

HOLD
TP: Rs 425 | ▲ 4%

ADITYA BIRLA SUN LIFE AMC

| NBFC

| 27 July 2023

Healthy quarter

- QAAUM grew 5% YoY to Rs 2.9tn in Q1; market share inched up to 6.9% after a prolonged decline
- Net profit soared 79% YoY to Rs 1.8bn supported by core revenue growth and MTM gains
- TP raised to Rs 425 (vs. Rs 375) as we increase FY24/FY25 PAT 8%/6% and reset to 17x FY25E EPS (vs. 16x); maintain HOLD

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A better Q1: ABSL AMC's QAAUM grew 5% YoY to Rs 2.9tn at end-Q1FY24 and its market share increased slightly to 6.9% (+10bps QoQ) after a prolonged decline. Equity QAAUM grew 2% YoY to Rs 1.2tn (market share down 20bps QoQ) and its share in the mix stood at 39.9% (vs. 42.1% in Q4FY23). The liquid segment was a key highlight with QAAUM increasing from Rs 501bn in Q4FY23 to Rs 571bn.

MTM gains inject buoyancy: Revenue from operations grew 2% YoY to Rs 3.1bn whereas total income swelled 42% to Rs 3.9bn boosted by MTM gains. Operating expenses increased 15% YoY as employee cost climbed 20% to Rs 774mn (including Rs 66mn in ESOP cost) due to recruitment in the alternatives business. Net profit grew 79% YoY to Rs 1.8bn.

Passive funds gaining traction: The company's passive AUM has more than doubled YoY to Rs 287bn from Rs 127bn in Q1FY23, with a 40-product suite. About 0.5mn investor folios are serviced for ETFs, FOFs and index funds. The company raised commitments of Rs 8.9bn in its India Equity Services Fund (Category-III AIF).

Retail thrust with sticky SIP book: ABSL AMC's monthly SIP book advanced 10% YoY to Rs 9.9bn, closing Q1 with a total of 3.3mn SIP accounts and AUM of Rs 575bn. Systematic investments stagnated sequentially on account of a rise in cancellations and expiries as well as operational issues related to client verification. The company added 205,000 new SIP registrations in Q1 and indicated that 91% of SIPs have a tenure of over five years and 83% have been running for over ten years, indicating long-tenured inflows.

Maintain HOLD: Buoyant Q1 net profit owing to MTM gains compels us to increase our FY24/FY25 PAT estimates by 8%/6%. ABSL AMC is currently trading at 16.3x FY25E earnings. Baking in a healthy Q1, we value the stock at a higher 17x FY25E P/E multiple (vs. 16x earlier), a 20% discount to the long-term mean, leading to a revised TP of Rs 425 (vs. Rs 375). Maintain HOLD as we await sustainable equity QAAUM growth and consistent market share gains.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ABSLAMC IN/Rs 407
Market cap	US\$ 1.4bn
Free float	7%
3M ADV	US\$ 0.4mn
52wk high/low	Rs 503/Rs 307
Promoter/FPI/DII	87%/2%/5%

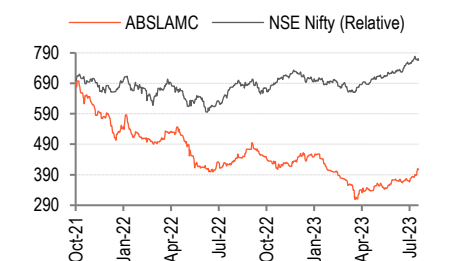
Source: NSE | Price as of 27 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	6,668	7,028	7,740
Core PBT (YoY)	(14.4)	5.4	10.1
Adj. net profit (Rs mn)	5,964	6,797	7,222
EPS (Rs)	20.7	23.5	25.0
Consensus EPS (Rs)	20.7	23.5	26.8
MCap/AAAUM (%)	4.3	4.0	3.7
ROAAAUM (bps)	21.7	23.1	22.7
ROE (%)	25.3	25.6	24.6
P/E (x)	19.7	17.3	16.3

