

HOLD

TP: Rs 815 | ▼ 0%

UTI AMC

| NBFC

| 26 July 2023

Equity flows lacklustre; valuations full – downgrade to HOLD

- MTM gains boosted Q1 net profit growth to ~150% YoY whereas core net profit fell 25% YoY
- Equity and hybrid schemes (combined) saw outflows for four straight quarters due to flagship fund underperformance
- TP moves to Rs 815 (vs. Rs 800) as we raise FY24/FY25 PAT by 17%/2% to bake in higher other income; cut to HOLD on full valuations

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MTM gains boost profitability: UTI AMC’s Q1FY24 net profit soared ~150% YoY to Rs 2.3bn due to higher other income from MTM gains. Excluding these gains, core PAT declined 25% YoY. Revenue from operations dipped 2% YoY whereas operating expenses grew 12%, leading to poor profitability. To factor in higher other income, we raise our FY24/FY25 PAT estimates by 17%/2% to Rs 6.4bn/Rs 6.1bn.

Equity flows soft: UTI AMC saw its fourth consecutive quarter of outflows (and its highest) in equity and hybrid schemes combined at Rs 15bn in Q1. The culprit was sustained underperformance at one of its flagship funds which also impacted SIP sales. Management remained optimistic of turnaround in this scheme in coming quarters. Strong intake in other segments led to overall inflows of Rs 102bn.

Fortifying the distribution network: UTI AMC has a strong distribution network of ~63,700 mutual fund distributors (MFD), 166 UTI financial centres (UFC), and a large footprint in B30 cities, with plans to open 29 branches in FY24. B30 MAAUM totalled 22% of its AUM mix vs. 17% for the industry at end-Q1.

Operating expenses inch up: MF yield (calc) increased just 1bps QoQ to 37bps in Q1 and is expected to remain under pressure. Operating expenses grew 12% YoY to Rs 1.7bn as other expenses surged 26% to Rs 612mn. It also guided for a Rs 610mn-620mn quarterly other expense run-rate. The company indicated that it has hired 108 low-cost management trainees who will be able to replace higher-salaried retirees.

Downgrade to HOLD: We continue to value the company at an unchanged 17x FY25E P/E – a 20% discount to mean – as we balance the negatives of sustained outflows in high-yielding equity schemes, lower core profits, and weakness in UTI International (subsidiary) against the positives of strong overall flows and good alternative business. Following our upward earnings revision, our TP rises to Rs 815 (from Rs 800). The stock has run up 15% since 1 June and we see no levers for a further price upside – we thus move from BUY to HOLD.

Key changes

Target	Rating
▲	▼

Ticker/Price	UTIAM IN/Rs 815
Market cap	US\$ 1.3bn
Free float	34%
3M ADV	US\$ 2.9mn
52wk high/low	Rs 908/Rs 608
Promoter/FPI/DII	0%/6%/60%

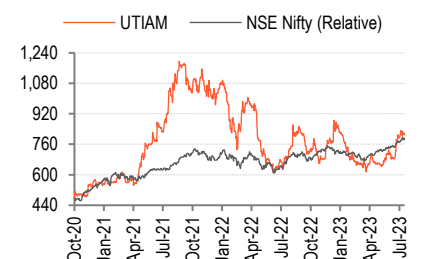
Source: NSE | Price as of 26 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	4,265	4,450	5,066
Core PBT (YoY)	(5.6)	4.3	13.9
Adj. net profit (Rs mn)	4,393	6,389	6,081
EPS (Rs)	34.4	50.3	47.9
Consensus EPS (Rs)	34.4	41.0	46.5
MCap/AAAUM (%)	4.3	3.9	3.5
ROAAAUM (bps)	18.4	24.3	20.8
ROE (%)	11.7	15.9	14.2
P/E (x)	23.7	16.2	17.0

