

“Nippon Life India Asset Management Limited
Q1 FY’24 Earnings Conference Call”

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LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Nippon Life India Asset Management Limited Q1 FY '24 Earnings Conference Call hosted by Kotak 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 star then zero on your touchtone phone. Please note that this call is being recorded.

I now hand over the conference to Mr. Abhijeet Sakhare from Kotak Securities. Thank you, and over to you, Mr. Sakhare.

Abhijeet Sakhare: Good evening, everyone. On behalf of Kotak Securities, I welcome you all to 1Q FY '24 earnings call for Nippon Life India Asset Management Limited. We have with us Mr. Sundeep Sikka, ED and CEO, along with the senior management team of Nippon Life Asset Management.

I would like to hand over the call to Mr. Sikka for his opening remarks. Over to you, sir.

Sundeep Sikka: Thanks. Good evening and welcome to our Q1 FY '24 earnings conference call. We have with us, Chief Financial Officer, Prateek Jain; Chief Business Officer, Saugata Chatterjee; Chief Business Officer, Aashwin Dugal; Chief Digital Officer, Arpan Saha; Head of Product Management and Investor Relations, Arun Sundaresan; and Shin Matsui-san, Nominee of Nippon Life Japan. Our detailed investor presentation and press release have been uploaded on the exchanges, as well as on our website.

I will break my comments in 3 parts: industry overview, our performance, and the way forward. Starting off with the markets. Equity markets in Q1 FY '24 were buoyant with the Nifty 50 rising by 11% and Nifty Mid and Small Cap indices rising by 18% and 20%, respectively. RBI held the repo rates steady at 6.5%, while 10-year G-Sec yield declined by 19 basis points quarter-on-quarter to 7.12%.

Coming to the data on the industry. The industry AUM grew by 6.4% quarter-on-quarter in Q1 FY '24 to INR43.1 trillion. This is the highest quarterly growth since Q2 FY '22. On a year-on-year basis, the quarterly average AUM grew by 14.2%.

Now, moving to flows. The equity category witnessed a gross inflow of INR1.13 trillion and a net inflow of INR137 billion. A large part of the inflows in the category were from small and mid-cap schemes. Investor interest in investing through systematic investment plan further increased with the SIP contribution for the quarter being INR432 billion, 19% higher than Q1 FY '23 and 3% higher than Q4 FY '23.

Monthly SIP flows in June 2023 stood at INR147 billion, which was marginally below the all-time high achieved in May-2023, SIP folios increased by 5% quarter-on-quarter to 66.5 million. Arbitrage funds also witnessed strong inflows of INR137 billion. Fixed income category, which is debt plus liquid witnessed a net inflow of INR1.35 trillion after a large outflow witnessed in Q4 FY '23. ETF flows were healthy at INR150 billion.

At the end of the quarter, the unique investors in the mutual fund industry increased to 38.3 million, which -- while industry folios increased to 149.1 million. Increasing financialization, higher awareness and better reach through new-age technology platforms and distribution network should see continued growth in the mutual fund industry going forward.

Now, moving to our business performance. We closed the quarter with total assets under management of INR4.04 trillion. This includes mutual funds, managed accounts, and offshore funds. Our mutual fund quarterly average AUM grew by 7% quarter-on-quarter and 12% year-on-year to reach INR3.14 trillion.

Now, I would like to share 5 key highlights for the quarter, starting with market share.