Source: Company, Bloomberg, BOBCAPS Research

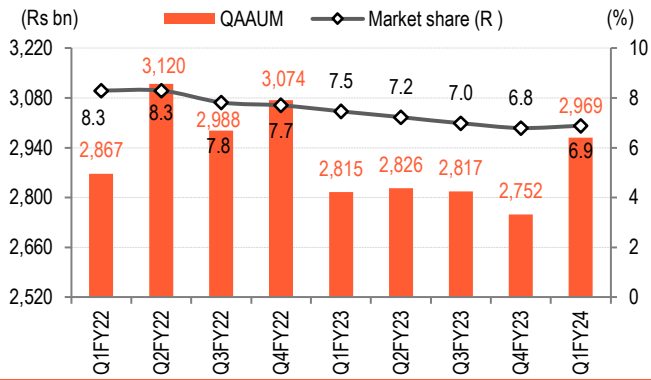
Stock performance



Source: NSE

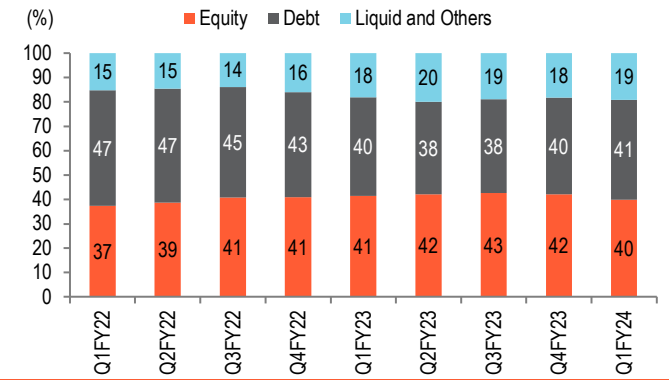


Fig 1 – Market share decline trend reverses



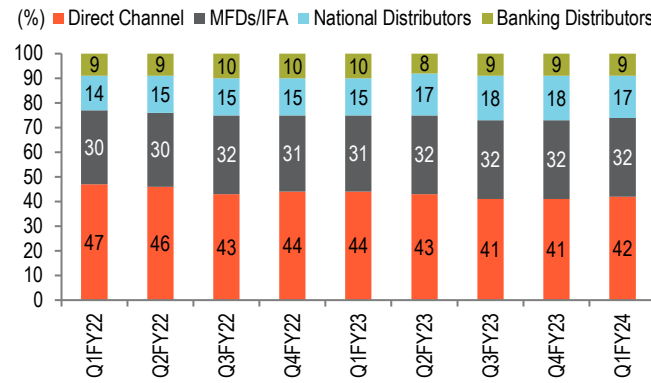
Source: Company, BOBCAPS Research

Fig 2 – Equity component at 40% at end-Q1FY24



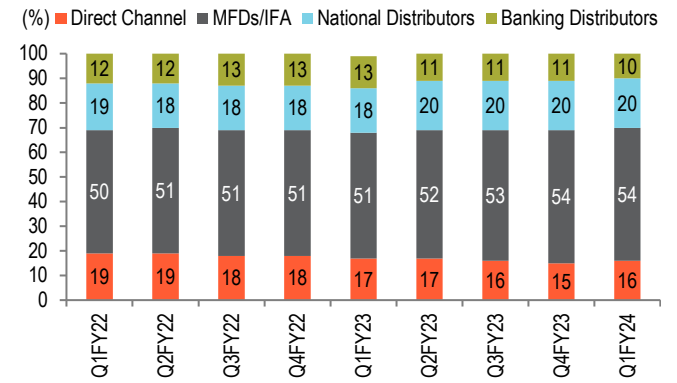
Source: Company, BOBCAPS Research

Fig 3 – Direct channel a key part of QAAUM distribution mix



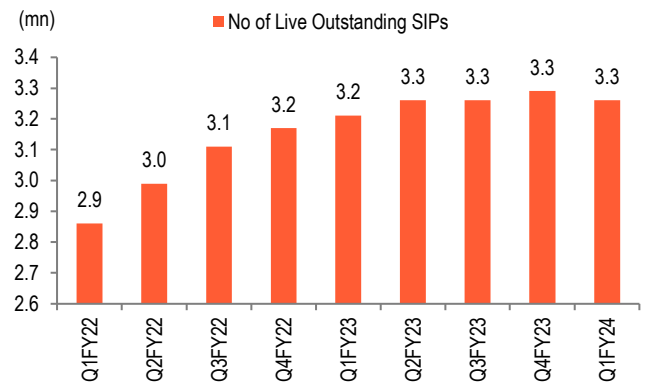
Source: Company, BOBCAPS Research

Fig 4 – Equity QAAUM largely dependent on MFDs



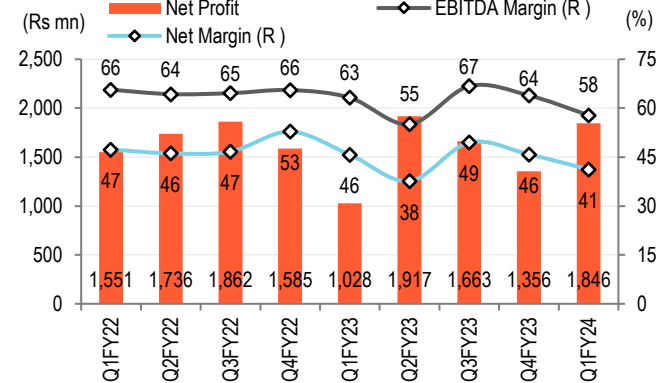
Source: Company, BOBCAPS Research

Fig 5 – Number of live outstanding SIP accounts stable



Source: Company, BOBCAPS Research

Fig 6 – Profitability inches up



Source: Company, BOBCAPS Research

Fig 7 – P&L account

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Asset Management Services	3,112	3,045	2.2	2,970	4.8	12,266	12,930	(5.1)
