Ref: UTI/AMC/CS/SE/2020-21/022

Date: 6th November, 2020

National Stock Exchange of India Limited
Exchange Plaza Plot No. C/1
G Block Bandra-Kurla Complex
Bandra (East) Mumbai – 400051
Scrip Symbol: UTIAMC

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai 400 001
Scrip Code/Symbol: 543238/UTIAMC

Sub: Transcript of the Earnings Conference Call on Financial Results for the quarter and half year ended 30th September, 2020

Dear Sir/ Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of the earnings conference call on financial results for the quarter and half year ended 30th September, 2020.

The same has been uploaded on the website of the Company at www.utimf.com.

You are requested to disseminate the above information on your respective websites.

Thanking you,

For UTI Asset Management Company Limited

Arvind
Bhagwan
Das Patkar

Digitally signed by Arvind Bhagwan Das Patkar
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Arvind Patkar
Company Secretary and Compliance Officer

Encl: As above

UTI Asset Management Company
Q2 and H1 FY21 Earnings Conference Call
October 29, 2020

Moderator: Ladies and gentlemen, good day and welcome to the UTI Asset Management Company Limited Q2 and H1 FY21 Earnings Conference Call. From the management we have with us, Mr. Imtaiyazur Rahman, CEO & Whole-time Director; Mr. Surojit Saha, Chief Financial Officer; Mr. Vinay Lakhotia Head Operations, and Mr. Sandeep Samsi, Head Investor Relations & Corporate Communications. 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, please signal an operator by pressing star and then zero on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Imtaiyazur Rahman for opening remarks. Over to you sir.

Imtaiyazur Rahman: Thank you very much Inba for introducing us on this occasion. Good afternoon to all those present on this call. I welcome you to our Quarter two Financial Year 2021 earnings conference call. The presentation is available on the exchanges. Today, we have with us, Mr. Surojit Saha - Chief Financial Officer, Mr. Vinay Lakhotia – Head of Operations and Mr. Sandeep Samsi – Head of Investor Relations. The last six months of this Financial Year have been unprecedented in a number of ways. From March 2020, India as well as the world have been dealing with the COVID pandemic. We have realized the value of human life and discovered new ways of working. In a country, where face to face interaction was the norm, we have learnt to work in a virtual environment. I believe that every dark cloud has a silver lining and this pandemic has brought in its own opportunities. Business processes and investor servicing have become fully digitalized and seamless. This has led to improvement in employee productivity and faster turnaround time in Investor Services.

This Financial Year has been a landmark year for UTI AMC as the company successfully completed its IPO and got listed on the Stock Exchanges on the 12th of October 2020. We received excellent response from the investors. The Anchor portion of the IPO saw excellent response from Mutual Funds, FIIs, AIFs and Insurance Companies. Post IPO, T Rowe Price is the largest shareholder with 23% stake. We are thankful to our 544 thousand plus investors – both Retail and Institutional for reposing their faith in UTI.

Let me share some of my thought on economy. After record fall of around 24% in GDP for the first quarter, RBI expects GDP to decline by 9.8% in July to September quarter and by 5.6% in the October to December quarter. However, better than expected data from August onwards could provide hope for an upside in these projections. Rural sector growth aided by good monsoon and pent-up demand due to festive season is positive for AUM of Beyond 30 cities, where UTI MF has a strong presence. So far as mutual fund industry is concerned, the Mutual Fund industry had a better September 2020 quarter as compared to June 2020 quarter. During the quarter, the industry QAAUM grew by Rs. 2,976 billion or 12.1% from Rs. 24,628 billion in June 2020 to Rs. 27,603 billion in September 2020, primarily due to recovery in equity markets. During the quarter, the industry saw an inflow of Rs. 232 billion with Equity category witnessing Net Outflows of Rs. 89 billion. However, this negative inflow in the Equity category is more likely an aberration following the pandemic and its impact on the economy, as can be seen that, despite the outflow in Equity, the industry has added folios for 76th consecutive month. UTI's Quarterly Average AUM (QAAUM) as of September 2020 was Rs. 1,552 billion as compared to Rs. 1,336 billion as of June 2020 and Rs. 1,542 billion as of September 2019. Our Market Share as of September 2020 has increased to 5.62% from 5.43% as of June 2020. UTI's QAAUM exhibited better growth than the industry, by growing at 16.1% during the quarter as against the industry growth rate of 12.1%. Our Market Share in the actively managed Equity and Hybrid category of funds has also increased. The QAAUM in the Equity and Hybrid category has increased from Rs. 521 billion in June 2020 to Rs. 598 billion in September 2020. The net sales in this category (active Equity plus Hybrid) remained flattish with outflows of Rs. 4.2 billion as compared to the outflow of Rs. 250 billion for the industry, during the quarter. SIPs are a core part of our Sales focus and as of September 2020, our SIP AUM is Rs. 111.9 billion with 78% of the SIP book having a tenure of more than 10 years.

