"Reliance Nippon Life Asset Management Limited Q4 FY2019 Earnings Conference Call"

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Mona Khetan: Good morning everyone and thanks for joining the call. On behalf of Reliance Securities we welcome you all to Reliance Nippon Life Asset Management 4Q FY2019 Post Results Conference Call. We have with us today the management team of Reliance AMC represented by Mr. Sundeep Sikka, ED & CEO, Mr. Prateek Jain, CFO and other senior members of the management to discuss earnings for the quarter gone by and key business strategies going forward. So over to you Mr. Sikka.

Sundeep Sikka: Good morning to everyone and welcome to our Q4 FY2019 Earnings Conference Call. We have with us my colleagues, Mr. Prateek Jain, CFO, Mr. Saugata Chatterjee, Co-Chief Business Officer, Distribution, Mr. Aashwin Dugal, Co-Chief Business Officer, Institutional Sales. I would also like to take this opportunity to welcome in our team senior member from Nippon Life Mr. Hiroshi Fujikake San who just recently moved to Mumbai from Japan.

During the financial year, MF industry faced multiple headwinds right from long-term capital gain tax on equity, higher crude oil prices, adverse credit event, regulatory changes, liquidity tightening, election year etc.

Despite all these challenges, RNAM continues to deliver on back of strong foundation, stable management team, prudent risk management practices, robust processes and maintaining highest standard of compliance, cutting edge digital architecture and customer centric approach.

I am happy to share that for the quarter total income at Rs.3.97 billion while the net profit rose by 34% to Rs.1.51 billion year-on-year. Also, for the full year FY2019 our net profit is Rs.4.86 billion up by 7%.

Over the past one year there has been 2 major regulatory changes with respect to TER reduction. The first reduction was in lieu of exit load from 20 bps to 5 bps. The second being revision in TER structure applicable from 1st April 2019.

As mentioned in our previous interactions the impact of the first reduction has been completely passed on.

The impact of the recent revision in TER is 12 to 13 basis points on our equity assets which will be passed on to the extent of 80% to 90%. We remain committed towards our journey of profitable growth and continued focus on retail assets.

Retail was the fastest growing segment and contributed to more than 50% of the industry growth. We continue to have the highest retail AUM of Rs.900 billion driven by strong ground presence and robust distribution network. Further our retail assets have grown highest in the industry at Rs.167 billion in last 12 months. Our Retail AUM contribution to total AUM is amongst the highest in the industry at 39%.

Despite volatile markets, our annualized Systematic Investment Plan book is now book is Rs.103 billion, grew by 14% and the SIP count increased by 21% to 3.1 million. Over 78% of the incremental SIPs have tenure of greater than five years.

I am pleased to share that our Equity Assets, including ETFs, rose by 13% at Rs. 1.08 trillion. Our Folios count grew by 12% to 9.1 million.

We continue to be amongst the leaders in beyond top 30 cities segment. This segment contributed AUM of more than Rs.450 billion nearly 20% of the assets are sourced from this segment for RNAM as compared to the industry at 15%.

On our distribution front, I am happy to inform that we have partnered with Google to launch voice-based financial transactions. Our investments in the digital ecosystem is yielding results our digital purchases including SIP rose to 1.1 million in FY19 a growth of 47%. On an average, RMF processed one online purchase transaction every 30 seconds. Over one third transactions are happening on our Digital Assets and Integrations which is double the growth over last year.

The Company has a vast pan India distribution network, with presence at 300 locations. We continue to focus on locations beyond the Top 30 cities, as assets from the smaller locations have higher persistency and are more profitable.

RNAM remains well diversified in terms of distribution, with no single distributor contributing to more than 5% of the total mutual fund AUM. Our distributor count went up from 65,300 in March 2018 to more than 73,400 as on March 2019.

As an Asset Management Company, we also operate in ETF, Alternative Investment Fund, and offshore funds.

Let me share a brief update on these business lines.

