Diversified Financials: AMCs

Low-levered, high-ROE and dividend-payout plays

March 2020

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DIVERSIFIED FINANCIALS

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AMCs: Low-levered, high-ROE and dividend-payout plays

Asset management companies (AMC) are a play on the growing financialisation of savings in India. This trend coupled with rising penetration of MF products will drive retail flows and aid an estimated 12% CAGR in industry AUM over FY19-FY22. Working capital requirements have eased with trail-based commissions, enabling stronger operating cash flows. High ROE and low leverage make select AMCs an attractive proposition in the financials space. Initiate with BUY on HDFC AMC (43% ROE, 1x leverage in FY22E); SELL on NAM.

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Retail flows to drive AUM growth: A structural shift by Indian investors from physical savings in real estate and gold towards financial savings, wider distribution of mutual fund products, and an enabling regulatory landscape are likely to bolster retail investment flows in the near-to-medium term. We expect a 12% CAGR in average AUM for the MF industry over FY19-FY22 to Rs 37tn (EOP).

Higher equity proportion to propel industry earnings: Robust long-term returns and rising appetite for equity funds, is expected to aid an equity AUM CAGR of 12% over FY19-FY22 to Rs 17tn – forming 46% of industry assets from 44% currently even as the mix of debt funds declines to 43% from 48%. We expect 17%+ CAGR in both revenue and profit for the industry during FY19-FY22 underpinned by a rising share of high-yield equity business and better pricing power over distributors.

Stronger pricing power to aid cash flows: With the full-trail model of commissions since mid-2018, commissions to distributors declined 7% in FY19 to Rs 80bn. Commissions could drop a further 10% in FY20, before stabilising in FY21. The resultant reduction in AMC working capital requirements will bolster operating cash flows and dividend payouts. Given the low levered nature of business and high dividend payouts, we expect high ROEs.

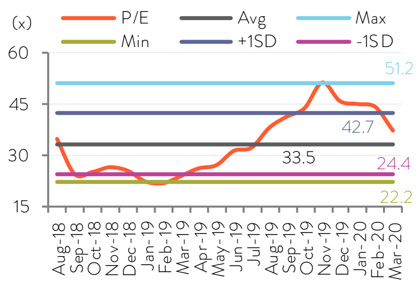
Recommendations: We initiate coverage on HDFC Asset Management (HDFC AMC) with BUY (Mar'21 TP Rs 3,470) and Nippon Life India Asset Management (NAM) with SELL (TP Rs 280). HDFC AMC's consistent market leadership (14% share in AAUM), trusted brand, diversified distribution, and rising share of profitable equity flows (19% CAGR FY19-FY22E) position it as a strong play on the sector. Our SELL rating on NAM stems from likely below-industry AAUM growth (6% CAGR) and a high cost structure, making for a tightrope walk between profitability and market share gains.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
HDFCAMC IN	2,681	3,470	BUY
NAM IN	304	280	SELL

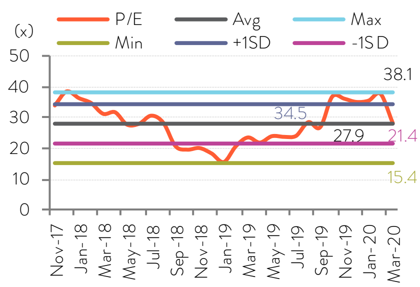
Price & Target in Rupees

HDFC AMC – ONE -YEAR FWD P/E



Source: Bloomberg, BOBCAPS Research

NAM – ONE-YEAR FORWARD P/E



Source: Bloomberg, BOBCAPS Research

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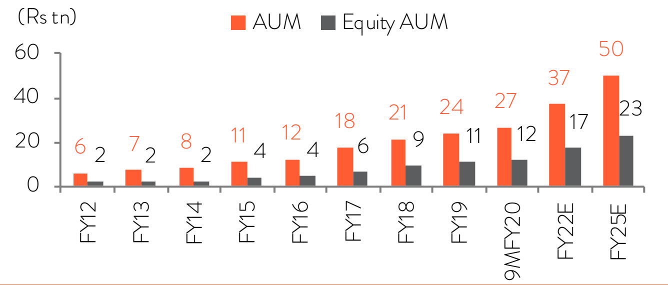
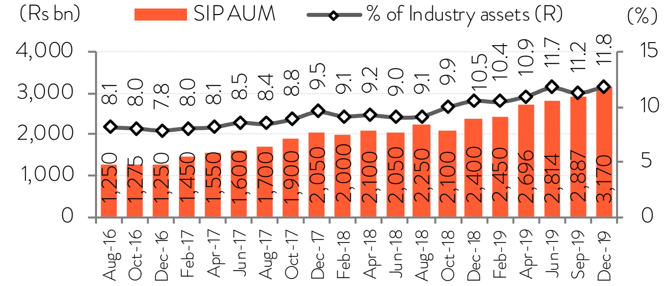


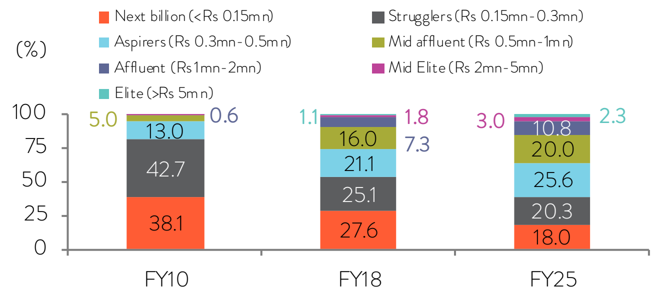
Source: Companies, BOBCAPS Research | Note: Calculations on End of Period (EOP) AUM

FIG 2 – SIP AUM AS % OF INDUSTRY ASSETS ON AN UPTREND



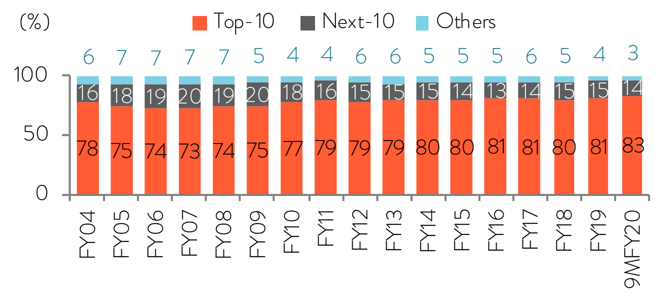
Source: AMFI, BOBCAPS Research

FIG 3 – MID-INCOME CLASS GROWING FAST – IMPLYING MORE POTENTIAL INVESTORS



Source: AMFI, BCG, BOBCAPS Research

FIG 4 – TOP-10 AMCs HAVE BEEN CONSOLIDATING AAUM



Source: AMFI, BOBCAPS Research | Note: Calculations based on AAUM

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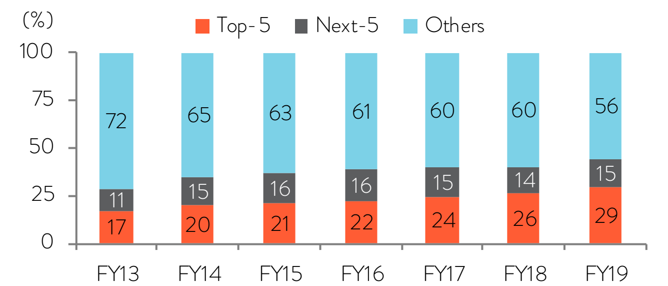

Source: AMFI, BOBCAPS Research

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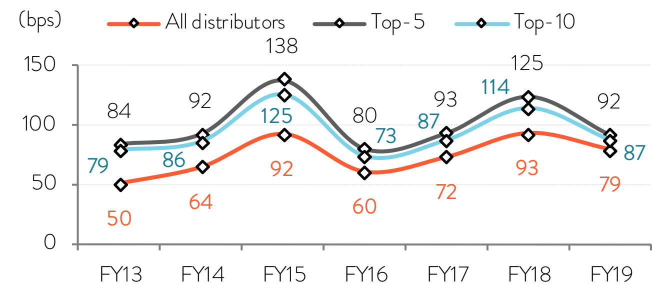
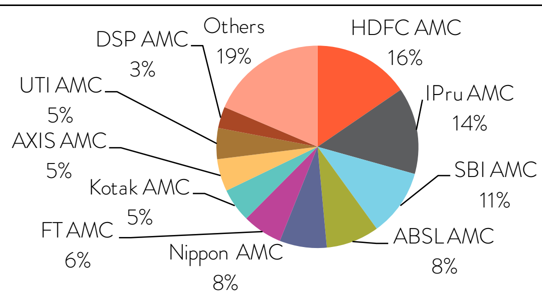


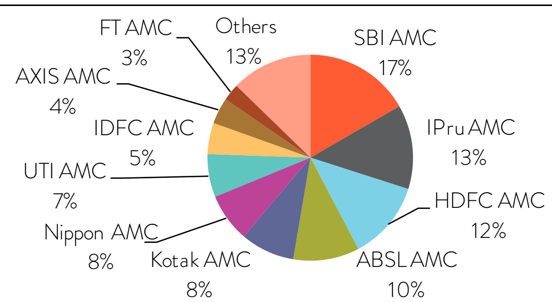
Source: AMFI, BOBCAPS Research

FIG 7 – HDFC AMC LEADS IN INDIVIDUAL AUM MARKET SHARE



Source: AMFI, BOBCAPS Research | Note: Data as of 9MFY20

FIG 8 – SBI AMC LEADS IN CORPORATE AUM MARKET SHARE



Source: AMFI, BOBCAPS Research | Note: Data as of 9MFY20

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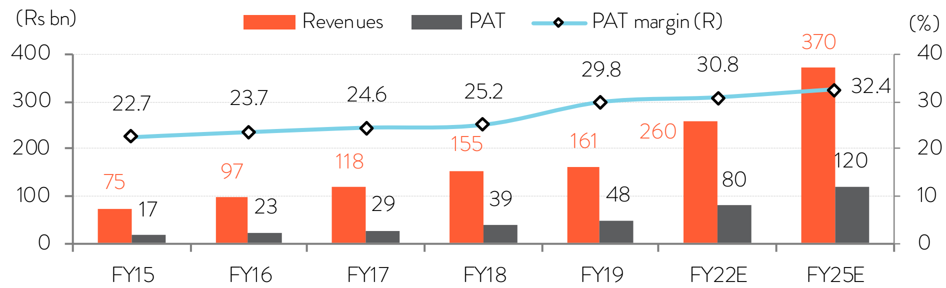
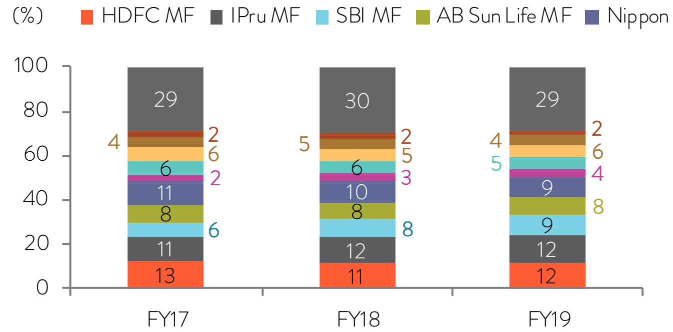
FIG 9 – WE EXPECT 16% PAT CAGR FOR INDIA AMC INDUSTRY, FY19-FY25E



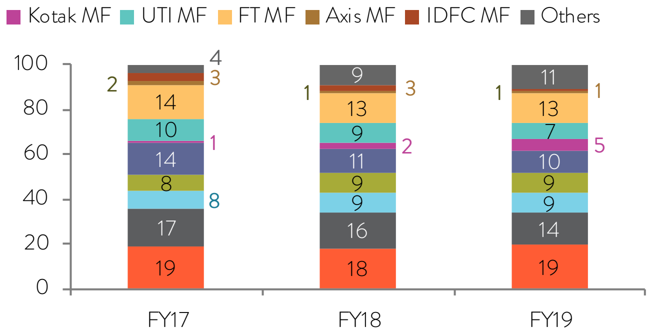
Source: BOBCAPS Research

FIG 10 – TOP-10 AMCs: REVENUE MARKET SHARE LARGELY STABLE OVER FY17-FY19...



Source: Company, BOBCAPS Research

FIG 11 – ...BUT PROFIT MARKET SHARE CHANGED AS SOME AMCs BROKE EVEN



Source: Company, BOBCAPS Research

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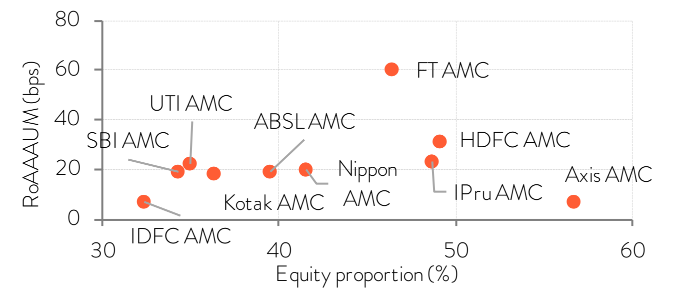

Source: Companies, BOBCAPS Research Note: SBI MF Equity proportion excludes ETF AUM

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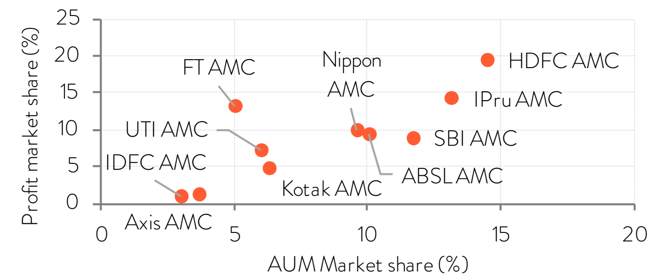


Source: Companies, BOBCAPS Research

FIG 14 – DUPONT ANALYSIS FOR TOP-10 AMCs AS OF FY19

(bps as % of AAUM)	IDFC AMC	Axis AMC	Kotak AMC	Aditya Birla Sun Life AMC	SBI AMC	Nippon AMC	UTI AMC	ICICI Prudential AMC	HDFC AMC	Franklin Templeton AMC
Revenue	39	87	52	55	66	61	53	65	59	89
Opex	31	77	26	31	40	39	33	32	7	29
Operating profit	9	10	26	24	26	20	20	33	57	60
PBT	10	11	28	27	28	29	32	35	46	92
Tax	4	4	10	8	10	9	9	12	15	32
PAT	7	7	18	19	19	20	22	23	31	60

Source: Company, BOBCAPS Research | Note: Revenue only takes into account investment management fees. For Franklin Templeton AMC we have assumed a 20% dip in opex, 14% increase in fee income and 20% growth in PBT and PAT in FY19 as latest annual report is not available

Initiate on HDFC AMC and NAM

HDFC AMC: Consistent player in a fast-growing industry

VALUATION ASSUMPTIONS

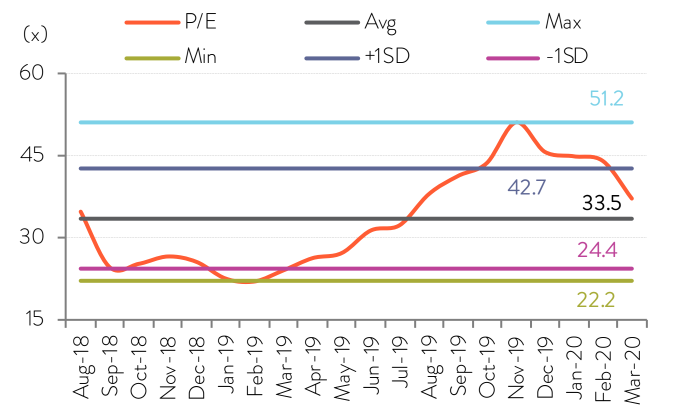
Cost of Equity (%)	12.8
Risk-free rate (%)	7.75
Risk premium (%)	5.0
Long-term growth rate (%)	10.0

Source: Bloomberg, BOBCAPS Research

HDFC AMC is trading at 42.3x/37.3x FY20E/FY21E EPS for an estimated ROE of 41.0%/40.9%. We believe the company is a strong play on growing financial savings and the low-penetrated asset management business in India. Market leadership, a trusted brand backed by a seasoned investment team, wide distribution reach, and rising share of high-yield avenues (equities, individual business, SIP book) should support an AUM/earnings CAGR of 17%/24% during FY19-FY22 – ahead of industry growth metrics.

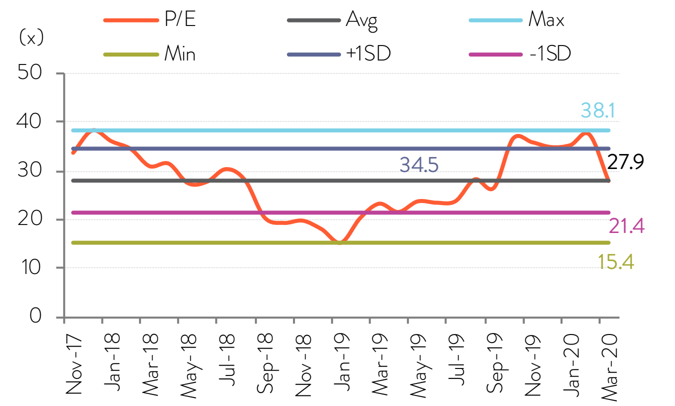
We initiate coverage with BUY and a Mar'21 target price of Rs 3,470 (41x implied FY22E P/E), arrived at using a three-stage dividend discount model (DDM). Our key assumptions are cost of equity of 12.8% (risk-free rate of 7.75% and beta of 1.1x), with average growth of ~25% in the five-year explicit period and terminal growth of 10%.

FIG 15 – HDFC AMC – ONE -YEAR FWD P/E



Source: Bloomberg, BOBCAPS Research

FIG 16 – NAM – ONE-YEAR FORWARD P/E



Source: Bloomberg, BOBCAPS Research

NAM: New brand unlikely to change fortunes

VALUATION ASSUMPTIONS

Cost of Equity (%)	14.0
Risk-free rate (%)	7.75
Risk premium (%)	5.0
Long-term growth rate (%)	10.0

Source: Bloomberg, BOBCAPS Research

NAM is trading at 33.6x/28.6x FY20E/FY21E EPS for an estimated ROE of 21.3%/24.5%. We believe the company is a play on the financialisation of savings in India. However, due to legacy brand issues and multiple debt write-downs during FY19-FY20, we think debt AAUM is unlikely to retrace to market share levels seen pre-IL&FS.

Further, given NAM's increasing reliance on independent financial advisors (IFA) to source equity flows, we expect revenue realisations to be lower than average revenue realisation of the top-10 AMCs (~63bps). A high opex structure due to increased costs towards rebranding, marketing and ESOPs would dampen ~50% of revenue realisations. Core PBT yields could thus remain range-bound at

26-29bps, with PAT yields at 25-27bps over FY20-FY22 propped up by a benign tax rate. In our view, the company faces a tough balancing act between profitability and market share gains, with one coming at the expense of the other.

We initiate coverage with SELL and a Mar'21 target price of Rs 280 (23x implied FY22E P/E), arrived at using a three-stage dividend discount model (DDM). Our key assumptions are cost of equity of 14.0% (risk-free rate of 7.75% and beta of 1.2x), with average growth of ~15% in the five-year explicit period and terminal growth of 10%.

FIG 17 – COMPARISON SHEET

Company	CMP (Rs)	Mcap (Rs bn)	EPS (Rs)			P/E (x)			ROE (%)			Dividend payout (%)		
			FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
HDFCAMC	2,681	572	63.4	71.9	84.4	42.3	37.4	31.8	41.0	40.9	42.5	67.4	69.8	72.2
NAM	304	186	9.0	10.6	12.4	33.6	28.6	24.5	21.3	24.5	27.9	90.3	90.3	90.3

Source: Company, BOBCAPS Research

Industry growth outlook robust

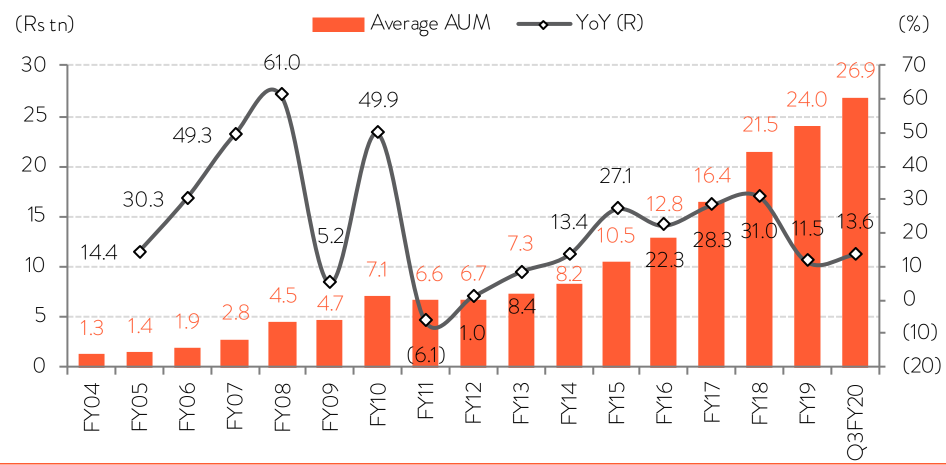
Growing financial savings in India, rising product penetration, attractive returns and an enabling regulatory landscape are expected to encourage MF investments, especially from retail customers, in the near-to-medium term. We expect these drivers to aid a 12% CAGR in industry AAUM over FY20-FY22 to Rs 37tn (EOP), with the Rs 50tn milestone likely reached by FY25. Industry net profits are forecast to log a robust 16% CAGR to Rs 120bn by FY25 as the mix of high-yield equity business rises, direct sourcing aids operating leverage, and AMC pricing power improves with distributors.

India's MF industry growing apace

India's mutual fund (MF) industry has Rs 26.9tn in average assets under management (AAUM) as of Q3FY20, marking an impressive 17% CAGR since the turn of the century. The FY14-FY19 period has been especially positive for the industry, as AAUM swelled at a 24% CAGR backed by robust inflows and mark-to-market gains. While institutional investors logged a 19% CAGR over FY14-FY19, we note that individual investors grew at ~28% and now account for a majority of industry assets at ~54% in 9MFY20 vs. 48% of total AUM in FY15.

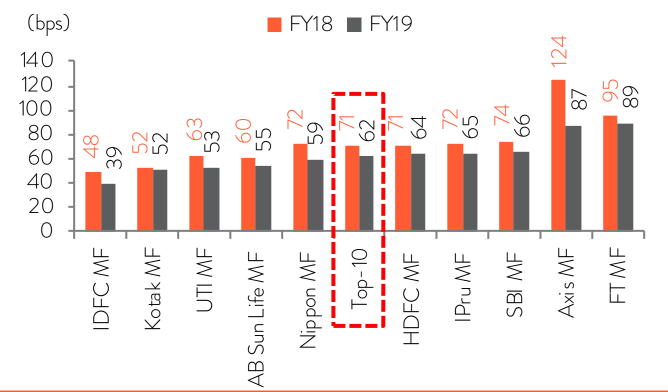
The IL&FS crisis in Sep'18, however, led to a 35% drop in net equity inflows for 9MFY20 on an annual basis, whereas debt schemes registered net inflows (Rs 586bn) vs. net outflows (Rs 1.4tn) in the same year-ago period.

FIG 18 – AVERAGE AUM FOR MF INDUSTRY HAS GROWN ~3X SINCE FY14



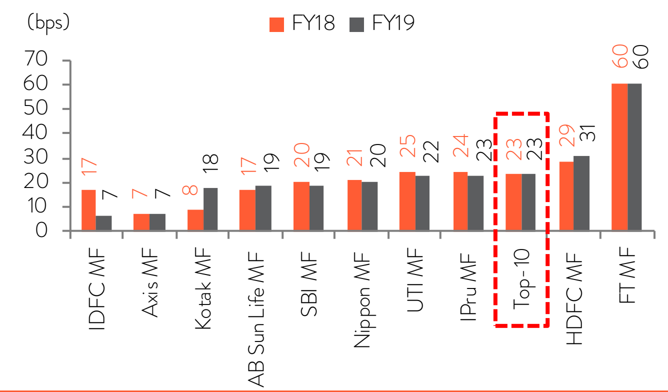
Source: Company, BOBCAPS Research

FIG 19 – AVERAGE REVENUE YIELD OF TOP-10 AMCs WAS ~62BPS IN FY19...



Source: Companies, BOBCAPS Research | Note: Assumed 14% growth in FY19 revenue for FT MF, just like AAUM growth

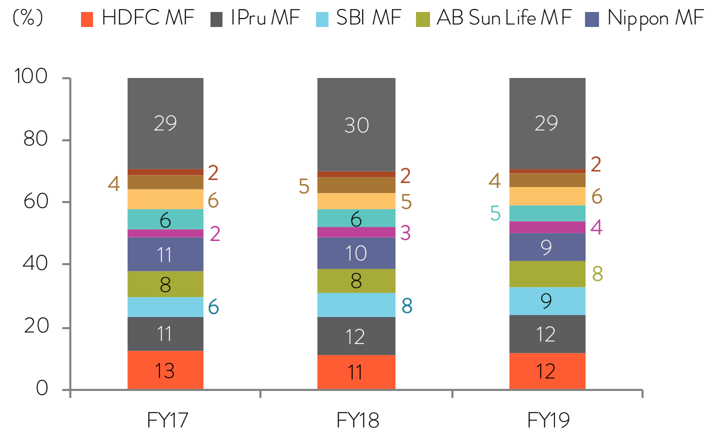
FIG 20 – ...WITH PAT YIELD (ROAAAUM) OF TOP-10 AT ~23BPS



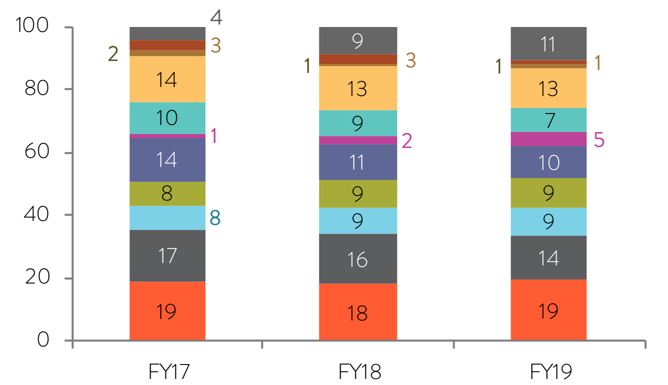
Source: Companies, BOBCAPS Research | Note: Assumed 20% growth in FY20 PAT for FT MF, taking into account trail commission effect

FIG 21 – TOP-10 AMCs: REVENUE MARKET SHARE LARGELY STABLE OVER FY17-FY19...

