

HOLD

TP: Rs 375 | ▲ 11%

**ADITYA BIRLA SUN LIFE
AMC**

| NBFC

| 28 April 2023

Soft numbers; weakness persists, maintain HOLD

- QAAUM declined 7% YoY to Rs 2.8tn at end-FY23 with continued market share bleed
- Q4 net profit down 14% YoY (22% below our est.) owing to a fall in revenue and higher operating expenses
- We cut FY24/FY25 PAT 13%/14% and lower our TP to Rs 375 (vs. Rs 488), based on 16x FY25E EPS (vs. 18x); maintain HOLD

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Q4 below expectations: ABSL AMC’s QAAUM declined 7% YoY to Rs 2.8tn at end-Q4FY23 (10% below our estimate), with market share falling below 7% from 7.7% in the year-ago quarter. Equity QAAUM fell 4% YoY to Rs 1.2tn even as its share in the mix increased to 42.1% vs. 40.9%. The company, however, raised ~Rs 16bn in its NFO during Q4 which is positive. Debt outflows continued – an industry-wide phenomenon. Net profit declined 14% YoY to Rs 1.4bn (22% miss) as (a) total income at Rs 3.3bn fell 5% YoY and revenue yield (calc.) dipped YoY to 43bps, (b) operating expenses rose 9% YoY owing to a 19% increase in other expenses towards NFO launch and new branch opening.

Passive funds gaining traction: The company’s passive AUM has grown close to 3x YoY to Rs 282bn at end-Q4FY23 from Rs 100bn in Q4FY22, with a 40+ product suite and seven schemes in the pipeline. About 0.5mn investor folios are serviced with an emphasis on smart beta (alternate weighting) strategies for ETFs, FOFs and index funds.

Retail thrust with sticky SIP book: The SIP book surpassed the Rs 10bn monthly mark in Q4 and grew 12% YoY, with total SIP accounts at 3.3mn and AUM at Rs 512bn. The company added 265,000 new SIP registrations during the quarter. As of Q4, 91% of its systematic plans have a tenure of over five years and 82% have been running for over 10 years, indicating long-tenured inflows.

Maintain HOLD: We maintain HOLD as we monitor the company’s ability to rebuild market share and rejuvenate both its asset mix (further towards equity) as well as equity scheme performance. We believe competitive pressure and regulatory fee review would remain headwinds. The stock is currently trading at 14x FY25E earnings. Baking in the soft Q4, we cut FY24/FY25 PAT estimates by 13%/14% and now value the stock at 16x FY25E EPS (18x earlier), a 30% discount to the long-term mean. This yields a revised TP of Rs 375 (vs. Rs 488), which carries 11% upside.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ABSLAMC IN/Rs 338
Market cap	US\$ 1.2bn
Free float	7%
3M ADV	US\$ 0.4mn
52wk high/low	Rs 535/Rs 307
Promoter/FPI/DII	87%/2%/5%

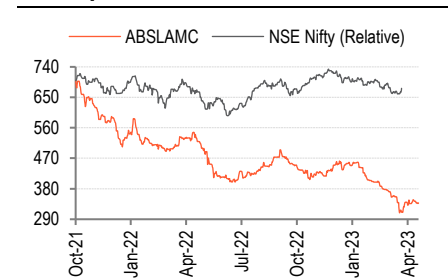
Source: NSE | Price as of 28 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Core PBT (Rs mn)	6,668	6,568	7,057
Core PBT (YoY)	(14.4)	(1.5)	7.4
Adj. net profit (Rs mn)	5,964	6,209	6,766
EPS (Rs)	20.7	21.5	23.4
Consensus EPS (Rs)	20.7	23.5	26.8
MCap/AAAUM (%)	3.5	3.4	3.2
ROAAAUM (bps)	21.7	21.8	21.9
ROE (%)	25.3	23.5	23.3
P/E (x)	16.4	15.7	14.4