I am very proud to share that we have successfully raised Rs. 27,000 crores via two Further Fund Offers of CPSE ETF with participation across all investor categories, out of which Rs.10,000 crores were raised in March 2019 as part of Further Fund Offer 4 of CPSE ETF. RNAM is the 2nd largest ETF player with a market share of approx. 18% in the ETF segment. It has an AUM of Rs. 211 billion for the quarter ended March 2019.

Reliance AIF launched the Industry's First Commodity Fund and Offshore real estate fund. Reliance AIF has commitments of over Rs. 25 billion across various AIF schemes.

RNAM is managing and advising AUM of approx. Rs. 86 billion from offshore business. We launched UCIT India Fixed Income Fund during the year. Also, UCIT Reliance India Equity Fund is in the top quartile in the flexi cap space. Nippon life has investments in Asset

Management companies across the globe, we will continue to work closely with Nippon Life Insurance to leverage on their global tie ups for attracting higher flows from International Investors. We believe this as an opportunity for attracting higher share of flows into India and as part of profitable growth strategy. Our Subsidiaries business contributes Rs. 1,000 million to our total revenues

Company continues to get recognition by renowned agencies for the Best Fund Award under the Large Cap Category by CNBC-TV18, Scotch Award for fund house of the year with a highest retail reach and the Best Digital Transformation by Asia Fintech.

I am happy to announce the Board has approved the second interim dividend of Rs.3 per share. With this the total in interim dividend would be Rs.6 per share. As the part of our stated dividend policy we continue to share 60% to 90% of the profits with the shareholders.

With most of the challenges probably behind us, we expect brighter days ahead. Indian asset management industry has huge potential to grow across all segments that is mutual fund, alternative investment funds, ETF, offshore, given the under penetration of AUM to GDP at 12% against a global average of 62% and still only 2% of the population is investing in mutual funds. We are in a state of readiness in terms of product and fund management capabilities, on ground presence and distributor network for AUM and profitability growth in the coming quarters.

Before I open the floor for questions, I would like to also talk about the recent news about the stake sale of RNAM. Reliance Capital has informed the Stock Exchanges about their intention to exit this business. Over the last seven years Nippon Life has remained committed and increased their stake four times.

As I understand from Reliance Capital they will be signing a definitive agreement with a new potential shareholder. Because of regulatory reasons I will not be able to talk anything more on this point and will not be able to take any further questions on this topic. However, with these comments I am happy to take any other questions. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Subhranshu Mishra from Bank of Baroda Capital Markets. Please go ahead.

Subhranshu Mishra: Good morning Sir. Thank you for the opportunity. Couple of questions; the first one is with regards to your strategy of upselling to customers during the product lifecycle. What kind of strategy do you have for that Sir?

Sundeep Sikka: From our perspective we clearly believe as an asset management company to have a complete suite of products. We have been operating across all segments especially strong on the retail side. Typically for us across the lifecycle of the investor, the new investors typically come into through SIP's and using business intelligence, SaaS and strong on-ground distribution capabilities, we have been trying to cross sell multiple products. Clearly, we have seen the Indian asset management industry evolve. We have seen existing investors starting from one SIP then adding multiple products coming into various asset classes and the higher end moving into ETF's and alternate investment funds. So it is a complete product suite that we have and depending on what is right for the investor using our branch network and with the help of our advisors we are able to offer all the products to the investor.

Subhranshu Mishra: So what is the percentage of up sell versus the new business acquisition?

Sundeep Sikka: At this point of time every investor of the company has invested in approx.1.6 products.

Subhranshu Mishra: Sir the next question is with regards to your cost of acquisition using an IFA what is the cost of acquisition using an IFA in a B30 location versus T 30 location?

Sundeep Sikka: While I will not be able to give you exact numbers but typically the cost of operations in smaller cities is much lower. In smaller cities the key lies in the execution and once we have got the scale, the economies of scale come to play.

