

HOLD

TP: Rs 440 | ▲ 0%

**ADITYA BIRLA SUN LIFE
AMC**

| NBFC

| 30 October 2023

Mixed set of numbers; maintain HOLD

- QAAUM grew 10% YoY to Rs 3.1tn in Q2 with equity assets rising 9%; however, market share inched down
- Higher opex pulled net profit down 7% YoY despite an 8% rise in revenue from operations
- TP raised to Rs 440 (vs. Rs 425) as we increase FY24/FY25 PAT by 4%/3% on higher AUM estimates; maintain HOLD

Mohit Mangal

research@bobcaps.in

Mixed quarter: ABSL AMC’s QAAUM grew 10% YoY to Rs 3.1tn at end-Q2FY24. Equity QAAUM registered the best annual growth in the last five quarters at 9% YoY to Rs 1.3tn (42% of the total). However, the company’s overall QAAUM market share slipped 20bps from FY23 levels to 6.6%. Management reiterated that steps are being taken to arrest market share loss.

Revenue from operations up 8% YoY: Revenue from operations grew 8% YoY to Rs 3.3bn but total income was flat at Rs 3.9bn as MTM gains dipped. Operating expenses increased 11% YoY owing to higher employee, fee and commission costs, causing net profit to decline 7% YoY to Rs 1.8bn.

Passive funds gaining traction: The company’s passive AUM soared 68% YoY to Rs 284bn from Rs 169bn in Q2FY23, with a 40-product suite. About 540,000 investor folios are serviced for ETFs, FOFs and index funds. Fund raising is underway in the ABSL India Special Opportunities Fund (Category-III AIF) while that for ABSL Structured Opportunities Fund (Cat II AIF) is in the pipeline.

Growth in SIP book muted but sticky: ABSL AMC’s monthly SIP book advanced 4% YoY to Rs 9.7bn (vs. industry growth of 23%), closing Q2 with a total of 3.2mn SIP accounts and AUM of Rs 608bn. The company added 213,000 new SIP registrations in Q2 and indicated that 91% of the systematic investments have a tenure of over five years with 83% running for over ten years, pointing to long-tenured inflows.

Maintain HOLD: Strong growth in AUM, especially the equity component in Q2, leads us to increase our FY24/FY25 estimates by 6.5%/8.5% and thus PAT estimates by 4%/3%. However, lower growth in the SIP book and market share losses remain key concerns. Our forecast changes yield a revised TP of Rs 440 (vs. Rs 425), based on an unchanged target P/E multiple of 17x on FY25E EPS, a 15% discount to the long-term mean. We maintain HOLD as we await sustainable equity QAAUM growth and consistent market share gains before revisiting our estimates.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ABSLAMC IN/Rs 438
Market cap	US\$ 1.5bn
Free float	7%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 472/Rs 307
Promoter/FPI/DII	87%/2%/5%

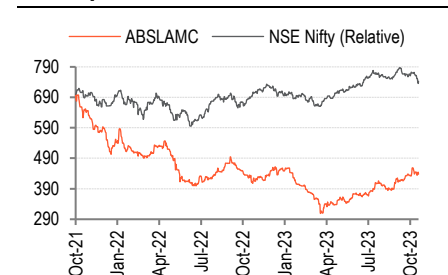
Source: NSE | Price as of 27 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	6,668	6,908	7,684
Core PBT (YoY)	(14.4)	3.6	11.2
Adj. net profit (Rs mn)	5,964	7,054	7,468
EPS (Rs)	20.7	24.4	25.9
Consensus EPS (Rs)	20.7	24.0	26.0
MCap/AAAUM (%)	4.6	4.0	3.7
ROAAAUM (bps)	21.7	22.5	21.7
ROE (%)	25.3	26.5	25.3
P/E (x)	21.2	18.0	17.0