FIG 22 – ...BUT PROFIT MARKET SHARE CHANGED AS SOME AMCs BROKE EVEN

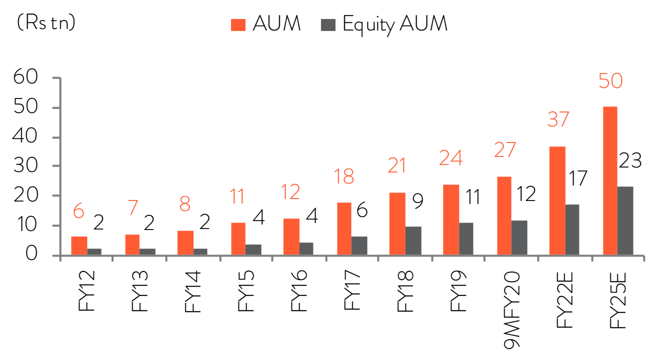


Source: Company, BOBCAPS Research



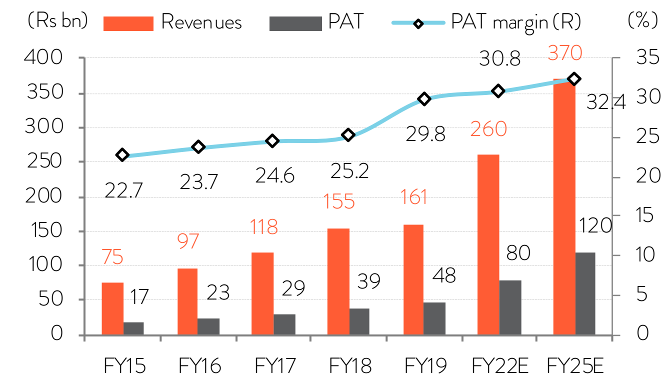
Source: Company, BOBCAPS Research

FIG 23 – EXPECT TOTAL AND EQUITY AUM CAGR OF 12% OVER FY19-22E



Source: Company, BOBCAPS Research

FIG 24 – WE EXPECT PAT CAGR OF 16% OVER FY19-FY25E



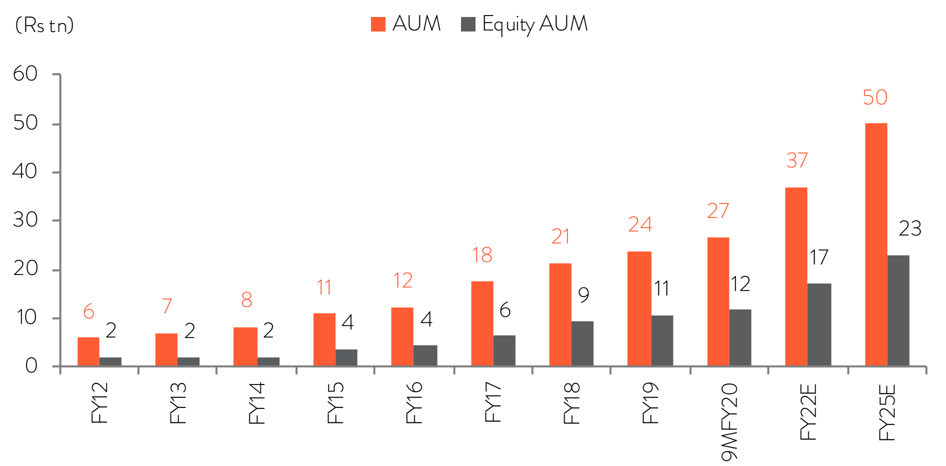
Source: BOBCAPS Research

Individual investors to fuel industry growth

Our interactions with industry experts indicate that equity AUM will grow at a faster clip than industry AUM. Robust long-term returns are prompting retail investors to gravitate towards equity, while the growing reach of MF products in smaller cities is broadening the investor base and making equity flows granular. SIPs and flows to hybrid funds should help mitigate volatility in inflows during downturns. We expect equity AUM to form 46% of industry AUM by FY22 from 44% currently, logging a 14% CAGR over FY20-FY22 (vs. 12% for the industry) to reach Rs 17tn and further Rs 23tn by FY25.

In the debt segment, credit disintermediation and substitution of bank deposits will fuel growth, while liquid funds will be driven by corporate liquidity requirements. We estimate that debt AUM (debt and liquid) will form ~43% of industry AUM by FY22 and 39% by FY25, down from 48% currently.

FIG 25 – EXPECT EQUITY AUM TO GROW FASTER THAN INDUSTRY AUM



Source: Companies, BOBCAPS Research | Note: Calculations on End of Period (EOP) AUM

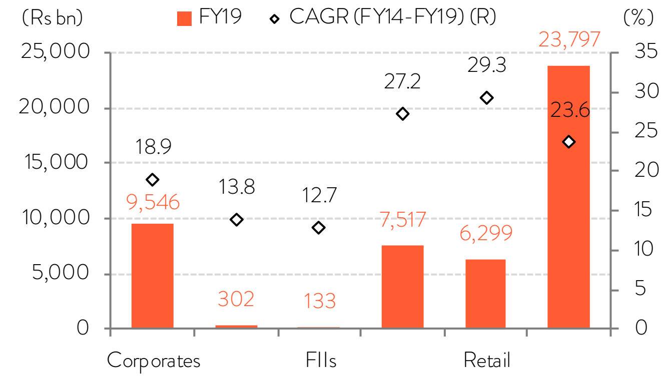
Individual investors stealing a march over institutions...

The MF industry has seen rising participation from households in recent years, the result of growing awareness, financial inclusion, and improved access to banking channels. In fact, AUM growth for retail and high net worth (HNI) customers has been outstripping that of corporates and other institutional investors.

Individual investors' AUM posted a ~28% CAGR over FY14-FY19 vs. 19% for corporates and ~13% each for banks/FIs and FIIs. Individual investors now account for a majority of industry assets with ~54% of total AUM (Rs 14.6tn of Rs 26.9tn) in 9MFY20 vs. 48% in FY15. Within the individual segment, HNI investors hold majority share, accounting for ~62% of AUM.

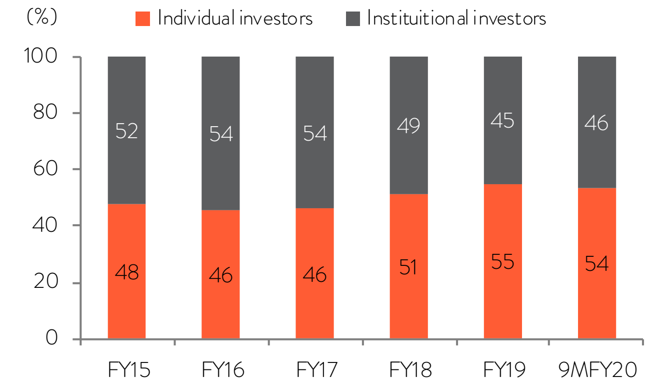
Institutional investor folios, on the other hand, have seen no significant additions until FY19. However, their average ticket size has increased from Rs 11.5mn to Rs 22.9mn over FY14-FY19. This figure has come off to Rs 17mn as of 9MFY20 as portfolios are being diversified to mitigate risk amid the economic slowdown.

FIG 26 – INDIVIDUAL INVESTORS HAVE GROWN FASTER THAN INSTITUTIONAL INVESTORS…



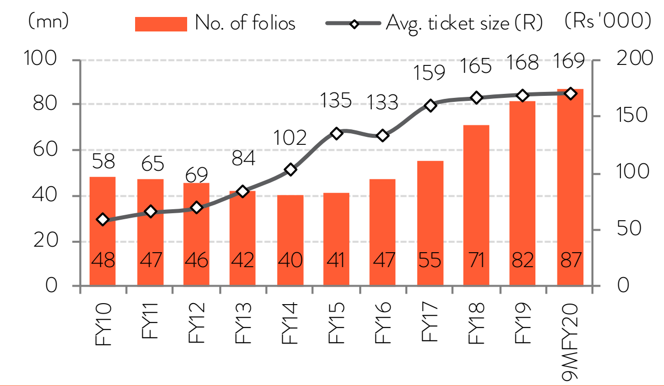
Source: AMFI, BOBCAPS Research

FIG 27 – …AND NOW COMPRISE OVER 50% OF MF AUM



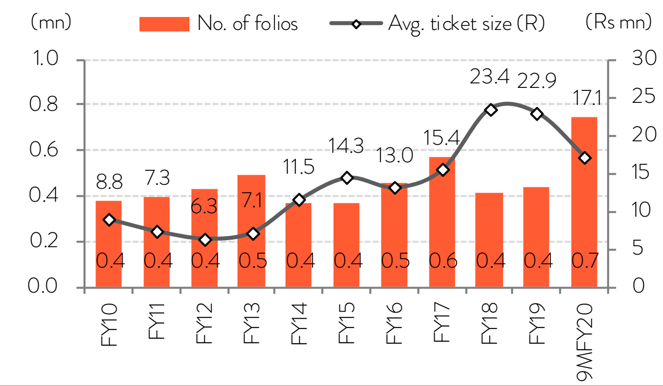
Source: AMFI, BOBCAPS Research

FIG 28 – INDIVIDUAL INVESTOR TICKET SIZE GROWTH LED BY BROADER BASE



Source: AMFI, BOBCAPS Research

FIG 29 – TICKET SIZE FOR INSTITUTIONAL INVESTORS HAS COME OFF POST-IL&FS CRISIS

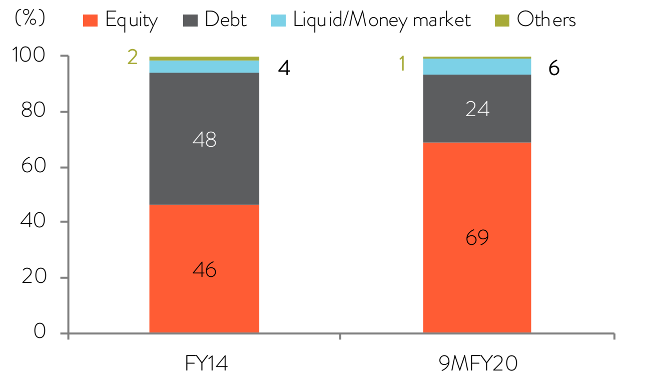


Source: AMFI, BOBCAPS Research

…with a marked preference for equity

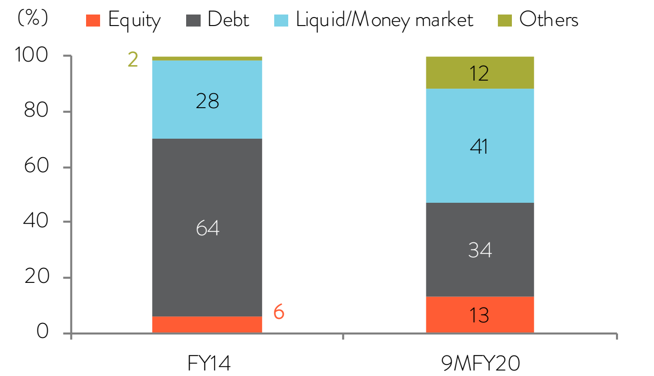
Notably, retail investors have flocked to equity funds over the last six years, while institutional investors have maintained focus on debt and money market products. The growing preference of individual investors for equity products has led to a sharp increase in share of equity AUM to 44% in 9MFY20, up from 25% of total AUM in FY14.

FIG 30 – INDIVIDUAL INVESTORS HAVE LAPPED UP EQUITY OVER LAST SIX YEARS



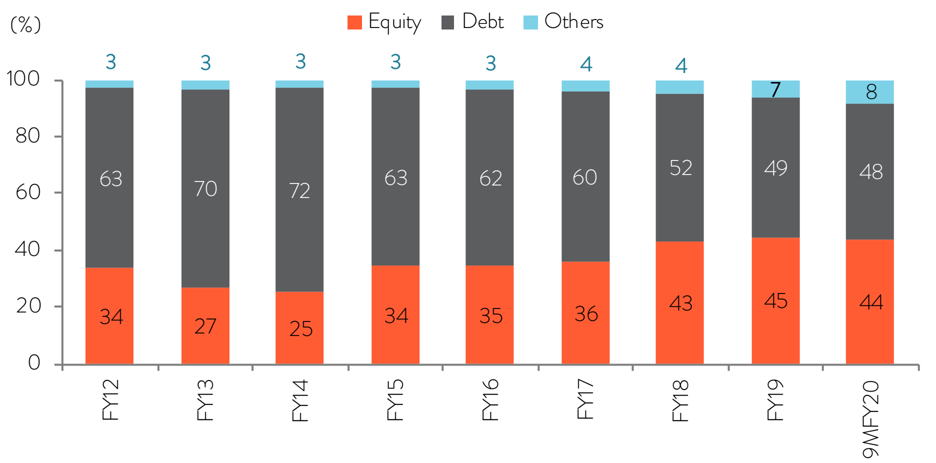
Source: AMFI, BOBCAPS Research

FIG 31 – INSTITUTIONAL INVESTORS HAVE VEERED TOWARD DEBT AND MONEY MARKET PRODUCTS



Source: AMFI, BOBCAPS Research

FIG 32 – RISING EQUITY SHARE IN MF AUM LED BY INDIVIDUAL INVESTORS

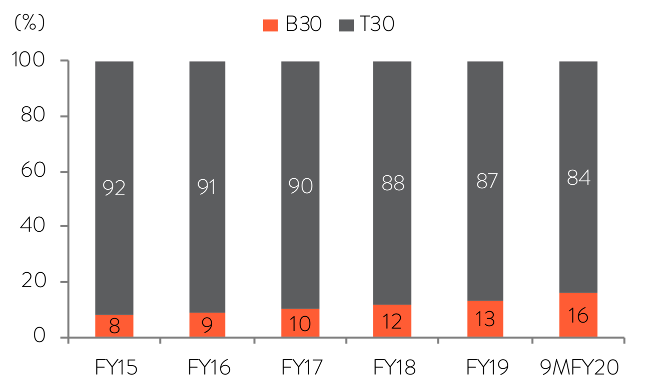


Source: AMFI, BOBCAPS Research | Note: Equity incl. balanced/hybrid funds, debt incl. liquid funds; EOP AUM

B30 cities to drive more equity flows...

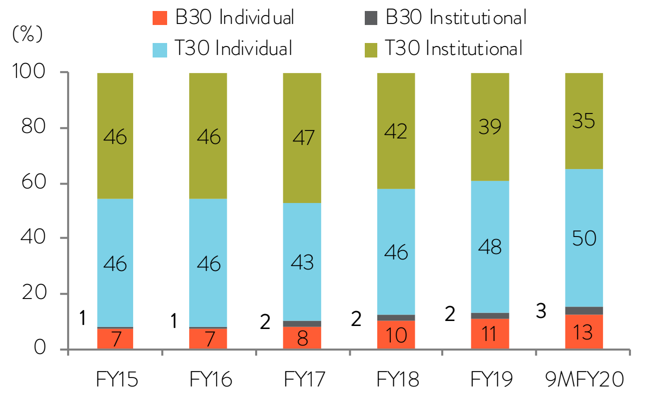
B15 cities saw their contribution to AUM rise from ~13% in FY13 to ~25% in FY19. SEBI's recent relabeling of regions from T15 (top 15 cities) and B15 (beyond top 15 cities) to T30 and B30 (top 30 cities and beyond top 30 cities respectively) is reflective of this growth. B30 cities registered even faster growth than B15, with their contribution to AUM doubling from ~8% in FY15 to 16% in 9MFY20.

FIG 33 – RISING CONTRIBUTION TO AUM FROM B30 CITIES...



Source: AMFI, BOBCAPS Research

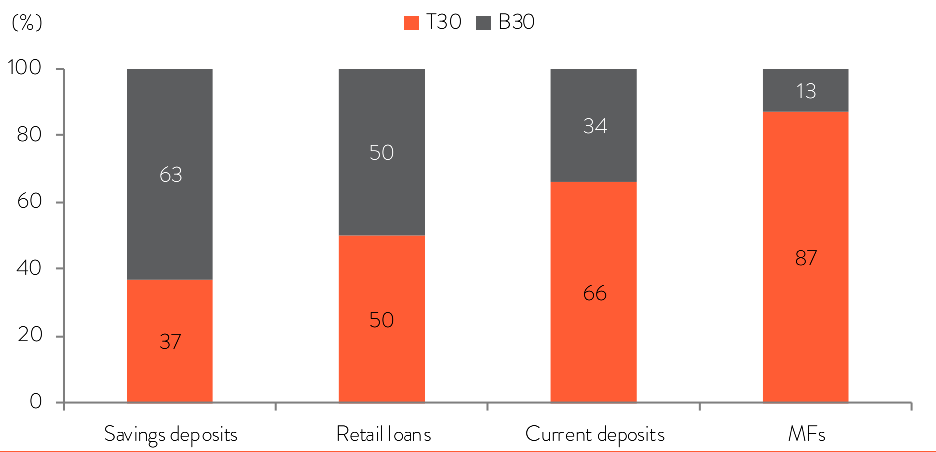
FIG 34 – ...AS MORE INDIVIDUAL INVESTORS GET ONBOARDED



Source: AMFI, BOBCAPS Research

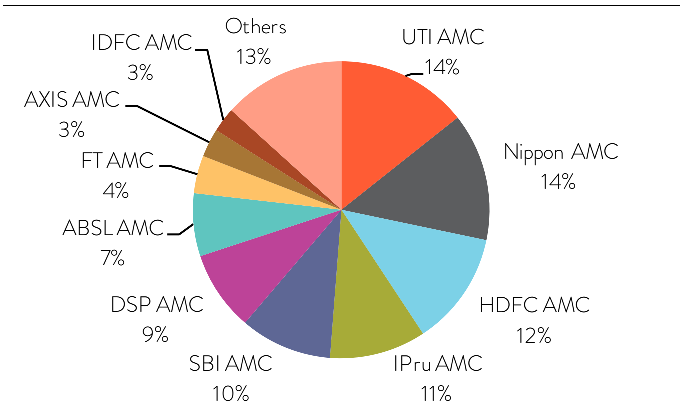
However, despite recent growth, MF penetration in B30 cities remains low when compared to other savings products. In FY19, only 13% of MF AUM came from B30 cities, as opposed to ~63% of savings deposits, ~50% of retail loans and ~34% of current deposits – implying a long runway for growth in these locations.

FIG 35 – MFs UNDERPENETRATED IN B30 LOCATIONS, FY19



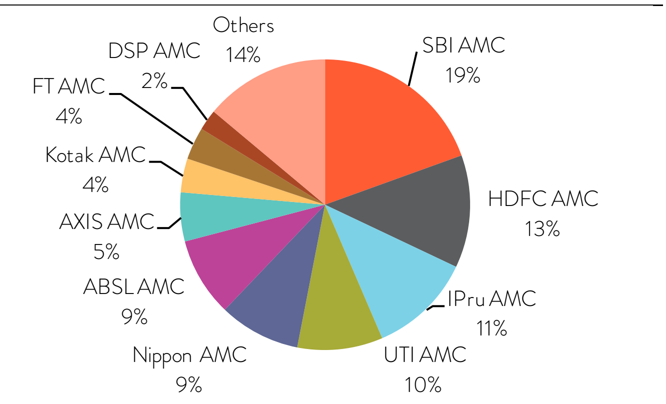
Source: AMFI, RBI, CRISIL, BOBCAPS Research

FIG 36 – B30 MARKET SHARE AS OF FY15



Source: AMFI, BOBCAPS Research

FIG 37 – B30 MARKET SHARE AS OF 9MFY20



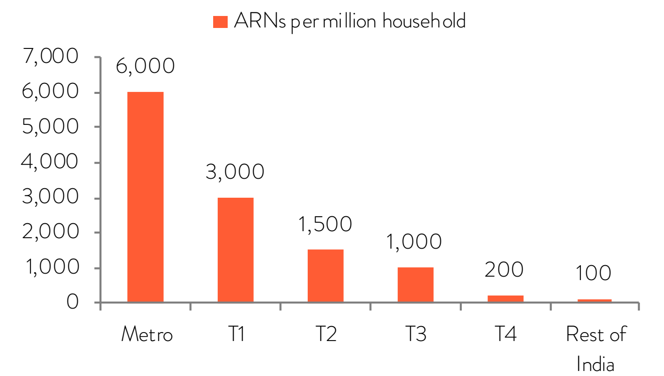
Source: AMFI, BOBCAPS Research

...bank-led AMCs have an edge in B30 distribution

The current investor base as well as distribution footprint is largely concentrated in metro and tier-1 cities. This is reflected in the ~75% share of T15 cities in overall industry AUM. Currently, the difference in density of MF intermediaries across T15 and B15 cities is ~18x, as measured by distributors' unique ARN (application reference number). T15 cities have ~4,300 ARNs for every million households as against ~230 ARNs in B15 cities.

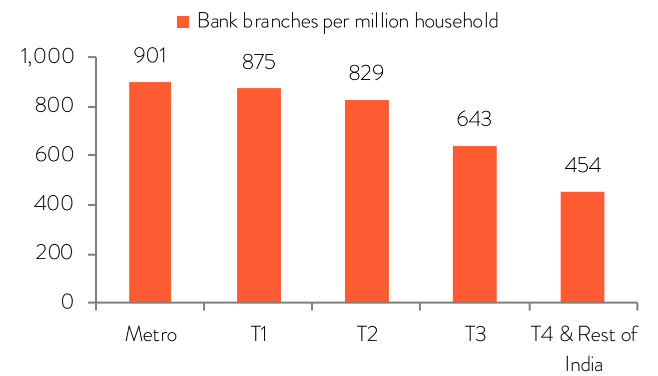
An analysis of CAMS data indicates that the top 4,000 IFAs account for ~95% of total IFA AUM, indicating the significant imbalance that exists in ARN economics. AMC branch presence also remains very low at only ~1,700 across India as against ~140,000 bank branches and ~11,000 insurance branches. The direct digital channel still accounts for less than 3% of AUM (as per registrar data). As the industry looks at onboarding investors beyond tier-1 cities, AMCs will need to address the gap in distribution density by setting up more channel partners in other cities.

FIG 38 – SIGNIFICANT NEED TO INCREASE ARNs IN B30 CITIES



Source: AMFI, BOBCAPS Research

FIG 39 – BANK CHANNELS OFFER SCOPE FOR MF PENETRATION IN B30 CITIES



Source: AMFI, BOBCAPS Research

Expanding MF penetration into B30 and subsequently B100 cities is a clear imperative for the industry. Investors in these geographies will need a high-touch engagement model to educate and guide them. As per a Nielsen survey, only 50% of first-time investors are aware of the direct route for investing in mutual funds and just 61% of investors track fund performance through their advisor.

The banking channel is significantly better placed to target B15 and B30 investors due to a wide geographical reach – banks have 875-900 branches per million households across metros and tier-1 cities. The corresponding number for tier-2 cities is 830 branches and for tier-4 cities and below is ~450 branches.

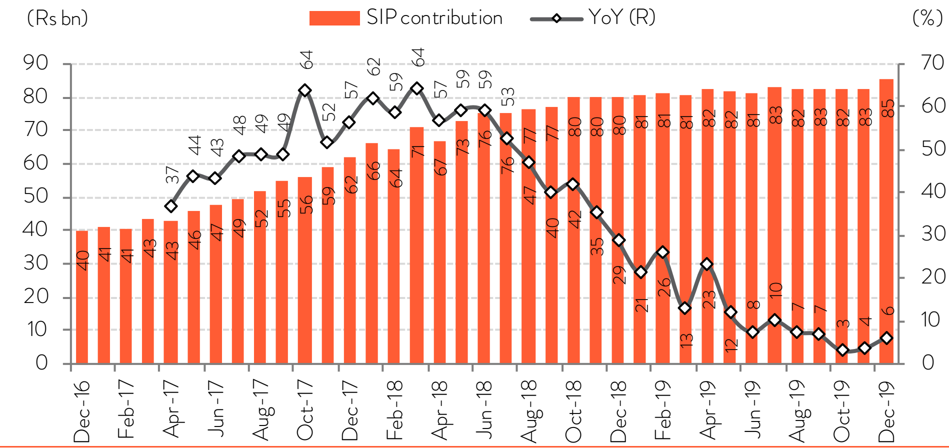
Given the full-trail commission model for distributors, IFAs in B30 cities have meagre incentive to market MF products and will instead promote insurance and other financial products to sustain margins. Thus, bank-led AMCs (HDFC AMC, ICICI Prudential AMC, SBI AMC, Axis AMC and Kotak AMC) have a clear edge over peers in B30 cities.

SIPs making investors and flows stickier

Systematic investment plans (SIP) remain a key driver behind increasing retail participation in the MF space. Several benefits accrue to investors from SIPs, such as the avoidance of behavioral weakness during volatile periods, the force of aggregation of a large number of small investments, and tax incentives. Low minimum contributions also increase accessibility to households across the income strata.

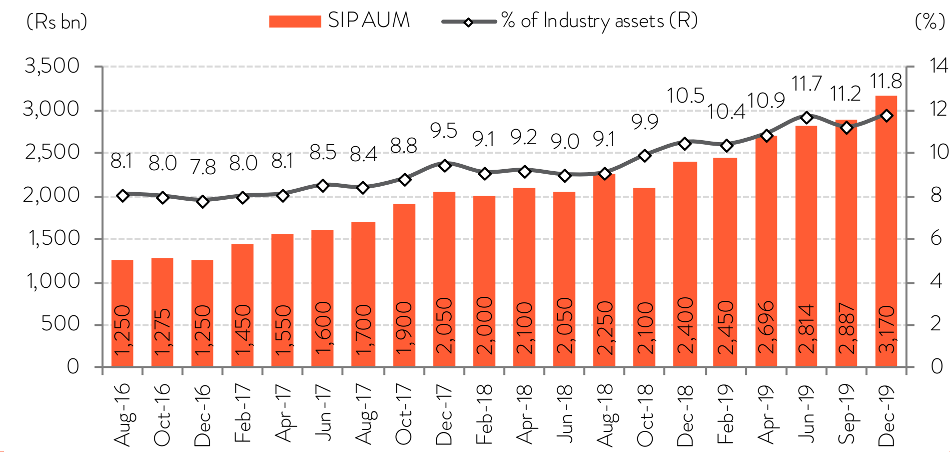
Between Apr'16 and Dec'19, the aggregate amount invested through SIPs has grown from Rs 31bn per month to Rs 85bn, forming ~12% of industry AUM. The number of SIP accounts has tripled from ~10mn to ~30mn over this period, with the industry going on to add ~1mn SIP accounts each month in 9MFY20. Systematic plans are an increasingly important factor in overall AUM growth as they improve the scale of players and diversify portfolios across risk profiles and investment horizons.

FIG 40 – SIP CONTRIBUTIONS STEADY DESPITE RECENT MARKET VOLATILITY



Source: AMFI, BOBCAPS Research

FIG 41 – SIP AUM AS % OF INDUSTRY ASSETS ON AN UPTREND



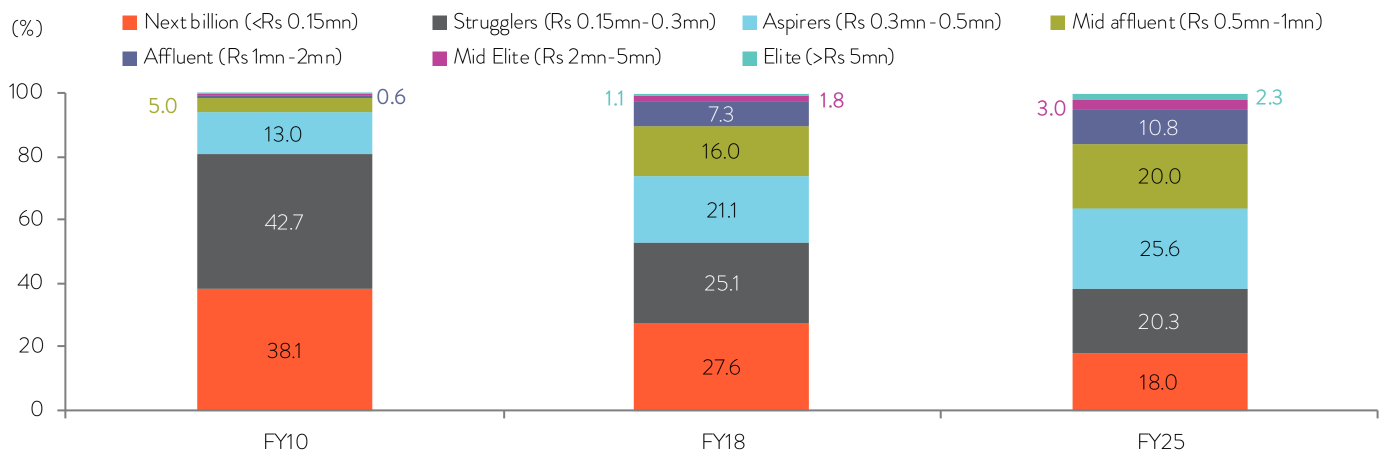
Source: AMFI, BOBCAPS Research

Mid-income households to form next leg of growth

Until now, asset management players have largely focused on households at the top end of the income pyramid (>Rs 1mn income), located in metros and tier-1 cities. As per AMFI-BCG estimates, MF penetration is at ~7% of India's 275mn households as of 2018, with most of the current ~20mn investors falling in the affluent (Rs 1mn-5mn household income) or HNI (> Rs 5mn) category, located in metros and tier 1 cities.

We expect the next leg of growth to come from the ballooning middle-income group. As per AMFI-BCG vision document, the >Rs 1mn income segment accounted for ~10% of all households while the Rs 0.3mn-1mn income segment accounted for ~37% in 2018. These figures are expected to increase to 16% and 46% respectively by 2025, thereby increasing the pool of equity investors.

