend is clearly positive and the reason why we also try to focus a lot on SIPs. This AUM is not as vulnerable to market volatility unlike the lump sum money, which comes from HNI because this money is coming at a smaller ticket size. Every ticket size is about Rs. 3000 a month and this type of money is not monitored that closely. I think the only message we can give is that we are trying to build our business a little stickier compared to that of the industry and that is why we are trying to go to retail as possible, as the stickiness will add to persistency, which will add to the profitability.
- Hamesh K:** Just one expansion of this the increase in the SIP book is it a function of increased distribution that we had alluded to the branch expansion as well as direct share that we have on the digital side or it is coming from the same set of geography this is question number one and whether you know the incremental flows that the industry we have seen how was mainly coming after 2014 when this new government came and more so post the demonetization so the question is many of these SIPs which you would have started with testing of say two, three years it might come to an end in the next six months so in that context are we seeing the incremental flow to compensate those SIPs which might come to an end.
- Sundeep Sikka:** Answer to your first question the contribution for our new branch network and digital properties is hugely contributing and that is exactly the reason in spite of the volatility we are going to market and segment where no mutual funds has gone before. I mentioned earlier we did 100 locations where no mutual funds is present so definitely the contribution is there. Question B the SIPs, which are known to be started let's say four or five years back will they will be coming to the maturity will that be compensated with the new ones. I am a little more positive. I take it while the new ones will keep coming there is no reason for the old ones also to stop. All those

investors have made money and rather I expect those people who came for three years to extend to 5 to 10 years.

Moderator: The next question is from the line of Ritwik Sheth from Deep Finance. Please go ahead

Ritwik Sheth: Sir, I just have one question somewhere in the call you mentioned that over a period of time you expect the yields to gradually come down, so what is the role the regulator on the commission that is charged by us and eventually by the distribution if you can throw some light on that?

Sundeep Sikka: At this point of time the reference to the yield coming down was a generic taking into account as markets mature typically the yield can come down. We are not in purview of anything that I think yields will come down. It is however when you run a business you need to always prepare for the worst and be ready for that, so just want to clarify that. Number two, I think for us the yields have been constant the yields are a function of the product mix and we have been trying to keep the yield flat or improve by improving our product mix. About the distributor part right now also AMFI has some regulation on how much can be paid and not paid from our perspective the way we see is for us our strength lies in IFA's in small cities & towns.

Ritwik Sheth: Does the SEBI regulate the commission that we charge to the customers?

Sandeep Sikka: The SEBI regulates the fees, which we charge to the investors. The SEBI does not regulate anything beyond that. Commission depends on business model of every respective AMC and for us it is profitable growth.

Moderator: As there are no further questions I now hand the conference over to Ashutosh Mishra for his closing comments.

Ashutosh Mishra: Thank you all investors for actively participating in the call and thanks to the Management Team of giving their perspectives.