

BUY

TP: Rs 800 | ▲ 22%

UTI AMC

| NBFC

| 28 April 2023

Weak set of numbers

- Equity outflows coupled with softer yields dampened Q4; core PAT flat YoY at Rs 571mn, well below our estimate
- Core MF market share intact at ~6%; focused on further expanding distribution reach with 29 branches to open in FY24
- We cut FY24/FY25 PAT by 10%/14% and move to 17x FY25E EPS (vs. 18x) for a revised TP of Rs 800 (vs. Rs 983); maintain BUY

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Weak Q4: UTI AMC's Q4FY23 net profit grew 59% YoY to Rs 857mn due to higher other income (+290% YoY to Rs 392mn). Core PAT remained flat YoY (-11% QoQ) and was 40% below expectations. Revenue from operations fell 9% YoY whereas operating expenses only dipped 1%, leading to poor profitability. For FY23, PAT declined 18% YoY to Rs 4.4bn and core PAT fell 13% to Rs 3.2bn. This weak showing leads us to cut our FY24/FY25 PAT estimates by 10%/14% to Rs 5.5bn/Rs 6.0bn.

Soft flows but AUM market share intact: UTI AMC saw the third consecutive quarter of outflows in the equity segment. Net outflows stood at Rs 52bn in Q4 vs. net inflows of Rs 16bn for the sector. For FY23, the company saw total inflow of Rs 12bn (Rs 194bn in FY22) vs. Rs 762bn for the entire sector (Rs 2.4tn in FY22). QAAUM grew 7% YoY to Rs 2.4tn. Despite weak flows, the company maintained its 8th position on MAAUM basis with ~6% market share.

Focused on beefing up the distribution network: UTI AMC has a strong distribution network of 62,500+ mutual fund distributors (MFD), 166 UTI financial centres (UFC), and a large footprint in B30 cities with its MAAUM share in these markets totaling 22% vs. 17% for the industry at end-Q4. It plans to open 29 more branches in FY24.

Yields low; emphasis on operating leverage: MF yield fell 5% QoQ to 36bps in Q4 owing to a lower share of equity (39.6% vs. 40.9%) and a higher share of ETFs (34.7% vs. 33.9%) in QAAUM. While the yield is expected to remain under pressure, the company reiterated its efforts at controlling costs by hiring lower cost employees in place of retiring staff (employee expense declined 8% YoY in Q4). Accordingly, we lower operating cost estimates for FY24/FY25 by 3-6% to Rs 6.8bn/Rs 7.3bn.

Maintain BUY: Factoring in the weak Q4 print coupled with regulatory headwinds from the ongoing fee review, we lower our target FY25E P/E multiple from 18x to 17x (1SD below the long-term mean). This coupled with our revised estimates gives us a lower TP of Rs 800 (vs. Rs 983). We maintain BUY as UTI AMC continues to enjoy considerable moats in the form of a sizeable AUM base, credibility from over five decades of experience, a differentiated non-MF business and growing market share.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	UTIAM IN/Rs 657
Market cap	US\$ 1.0bn
Free float	34%
3M ADV	US\$ 2.1mn
52wk high/low	Rs 908/Rs 595
Promoter/FPI/DII	0%/6%/60%

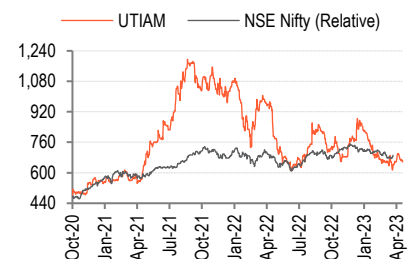
Source: NSE | Price as of 27 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Core PBT (Rs mn)	4,265	4,862	5,233
Core PBT (YoY)	(5.6)	14.0	7.6
Adj. net profit (Rs mn)	4,393	5,462	5,980
EPS (Rs)	34.4	43.0	47.1
Consensus EPS (Rs)	34.4	42.6	50.0
MCap/AAAUM (%)	3.5	3.2	3.0
ROAAAUM (bps)	18.4	21.1	21.2
ROE (%)	11.7	13.6	13.9
P/E (x)	19.1	15.3	14.0

