

HOLD

TP: Rs 835 | ▲ 6%

UTI AMC

| NBFC

| 19 October 2023

Equity flows yet to pick up

- Q2 AUM grew 14% YoY to Rs 2.7tn but equity and hybrid schemes saw cumulative outflows for the fourth straight quarter
- Yields slipped in Q2 owing to NFOs, demand for shorter duration debt products and competition in ETFs
- We raise FY24/FY25 PAT by ~3% each to bake in AUM growth, leading to a new TP of Rs 835 (vs. Rs 815); maintain HOLD

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Healthy quarter...: UTI AMC's AUM grew 14% YoY to Rs 2.7tn in Q2FY24. Gross inflow mobilised through SIPs stood at Rs 16.5bn for the quarter, with SIP AUM rising 29% YoY to Rs 265bn. B30 MAAUM formed 23% of the mix vs. 17% for the industry at end-Sep'23. In H1FY24, the company launched four NFOs and opened 29 branches taking its total to 195. Considering the above-estimated AUM growth, we raise FY24/FY25 AUM and PAT estimates by ~3% each.

...but net outflow continues: UTI AMC saw its fourth consecutive quarter of outflows in equity and hybrid schemes combined at Rs 3bn in Q2FY24 (Rs 15bn in Q1FY24), owing to weak scheme performance. The company stressed that it has a detailed strategy to recoup market share, including repositioning well-performing equity schemes. ETFs and index funds attracted inflows of Rs 24bn in Q2 but with Rs 67bn moving out of its liquid schemes, the company saw overall outflows of Rs 37bn.

Yields contract: Q2 yield (calc.) fell to 35bps from 37bps in Q1FY24 owing to a decline across fund categories, barring equity. The hybrid category saw a sequential drop from 90bps to 84bps primarily due to a new NFO which earned a lower rate of 32-35bps. Equity yield was largely unchanged QoQ at 72-73bps but ETFs saw a decrease from 7bps to 4bps due to intense competition in EPFO fund management. In debt, inflows into shorter-duration funds caused yield to drop from 26bps in Q1 to 22bps.

Operating expenses inch up: Operating expenses increased 5% YoY to Rs 1.7bn mainly due to an 8% rise in employee cost to Rs 1.1bn. Other expenses were flat YoY at Rs 611mn. Management has guided for a salary hike of 2-3% in the standalone MF business in FY24 and 4-5% at the consolidated level. Owing to the opening of 29 branches, opex is guided to increase by Rs 6mn-7mn in FY24.

Maintain HOLD: We continue to value the stock at an unchanged 17x FY25E P/E – a 15% discount to mean. Following our upward earnings revision, our TP rises to Rs 835 (from Rs 815) which offers just 6% upside – HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	UTIAM IN/Rs 786
Market cap	US\$ 1.2bn
Free float	65%
3M ADV	US\$ 1.6mn
52wk high/low	Rs 908/Rs 608
Promoter/FPI/DII	0%/6%/60%

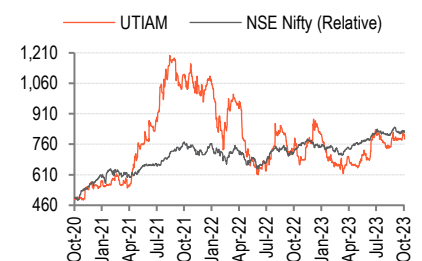
Source: NSE | Price as of 19 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	4,265	4,581	5,208
Core PBT (YoY)	(5.6)	7.4	13.7
Adj. net profit (Rs mn)	4,393	6,555	6,234
EPS (Rs)	34.4	51.6	49.1
Consensus EPS (Rs)	34.4	46.0	48.0
MCA/AAAUM (%)	4.2	3.7	3.3
ROAAAUM (bps)	18.4	24.3	20.8
ROE (%)	11.7	16.3	14.5
P/E (x)	22.8	15.2	16.0