Other Income	778	(308)	NA	322	141.5	1,271	1,156	10.0
Total Income	3,889	2,737	42.1	3,292	18.1	13,537	14,085	(3.9)
Expenses								
Fees and Commission Expenses	82	44	86.7	74	9.8	229	198	15.7
Employee Benefits Expenses	774	647	19.6	665	16.4	2,772	2,587	7.1
Other Expenses	557	539	3.3	651	(14.4)	2,215	1,949	13.7
Total Operating Expenses	1,412	1,229	14.9	1,390	1.6	5,216	4,733	10.2
EBITDA	2,477	1,508	64.3	1,902	30.2	8,321	9,352	(11.0)
Depreciation, Amortisation and Impairment	66	88	(25.2)	84	(21.4)	343	356	(3.6)
Finance Costs	8	11	(29.3)	8	(5.5)	39	49	(19.8)
Profit Before Tax	2,403	1,408	70.7	1,810	32.8	7,939	8,947	(11.3)
Tax Expense								
Current Tax	438	457	(4.1)	492	(11.0)	1,876	2,107	(11.0)
Deferred Tax Charge/(Credit)	120	(77)	NA	(38)	(413.3)	99	112	(12.1)
Total Tax Expense	557	380	46.8	454	22.8	1,975	2,219	(11.0)
Profit After Tax	1,846	1,028	79.5	1,356	36.1	5,964	6,728	(11.4)