FIG 42 – MIDDLE-OF-THE-PYRAMID INCOME CLASS GROWING FAST



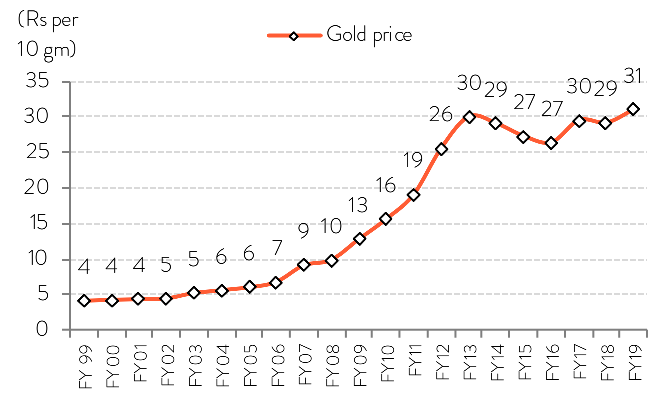
Source: AMFI, BCG, BOBCAPS Research

Key drivers of MF flows

#1 Increase in net financial savings

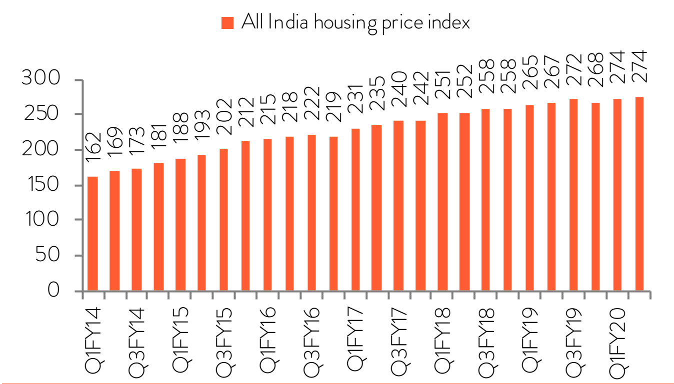
Indian households have traditionally favoured investing in real estate and gold. But stagnating returns from these assets in recent years along with growing financial awareness has led to a higher share of financial savings (38% of household savings in FY18 vs. 33% in FY13). Government measures to formalise the economy – 'Jan Dhan' accounts offering affordable access to financial services, and biometric Aadhar-based investor authentication – have also contributed to an increase in MF flows over the last five years.

FIG 43 – GOLD PRICES HAVE BEEN STAGNANT OVER 6-7 YEARS…



Source: AGLOC, BOBCAPS Research

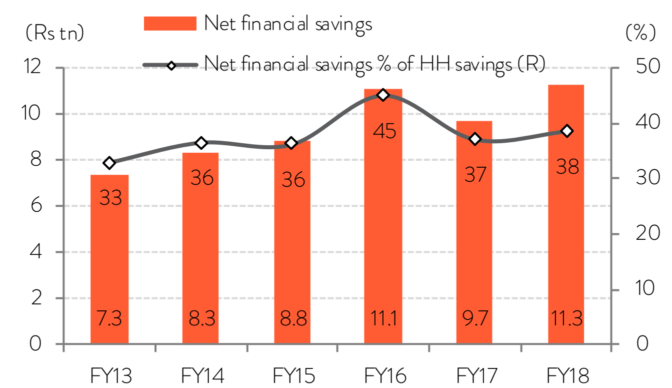
FIG 44 – …AS HAVE REAL ESTATE PRICES – BOTH TRADITIONAL ASSET CLASSES



Source: RBI, BOBCAPS Research

We expect lower inflation over our forecast period to further decrease the attractiveness of gold and real estate as investment options. Also, the steady rise in financial literacy, relative outperformance of financial investments in recent years, and the government's efforts to fight the shadow economy should support a continued increase in financial assets as a proportion of net household savings in the near term.

FIG 45 – INCREASE IN NET FINANCIAL SAVINGS IN HOUSEHOLD (HH) SAVINGS…



Source: RBI, MOSPI, BOBCAPS Research

FIG 46 – …WITH HIGHER ALLOCATION TO MUTUAL FUND PRODUCTS

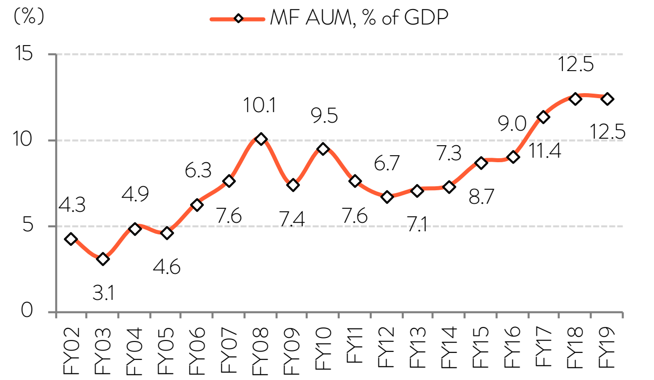
(%)	FY13	FY14	FY15	FY16	FY17	FY18
Currency	10.5	8.4	10.6	13.4	(22.0)	25.2
Deposits	57.0	56.0	48.7	43.1	67.3	28.6
Shares and debentures	**1.6**	**1.6**	**1.6**	**1.9**	**3.1**	**3.4**
Insurance funds	16.9	17.2	23.8	17.7	24.6	18.7
Provident and pension funds	14.7	14.9	15.2	19.4	22.6	19.7
Others	(0.7)	1.9	0.1	4.5	4.4	4.4

Source: RBI, MOSPI, BOBCAPS Research

#2 Low MF penetration

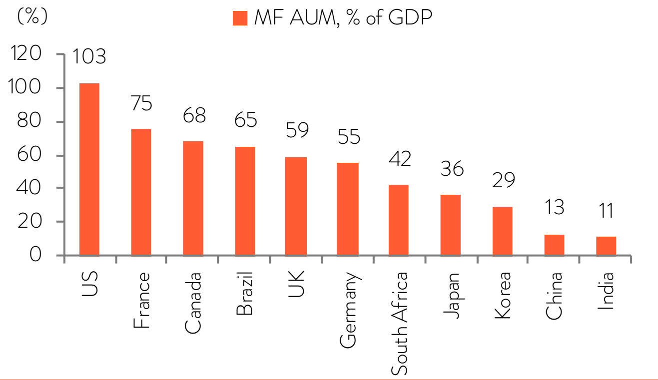
India's MF industry is maturing with a broad-basing of investors and increasing geographical spread. While penetration of mutual funds in India, as measured by the AUM/GDP ratio, is still low at 11% compared with the global average of 55%, favourable demographics marked by a growing workforce and rising income levels, a history of high savings, and regulatory reforms to ensure transparency brighten the industry outlook.

FIG 47 – MF PENETRATION IN INDIA HAS GROWN SHARPLY OVER FY13-FY19…



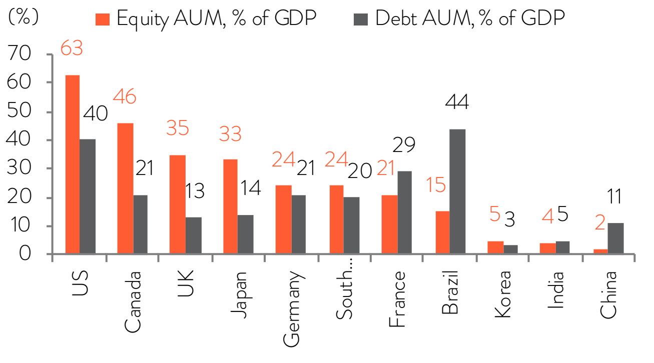
Source: AMFI, IMF, Company, BOBCAPS Research

FIG 48 – …BUT IS STILL LOW COMPARED TO DEVELOPED AND EMERGING ECONOMIES



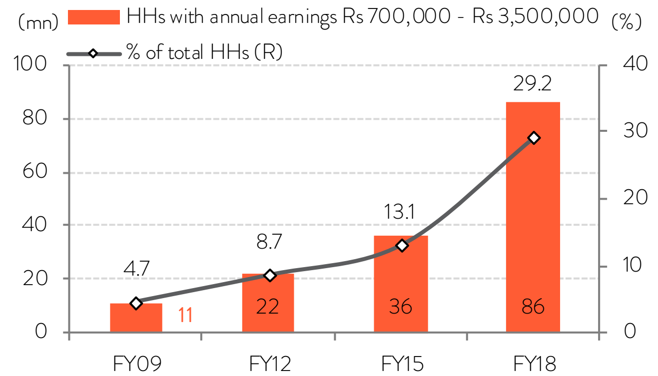
Source: AMFI, IMF, Company, BOBCAPS Research | Note: AUM data for Dec'18 for all countries; only open-ended schemes considered

FIG 49 – INDIA'S EQUITY AUM PENETRATION HAS A LONG RUNWAY FOR GROWTH…



Source: AMFI, IMF, Company, BOBCAPS Research | Note: AUM data for Dec'18; only open-ended schemes considered; guaranteed/protected funds excluded

FIG 50 – …WITH INCOME LEVELS ON THE RISE

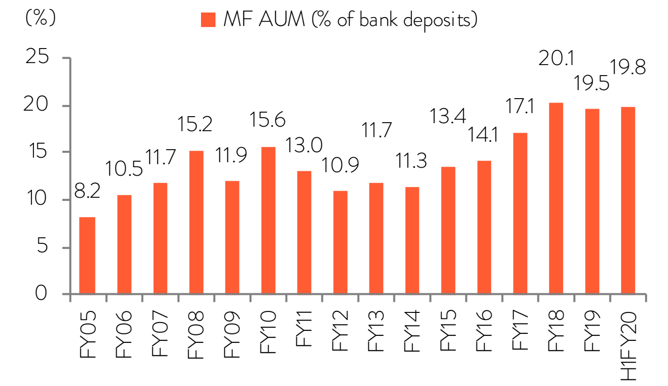


Source: Burger King RHP, BOBCAPS Research

#3 Sticky flows in various asset classes

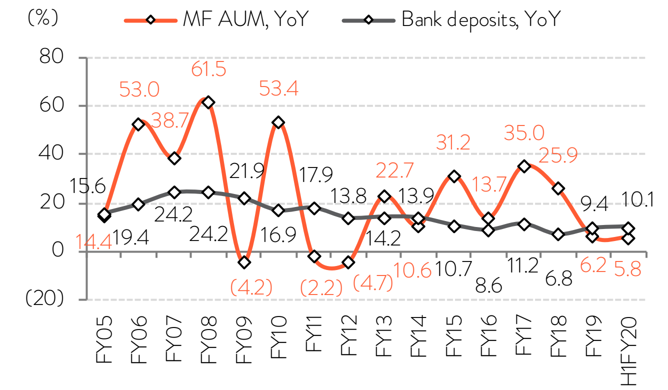
During FY14-FY18, credit intermediation increased, with the traditional dominance of the banking sector yielding ground to non-bank intermediaries, including AMCs. With this silent transformation, the MF industry has become the fastest growing and most competitive segment of India's financial sector, offering operational flexibility and attractive returns to investors.

FIG 51 – MF PRODUCTS INCREMENTALLY REPLACING BANK DEPOSITS…



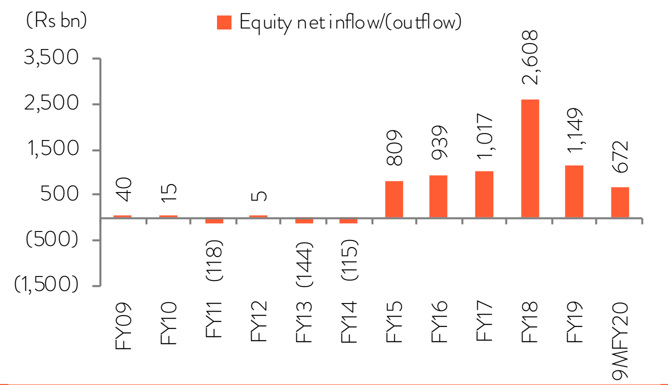
Source: RBI, AMFI, BOBCAPS Research

FIG 52 – …THOUGH THE PACE HAS COOLED OFF POST-IL&FS CRISIS



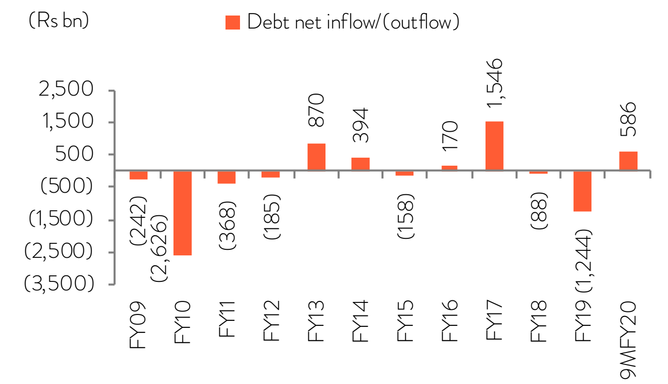
Source: RBI, AMFI, BOBCAPS Research

FIG 53 – EQUITY FLOWS INCREASED IN THE PAST DECADE DUE TO TRANSPARENCY IN PRODUCTS



Source: AMFI, BOBCAPS Research Note: Incl. balanced/hybrid funds

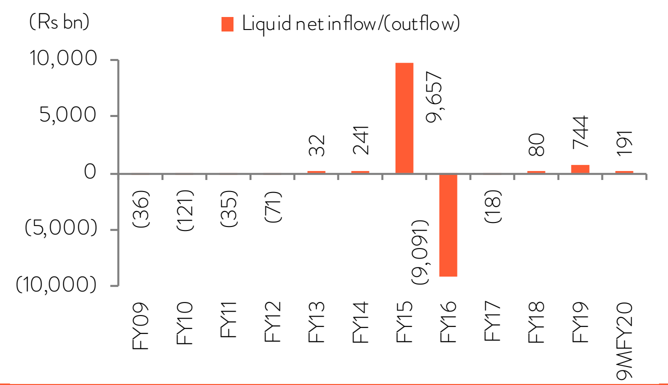
FIG 54 – DEBT FLOWS TO INCREASE AS DISINTERMEDIATION WILL RISE IN MEDIUM TERM



Source: AMFI, BOBCAPS Research

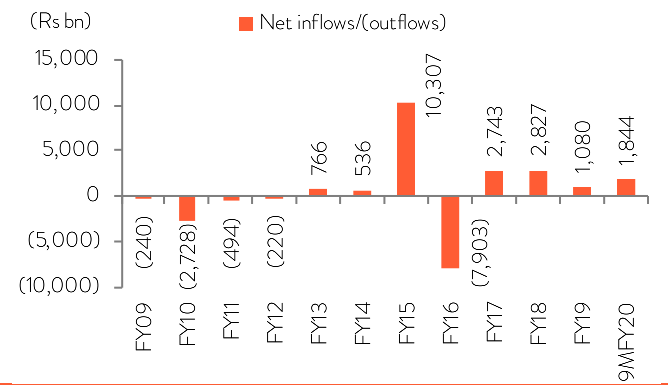
AMCs in India have become major players in the equity and corporate bond markets, besides providing crucial liquidity support to the money market, given that they are the biggest lenders in the collateralised borrowing and lending obligation (CBLO) segment.

FIG 55 – LIQUID FLOWS OVER PAST DECADE



Source: AMFI, BOBCAPS Research

FIG 56 – NET INFLOWS STEADY POST-IL&FS CRISIS



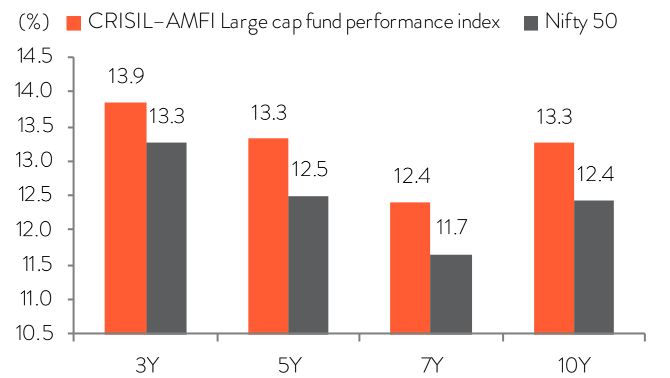
Source: AMFI, BOBCAPS Research

#4 Robust returns versus traditional investments

As an investment vehicle, MFs offer attractive long-term wealth creation opportunities. A back-of-the-envelope calculation shows that Rs 1,000 invested in the CRISIL-AMFI Equity Fund Performance Index would have grown more than 30x to Rs 30,735 in 20 years through to H1FY20, while a similar investment in the S&P BSE Sensex or Nifty 50 benchmark would have grown ~13x.

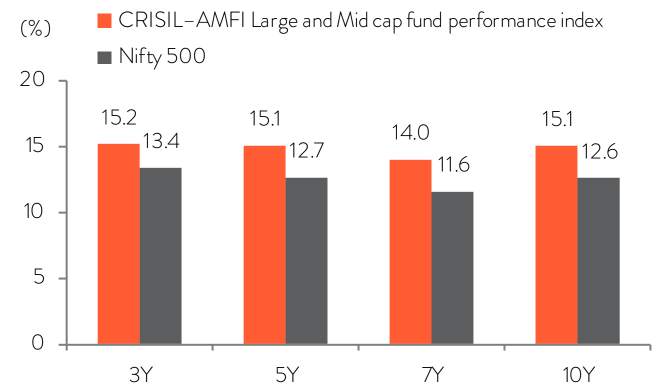
A comparison of CRISIL-AMFI fund performance indices (rolling returns) with their respective benchmarks over 15 years or since inception of the indices, whichever is longer, shows that the fund indices have outperformed their benchmarks across categories and in all the periods analysed.

FIG 57 – LARGE CAP FUND INDEX



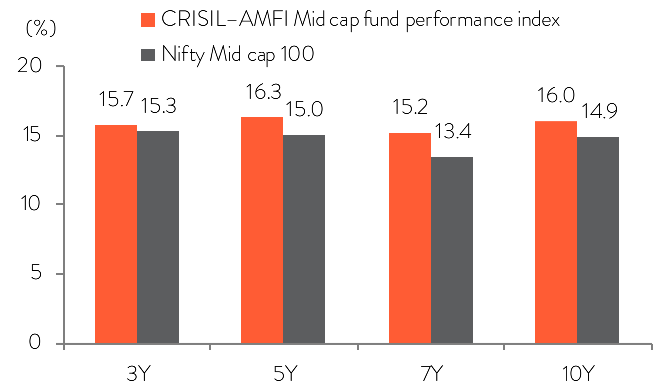
Source: CRISIL, AMFI, BOBCAPS Research

FIG 58 – LARGE AND MIDCAP FUND INDEX



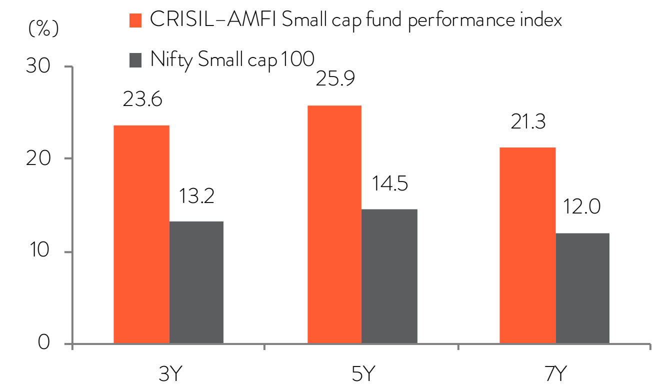
Source: CRISIL, AMFI, BOBCAPS Research

FIG 59 – MID CAP FUND INDEX



Source: CRISIL, AMFI, BOBCAPS Research

FIG 60 – SMALL CAP FUND INDEX



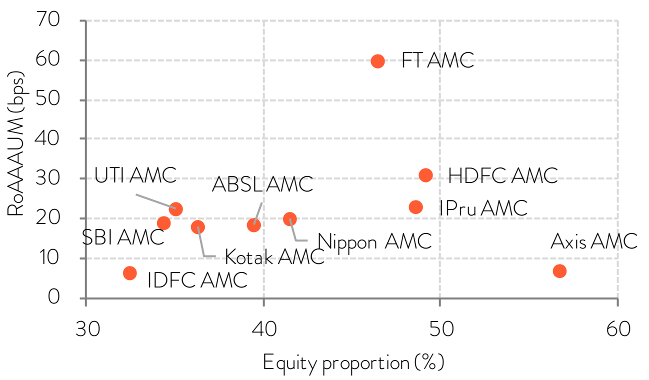
Source: CRISIL, AMFI, BOBCAPS Research

#5 Enabling regulatory landscape

Notwithstanding higher investment risk, MFs have been drawing investors due to their professional management and attractive returns relative to traditional saving instruments. SEBI's regulatory reforms in recent years (see Annexure A) have helped further deepen MF penetration in India by improving transparency in product delivery and encouraging the best practices outlined below.

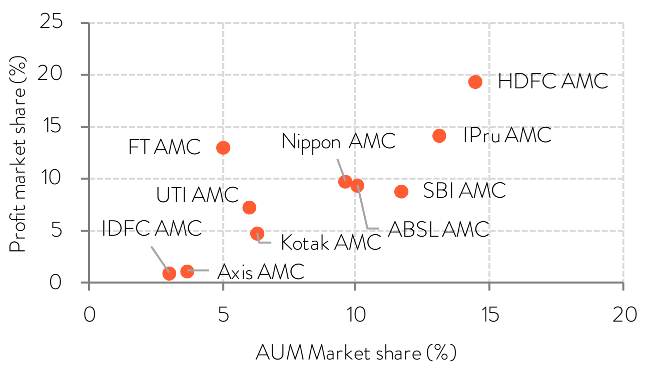
- **Right-selling of products** – via stipulations for NISM-certified distributors, direct selling of schemes to customers, disclosures pertaining to performance, and simplifying the number of scheme offerings
- **Broad-basing of customers** – by allowing cash transactions in MFs to the extent of Rs 20,000 per investor per annum, permitting additional total expense ratio (TER) initially for B15 and now B30 cities as well, and mandating AMCs to set apart 2bps of daily net assets for investor awareness and awareness campaigns in regional languages.
- **Prudent pricing of MF products** – by abolishing entry loads, capping exit load to 1% if units are switched in less than a year, reducing TER of various schemes, and placing distributor commissions on a full-trail model
- **Better risk management** – by allowing 'side-pocketing' in debt schemes, mandating liquid schemes to have ~20% in G-Secs, and reducing exposure to NBFCs.

FIG 61 – EQUITY PROPORTION VS. ROAAAUM FOR TOP-10 AMCs (FY19)



Source: Companies, BOBCAPS Research Note: SBI MF Equity proportion excludes ETF AUM

FIG 62 – AUM MARKET SHARE VS. PAT MARKET SHARE FOR TOP-10 AMCs (FY19)



Source: Companies, BOBCAPS Research

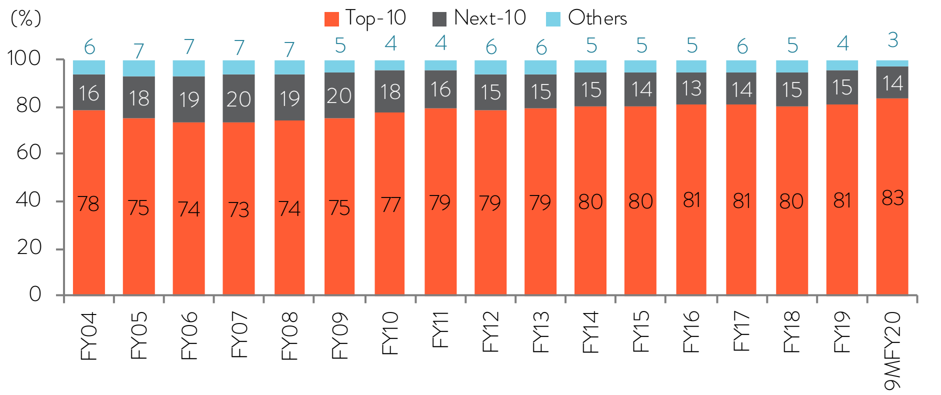
AUM consolidation among top-10 MF players

The top-10 AMCs command >80% of industry AAUM and continue to consolidate their positions, with bank-led AMCs at the fore. In recent years, SBI AMC, Axis AMC and Kotak AMC have aggressively gained market share due to synergies with corporates at the bank level and better outreach in B30 cities via bank channels. SBI AMC in particular has expanded its share in both equity/debt AAUM to 9.3%/ 10.4% over FY15-9MFY20. HDFC AMC, ICICI Prudential AMC and SBI AMC are currently the top-3 by market share (33% cumulatively). We expect these players to remain in the lead, garnering ~42% of the market by FY22.

Top-10 AMCs manage 83% of AAUM

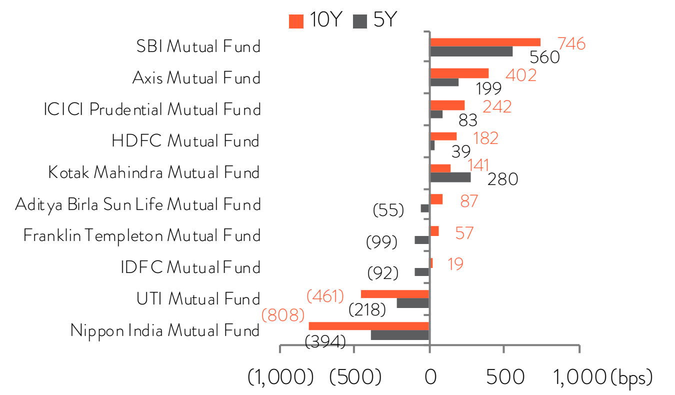
The asset management industry is top-heavy – the top-5 AMCs account for 58% of AAUM, the top-10 account for 83%, and the top-20 97% (as of 9MFY20). The top-10 have gained substantial market share (~600bps since FY04) due to churn at the bottom of the pyramid.

FIG 63 – TOP-10 AMCs HAVE BEEN CONSOLIDATING MARKET SHARE



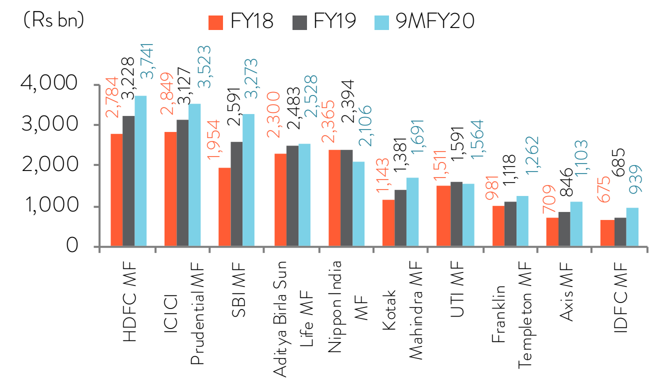
Source: AMFI, BOBCAPS Research | Note: Calculations based on AAUM

FIG 64 – SBI MF GAINED MAXIMUM MARKET SHARE IN LAST DECADE



Source: AMFI, BOBCAPS Research | Note: 10Y = 10-year change (FY10-9MFY20); 5Y = 5-year change (FY15-9MFY20)

FIG 65 – AAUM OF SBI MF GREW FASTEST AT 29% CAGR



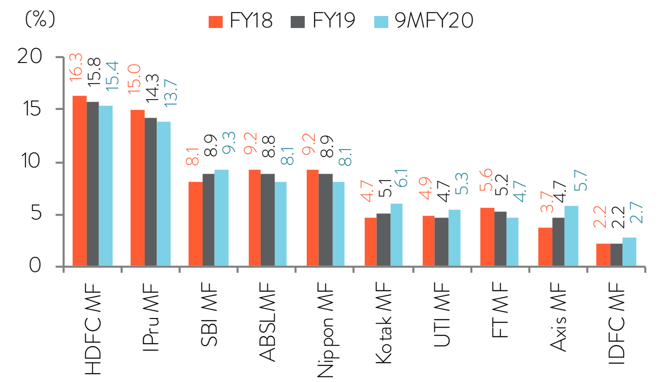
Source: AMFI, BOBCAPS Research

Significant market share churn

While the ten leading AMCs have maintained ~80% market share in equity AUM (end of period) over the past few years, we note significant churn in the market share composition among these players. Axis, Kotak and SBI AMC have gained equity AUM market share during FY18-9MFY20 (EOP), while ICICI Prudential, Aditya Birla Sun Life, Nippon, HDFC and Franklin Templeton AMC have all lost ground during the same period.