Source: Company, Bloomberg, BOBCAPS Research

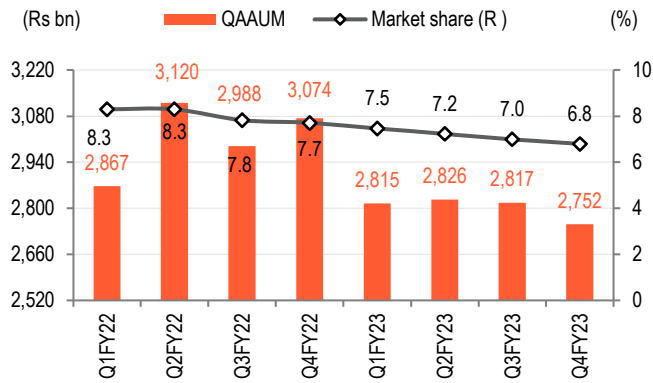
Stock performance



Source: NSE

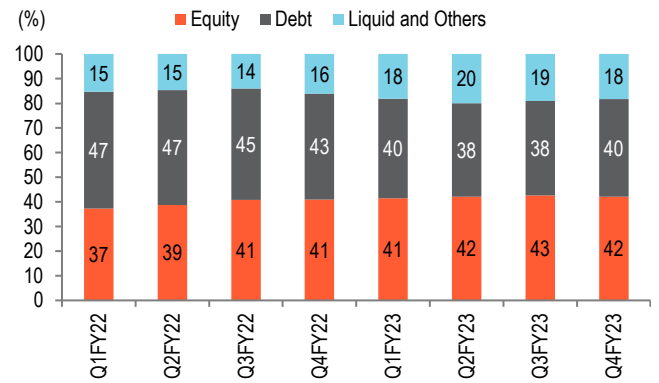


Fig 1 – Market share continues to decline



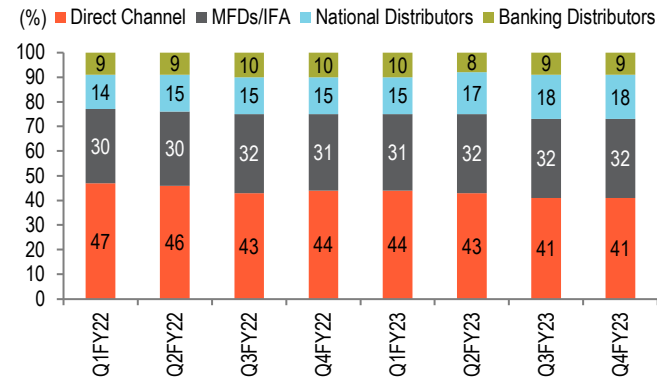
Source: Company, BOBCAPS Research

Fig 2 – Equity component at 42% at end-FY23



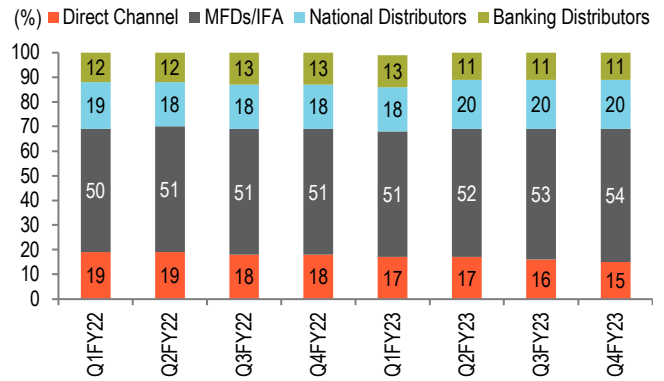
Source: Company, BOBCAPS Research

Fig 3 – Direct channel an important part of QAAUM distribution mix



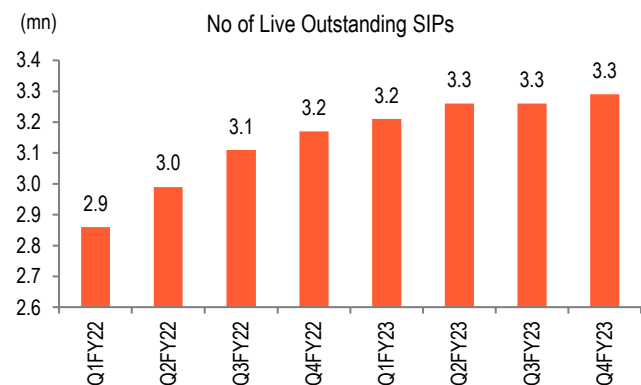
Source: Company, BOBCAPS Research

Fig 4 – Equity QAAUM largely dependent on MFDs



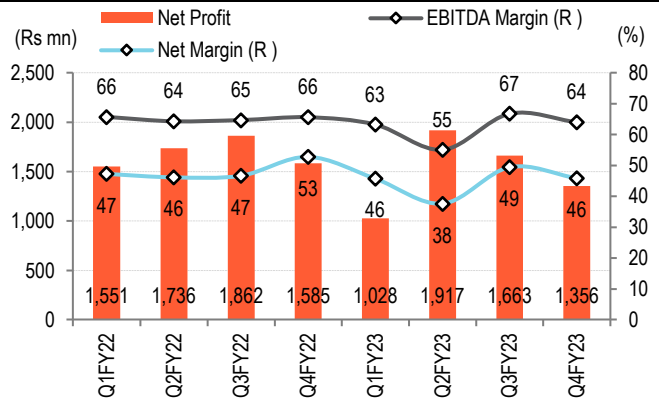
Source: Company, BOBCAPS Research

Fig 5 – Number of live outstanding SIPs stable



Source: Company, BOBCAPS Research

Fig 6 – Profitability under pressure



Source: Company, BOBCAPS Research

Fig 7 – P&L account

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Asset Management Services	2,970	3,235	(8.2)	3,140	(5.4)	12,266	12,930	(5.1)
Other Income	322	235	36.8	491	(34.4)	1,271	1,156	10.0
Total Income	3,292	3,471	(5.2)	3,632	(9.4)	13,537	14,085	(3.9)
Expenses								
Fees and Commission Expenses	74	41	83.6	67	11.1	229	198	15.7
Employee Benefits Expenses	665	691	(3.8)	719	(7.6)	2,772	2,587	7.1