Source: Company, Bloomberg, BOBCAPS Research | P - Provisional

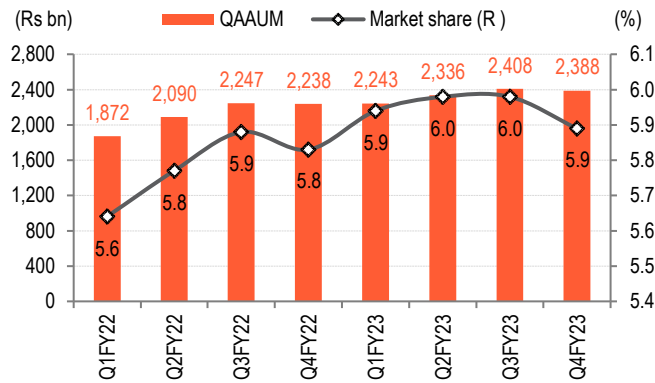
Stock performance



Source: NSE

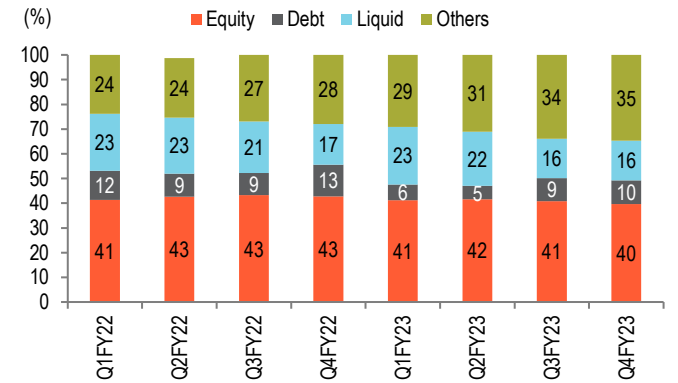


Fig 1 – Market share largely stable



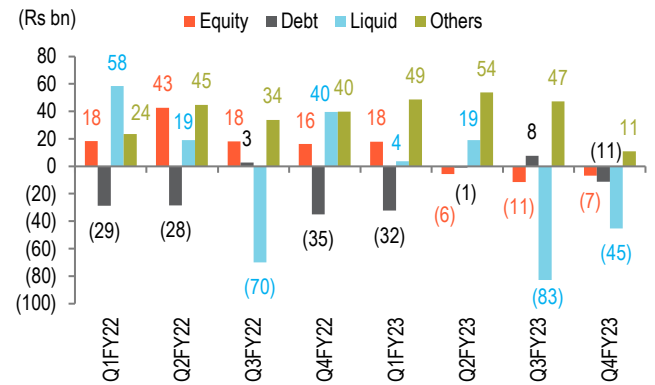
Source: Company, BOBCAPS Research

Fig 2 – Equity dipped to 40% of total at end-FY23



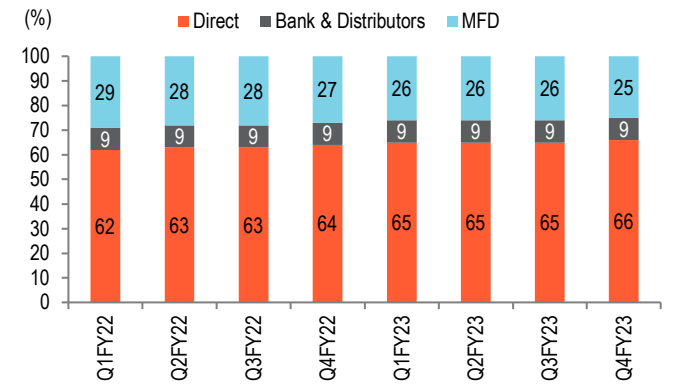
Source: Company, BOBCAPS Research

Fig 3 – Gross sales remained weak



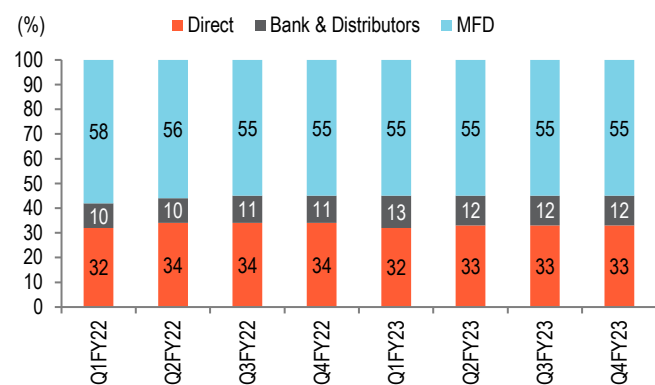
Source: Company, BOBCAPS Research

Fig 4 – Direct channel key in QAAUM distribution mix



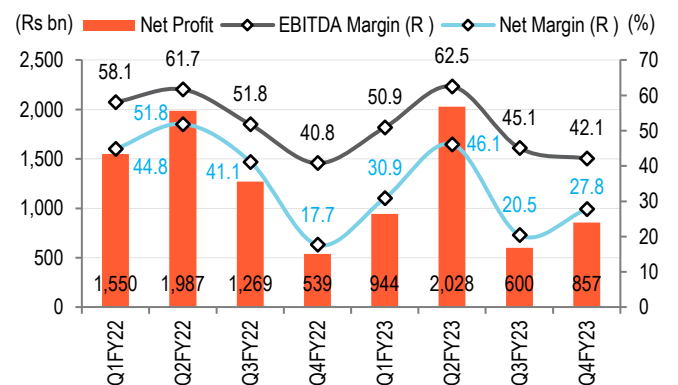
Source: Company, BOBCAPS Research

Fig 5 – Equity QAAUM largely dependent on MFDs



Source: Company, BOBCAPS Research

Fig 6 – Return ratios stable



Source: Company, BOBCAPS Research

Fig 7 – Income statement – Consolidated

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue from Operations								
Asset Management Services	2,695	2,950	(8.6)	2,836	(5.0)	11,310	11,190	1.1
Other Income	392	100	291.9	98	301.1	1,587	2,084	(23.8)
Total Income	3,087	3,050	1.2	2,934	5.2	12,897	13,274	(2.8)
Expenses								
Fees and Commission Expenses	9	8	11.8	8	11.8	29	27	9.1
Employee Benefits Expenses	1,064	1,151	(7.5)	1,041	2.3	4,145	4,067	1.9
Other Expenses	715	647	10.4	563	27.0	2,376	2,117	12.2
Total Operating Expenses	1,787	1,806	(1.0)	1,611	10.9	6,550	6,211	5.5