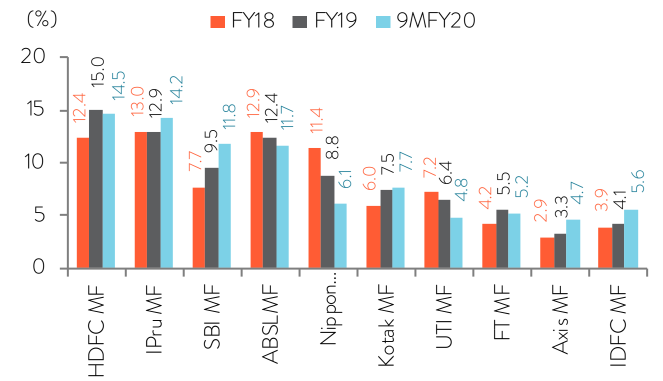
Following the IL&FS crisis in Sep'18, the top-10 AMCs gained market share in debt AUM during FY18-9MFY20 (~500bps, EOP), ending at ~86%. SBI, HDFC and IDFC AMC saw meaningful gains during this period, while Nippon and UTI AMC ceded ground.

FIG 66 – CHURN IN TOP-10 AMC EQUITY AUM MARKET SHARE



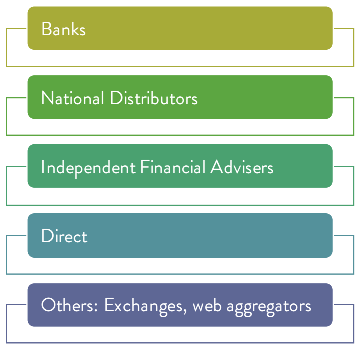
Source: BOBCAPS Research | Note: Calculated on EOP; Balanced/Hybrid considered part of Equity

FIG 67 – POST-IL&FS CRISIS TOP-10 AMCs GAINED MARKET SHARE IN DEBT AUM



Source: BOBCAPS Research | Note: Calculated on EOP

FIVE DISTRIBUTION CHANNELS



Source: AMFI, BOBCAPS Research

Better pricing power for AMCs

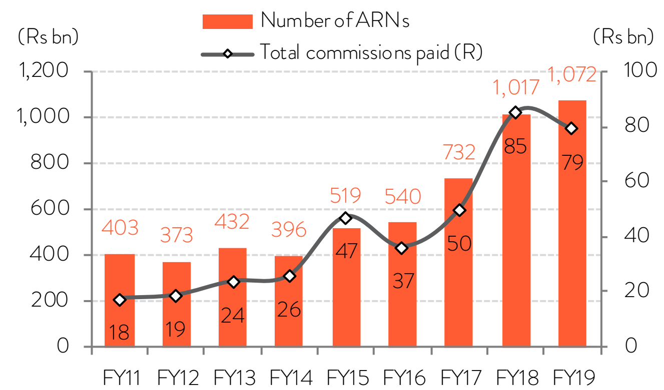
Customers from B30 cities need handholding to enter MF products and hence distributors will remain a key touch point for retail investors – nevertheless, we anticipate increased pricing power for AMCs as the full-trail commission model mandated by SEBI in 2018 could see payouts to distributors drop 10% in FY20 on the heels of a 7% decline in FY19. This apart, direct sourcing of MF schemes is gaining traction among individuals, which will lower commission expenses for AMCs.

Full-trail commission model benefiting AMCs

In a bid to halt unnecessary churning of MF portfolios, SEBI banned upfront commissions by AMCs to MF distributors and put in place regulations for the full trail model of commissions in mid-2018 – this caused a 7% decline in commission for distributors in FY19 to Rs 80bn. We also note that AMFI registrations (ARN) remained stagnant over FY18-FY19, as distributors recalibrated their business models. According to our discussions with industry experts, commissions could drop a further 10% in FY20, before stabilising in FY21.

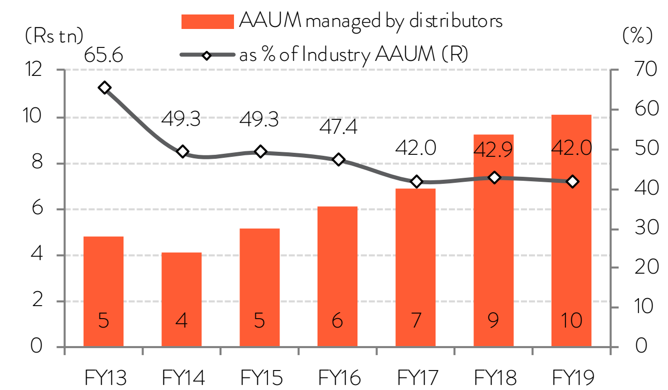
With both institutional and individual investors moving towards direct plans, the assets managed by distributors have come off from 66% of industry AAUM in FY13 to 42% in FY19. Given the proliferation of technology aggregators selling a bouquet of funds at a low fee and the increase in registered investment advisors (RIA), we expect distributors to manage a lower proportion of industry AAUM in the near term.

FIG 68 – COMMISSIONS DIPPED ~7% IN FY19 DUE TO FULL TRAIL MODEL



Source: AMFI, BOBCAPS Research

FIG 69 – SECULAR INDUSTRY AAUM SHIFT TOWARDS DIRECT PLANS (SANS DISTRIBUTOR)

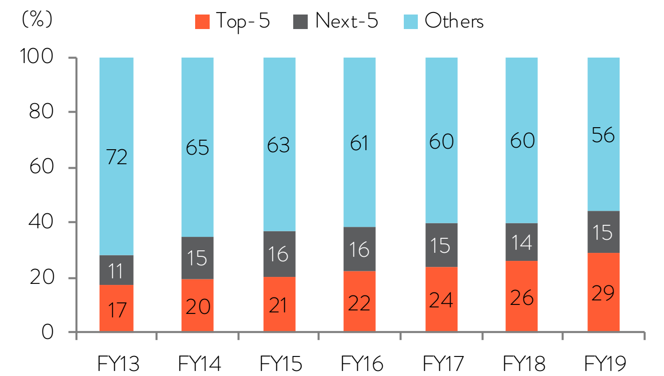


Source: AMFI, BOBCAPS Research

The top-5 distributors, viz. NJ IndiaInvest, Axis Bank, HDFC Bank, State Bank of India and ICICI Bank, have been gaining share in the commissions pool over FY13-FY19 due to their pan-India reach and vintage client relationships. As of FY13, they accounted for 17% of AAUM managed by distributors, which increased to 29% in FY19. We expect this concentration to continue in the near term, rising to ~35% of distributor-managed AAUM by FY22. Consequently, commission rates are also better for these players – at an average of ~25bps higher.

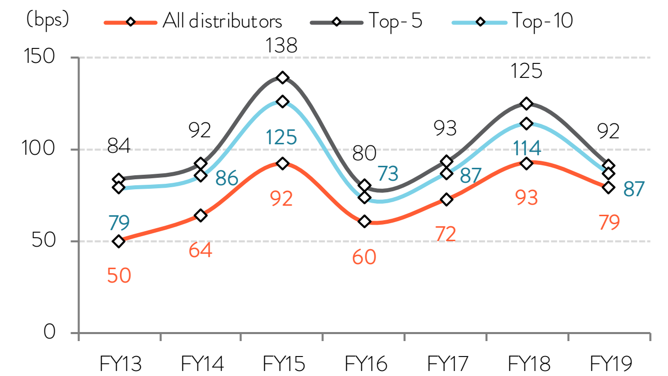
We expect the top-5 distributors to continue to command a premium in the near term. However, smaller distributors are likely to alter their business models due to lower volumes and consequently lower commissions. AMCs would benefit from this churn as commission expenses will taper down – leading to increasing pricing power of AMCs over distributors.

FIG 70 – TOP-5 DISTRIBUTORS MANAGING INCREASING SHARE OF AAUM…



Source: AMFI, BOBCAPS Research

FIG 71 – …THEREBY EARNING BETTER COMMISSIONS THAN THE REST OF DISTRIBUTORS



Source: AMFI, BOBCAPS Research

Increasing direct channels to curb commission payouts

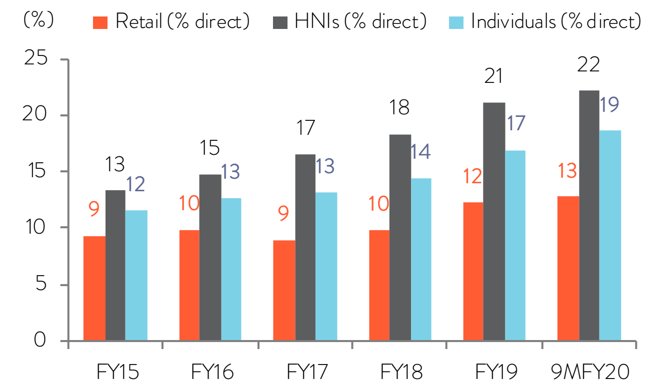
Following the 2012 regulation for separate plans for direct investments, i.e. investments not routed through a distributor, direct sourcing of both debt and equity AUM has taken off. This benefits the AMCs in two ways – (1) by allowing it to price the product better to customers (both institutional and individual), and (2) by eliminating intermediaries, hence lowering commission expenses.

About 81% of the MF assets of individual investors, including retail and HNI, are concentrated in regular plans – a category dominated by distributors. Only 19% of assets are deployed via direct plans where investments are made sans intermediaries – either through online channels or AMC branches – and hence at lower cost to the investor. Nonetheless, the share of the direct channel in industry AUM has surged from 23% in FY13 to 42% in FY19, replacing national distributors as the largest channel.

This can be attributed to two distinct trajectories within direct distribution – (1) a majority of directly sourced AUM is constituted by institutional investors, and (2) retail and HNI investors continue to depend on a high-touch model. These investors have 12% and 21% share respectively in the direct channel as of FY19. On the other hand, ~72% of institutional AUM was sourced via the direct channel in 9MFY20.

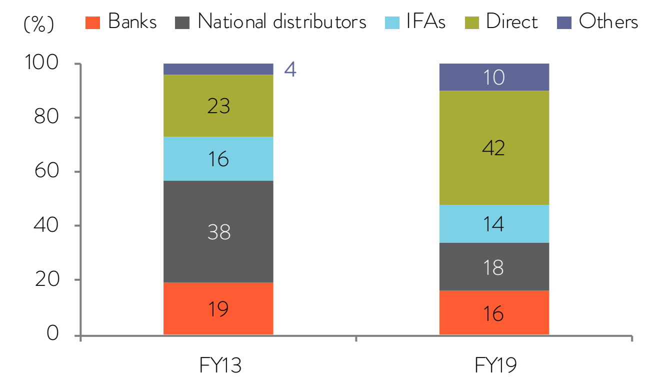
The share of national distributors in industry AUM fell from 38% to 18% over FY13-FY19, as institutional investors were offered direct schemes by AMCs. Banks and IFAs have largely maintained their share during this period. Online channels have seen a significant surge in the discovery phase of customers' investment journey. This coupled with an increasing regulatory push towards direct plans is likely to aid the growth of direct digital channels among individual investors.

FIG 72 – DIRECT SOURCING ON THE RISE…



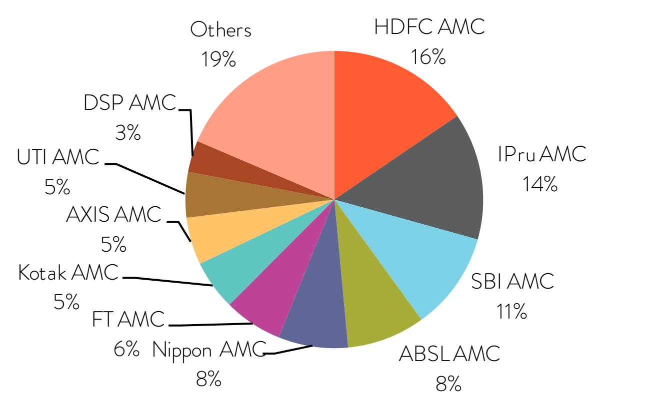
Source: AMFI, BOBCAPS Research

FIG 73 – …DRIVING SHIFT IN CHANNEL MIX



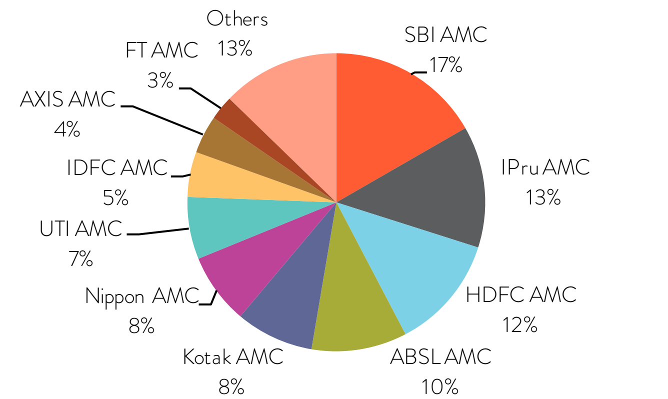
Source: AMFI, BOBCAPS Research

FIG 74 – HDFC MF LEADS IN INDIVIDUAL AUM MARKET SHARE



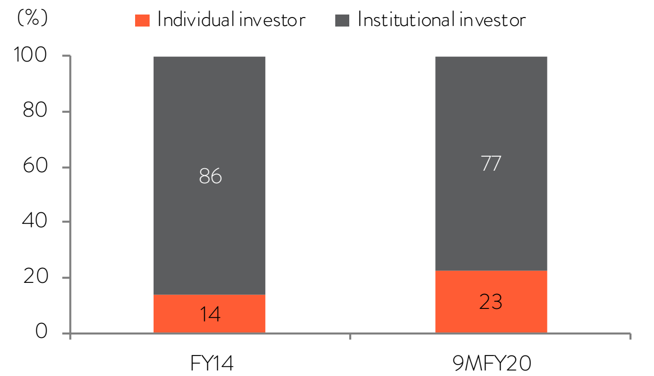
Source: AMFI, BOBCAPS Research | Note: Data as of 9MFY20

FIG 75 – SBI MF LEADS IN CORPORATE AUM MARKET SHARE



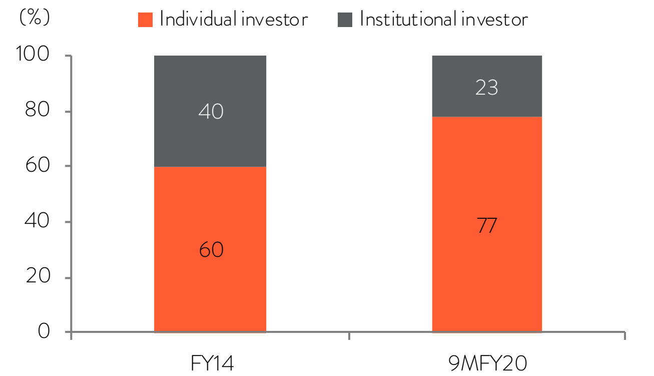
Source: AMFI, BOBCAPS Research | Note: Data as of 9MFY20

FIG 76 – INSTITUTIONAL INVESTORS DOMINATE DIRECT PLANS



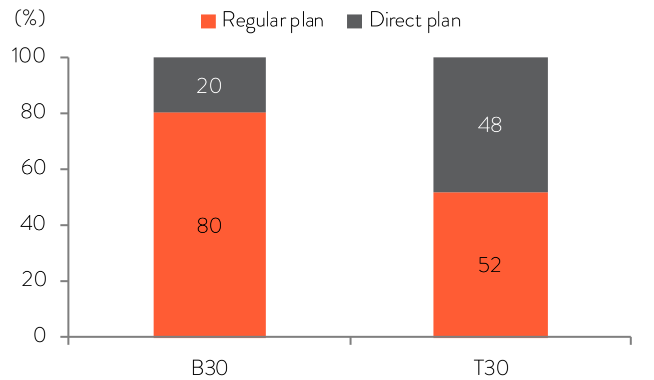
Source: AMFI, BOBCAPS Research

FIG 77 – INDIVIDUAL INVESTORS CONTINUE TO PREFER REGULAR PLANS



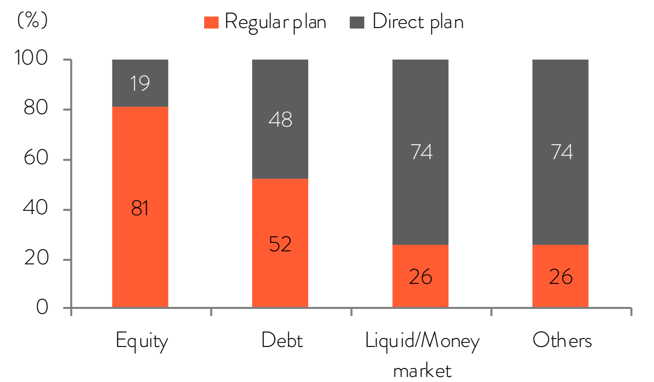
Source: AMFI, BOBCAPS Research

FIG 78 – REGULAR PLANS (SOLD THROUGH DISTRIBUTORS) PREFERRED IN B30 LOCATIONS



Source: AMFI, BOBCAPS Research | Note: Data as of 9MFY20

FIG 79 – DEBT AND LIQUID PLANS ARE MORE INSTITUTIONAL – HENCE LARGER DIRECT SHARE



Source: AMFI, BOBCAPS Research | Note: Data as of 9MFY20

New vectors for growth

High-yielding PMS and AIF product offerings for HNI customers could offset revenue pressure occurring due to future MF regulation. Opportunistic product (PMS+AIF) placement in conjunction with key wealth management (bank-led and independent) platforms could trigger growth in AUMs. Though incremental regulations are creeping into the PMS and AIF space, both products will offer better yields versus pure MF products. Passive fund flow is likely to remain subservient to EPFO flows in the near term, offering AUM growth opportunities, thereby strengthening flows.

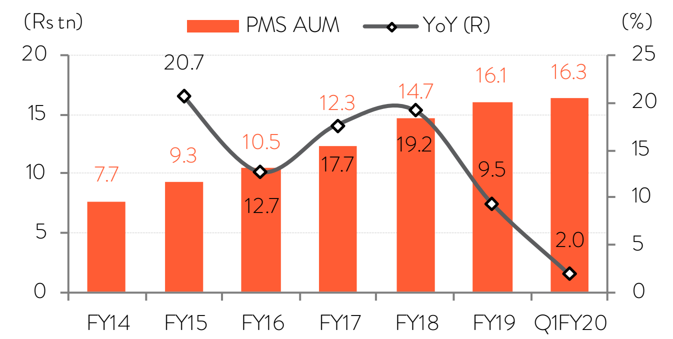
Portfolio management services (PMS)

In India, PMS is offered by AMCs, banks, brokerages and independent investment managers. As of FY19, the AUM of PMS asset managers stood at ~ Rs 16.1tn, reflecting a CAGR of 16% over the last five years. A total of 354 portfolio managers (including AMCs) are registered under SEBI as of Q3FY20.

In Nov'19, SEBI announced an increase in both the required minimum ticket size for investing in PMS from Rs 2.5mn to Rs 5.0mn and the required minimum net worth for PMS providers from Rs 20mn to Rs 50mn, effective within 36 months. We expect these regulations to bring about more scale and professionalism to PMS asset managers and some degree of meaningful consolidation. While AUM could taper off marginally in the near term, we believe the new regulations will aid in customer retention over the medium term.

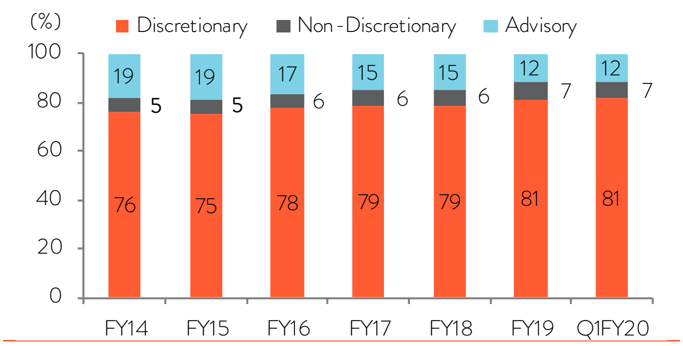
In Feb'20, SEBI mandated that no upfront fees shall be charged by portfolio managers directly or indirectly to clients from May'20. The regulations also advised a step-down approach to exit load, ranging from 1-3% up to three years and no exit load post three years of investments. Opex excluding brokerage shall not exceed 0.5% of client's average daily AUM per annum. We believe these regulations make PMS products more standardised and transparent and will have a salutary effect on AUM growth in the near term.

FIG 80 – PMS AUM GREW AT 16% CAGR BETWEEN FY14-FY19



Source: AMFI, BOBCAPS Research

FIG 81 – DISCRETIONARY PMS DOMINATES THE SPACE

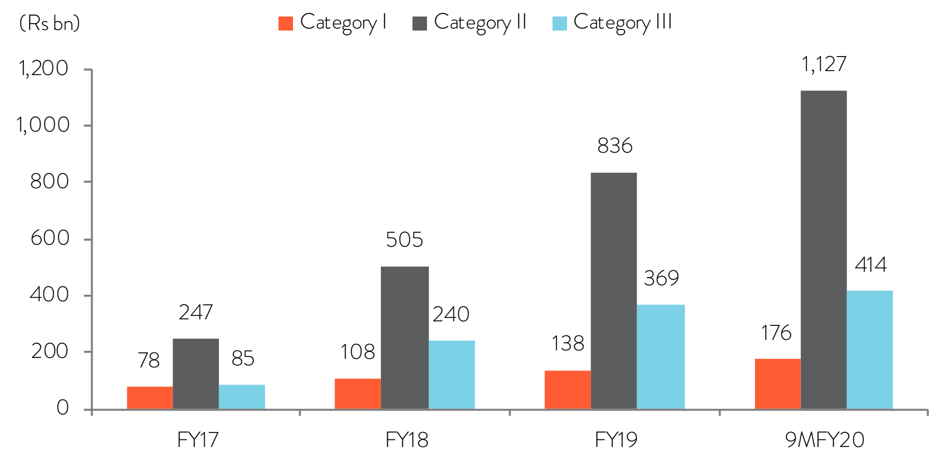


Source: AMFI, BOBCAPS Research

Alternate investment funds (AIF)

The AIF market in India is at a very early stage. Since SEBI regulations came into effect in 2012, the number of AIFs registered in India has grown to 612 as of H1FY20. Funds raised have increased significantly from Rs 410bn as of FY17, to Rs 1.5tn as of H1FY20. Some AMCs have started targeting the HNI segment, and we expect this to lend a modest boost to revenue.

FIG 82 – CATEGORY II AIFs HAVE BEEN ABLE TO RAISE MOST FUNDS

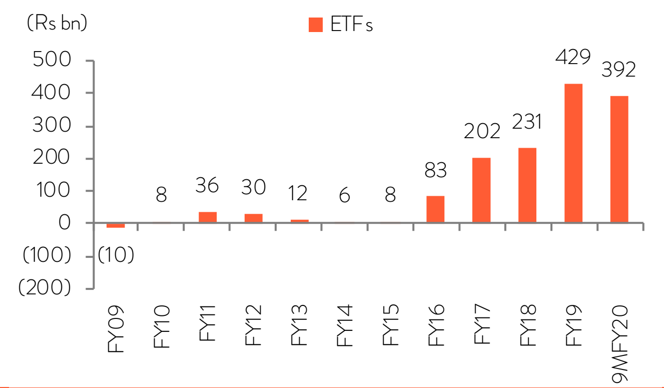


Source: SEBI, BOBCAPS Research

Passive funds

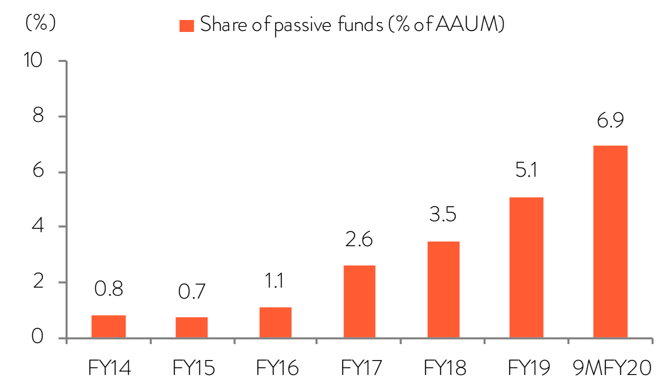
Passive funds have grown from 0.8% of industry AAUM as of FY14 to 6.9% of as of 9MFY20. The key growth trigger in recent times has been investment by the Employee Provident Fund (EPFO). EPFO's initial allocation to exchange traded funds (ETF) account for 57.5% of the industry's ETF AUM as of 9MFY20. SBI AMC commands a lion's share of AUM in the passive funds space at 52% due to EPFO mandates, followed by NAM (15%), UTI AMC (13%), ICICI Prudential AMC (6%) and Kotak AMC (5%).

FIG 83 – NET INFLOWS TO ETFs HAVE BEEN INCREASING DESPITE MARKET VOLATILITY



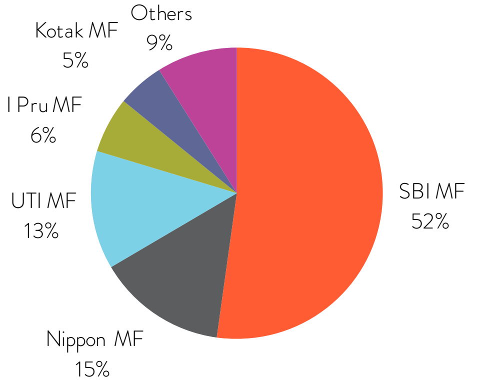
Source: AMFI, BOBCAPS Research

FIG 84 – EPFO DEPLOYMENT IS LEADING TO INCREASING SHARE OF PASSIVE FUNDS



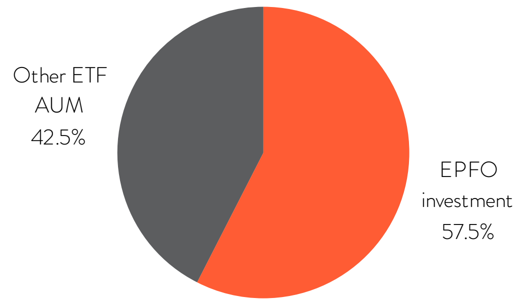
Source: AMFI, BOBCAPS Research

FIG 85 – SBI MF HOLDS A LION'S SHARE DUE TO EPFO MANDATES (AS OF 9MFY20)



Source: AMFI, BOBCAPS Research | Note: Calculated on EOP

FIG 86 – EPFO INVESTMENTS DRIVING ETF AAUM GROWTH (AS OF 9MFY20)



Source: AMFI, BOBCAPS Research

An annual study by S&P Dow Jones Indices shows that nearly 42% of active large-cap funds outperformed the benchmark in India over a five-year horizon in 2018 while in the US and Canada, the corresponding figures are 18% and 10% respectively. If the Indian market were to eventually follow these global trends, then it is imperative for the industry to prepare for a scenario where investment alphas come under pressure. If this happens, passive funds are likely to become increasingly relevant. Players with a higher share of passive funds can better cross-sell other products to their retail base and save on costs incurred for marketing and business acquisition of retail customers.

High growth potential of this fund category makes it an attractive segment for AMCs while the large proportion of institutional mandates make managing the funds more profitable. We expect passive funds to form ~10% and ~13% of industry AUM by FY22 and FY25 respectively, up from ~7% currently, driven by EPFO investments and future government disinvestment mandates.