- 1) Our market share increased 4 basis points quarter-on-quarter to 7.28% with market share increases across all asset categories barring liquid.
- 2) Our equity market share, which was stable at 6.19% over the last 4 quarters has seen an improvement of 7 basis points and has increased to 6.26%. We also gained market share in our debt segment, which is 44 basis points quarter-on-quarter and ETF 12 basis points quarter-on-quarter.
- 3) On the segmental front, our HNI category market share improved for the sixth quarter in a row. HNI AUM grew 13% quarter-on-quarter to INR872 billion. Market share increased 19 basis points quarter-on-quarter to 5.99%.
- 4) Individual AUM, which consists of retail and HNI AUM, also grew by 13% quarter-on-quarter to INR1,837 billion. Market share increased 17 basis points quarter-on-quarter to 7.16%.
- 5) Highlight number 5, our B-30 AUM grew by 13.4% quarter-on-quarter to INR631 billion, which makes us one of the fastest-growing large AMCs in B-30 locations. Our market share improved by 19 basis points quarter-on-quarter to 8.33%. This segment forms 19% of our AUM versus 17% for the industry.

I would like to share that NAM India has also been appointed as one of the AMCs for managing EPFO corpus for ETFs, the investments commenced from the beginning of July 2023.

I would also like to touch upon other important aspects of our performance.

- 1) We added 0.5 million investor folios in the quarter and continue to have the largest base in the mutual fund industry with 14.1 million unique investors with a -- which is a market share of 37%.
- 2) Systematic flows are a stable and a key driver of mutual fund industry's long-term equity flows. I am happy to share that there has been a steady uptick in our

systematic flows over the last 8 quarters, and this has led to increase in our market share.

- 3) Our systematic book rose by 10% to INR12.2 billion for June 2023 over March 2023. This resulted in an annualized systematic book of approximately INR147 billion. Number of systematic transactions for the quarter increased 8% quarter-on-quarter to more than 10.7 million.
- 4) 63% of our SIP AUM has continued for over 5 years versus 25% for the industry. Also, in volatile markets, folios with lower ticket size have demonstrated longer vintage and better stickiness. 17% of our SIP folios have continued to -- continued for more than 5 years and as against the industry average of 12%.
- 5) Generally, as market moves up, we typically tend to see higher redemptions in equity segment. However, given the granular nature of our AUM and specifically SIP AUM for us, we have seen lower impact of redemptions versus the industry. This is evident from the fact that we have had net sales market share in excess of 20% in equity for Q1 FY '24 except for arbitrage and Index.
- 6) At Nippon India Mutual Fund, we offer industry best suite of passive products with an ETF ecosystem which is already in place and far ahead of the peers in terms of investor base and mind share.
- 7) We continue to be one of the largest ETF players with an AUM of INR738 billion and a market share of 13.9%. Gold ETF is the biggest in the category with INR78 billion in assets. Our share in industry ETF folios is 61%. We have 70% of the ETF volumes on NSE and BSE. Our ETF average daily volumes across key funds remain far higher than the rest of the industry.

Now, I would like to provide a brief update on our AIF and international businesses.

- 1) Under Nippon India AIF, we offer Category III -- Category II and Category III alternate investment funds and have a total commitment of INR57.5 billion across various schemes.
- 2) We had launched our Tech Fund of Funds in 2020, anchored by large Japanese institutional corporate investors. We are now in the process of raising commitments for a second similar fund.
- 3) We have also recently launched a credit AIF, for which fundraising process is underway.
- 4) We continue to strengthen our AIF offering, and in the quarter, we appointed a new Head of AIF, Mr. Ashish Chugani, post the superannuation of previous head.

- 5) We would like to continue focus on fundraising from international markets, and as mentioned in our recent AGM by Yao-san, who is the Chairman and CEO of Nippon Life Asia Pacific and Director on the NAM India Board, Nippon Life remains committed in supporting NAM India's offshore operations.

Moving to our strong distribution franchise.