Source: Company, Bloomberg, BOBCAPS Research

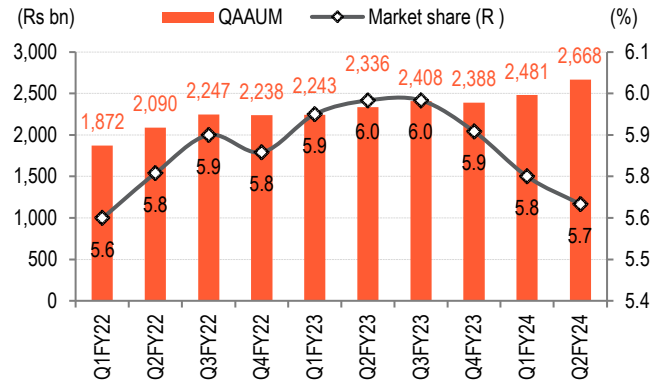
Stock performance



Source: NSE

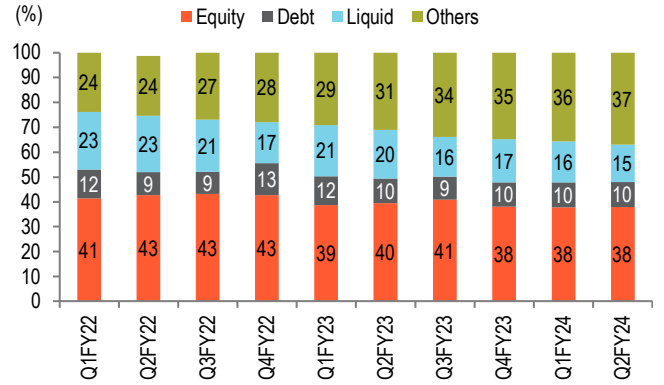


Fig 1 – QAAUM grew 14% YoY in Q2



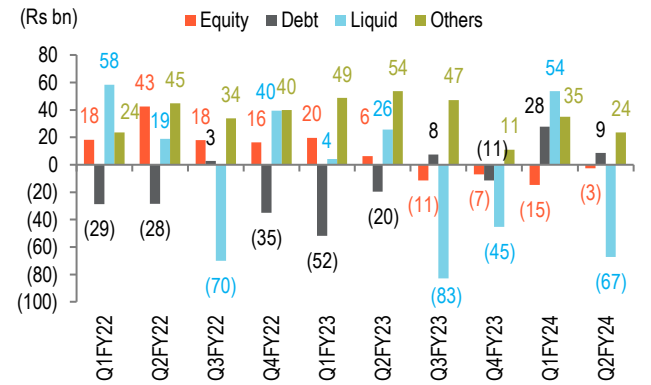
Source: Company, BOBCAPS Research

Fig 2 – Equity QAAUM share in the mix stable at 38%



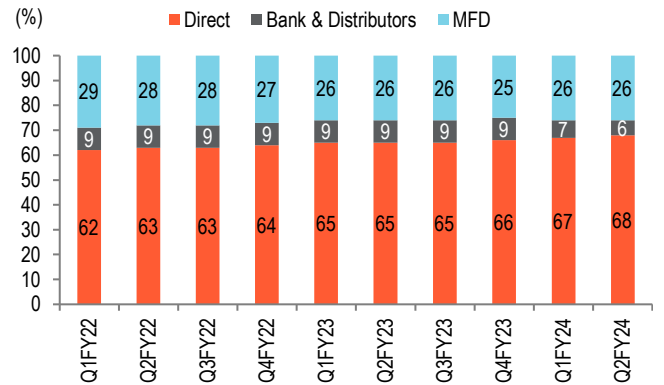
Source: Company, BOBCAPS Research

Fig 3 – Net equity sales remain weak



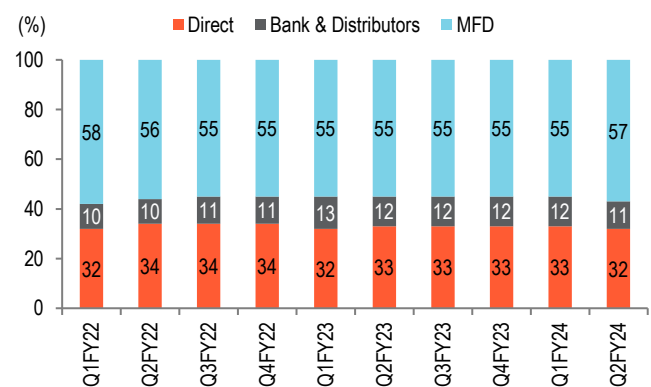
Source: Company, BOBCAPS Research

Fig 4 – Direct channel key for QAAUM distribution



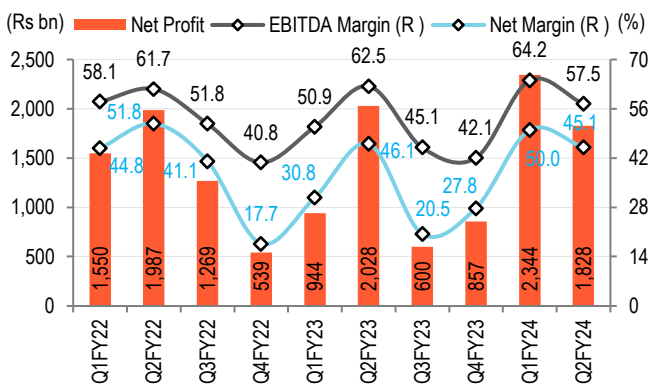
Source: Company, BOBCAPS Research | MFD: Mutual Fund Distributors

Fig 5 – Equity QAAUM largely dependent on MFDs



Source: Company, BOBCAPS Research

Fig 6 – Net profit declines YoY



Source: Company, BOBCAPS Research

Fig 7 – Income statement – Consolidated

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue from Operations								
Asset Management Services	2,916	2,909	0.3	2,828	3.1	5,744	5,783	(0.7)
Other Income	1,140	1,490	(23.5)	1,858	(38.7)	2,998	1,676	78.8
Total Income	4,056	4,399	(7.8)	4,686	(13.4)	8,742	7,459	17.2
Expenses								
Fees and Commission Expenses	3	6	(54.0)	5	(37.0)	8	13	(41.4)
Employee Benefits Expenses	1,112	1,033	7.6	1,063	4.5	2,175	2,041	6.6
Other Expenses	611	611	(0.0)	612	(0.2)	1,223	1,098	11.3
Total Operating Expenses	1,725	1,650	4.6	1,680	2.7	3,405	3,152	8.0
EBITDA	2,330	2,749	(15.2)	3,006	(22.5)	5,336	4,307	23.9
Depreciation, Amortisation and Impairment	104	100	4.7	96	8.4	201	195	2.7