Annexure A

FIG 1 – KEY MUTUAL FUND REGULATIONS IN RECENT YEARS

Year	Regulation
2009	Entry load for all MF schemes abolished. Exit load capped at 1% if units redeemed/switched-out within 1 year of allotment; no exit load thereafter
2012	To encourage small investors, cash transactions of Rs 20,000 per investor per MF per financial year allowed in Sep'12; further increased to Rs 50,000 in May'14
	New cadre of distributors formed (postal agents, retired government officials, retired teachers and bank officers) for distribution of simple MF products
	MFs incentivised to enhance reach in small cities beyond the top 15 cities by being allowed to charge additional total expense ratio (TER) up to 30bps on daily net assets if new inflows from beyond top 15 cities were at least 30% of gross new inflows in the scheme or 15% of average AUM (year to date) of the scheme, whichever higher
	MFs mandated to annually set apart at least 2bps of daily net assets within the maximum limit of TER for investor education and awareness initiatives. Printed literature on MFs in regional languages also stipulated and fund houses encouraged to introduce investor awareness campaigns using electronic media in regional languages
2013	Provisions for separate plans for direct investments, i.e., investments not routed through a distributor, in existing as well as new schemes by MFs, made available from 2012-13
	To address mis-selling of MF products, MFs mandated to label schemes in terms of maturity (short/medium/long term), investment objective and level of risk with three colour codes to depict low, moderate and high levels of risk
	MF distributors allowed to use recognised stock exchange platforms to purchase/redeem units directly from MFs on behalf of clients
	To reduce the cost of trading, MFs allowed to directly trade on debt platforms of stock exchanges by registering themselves under the 'proprietary trading members' category
2014	Disclosures mandated for information pertaining to average AUM of various categories of schemes, various investor types, contributions from sponsors and their associates on a monthly basis on website
2015	Product labelling in MFs further rationalised by replacing risk depiction through colour codes with a pictorial meter named 'Riskometer', which depicts five levels of risk in any specific scheme
2017	Guidelines for categorisation of MF schemes in equity, debt and hybrid space to clearly distinguish between schemes by asset allocation and investment strategy
2018	TERs of various schemes capped based on asset class, style of management and longevity of schemes
	Where no exit load levied, AMCs eligible to charge expenses to the scheme at 5bps from up to 0.20% of daily net assets earlier
2019	MF industry to compulsorily adopt full trail model; AMCs can no longer pay upfront commissions to distributors and all commissions will be paid out as trail. All commission and scheme-related expenses to compulsorily be paid from the scheme
	Earlier provision of additional TER of up to 30bps for inflows from beyond top 15 cities now permitted only for inflows from beyond top 30 cities
	Post-IL&FS liquidity crisis, debt schemes allowed to create 'side pockets' that enable fund managers to segregate their stressed investments from the rest of the portfolio
	To reduce the impact of the liquidity crisis, threshold for amortisation reduced to 30-day maturity from Jun'19. Further, full MTM proposed, which implies all debt securities would have to be valued at market price in future
	Sectoral limit in liquid funds capped at 20% from 25%. Additional exposure of 15% to HFCs will be restructured as 10% to HFCs and 5% to securitised debt, based on retail housing loan and affordable housing loan portfolios

Source: SEBI, BOBCAPS Research

Companies

BUY
TP: Rs 3,470 | ⮝ 29%

HDFC ASSET MANAGEMENT COMPANY | Diversified Financials | 13 March 2020

Consistent player in fast-growing industry

We initiate coverage on HDFC Asset Management (HDFC AMC) with BUY and a Mar'21 TP of Rs 3,470. Consistent market leadership (14% share in AAUM), a trusted brand backed by a seasoned investment team, diversified distribution, and a rising share of profitable equity AAUM (19% CAGR FY19-FY22E) make the company a strong play on India's under-penetrated asset management sector. We model for an industry-leading AUM/PAT CAGR of 17%/24% over FY19-FY22, with a 12% fee income CAGR to Rs 27bn aided by rising retail penetration.

Shubhranshu Mishra
research@bobcaps.in

Market leadership sustainable: HDFC AMC leads peers in terms of average AUM (AAUM: 14% market share as of 9MFY20), as well as equity (~15%), debt (~10%) and liquid (~20%) AUM. We believe the company will comfortably maintain market leadership, and model for a 17% CAGR in total AAUM to Rs 5.1tn over FY19-FY22 aided by equity flows and retail traction.

Focus on profitable equity flows: HDFC AMC has 15.5% market share in the individual investor segment, ~13% market share in B30 cities, and 14% share in SIP flows (Q3FY20), leading to sticky, granular and high-yield equity inflows. Our estimates bake in an equity/debt AAUM CAGR of 19%/17% over three years to Rs 2.6tn/Rs 1.6tn, with a 52% equity mix by FY22.

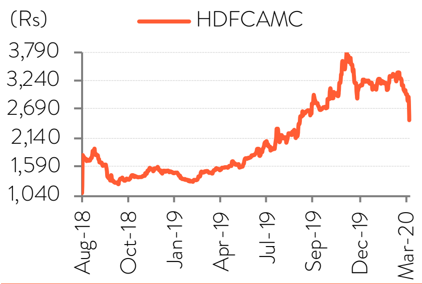
Richer mix, efficient distribution to drive earnings: A steadily growing share of equities, individual business and the SIP book should aid a fee income CAGR of 12%, while cost-to-core income is expected to average 22% through to FY22. We thus expect a ~20% core PBT and ~24% PAT CAGR, supporting ~40bps of core PBT yield and ~35bps of PAT yield over FY19-FY22.

Initiate with BUY: We have a Mar'21 TP of Rs 3,470 based on a three-stage dividend discount model (12.8% CoE, 7.75% risk-free rate, 10% terminal growth).

Ticker/Price	HDFCAMC IN/ Rs 2,681
Market cap	US$ 7.7bn
Shares o/s	213mn
3M ADV	US$ 17.0mn
52wk high/low	Rs 3,844/Rs 2,002
Promoter/FPI/DII	80%/8%/1%

Source: NSE

STOCK PERFORMANCE



Source: NSE

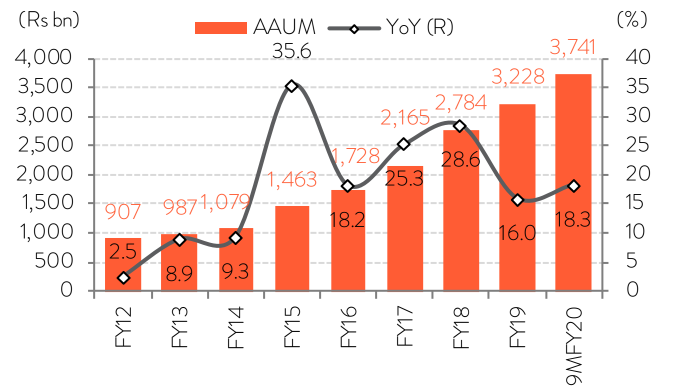
KEY FINANCIALS

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Core PBT (Rs mn)	9,452	11,931	15,546	17,719	20,796
Core PBT (YoY)	36.6	26.2	30.3	14.0	17.4
Adj. net profit (Rs mn)	7,113	9,306	13,485	15,289	17,947
EPS (Rs)	33.8	43.8	63.4	71.9	84.4
P/E (x)	79.4	61.2	42.3	37.3	31.8
MCap/AAAUM (%)	20.5	17.7	14.7	12.9	11.1
RoAAAUM (in bp)	25.6	28.8	34.7	34.7	35.1
ROE (%)	37.7	35.0	41.0	40.9	42.5

Source: Company, BOBCAPS Research

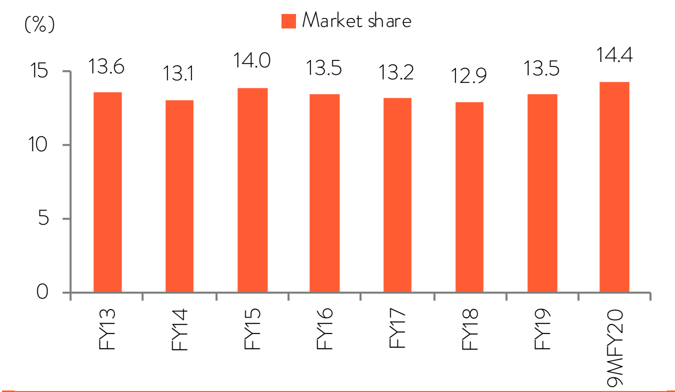
Focus charts

FIG 1 – HDFC AMC'S AUM GREW AT 19% CAGR OVER FY12-9MFY20



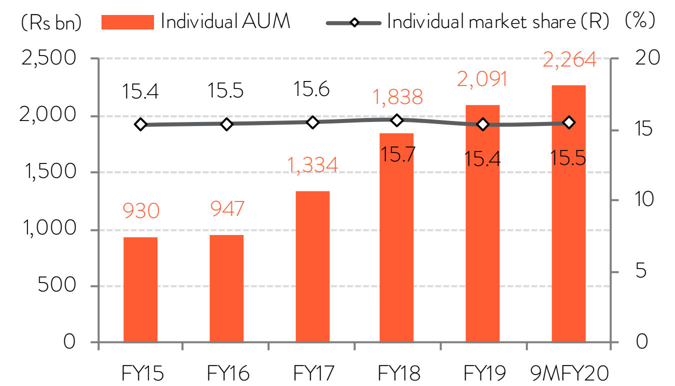
Source: Company, AMFI, BOBCAPS Research | Note: Calculated on AAUM, 9MFY20 is QAAUM

FIG 2 – SUSTAINED LEADERSHIP AT ~13.5% AUM MARKET SHARE



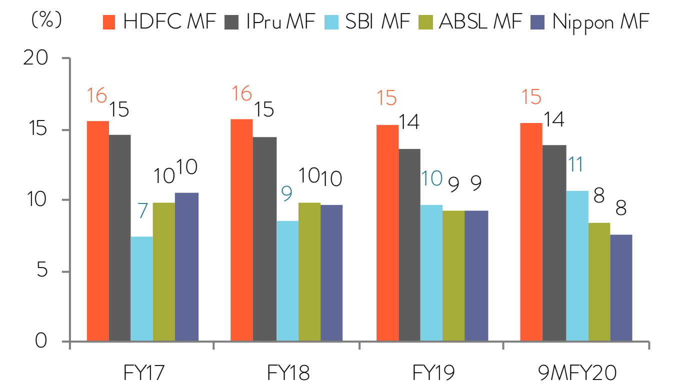
Source: Company, AMFI, BOBCAPS Research | Note: Calculated on AAUM, 9MFY20 is QAAUM

FIG 3 – INDIVIDUAL INVESTOR (RETAIL+HNI) AUM CLOCKED ROBUST 20% CAGR OVER FY15-9MFY20



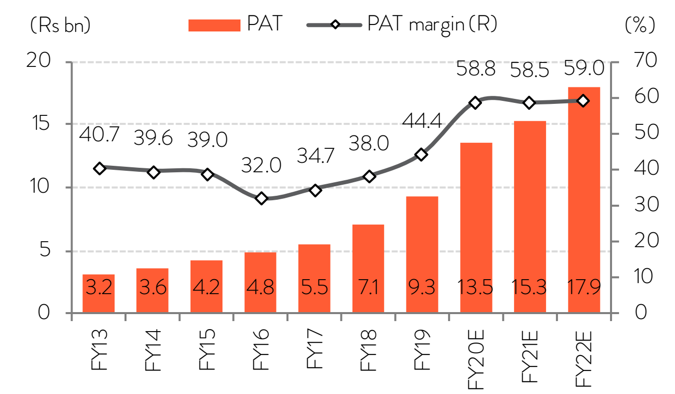
Source: AMFI, BOBCAPS Research

FIG 4 – MARKET SHARE IN INDIVIDUAL INVESTOR AUM AT 15-16% ALSO AHEAD OF PEERS



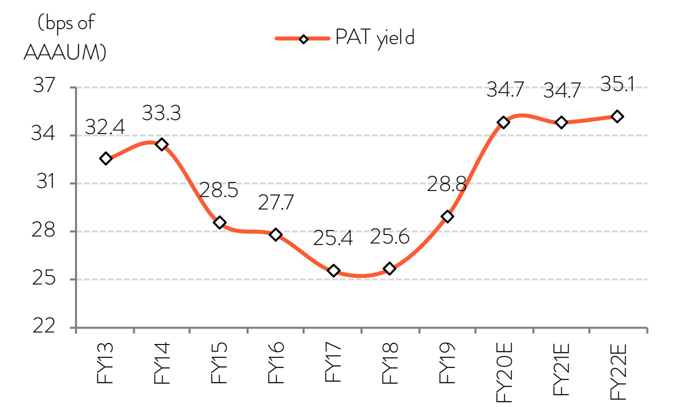
Source: AMFI, BOBCAPS Research

FIG 5 – WE EXPECT PAT CAGR OF 24% DURING FY19-FY22E BACKED BY RISING MARGINS...



Source: Company, BOBCAPS Research

FIG 6 – ...AND PAT YIELD AT 35BPS OF AAAUM DURING THE SAME PERIOD



Source: Company, BOBCAPS Research

Investment rationale

Sustainable market leadership

HDFC AMC tops the leader board among asset management peers in terms of average AUM (AAUM: 14% market share as of 9MFY20), as well as equity (~15%), debt (~10%) and liquid (~20%) assets on end-of-period basis. We believe the company will comfortably maintain market leadership, posting a 17% CAGR in total AAUM to Rs 5.1tn over FY19-FY22, as equity/debt AAUM increase 19%/17% to Rs 2.6tn/Rs 1.6tn – growth will be led by (1) a strong brand name, (2) diversified distribution, and (3) steady uptick in high-yield avenues (equities, individual business, SIP book).

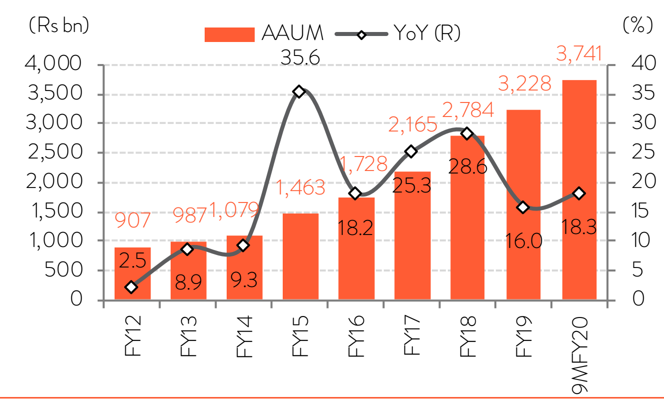
Robust growth has consolidated leadership

HDFC AMC remains a market leader among AMCs, consistently ranking among the top-2 on both equity and debt AUM (EOP). Over FY12-9MFY20, the company has clocked a robust ~19% CAGR in overall AUM, backed by a 21% CAGR in equity AUM (incl. hybrid and tax saver funds) and 43% growth in liquid funds. Debt AUM grew at 10% during the same period.

Average market share in overall AAUM has remained in pole position at ~13.5% during FY13-9MFY20. Post the IL&FS debt crisis of Sep'18, investors have flocked to safer HDFC AMC liquid and money market schemes as these maintained >10% of holdings in government securities.

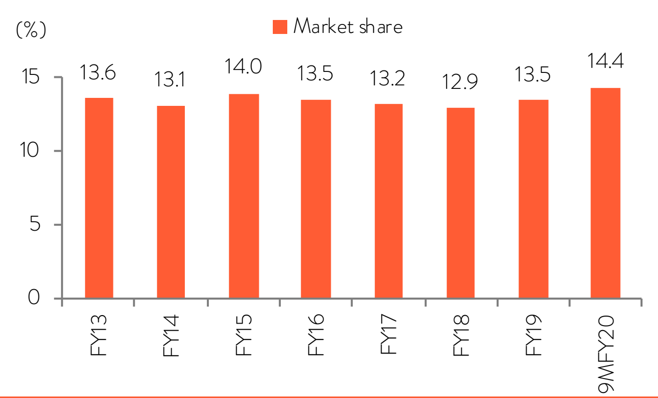
In equity AUM (EOP), the company has ceded ground to ICICI Prudential AMC, Kotak AMC and Axis AMC during FY13-9MFY20. Management has, however, strategically maintained the share of equity AAUM in total assets at between 45% and 50% to sustain profitability in the face of growing competition.

FIG 7 – AUM CAGR OF ~19% OVER FY12-9MFY20



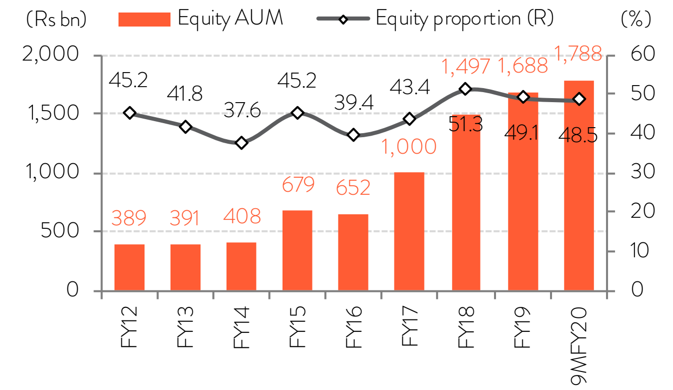
Source: Company, AMFI, BOBCAPS Research | Note: Calculated on AAUM, 9MFY20 is QAAUM

FIG 8 – OVERALL MARKET SHARE STEADY AT ~13.5%



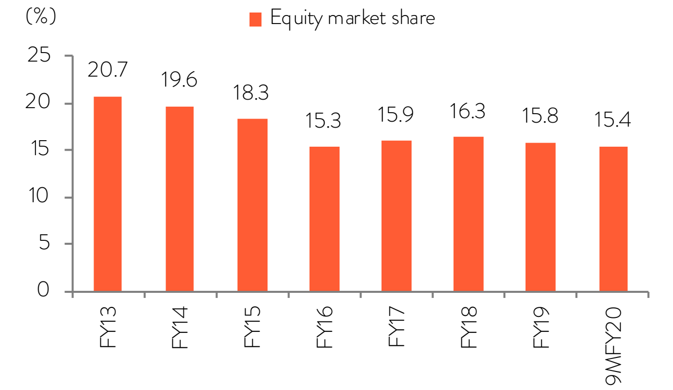
Source: Company, AMFI, BOBCAPS Research | Note: Calculated on AAUM, 9MFY20 is QAAUM

FIG 9 – EQUITY AUM CAGR AT ~21% OVER FY12-9MFY20 (AVG 45% SHARE IN OVERALL AUM)...



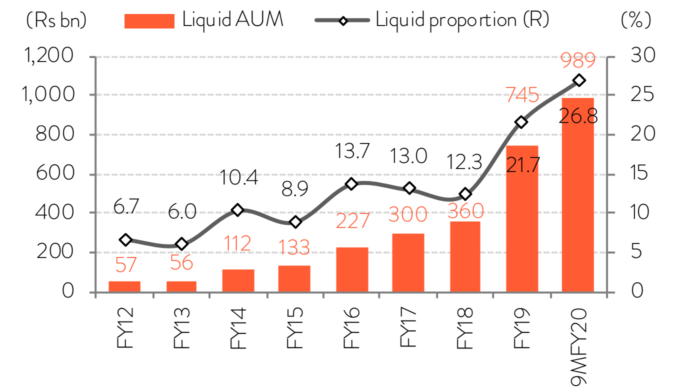
Source: Company, AMFI, BOBCAPS Research | Note: Includes Hybrid and ELSS funds, Calculated on EOP AUM

FIG 10 – ...BUT EQUITY MARKET SHARE DIPPED ~500BPS OVER FY13-9MFY20 ON RISING COMPETITION



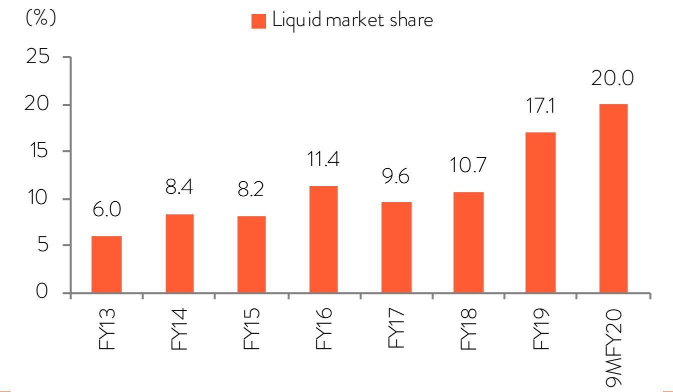
Source: Company, AMFI, BOBCAPS Research | Note: Includes Hybrid and ELSS funds, Calculated on EOP AUM

FIG 11 – GSECS MAINTAINED AT >10% OF LIQUID FUNDS...



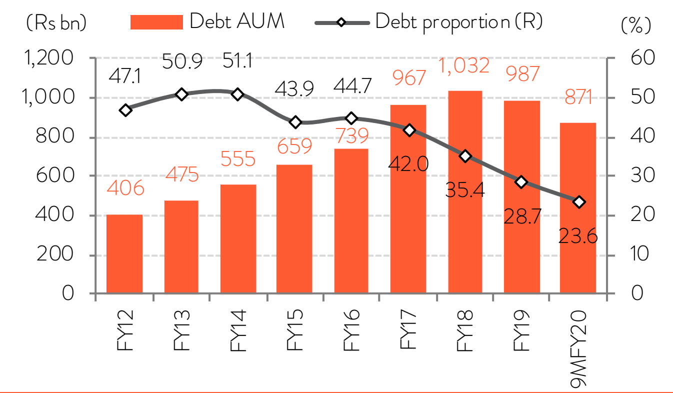
Source: Company, AMFI, BOBCAPS Research | Note: Includes overnight and money market funds, Calculated on EOP AUM

FIG 12 – ...DRIVING FLIGHT TO SAFETY FOR ITS LIQUID FUNDS POST-IL&FS CRISIS IN SEP'18



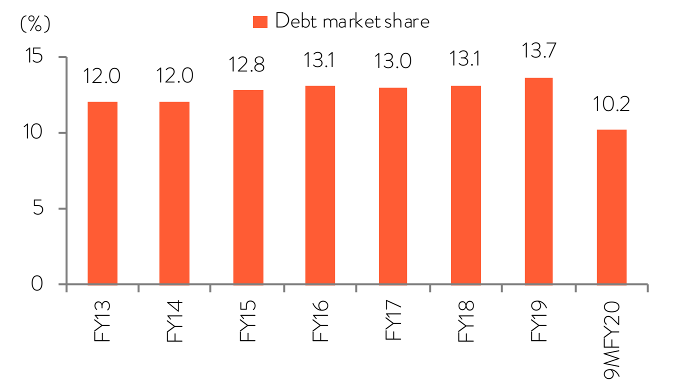
Source: Company, AMFI, BOBCAPS Research | Note: Includes overnight and money market funds, Calculated on EOP AUM

FIG 13 – DEBT PROPORTION DECREASED DUE TO FOCUS ON GRANULAR EQUITY FLOWS...



Source: Company, AMFI, BOBCAPS Research | Note: Excludes Gilt funds, Calculated on EOP AUM

FIG 14 – ...AND MARKET SHARE LOSS IN THE SEGMENT DUE TO REDEMPTIONS POST IL&FS CRISIS



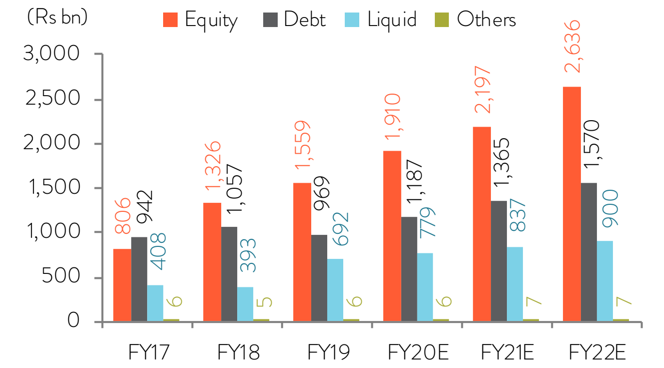
Source: Company, AMFI, BOBCAPS Research | Note: Excludes Gilt funds, Calculated on EOP AUM

Expect 17% AAUM CAGR through to FY22

We model for a 17% CAGR in total AAUM during FY19-FY22 to Rs 5.1tn, driven by a 19% CAGR in equity AAUM to Rs 2.6tn and 17% CAGR in debt AAUM to Rs 1.6tn. A diversified sourcing mix coupled with a focus on individual investors in both T30 (top 30 cities) and B30 cities (locations beyond top 30 cities as defined by AMFI) should help the company drive equity flows. In our view, liquid AUM market share has peaked in FY20 amid an easing credit crunch and conducive risk-management regulations for liquid funds. We have therefore modelled for a 9% CAGR in liquid AAUM to Rs 900bn.

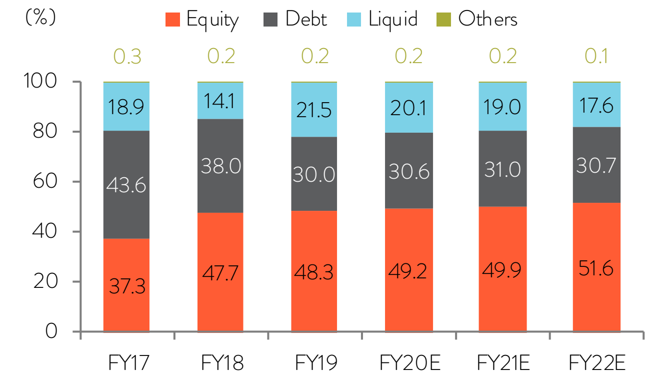
With growth likely to remain well ahead of the industry's estimated 12% CAGR in overall AAUM, we believe HDFC AMC will be able to maintain overall market share at ~14% through to FY22.

FIG 15 – WE FORECAST 17% AAUM CAGR DURING FY19-FY22E FOR HDFC AMC…



Source: Company, BOBCAPS Research

FIG 16 – …WITH INCREASE IN EQUITY PROPORTION DUE TO INDIVIDUAL INVESTOR FOCUS



Source: Company, BOBCAPS Research

Long record of fund outperformance

At Rs 1.4tn, HDFC AMC's top six equity-oriented schemes contribute ~80% of the company's equity AAUM and have delivered an alpha of 5-6% vs. the benchmark over the last two decades. While there has been near-term underperformance, strong outperformance in some key funds over a longer period works in the company's favour.

A seasoned investment management team has been instrumental in driving growth. CIO Prashant Jain has been with the company since 2003 and has over two decades of investing experience. The company's 26-member investment team has nine years of experience on average and an average tenure of 18 years with the company (see Annexure A for details).

FIG 17 – LONG-TERM ALPHA GENERATION FOR MARQUEE EQUITY SCHEMES

Fund	AUM 31-Dec-19 (Rs bn)	Years since inception	Scheme returns (%)				Benchmark returns (%)				Alpha (%)			
			1Y	3Y	5Y	Since inception	1Y	3Y	5Y	Since inception	1Y	3Y	5Y	Since inception
Equity Fund	237	25	6.8	12.1	7.5	18.3	9.0	13.6	9.1	11.4	(2.1)	(1.5)	(1.6)	6.9
Mid Cap Opportunities Fund	228	13	0.0	5.1	10.0	17.8	(4.9)	2.4	8.0	12.8	4.9	2.7	2.0	5.1
Top 100 Fund	188	24	(5.1)	8.0	7.5	19.3	(5.8)	8.9	8.6	NA	0.7	(0.9)	(1.1)	NM
Small Cap Fund	92	6	(9.5)	10.2	8.5	12.2	(8.5)	1.3	3.1	5.3	(1.0)	8.9	5.4	6.9
Balanced Advantage Fund	445	26	9.3	8.7	7.4	18.2	12.5	12.3	8.6	NA	(3.2)	(3.6)	(1.2)	NM
Hybrid Equity Fund	206	20	6.9	12.4	13.5	15.9	12.0	12.5	11.0	NA	(5.1)	(0.1)	2.5	NM

Source: Company, BOBCAPS Research | Note: Benchmarks – Equity Fund: NIFTY 500 total return index (TRI) as of 31 Dec 2019; Mid Cap Opportunities Fund: NIFTY Mid Cap 100 TRI as of 30 Apr 2019; Top 100 Fund: NIFTY 100 TRI as of 30 Aug 2019; Small Cap Fund: NIFTY Small Cap 100 TRI as of 31 Dec 2019; Balanced Advantage Fund: NIFTY 50 Hybrid Composite debt 65:35 TRI as of 29 Nov 2019; Hybrid Equity Fund: NIFTY 50 Hybrid Composite debt 65:35 TRI as of 31 May 2019

Focus on high-yield, granular equity flows

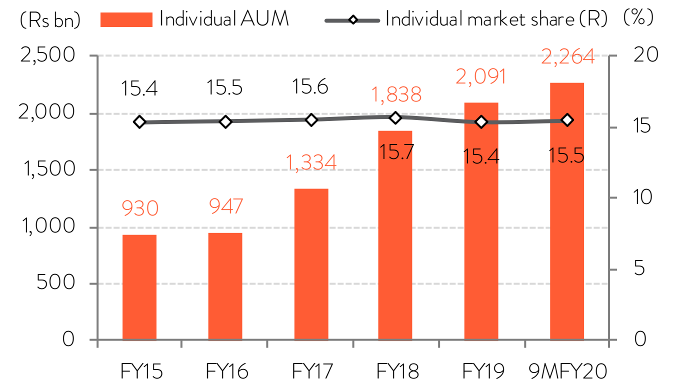
As of Q3FY20, HDFC AMC has a leading market share (15.5%) in the individual investor segment, features among the top-2 AMCs in fast-growing B30 cities (~13% share), and has 14% market share in SIP flows. We believe these three factors contribute to sticky, granular and high-yielding equity flows. We expect equity AAUM to grow at a 19% CAGR over FY19-FY22, forming 52% of the company's overall AAUM by FY22. This coupled with increasing retail penetration should fuel a 12% fee income CAGR to Rs 27bn through to FY22.