- 1) A digital-centric strategy remains at the core of our future growth. Digital has always been the potential beta at Nippon India Mutual Fund. Our digital LEAP with leverage, evolution, access, and privacy, doctrine across the organization and our franchises helping us to be trusted, agile, and future ready.
- 2) We will continue to strengthen our digital ecosystem to simplify the investment experience and build a frictionless ecosystem for our investor partners.
- 3) Digital purchase transactions rose to 1.06 million in Q1 FY '24, up 42% year-on-year. This is the first time that our digital transactions crossed 1 million in a quarter. The digital channels also contributed 57% to the total new purchase transactions for the quarter.
- 4) While I have already spoken about our digital infrastructure, we have a well-diversified physical distribution base with a wide presence through 270 locations across the country.
- 5) We have over 93,000 distributors, including over 92,800 MFDs. We added over 2,000 distributors during the quarter.

Now, I would now like to take you about a few other developments.

- 1) Starting with our small cap fund, while the AUM growth is of high importance for AUM, we continue to act in the -- act with highest priority towards investors' interest. With this backdrop and seeing the current market conditions, we stopped accepting lump sum investments in our small cap fund with effect from July 7, and continue with the SIPs. We would like to evaluate the restarting of the lump sum investments when we feel the market opportunity is right.
- 2) Now, on the regulatory environment, as you are aware, SEBI came out with a consultation paper in May 2023 regarding the review of TER charged by AMCs. Post that, as mentioned in media, SEBI is expected to come with a revised paper after incorporating industry feedback. We await the details regarding the same.

Now, on our financial performance. For Q1 FY '24, operating profit stood at INR1.93 billion, up 13% year-on-year. Profit after tax stood at INR2.36 billion, an increase of 107% year-on-year and 19% quarter-on-quarter. As a part of our capital allocation strategy, we would like to reiterate, we have a stated dividend policy to distribute 60% to 90% of our profits to shareholders. In FY '23, we distributed 100% of our profits. In addition, we also remain open

to evaluate investments in strategic opportunities that add to the profitability and complement our existing businesses.

Briefly moving onto ESG.

- 1) As a signatory to UN-PRI, we are integrating ESG aspects into the various areas of planning, operations, fund management, risk, and governance.
- 2) Our goal is to encourage higher adoption of ESG principles within the asset management industry.
- 3) Our ESG ratings are amongst the best in the financial industry with NAM India now rated 'Low Risk' by Sustainalytics.
- 4) As a responsible investment manager, we are building a resilient portfolio that will, not only provide sustainable returns to our portfolio -- to our investors but will also have a positive environmental and social impact.
- 5) For those of you that may be -- for those of you that may have a greater interest in ESG, I urge you to go through our recent annual report, which also contains a complete ESG report and BRSR Report for FY '23.

To sum up, I would like to reiterate that investor-first remains our key theme. We will continue to do what is right for our investors with sustainable profitable growth for our shareholders. We will continue to build our business going forward on the pillars of brand, distribution, performance, people, process, and trust. I am happy to state that 1 out of 3 mutual fund investors in India invest with NAM India.

With these comments, we are happy to take your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question comes from the line of Prayesh Jain of Motilal Oswal.

Prayesh Jain: Firstly on the yield front, could you throw some light as to why the yield dropped in this quarter?

Prateek Jain: Yes. So, Prayesh, we have been maintaining that -- we have always been focusing on sustainable growth, and unit economics have been our guiding light for all our product launches, distribution strategies, etc. But if you look at overall operating revenue at 45 basis point is in line with the industry.

Our operating profit is up 13% Y-o-Y, and even if you look at expense to income ratio has been about 34%, improved from 48% last year. See, the declining yields are more function of the industry for 2 or 3 reasons. One, that as and when our equity AUM keeps growing, because of the nature of the TER provided by SEBI, our yield goes down.

The second is that, given the fact that B-30 incentives, there has been a moratorium, obviously, for the flows from -- and as you are aware that for us, the IFAs and the smaller cities and towns has been our biggest constituency, which support us and, therefore, once that was down, obviously, the cost of acquisition has been marginally higher, that is the second reason.

The other reason is, we have strategically reduced some of the expenses, some of our debt schemes, where we believe that if we -- we will be able to get more absolute AUM, which will compensate the yield decline and we will see an absolute growth in profitability. So, that is, again, tactically few things which we have made changes.