Source: Company, Bloomberg, BOBCAPS Research

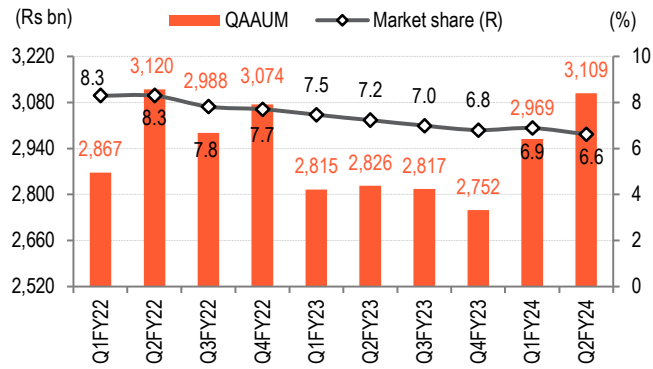
Stock performance



Source: NSE

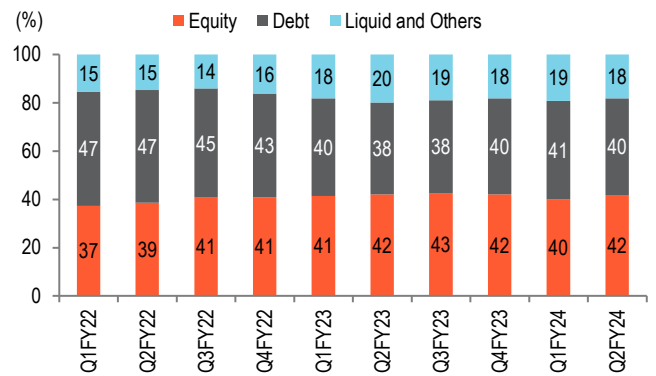


Fig 1 – Market share declines in Q2



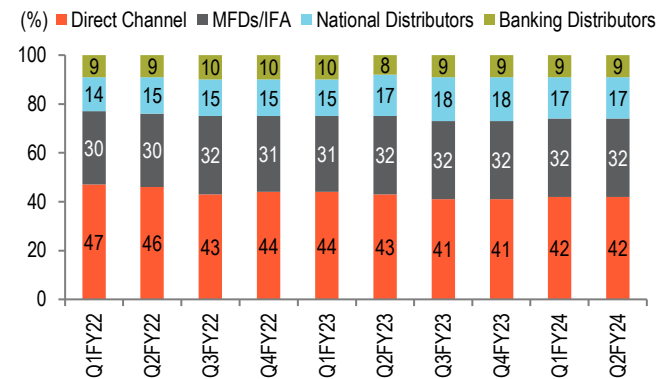
Source: Company, BOBCAPS Research

Fig 2 – Equity component rises QoQ to 42% at end-Q2



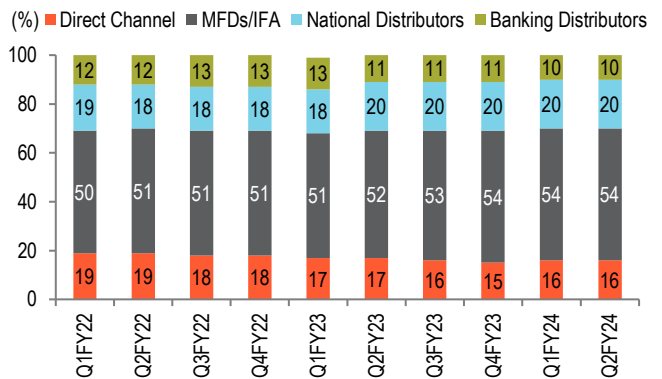
Source: Company, BOBCAPS Research

Fig 3 – Direct channel forms bulk of QAAUM distribution mix



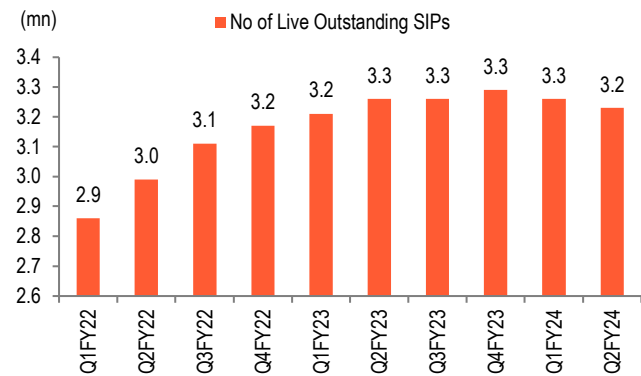
Source: Company, BOBCAPS Research

Fig 4 – Equity QAAUM largely dependent on MFDs



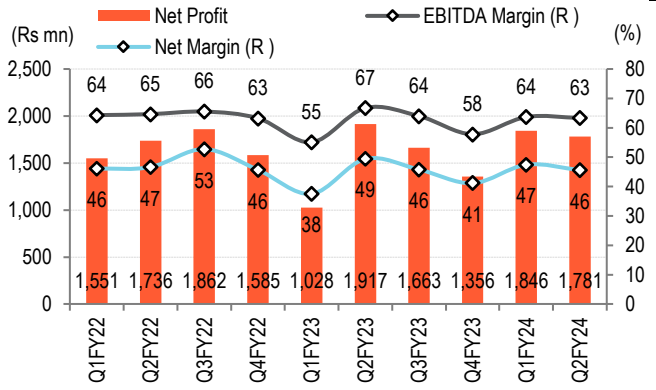
Source: Company, BOBCAPS Research

Fig 5 – Number of live outstanding SIPs broadly stable



Source: Company, BOBCAPS Research

Fig 6 – Profitability inches up



Source: Company, BOBCAPS Research

Fig 7 – P&L account

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Asset Management Services	3,350	3,111	7.7	3,112	7.7	6,462	6,156	5.0
Other Income	557	766	(27.3)	778	(28.4)	1,335	458	191.5
Total Income	3,907	3,877	0.8	3,889	0.5	7,796	6,614	17.9
Expenses								
Fees and Commission Expenses	82	44	89.2	82	0.7	164	87	87.9
Employee Benefits Expenses	798	712	12.1	774	3.2	1,572	1,359	15.7
Other Expenses	550	533	3.3	557	(1.2)	1,107	1,071	3.3