Subhranshu Mishra: There is one more question with regards to one of the largest distributor applying for an MF license. How do you see this spanning out in terms of competition going forward, because they have a large work force both off role and on role?

Sundeep Sikka: In India only 2% of the population is investing in mutual funds, we have at this point of time 45 mutual funds. The top ten mutual funds have an average AUM contributing in excess of 80% market share. Just like in US we clearly believe there is scope for many more asset management companies to come. There are going to be various niche players and we need more players for the healthy growth of the industry.

Subhranshu Mishra: Just one last data keeping question. Can you split your retail AUM sourcing into IFA's, national distributors and banks?

Sundeep Sikka: 52% of our distributed business is coming from IFA's

Subhranshu Mishra: Sir that is the total AUM right, I am talking about specifically retail AUM?

Prateek Jain: Retail is predominantly through IFA's only.

Moderator: Thank you. The next question is from the line of Ankit Bhavan from IIFL. Please go ahead.

Ankit Bhavan: Thank you for the opportunity. I want to ask you on the sustainability of lower operating expenses reported this quarter. So the numbers that has shown is at Rs 62.18 Crores which is significantly lower than the quarter-on-quarter and year-on-year numbers. Can you please comment on that whether it is going to be sustainable going forward as well or are we going to see an uptick in that? That is one question sir. Second thing is you mentioned that the TER reduction is 12 to 13 basis points and then 80% to 90% of it will be passed. Can you please give little more details on it, in terms of equity fund separately and what will be the total earning on the equity funds AUM and then percentage of basis points that is all Sir? Thank you.

Prateek Jain: First , I will take the question on the sustainability of expenses. This is the first full quarter post the SEBI regulations stopping upfront commissions and marketing spend on trips / contests etc. Thus, this quarter brokerage expense is for the prior period amortization which will come down next few quarters as from October 2019 onwards we have stop paying any upfront commissions. Secondly in terms of employee cost this has been sustainable is been around the similar range. In terms of other expenses as we mentioned some expenses has moved to the schemes but more importantly we have been rationalizing on our discretionary spend which has brought these kind of savings in this quarter. This quarter can be seen as a reflection of expenses going forward except that the amortization of upfront commission will further gets reduced in next two quarters.

In response to your second question if you see most of the industry players have decided to pass on majority of the TER cut on equity funds. For us both our AUM's is broad-based in terms of various schemes and none of the schemes are concentrated. Also if you look none of the distributor accounts for more than 5% of our total assets, therefore it will be bit easier for us to pass on this TER impact both in absolute and in basis points to the distributors compared to some of our peers who have larger schemes and higher amount of equity assets.

To explain the overall impact let us take an example, assuming if 10% of the asset was sourced from incremental flows and we were paying upfront on it. That was almost 100 basis points, which works out to say 10 basis points. Going forward if we divide this upfront over the period of four years then the impact of 10 basis points gets reduced to 2.5 basis points. This is just mathematics, but in practice we have been working out a sharing model with the distributor going forward and therefore there will be minimal impact on the realization.

Ankit Bhavan: Sure sir. Thank you.

Moderator: Thank you. The next question is from the line of Amit Nanawati from Nomura Securities. Please go ahead.

Amit Nanawati: Sir just on this brokerage expenses or the commissions that you pay out to distributor. This time around you have reported those numbers on the three-line items and I see a relatively smaller drop when I compare 4Q versus 3Q or even compare to first half where your run rate was around 60, 62 Crores which is a similar run rate that you see in 4Q. So is it fair to assume that you had very limited new flow drag in first half 2019?

Prateek Jain: Yes, so comparable to the last year, if you see our amount, which we garnered in the first half was comparatively lower. However, the impact is because of the flows which came in last year second half which are amortized equally over a period of 12 months.

Amit Nanawati: Correct, but if you look at first half run rate versus 4Q run rate it is pretty much similar which would mean that first half when you were allow to pay upfront commission that drag is absolutely not there?