Also, the composition of index increasing, the composition change will also lead to this yield compression. So as I've mentioned that broadly this is in line with the industry realization, and also most of the factors are beyond our controls and these are all -- issues, and the increase in AUM for the respective schemes.

Prayesh Jain: Got that. Prateek, one more -- on the employee expense that is up sequentially. What's the reason for the same?

Prateek Jain: Sorry.

Prayesh Jain: Employee expenses, which was up sequentially in the quarter.

Prateek Jain: No. So, if you look at it on quarter-on-quarter basis, sequentially, if you see the last year quarter 1 versus this year, it is flat. Sequentially, if you recollect that, look, we have mentioned that we have reduced our bonus provisions what we were carrying throughout the year in the fourth quarter and, therefore, there was a decline in the fourth quarter last year.

Yes. So that was a one-off and, therefore, this time it looks -- it appears higher. But otherwise, it is in line with what we had provided in the -- or what we have spent in the first quarter of last year. On the contrary, there is an efficiency, which has come in, because of the fact that despite giving an increase of 7% to 8%, which I mentioned, we are clocking the similar run rate for our employee cost.

Prayesh Jain: Okay. Got that. And from a more strategic standpoint and correct me if I'm wrong, you said 20% of your -- you have 20% share in equity in net inflows. Is that correct?

Sundeep Sikka: Yes, that's correct.

Prateek Jain: Yes.

Prayesh Jain: Okay. That's a great number. And apart from the fact that the performance has improved, is there anything else from a strategic point that you would have changed in the -- and that would have started yielding more results for you in terms of distribution for that matter?

Sundeep Sikka: Well, Sundeep, this side. I think we continued -- it is a continuous effort over a period of time, which is yielding results. I think SIP continues to be our focus because SIP numbers have also doubled almost in last 12 months. So, I think you're getting with the lag effect, I think you are

getting higher inflows. So I think it's, not only one thing, its multiple things, which have been done over the last 2 to 3 years, which is now showing results.

Prayesh Jain: There's nothing on the commission front that you would have changed materially, right?

Sundeep Sikka: No. We have not changed any commissions.

Moderator: The next question comes from the line of Lalit Deo from Equirus Securities.

Lalit Deo: Sir, just 2, 3 questions. Firstly, sir, you mentioned that we have been given a mandate to manage the EPFO corpus from July onwards. Sir, like what will be the allocation over there? And like what kind of yields do we make in those -- in that AUM?

Sundeep Sikka: So, I think broadly, it will be very difficult to put a number to it, because I think it's been more on a percentage basis. So typically we'll be getting about -- roughly about 1/4 of all the allocation of the -- allocation being done by EPFO. It will be coming into our existing ETFs, I think. And the average ETF, I think, if you see our present Nifty ETF, the yield is about 4 -- between 4 to 5 basis point, and that will continue because it's coming in the same fund.

Lalit Deo: Sir, just a clarification on this, this will be only in the equity area, not on the like the PMS kind of a method?

Sundeep Sikka: This mandate is, this money will be coming in our -- both our ETFs, Nifty, and the Sensex ETFs.

Lalit Deo: Okay. Sure. And sir, like we have done based on net sales market share. So like, could you also qualitatively comment on our gross sales number like how it has improved? And has now -- is it like better than our AUM market share? Because like for us, our equity AUM market share has been pretty much stagnant -- pretty much stable around 6.1%, 6.2%. So, just wanted to understand over there.

Sundeep Sikka: I think broadly, if you were to look at our equity market share has gone up a few basis points. Yes, I think 7 basis points. And clearly, as we mentioned, and as I mentioned to the earlier question, the SIP numbers have been increasing. I think the SIPs have almost doubled. The systematic book 12 months back, I think, was about, say, INR800 crores. Today, it has come to about INR1,200 crores. So, I think all these are helping in the -- with the lag effect.