Total Operating Expenses	1,431	1,288	11.1	1,412	1.3	2,843	2,517	12.9
EBITDA	2,476	2,588	(4.3)	2,477	(0.0)	4,953	4,096	20.9
Depreciation, Amortisation and Impairment	92	84	8.5	66	38.4	158	173	(8.8)
Finance Costs	17	10	68.9	8	112.7	25	21	16.9
Profit Before Tax	2,368	2,494	(5.1)	2,403	(1.5)	4,771	3,902	22.3
Total Tax Expense	587	577	1.7	557	5.3	1,144	957	19.6
Profit After Tax	1,781	1,917	(7.1)	1,846	(3.5)	3,627	2,945	23.1

Source: Company, BOBCAPS Research

Fig 8 – QAAUM mix

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
MF QAAUM (Rs bn)	3,109	2,826	10.0	2,969	4.7	3,109	2,826	10.0
Equity	1,302	1,191	9.3	1,186	9.8	1,302	1,191	9.3
Debt *	1,244	1,073	15.9	1,213	2.6	1,244	1,073	15.9
Liquid	563	562	0.2	571	(1.4)	563	562	0.2
MF QAAUM mix (%)								
Equity	41.9	42.1	(27bps)	39.9	193bps	41.9	42.1	(27bps)
Debt*	40.0	38.0	204bps	40.9	(84bps)	40.0	38.0	204bps
Liquid	18.1	19.9	(178bps)	19.2	(112bps)	18.1	19.9	(178bps)

Source: Company, BOBCAPS Research | *Debt includes ETF

Fig 9 – Sourcing mix

Particulars (%)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Direct Channel	42	43	(100bps)	42	0bps	42	43	(100bps)
MFDs/IFA	32	32	0bps	32	0bps	32	32	0bps
National Distributors	17	17	0bps	17	0bps	17	17	0bps
Banking Distributors	9	8	100bps	9	0bps	9	8	100bps