Preferred fund house for individual investors

HDFC AMC's share of individual AAUM (retail + HNI) has risen from 56% in FY15 to 59% in 9MFY20 vs. 54% for the industry. In absolute terms, individual AAUM has expanded at a robust 20% CAGR over FY15-9MFY20 to Rs 2.3tn. Individual customers tend to be stickier than institutions, which helps improve profitability.

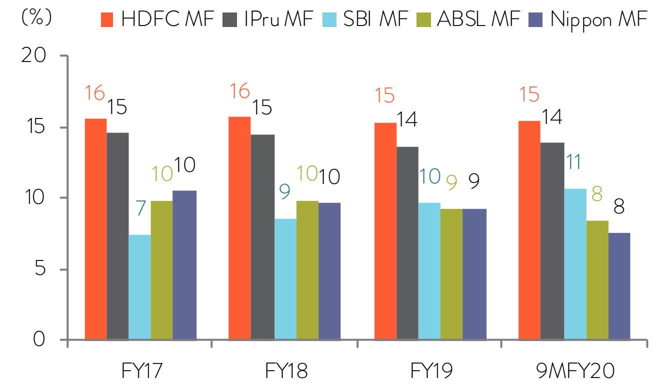
The company has a large 27% market share in unique customers and overall share of 15-16% in the individual business, which looks sustainable aided by the recent distribution push in B30 cities, diversified sourcing mix (via HDFC Bank, other banks, independent advisors, direct schemes) and strong legacy relationships with sourcing partners.

FIG 18 – INDIVIDUAL AUM HAS GROWN AT 20% CAGR OVER FY15-9MFY20



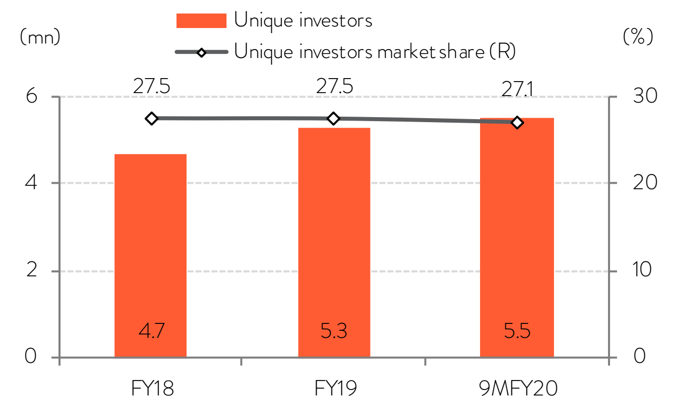
Source: AMFI, BOBCAPS Research

FIG 19 – MARKET SHARE IN INDIVIDUAL INVESTORS WELL AHEAD OF PEERS, BARRING IPRU MF



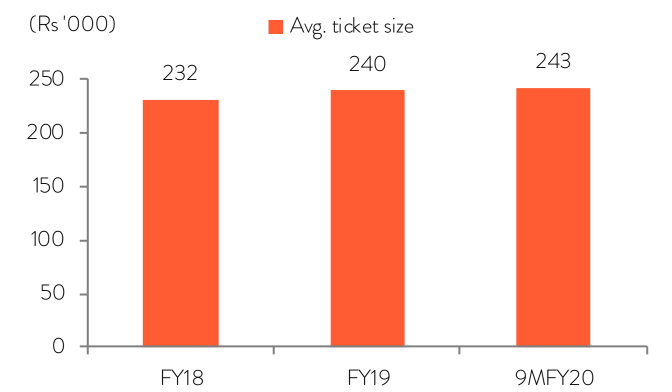
Source: AMFI, BOBCAPS Research

FIG 20 – ~27% MARKET SHARE IN UNIQUE INDIVIDUAL INVESTORS



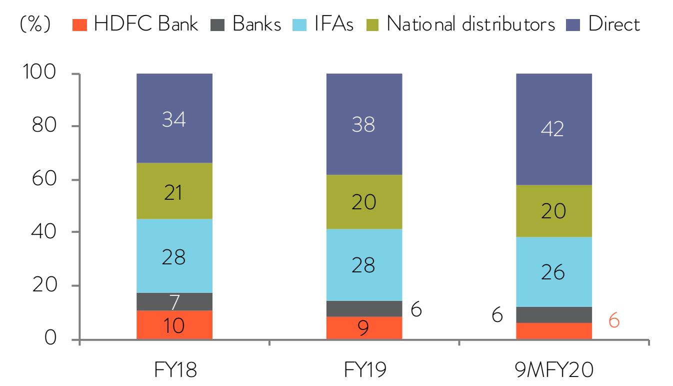
Source: Company, BOBCAPS Research

FIG 21 – STABLE TICKET SIZE FOR INDIVIDUAL INVESTMENTS



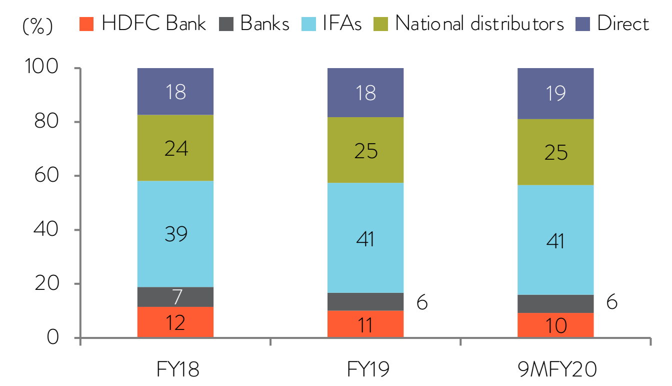
Source: Company, BOBCAPS Research

FIG 22 – DIVERSIFIED SOURCING FOR TOTAL AUM LOWERS DEPENDENCE ON HDFC BANK…



Source: Company, BOBCAPS Research

FIG 23 – …AND SIMILARLY FOR EQUITY AUM



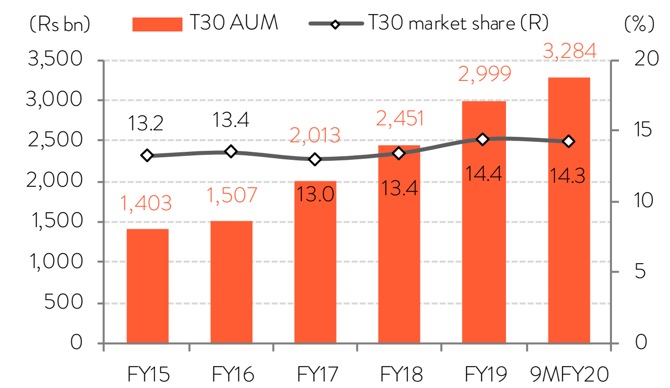
Source: Company, BOBCAPS Research

Among top-2 AMCs in fast-growing B30 cities

HDFC AMC has ~13% market share in B30 cities – these locations contribute 14% of its AAUM, having risen at a 17% CAGR over FY15-9MFY20. We note that the company has increased its physical presence from 136 branches in Mar'13 to 220 as of Dec'19, invested heavily in technology and empanelled more distribution partners, especially in B30 areas. As of Q3FY20, 144 of its 220 branches were in B30 cities, indicating a clear strategic focus to source flows from these locations.

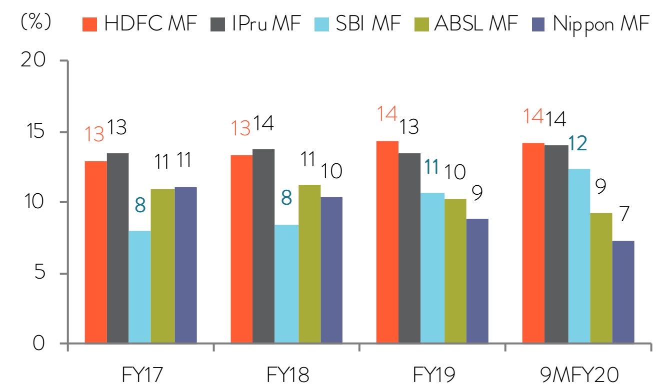
With captive bancassurance and an increased reach through own branch expansion and independent financial advisors (IFA), we believe HDFC AMC would garner incremental B30 investments, aiding sticky flows and higher fee income.

FIG 24 – T30 AUM HAS LOGGED 19% CAGR DURING FY15-9MFY20



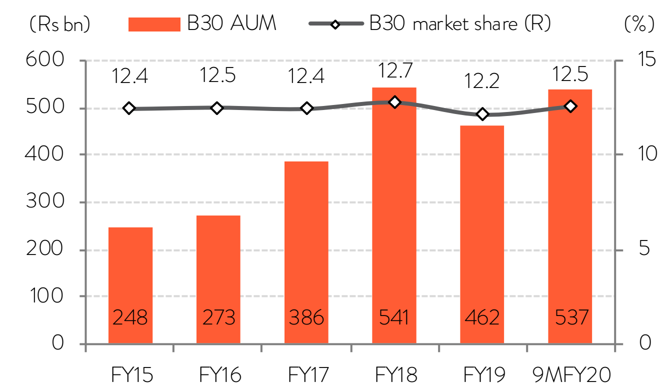
Source: AMFI, BOBCAPS Research

FIG 25 – HDFC AMC HAS LEADING T30 MARKET SHARE



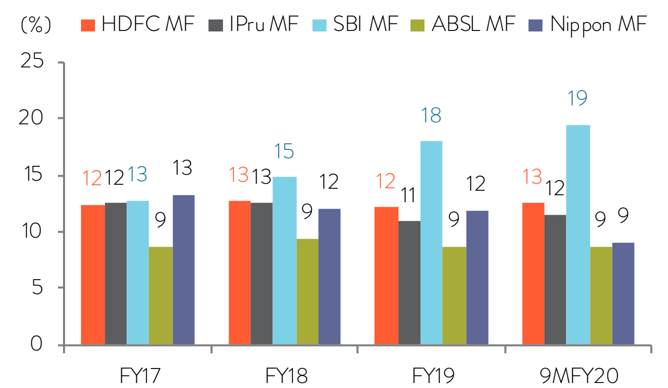
Source: AMFI, BOBCAPS Research

FIG 26 – B30 AUM HAS LOGGED 17% CAGR DURING FY15-9MFY20



Source: AMFi, BOBCAPS Research

FIG 27 – HDFC AMC AMONG TOP-2 IN B30 MARKET SHARE

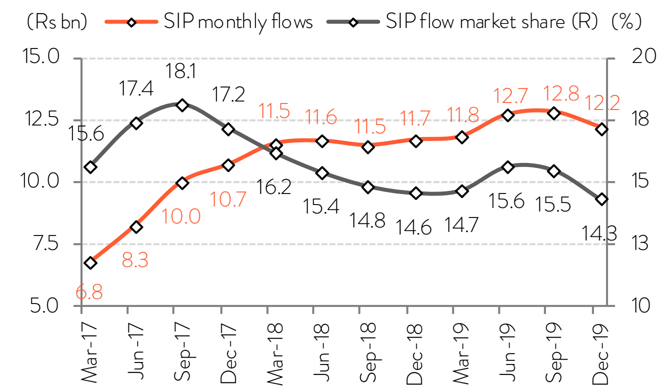


Source: AMFi, BOBCAPS Research

SIP book showing strong traction

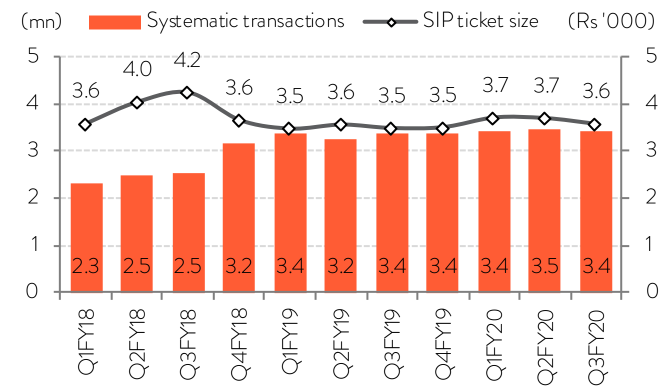
Focus on individual customers also helps generate a stickier SIP book. As of Dec'19, the company had a monthly SIP flow of Rs 12.2bn through 3.4mn customers, up from 2.3mn customers as of Jun'17. The average SIP ticket size has risen from Rs 2,500 per month as of Mar'14 to Rs 3,570 as of Dec'19. About 80% of SIP transactions have a registered tenure of over five years and ~70%+ have a tenure of over 10 years. HDFC AMC has been able to maintain ~15% market share in monthly SIPs, thereby stabilising flows besides making them more granular and equity-driven.

FIG 28 – SIP QUARTERLY FLOWS HAVE DOUBLED IN LAST THREE YEARS



Source: Company, AMFI, BOBCAPS Research

FIG 29 – SIPs HAVE MAINTAINED GRANULAR TICKET SIZE



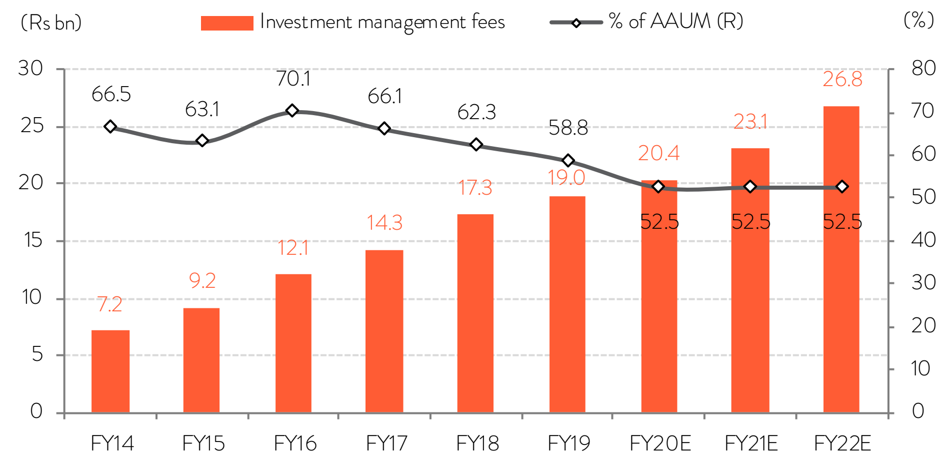
Source: Company, AMFI, BOBCAPS Research

Financial review

Revenue growth to be driven by higher equity AAUM

We expect HDFC AMC to post a 17% CAGR in total AAUM to Rs 5.1tn over FY19-FY22, as equity/debt AAUM increase 19%/17% to Rs 2.6tn/Rs 1.6tn. Equity AAUM is projected to form 52% of overall AAUM vs. 49% currently. Strong AAUM growth together with growing retail segment penetration should aid a 12% CAGR in fee income, manifesting in ~Rs 27bn of investment management fees in FY22. Despite the rise in share of equity, we bake in flattish management fee yield on AAAUM at 53bps during FY20-FY22 (vs. 59bps in FY19) to factor in the impact of full-trail commissions.

FIG 30 – INVESTMENT MANAGEMENT FEE TO BE DRIVEN BY EQUITY FLOWS



Source: Company, BOBCAPS Research

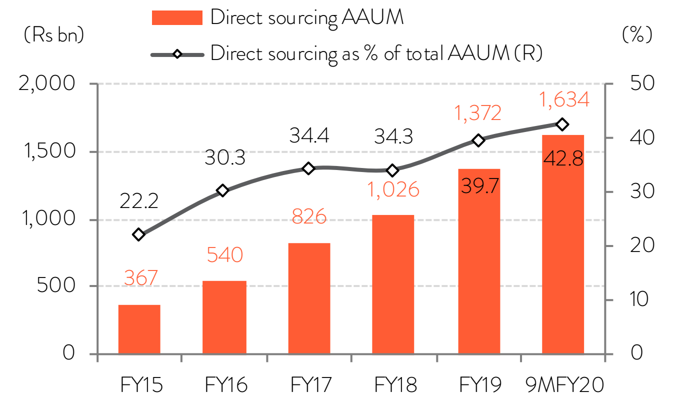
Cost/Core Income ratio to stabilise at ~22% post regulatory changes

Digital initiatives such as selling directly on the company's website and through third-party platforms, coupled with e-KYC, are likely to reduce the cost of acquiring incremental customers. Employee expense as a percentage of AAAUM stands at 6bps, one of the lowest in the industry. Other opex has also declined from 16bps in FY18 to 12bps in FY19 due to scheme expenses being attributed to scheme (and not AMC) P&L under the new regulatory guidelines.

With direct sourcing contributing ~43% of AAUM as of 9MFY20, distributor commissions are likely to come down, thus meaningfully contributing to opex decline. At present, a large chunk of direct sourcing is from institutional investors, though direct schemes are now gaining traction with individual investors as well.

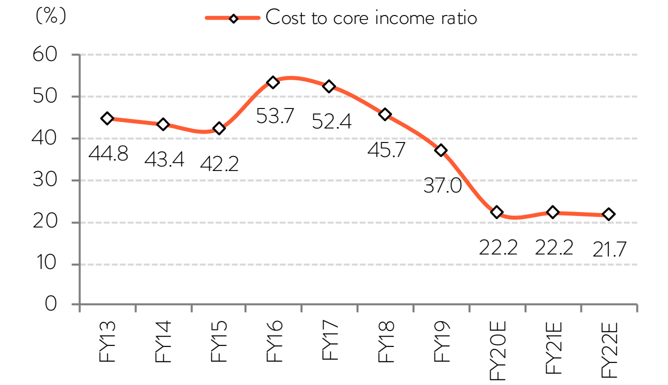
We model for an average cost-to-core income ratio of ~22% over FY19-FY22 vs. ~45% over FY17-FY19 as upfront commissions have been largely amortised in FY20E and the new regulations to attribute scheme expenses to scheme P&L lower AMC-level costs.

FIG 31 – DIRECT SOURCING FORMS ~43% OF TOTAL AUM AS OF 9MFY20



Source: Company, AMFI, BOBCAPS Research

FIG 32 – C/CORE INCOME RATIO TO REMAIN STABLE DURING FY20E-FY22E

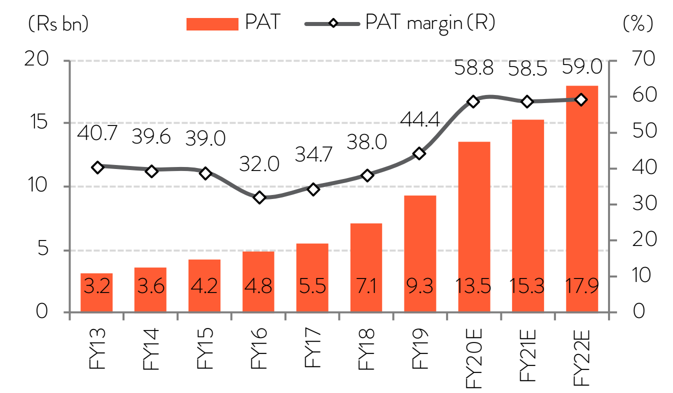


Source: Company, AMFI, BOBCAPS Research

New regulations on expense treatment to uplift margins

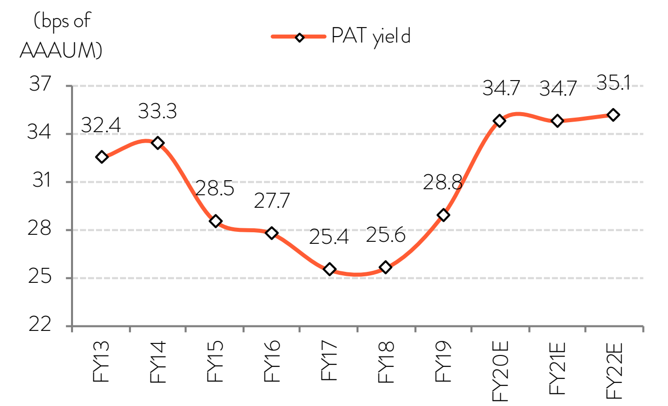
We expect stronger fee income and lower operating expenses to uplift core EBITDA margins by 1,500bps to ~78% during FY19-FY22. Due to regulatory changes by way of full-trail commissions and attribution of scheme expenses to scheme P&L, we forecast higher core operating profits at 41bps of AAAUM during FY20-FY22 and PAT margin expansion to 59% in FY22 from 44% in FY19. Consequently, we model for a 24% CAGR in PAT.

FIG 33 – PAT CAGR OF 24% EXPECTED DURING FY19-FY22…



Source: Company, BOBCAPS Research

FIG 34 – …AND PAT YIELD AT 35BPS OF AAAUM DURING THE SAME PERIOD

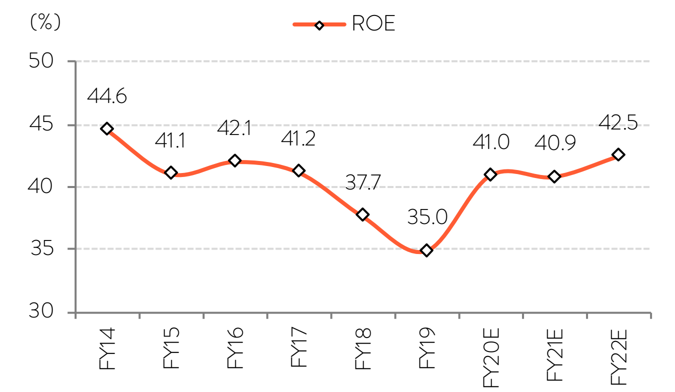


Source: Company, BOBCAPS Research

High cash flow to keep dividend payout robust

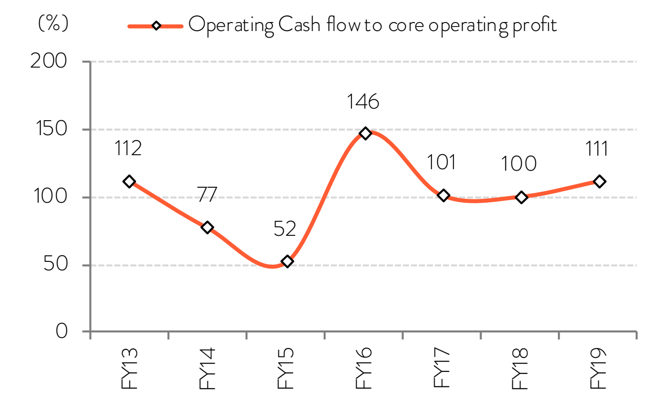
On an average, the company has clocked a CFO-to-operating profit ratio of ~100% over FY13-FY19. Being an asset-light business with strong cash generation from operations, dividend payout should remain high at ~70% over FY20-FY22. We expect HDFC AMC to report 40%+ ROE over FY20-FY22.

FIG 35 – ASSET-LIGHT BUSINESS MODEL DRIVING HIGH ROE



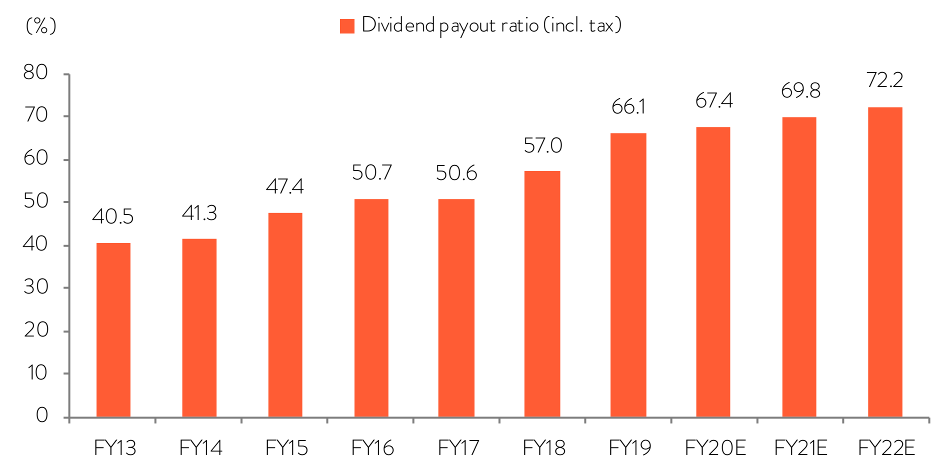
Source: Company, BOBCAPS Research

FIG 36 – OPERATING CASH FLOW TO IMPROVE AS TRAIL COMMISSIONS REDUCE WORKING CAPITAL



Source: Company, BOBCAPS Research

FIG 37 – DIVIDEND PAYOUT RATIO TO REMAIN ROBUST



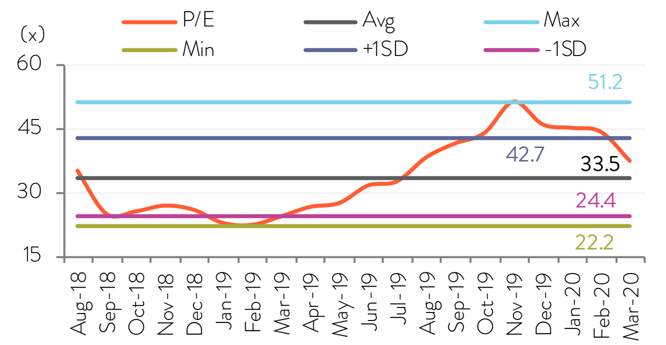
Source: Company, BOBCAPS Research

Valuation methodology

HDFC AMC is trading at 42.3x/37.3x FY20E/FY21E EPS for an estimated ROE of 41.0%/40.9%. We believe the company is a strong play on growing financial savings and the low-penetrated asset management business in India. Market leadership, a trusted brand backed by a seasoned investment team, wide distribution reach, and rising share of high-yield avenues (equities, individual business, SIP book) should support an AUM/earnings CAGR of 17%/24% during FY19-FY22 – ahead of industry growth metrics.

We initiate coverage with BUY and a Mar'21 target price of Rs 3,470 (41x implied FY22E P/E), arrived at using a three-stage dividend discount model (DDM). Our key assumptions are cost of equity of 12.8% (risk-free rate of 7.75% and beta of 1.1x), with average growth of ~25% in the five-year explicit period and terminal growth of 10%.

FIG 38 – ONE YEAR FORWARD P/E



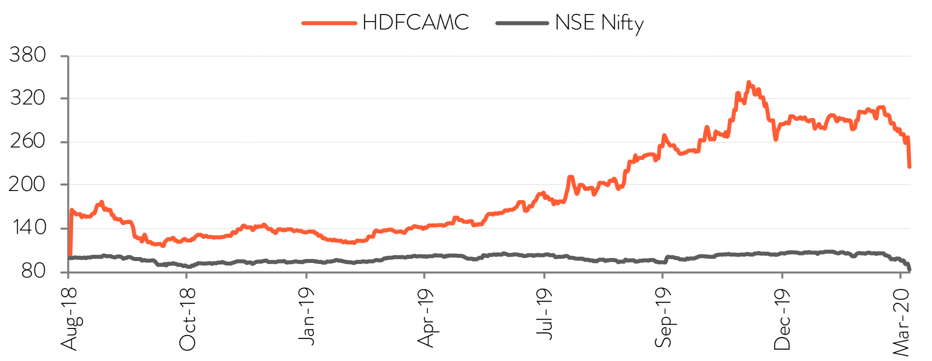
Source: Bloomberg, BOBCAPS Research

FIG 39 – VALUATION ASSUMPTIONS

Cost of Equity (%)	12.8
Risk-free rate (%)	7.75
Risk premium (%)	5.0
Long-term growth rate (%)	10.0

Source: Bloomberg, BOBCAPS Research

FIG 40 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Loss of share in incremental equity flows due to growing competition from other bank-led AMCs (SBI AMC, Kotak AMC, Axis AMC) is a key risk.
- If the company's equity schemes underperform benchmark indices, individual investors especially HNIs could switch to other AMCs.
- Any conflict of interest with large IFAs looking to have own MF product could lead to slower equity AAUM growth than expected.