Source: Company, BOBCAPS Research

Fig 8 – QAAUM mix

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
QAAUM (Rs bn)								
MF	2,969	2,815	5.5	2,752	7.9	2,752	2,958	(7.0)
Equity	1,186	1,168	1.5	1,158	2.4	1,158	1,210	(4.3)
Debt *	1,213	1,137	6.7	1,093	11.0	1,093	1,272	(14.1)
Liquid	571	510	12.0	501	14.0	501	476	5.3
MF QAAUM mix (%)								
Equity	39.9	41.5	(155bps)	42.1	(213bps)	42.1	40.9	117bps
Debt*	40.9	40.4	46bps	39.7	114bps	39.7	43.0	(329bps)
Liquid	19.2	18.1	111bps	18.2	103bps	18.2	16.1	211bps

Source: Company, BOBCAPS Research | *Debt includes ETF

Fig 9 – Sourcing mix

Particulars (%)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Direct Channel	42	44	(200bps)	41	100bps	41	44	(300bps)
MFDs/IFA	32	31	100bps	32	0bps	32	31	100bps
National Distributors	17	15	200bps	18	(100bps)	18	15	300bps
Banking Distributors	9	10	(100bps)	9	0bps	9	10	(100bps)

Source: Company, BOBCAPS Research | Note: The above data excludes ETF

Fig 10 – Other key metrics

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Individual MAAUM (Rs bn)	1,501	1,315	14.1	1,403	7.0	1,403	1,380	1.7
Systematic Transactions (Rs mn)	9,870	8,977	9.9	10,030	(1.6)	10,030	8,950	12.1
No. of Live Outstanding SIPs (mn)	3.3	3.2	1.6	3.3	(0.9)	NA	NA	NA
B-30 MAAUM (Rs bn)	493	435	13.3	448	10.0	448	460	(2.6)

Source: Company, BOBCAPS Research

Fig 11 – Margin indicators

Parameter	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
EBITDA margin (%)	63.7	55.1	860bps	57.8	591bps	61.5	66.4	(493bps)
Net margin (%)	47.5	37.6	988bps	41.2	627bps	44.1	47.8	(371bps)
Revenue yield (bps)	41.9	43.3	(135bps)	43.2	(124bps)	43.0	42.2	70bps

Source: Company, BOBCAPS Research

Earnings call highlights

- ABSL AMC's QAAUM grew 5% YoY to Rs 2.97tn at end-Q1FY24. Of this, equity increased 2% YoY to Rs 1.2tn, constituting 40% of the total (42% in Q1FY23).
- Yields were rangebound at ~70bps for equity, 20-25bps for debt and 12-13bps for liquid schemes.
- The company aims to boost gross sales by focusing on a few funds, including the large-cap, multi-asset allocation and balanced advantage funds. A logistics fund launch is on the anvil in Q2 besides plans to introduce products on the AIF side.
- The company added 0.1mn folios during the quarter, taking the total to 7.9mn.
- The monthly SIP book advanced 10% YoY to Rs 9.9bn with 3.3mn accounts, including ~205,000 new SIP registrations (including STPs) in Q1. However, systematic investments stagnated sequentially on account of a rise in cancellations and expiries as well as operational issues related to client verification.
- Passive AUM stood at Rs 287bn, growing 126% YoY. The company raised commitments of Rs 8.9bn in its India Equity Services Fund (Category-III AIF).
- Total income grew 42% YoY to Rs 3.9bn boosted by MTM gains whereas PAT grew 79% to Rs 1.8bn.
- Operating expenses increased 15% YoY to Rs 1.4bn, of which employee expense grew 20% to Rs 774mn (incl. Rs 66mn ESOP cost), whereas fees and commission expense surged 87% to Rs 82mn (off a low base). Q1 employee expenses were influenced by recruitment, especially in the alternatives business. In Q4FY23, these expenses looked low on account of lower provisions for variable pay and bonus.
- The bancassurance channel was stable at 9% of the distribution mix and the direct channel was at 42% followed by MFDs at 32%.
- The company has developed a specialised segment that provides tailor-made solutions to high-net-worth individuals.
- To increase market share, management has shuffled responsibilities within the team over the last 6-9 months, giving young executives more opportunities to manage funds and realigning senior roles.