Other Expenses	651	545	19.4	523	24.4	2,215	1,949	13.7
Total Operating Expenses	1,390	1,276	8.9	1,309	6.2	5,216	4,733	10.2
EBITDA	1,902	2,194	(13.3)	2,323	(18.1)	8,321	9,352	(11.0)
Depreciation, Amortisation and Impairment	84	90	(6.1)	86	(2.6)	343	356	(3.6)
Finance Costs	8	12	(27.5)	9	(11.5)	39	49	(19.8)
Profit Before Tax	1,810	2,093	(13.6)	2,227	(18.7)	7,939	8,947	(11.3)
Tax Expense								
Current Tax	492	447	10.1	471	4.4	1,876	2,107	(11.0)
Deferred Tax Charge/(Credit)	(38)	61	(162.4)	93	(141.1)	99	112	(12.1)
Total Tax Expense	454	508	(10.7)	564	(19.5)	1,975	2,219	(11.0)
Profit After Tax	1,356	1,585	(14.5)	1,663	(18.5)	5,964	6,728	(11.4)

Source: Company, BOBCAPS Research

Fig 8 – AUM mix: Equity component in QAAUM has increased YoY

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
AUM (Rs bn)								
MF QAAUM	2,752	2,958	(7.0)	2,817	(2.3)	2,752	2,958	(7.0)
Equity QAAUM	1,158	1,210	(4.3)	1,201	(3.6)	1,158	1,210	(4.3)
Debt QAAUM*	1,093	1,272	(14.1)	1,082	1.0	1,093	1,272	(14.1)
Liquid QAAUM	501	476	5.3	535	(6.4)	501	476	5.3
MF QAAUM mix (%)								
Equity QAAUM	42.1	40.9	117bps	42.6	(1.3)	42.1	40.9	117bps
Debt QAAUM*	39.7	43.0	(329bps)	38.4	3.4	39.7	43.0	(329bps)
Liquid QAAUM	18.2	16.1	211bps	19.0	(4.1)	18.2	16.1	211bps