Source: Company, Bloomberg, BOBCAPS Research

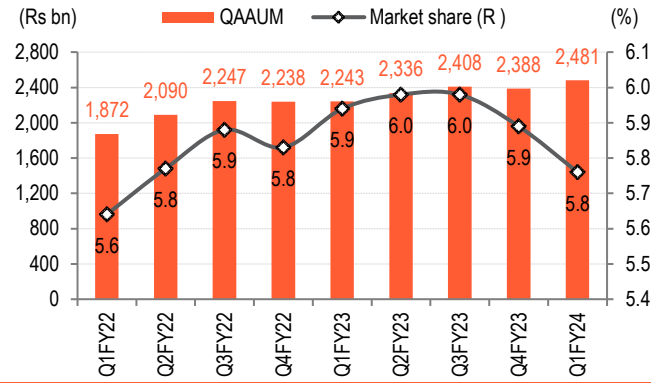
Stock performance



Source: NSE

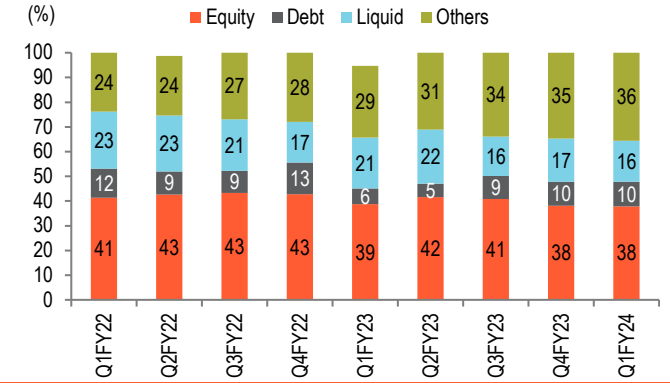


Fig 1 – QAAUM grew 11% YoY in Q1



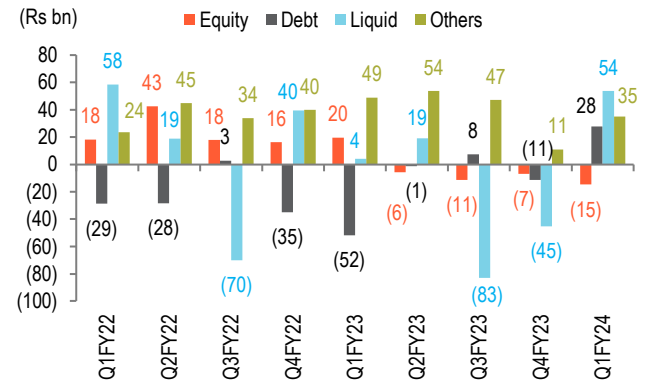
Source: Company, BOBCAPS Research

Fig 2 – Equity QAAUM share stable at 38%



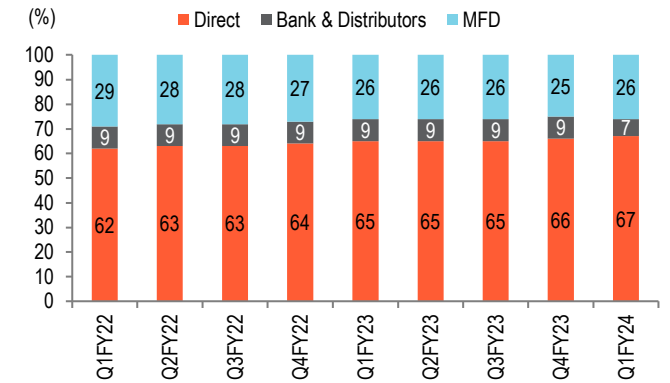
Source: Company, BOBCAPS Research

Fig 3 – Net equity sales remain weak



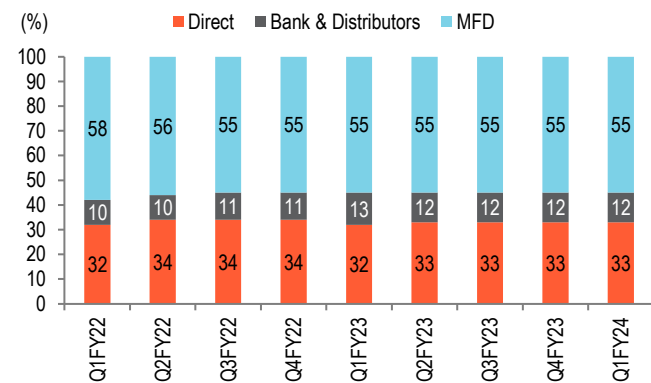
Source: Company, BOBCAPS Research

Fig 4 – Direct channel key in QAAUM distribution mix



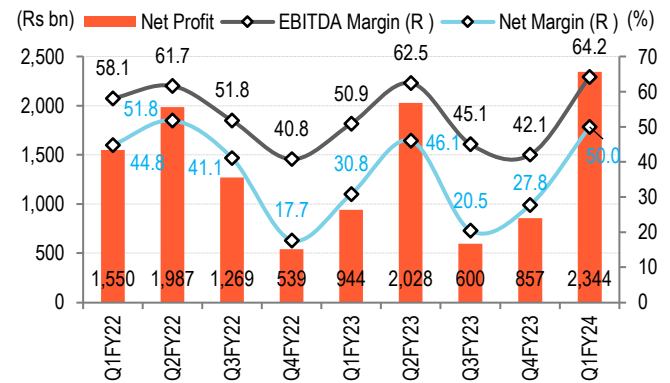
Source: Company, BOBCAPS Research

Fig 5 – Equity QAAUM largely dependent on MFDs



Source: Company, BOBCAPS Research

Fig 6 – Return ratios higher owing to abnormal profit



Source: Company, BOBCAPS Research

Fig 7 – Income statement – Consolidated

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue from Operations								
Asset Management Services	2,830	2,874	(1.5)	2,695	5.0	11,310	11,190	1.1
Other Income	1,856	186	898.8	392	373.5	1,587	2,084	(23.8)
Total Income	4,686	3,060	53.1	3,087	51.8	12,897	13,274	(2.8)
Expenses								
Fees and Commission Expenses	5	7	(29.2)	9	(45.9)	29	27	9.1
Employee Benefits Expenses	1,063	1,008	5.5	1,064	(0.1)	4,145	4,067	1.9
Other Expenses	612	487	25.5	715	(14.4)	2,376	2,117	12.2
Total Operating Expenses	1,680	1,502	11.9	1,787	(6.0)	6,550	6,211	5.5
EBITDA	3,006	1,558	92.9	1,300	131.3	6,347	7,063	(10.1)
Depreciation, Amortisation and Impairment	96	96	0.6	101	(4.8)	399	368	8.5
Finance Costs	25	23	10.4	24	5.4	96	92	4.0