EBITDA	1,300	1,244	4.4	1,323	(1.8)	6,347	7,063	(10.1)
Depreciation, Amortisation and Impairment	101	95	6.9	103	(1.6)	399	368	8.5
Finance Costs	24	22	7.6	25	(2.0)	96	92	4.0
Profit Before Tax	1,174	973	20.6	1,024	14.7	5,853	6,603	(11.4)
Tax Expense								
Current Tax	288	414	(30.5)	365	(21.3)	1,364	1,457	(6.4)
Deferred Tax Charge/(Credit)	30	20	46.1	59	(49.1)	96	(201)	(147.5)
Total Tax Expense	317	434	(26.9)	424	(25.1)	1,459	1,256	16.2
Profit After Tax	857	539	59.0	600	42.8	4,393	5,347	(17.8)

Source: Company, BOBCAPS Research

Fig 8 – Low flows

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
QAAUM (Rs bn)	2,388	2,238	6.7	2,336	2.2	2,388	2,238	6.7
Equity	946	957	(1.2)	971	(2.6)	946	957	(1.2)
Debt	231	287	(19.4)	127	82.0	231	287	(19.4)
Liquid	382	369	3.4	513	(25.6)	382	369	3.4
ETF	829	624	32.7	725	14.4	829	624	32.7
Gross Sales (Rs bn)	(52)	61	(186.4)	(40)	32.7	12	194	(93.8)
Equity	(7)	16	(142.6)	(11)	(39.2)	(6)	95	(106.3)
Debt	(11)	(35)	(67.7)	8	(250.3)	(57)	(79)	(27.5)
Liquid	(45)	40	(214.5)	(83)	(45.5)	(85)	36	(333.7)
ETF	11	40	(72.4)	47	(76.7)	161	142	13.1

Source: Company, BOBCAPS Research

Fig 9 – Other key metrics

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
SIP Gross Sales (Rs bn)	17	15	12.0	17	0.7	NA	NA	NA
SIP AUM (Rs bn)	215	183	17.5	215	0.1	215	183	17.5
B-30 share in AUM (%)	22	23	(4.3)	23	(4.3)	22	23	(4.3)