Annexures

A: Leadership team

FIG 1 – STRONG LEADERSHIP TEAM

Name	Function
Corporate	
Milind Barwe	Managing Director
Piyush Surana	Chief Financial Officer
Alok Sheopurkar	Head – Human Resources
John Mathew	Head – Client Services
Mudeita Patrao	Head – Digitisation
Sylvia Furtado	Company Secretary
V Suresh Babu	Head – Operations
Yezdi Khariwala	Chief Compliance Officer
Sales	
Kiran Kaushik	Head – Sales and Distribution
Naveen Gogia	Head – Sales (North & West)
Rajiv Maniar	Head – Sales (East & South)
Shyamali Basu	Head – Products and Marketing
Simal Kanuga	Head – PMS Sales & IR
Investments	
Prashant Jain	Chief Investment Officer
Equity	
Chirag Setalvad	Senior Fund Manager – Equities
Krishan Kumar Daga	Senior Fund Manager – Equities
Miten Lathia	Fund Manager –Equities
Vinay Kulkarni	Senior Fund Manager – Equities
Debt	
Anil Bamboli	Senior Fund Manager – Fixed Income
Anupam Joshi	Fund Manager – Fixed Income
Shobhit Mehrotra	Senior Fund Manager – Fixed Income

Source: Company, BOBCAPS Research

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Investment management fees	**17,568**	**19,152**	**20,628**	**23,427**	**27,201**
YoY (%)	18.7	9.0	7.7	13.6	16.1
Operating expenses	8,022	7,092	4,582	5,207	5,904
Core operating profits	9,546	12,060	16,046	18,219	21,296
Core operating profits growth (%)	35.6	26.3	33.1	13.5	16.9
Depreciation and Interest	94	129	500	500	500
Core PBT	9,452	11,931	15,546	17,719	20,796
Core PBT growth (%)	36.6	26.2	30.3	14.0	17.4
Other income	1,130	1,816	2,315	2,721	3,197
PBT	10,582	13,747	17,862	20,440	23,993
PBT growth (%)	32.3	29.9	29.9	14.4	17.4
Tax	3,469	4,441	4,376	5,151	6,046
Tax rate (%)	32.8	32.3	24.5	25.2	25.2
Reported PAT	**7,113**	**9,306**	**13,485**	**15,289**	**17,947**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Equity capital	1,053	1,063	1,063	1,063	1,063
Reserves & surplus	21,486	29,644	34,037	38,650	43,632
Net worth	22,539	30,707	35,100	39,713	44,695
Borrowings	0	0	0	0	0
Other liabilities & provisions	2,182	1,530	1,913	2,487	3,233
Total liabilities and equities	**24,721**	**32,238**	**37,013**	**42,199**	**47,927**
Cash & bank balance	20,598	29,670	34,205	39,128	44,569
Fixed & Other assets	369	429	450	473	496
Total assets	**24,721**	**32,238**	**37,013**	**42,199**	**47,927**

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS	33.8	43.8	63.4	71.9	84.4
Dividend per share	16.0	24.0	35.5	41.7	50.7
Book value per share	107.0	144.5	165.1	186.8	210.2

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
P/E	79.4	61.2	42.3	37.3	31.8
P/BV	25.0	18.6	16.2	14.4	12.8
Dividend yield (%)	0.6	0.9	1.3	1.6	1.9

DuPont Analysis (Bps of AAAUM)

Y/E 31 Mar (bps of AAAUM)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income	63.2	59.4	53.1	53.2	53.2
Operating expenses	28.8	22.0	11.8	11.8	11.5
EBITDA	34.3	37.4	41.3	41.4	41.6
Depreciation and Others	0.3	0.4	1.3	1.1	1.0
Core PBT	34.0	37.0	40.0	40.2	40.7
Other income	4.1	5.6	6.0	6.2	6.3
PBT	38.0	42.6	46.0	46.4	46.9
Tax	12.5	13.8	11.3	11.7	11.8
ROAAAUM	25.6	28.8	34.7	34.7	35.1

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Investment management fees	18.7	9.0	7.7	13.6	16.1
Core operating profit	35.6	26.3	33.1	13.5	16.9
EPS	23.6	29.6	44.9	13.4	17.4
Profitability & Return ratios (%)					
Operating income to total income	94.0	91.3	89.9	89.6	89.5
Cost to Core income ratio	45.7	37.0	22.2	22.2	21.7
EBITDA margin	54.3	63.0	77.8	77.8	78.3
Core PBT margin	53.8	62.3	75.4	75.6	76.5
PBT margin (on total income)	56.6	65.6	77.8	78.2	78.9
ROE	37.7	35.0	41.0	40.9	42.5
Dividend payout ratio	57.0	66.1	67.4	69.8	72.2

Annual Average AUM

Y/E 31 Mar (Rs bn)	FY18A	FY19A	FY20E	FY21E	FY22E
AAAUM (Rs Bn)	2,781	3,226	3,882	4,406	5,113
YoY Growth (%)	28.6	16.0	20.3	13.5	16.1
% of AAAUM					
Equity	47.7	48.3	49.2	49.9	51.6
Debt	38.0	30.0	30.6	31.0	30.7
Liquid	14.1	21.5	20.1	19.0	17.6
Others	0.2	0.2	0.2	0.2	0.1

Source: Company, BOBCAPS Research

SELL
TP: Rs 280 | ∀ 8%

NIPPON LIFE INDIA ASSET MANAGEMENT

| Diversified Financials | 13 March 2020

New brand unlikely to change fortunes

We initiate coverage on Nippon Life India Asset Management (NAM) with SELL and a Mar'21 TP of Rs 280. We expect below-industry AAUM growth at a 6% CAGR over FY19-FY22, requiring the company to walk a tightrope between profit and market share gains. Revenue realisation is forecast to be below average of top-10 AMCs, at 55bps as percentage of AAUM, while a high opex structure could erode an ~50% of the topline. We thus pencil in modest core PBT yields of 26-29bps and a PAT CAGR of 16% for FY19-FY22.

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Below-par revenue realisation: With NAM's renewed focus on equity AAUM which will be largely sourced from independent financial advisors, we expect revenue realisations to remain stagnant at 55bps of AAUM through to FY22 – below the ~63bps average of the top-10 AMCs. Further, increased costs toward rebranding, marketing and ESOPs would drive up opex, potentially eroding ~50% of revenue realisations. Though we forecast core PBT margin expansion of ~600bps during FY20-FY22, core PBT yields could remain range-bound at 26-29bps.

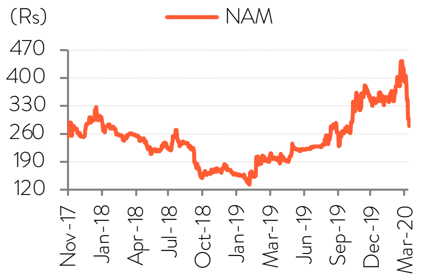
Profitability vs. market share: Any international business mandate for NAM would be a positive surprise, but is unlikely to meaningfully change core PBT. Also, international business is non-recurring in nature, making it difficult to forecast. Due to a benign tax rate, we arrive at PAT yields of 25-27bps during our forecast period. We expect profitability and market share gains to be a tightrope walk for NAM – it will have to sacrifice one to gain the other.

Initiate with SELL: We have a Mar'21 TP of Rs 280 for NAM arrived at using a three-stage dividend discount model (DDM). Our key assumptions are cost of equity of 14.0%, risk-free rate of 7.75% and terminal growth of 10%.

Ticker/Price	NAM IN/Rs 304
Market cap	US$ 2.5bn
Shares o/s	612mn
3M ADV	US$ 10.7mn
52wk high/low	Rs 453/Rs 223
Promoter/FPI/DII	76%/6%/6%

Source: NSE

STOCK PERFORMANCE



Source: NSE

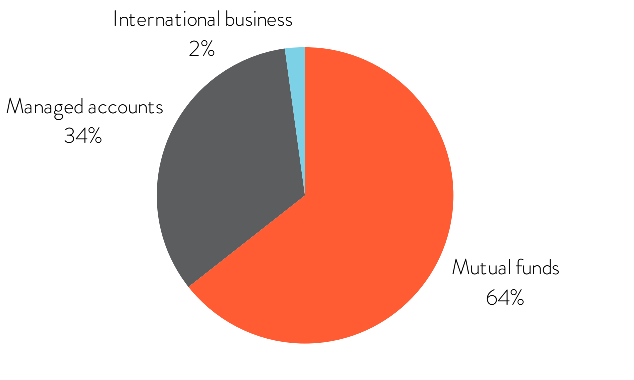
KEY FINANCIALS

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Core PBT (Rs mn)	4,987	5,290	5,637	6,842	8,204
Core PBT (YoY)	10.1	6.1	6.6	21.4	19.9
Adj. net profit (Rs mn)	4,572	4,871	5,534	6,508	7,603
EPS (Rs)	7.5	8.0	9.0	10.6	12.4
P/E (x)	40.6	38.1	33.6	28.5	24.4
MCap/AAAUM (%)	7.9	7.8	8.5	7.5	6.6
RoAAAUM (in bp)	19.4	20.4	25.3	26.3	26.9
ROE (%)	21.0	19.7	21.3	24.5	27.9

Source: Company, BOBCAPS Research

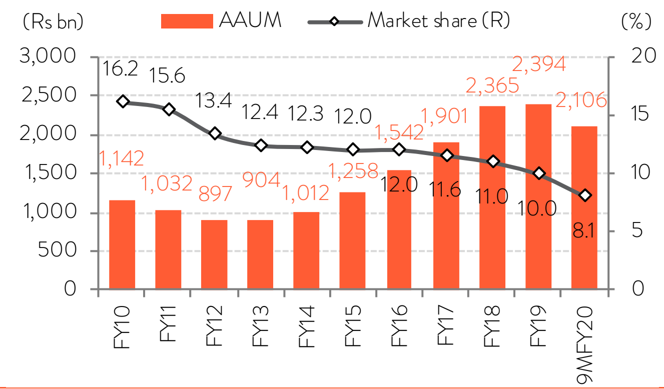
Focus charts

FIG 1 – REVENUE MIX AS OF Q3FY20



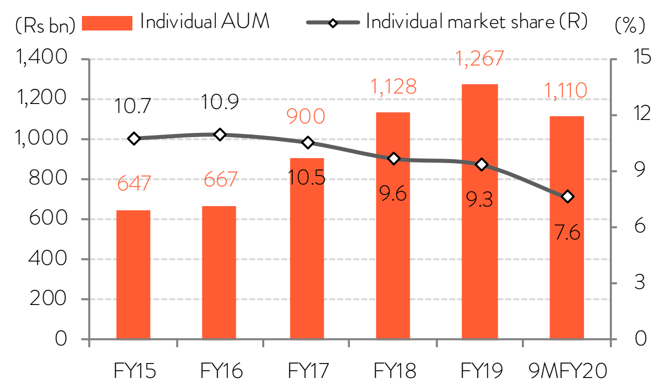
Source: Company, AMFI, BOBCAPS Research | Note: Calculated on EOP AUM

FIG 2 – NAM HAS BEEN STEADILY LOSING MARKET SHARE OVER THE LAST DECADE IN MF AAUM



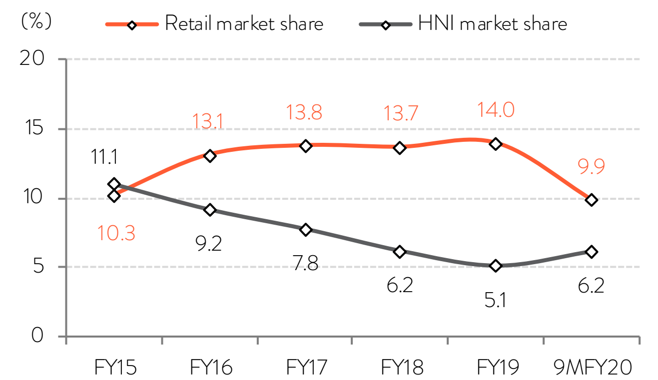
Source: Company, AMFI, BOBCAPS Research | Note: Calculated on AAUM, 9MFY20 is QAAUM

FIG 3 – INDIVIDUAL AUM HAS LOGGED A MUTED 11% CAGR OVER FY15-9MFY20...



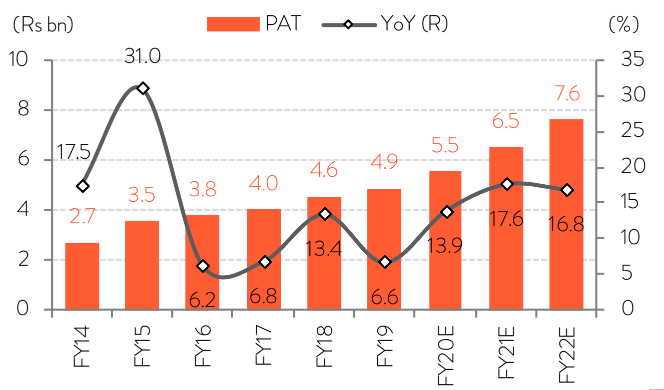
Source: AMFI, BOBCAPS Research

FIG 4 – ...DUE TO MARKET SHARE LOSS IN BOTH RETAIL AND HNI INVESTORS



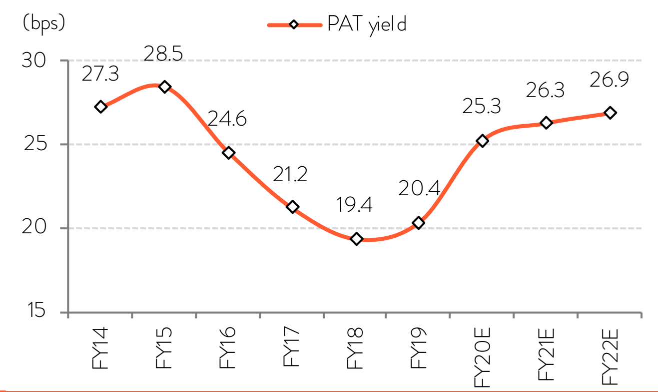
Source: AMFI, BOBCAPS Research

FIG 5 – PAT CAGR OF 16% EXPECTED DURING FY19-FY22E...



Source: Company, BOBCAPS Research

FIG 6 – ...AND PAT YIELD AT 25-27BPS OF AAUM DURING THE SAME PERIOD



Source: Company, BOBCAPS Research

Investment rationale

New brand unlikely to shore up market share

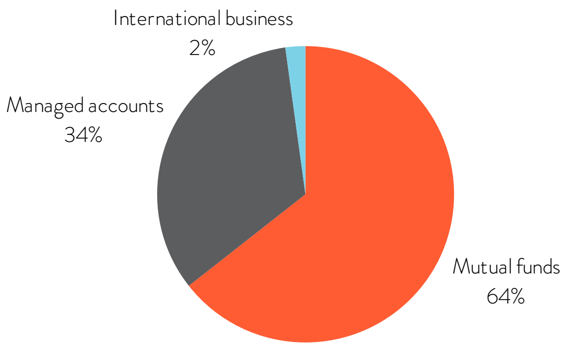
From a position as market leader in FY10, NAM (erstwhile Reliance Nippon Life Asset Management) has steadily lost ground and is now ranked #5 in overall AAUM. Market share has halved over the past decade to 8.1% due to underperforming funds, the absence of a strong captive bancassurance partner, and low market share in T30 (top 30) cities. We expect a further decline to 7% share given a weak outlook on the company's debt funds post-IL&FS redemptions.

Equity market share looks stable; debt at risk

Of NAM's total AUM of ~Rs 3.1tn as at end-Q3FY20, mutual funds account for ~64% at Rs 2.1tn. The company is the fifth largest player in terms of equity AUM (Rs 939bn), with ~8% market share. Equity AUM (including hybrid funds) forms ~47% of its total mutual fund assets, followed by debt AUM at ~22% and liquid fAUM at ~18%. NAM also has a portfolio of exchange traded funds (~14%), which was boosted by the acquisition of Goldman Sachs AMC in Nov'16.

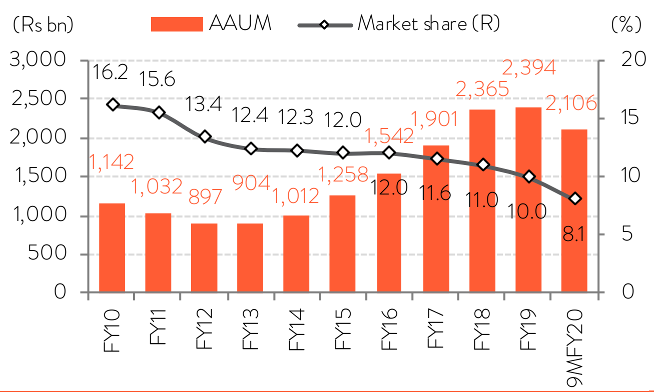
With the brand change and incremental marketing exercises following Nippon Life's takeover of schemes from Reliance Nippon Life AMC, we believe the company could maintain market share in equity and liquid AAUM at 7-8%. Added drivers in these segments include NAM's focus on B30 (beyond top 30) cities, retail investors and deeper connect with independent financial advisors (IFA). In contrast, regaining lost ground in debt AAUM will be difficult amid increasing competition from bank-led AMCs (SBI AMC, Kotak AMC, HDFC AMC, ICICI Prudential AMC, Axis AMC) and legacy issues post the IL&FS crisis.

FIG 7 – BUSINESS MIX AS OF Q3FY20



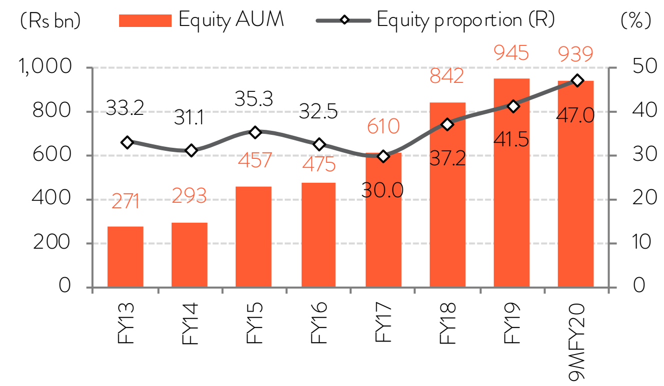
Source: Company, AMFI, BOBCAPS Research | Note: Calculated on EOP AUM

FIG 8 – NAM'S MARKET SHARE HAS HALVED OVER THE LAST DECADE



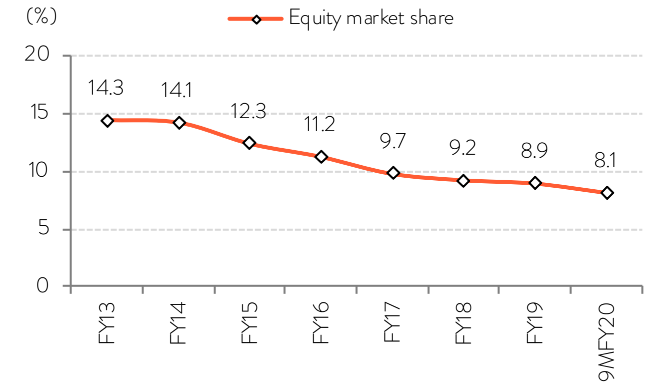
Source: Company, AMFI, BOBCAPS Research | Note: Calculated on AAUM, 9MFY20 is QAAUM

FIG 9 – INCREASE IN EQUITY AUM PROPORTION DRIVEN BY STICKY IFA RELATIONSHIPS…



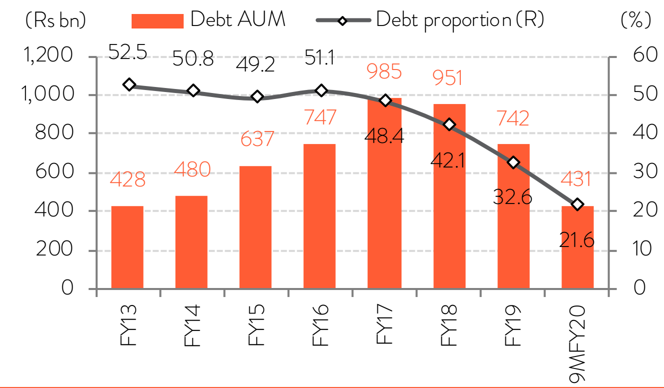
Source: Company, AMFI, BOBCAPS Research | Note: Includes Hybrid and ELSS funds, Calculated on EOP AUM

FIG 10 – …THOUGH HERE TOO NAM'S MARKET SHARE HAS PLUMMETED



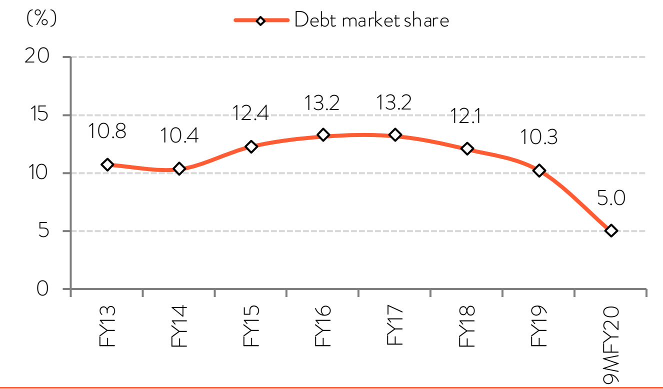
Source: Company, AMFI, BOBCAPS Research | Note: Includes Hybrid and ELSS funds, Calculated on EOP AUM

FIG 11 – REDEMPTIONS IN DEBT FUNDS POST-IL&FS CRISIS…



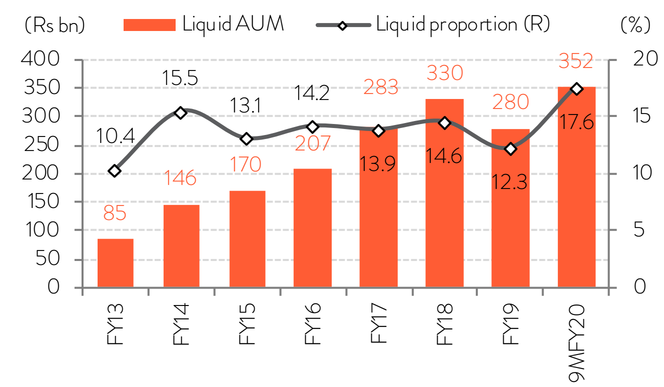
Source: Company, AMFI, BOBCAPS Research | Note: Excludes Gilt funds, Calculated on EOP AUM

FIG 12 – …LEADING TO SHARP FALL IN MARKET SHARE



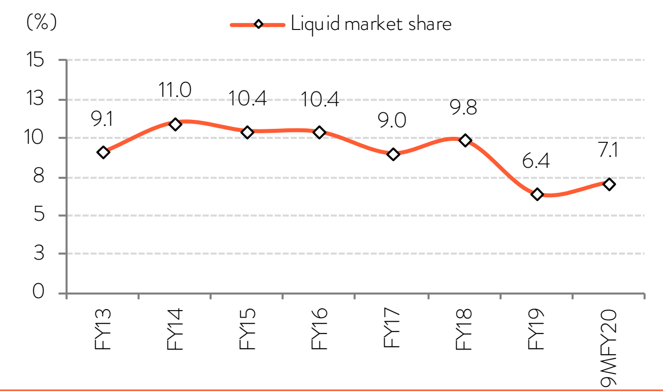
Source: Company, AMFI, BOBCAPS Research | Note: Excludes Gilt funds, Calculated on EOP AUM

FIG 13 – LIQUID FUNDS DOING REASONABLY WELL…



Source: Company, AMFI, BOBCAPS Research | Note: Includes overnight and money market funds, Calculated on EOP AUM

FIG 14 – …WITH RECENT RISE IN MARKET SHARE

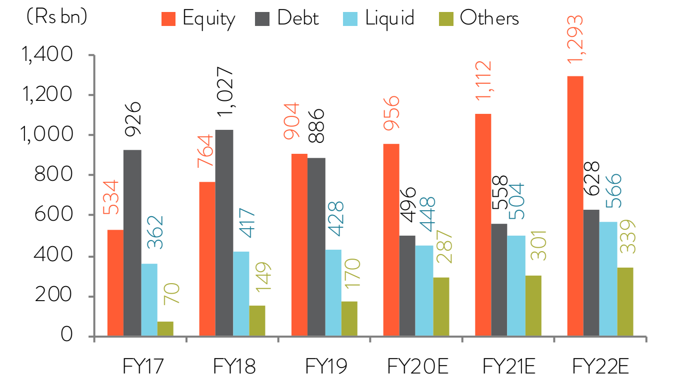


Source: Company, AMFI, BOBCAPS Research | Note: Includes overnight and money market funds, Calculated on EOP AUM

Expect subdued 6% AUM CAGR through to FY22

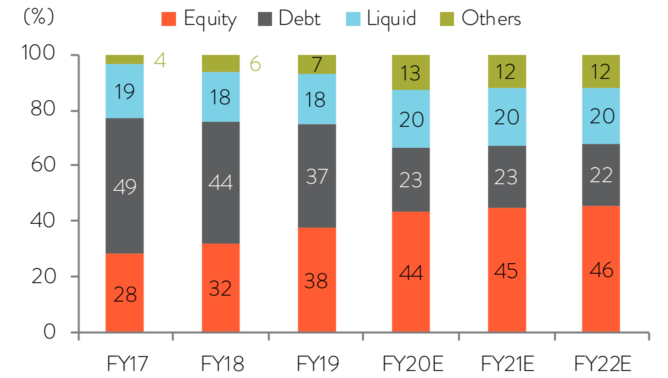
We model for a weak 6% CAGR in NAM's AAUM during FY19-FY22 to Rs 2.8tn (vs. 12% for industry) as debt AAUM tapers to an estimated Rs 628bn in FY22 vs. Rs 886bn in FY19 due to legacy issues related to Reliance Group's inter-corporate deposits, IL&FS exposure and Yes Bank AT1 bonds. Equity/ETF AAUM is forecast to grow at 13%/26% CAGR to Rs 1.3tn/Rs 339bn.

FIG 15 – WE FORECAST 6% AAUM CAGR DURING FY19-FY22E FOR NAM…



Source: Company, BOBCAPS Research

FIG 16 – …WITH FLATTISH DEBT SHARE



Source: Company, BOBCAPS Research

Top-6 schemes underperforming benchmarks

At Rs 617bn, NAM's top six equity-oriented schemes contribute ~67% of its equity AUM. Of these, only the small cap fund has outperformed the benchmark over the last decade (alpha of 11% over the benchmark), while the rest have given only 0-3% alpha generation. Though the company's investment team has been rejigged recently, it could be awhile before results are visible. We believe NAM will have to rely more on its IFA connects to market equity-oriented schemes to individual investors.

FIG 17 – TEPID ALPHA GENERATION IN MOST EQUITY FUNDS

Fund	AUM (Rs bn)	Years since inception	Scheme returns (%)				Benchmark returns (%)				Alpha (%)			
			1Y	3Y	5Y	Since inception	1Y	3Y	5Y	Since inception	1Y	3Y	5Y	Since inception
Large Cap Fund	130	13	7.1	12.0	7.4	10.6	10.6	12.5	7.7	9.5	(3.5)	(0.5)	(0.3)	1.1
Tax Saver Plan	106	15	4.5	2.8	2.1	12.6	10.6	12.5	7.7	9.5	(6.1)	(9.7)	(5.6)	3.0
Arbitrage Fund	105	10	6.2	6.2	6.5	7.7	6.6	5.3	5.9	6.9	(0.4)	1.0	0.6	0.8
Multi-Cap Fund	104	15	5.7	11.0	5.2	16.7	10.8	11.6	8.0	13.9	(5.1)	(0.7)	(2.8)	2.8
Small Cap Fund	91	10	9.1	9.7	10.4	16.3	6.4	5.2	6.2	5.2	2.7	4.5	4.2	11.1
Equity Hybrid Fund	82	15	4.7	6.5	5.9	12.2	11.4	10.5	8.4	12.1	(6.7)	(4.1)	(2.5)	0.1

Source: Company, BOBCAPS Research | Note: All AUM and benchmarks are as of Jan 31, 2020 | Benchmarks – Large Cap Fund & Tax Saver Fund: S&P BSE 100 TRI; Arbitrage Fund: NIFTY 50 Arbitrage TRI; Multi-Cap Fund: S&P BSE 500 TRI; Small-Cap Fund: S&P BSE Small-Cap TRI; Equity Hybrid Fund: CRISIL Hybrid 35+65 Aggressive TRI

Growth at the expense of profitability

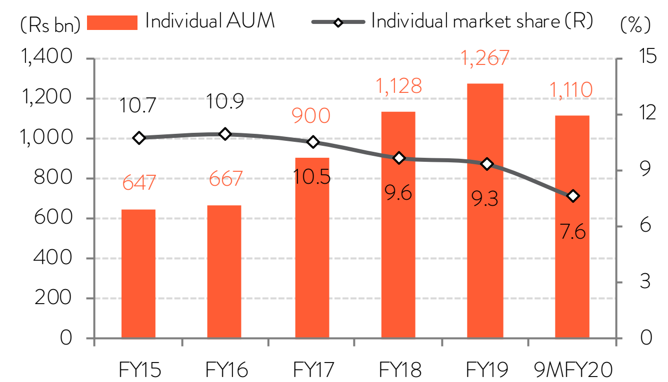
NAM's individual investor AUM has logged a muted 11% CAGR over FY15-9MFY20 due to market share losses in both retail and HNI customers. Its SIP share has remained static and the company has lost out to competitors in B30 and T30 markets. To revive growth, NAM is increasingly relying on IFAs which will weigh on commission income – we expect revenue realisations at 55bps of AAUM over FY20-FY22 vs. 63bps on average for the top-10 AMCs. Further, rebranding, marketing and ESOP costs post-takeover from Reliance Capital are expected to drive up opex, restricting core PBT yields at 26-29bps.