Profit Before Tax	2,884	1,065	170.9	1,174	145.6	5,853	6,603	(11.4)
Tax Expense								
Current Tax	419	284	47.3	288	45.6	1,364	1,457	(6.4)
Deferred Tax Charge/(Credit)	122	(163)	(174.4)	30	307.7	96	(201)	(147.5)
Total Tax Expense	540	121	347.1	317	70.2	1,459	1,256	16.2
Profit After Tax	2,344	944	148.4	857	173.5	4,393	5,347	(17.8)

Source: Company, BOBCAPS Research

Fig 8 – QAAUM and Net Sales

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
QAAUM (Rs bn)								
Equity and Hybrid	939	869	8.1	911	(4.6)	946	957	(1.2)
Debt	249	261	(4.7)	231	11.5	231	287	(19.4)
Liquid	409	461	(11.4)	417	6.1	382	369	3.4
ETF	884	652	35.6	829	8.4	829	624	32.7
Net Sales (Rs bn)	102	21	382.6	(52)	(293.5)	12	194	(93.8)
Equity and Hybrid	(15)	20	(175.1)	(7)	113.1	(6)	95	(106.3)
Debt	28	(52)	(153.7)	(11)	(345.5)	(57)	(79)	(27.5)
Liquid	54	4	1,149.9	(45)	(218.6)	(85)	36	(333.7)
ETF	35	49	(28.3)	11	217.8	161	142	13.1

Source: Company, BOBCAPS Research

Fig 9 – Other key metrics

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
SIP Gross Sales (Rs bn)	17	16	6.2	17	(0.9)	NA	NA	NA
SIP AUM (Rs bn)	249	178	40.1	215	15.9	215	183	17.5
B-30 share in AUM (%)	22	23.3	(130bps)	22	-	22	23	(100bps)

Source: Company, BOBCAPS Research

Fig 10 – Margin indicators

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
EBITDA margin – consolidated (%)	64.2	50.9	1,323bps	42.1	2,205bps	49.2	53.2	(400bps)
Net margin – consolidated (%)	50.0	30.8	1,918bps	27.8	2,226bps	34.1	40.3	(622bps)
Revenue yield – calculated (bps)	36.8	41.7	(497bps)	35.8	91bps	47.4	50.0	(263bps)