Prateek Jain: No, what has happened is that since this was already announced by the regulator, only the implementation has been from April 1,2019. Most of the distributors started coming in a pure trail model in the beginning of the year itself especially the IFA's.

Amit Nanawati: What percentage of your incremental flow before this regulation change was on full trail model in equities?

Sundeep Sikka: Almost one-third of the assets were on the full trail model

Amit Nanawati: Of the flow or the asset Sir, sorry?

Sundeep Sikka: I believe on the asset and in the flow as well.

Amit Nanawati: Second, I see a decent moderation in IFA addition quarter-on-quarter in the last four quarters. Anything to read into that this especially coming after the large TER cuts that has been announced?

Sundeep Sikka: I do not think you should read too much into it. This is more a function of typically when the markets are doing well we have more people joining the industry. This should not be seen as a TER impact, it is more a function of when the investors and markets are doing well, investors are putting in more money that is the time that natural pull is there and more people are coming into the industry. This being a cyclical business you will always have these patches and if you see over the last ten-year period you had three or four quarters like these many times before also.

Amit Nanawati: The reason I am asking is because the additions in IFA's is coming off and if you look at Banca share in your overall AUM that has also been coming off so just wanted to get some sense of whether Banca is distributing less and then you have difficulties in adding IFA's also?

Sundeep Sikka: No, I think the way you have to see is overall typically we have always been more IFA driven. It's not that Banca is garnering less. Overall during this period for the industry we saw HNI flows slowdown and typically HNI flows comes more from the banks so that is the reason. Do not read too much that few 1000 plus new IFA's getting added. We are getting into new cities and towns, there are lot more people who want to join this industry and take mutual fund distribution as a career.

Amit Nanawati: Thank you sir that is it from my side.

Moderator: Thank you. The next question is from the line of Madhukar Ladha from HDFC Securities. Please go ahead.

Madhukar Ladha: Congratulations on a good set of numbers. Good to see expenses falling. Couple of questions from my side; I see a sudden jump in trade receivable from around Rs 40 Crores to Rs 102 Crores this is the year-over-year, so any particular reason for that?

Prateek Jain: This is just the fees which was receivable from the mutual fund scheme and 99% of receivables is from our mutual fund schemes only.

Madhukar Ladha: And the other thing I notice is there has been a drop in the short-term loans and advances, last year it was about Rs. 646 Crores and now it is about Rs. 370 Crores. So did we receive any payments from Anil Ambani Group Companies?

Prateek Jain: Earlier from Rs 425 Crores of ICD we have brought down the total group exposure to Rs 380 Crores.

Madhukar Ladha: That is good. Also in your earnings I am seeing the reconciliation of equity and PAT from I-GAAP to Ind-AS and in the equity portion there is an improvement or an increase in equity due to change in fair valuation in financial assets about 57 Crores whereas in the full year earnings there is a drop of about 60 Crores and there is also a particular line item in equity called scheme consolidation which is contributing Rs. 65 Crores to equity can you explain those items are a little bit?

Prateek Jain: On a principle basis investment needs to be fairly valued on the balance sheet date. Accordingly, Rs 57 crores got added to the opening balance sheet with a corresponding adjustment to the reserves on the opening date resulting in a drop in the subsequent year.

As regards, consolidation where we have done investments in our own scheme, as per Ind-AS there are three tests which we need to carry out. One of them being control and since we are the Managers of the schemes it will be treated as a control though from a SEBI regulation there is not much control we can exercise as schemes are separate entity and there is no voting rights, but from an accounting perspective it is seen as a control. Second is variability of return, returns are completely variable because whatever is the return of the scheme will be the return for us. Third is the ownership whether we own more than 37% of the assets of that particular scheme in such cases it will be consolidated with the AMC. Please note for MF schemes there is a regulation which does not allow us to hold beyond 20% of the total scheme value. However, in ETF's and new AIF's schemes where we are putting initial seed capital we are allowed to infuse more money. However, over a period of time these numbers will come down as we get more flows from the external investors, therefore not requiring consolidation in the future.