Finance Costs	28	24	19.3	25	11.8	54	47	15.0
Profit Before Tax	2,198	2,626	(16.3)	2,884	(23.8)	5,082	3,690	37.7
Tax Expense								
Current Tax	341	427	(20.1)	419	(18.5)	760	711	6.8
Deferred Tax Charge/(Credit)	28	171	(83.4)	122	(76.6)	150	7	1,981.9
Total Tax Expense	370	597	(38.1)	540	(31.6)	910	718	26.6
Profit After Tax	1,828	2,028	(9.9)	2,344	(22.0)	4,172	2,972	40.4

Source: Company, BOBCAPS Research

Fig 8 – QAAUM and Net Sales

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
QAAUM (Rs bn)	2,668	2,336	14.2	2,388	11.7	2,668	2,336	14.2
Equity and Hybrid	1,013	925	9.6	911	11.2	1,013	925	9.6
Debt	269	228	17.7	231	16.1	269	228	17.7
Liquid	402	458	(12.3)	417	(3.6)	402	458	(12.3)
ETF	984	725	35.8	829	18.8	984	725	35.8
Net Sales (Rs bn)	(37)	66	NA	102	NA	64	87	(26.5)
Equity and Hybrid	(3)	6	NA	(15)	NA	(17)	26	NA
Debt	9	-20	NA	28	(69.1)	36	(71)	NA
Liquid	(67)	26	NA	54	NA	(14)	30	NA
ETF	24	54	(56.0)	35	(32.4)	59	102	(42.8)

Source: Company, BOBCAPS Research

Fig 9 – Other key metrics

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
SIP Gross Sales (Rs bn)	16	16	3.7	17	(0.2)	33	31	5.0
SIP AUM (Rs bn)	265	206	29.1	249	6.5	265	206	29.1
B-30 share in AUM (%)	23.0	22.8	20bps	22.0	100bps	23.0	22.8	20bps

Source: Company, BOBCAPS Research

Fig 10 – Margin indicators

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
EBITDA margin – consolidated (%)	57.5	62.5	(503bps)	64.2	(669bps)	61.0	57.7	330bps
Net margin – consolidated (%)	45.1	46.1	(103bps)	50.0	(495bps)	47.7	39.8	788bps
Revenue yield – calculated (bps)	34.9	40.2	(531bps)	36.8	(183bps)	34.6	40.2	(560bps)