Source: BOBCAPS Research

Earnings call highlights

Business highlights

- UTI AMC's QAAUM totalled ~Rs 2.5tn at end-Q1FY24 (+11% YoY). Equity QAAUM grew 9% YoY to Rs 728bn whereas hybrid assets increased 5% YoY to Rs 211bn. Total AUM under the UTI Group was up 17% YoY to Rs 16.1tn.
- Gross inflow mobilised through SIPs stood at Rs 17bn for the quarter, with SIP AUM rising 40% YoY to Rs 249bn.
- Equity yields improved sequentially from 72bps to 73bps.
- Live folios stood at 12.1mn as on Jun'23 vs. 12.2mn at end-Mar'23.
- Revenue from operations (sale of services) declined 2% YoY to Rs 2.8bn in Q1. However, total income grew 53% YoY to Rs 4.7bn owing to abnormal other income of Rs 1.9bn as buoyant markets sparked MTM gains.
- Net profit grew 150% YoY to Rs 2.3bn largely due to MTM gains, with core PAT declining 25% YoY.
- The company launched five funds in Q1 including an S&P BSE Housing Index Fund, a Nifty50 Equal Weight Index Fund, Silver ETF Fund of Fund, and Value 50 Index Fund. In Q2 thus far, it has launched a Balanced Advantage Fund. Thematic schemes are planned as and when the opportunity arises.
- UTI Alternatives (formerly UTI Capital Private Limited) is expanding and has filed two new funds with SEBI: (i) an Investment-Grade Performing Credit Fund and (ii) a Distressed Credit Fund. Separately, the UTI Real Estate Opportunities Fund I is currently fund raising with pre-commitments of Rs 1.1bn.

UTI International

- UTI International's AUM has declined from Rs 260bn in Q1FY23 to Rs 218bn as a couple of schemes matured. However, the India Dynamic Equity Fund saw its AUM of Rs 70bn increasing to Rs 79bn with an inflow of Rs 9.8bn over the last three months.
- Revenue from operations declined from Rs 320mn in Q1FY23 to Rs 290mn this quarter as a couple of funds attracted lower fees.
- Expenses totalled Rs 290mn-300mn vs. Rs 170mn in the year-ago quarter when the company had booked a forex gain of Rs 110mn. Management indicated that Q1 reflects a business-as-usual quarterly run-rate.

Flows

- Net flows for the quarter remained high at Rs 102bn as compared to Rs 21bn in Q1FY23. Of the inflows, ETFs and index funds drew Rs 35bn, debt funds Rs 28bn and liquid funds Rs 54bn. However, the high-yield equity and hybrid segments had combined net outflows of Rs 15bn (vs. gross inflows of Rs 23bn).

- The equity net outflow stemmed from a weaker performance in one of the company's flagship equity funds impacting sales.

Expenses

- Employee cost increased 6% YoY to Rs 1.1bn.
- The company anticipates Rs 580mn in annual consolidated ESOP costs annually (Rs 450mn on standalone basis).
- Other expenses grew 26% YoY to Rs 612mn owing to technology initiatives along with CSR, legal and strategic expenses. Management has guided for a quarterly run-rate of Rs 610mn-620mn.

Others

- District associate numbers declined from 245 in Q1FY23 to 188 owing to non-renewal of the agreements. The company aims to increase this number with the right fit.
- The company intends to open 29 new offices in FY24. It has appointed 108 management trainees in Q1 who will help replace retirees and staff new branches.

Valuation methodology

UTI AMC is among the top 10 fund houses in India and enjoys considerable moats in the form of a sizeable AUM base, credibility from more than five decades of fund management expertise, a differentiated non-mutual fund business, and well-diversified distribution channels.

We increase our FY24/FY25 PAT estimates by 17%/2% to factor in higher other income in Q1FY24. We continue to value the company at an unchanged 17x FY25E P/E – a 20% discount to mean – as we balance the negatives of sustained outflows in high-yielding equity schemes, lower Q1 core profit, and weakness in UTI International against the positives of strong overall flows and good alternative business (manages five private active debt funds and is set to launch two new funds).