Madhukar Ladha: Those particular schemes have gotten consolidated that that basically means that effect and then as you raise more money they will then later on not get consolidated?

Prateek Jain: That is right, as of March 31, 2019 there was only one scheme which is getting consolidated which we recently launched the industry first commodity fund as Sundeep mentioned. That is the only one which is getting consolidated. What we do is we keep seeding the scheme and then keep getting out as well during the year.

Madhukar Ladha: So the Rs. 65 Crores amount is for March 2018, but as of March 2019 only one scheme is getting consolidated is my understanding, right?

Prateek Jain: That is about Rs. 20 Crores for one of the newly launched scheme.

Madhukar Ladha: Little bit on the changes, which had happened in the industry? First of all because there has been a ban on upfront payment of commission, a lot of mutual funds have changed the way in which they are paying to their distributors so there is like a fixed kind of a trail model and there is also like a declining trail model so for the some of the funds are kind of paying one or two years a little higher commission and then it drops of. So what have we chosen and how have we aligned ourselves both on this and second is can you like to just quantify with the TER cuts how much is the impact in bit on equity schemes and how much of that have are we passing on right now?

Prateek Jain: See on an overall AUM basis it is 2 to 3 basis point , but in terms of total equity assets as Sundeep mentioned it is about 12 to 13 basis points and we intent to pass majority of that. If you recollect during February when the first TER cut came in then also we had demonstrated by then passing majority of that. This is the answer to the second question. In term of the first question all the distribution commission and discussion is more proprietary to us and we will not be able to disclose with you how exactly we are going about with the distributor, but I can tell you that in practice with majority of our distributors it will be completely aligned with whatever is our earning. So, whether it is a Silver IFA or a Platinum IFA or a bank it will be proportionate to the earnings which is the percentage of distributable TER i.e. DTER .

Sundeep Sikka: Our focus will continue to remain on profitable growth we will not be doing anything which we believe is non compliance. Most of our business is coming from IFA's where the alignment is more on trail which is good for both the investor and for us.

Madhukar Ladha: Sir and one last question. On the admin and other expenses so obviously the outsourced services and some of the expenses, which we were bearing which were kind of a pass through in our P&L has been shifted to the schemes P&L. Apart from that also I believe that there has been a substantial reduction it seems so. So can you point out how have we been able to achieve this cost reduction and in what particular line items if broadly if you can guide us on that?

Prateek Jain: Of course. We have been mentioning this in almost every concall that we are working on rationalization of costs. A lot of our processes have been automated and also many of the noncore activities have been outsourced, bringing up savings in the operating cost. Also we had mentioned that lot of our cost is discretionary and when the business is not so good we can put a cap onto it. However, we keep investing in business both in terms of technology and in terms of our distribution reach as and when the environment is conducive. This is how we can demonstrate that when the environment is not good we have the flexibility to bring down our costs.

Sundeep Sikka: Also I want to highlight, over the last four to five quarters we did a lot of investments, which were to do with opening of new branches, IT. I think it is good to see whether the branches have been more productive now. The fact that 35% of the new transactions that we are doing are coming from digital channels are also leading to operational profitability.

Madhukar Ladha: Congratulations again a good set of numbers. Thank you that is all from my side.

Moderator: Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial: Congrats on a good set of numbers. Just coming on the yield side quarterly now our yields are getting stabilized, I am saying about revenue will say from a 60 BPS. Do we see these numbers to sustain at current levels? Or you are seeing an improvement going forward on a sequential basis?

Prateek Jain: See as I mentioned earlier in the call that going forward it will further improve because upfront commission getting divided over a longer period that is one and secondly what you have to see is that if the equity assets keep growing in terms of proportion then obviously these yields will improve. However, we do not see this as the only strategy. Basically if we see opportunity in ETF or in liquid or in fixed income space we see that as a separate individual business vertical and continue to seize that opportunity, however if ETF grow higher in a particular quarter than you will obviously see declining yields on an overall basis similarly if liquid asset grows disproportionately the yields may go down for that quarter. To conclude if the current AUM structure remains then we believe that overall yields will further improve because of this change in regulations.