And also, because of the granular business, I think typically when the markets go up, we see redemptions. And businesses like ours, where we deal with lots of small ticket size SIPs, this business -- this AUM is lot more sticky. So I think it's a combination of multiple things, it's not one thing that is leading to this increase. Overall equity gross sales have also moved up from 5% to 7%.

Lalit Deo: Okay. Sure, sir. And sir, lastly, like on the passive side, so now we are -- in the industry we are seeing that all of the major players are like rolling out their new products in this segment. And also there has been a recent announcement, like a new player is going to come up in the

industry, as well as newer industry participants are also going to focus on this segment. So how are we looking to maintain our leadership in this segment going ahead, like over the next 3 to 5 years?

Sundeep Sikka:

The only thing is, we'll continue executing, I think that's the only thing we can say. I think the market is big, I think. And I think we will continue, I think, we have a good product suite. And we have stated in past also, we will not be launching NFOs just for the sake of launching NFOs.

I think till that time we feel that there is a need for that in our portfolio and also in investor portfolio. So you saw last full year almost 18 months, we have not launched any NFO. So I think the only answer I can give is, I think our approach will be to launch funds which are scalable, and the focus will be to continue executing well. That's the only thing will be in our strategy.

Moderator:

The next question comes from the line of Madhukar Ladha from Nuvama Wealth Management.

Madhukar Ladha:

Congratulations on good numbers, particularly in a difficult operating environment and some of the operating parameters are actually doing well and they are looking good. So, first thing, sir, on the admin and other opex, I think there's a pretty big jump on a year-over-year basis and also on a quarter-over-quarter basis there has been some increases there. So, some colour on what is driving this and what should we expect for the year?

Second, on the regulatory aspect, maybe you could throw some light on what the industry has - what industry representations have gone to the regulator? And what do you see happening from here, if you're comfortable in discussing that?

Sundeep Sikka:

So, Madhukar, I'll take the second question first and give it back to Prateek for the other -- on the admin expenses. I think as far as the regulatory changes are concerned, I think, as you're aware, I think as it's been in media, I think we saw a paper, which had come in May, consultation paper and after that in media, as you would have heard that there is a new consultation paper expected anytime, while I think there have been various consultations, but I would not like to speculate. I think I'll rather wait for the new consultation paper to come. And I think it should be and it may come soon. And I think it's better to have this discussion after that because otherwise, it will just be speculation.

So I think regarding the first question on admin, I think, I'll request Prateek to, please share.

Prateek Jain:

So, Madhukar, from the corresponding quarter last year, there has been a jump, but broadly, I'll divide it into three parts. One is, obviously, there has been an inflationary cost adjustment to whatever running -- routine cost what we have. The second part is that, in terms of the other non-discretionary costs, we have seen some savings because we keep working on that. We have been maintaining that. Look, there is scope for further efficiencies.

So we keep working on it, and we've seen some positive development there. However, this quarter, if you would have seen that we have actually increased our discretionary spend significantly and we have gone for our brand building purposes, we have considerably spent on our marketing activity. So -- because of this discretionary spend, you'll see our expenses are higher as compared to previous quarter.

And as regards to the corresponding quarter, it is a function of two things, one is that the inflationary spend -- inflationary increase plus the discretionary spend. These discretionary spends actually are more -- we see more as an investment for the future growth. And currently, as you mentioned, that your performances are being good, and at this point of time, the impact that if you go out and go to the market and have more visibility around.

Madhukar Ladha: Got it. Just one data keeping question. Can you give me your closing AUM category-wise, equity, debt, liquid, and ETFs?

Prateek Jain: Closing AUM, okay, one second.

Sundeep Sikka: So, Madhukar, you want the quarterly average AUM, right?

Madhukar Ladha: No, closing AUM.