UTI has invested over time to grow its retail network through its Branches, Business Development Associates and Mutual Fund Distributors. It has a Multi-channel distribution network which gives access to investors across 95% of the districts in India. We are happy to share that as of September 2020, 24% of our Monthly Average AUM came from the Beyond 30 cities as compared to 16% for the industry with our market share being 8.6% in the B30 centers.

During the last six months, we have reopened our Branch offices or UTI Financial Centers (UFCs) in line with the Government guidelines. However, being an early adopter of technology, we were fully prepared for 'Working from Home' even during the peak of the lockdown. We are very pleased to inform you that during the lockdown, we were able to process all investor purchase or redemption requests. During the

September quarter, more than 95% of our sales transactions were through Digital mode as compared to 87% during the September FY 2019 quarter. During the last six months, we have enabled complete electronic KYC for our investors who can now fully complete their KYC processes online without any physical paperwork. We have also leveraged on our UTI Buddy App and UTI MF App to provide a digital connect with our partners and investors respectively. As of September 2020, all our branches are operational and we continue to service our 10.9 million folios through these branches as well as the online platforms.

UTI has a strong presence not only in the Mutual Fund business but also in the Portfolio Management Services, International business, Alternate Investment Funds and Retirement Solutions, with a 29% share in the Retirement Solutions business. We have initiated steps on ESG and UTI AMC as a group is a signatory to the United Nations – Principles of Responsible Investing framework. As of September 2020, our Other AUM grew by around 41% to Rs. 8,884 billion as compared to Rs. 6,291 billion as of September 2019. We are focused on growing our international business through distribution partnerships including co-branded and white-labelled funds and have been appointed as advisors to J Safra Sarasin ESG Fund. We are also pleased to share that in line with our efforts to expand the alternative investment funds business, we have successfully completed first close of UTI Structured Debt Opportunities Fund II under UTI Capital on 30th September 2020.

Let me share with you our company's financials. The previous financial year saw growing uncertainty due to the emergence of Covid which had impact on the markets across the globe. However, during Q1 and Q2, the markets has regained its position which has helped UTI AMC to strengthen the financials. The Consolidated Profit Before Tax for the half year ended September ’20 has increased by 13.90% to Rs. 2,712 million as compared to Rs. 2,381 million for the half year ended September ’19. Consolidated Profit After Tax for the half year ended September ‘20 was Rs. 2,205 million as compared to Rs. 2,128 million for the half year ended September ‘19, resulting in an increase of 3.35%. The PAT for the half year September ‘19 was arrived by applying the option of lower tax rate under Sec 115 BAA of the Income Tax Act which was introduced during the quarter ended September 30, 2019. The company got the benefit of deferred tax credit in September 2019. Our Standalone operating profit margin as a percentage of AUM for the half year ended September ‘20 is 22 basis points as against 20 basis points for the year ended March ‘20. We have also showcased the slide giving breakup of our investment book in the presentation. The Board of Directors in their meeting held on 28th September 2020, have recommended a dividend of Rs.7 per share for the financial year ended March 31, 2020 subject to the approval of the shareholders in the AGM. The revised Dividend Policy states that the Board may declare a dividend equivalent to 50% or more of the PAT of the company.