Valuation methodology

ABSL AMC is one of the biggest non-bank-backed players in the AMC industry and has maintained its #6 position in the industry. Concerns over persistent market share loss have receded slightly in Q1FY24 as the company's QAAUM share has inched up 10bps QoQ to 6.9%, lifted by liquid schemes that cushioned the fall in equity QAAUM market share (-20bps QoQ to 5.6%).

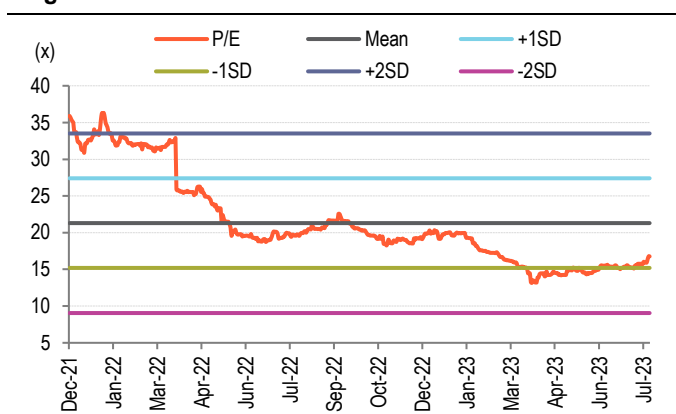
Incorporating the Q1 performance, we increase our AUM estimates by 3% each for FY24/FY25 and, in light of large MTM gains, hike PAT forecasts by 8%/6%. The stock is currently trading at 16.3x FY25E earnings. Baking in the strong Q1 numbers, we now value ABSL AMC at a higher 17x FY25E P/E multiple (16x earlier), a 20% discount to the long-term, leading to a revised TP of Rs 425 (Rs 375 earlier). We retain HOLD as we await sustainable growth in equity QAAUM and consistent market share gains.

Fig 12 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	14,948	15,735	14,241	15,367	5.0	2.4
EBITDA	9,374	9,959	8,753	9,511	7.1	4.7
Profit After Tax (PAT)	6,797	7,222	6,266	6,842	8.5	5.5
AUM	2,937	3,177	2,848	3,090	3.1	2.8
EBITDA Margin (%)	62.7	63.3	61.3	61.7	141bps	156bps
Net Margin (%)	45.5	45.9	44.1	44.5	142bps	138bps