Prateek Jain: So, the total, including equity arbitrage is about INR150,000 crores. Debt, including the passives is INR77,000 crores. Liquid is INR31,600 crores. ETF is INR75,000 crores. So all together as of June end, it was INR325,000 crores.

Moderator: Thank you. The next question is from the line of Mohit from BOB Capital. Please go ahead.

Mohit Mangal: Sir, if I look at the debt to AUM, I think it has risen by around INR105 billion. So I just wanted to know which schemes we saw the maximum inflows.

Aashwin Dugal: This is Aashwin here. And see, most of the industry level, most of the money has come at the shorter end of curve. So most of the money has come in the ultra short-term scheme. There was some lag effect that it happened because in March end the tax benefit from debt were taken away. So we got -- the industry got some INR50,000-odd crores at March end. So the impact of that on average basis was added to the overall debt to AUM in Q1.

Mohit Mangal: All right. And in liquid, I mean, you mentioned, I think. So just wanted to know your outlook for the rest of the year.

Aashwin Dugal: In terms of flows?

Mohit Mangal: No. On the overall AUM, I mean. Liquid we saw declining from around INR390 billion to INR357 billion sequentially.

Aashwin Dugal: So, in the first quarter, we have seen both overnight and liquid funds have gained in AUM, okay, vis-a-vis Q4, okay? And we don't see too much of a change from what's happened really

in Q1. So it will be patronized mostly by institutional investors. So, maybe plus-minus 5%, 6%. So not too much variance there.

Moderator: Thank you. The next question is from the line of Abhijeet from Kotak Securities.

Abhijeet Sakhare: A couple of questions. Firstly, just going back to the comment on market share. So, if you could give some colour on channels, in the sense, which channels have come back strongly for you and where do you see the funds are still under-indexed?

And second one on the similar line, is the soft close on the small cap, do you see that reversing any of the gains that we've seen in the last one quarter or two quarters in terms of SIP creation or overall market share improvements?

Saugata Chatterjee: Abhijeet, this is Saugata Chatterjee here. So, first part I'll take it up. With regard to the -- what is contributing to the growth in market share, as we also did mention in the opening commentary that both the retail and HNI, there has been a growth. And we are also getting growth happening from B-30 markets. So, primarily these segments of clients are catered to by most of the mutual fund distributors, both on the erstwhile IFAs, the banks, and wealth counters. So -- and since the equity AUM also is growing for us, we have these distributors giving us higher market share and the client base is also retail and HNI, which is growing for us.

The other side is, our SIP book is also increasing, which is again very, very fragmented. It is coming through digital, it is coming through the retail distributors, who are contributing our SIP numbers across India. So that trend is very, very fragmented and distributed. So, that's the answer to the first part.

The second question is on small cap. So that's one category where we have leadership. And we feel that, even though we have reduced or restricted the flows to a particular limit of INR5 lakhs. The best part is, our SIP book in the entire small cap category, small cap flow is almost 50%. As of today, we have 50% of our flows coming through SIP, which will continue to grow.

And even though there will be some impact on lumpsum flows, which has been made structural from our side. It is from an investor interest point of view; we have taken this decision. What we find is, there is a definite flow coming into other categories. Hopefully, even if we have a dent for one or two months, going forward, the other categories will take care of the flows under net scale. I hope I answered your question.

Abhijeet Sakhare: Yes. That's helpful. Secondly, just again on the channel front, in terms of the commission payouts where we are operating today, is there -- I mean, how do you see us in terms of comparison to other players on most of the large channels? Do you see any risk of having to increase payout numbers on any of the channels? Is there potential to reduce payout on any of the channels? Any way we can improve profitability on the fast-selling products that we have today.

Sundeep Sikka: So, Abhijeet, I'll take this question, Sundeep, this side. I think broadly we keep evaluating brokerages regularly, but one thing, as a stated policy, we have always said, we would like to run a profitable business and we would not like to run after market share by paying higher brokerages. So I think our approach will be the right mix. And can there be scope to decrease or increase brokerages? I think this will depend on market dynamics. But the one thing is very clear that we will not be running after market share.