To summarize the discussion, we would like to mention that with the Economy recovering from the impact of the pandemic, the Mutual Fund industry is in a good position to leverage on the growth recovery. At UTI, we are making all efforts to grow in line with the industry and leverage on our strength in the retail business and growth of digital business. We are not only focused on our Mutual Fund business but also on growing our Portfolio Management, International, Retirement and Alternate Assets business. We thank you for your participation in today’s call. I and my team are ready to take any questions that you may have. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Madhukar Ladha from HDFC Securities. Please go ahead.

Madhukar Ladha: I have a few of them. First, can you give a split of the QAAUM in different categories like debt, liquid and others?

Imtaiyazur Rahman: May I request my colleague Vinay Lakhotia to take this question

Vinay Lakhotia: For the September quarter, we had an AUM of around INR 45,051 crore for the liquid fund, INR 39,291 crore for the pure equity fund, INR 30,679 crore for the ETF and Index fund, INR 20,474 crore for the hybrid category of fund and INR 19,695 crore for the income category. So, total QAAUM for September quarter was 1,55,190 crores.

Madhukar Ladha: Can you help me with the closing AUM in different categories?

Vinay Lakhotia: Yes, as on 30th September our closing AUM was INR 1,51,439 crore. The breakup of that is liquid INR 39,719 crore, equity INR 40,138 crore, ETF and index fund INR 31,248 crore, hybrid INR 20,494 crore and income fund INR 19,840 crore.

Madhukar Ladha: Got it. Just the total number 1,51,000 you said right?

Vinay Lakhotia: INR 151,439 crore that's the closing number.

Madhukar Ladha: Yes, got it.

Vinay Lakhotia: Average is INR 1,55,190 crore.

Madhukar Ladha: Sir, on the expenses side, the employee expenses are pretty high. Also our expense ratios are quite high. So, first thing what is the ESOP expenses in this quarter's number and second, can you give us some guidance, I know that there is sort of a voluntary retirement or some plan to cut the number of employees over the coming few years. So, can you give us some guidance as to how much that cut can be and by what level these expenses can be cut down to and what will be the timeline, what should we expect?

Imtaiyazur Rahman: So far as the ESOP expenses are concerned during this half year, we have made a provision of INR 17.66 crore which was not there in the previous financial year. This is a long-term incentive plan and it is a very, very important investment. This is also not a cash expense as you are aware. So far as the other line of expenses are concerned in employee costs, first of all, as you know at the beginning of the year, you need to do the valuations of your gratuity liability and other pension funds. However, it evens out over the period of time. Secondly, we are going to manage cost aggressively going forward; and as we had presented earlier a large number of employees will be retiring over a period of time that will help us to save substantial cost. At this particular point of time, I can only tell you that UTI will be immensely benefited as we had inherited these employees. Also, we are working with our NRC. We had a NRC meeting few days back and we will have a plan as to how do we increase the productivity of employees that will help us to reduce the employee cost.

Madhukar Ladha: Sir, can you put some numbers around what sort of reduction can there be in employee cost over the next two, three years. In terms of number of employees how many will retire?

Imtaiyazur Rahman: Vinay in three years how many people are retiring?

Vinay Lakhotia: Over the four year period it will be around 250 people.

Imtaiyazur Rahman: Over the four and a half to five years period around 250 plus people will be retiring.

Madhukar Ladha: Will we not be replacing them?

Imtaiyazur Rahman: Most of them will not be replaced. We have a large number of non-managerial staff and this non-managerial staff is not required to be replaced. Number two, the senior relationship managers that we have, we may have to replace them, but those employees will be replaced with low cost employees as we had mentioned in our presentation earlier. Last year, we appointed 150 management trainees and this year we have already appointed 50 management trainees at a low cost. So, these recruitments will help us to offset costs and we are not required to substitute all 250 employees. Vinay you want to add, please go ahead.

Vinay Lakhotia: Madhukar as we highlighted during our road shows these 250 employees even after the replacement cost which will be mostly in form of a management graduate, we see a cumulative saving of roughly around INR 65 - 70 crore over a period of four years. And thereafter the annualized saving after a period of four years would be anywhere in the range of around 10% to 15% of our employee cost.