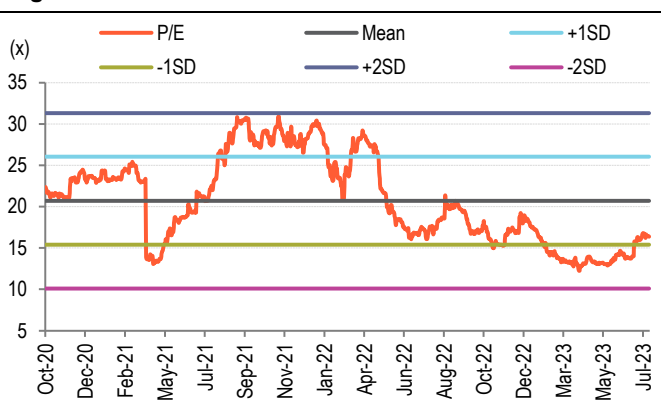
Following our upward earnings revision, our TP rises to Rs 815 (from Rs 800). The stock has run up 15% since 1 June and we see no levers for a further price upside – we thus downgrade our rating from BUY to HOLD.

Fig 11 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	15,821	15,910	14,592	15,781	8.4	0.8
EBITDA	9,028	8,639	7,778	8,510	16.1	1.5
Profit After Tax (PAT)	6,389	6,081	5,457	5,975	17.1	1.8
AUM	2,629	2,919	2,589	2,823	1.6	3.4
EBITDA Margin (%)	57.1	54.3	53.7	54.3	337bps	(1bps)
Net Margin (%)	40.4	38.2	37.6	38.1	274bps	12bps

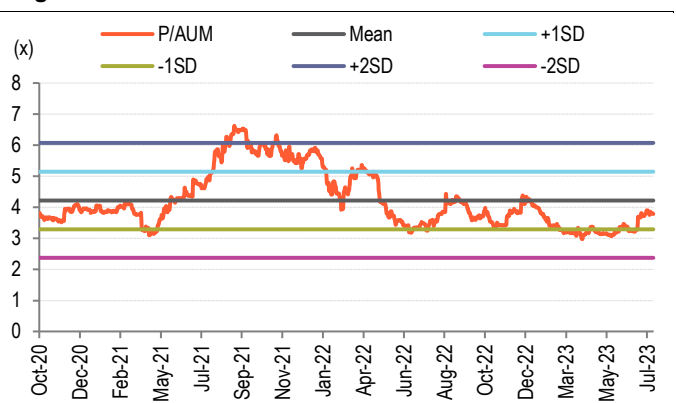
Source: BOBCAPS Research

Fig 12 – P/E band 1Y fwd



Source: BOBCAPS Research

Fig 13 – P/AUM band 1Y fwd



Source: BOBCAPS Research

Key risks

- **Decline in AUM growth due to increased competition:** UTI AMC has witnessed intense competitive pressure that has impacted its market share. Although the company has been successful in arresting market share loss, 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 fall in Indian equity markets would cause AUM to decline directly as the value of underlying securities falls, and indirectly as securities investments become less attractive for investors, resulting in net outflows or redemptions. Any decrease in AUM will impact fees and consequently 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.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Aditya Birla Sun Life AMC	ABSLAMC IN	1.4	409	375	HOLD
HDFC AMC	HDFCAMC IN	6.5	2,486	2,445	HOLD
UTI AMC	UTIAM IN	1.3	815	815	HOLD

Source: BOBCAPS Research, NSE | Price as of 26 Jul 2023

Glossary

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Investment mgmt. fees	8,070	11,190	11,310	11,759	12,875
YoY (%)	2.4	38.7	1.1	4.0	9.5
Operating expenses	5,260	6,211	6,550	6,793	7,271
Core operating profits	2,811	4,979	4,760	4,966	5,604
Core operating profits growth (%)	(0.4)	77.2	(4.4)	4.3	12.8
Depreciation and Interest	438	460	495	517	538
Core PBT	2,372	4,519	4,265	4,450	5,066
Core PBT growth (%)	(0.9)	90.5	(5.6)	4.3	13.9
Other income	3,663	2,084	1,587	4,061	3,035
PBT	6,035	6,603	5,853	8,511	8,101
PBT growth (%)	76.8	9.4	(11.4)	45.4	(4.8)
Tax	1,087	1,256	1,459	2,122	2,020
Tax rate (%)	18.0	19.0	24.9	24.9	24.9
Reported PAT	4,948	5,347	4,393	6,389	6,081

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity capital	1,268	1,270	1,270	1,270	1,270
Reserves & surplus	31,252	34,932	37,409	40,284	43,020
Net worth	32,631	36,316	38,678	41,553	44,290
Borrowings	0	0	0	0	0
Other liab. & provisions	3,873	3,515	3,071	3,387	3,536
Total liab. & equities	36,504	39,830	41,749	44,940	47,826
Cash & bank balance	30,786	33,930	36,051	38,078	40,702
Fixed & Other assets	5,121	5,379	5,201	6,371	6,638
Total assets	36,504	39,830	41,749	44,940	47,826