Source: Company, BOBCAPS Research

Fig 10 – Margin indicators

Particulars	Q4FY23	Q4FY22	YoY (bps)	Q3FY23	QoQ (bps)	FY23	FY22	YoY (bps)
EBITDA margin – consolidated (%)	42.1	40.8	130	45.1	(299)	49.2	53.2	(400)
Net margin – consolidated (%)	27.8	17.7	1009	20.5	731	34.1	40.3	(622)
Revenue yield – calculated (bps)	35.8	42.6	(683)	37.6	(175)	47.4	50.0	(263)

Source: BOBCAPS Research

Conference call highlights

- UTI MF's QAAUM totalled Rs 2.4tn at end-FY23 (+7% YoY). Total AUM under the UTI Group grew 15% YoY to Rs 15.6tn.
- Total live folios stood at 12.2mn as on 31 Mar 2023.
- Gross inflow mobilised through SIPs was at Rs 65bn for FY23, with SIP AUM rising 17.5% YoY to Rs 215bn.
- Total income declined 3% YoY to Rs 12.9bn in FY23 as revenue from operations was flattish at Rs 11.3bn and other income fell 24% to Rs 1.6bn. Employee cost stood at Rs 4.2bn for the year, an increase of just 2%. PAT declined 18% YoY to Rs 4.4bn.
- Yields declined in Q4 due to a change in product mix. Also, fresh inflows carry lower yield as compared to older AUM (which is being redeemed). Yield on the equity and hybrid portfolio is ~75bps.
- Other expenses grew from Rs 563mn in Q3 to Rs 715mn in Q4FY23 primarily due to the following: (i) Rs 40mn towards CSR, (ii) Rs 30mn towards a strategic sales meet, (iii) Rs 25mn for digital initiatives, (iv) a Rs 20mn increase in fees to PFRDA (Pension Fund Regulatory and Development Authority) paid by UTI RSL (UTI Retirement Solutions), (v) a Rs 15mn increase in subscription fees for index funds and, (vi) Rs 15mn towards Bloomberg expenses as new terminals were added. Of the Rs 160mn in additional expenses, management expects only 50% to be recurring in nature.
- Distributor pay has become standardised over the last two years.
- To capture new opportunities in the US, the company has opened a new subsidiary called UTI Investments America.
- In India, UTI AMC plans to open 29 new offices during FY24 to reach newer markets across the country. Breakeven for these is expected in 1.5-2 years. The company had earlier opened bigger offices which are no longer required. It plans to rationalise all branch offices in FY24 and thereby limit expansion costs for new branches to Rs 30mn-40mn.
- On the anvil are a series of fund launches, such as real estate opportunity funds in the alternate segment.
- The board recommended a final dividend of Rs 22/sh for FY23 as against Rs 21/sh for FY22.

Valuation methodology

UTI AMC is the eighth largest fund house in India and enjoys considerable moats in the form of a sizeable AUM base, credibility from over five decades of fund management experience, a differentiated non-mutual fund business, and well-diversified distribution channels.

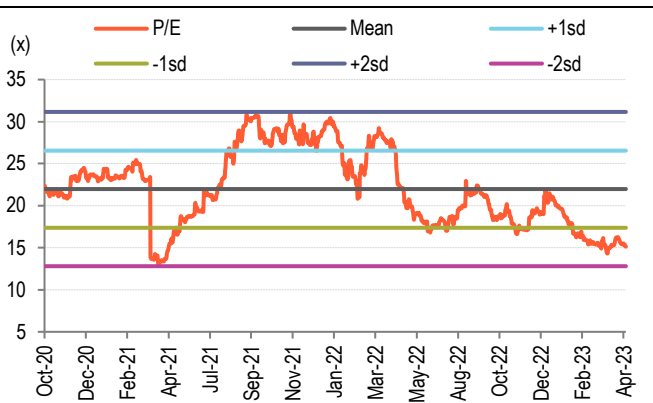
While the Q4FY23 numbers were weak in terms of growth and profitability, core MF market share remains intact at ~6% and the company is focused on further building out its distribution reach to spur growth. To factor in the Q4 performance as well as regulatory headwinds from the ongoing fee review, we cut our FY24/FY25 PAT estimates by 10%/14% and also lower our target FY25E P/E multiple from 18x to 17x (-1SD below the long-term mean). This gives us a revised TP of Rs 800 (vs. Rs 983), offering 22% upside over the current price. Maintain BUY.