Individual investor AUM growth lags industry

Over the past five years, NAM has leveraged on its distribution network to increase individual investor contribution in the overall mix. Its individual AAUM grew at ~11% CAGR over FY15-9MFY20 from Rs 647bn to Rs 1.1tn. However, this is far lower than the industry run-rate of ~19% during the same period. NAM also lost 500bps market share in high-ticket HNI investors to 6.2% over this period.

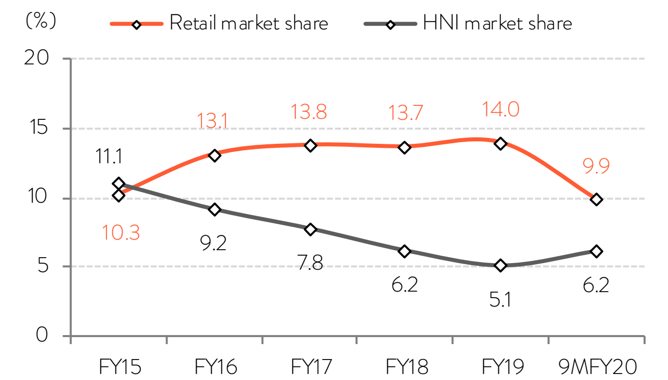
While we do not expect growth rates to improve, our channel checks suggest that the company has a capable sales team and its new brand identity is gaining increasing acceptance among distributors and investors. Further, a ramp-up in marketing spends and increased IFA empanelment (from 65,000 to 75,600 over the past two years) should keep individual investor AAUM growth stable at current levels over FY20-FY22.

FIG 18 – INDIVIDUAL AUM HAS POSTED SUBDUED 11% CAGR OVER FY15-9MFY20…



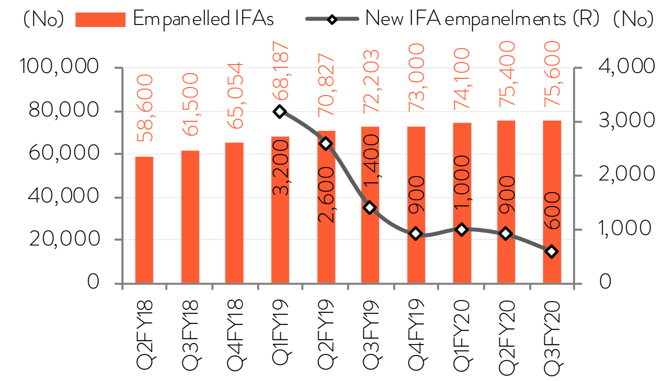
Source: AMFI, BOBCAPS Research

FIG 19 – …DUE TO MARKET SHARE LOSS IN BOTH RETAIL AND HNI INVESTORS



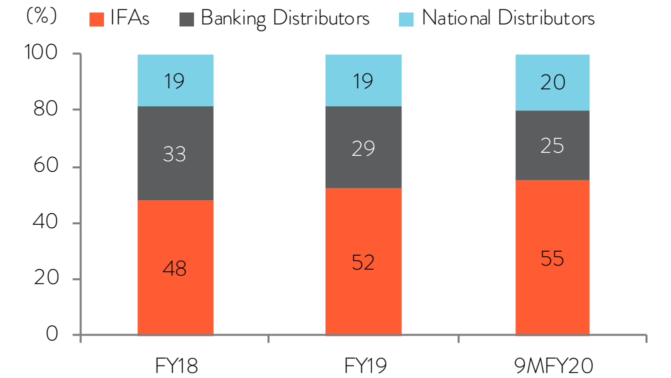
Source: AMFI, BOBCAPS Research

FIG 20 – NAM HAS BEEN INCREASING IFA EMPANELMENT OVER LAST 7-8 QUARTERS…



Source: Company, BOBCAPS Research

FIG 21 – …HENCE IFA CONTRIBUTION IN SOURCING (EX. DIRECT) HAS SURGED

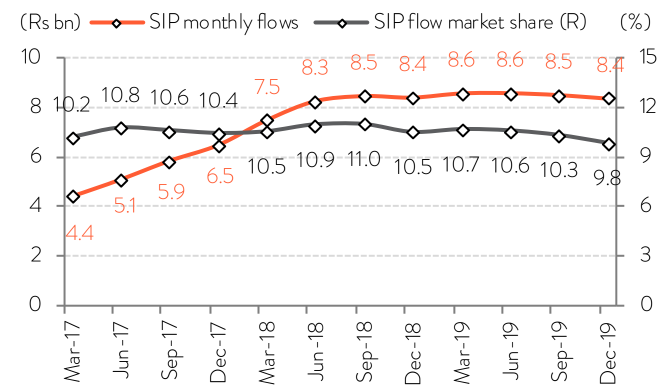


Source: Company, BOBCAPS Research

SIP market share largely static due to intense competition

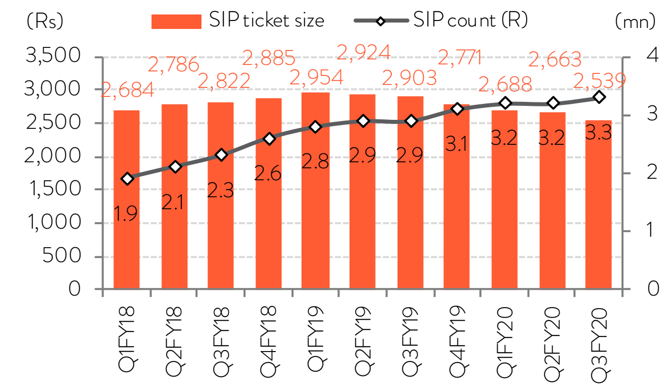
Like most peers, NAM has fared well on the SIP front. Its SIP book has nearly doubled from Rs 4.4bn per month in Mar'17 to Rs 8.4bn in Dec'19, aided by a spike in the number of SIP accounts from 1.9mn per month to 3.3mn. Nonetheless, a focus on smaller-ticket size has led to a contraction in market share from 10.2% to 9.8% over this period.

FIG 22 – SIP MARKET SHARE LARGELY STATIC…



Source: Company, AMFI, BOBCAPS Research

FIG 23 – …AS FOCUS IS ON SMALLER TICKET SIZES



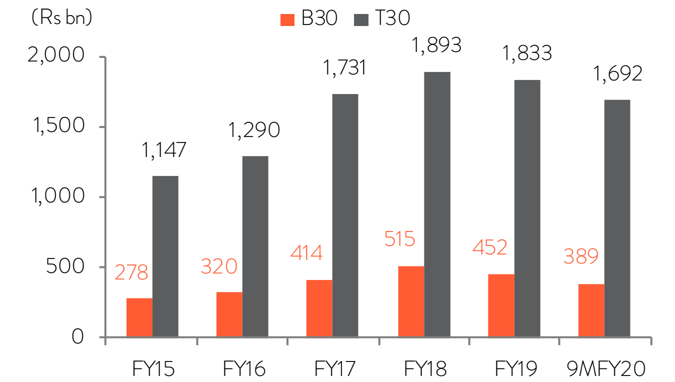
Source: Company, AMFI, BOBCAPS Research

Market share losses in B30 and T30 cities

Over FY15-9MFY20, NAM's B30/T30 AAUM grew at a 6%/8% CAGR to Rs 389bn/Rs 1.7tn and form 20%/80% of its total assets. But the overhang of the old brand name coupled with increased aggression by bank-led AMCs, i.e. HDFC AMC, ICICI Prudential AMC and SBI AMC, has led to substantial market share bleed of 490bps and 350bps for NAM in B30 and T30 geographies respectively.

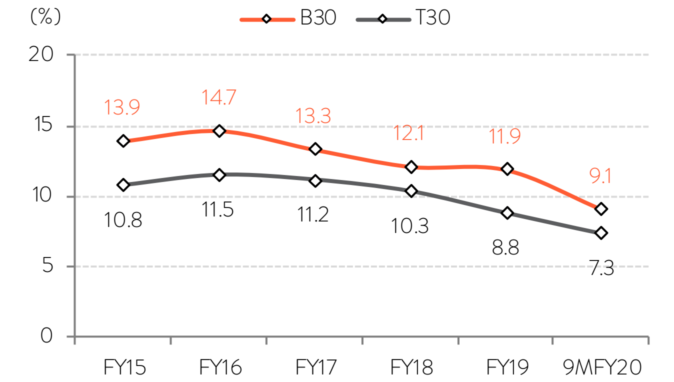
Though we expect some recovery in market share through IFA/direct sourcing and the new branding, the company's increased spends on marketing outreach would mean lower profit per customer due to higher trail commission in the first year or higher commission split to IFAs.

FIG 24 – T30 AND B30 AAUM HAVE LOGGED 8% AND 6% CAGR RESPECTIVELY DURING FY15-9MFY20



Source: Company, AMFI, BOBCAPS Research

FIG 25 – OVERHANG OF OLD BRAND LED TO MARKET SHARE LOSS



Source: Company, AMFI, BOBCAPS Research

Weaker commissions, higher opex to constrain profits

As the company increasingly relies on IFAs for growth in equity AAUM, we expect revenue realisations to remain at 55bps of AAUM over FY20-FY22 vs. the top-10 AMC average of 63bps. Further, opex is estimated to grow at 9% CAGR due to higher rebranding, marketing and ESOP costs, eroding ~50% of revenue realisations.

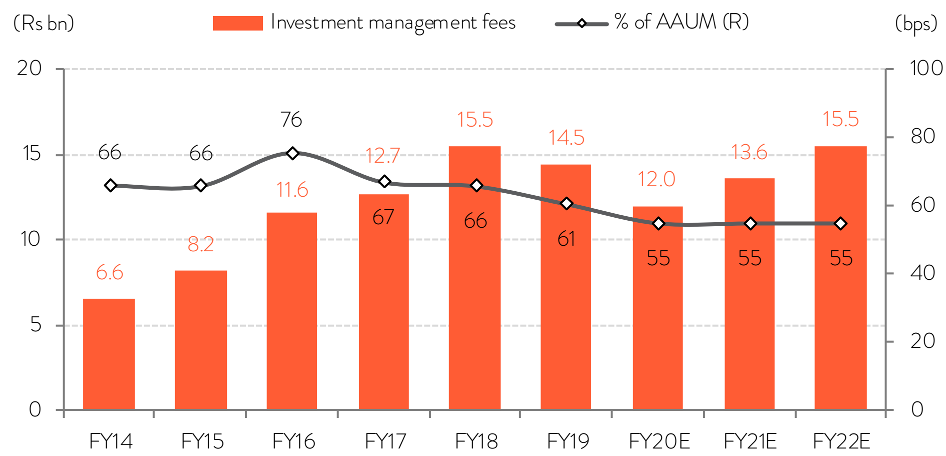
Though we forecast 600bps of core PBT margin expansion for NAM during FY20-FY22, core PBT yields (% of AAUM) are forecast to remain range-bound at 26-29bps due to ~50% erosion of revenue realisations by opex. Any international business mandate will be a positive surprise, but is unlikely to meaningfully change core PBT.

Financial review

Tepid fee income growth despite rising equity share

We expect NAM's equity AAUM to log a 13% CAGR over FY19-FY22, rising from 38% of total AAAUM to 46%. Realisations are projected to stay flat at 55bps of AAUM and hence we forecast a dull fee income CAGR of 2%, manifesting in Rs 15.5bn of investment management fees in FY22. We expect PMS and advisory fees to clock a 10% CAGR to Rs 429mn (~3% of revenue) and see potential for NAM to leverage on its parent to win international mandates, though we have not built this into our estimates as it is non-recurring.

FIG 26 – TEPID GROWTH IN INVESTMENT MANAGEMENT FEES



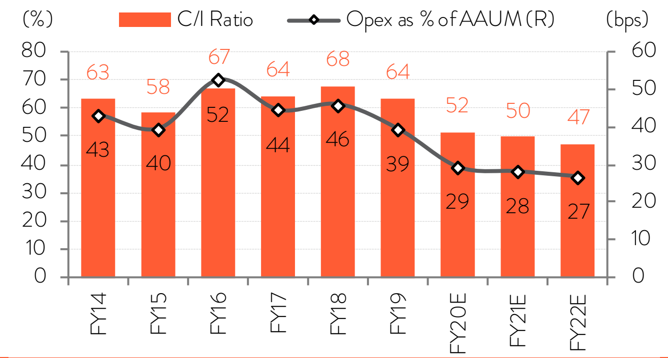
Source: Company, BOBCAPS Research

Increase in opex to keep core PBT yield at 26-29bps

We expect opex to grow from Rs 6.4bn to Rs 7.5bn during FY20-FY22, due to higher marketing and rebranding costs. A decline in staff cost (mostly due to back-office automation) and tapering of ESOP-related costs will aid an estimated ~400bps reduction in cost/core income ratio to ~50% on average over our forecast period.

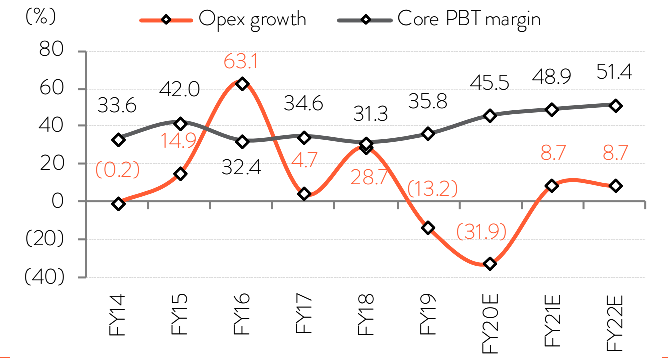
Despite meaningful core PBT margin expansion of 600bps to 51% expected by FY22, core PBT yield could remain flattish at 26-29bps due to ~50% erosion of revenue realisations. Higher margins and a benign tax rate would support a 16% earnings CAGR for FY19-FY22, with PAT yields likely to stay stable at 25-27bps of AAUM.

FIG 27 – C/CORE INCOME RATIO TO DIP ~400BPS DURING FORECAST PERIOD



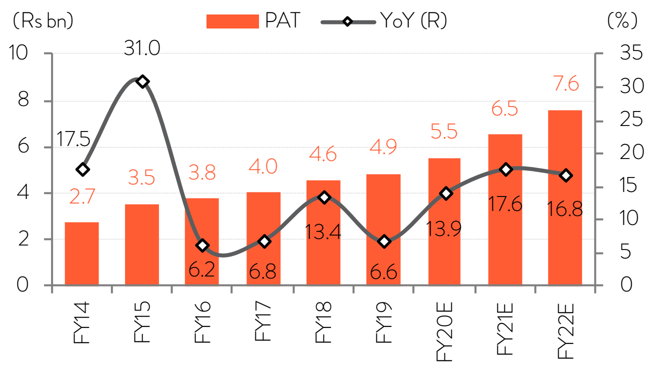
Source: Company, BOBCAPS Research

FIG 28 – WITH RANGE-BOUND OPEX, CORE PBT MARGIN SHOULD SEE MEANINGFUL EXPANSION



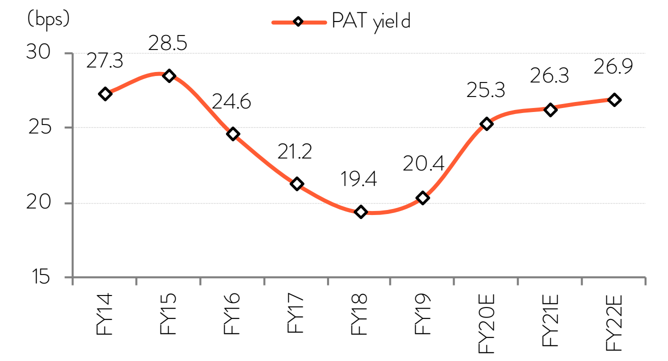
Source: Company, BOBCAPS Research

FIG 29 – PAT CAGR OF 16% EXPECTED DURING FY19-FY22…



Source: Company, BOBCAPS Research

FIG 30 – …AND PAT YIELD AT 25-27BPS OF AAAUM DURING THE SAME PERIOD

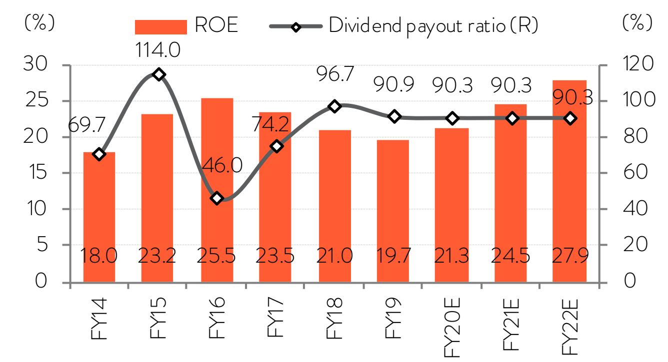


Source: Company, BOBCAPS Research

High dividend payout

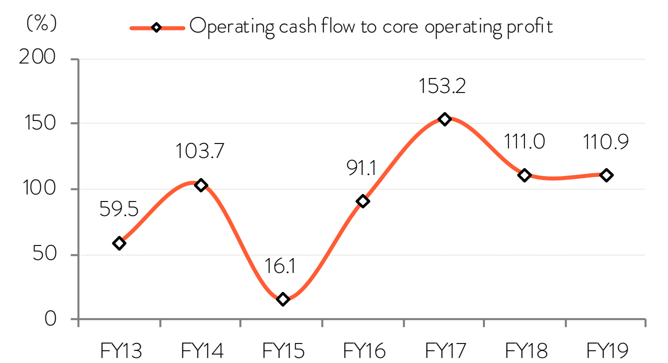
On an average, the company has clocked a CFO/operating profit ratio of ~92% over FY13-FY19. Being an asset-light business with strong cash generation from operations, dividend payout (incl. dividend tax) should remain high at ~90% over FY20-FY22. We expect NAM to report 21-28% ROE over this period.

FIG 31 – ROE TO EXPAND MEANINGFULLY GIVEN HIGH DIVIDEND PAYOUT



Source: Company, BOBCAPS Research

FIG 32 – OPERATING CASH FLOW TO IMPROVE WITH REDUCTION IN WORKING CAPITAL



Source: Company, BOBCAPS Research

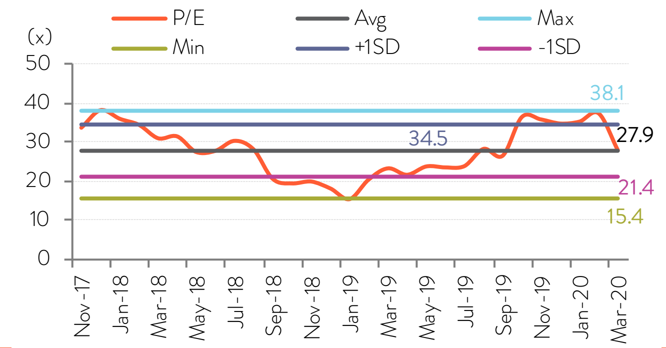
Valuation methodology

NAM is trading at 33.6x/28.6x FY20E/FY21E EPS for an estimated ROE of 21.3%/24.5%. We believe the company is a play on the financialisation of savings in India. However, due to legacy brand issues and multiple debt write-downs during FY19-FY20, we think debt AAUM is unlikely to retrace to market share levels seen pre-IL&FS.

Further, given NAM's increasing reliance on IFAs to source equity flows, we expect revenue realisations to be lower than average revenue realization of the top-10 AMCs (~63bp). A high opex structure due to increased costs towards rebranding, marketing and ESOPs, would dampen ~50% of revenue realisations. Core PBT yields could thus remain range-bound at 26-29bps, with PAT yields at 25-27bps over FY20-FY22 propped up by a benign tax rate. In our view, the company faces a tough balancing act between profitability and market share gains, with one coming at the expense of the other.

We initiate coverage with SELL and a Mar'21 target price of Rs 280 (22x implied FY22E P/E), arrived at using a three-stage dividend discount model (DDM). Our key assumptions are cost of equity of 14.0% (risk-free rate of 7.75% and beta of 1.2x), with average growth of ~15% in the five-year explicit period and terminal growth of 10%.

FIG 33 – ONE YEAR FORWARD P/E



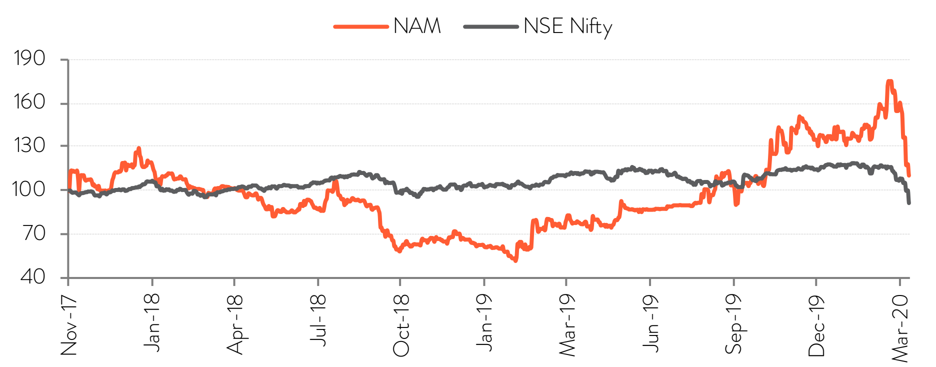
Source: Bloomberg, BOBCAPS Research

FIG 34 – VALUATION ASSUMPTIONS

Cost of Equity (%)	14.0
Risk-free rate (%)	7.75
Risk premium (%)	5.0
Long-term growth rate (%)	10.0

Source: Bloomberg, BOBCAPS Research

FIG 35 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Any further regulation on trail commissions could hamper equity flows from IFAs.
- Additional risky debt exposure could lead to loss of trust in the new brand too.
- Fund alpha underperformance could fuel redemptions, especially in T30 cities and among HNIs.

Annexures

A: Leadership team

FIG 1 – LEADERSHIP TEAM

Name	Function
Corporate	
Sundeep Sikka	ED & CEO
Pateek Jain	Chief Financial Officer
Rajesh Derhgawen	Head – Human Resources
John Mathew	Head – Client Services
Arpanarghya Saha	Head – Digital Business
Sandeep Walunj	Chief Marketing Officer
Chandra Gupta	Chief Risk Officer
Muneesh Sud	Chief Compliance Officer
Sales	
Saugata Chatterjee	Co-Chief Business Officer
Aashwin Dugal	Co-Chief Business Officer
Sanjiv Gudal	Head – Retail BD & EM group
Akash Singh Rana	Senior Zonal Business Head – West 2
Brijesh Sharma	Senior Zonal Business Head – North
Investments	
Manish Gunwani	CIO – Equity
Amit Tripathy	CIO – Fixed Income
Equity	
Ashwani Kumar	Senior Fund Manager – Equities
Sanjay Parekh	Senior Fund Manager – Equities
Ashutosh Bhargava	Fund Manager – Equities
Vinay Sharma	Fund Manager – Equities
Debt	
Anju Chhajer	Senior Fund Manager – Fixed Income
Prashant Pimple	Senior Fund Manager – Fixed Income
Sushil Budhia	Senior Fund Manager – Fixed Income

Source: Company, BOBCAPS Research

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Investment management fees	**15,918**	**14,787**	**12,382**	**14,001**	**15,976**
YoY (%)	21.7	(7.1)	(16.3)	13.1	14.1
Operating expenses	10,823	9,396	6,400	6,957	7,563
Core operating profits	5,094	5,391	5,982	7,044	8,413
Core operating profits growth (%)	9.2	5.8	11.0	17.8	19.4
Depreciation and Interest	107	101	345	202	209
Core PBT	4,987	5,290	5,637	6,842	8,204
Core PBT growth (%)	10.1	6.1	6.6	21.4	19.9
Other income	1,569	1,713	1,693	1,778	1,867
PBT	6,556	7,002	7,330	8,620	10,070
PBT growth (%)	12.8	6.8	4.7	17.6	16.8
Tax	1,984	2,132	1,796	2,112	2,467
Tax rate (%)	30.3	30.4	24.5	24.5	24.5
Reported PAT	**4,572**	**4,871**	**5,534**	**6,508**	**7,603**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Equity capital	6,120	6,120	6,120	6,120	6,120
Reserves & surplus	17,533	19,580	20,117	20,748	21,486
Net worth	23,653	25,700	26,237	26,868	27,606
Borrowings	0	0	0	0	0
Other liabilities & provisions	2,918	2,058	2,110	2,162	2,216
Total liabilities and equities	**27,225**	**27,758**	**28,347**	**29,031**	**29,822**
Cash & bank balance	16,024	18,328	18,524	18,797	19,161
Fixed & Other assets	2,603	2,568	2,697	2,831	2,973
Total assets	**27,225**	**27,758**	**28,347**	**29,031**	**29,822**

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS	7.5	8.0	9.0	10.6	12.4
Dividend per share	6.0	6.0	6.8	8.0	9.3
Book value per share	38.6	42.0	42.9	43.9	45.1

Source: Company, BOBCAPS Research

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Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
P/E	40.6	38.1	33.6	28.5	24.4
P/BV	7.9	7.2	7.1	6.9	6.7
Dividend yield (%)	2.0	2.0	2.2	2.6	3.1

DuPont Analysis (Bps of AAAUM)

Y/E 31 Mar (bps of AAAUM)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income	67.5	61.9	56.6	56.6	56.5
Operating expenses	45.9	39.3	29.3	28.1	26.8
EBITDA	21.6	22.6	27.4	28.5	29.8
Depreciation and Others	0.5	0.4	1.6	0.8	0.7
Core PBT	21.2	22.2	25.8	27.6	29.0
Other income	6.7	7.2	7.7	7.2	6.6
PBT	27.8	29.3	33.5	34.8	35.6
Tax	8.4	8.9	8.2	8.5	8.7
ROAAAUM	19.4	20.4	25.3	26.3	26.9

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Investment management fees	21.7	(7.1)	(16.3)	13.1	14.1
Core operating profit	9.2	5.8	11.0	17.8	19.4
EPS	7.1	6.5	13.6	17.6	16.8
Profitability & Return ratios (%)					
Operating income to total income	91.0	89.6	88.0	88.7	89.5
Cost to Core income ratio	68.0	63.5	51.7	49.7	47.3
EBITDA margin	32.0	36.5	48.3	50.3	52.7
Core PBT margin	31.3	35.8	45.5	48.9	51.4
PBT margin (on total income)	37.5	42.4	52.1	54.6	56.4
ROE	21.0	19.7	21.3	24.5	27.9
Dividend payout ratio	96.7	90.9	90.3	90.3	90.3

Annual Average AUM

Y/E 31 Mar (Rs bn)	FY18A	FY19A	FY20E	FY21E	FY22E
AAAUM (Rs Bn)	2,357	2,388	2,187	2,475	2,827
YoY Growth (%)	24.6	1.3	(8.4)	13.2	14.2
% of AAAUM					
Equity	32.4	37.9	43.7	44.9	45.8
Debt	43.6	37.1	22.7	22.6	22.2
Liquid	17.7	17.9	20.5	20.3	20.0
Others	6.3	7.1	13.1	12.2	12.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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