Jignesh Shial: Is there any probably just I missed this number but is there any amortized numbers still there with any expense or the brokerage amount which it still needs to be amortized or it is done now?

Prateek Jain: As far as the open-ended schemes is concerned it is completely amortized. For the close ended wherever we have certainty of the fees to come in those are the only amount which will be carry forward and is a very small number as compared to what we use to carry in the previous balance sheet.

Jignesh Shial: Lastly just two things, just correct me, the total group company exposure ADAG you are talking about Rs. 380 Crores right, right now?

Prateek Jain: Yes.

Jignesh Shial: And this is excluding home finance?

Prateek Jain: There was nothing to home finance from the AMC balance sheet. As mentioned earlier it is Rs. 175 Crores to infra, Rs. 150 to power and balance to ARC.

Jignesh Shial: You are saying within next four to six weeks an announcement might come up from the Reliance Capital side about the stake sale that is the only thing you have?

Sundeep Sikka: That is what we have been made to understand. I will not be able to comment anything further as I mentioned earlier.

Jignesh Shial: Thanks a lot Sir and all the best.

Moderator: Thank you. The next question is from the line of Sagar Shah from Sam India. Please go ahead.

Sagar Shah: My question is to Prateek. I just wanted to understand on the employee expenses front are the bonus is accounted for this quarter?

Prateek Jain: Yes absolutely, we have been mentioning earlier also that we account bonuses for every quarter on uniform basis and we keep doing adjustments basis the businesses done.

Sagar Shah: Just on the yield realization on the equity AUM front. Since this is the first quarter end which there is now upfront commissions, which is paid and then to flows. What is the proportionate increase in the trail which you are seeing on the equity AUM front like is it like 30 BPS or is it more than that?

Prateek Jain: As I mentioned earlier also on the equity business alone you have to see in three forms going forward. Let us say if the current AUM remains, it can grow up from here for three reasons. First, if market appreciates without we getting any flows there will be no impact whatsoever. Second, if the money comes through our existing SIP's which is close to about Rs. 10,300 Crores now. If it comes next year again there will be no impact to us in terms of realization. It is only the third part which where we get the newer flows there is an impact which used to be about 100 basis points, which we use to pay. If you divide this over a period of four years now, if we give that in form of trail upfront, which we used to pay over the next four-year period in form of a trail then the total impact will be 1 to 2 basis points.

Sagar Shah: Thank you.

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

Anand Laddha: Just a couple of questions from my side. Sir on the P&L side the fee and a commission expense which has been disclosed this largely pertains to the upfront commission paid by us which is getting amortized?

Prateek Jain: Yes absolutely.

Anand Laddha: Sir if you can give some color what is the outstanding unamortized commission still lying in the balance sheet?

Prateek Jain: That is a very miniscule number, which is close to about Rs. 50-odd Crores.

Anand Laddha: So this will get amortized over the next two quarters?

Prateek Jain: No. As I mentioned earlier this is pertaining to some of the tax saver fund and retirement fund and that will be amortized over the period of the life of the assets for which it gets locked in. where we have certainty of the fees commensurate to that it will be amortized.

Anand Laddha: But then this number can reduce significantly over coming quarters?

Prateek Jain: Absolutely.

Anand Laddha: Sir there was some write back on the depreciation line item if you can explain what is that and what should be the normalized depreciation run rate for us?

Prateek Jain: As you are aware that we have acquired two years back asset management rights of Goldman Sachs mutual funds schemes and those according to prevalent accounting standards we had decided to write it off over a period of ten years. So, we were homogeneously amortizing every year some amount of money. As per the Ind-AS intangibles are not allowed to be amortized over a fixed period of time. What you have to do is to test this for its impairment, but if you notice that when we acquired the Goldman Sachs schemes the total AUM was about Rs 6,500 odd Crores and today we have close to about Rs 21,100 odd Crores of assets and therefore there is no impairment required and it was advised by our auditors that you cannot amortize it and hence whatever we had amortized for the last three quarters have been reversed .