Fig 11 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	14,601	15,790	15,650	17,617	(6.7)	(10.4)
EBITDA	7,784	8,517	8,616	9,868	(9.7)	(13.7)
Profit After Tax (PAT)	5,462	5,980	6,061	6,963	(9.9)	(14.1)
AUM	2,589	2,823	2,678	3,012	(3.3)	(6.3)
EBITDA Margin (%)	53.3	53.9	55.1	56.0	(174bps)	(207bps)
Net Margin (%)	37.4	37.9	38.7	39.5	(132bps)	(165bps)

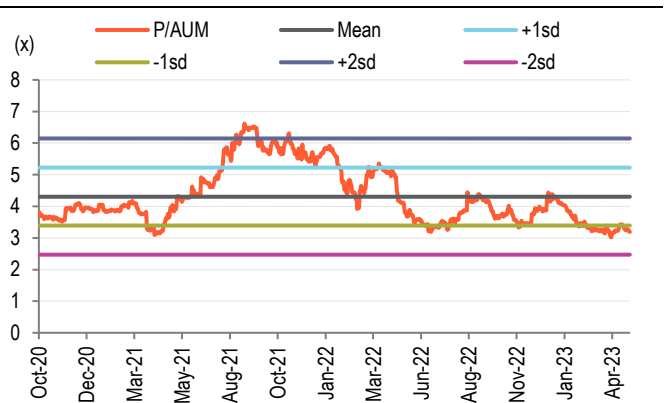
Source: Company, BOBCAPS Research

Fig 12 – 1Y fwd P/E band



Source: BOBCAPS Research

Fig 13 – 1Y fwd P/AUM band



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.
 - Should the regulator mandate a further decline in total expense ratio, yields could weaken even more.
 - 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.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Aditya Birla Sun Life AMC	ABSLAMC IN	1.2	337	488	HOLD
HDFC AMC	HDFCAMC IN	4.5	1,734	1,946	HOLD
Nippon Life India AMC	NAM IN	1.8	237	305	BUY
UTI AMC	UTIAM IN	1.0	657	800	BUY

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

Glossary

Glossary			
AUM	Assets Under Management	NFO	New Fund Offer
B30	Beyond the Top 30 cities	QAAUM	Quarterly Average Assets Under Management
ETF	Exchange Traded Funds	SIP	Systematic Investment Plan
MAAUM	Monthly Average Assets Under Management	T30	Top 30 cities
MF	Mutual Fund	TER	Total Expense Ratio
MFD	Mutual Fund Distributor	IFA	Individual Financial Advisor

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Investment mgmt. fees	8,070	11,190	11,310	12,187	13,056
YoY (%)	2.4	38.7	1.1	7.8	7.1
Operating expenses	5,260	6,211	6,550	6,816	7,273
Core operating profits	2,811	4,979	4,760	5,371	5,783
Core operating profits growth (%)	(0.4)	77.2	(4.4)	12.8	7.7
Depreciation and Interest	438	460	495	508	550
Core PBT	2,372	4,519	4,265	4,862	5,233
Core PBT growth (%)	(0.9)	90.5	(5.6)	14.0	7.6
Other income	3,663	2,084	1,587	2,414	2,734
PBT	6,035	6,603	5,853	7,276	7,967
PBT growth (%)	76.8	9.4	(11.4)	24.3	9.5
Tax	1,087	1,256	1,459	1,814	1,987
Tax rate (%)	18.0	19.0	24.9	24.9	24.9
Reported PAT	4,948	5,347	4,393	5,462	5,980

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Equity capital	1,268	1,270	1,270	1,270	1,270
Reserves & surplus	31,252	34,932	37,409	40,139	43,130
Net worth	32,631	36,316	38,678	41,409	44,399
Borrowings	0	0	0	0	0
Other liab. & provisions	3,873	3,515	3,071	3,864	4,016
Total liab. & equities	36,504	39,830	41,749	45,272	48,415
Cash & bank balance	30,786	33,930	36,051	38,514	41,357
Fixed & Other assets	5,121	5,379	5,201	6,204	6,509
Total assets	36,504	39,830	41,749	45,272	48,415