Madhukar Ladha: Okay. Got it, understood. Sir you've given some SIP numbers and those are gross flows. Now by gross flows are these like before the check bounce or is it before any redemption of SIP AUM what is that exactly?

Vinay Lakhotia: These are net realization, Madhukar.

Madhukar Ladha: Net realizations okay. And lastly, sir on your overseas investments the offshore fund investment and venture funds, these are our own funds right? Just wanted to clarify on that.

Imtaiyazur Rahman: Come again, can you rephrase your question?

Madhukar Ladha: Sir we have about INR 283 crores invested in offshore funds and we have about INR 287 crores invested in venture funds, these are our own funds right?

Imtaiyazur Rahman: No, these investments are by our subsidiary company - UTI international. This company has made an investment in funds – IDEF and UTI India Balanced Fund. So, far as venture fund is concerned these are the investment in our funds - Ascent capital fund and other funds. These are our own funds, we have not given any third party to manage the fund.

Madhukar Ladha: And these will be primarily equity?

Imtaiyazur Rahman: Equity and the Structured Debt Opportunity Fund (SDOF), Surojit please give the break up.

Surojit Saha: Yes, out of these INR 282 crores which you said Madhukar, IDEF that is India Dynamic Equity Fund we have INR 262 crore and in Balanced fund which is a debt fund, we have INR 20 crore and then in the venture fund, as Mr. Rahman said, in SDOF, which is invested in India, we have INR 128 crore and Ascent fund we have around INR 96 crore, IIDF, we have INR 71 crore, these are all venture fund.

Imtaiyazur Rahman: Madhukar it is our own fund. It is not third party.

Moderator: Thank you. We'll take our next question from the line of Amaresh Mishra from HSBC. Please go ahead.

Amaresh Mishra: So, just two questions from my side. Thanks for clarifying on the dividend policy and good performance in this quarter. I just wanted to check with you, you said at least 50% or 50% why I am asking this is in the context of your two other listed peers which are there two larger AMCs, their dividend payout has been significantly high and we are not a cash guzzling business, we throw up a lot of cash and we already have INR 2500 to 2600 crores of cash on the books. So, in that context sir this 50% do you think it is at least or do you think you should be, increasing this number, if you can comment on that?

Imtaiyazur Rahman: No, the policy is very clear - minimum 50%. It is minimum, it is not maximum. We have also said it in the RHP it is minimum 50%. Hope it clarifies.

Amaresh Mishra: That's very good. It will be good if you can just give a press release or something like that on that. And the other thing is on your employee expenses to the previous question, if we look at we are running roughly at about INR 95 crores per quarter kind of run rate right now, if you were to look at the half yearly where you clarified in terms of INR 17 crore being the first half, ESOP expenses. From a full year perspective if I look at your employee expense, it looks about INR 380 odd crores little shy of INR 200 odd crores. So we are running at something like 25 basis point kind of employee cost on our mutual fund AUMs the number which you gave INR 1,51,000 crore, so in that context, I know that in the long term we have this plan of reducing INR 70 crores but our peers are running at 15, 18 bps. Is there any other plan apart from this retirement wherein this can match up to our peers, anything else you would like to comment on that, that's all from my side, thank you very much.

Imtaiyazur Rahman: We have a two-pronged strategy, if we increase our AUM and that is our plan, then this cost will be reduced, on that particular basis. Also, we have a plan to rationalize our manpower. I can only give you this directionally. I just want to let you know, we are going to rationalize and right size our manpower requirement. Our strategy is not only to right size but also to increase our high yielding AUM, equity, hybrid and high yield fixed income component. We are following both these strategies concurrently.

Amaresh Mishra: Yes, sir that is fine sir. So in that context just one thing, I was just observing like although in liquid, we are kind of gained back market share, if you see from the month of March ’20 onwards, but in the debt side our market share is still struggling, we are at 4.3% we were roughly at about 7%. In equity we are maintaining market share. So what is the issue now, given that all the cleanup, et cetera has happened, why is the market share there not catching up. That’s my last question sir.