Anand Laddha: So last three quarters you could have amortized Rs.25 Crores in that?

Prateek Jain: Sorry.

Anand Laddha: Last three quarters we would have amortized Rs. 25 Crores?

Prateek Jain: Rs 25 Crores was to be amortized over a period of full year. Rs 18 Crores what we have amortized in last three quarters have been reversed in this quarter. Going forward run rate would be about Rs 2 to Rs 3 Crores per quarter of depreciation.

Anand Laddha: Sir in the employee cost item is there some still phantom bonus less to be accounted or everything has been accounted?

Prateek Jain: Phantom bonus as we mentioned is for about five years and almost three and a half years have already passed and all that has been accounted. The total cost for that is around Rs 8 to 10 Crores p.a.

Sundeep Sikka: About 80% of this is accounted.

Anand Laddha: Within the topline, if you can give breakup how much has come from the PMS advisory business AIF business?

Prateek Jain: Sorry come again.

Anand Laddha: Of the topline of Rs. 343 Crores or for the full year of Rs. 1500 Crores of topline if you can give the number for the PMS advisory business how much it is and how much it is from the AIF business?

Prateek Jain: AIF business total topline is about Rs 37-odd Crores.

Anand Laddha: What could be say for PMS and advisory Sir?

Sundeep Sikka: All put together is about Rs 100 Crores.

Prateek Jain: Yes the non-mutual fund revenue from AIF, offshore, advisory is about Rs 100 Crores.

Anand Laddha: Sir lastly what could be our exposure to ADAG growth in terms of exposure from the AMC and exposure from the schemes of the AMC?

Sundeep Sikka: Prateek already mentioned about it from the AMC books which was about Rs 425 Crores last year is down to about Rs 380 crores . From the mutual fund schemes the total exposure starting of the year was Rs 3,100 Crores which has come down to Rs 1,750 Crores and out of which about Rs 1,000 Crores roughly is due for maturity in next three to five months and their we are confident we will be resolving that.

Anand Laddha: Sir is there any way that we have been also looking to buy the fixed price asset of the group? Are we investing in any of the fixed price asset of the group?

Sundeep Sikka: As the portfolio teams keep looking at the various PTC's across the industry we have PTC's of more than about 8 to 10 different corporates

Anand Laddha: Thank you Sir. That is from my side.

Moderator: Thank you. The next question is from the line of Harish Nagappa from Aditya Birla. Please go ahead.

Harish Nagappa: Congratulations on your numbers firstly. I just wanted to know about your expansion strategy. What is the ratio of number of branches in T30 and B30 cities and what is the number of customers acquired this year from T30 and B30 cities?

Sundeep Sikka: From our perspective if you have a look at it we are present in 300 locations at this point of time, majority of our branch network is in smaller cities and towns. This year we added about 9 lakh new folios or new investors and majority of these investors came from smaller cities and towns. We clearly see both the online and offline strategy play a big role. As I mentioned earlier in my speech, 35% of the new incremental transactions through digital channels and the new branches which we had opened over the last 12 to 18 months are seeing a lot of the investors coming in. Going forward the branches and the technology investments which we have done will contribute significantly.

Harish Nagappa: Any exclusive numbers how many branches you are going to open this year?

Sundeep Sikka: We do not want to put a number, but it will not be very huge. We would like to stabilize the branches in last 12 to 18 months.

Harish Nagappa: One last question what is your direct customer base excluding the industry customer base under AUM?

Sundeep Sikka: 14% of our investments in equity are direct and overall number is not the way to analyze because majority of the institutional money comes in is direct.

Harish Nagappa: Thank you.