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	39.0	42.0	34.4	50.3	47.9
Dividend per share	17.0	21.0	22.0	27.7	26.3
Book value per share	257.0	285.0	304.6	327.2	348.8

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	20.9	19.4	23.7	16.2	17.0
P/BV	3.2	2.9	2.7	2.5	2.3
Dividend yield (%)	2.1	2.6	2.7	3.4	3.2

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23A	FY24E	FY25E
Operating income	44.1	50.0	47.4	44.7	44.1
Operating expenses	28.8	27.7	27.4	25.8	24.9
EBITDA	35.4	31.6	26.6	34.3	29.6
Depreciation and Others	2.4	2.1	2.1	2.0	1.8
Core PBT	13.0	20.2	17.9	16.9	17.4
Other income	20.0	9.3	6.6	15.4	10.4
PBT	33.0	29.5	24.5	32.4	27.7
Tax	5.9	5.6	6.1	8.1	6.9
ROAAAUM	27.1	23.9	18.4	24.3	20.8

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Investment mgmt. fees	2.4	38.7	1.1	4.0	9.5
Core operating profit	(0.4)	77.2	(4.4)	4.3	12.8
EPS	82.0	7.7	(17.9)	46.1	(4.8)
Profitability & Return ratios (%)					
Operating income to Total inc.	68.8	84.3	87.7	74.3	80.9
Cost to Core income ratio	65.2	55.5	57.9	57.8	56.5
EBITDA margin	55.2	53.2	49.2	57.1	54.3
Core PBT margin	20.2	34.0	33.1	28.1	31.8
PBT margin (on total inc.)	51.4	49.7	45.4	53.8	50.9
ROE	16.4	15.5	11.7	15.9	14.2
Dividend payout ratio	43.6	50.0	63.9	55.0	55.0

Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
AAAUM (Rs bn)	1,829	2,238	2,388	2,629	2,919
YoY Growth (%)	20.7	22.4	6.7	10.1	11.0
% of AAAUM					
Equity	40	43	40	38	38
Debt	13	8	10	10	9
Liquid	24	21	16	15	14
Others	23	28	35	37	39

Source: Company, BOBCAPS Research

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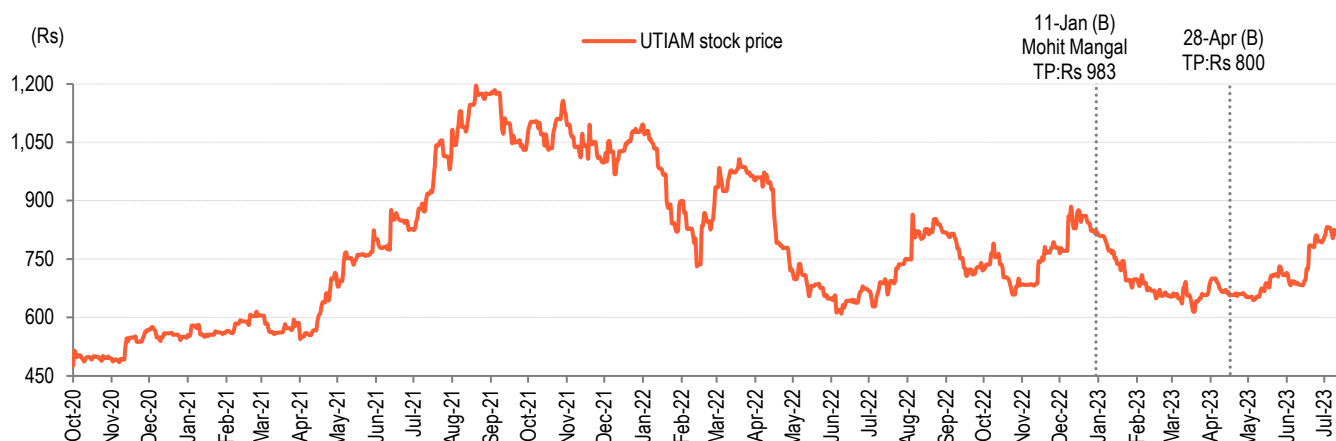
Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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): UTI AMC (UTIAM IN)



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

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