Imtaiyazur Rahman: Very good question, Vinay can you just add and inform

Vinay Lakhotia: Amaresh, we had closed three of our flagship funds; UTI Ultra Short Term fund, UTI Treasury Advantage fund and UTI Short Term fund for subscription over the last two years. Mainly because of credit crisis issues and also we didn’t want the existing investor to suffer. Post settling of the credit crisis issue, we have opened these schemes for subscription in the month of June. The Q2 numbers of the sales of these funds have been quite encouraging from the three funds itself, we have mobilized close to around INR 1640 crores of fresh sales and the debt sales number has also been positive. For the income fund, we mobilized around INR 500 crore for Q2. So going forward, we believe that with the opening of sales under these schemes and also on the backdrop of improved performance in most of our flagship funds on a one year and a two year basis we will be able to increase our traction under the fixed income fund and increase our market share especially under the high yielding fixed income product.

Imtaiyazur Rahman: So, Amaresh, I just want to add here, we had not closed down, but we decided to increase the exit load and make the commission zero. In the month of June, we removed this exit load and came out with the market linked incentive plan for those funds. The performance is very good. We have seen a significant improvement in the performance.

Amaresh Mishra: The performance is good sir, the only thing is that we have a good name UTI. And if you see the other PSU kind of names which are there, they are gaining a lot in terms of market share. So, our name it is not that we lack in terms of anything. So, I was just curious that we have lost market share this year, there is no gain in market share that was where I was coming from.

Imtaiyazur Rahman: We have been losing market till June, but if you see the September quarter, in this segment also we have added. I also would like to clarify that we have never been a PSU, the PSU shareholders had investment here.

Amaresh Mishra: T Rowe is the biggest investor.

Imtaiyazur Rahman: Yes. We have never been a PSU, though PSU shareholders have invested in our company as a shareholder. I would like to submit very humbly that performance is on the right side and the market share between June and September quarter has increased and we will continue to work hard.

Amaresh Mishra: Thank you. And please give a press release in terms of your formal dividend policy.

Imtaiyazur Rahman: Press release is given. Sandeep just take care about that.

Amaresh Mishra: And minimum dividend payout which you said

Imtaiyazur Rahman: Yes, it is important to be very clear about this dividend policy. I am very clear as a CEO because as you know Amaresh, I transitioned from CFO to CEO, so I am clear about the importance of the dividend.

Moderator: Thank you. Our next question is from the line of Nidhesh Jain from Investec Capital. Please go ahead.

Nidhesh Jain: First, can you share the distribution mix of equity oriented AUM in terms of bank assurance, IFA, national distributor and direct?

Imtaiyazur Rahman: Vinay?

Vinay Lakhotia: For equity and hybrid fund, IFAs constitute roughly around 60% of our overall AUM. The bank and national distributors are just around 10% and direct is 30% of our overall AUM for equity and hybrid fund.

Nidhesh Jain: And sir what is the plan to increase the share of banks in our distribution mix and how is the traction there?

Imtaiyazur Rahman: I will take this question. Most of our schemes were not on the platforms of the key banks. I'm happy to share with you that our schemes are now on the platform of all the banks which distributes our product. So, on the equity side with the performance which we have, as you know, we are witnessing traction from the investors and the distributor community. Similarly, our fixed income fund performance has also considerably improved and it is witnessing traction. We are revisiting our business development associate and partnership with the banks like Bank of Baroda, Citi Bank, Punjab National Bank, HDFC, Axis and others. With performance on our side along with good pricing advantage, very good servicing standard, brand UTI and reach, we will be definitely improving our market share and traction in the high yielding equity and fixed income products.

Nidhesh Jain: Thank you sir and secondly on the operating expenses, we have seen significant reduction on a Y-o-Y basis so what part of this operating expenses reduction is structured and what is because of lockdown and COVID related transient sort of operating expenses reduction?