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

Rohan Advant: Thanks for the opportunity. Sir I wanted to understand the impact of change from upfront to trail on our profitability a bit better. You mentioned that the 1% upfront, which was paid and amortized over 12 months would now be paid and amortized over 48 months, which is resulting in the profitability jump post-change versus pre-change Y-o-Y, but would not this also mean that starting year to that will again be a 25 basis points cost for this versus zero when there was a no upfront and so profitability should actually reverse Y-o-Y starting Q4 FY2019 or am I missing something in this?

Prateek Jain: As I mentioned earlier that you have to see the whole thing in four parts. Total earnings come from your existing assets i.e. book, inflows of existing registered SIPs which comes every month, increase in asset due to markets appreciation and the last bit is the new inflow coming from investors. Now that is the only place where the change will happen. To further explain if we assume that we an asset base of 100 and 10% of that comes for appreciation, 10% is anyway coming from your SIP book, then 10% comes from fresh inflows and on the new inflows of 10% if we say the trail is going to increase by 20 basis points so that means only 2 basis points will be the overall impact on the total assets.

Rohan Advant: So 2 basis points adverse impact if nothing else changes of course there could be operating leverage etc., but only because of this 1-2 basis points adverse impact could come right?

Prateek Jain: That is right.

Rohan Advant: Understood Sir. That clarifies my doubt. Thank you.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead. As there is no response we take the next question from the line of Shrey Singhal from Kotak Securities. Please go ahead.

Shrey Singhal: Good morning Sir. Sir just one small data keeping question; how much the fully diluted share count is adding the ESOP's.

Prateek Jain: As of now 61.2 Crores is the total share outstanding .

Shrey Singhal: Thank you Sir.

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

Subhranshu Mishra: Thank you for the opportunity again. Just wanted to understand the outlook of the AUM growth in FY2020 and if you could explain the split how much would come out of the B30 and T30 also if we can understand the split between equity, debt and liquid funds?

Sundeep Sikka: You are asking me to give the complete business plan for the next five years in few seconds.

Subhranshu Mishra: No, I just wanted for the next year Sir not five years?

Sundeep Sikka: For next one year also I will try to answer in few seconds. We clearly believe due to election year we have subdued inflows in the industry and you could look at the industry over the longer period after one or two good years you have a little subdued one or two years. We believe a lot of money will be on the sidelines because the last one year returns have not been very good and investors are holding back their investments. Cannot comment what will happen in next one year however we believe industry will continue grow between 20% and 25% CAGR for next five year. While the higher volumes will come from bigger cities, but we believe kind of wealth is created in smaller cities and towns due to lack of other options penetration in smaller cities will increase at a faster pace. We will continue to focus on bigger cities, but growth will be much faster in smaller cities where we have established distribution network which can help us gain disproportionately. Putting up a number of debt and equity assets will be difficult however we clearly see equity flows will be higher over next 2 to 3 years as compared to debt.

Subhranshu Mishra: Thank you for that. Just want to clarify one thing you would be growing at the similar industry levels or a bit higher than that?

Sundeep Sikka: For us the profitability is more important, and our endeavor is to grow better than the industry. As advised by the board we are basically not into topline game and profitable growth is more important for us.

Subhranshu Mishra: That is helpful. Thank you for your time.

Moderator: Thank you. The next question is from the line of Ankit Bhavan from IIFL. Please go ahead.

Ankit Bhavan: Sir this is regarding the diluted share point again. You mentioned that, that the 61.2 Crores shares outstanding and also recently you have issued about 11.19 million ESOPs, and can you please tell a count of ESOPs outstanding currently and what is the likely kind of dilution in the next one year and two years?

Sundeep Sikka: At this point of time, the total grant that has been given to employees including yesterdays, is about 3% of the Company. The endeavor will be to have higher ESOP's for next couple of years for which number is yet to be decided. As a result in the long term PLI and the fixed cost will keep coming down.

Ankit Bhavan: Thank you.

Sundeep Sikka: Thank you very much. We look forward to interacting with you during the next quarterly call.

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