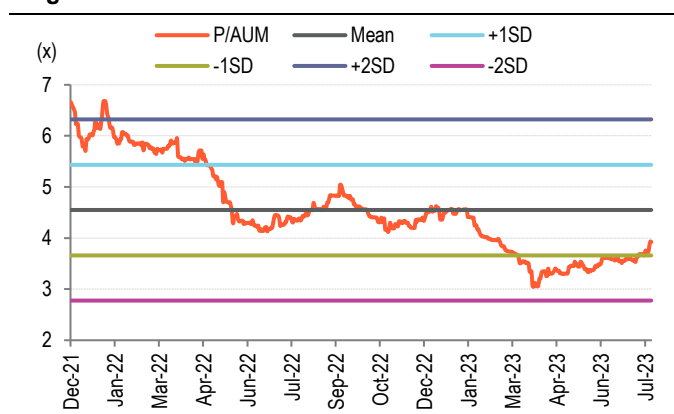
Source: BOBCAPS Research

Fig 13 – 1Y fwd P/E band



Source: Bloomberg, BOBCAPS Research

Fig 14 – 1Y fwd P/AUM band



Source: Bloomberg, BOBCAPS Research

Key risks

- **Decline in AUM growth due to increased competition:** ABSL AMC has witnessed intense competitive pressure that has eroded market share over the past few years. Higher competition coupled with new entrants could dampen AUM growth and hurt revenue.
- **Prolonged weakness in equity markets:** Equity assets constitute a significant portion of the company's AUM. Thus, a decline in Indian equity markets would cause AUM to decline directly as the value of the underlying securities fall, and indirectly as securities investments become less attractive for investors, resulting in net outflows or redemptions. Any decrease in AUM will impact fees and hence net profit.
- **Regulatory risks:** AMCs are regulated by SEBI and could be adversely impacted in the event of unfavourable policy changes. For instance, should the regulator mandate a further decline in total expense ratio, yields could weaken even more.
- **Covid-like disruptions:** While Covid-related lockdowns are unlikely to be unduly harsh in future, we believe that any such lockdowns/disruptions due to any pandemic/virus mutations would be a risk to retail customer acquisition and could also result in higher redemptions.
- **Scheme underperformance:** Fund returns are an important determinant of inflows and outflows into a scheme. Underperformance of the company's schemes could lead to a fall in AUM

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Aditya Birla Sun Life AMC	ABSLAMC IN	1.4	407	425	HOLD
HDFC AMC	HDFCAMC IN	6.4	2,447	2,445	HOLD
UTI AMC	UTIAM IN	1.2	806	815	HOLD

Source: BOBCAPS Research, NSE | Price as of 27 Jul 2023

Glossary

Glossary			
AUM	Assets Under Management	MF	Mutual Fund
AAAUM	Average Annual Assets Under Management	MFD	Mutual Fund Distributor
AIF	Alternate Investment Fund	NFO	New Fund Offer
B30	Beyond the Top 30 cities	PMS	Portfolio Management Services
eKYC	Electronic Know Your Customer	QAAUM	Quarterly Average Assets Under Management
ETF	Exchange Traded Funds	SIP	Systematic Investment Plan
FOF	Fund of Funds	STP	Systematic Transfer Plan
IFA	Independent Financial Advisor	T30	Top 30 cities
MAAUM	Monthly Average Assets Under Management	TER	Total Expense Ratio

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Investment mgmt. fees	10,679	12,930	12,266	12,928	13,862
YoY (%)	(7.9)	21.1	(5.1)	5.4	7.2
Operating expenses	4,670	4,733	5,216	5,574	5,776
Core operating profits	6,010	8,196	7,050	7,354	8,087
Core operating profits growth (%)	(4.2)	36.4	(14.0)	4.3	10.0
Depreciation and Interest	430	405	382	326	346
Core PBT	5,580	7,791	6,668	7,028	7,740
Core PBT growth (%)	(4.7)	39.6	(14.4)	5.4	10.1
Other income	1,379	1,156	1,271	2,020	1,873
PBT	6,959	8,947	7,939	9,048	9,613
PBT growth (%)	5.3	28.6	(11.3)	14.0	6.2
Tax	1,696	2,219	1,975	2,251	2,391
Tax rate (%)	24.4	24.8	24.9	24.9	24.9
Reported PAT	5,263	6,728	5,964	6,797	7,222

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity capital	180	1,440	1,440	1,440	1,440
Reserves & surplus	16,866	20,525	23,730	26,449	29,338
Net worth	17,046	21,965	25,170	27,889	30,778
Borrowings	0	0	0	0	0
Other liab. & provisions	2,799	2,383	2,711	2,713	2,816
Total liab. & equities	19,846	24,347	27,881	30,602	33,593
Cash & bank balance	17,831	22,189	24,858	27,379	30,018
Fixed & Other assets	1,845	1,853	2,603	3,223	3,575
Total assets	19,846	24,347	27,881	30,602	33,593

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	18.3	23.3	20.7	23.5	25.0
Dividend per share	77.8	11.5	10.3	14.2	15.0
Book value per share	59.2	76.0	87.2	96.6	106.6