Surojit Saha: We as an institution have taken initiatives in all the line items of the cost. In fact, we invested in training and development related practices. We are looking at our operating model and now have moved to a paperless document management system which is helping us significantly to reduce our costs, on printing, stationery and even in the courier costs. With virtual meetings becoming a new normal scenario, we have been saving on our travel cost as well and we expect this trend to continue going forward too. We have also negotiated rates with the landlords of our branch premises and we have been able to save around INR 1.5 to 2 crores in this half. And another thing is, for many of our new initiatives we are analyzing them on a zero based budgeting like for opening new offices and other cost expenditure. So, this has overall helped us to reduce the cost.

Imtaiyazur Rahman: We have been aggressively managing the administrative cost. If you see our data of last 10 years, you will find that we have always outperformed the inflation index. The employee cost is different, which we have explained to you, but administrative cost has always been well under control. So, one thing that you can relate to is that due to the pandemic, the travel cost is less, but vendor cost negotiation is something that we have started before the pandemic and that is giving us a lot of savings.

Nidhesh Jain: This quarterly run rate of INR 37 crore is a sustainable number or you expect it to increase?

Imtaiyazur Rahman: It is a sustainable number.

Moderator: Thank you. Our next question is from the line of Ajox Henry from B&K Securities. Please go ahead.

Ajox Henry: Sir, my question is a bit more fundamental. We have a very good share among B30 and given that we are allowed to charge higher commissions. So, shouldn't our operating yields be higher compared to competition or are we passing the difference completely to the distributor. How should I be seeing that?

Imtaiyazur Rahman: Vinay?

Vinay Lakhotia: In terms of B30 we are allowed to charge additional 30 basis point. Revenue sharing with the IFA especially for a B30 center is in the ratio of around 50:50 or 60:40. So, we are gaining some AMC fees as far as B30 AUM numbers are concerned, the yield you can say is slightly lower because we have a higher proposition of ETF and index funds. So, our ETF and index fund of our overall composition is 20% as compared to the industry average, which slightly drags down our overall margin number of around 47 basis points.

Ajox Henry: Okay, so that is the reason why our yield has declined despite mix getting better like year-on-year?

Vinay Lakhotia: No, year-on-year if we compare with the last six month the dip has been only by one basis point, but that's primarily because we started the year on a low equity base because of the market depreciation in the month of March. But we are confident of maintaining the last year yield margin number of around 46 basis points for the full financial year.

Ajox Henry: Got it. And sir on the IFA base, since we are pretty much dependent on IFAs, what are we doing to make sure that they remain committed to us?

Imtaiyazur Rahman: Mr. Sandeep Samsi, our Head of strategy.

Sandeep Samsi: As you are aware that IFAs are the bulwark of our whole distribution network, we enjoy very good relations with our IFAs and have been doing that over the years. One of the important pillars is the strong relation that we have developed over the years with the IFAs especially through our branches as well as through our business development associates. So, going forward also, we feel that this relation will continue and help gain AUM. For UTI, very importantly, one part which is there is that, in the past when there was a reduction in the exit load pricing of 5 basis point, at that time UTI was one of the few AMCs which did not pass on the cut to the distribution community. So that has also helped us to strengthen our relations with the IFAs.

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

Vinod Rajamani: So on slide #18, you have presented net sales for the company on a quarterly basis. Can you give those details for the industry as well?

Imtaiyazur Rahman: Vinay?

Vinay Lakhotia: Which number?

Vinod Rajamani: The quarterly net sales which you have presented on slide #18.

Vinay Lakhotia: We have an AUM number and net sales number for the industry but right now it is not available with us.

Vinod Rajamani: Okay, that's fine. But if I get the industry numbers and take your numbers I should be able to get the any market share gains and flows and all from this, right?

Vinay Lakhotia: I can give you the half year numbers, I don't have quarterly numbers will half year numbers do?

Vinod Rajamani: That is also fine.

Vinay Lakhotia: Okay. So for the half year, our net sales for the all categories put together was at INR 12,364 crore as compared to an industry number of INR 1,47,247 crore. So we are virtually at 8% of the industry number. I will give you equity and hybrid breakup. In Equity, our net sales are INR 333 crore as compared to an industry reference number of INR 2,496 crore and for hybrid our net sales were INR 189 crore as compared to industry, a negative net sales of around INR 2,658 crore.