Source: BOBCAPS Research

Earnings call highlights

Business highlights

- UTI AMC's QAAUM totalled Rs 2.7tn at end-Q2FY24, rising 14% YoY. Equity QAAUM grew 9% YoY to Rs 783bn whereas hybrid assets increased 11% to Rs 230bn. Total AUM under the UTI Group grew 17% YoY to Rs 16.9tn.
- Gross inflow mobilised through SIPs stood at Rs 16.5bn for the quarter, with SIP AUM rising 29% YoY to Rs 265bn. The company captured 7.8% market share of industry gross sales in Q2. SIP inflow declined QoQ for UTI AMC but increased for the industry because the company only reported active SIPs. False SIPs (no inflows for four months in a row) are excluded from the calculation.
- UTI AMC saw a decline in overall and equity market share. Management asserted that it has a detailed strategy to regain share which includes repositioning well-performing equity schemes.
- Live folios stood at 12.2mn as on Sep'23 vs. 12.1mn at end-Jun'23.
- Revenue from operations (sale of services) was flat YoY at Rs 2.9bn in Q2. However, total income declined 8% YoY to Rs 4.1bn as other income fell 24% YoY to Rs.1.1bn.
- Net profit contracted 10% YoY to Rs 1.8bn due to decline in total income coupled with rise in operating expense. The quarter had an abnormally low tax rate of 16.8% and management has guided for a 20-21% rate in FY24.
- In H1FY24, the company successfully launched four NFOs, including an S&P BSE Housing Index Fund, Balanced Advantage Fund, Nifty 50 Equal Weight Index Fund and Innovation Fund.
- UTI Retirement Solutions, a 100% owned subsidiary, recorded 24% YoY growth in AUM to Rs 2.7tn during H1FY24. PAT grew 12% YoY at end-H1 to Rs 252mn.
- Subsidiary UTI Alternatives is expanding and currently manages five active private debt funds with net commitments of Rs 18bn. It has received SEBI approval for two more funds – UTI Credit Opportunities Fund I and UTI Asset Reconstruction Opportunities Fund I.
- UTI AMC has received permission from SEBI to begin US operations, which is positive, but management proffered no guidance on expenses and other metrics from this geography.
- The company opened 29 new offices in Q2, taking the total number of UTI financial centres to 195 (which includes 134 branches located in B30 cites as of Sep'23).

Yields

- Equity yield was stable at 72-73bps in Q2, hybrid funds earned 84bps, ETF and index fund 4bps, cash and arbitrage 8bps and income funds (debt) 22bps.
- The hybrid category witnessed a QoQ decline in yield from 90bps to 84bps mainly because of lower yields on the new NFO at 32-35bps.
- ETFs also saw QoQ yield compression from 7bps to 4bps owing to a revised bid submitted to the EPFO department that offered lower management fees to counter competition. Going forward, the company's share in incremental EPFO flows would be 23.5%.
- In income funds, both the company and industry are witnessing significant inflows in shorter duration products where yields are generally lower, leading to a fall from 26bps in Q1FY24 to 22bps.

UTI International

- Revenue from international operations declined from Rs 330mn in Q2FY23 to Rs 290mn in Q2FY24.
- The international business has four offices – Singapore, Dubai, London and Paris.

Flows

- UTI AMC reported net outflows of Rs 37bn in Q2 as against net inflows of Rs 102bn in Q1FY24 and Rs 66bn in Q2FY23. In Q2, ETFs and index funds saw net inflows of Rs 24bn and debt funds attracted Rs 9bn, but liquid funds saw net outflows of Rs 67bn.
- The high-yield equity and hybrid segments had combined net outflows of ~Rs 3bn due to a weaker performance.

Expenses

- Employee cost increased 8% YoY to Rs 1.1bn at end-Q2 owing to a normal wage increase and some adjustments to actuarial valuation on leave encashment. Management indicated that the salary hike will not exceed 2-3% in FY24 on a standalone basis (MF business) and 4-5% at the consolidated level.
- Other expenses were flat YoY at Rs 611mn for Q2.
- Management does not expect an increase in expenses due to the US business in FY24 as the licence would only be availed of in Mar'24.
- Owing to the opening of 29 new branches, the company anticipates a Rs 6mn-7mn rise in opex (especially toward rentals) in FY24.

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, a differentiated non-mutual fund business, and well-diversified distribution channels.

