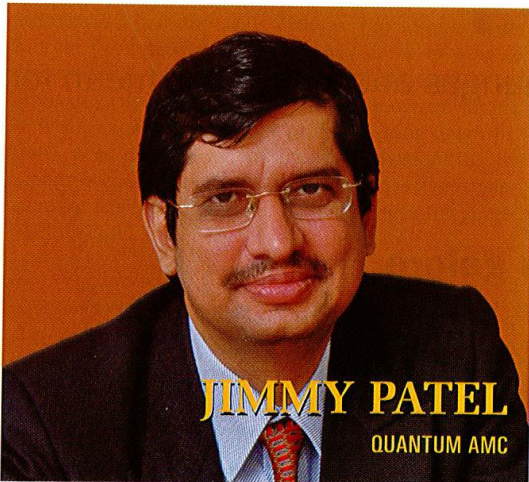


# Pays to stay direct

The direct plan mooted by Sebi is no competition to our direct-to-investor business model, says Jimmy Patel, CEO, Quantum AMC, in a conversation with Chirag Madia



**How will the recent Sebi announcements impact Quantum Mutual Fund?**

We were always a direct model, so frankly the new regulatory changes will not affect us. Even when the expense ratio was 2.5 per cent, we were charging 1.25 per cent and will continue to do so. The ruling on ploughing back exit loads into schemes is appreciated, but we were always practicing this anyway.

However, we have to see the changes in the brokerage and transaction cost which has been capped at 12 basis points in cash market and 5 basis points in Future and Option (F&O) transactions. We have submitted our observations to Sebi as well as the Association of Mutual Funds in India (AMFI) that brokerage should not be capped at 12 basis points. A large AMC has the scale to get better rates from brokers compared to a smaller AMC. So this problem will be faced by all small players because today brokers charge anywhere between 15-20 basis points. One needs to understand that the transaction cost is a function of portfolio churn and turnover, and not necessarily an element of brokerage in isolation.

**Will the direct model influence a change in your distribution strategy?**

We welcome the move for a plan with low expense ratio. It would have been better had Sebi itself suggested an expense ratio. While AMCs are allowed to charge around 3 per cent for the distribution-driven model, the expense

ratio for direct plan comes at 2.5 per cent; which is injustice to the direct model.

We will continue with the direct model and not charge the additional 30 basis points that the regulator has allowed on asset flows from beyond the top 15 cities. The expense ratio for Quantum Long Term Equity is 1.25 per cent and it will remain so. However, we will have to evaluate the impact of service tax as it will now be borne by the investors. We are awaiting clarity on this.

**How do you plan to leverage the base you have created by going directly to the investors?**

Compared with the distributor-driven model, the direct model has its advantages as well as disadvantages. The advantages being that we are directly in touch with the investors and understand their pulse. By doing so we can take extra care which results in a loyal customer base. So, over a period of time we have created a base which we feel is linked with loyalty as well as royalty. There is a similar treatment for all classes of investors whether someone comes with ₹500 or ₹5 lakh.

These efforts have resulted in our investor base growing up almost 200 per cent in the last two years. There has been an increased acceptance to the direct-to-investor model, which is also reflected with the growth in the assets we manage. I foresee a scenario where those who wish to compare our cost structure against the new direct cost structure will find us on the lower side, because I don't think distribution-driven models are geared to come down to charging as low as 1.25 per cent expense ratio.

**Will direct plans not lead to increased competition and dent your USP?**

A war is highly unlikely in the direct route segment. We will be more than happy if the industry lowers its expense ratio and the benefit is passed on to investors. Besides, we believe customers look at multiple factors while selecting a fund and not just the costs.

**What are Quantum's future business plans?**

I don't think with the regulatory changes we are likely to change our business plans for the future and so we will continue to remain direct-to-investor AMC. We will stay away from launching products for the sake of it because we have products across equity, debt and gold. We have always believed in keeping things simple for investors. ■