Vinod Rajamani: That's very helpful thanks so much. The second question I had was, will PNB also be reducing your stake below 10%, and is there any timeline for that to happen?

Imtaiyazur Rahman: I am unable to answer this question. First of all, there is a lockup period of one year. Also, that would be the prerogative for PNB to decide, we have nothing to do. We are completely board governed, professionally managed independent company where these four shareholders have less than 51% and we are like a private company.

Vinod Rajamani: Okay. And also on employee cost this, 10% to 15% kind of reduction in employee cost, is that number is right? That is the number you have kind of put on record?

Imtaiyazur Rahman: Vinay please explain properly.

Vinay Lakhotia: What we have guided is that over a period of next four years, at least 250 employees are retiring. So even after considering the replacement costs, we see a cumulative saving of roughly around INR 65 – 70 crore in our employee cost over a period of next four years. So next four years the saving is INR 65 – 70 crore on a cumulative basis. And after a period of four years, the saving will be in the range of around 10% to 15% of our annual wage bill.

Vinod Rajamani: Understood, thanks so much. Those were my questions, thanks a lot.

Imtaiyazur Rahman: One more point which is important for me to share, in case of any appropriate sizing of manpower we have in reserve some money with us to use for the right sizing of the team, which will not get be charged to the profit and loss account to some extent.

Moderator: Thank you. Our next question is from line off Ravin Kurwa from ICICI Securities. Please go ahead.

Ravin Kurwa: I just wanted a breakup of revenue for subsidiary company and if it's possible can I have the revenue, expenditure and operating margins as a percentage of AUM numbers?

Surojit Saha: In respect of the total income, I can inform you it's INR 450 crore in respect of UTI AMC, RSL it is around INR 8 crores, UTI Capital Private Limited it's around INR 5 crores, UTI Venture, it's very small it's around INR 8 lakhs because there are no schemes and we are merging it with UTI Capital. UTI International it's around INR 98 crore.

Ravin Kurwa: Okay, thank you. And in terms of the revenue and expenses and operating margin as a percentage of AUM. Can you just give us those number?

Vinay Lakhotia: The revenue margin number for September quarter is roughly around 47 basis points and PAT margin number is around 23 basis point.

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

Viraj Kacharia: I just had a couple of questions. You said that we would now be on all the bank distributors. So, in terms of the distribution we are there, at least now there across all platforms. Do we see any avenues in terms of, either growth through IFA or for the additions of national distributors? Will that be a growth area for us or we are now pretty much adequately covered and focus is more on better utilization of the distribution?

Imtaiyazur Rahman: We are utilizing all channels, national distributors like NJ and others, they are our partners. One year back we didn't have engagements with them. They have started distributing our product**.** Banks have started distributing our products and we are on their platform. So, whether it is IFAs, bank channel, national distributors, or the regional distributors, we are using all channels to distribute our products, including FinTechs. Plus, to serve the institutional clients, we have our own dedicated channel. But for the retail and HNIs, we are using the bank channel, the national distributors and IFAs to distribute our products.

Viraj Kacharia: Sure sir. So, what is typically your approach with these distributors, are we going with sale or a slightly higher commission than the market and trying to get more funds? What is the larger focus area when you are talking about raising funds through these channels?

Imtaiyazur Rahman: Regarding the pricing, Vinay will share with you but so far as our strategy is concerned, UTI brand is a household name and the oldest brand in the country. And most important thing to place is our performance, our processes and our team. I would like to make a long term, successful and winning organization. And for that, the brand and performance matters, our processes matters. And indeed, the pricing also plays some role, Vinay can you share some of your thoughts on the pricing please?

Vinay Lakhotia: Sir, pricing is almost a standardized pricing formula ranging from around 50% to 70% to 75% of the total expense ratio that is being shared by the manufacturer to the distributor. 50% is the lower end to the IFA category, and 70% to 75% to a bank and a national distributor. On the pricing part, just one point to highlight, we do have a slightly competitive advantage as compared to some of the other bigger players, because we have only just one scheme, which falls above the INR 10,000 crore AUM category, rest all schemes are slightly below the INR 10,000 crore AUM category. So we do have flexibility of charging a slightly higher expense ratio and sharing the same with our distributor. If I compare my AUM vis-à-vis the other schemes which are at INR 20-25,000 crore, I do have a pricing advantage of around 5 to 10 basis points.