Abhijeet Sakhare: Got it. And just on that line, if you can also give some numbers on incremental versus book yield, sir, on the equity side?

Prateek Jain: So, this is data which we have not been sharing it so far. But as I mentioned to you that, look, what -- post the 2019 circular, earlier it used to be a flat rate in terms of the upfront plus trail. Post-2019 circular what we have done is, we have entered in terms of a sharing formula. So for the banking and the large distributors, it works out to be about -- as a thumb rule about 70% of sharing, for the NDs and the other partners, it works to about 65% to 70%. And for the IFAs, it is typically around 55% to 60% sharing.

So, this is our thumb rule, and then what we have done is, we have further categorized them, and tactically for certain products in certain geographies, we have worked, and we have given some flexibility to our RMs to work that out. So -- and also to share with you that, look, if you see, if I take away the large partners, which is the AMFI-defined large partners, while for the industry, the large partners contribute almost like 75% to 80% or in some cases 85% to 90% of their AUM. In our case, if I remove all the large partners, yet 40% of my business comes from the very, very small partners. And that says that, look, in terms of the unit economics, we have a slight advantage because the sharing proportion with them is the lowest.

Abhijeet Sakhare: Got it. Second one is just on the other extreme, when you look at the ETFs, it's one area where Nippon seems to have a pretty much very strong presence versus peers. So, just generally, what has helped create this level of liquidity and scale for us, which has sort of sustained and keeps sustaining quarter-after-quarter? So some comment or some understanding here will be helpful.

Sundeep Sikka: Abhijeet, Sundeep this side. Yes, we've been a early believer, I think in ETFs. And we have always believed that we should -- we run a business we should have a diversified portfolio and let investors make a choice whether it's active or passive or ETF. So we were -- if you were to go back in 2017 when we had acquired this business from Goldman, and that -- since then we've been building it up.

Unlike mutual funds, ETF business is a little different. Typically, a lot of investors will try to - - when you invest in mutual funds to diversify in four, five mutual funds. But in ETF, you don't have to diversify because one portfolio takes everything. So, the first-mover advantage is helping us. And what happens -- what compounds further is, the more investors come, the more liquidity it creates, the more liquidity it creates, it becomes easy for more investors to come and also to redeem, and which leads to a lower tracking error, leads to a lower impact cost, both at buying and selling.

So, this is a chicken and egg, more investors add to the liquidity, more liquidity adds to more new investors coming in and the fact that, we have 61% of the industry investors investing with us, it's now a good well-established business, and our market is there depending on how things go. We'll see, but overall we believe, unlike mutual funds where investors will always diversify into different mutual fund schemes, in ETF, they do not tend to, they tend not to diversify.

Abhijeet Sakhare: Got it. That's helpful. And just a follow-up here would be, of the overall ETF AUM, if you can just give a broad mix of how much is coming from retail, HNI, right, rather than institutional? And whether that mix has sort of kept improving over the last two quarters, three quarters?

Sundeep Sikka: See, we won't be able to put exact numbers because even we don't get those numbers. But I'll give you -- our pulse tells us, earlier, it used to be only in -- when the institutional investors, HNI used to come. But the fact today, we have nearly about 9 million investors, retail investors have also started coming in. So we won't be having the exact percentage. So the way I see it is, from a volume point of view, AUM point of view, it could be still concentrated towards HNIs, family offices, and institutional investors. But the number of new investors coming into the ETF is very fast, it's actually maybe coming faster than even the mutual fund industry.

Abhijeet Sakhare: Sorry, last one on ETF is, are you seeing a trend where people are creating SIPs on ETFs? That will be the last question.