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

Fig 10 – Other key metrics

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Individual MAAUM (Rs bn)	1,591	1,433	11.0	1,501	6.0	1,591	1,433	11
Systematic Transactions (Rs mn)	9,680	9,309	4.0	9,870	(1.9)	NA	NA	NA
No. of Live Outstanding SIPs (mn)	3.2	3.3	(0.9)	3.3	(0.9)	3.2	3.3	(0.9)
B-30 MAAUM (Rs bn)	531	468	13.5	493	7.7	531	468	13

Source: Company, BOBCAPS Research

Fig 11 – Margin indicators

Parameter	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
EBITDA margin (%)	63.4	66.8	(339bps)	63.7	(31bps)	63.5	61.9	160bps
Net margin (%)	45.6	49.4	(386bps)	47.5	(187bps)	46.5	44.5	199bps
Revenue yield (bps)	43.1	44.0	(1bps)	41.9	1bps	41.6	43.6	(2bps)

Source: Company, BOBCAPS Research

Earnings call highlights

- ABSL AMC's QAAUM grew 10% YoY to Rs 3.1tn at end-Q2FY24. Of this, the equity component increased 9% YoY to Rs 1.3tn, constituting 42% of the total (42% in Q2FY23 as well).
- Yield on the equity segment was rangebound at ~70bps for Q2 while dipping to 55-60bps for new flows. The yield for debt flows was stable at 24-25bps.
- The company added 0.3mn folios during H1FY24 for a total of 7.9mn.
- Monthly systematic flows (including STP) for Sep'23 stood at Rs 9.7bn, with a total of 3.23mn SIP accounts. During Q2, new SIP accounts (including STP) grew by 0.2mn and SIP AUM increased 19% YoY to Rs 608bn. The company launched a series of products, such as 'Sampoorna SIP', to expand its systematic portfolio.
- Passive AUM soared 68% YoY to Rs 284bn.
- Total income was flat YoY at Rs 3.9bn, of which revenue from operations grew 8% to Rs 3.3bn whereas other income fell 27% to Rs 557mn. PAT declined 7% YoY to Rs 1.8bn.
- Operating expenses increased 11% YoY to Rs 1.4bn, of which employee expense grew 12% to Rs 798mn whereas fee and commission expense surged 89% to Rs 82mn. Employee expenses were higher because of increments while fees and commissions grew due to AIF commission (off a low base), which is being amortised.
- The distribution mix was stable with the direct channel accounting for 42% share, MFDs 32% and the banking channel 9%.
- In terms of equity asset distribution, MFDs maintained a lion's share at 54% (stable YoY), followed by national distributors at 20%. The direct channel constituted 16%.
- Management reiterated that it is looking to arrest AUM market share loss by (i) improving scheme performance (pickup already visible YoY), (ii) already hired a Co-CIO Equity to drive the broader investment process, and (iii) offering greater responsibilities to internal talent who have been associated with the firm for a few years.
- The company launched a Transport and Logistics NFO in October that will close next month.

Valuation methodology

ABSL AMC is one of the largest non-bank-backed players in the AMC industry and has maintained its #6 ranking by AUM at end-Q2FY24. Strong growth in AUM, especially the equity component which hit a five-quarter high during Q2, leads us to increase our FY24/FY25 AUM estimates by 6.5%/ 8.5% and PAT estimates by 4%/3%. However, a muted showing in the SIP book and market share losses remain key concerns.

MAAUM share had inched up 20bps QoQ to 6.9% in Q1FY24, but the company saw a 50bps QoQ dip to 6.4% in Q2FY24 (30bps loss vs. FY23). Equity market share at 5.2% was also 30bps lower than that at end-FY23. Management's initiatives to arrest this decline will be a key monitorable.