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	22.3	17.5	19.7	17.3	16.3
P/BV	6.9	5.4	4.7	4.2	3.8
Dividend yield (%)	19.1	2.8	2.5	3.5	3.7

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23A	FY24E	FY25E
Operating income	39.7	43.7	44.6	44.0	43.6
Operating expenses	17.3	16.0	19.0	19.0	18.2
EBITDA	27.4	31.6	30.2	31.9	31.3
Depreciation and Others	1.6	1.4	1.4	1.1	1.1
Core PBT	20.7	26.3	24.2	23.9	24.4
Other income	5.1	3.9	4.6	6.9	5.9
PBT	25.8	30.2	28.8	30.8	30.3
Tax	6.3	7.5	7.2	7.7	7.5
ROAAAUM	19.5	22.7	21.7	23.1	22.7

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Investment mgmt. fees	(7.9)	21.1	(5.1)	5.4	7.2
Core operating profit	(4.2)	36.4	(14.0)	4.3	10.0
EPS	6.4	27.5	(11.3)	14.0	6.2
Profitability & Return ratios (%)					
Operating income to Total inc.	88.6	91.8	90.6	86.5	88.1
Cost to Core income ratio	43.7	36.6	42.5	43.1	41.7
EBITDA margin	61.3	66.4	61.5	62.7	63.3
Core PBT margin	46.3	55.3	49.3	47.0	49.2
PBT margin (on total inc.)	57.7	63.5	58.6	60.5	61.1
ROE	34.8	34.5	25.3	25.6	24.6
Dividend payout ratio	26.6	49.2	49.6	60.0	60.0

Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
AAAUM (Rs bn)	2,693	2,958	2,752	2,937	3,177
YoY Growth (%)	8.8	9.9	(7.0)	6.7	8.2
% of AAAUM					
Equity	36	41	42	41	41
Debt	48	43	38	37	36
Liquid	16	16	18	20	21
Others	0	0	1	1	2

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

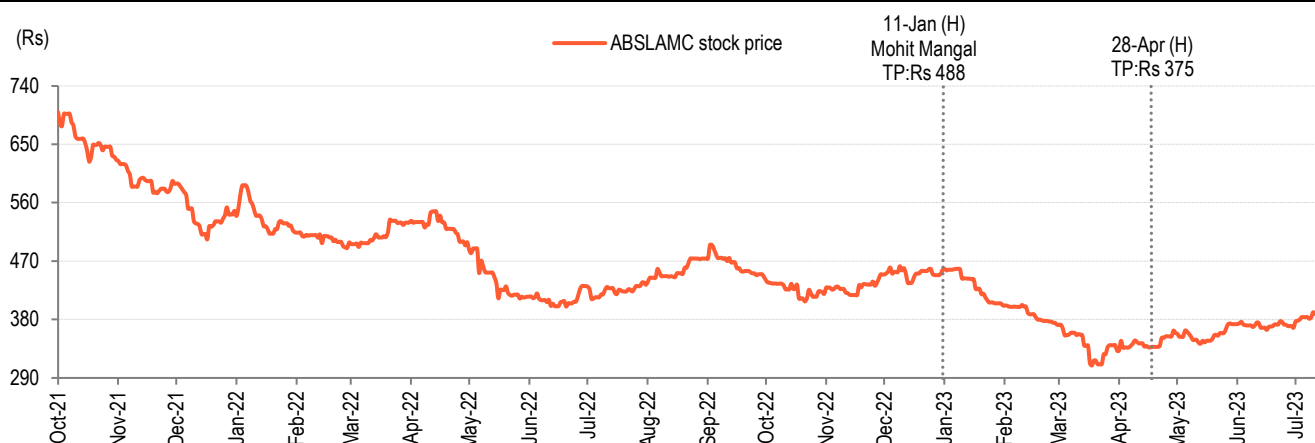
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ADITYA BIRLA SUN LIFE AMC (ABSLAMC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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