Sundeep Sikka: Again, we will not come to know, because see what happens, they trade on the exchange, whether they're doing an SIP or combined, that's something we don't come to know as a manufacturer. But interest transactions -- the transactions are increasing, interest is increasing. And we believe, there are clearly a different set of investors, the set of investors who want to do SIP through our active funds, and there are investors who want to do SIP, whereas some could be doing directly into stocks, or somebody is going -- coming through ETFs. So, definitely transactions are increasing.

Moderator: Thank you, Abhijeet. And we have our next question from the line of Gaurav Jani from Prabhudas Lilladher. Please go ahead.

Gaurav Jani: Firstly, sir, just want to clarify, the 20% market share that you mentioned in net flows. This would be for Q1 of '24?

Prateek Jain: Yes.

Sundeep Sikka: Yes, please.

Gaurav Jani: Sure. And what would be the number for equity balance put together?

Sundeep Sikka: The equity plus balance together?

Gaurav Jani: Yes.

Sundeep Sikka: This number is for equity and balance together.

- Gaurav Jani:** Okay. So the 20% is for equity and balance together?
- Sundeep Sikka:** Yes. Equity and balance together.
- Gaurav Jani:** Understood. Perfect. Secondly, I wanted to check on the yield front, right? While blended yields have gone down by about 2%, 2.5% basis points on a Q-o-Q basis, how have equity sort of behaved on a quarterly basis? Were they up? Were they stable? Or how should we look at it?
- Prateek Jain:** No. So, see, we have been saying that, look, over the period of time, every year you will see 3 to 4 basis points squeeze on the equity AUMs for the three reasons, which we have been maintaining, that look, one, because the size increases; two, because of the old money getting replaced by the new money. And from the mix, again, is changing because now in equity again you have index funds also contributing. So, because of these reasons, there has been a compression of about 3 to 4 basis points, that we believe for some more time because of the industry dynamic may continue.
- Gaurav Jani:** I was just trying to understand whether -- because I believe there were some one-offs also this quarter which led to a decline in yields. But I was just trying to understand whether equity yields were stable or better versus the previous year.
- Prateek Jain:** No. So, see, another reason is like, obviously, the B-30 incentive has been taken off and, obviously -- earlier the smaller distributor has this advantage coming from B-30 -- beyond B-30 cities. So, obviously, that gets taken away from a manufacturer perspective to keep them motivated and incentivized, you have to increase the yield, you have to increase brokerages on those parts. So, obviously, that marginal impact is likely to be seen on that front also, but we are waiting for the new regulations, and let's see what comes out in it.
- Gaurav Jani:** Understood. Sir, lastly, in terms of equity market share, right? So, we are -- we have, obviously, been increasing our share in net flows, number one. Plus we are probably in the top three consistently in terms of performance. So when do you actually see the needle swing in terms of equity market share?
- Prateek Jain:** So, marginally it has already happened. I would ask Sundeep to just add on to it.
- Sundeep Sikka:** So, Gaurav, broadly like we mentioned, what we are doing is, we are trying to build a business very cautiously so that it is sustainable. Our focus remains more on SIPs than lump sum, because our past experience tells us, lump sum can immediately give you increase market share. But whenever the markets are volatile, that's the first -- that's the AUM, which moves out first. So, we are not chasing market share. we are trying to do all things which are right. The performance being there, brand positioning, and we are getting a very high percentage of SIPs now going forward, and we believe that the lag effect that will get reflected in our equity market share also.
- Gaurav Jani:** Understood sir. Any -- sir, just a follow-up, any particular -- any target market share that we are looking at in equity over a year or two years?

- Sundeep Sikka:** As long as it's profitable growth for us, we'll continue. We don't want to put a number to it. Our focus will remain, sustainable and profitable. That's going to be the mantra as we grow our business.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.
- Prateek Jain:** Thank you, everyone, for participating in the call and thanks, Kotak, for holding this conference call for us. Thank you.
- Moderator:** Thank you. On behalf of Kotak Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.