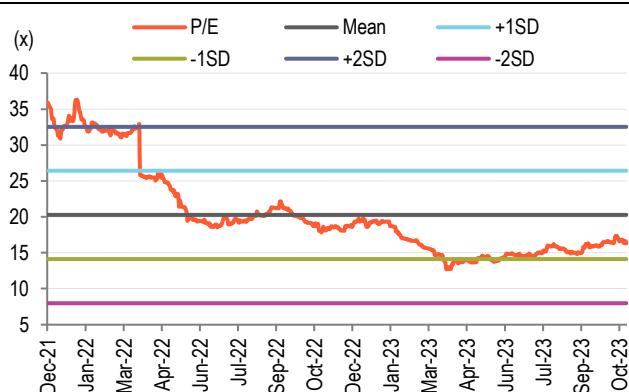
Our forecast changes yield a revised TP of Rs 440 (vs. Rs 425), based on an unchanged target P/E multiple of 17x on FY25E EPS, a 15% discount to the long-term mean. We maintain our HOLD rating as we await sustainable equity QAAUM growth and consistent market share gains before revisiting our estimates.

Fig 12 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	15,779	16,654	14,948	15,735	5.6	5.8
EBITDA	9,822	10,424	9,374	9,959	4.8	4.7
Profit After Tax (PAT)	7,054	7,468	6,797	7,222	3.8	3.4
AUM (Rs bn)	3,129	3,448	2,937	3,177	6.5	8.5
EBITDA Margin (%)	62.2	62.6	62.7	63.3	(46bps)	(70bps)
Net Margin (%)	44.7	44.8	45.5	45.9	(77bps)	(105bps)

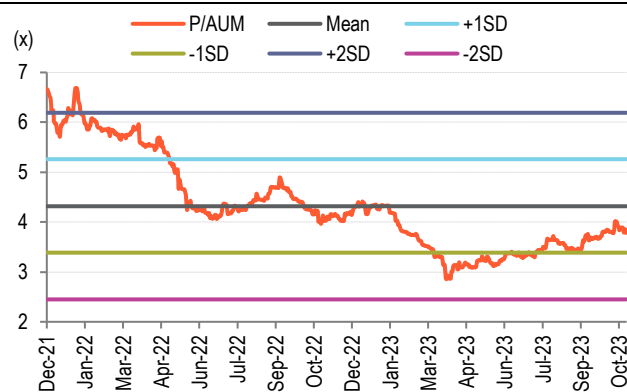
Source: BOBCAPS Research

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 falls, and indirectly as securities investments become less attractive to 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	1.5	438	440	HOLD
HDFC AMC	HDFCAMC IN	7.1	2,752	2,814	HOLD
UTI AMC	UTIAM IN	1.2	752	835	HOLD

Source: BOBCAPS Research, NSE | Price as of 27 Oct 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	13,256	14,353
YoY (%)	(7.9)	21.1	(5.1)	8.1	8.3
Operating expenses	4,670	4,733	5,216	5,957	6,229
Core operating profits	6,010	8,196	7,050	7,299	8,124
Core operating profits growth (%)	(4.2)	36.4	(14.0)	3.5	11.3
Depreciation and Interest	430	405	382	391	440
Core PBT	5,580	7,791	6,668	6,908	7,684
Core PBT growth (%)	(4.7)	39.6	(14.4)	3.6	11.2
Other income	1,379	1,156	1,271	2,523	2,300
PBT	6,959	8,947	7,939	9,431	9,984
PBT growth (%)	5.3	28.6	(11.3)	18.8	5.9
Tax	1,696	2,219	1,975	2,377	2,516
Tax rate (%)	24.4	24.8	24.9	25.2	25.2
Reported PAT	5,263	6,728	5,964	7,054	7,468

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	26,552	29,539
Net worth	17,046	21,965	25,170	27,992	30,979
Borrowings	0	0	0	0	0
Other liab. & provisions	2,799	2,383	2,711	4,104	4,847
Total liab. & equities	19,846	24,347	27,881	32,095	35,826
Cash & bank balance	17,831	22,189	24,858	29,393	33,215
Fixed & Other assets	1,845	1,853	2,603	2,702	2,611
Total assets	19,846	24,347	27,881	32,095	35,826