Considering the above-estimated addition of Rs 280bn to QAAUM in H1FY24, we increase our AUM forecast by ~3% each for FY24/FY25. Our PAT projections for these years also rise by ~3% each to factor in the AUM growth as well as traction in subsidiaries. On the flip side, the company has lost market share in overall QAAUM by 30bps YoY and 8bps QoQ in Q2FY24. Also, hybrid and equity (combined) net flows remained negative for the fourth straight quarter, with the high Rs 21bn outflow in equity schemes of particular concern.

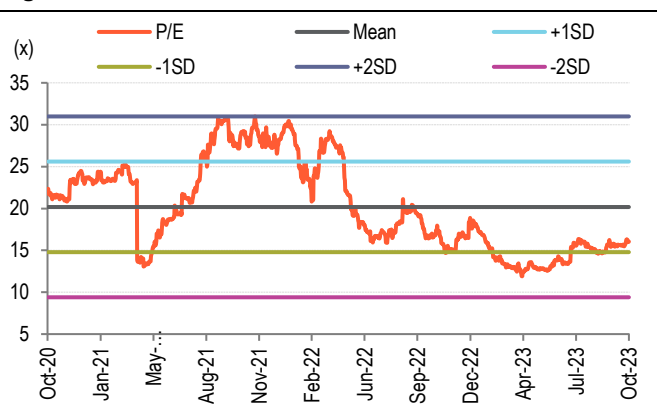
We continue to value the stock at an unchanged 17x FY25E P/E – a 15% discount to mean. Following our upward earnings revision, our TP rises to Rs 835 (from Rs 815) which offers just 6% upside – maintain HOLD.

Fig 11 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	16,212	16,298	15,821	15,910	2.5	2.4
EBITDA	9,250	8,845	9,028	8,639	2.5	2.4
Profit After Tax (PAT)	6,555	6,234	6,389	6,081	2.6	2.5
AUM	2,700	2,998	2,629	2,919	2.7	2.7
EBITDA Margin (%)	57.1	54.3	57.1	54.3	(1bps)	(3bps)
Net Margin (%)	40.4	38.2	40.4	38.2	5 bps	3 bps

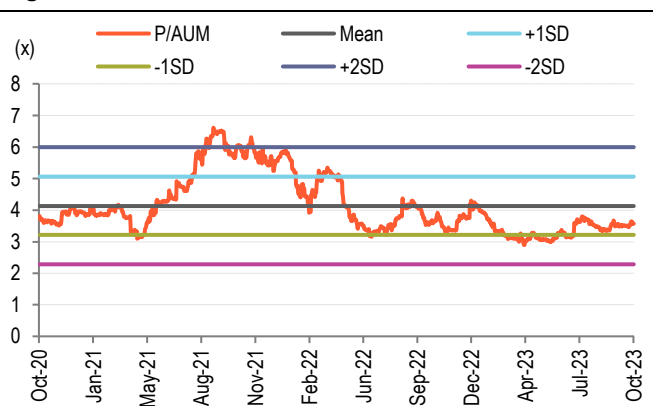
Source: BOBCAPS Research

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. Continued market share loss would 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	1.6	443	425	HOLD
HDFC AMC	HDFCAMC IN	7.4	2,867	2,814	HOLD
UTI AMC	UTIAM IN	1.2	786	835	HOLD

Source: BOBCAPS Research, NSE | Price as of 19 Oct 2023

Glossary

Glossary			
AUM	Assets Under Management	MFD	Mutual Fund Distributor
AAAUM	Average Annual Assets Under Management	MF	Mutual Fund
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
EPFO	Employees' Provident Fund Organisation	SIP	Systematic Investment Plan
ETF	Exchange Traded 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	FY23A	FY24E	FY25E
Investment mgmt. fees	8,070	11,190	11,310	12,061	13,201
YoY (%)	2.4	38.7	1.1	6.6	9.5
Operating expenses	5,260	6,211	6,550	6,963	7,453
Core operating profits	2,811	4,979	4,760	5,098	5,748
Core operating profits growth (%)	(0.4)	77.2	(4.4)	7.1	12.8
Depreciation and Interest	438	460	495	518	540
Core PBT	2,372	4,519	4,265	4,581	5,208
Core PBT growth (%)	(0.9)	90.5	(5.6)	7.4	13.7
Other income	3,663	2,084	1,587	4,152	3,097
PBT	6,035	6,603	5,853	8,732	8,305
PBT growth (%)	76.8	9.4	(11.4)	49.2	(4.9)
Tax	1,087	1,256	1,459	2,178	2,071
Tax rate (%)	18.0	19.0	24.9	24.9	24.9
Reported PAT	4,948	5,347	4,393	6,555	6,234