Viraj Kacharia: Okay and this 50 to 75% sharing which we talked about with IFA, how does that compare with the industry norms?

Vinay Lakhotia: It's a very standardized pricing formula across all the players.

Viraj Kacharia: Okay, just two more questions. On the pricing part, somewhere in the early part of the conversation you talked about when the TER cut in equity happened, we kind of absorbed bulk of the impact. So, if you look at our overall revenue either way, we are at the lower end compared to other players in the industry. This kind of sets very different set of expectations among IFAs other distributors, especially on the next TER cut if it happens. So, what is the broader thought process about why we kind of absorb a larger part of that?

Vinay Lakhotia: Let me kindly correct it, absorption happened only at the time when there was a reduction in the exit load pricing of 5 basis point. At that time, UTI AMC absorbed but when the TER cut happened in the month of October 2018, the entire cut of around 8 to 9 basis points was passed on to our distributors in form of a reduced commission, both on the stock region as well as fresh inflows going forward. So, we did pass on a TER cut of total amount of roughly around INR 60 to 65 crore to our distributors in October 2018.

Viraj Kacharia: Okay, this last question was on the other expenses. So, you talked about us taking a couple of initiatives, one initiative we have been talking quite a lot about is the digitization part so what kind of investments we've been making in terms of P&L and what kind of savings we are going to see over a period of time for these investments?

Vinay Lakhotia: Sorry, could you repeat your question we could not get that.

Viraj Kacharia: So, we have been talking a lot on the digitization initiatives which we have been taking in last one, one and a half year and we made a couple of investments towards the same. So, if you can just quantify what kind of investments in terms of P&L we have been making towards these digital initiatives, and what kind of savings do you expect over couple of years?

Vinay Lakhotia: The investment has already been made in these digital assets over the last two to three years. Just to give one example, right now we have become a completely paperless office and as a part of our go green initiative, we have ensured that no paper is being printed and the entire document is in electronic format. So, we do see a savings of roughly around 20% to 25% on these administrative line item expenses and as Surojit already mentioned the bulk of the other expense saving has come from a rental reduction, which could be anywhere in the range of around 10% to 15% of our total rental expenses for the last year.

Viraj Kacharia: Okay, can I squeeze in just one more question if I may. We have been making couple of investments in different product schemes and different categories, so going forward, what is broadly our approach do we need more investment to support these products? What will our approach be going forward into surplus cash?

Imtaiyazur Rahman: On the capital allocation, there are two pieces, one is if any growth opportunity comes in inorganic growth we will capitalize on the particular growth opportunity, but we have to expand our business and increase our AUM in our international business. We have launched our Structured Debt Opportunities Fund II and we have given some commitment for the fund. Also, we have got a very rich experience in managing the AIF equity side. We have a very small fund now, which is also on the verge of closure, so we may develop the competencies and launch an AIF fund at an appropriate time.

Viraj Kacharia: Would these require significant investments going forward?

Imtaiyazur Rahman: It may not require very significant investment. But, significant investment may be required if there is a growth opportunity that comes in an inorganic way.

Moderator: Thank you. Our next question is from the line of Madhu Gupta from Quantum Asset Management. Please go ahead.

Madhu Gupta: I just have one question. Your other income in the September quarter has declined by 19% and even for the half year it is down by 10%. What is the reason for the same?

Surojit Saha: See this is not a decline as such, if you see from 220 to 200 basically it's the foreign exchange income which was there in the Quarter two of 2019. In the next quarter that is 2020, it has come under the expenses. So it is basically because of the foreign exchange item, otherwise there is no reduction as such.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to Mr. Imtaiyazur Rahman for closing comments. Over to you sir.

Imtaiyazur Rahman: Thank you so much for participating. In case you have got any further questions, you can get in touch with us. Thank you Inba for organizing. Thank you.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of UTI Asset Management Company Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.