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	18.3	23.3	20.7	24.4	25.9
Dividend per share	77.8	11.5	10.3	14.7	15.6
Book value per share	59.2	76.0	87.2	96.9	107.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	24.0	18.8	21.2	18.0	17.0
P/BV	7.4	5.8	5.0	4.5	4.1
Dividend yield (%)	17.7	2.6	2.3	3.4	3.5

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23A	FY24E	FY25E
Operating income	39.7	43.7	44.6	42.4	41.6
Operating expenses	17.3	16.0	19.0	19.0	18.1
EBITDA	27.4	31.6	30.2	31.4	30.2
Depreciation and Others	1.6	1.4	1.4	1.3	1.3
Core PBT	20.7	26.3	24.2	22.1	22.3
Other income	5.1	3.9	4.6	8.1	6.7
PBT	25.8	30.2	28.8	30.1	29.0
Tax	6.3	7.5	7.2	7.6	7.3
ROAAAUM	19.5	22.7	21.7	22.5	21.7

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Investment mgmt. fees	(7.9)	21.1	(5.1)	8.1	8.3
Core operating profit	(4.2)	36.4	(14.0)	3.5	11.3
EPS	6.4	27.5	(11.3)	18.3	5.9
Profitability & Return ratios (%)					
Operating income to Total inc.	88.6	91.8	90.6	84.0	86.2
Cost to Core income ratio	43.7	36.6	42.5	44.9	43.4
EBITDA margin	61.3	66.4	61.5	62.2	62.6
Core PBT margin	46.3	55.3	49.3	43.8	46.1
PBT margin (on total inc.)	57.7	63.5	58.6	59.8	60.0
ROE	34.8	34.5	25.3	26.5	25.3
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	3,129	3,448
YoY Growth (%)	8.8	9.9	(7.0)	13.7	10.2
% of AAAUM					
Equity	36	41	42	42	42
Debt	48	43	38	38	38
Liquid	16	16	18	18	18
Others	0	0	1	2	2

Source: Company, BOBCAPS Research

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

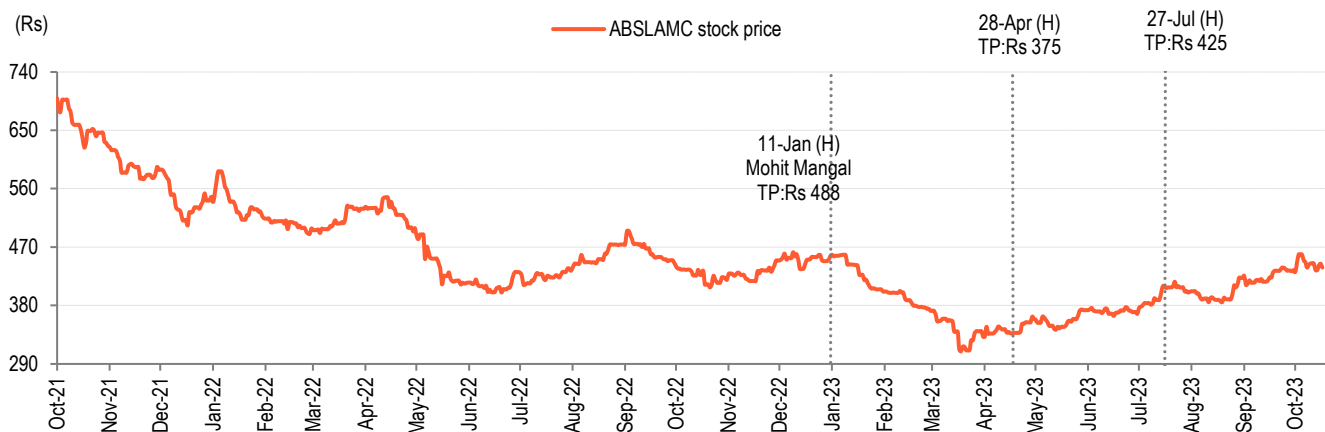
HOLD – Expected return from -6% to +15%

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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