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	40,358	43,164
Net worth	32,631	36,316	38,678	41,628	44,433
Borrowings	0	0	0	0	0
Other liab. & provisions	3,873	3,515	3,071	3,429	3,582
Total liab. & equities	36,504	39,830	41,749	45,057	48,015
Cash & bank balance	30,786	33,930	36,051	38,131	40,813
Fixed & Other assets	5,121	5,379	5,201	6,435	6,716
Total assets	36,504	39,830	41,749	45,057	48,015

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	39.0	42.0	34.4	51.6	49.1
Dividend per share	17.0	21.0	22.0	28.4	27.0
Book value per share	257.0	285.0	304.6	327.8	349.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	20.2	18.7	22.8	15.2	16.0
P/BV	3.1	2.8	2.6	2.4	2.2
Dividend yield (%)	2.2	2.7	2.8	3.6	3.4

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23A	FY24E	FY25E
Operating income	44.1	50.0	47.4	44.7	44.0
Operating expenses	28.8	27.7	27.4	25.8	24.9
EBITDA	35.4	31.6	26.6	34.3	29.5
Depreciation and Others	2.4	2.1	2.1	1.9	1.8
Core PBT	13.0	20.2	17.9	17.0	17.4
Other income	20.0	9.3	6.6	15.4	10.3
PBT	33.0	29.5	24.5	32.3	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	6.6	9.5
Core operating profit	(0.4)	77.2	(4.4)	7.1	12.8
EPS	82.0	7.7	(17.9)	49.9	(4.9)
Profitability & Return ratios (%)					
Operating income to Total inc.	68.8	84.3	87.7	74.4	81.0
Cost to Core income ratio	65.2	55.5	57.9	57.7	56.5
EBITDA margin	55.2	53.2	49.2	57.1	54.3
Core PBT margin	20.2	34.0	33.1	28.3	32.0
PBT margin (on total inc.)	51.4	49.7	45.4	53.9	51.0
ROE	16.4	15.5	11.7	16.3	14.5
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	2,700	2,998
YoY Growth (%)	20.7	22.4	6.7	13.1	11.0
% of AAAUM					
Equity	40	43	40	38	37
Debt	13	8	10	10	10
Liquid	24	21	16	14	14
Others	23	28	35	37	39

Source: Company, BOBCAPS Research

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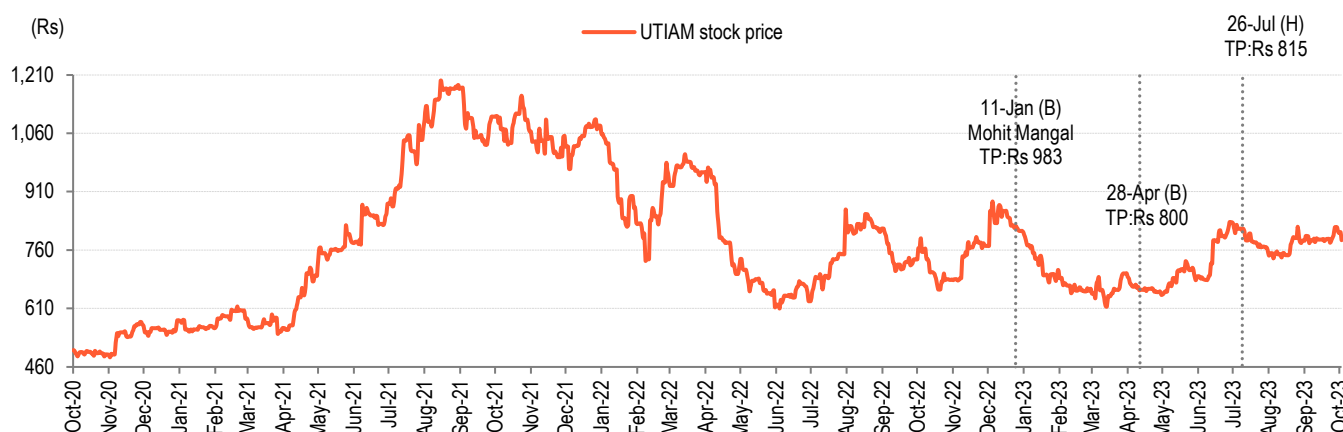
Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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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