Source: Company, BOBCAPS Research | *Debt includes ETFs

Fig 9 – Sourcing mix

Particulars (%)	Q4FY23	Q4FY22	YoY (bps)	Q3FY23	QoQ (bps)	FY23	FY22	YoY (bps)
Direct Channel	41	44	(300)	41	0	41	44	(300)
MFDs/IFA	32	31	100	32	0	32	31	100
National Distributors	18	15	300	18	0	18	15	300
Banking Distributors	9	10	(100)	9	0	9	10	(100)

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

Fig 10 – Other key metrics

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Individual MAAUM (Rs bn)	1,403	1,380	1.7	1,458	(3.8)	1,403	1,380	1.7
Systematic Transactions (Rs mn)	10,030	8,950	12.1	9,420	6.5	10,030	8,950	12.1
No. of Live Outstanding SIPs (mn)	3.3	3.2	3.8	3.3	0.9	NA	NA	NA
B30 MAAUM (Rs bn)	448	460	(2.6)	485	(7.6)	448	460	(2.6)

Source: Company, BOBCAPS Research

Fig 11 – Margin indicators

Margin	Q4FY23	Q4FY22	YoY (bps)	Q3FY23	QoQ (bps)	FY23	FY22	YoY (bps)
EBITDA margin (%)	57.8	63.2	(545)	64.0	(617)	61.5	66.4	(493)
Net margin (%)	41.2	45.7	(449)	45.8	(460)	44.1	47.8	(371)
Revenue yield (bps)	43	44	(1 bps)	45	(1 bps)	45	44	1 bps

Source: BOBCAPS Research

Earnings call highlights

- QAAUM declined 7% YoY to Rs 2.8tn at end-FY23. Of this, equity declined 4% YoY to Rs 1.2tn, constituting 42.1% of the total (40.9% in FY22).
- Total income slipped 4% YoY to Rs 13.5bn at end-FY23 whereas PAT fell 11% to Rs 6bn. In Q4, these numbers were Rs 3.3bn (-5% YoY) and Rs 1.4bn (-14% YoY) respectively.
- Other expenses increased by 19% YoY and 24% QoQ in Q4 owing to (i) marketing and sales promotion of the NFO, and (ii) infrastructure expenses in terms of new branch opening.
- Per management, the company is looking to regain lost market share by (i) focussing on the HNI category which has seen lower participation over the last 1.5-2 years, and (ii) rejigging fund management teams where there were performance-related issues in some asset classes (e.g. real estate). This has yielded positive results and performance is now nearing benchmark levels.
- ABSL AMC added 0.7mn folios in FY23, taking the total to 8.05mn at end-Mar'23.
- The monthly SIP book crossed Rs 10bn in Q4 and SIP AUM totalled Rs 512bn.
- The company raised ~Rs 16bn in its recent NFO – the Multi Asset Allocation Fund. It also raised a commitment of Rs 7.3bn in its first-ever launch of a Category-III AIF (India Equity Services Fund). It intends to bring in several new funds in FY24.
- The share of the banking channel in overall distribution declined in FY23 (10% to 9%), but management believes that this is not a cause for concern.
- Distributor payout as a general principle is maintained at ~65% of overall TER. However, in the case of NFOs, the 65% norm is breached as the first year of payout is generally high and payout in B30 cities is also on the higher side.
- The company announced a dividend of Rs 10.25/sh for FY23 with a dividend payout ratio of ~50%.

Valuation methodology

While ABSL AMC is one of the biggest non-bank-backed players in the AMC industry, concerns persist over its constant market share slippage. The company has dropped two spots to the No. 6 position in FY23 after shedding 100bps YoY in MAAUM market share (see our note of 19 April).