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
EPS	39.0	42.0	34.4	43.0	47.1
Dividend per share	17.0	21.0	22.0	21.5	23.6
Book value per share	257.0	285.0	304.6	326.1	349.6

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
P/E	16.9	15.7	19.1	15.3	14.0
P/BV	2.6	2.3	2.2	2.0	1.9
Dividend yield (%)	2.6	3.2	3.3	3.3	3.6

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23P	FY24E	FY25E
Operating income	44.1	50.0	47.4	47.1	46.3
Operating expenses	28.8	27.7	27.4	26.3	25.8
EBITDA	35.4	31.6	26.6	30.1	30.2
Depreciation and Others	2.4	2.1	2.1	2.0	1.9
Core PBT	13.0	20.2	17.9	18.8	18.5
Other income	20.0	9.3	6.6	9.3	9.7
PBT	33.0	29.5	24.5	28.1	28.2
Tax	5.9	5.6	6.1	7.0	7.0
ROAAAUM	27.1	23.9	18.4	21.1	21.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Investment mgmt. fees	2.4	38.7	1.1	7.8	7.1
Core operating profit	(0.4)	77.2	(4.4)	12.8	7.7
EPS	82.0	7.7	(17.9)	24.9	9.5
Profitability & Return ratios (%)					
Operating income to Total inc.	68.8	84.3	87.7	83.5	82.7
Cost to Core income ratio	65.2	55.5	57.9	55.9	55.7
EBITDA margin	55.2	53.2	49.2	53.3	53.9
Core PBT margin	20.2	34.0	33.1	33.3	33.1
PBT margin (on total inc.)	51.4	49.7	45.4	49.8	50.5
ROE	16.4	15.5	11.7	13.6	13.9
Dividend payout ratio	43.6	50.0	63.9	50.0	50.0

Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
AAAUM (Rs bn)	1,829	2,238	2,388	2,589	2,823
YoY Growth (%)	20.7	22.4	6.7	8.4	9.0
% of AAAUM					
Equity	40	43	40	40	40
Debt	13	8	10	9	9
Liquid	24	21	16	13	12
Others	23	28	35	38	40

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

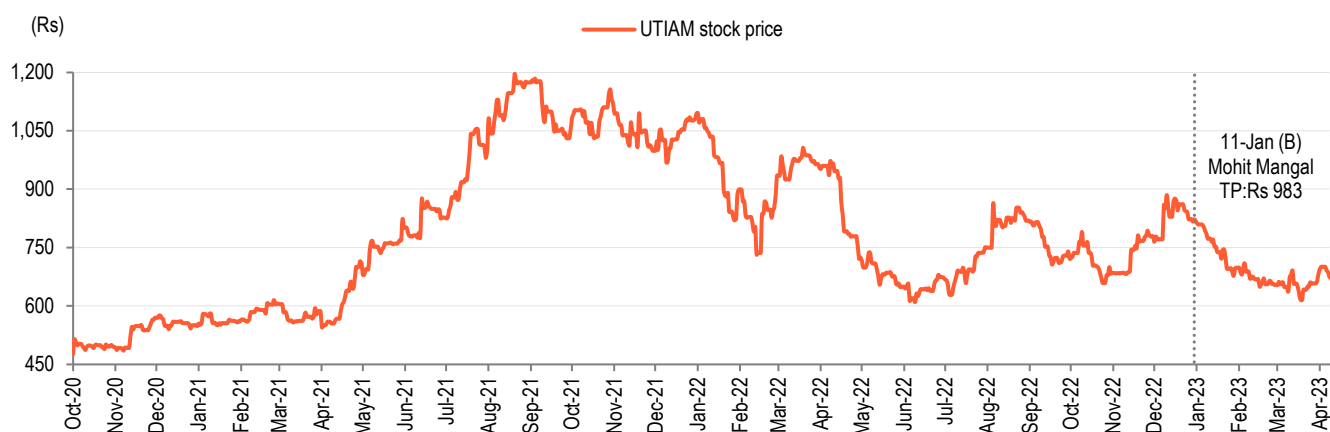
HOLD – Expected return from -6% to +15%

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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