We retain our HOLD rating as we continue to monitor the company's ability to rebuild market share and rejuvenate both its asset mix (further towards equity) and equity scheme performance. We believe competitive pressure along with regulatory issues would remain headwinds.

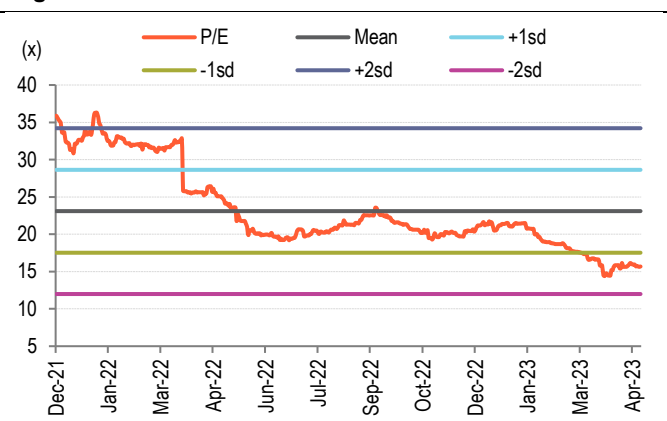
The stock is currently trading at 14x FY25E earnings. Baking in the soft Q4FY23 performance, we cut our FY24/FY25 PAT estimates by 13%/14% and now value the stock at 16x FY25E EPS (from 18x earlier), a 30% discount to the long-term mean. This yields a revised TP of Rs 375 (vs. Rs 488), which carries 11% upside.

Fig 12 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	14,094	15,199	15,403	16,682	(8.5)	(8.9)
EBITDA	8,640	9,383	9,961	10,929	(13.3)	(14.1)
Profit After Tax (PAT)	6,209	6,766	7,136	7,837	(13.0)	(13.7)
AUM	2,848	3,090	3,294	3,662	(13.5)	(15.6)
EBITDA Margin (%)	61.3	61.7	64.7	65.5	(337bps)	(378bps)
Net Margin (%)	44.1	44.5	46.3	47.0	(228bps)	(247bps)

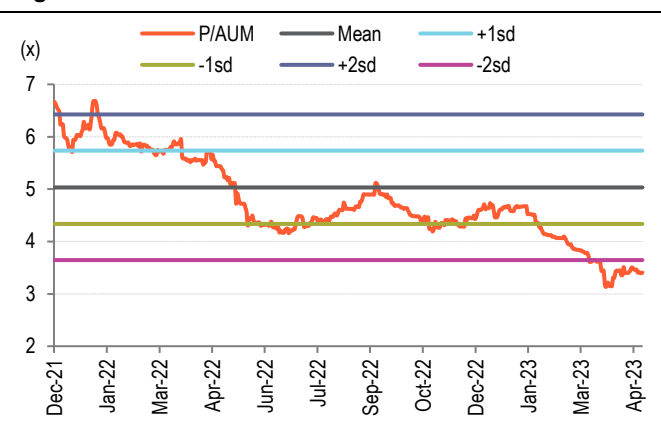
Source: Company, BOBCAPS Research

Fig 13 – 1Y fwd P/E band



Source: BOBCAPS Research

Fig 14 – 1Y fwd P/AUM band



Source: 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 five 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 case of unfavourable policy changes.
 - In the event the regulator mandates a further decline in TER, yields could reduce further.
 - SEBI in Apr'22 had barred fund houses from floating new schemes till the industry complied with its direction to discontinue mutual fund investments by distributors and brokers from their pool accounts.
- **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	1.2	338	375	HOLD
HDFC AMC	HDFCAMC IN	4.6	1,764	1,946	HOLD
Nippon Life India AMC	NAM IN	1.8	238	305	BUY
UTI AMC	UTIAM IN	1.0	658	800	BUY

Source: BOBCAPS Research, NSE | Price as of 28 Apr 2023

Glossary

Glossary			
AUM	Assets Under Management	MF	Mutual Fund
AIF	Alternative Investment Fund	NFO	New Fund Offer
B30	Beyond the Top 30 cities	QAAUM	Quarterly Average Assets Under Management
ETF	Exchange Traded Funds	SIP	Systematic Investment Plan
FOF	Fund of Funds	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	FY23P	FY24E	FY25E
Investment mgmt. fees	10,679	12,930	12,266	12,398	13,249
YoY (%)	(7.9)	21.1	(5.1)	1.1	6.9
Operating expenses	4,670	4,733	5,216	5,454	5,816
Core operating profits	6,010	8,196	7,050	6,944	7,433
Core operating profits growth (%)	(4.2)	36.4	(14.0)	(1.5)	7.1
Depreciation and Interest	430	405	382	375	377
Core PBT	5,580	7,791	6,668	6,568	7,057
Core PBT growth (%)	(4.7)	39.6	(14.4)	(1.5)	7.4
Other income	1,379	1,156	1,271	1,696	1,950
PBT	6,959	8,947	7,939	8,265	9,006
PBT growth (%)	5.3	28.6	(11.3)	4.1	9.0
Tax	1,696	2,219	1,975	2,056	2,240
Tax rate (%)	24.4	24.8	24.9	24.9	24.9
Reported PAT	5,263	6,728	5,964	6,209	6,766

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Equity capital	180	1,440	1,440	1,440	1,440
Reserves & surplus	16,866	20,525	23,730	26,213	28,920
Net worth	17,046	21,965	25,170	27,653	30,360
Borrowings	0	0	0	0	0
Other liab. & provisions	2,799	2,383	2,711	2,991	3,156
Total liab. & equities	19,846	24,347	27,881	30,645	33,516
Cash & bank balance	17,831	22,189	24,858	27,703	30,225
Fixed & Other assets	1,845	1,853	2,603	2,942	3,291
Total assets	19,846	24,347	27,881	30,645	33,516

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
EPS	18.3	23.3	20.7	21.5	23.4
Dividend per share	77.8	11.5	10.3	12.9	14.1
Book value per share	59.2	76.0	87.2	95.8	105.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
P/E	18.5	14.5	16.4	15.7	14.4
P/BV	5.7	4.4	3.9	3.5	3.2
Dividend yield (%)	23.0	3.4	3.0	3.8	4.2

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23P	FY24E	FY25E
Operating income	39.7	43.7	44.6	43.5	42.9
Operating expenses	17.3	16.0	19.0	19.1	18.8
EBITDA	27.4	31.6	30.2	30.3	30.4
Depreciation and Others	1.6	1.4	1.4	1.3	1.2
Core PBT	20.7	26.3	24.2	23.1	22.8
Other income	5.1	3.9	4.6	6.0	6.3
PBT	25.8	30.2	28.8	29.0	29.1
Tax	6.3	7.5	7.2	7.2	7.2
ROAAAUM	19.5	22.7	21.7	21.8	21.9

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Investment mgmt. fees	(7.9)	21.1	(5.1)	1.1	6.9
Core operating profit	(4.2)	36.4	(14.0)	(1.5)	7.1
EPS	6.4	27.5	(11.3)	4.1	9.0
Profitability & Return ratios (%)					
Operating income to Total inc.	88.6	91.8	90.6	88.0	87.2
Cost to Core income ratio	43.7	36.6	42.5	44.0	43.9
EBITDA margin	61.3	66.4	61.5	61.3	61.7
Core PBT margin	46.3	55.3	49.3	46.6	46.4
PBT margin (on total inc.)	57.7	63.5	58.6	58.6	59.3
ROE	34.8	34.5	25.3	23.5	23.3
Dividend payout ratio	26.6	49.2	49.6	60.0	60.0

Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
AAAUM (Rs bn)	2,693	2,958	2,752	2,848	3,090
YoY Growth (%)	8.8	9.9	(7.0)	3.5	8.5
% of AAAUM					
Equity	36	41	42	43	42
Debt	48	43	38	36	35
Liquid	16	16	18	19	21
Others	0	0	1	2	2

Source: Company, BOBCAPS Research

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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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