

HOLD

TP: Rs 488 | ▲ 14%

**ADITYA BIRLA SUN LIFE
AMC**

| NBFC

| 28 January 2023

Challenges persist, maintain HOLD

- **Market share declines to 7% as Q3 QAAUM falls 6% YoY to Rs 2.8tn vs. 5% growth for the industry**
- **Net profit down 11% YoY to Rs 1.7bn owing to weaker revenue and higher operating expense**
- **Retain HOLD with an unchanged TP of Rs 488, set at 18x FY25E EPS, offering 14% upside**

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Challenges to growth continue: ABSL AMC's QAAUM declined 6% YoY to Rs 2.8tn at end-Q3FY23 vs. 5%+ industry growth, which led to a decline in the company's market share to 7% from 7.8% in the year-ago quarter (and 7.2% in Q2). Equity QAAUM fell 2% YoY to Rs 1.2tn with its share in the mix increasing to 42.6%. The debt segment registered industrywide outflows as bank deposits turned more lucrative, but management expects its strong product suite to hold the company in good stead. The company is looking to further strengthen the alternative business and has four new products in the pipeline.

Net profit tepid: Net profit declined 11% YoY to Rs 1.7bn as (a) revenue from operations at Rs 3.1bn fell 6% YoY and revenue yield (calculated) dipped marginally YoY to 45bps, while (b) operating expenses increased 8% YoY with higher fee and commission expense towards a Rs 3.5bn commitment for a newly launched AIF.

Passive funds gaining traction: The company's passive AUM has grown 4x YoY to Rs 216bn at end-Q3FY23 from Rs 53bn in Q3FY22, with a 35+ product suite and five schemes in the pipeline. About 0.48mn investor folios are serviced with an emphasis on smart beta (alternate weighting) strategies for ETFs, FOFs and index funds.

Retail thrust with sticky SIP book: The monthly SIP book grew 6% YoY to Rs 9.4bn with total SIP accounts at 3.3mn at end-Q3. SIP AUM totaled Rs 530bn. As of Q3, 90% of the company's SIPs have a tenure of over five years and 82% have been running for over 10 years, indicating long-tenured inflows. The company launched Turbo SIP during the quarter which gives customers flexibility in terms of payments.

Maintain HOLD: We maintain HOLD as we monitor the company's ability to rebuild market share and rejuvenate its asset mix (further towards equity) and equity scheme performance. We believe competitive pressure would remain a headwind. The stock is currently trading at 16x FY25E earnings. We continue to value it at 18x FY25E EPS, 1SD below the long-term multiple, leading to an unchanged TP of Rs 488 which carries 14% upside.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ABSLAMC IN/Rs 427
Market cap	US\$ 1.5bn
Free float	7%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 560/Rs 375
Promoter/FPI/DII	87%/2%/4%

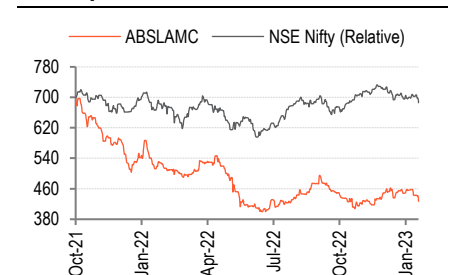
Source: NSE | Price as of 27 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Core PBT (Rs mn)	7,791	7,438	7,788
Core PBT (YoY)	39.6	(4.5)	4.7
Adj. net profit (Rs mn)	6,728	6,354	7,136
EPS (Rs)	23.3	22.0	24.7
Consensus EPS (Rs)	23.3	21.5	26.5
MCap/AAAUM (%)	4.2	4.0	3.7
ROAAAUM (bps)	22.7	20.8	21.7
ROE (%)	34.5	27.3	27.5
P/E (x)	18.3	19.4	17.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – P&L account

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Asset Management Services	3,140	3,343	(6.1)	3,111	1.0
Other Income	491	187	162.1	766	(35.9)
Total Income	3,632	3,530	2.9	3,877	(6.3)
Expenses					
Fees and Commission Expenses	67	50	35.2	44	54.0
Employee Benefits Expenses	702	691	1.6	712	(1.4)
Other Expenses	540	475	13.8	533	1.4
Total Operating Expenses	1,309	1,215	7.7	1,288	1.6
EBITDA	2,323	2,315	0.3	2,588	(10.3)
Depreciation, Amortisation and Impairment	86	88	(2.3)	84	2.4
Finance Costs	9	12	(18.2)	10	(4.9)
Profit Before Tax	2,227	2,489	(10.5)	2,494	(10.7)
Tax Expense					
Current Tax	471	522	(9.7)	456	3.3
Deferred Tax Charge/(Credit)	93	106	(12.4)	121	(23.3)
Total Tax Expense	564	627	(10.1)	577	(2.3)
Profit After Tax	1,663	1,862	(10.7)	1,917	(13.3)

Source: Company, BOBCAPS Research | Note: Q3FY22 includes reversal of a provision for an earlier long-term incentive plan amounting to Rs 323mn and provision for a new incentive plan of Rs 49mn (net at Rs 274mn)

Fig 2 – AUM mix: Equity component in QAAUM increases; market share dips

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
AUM (Rs bn)					
MF QAAUM	2,817	2,988	(5.7)	2,826	(0.3)
Equity QAAUM	1,201	1,220	(1.6)	1,191	0.8
Debt QAAUM*	1,082	1,351	(19.9)	1,073	0.8
Liquid QAAUM	535	417	28.3	562	(4.8)
MF QAAUM mix (%)					
Equity QAAUM	42.6	40.8	180bps	42.1	49bps
Debt QAAUM*	38.4	45.2	(680bps)	38.0	44bps
Liquid QAAUM	19.0	14.0	504bps	19.9	(89bps)
QAAUM – overall market share	7.0	7.8	(83bps)	7.2	(24bps)

Source: Company, BOBCAPS Research | *Debt includes ETF

Fig 3 – Sourcing mix

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Direct Channel	41	43	(200bps)	43	(200bps)
MFDs/IFA	32	32	0bps	32	0bps
National Distributors	18	15	300bps	17	100bps
Banking Distributors	9	10	(100bps)	8	100bps

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

Fig 4 – Other key metrics

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Individual MAAUM (Rs bn)	1,458	1,414	3.1	1,433	1.7
Systematic Transactions (Rs mn)	9,420	8,921	5.6	9,309	1.2
No. of Live Outstanding SIPs (mn)	3.3	3.1	4.8	3.3	-
B-30 MAAUM (Rs bn)	485	469	3.4	468	3.6

Source: Company, BOBCAPS Research

Fig 5 – Margin indicators

Margin	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
EBITDA margin (%)	64.0	65.6	(162bps)	66.8	(281bps)
Net margin (%)	45.8	52.8	(697bps)	49.4	(366bps)
Revenue yield (bps)	44.6	44.8	NA	44.0	NA

Source: BOBCAPS Research

Valuation methodology

While ABSL AMC is one of the biggest non-bank-backed players in the AMC industry, concerns persist over its market share slippage. We retain our HOLD rating as we continue to monitor the company's ability to rebuild market share and rejuvenate its asset mix (further towards equity) and equity scheme performance. We believe competitive pressure would remain a headwind.

The stock is currently trading at 16x FY25E earnings. We continue to value it at 18x FY25E EPS, one standard deviation below the long-term multiple, leading to an unchanged TP of Rs 488 (carrying 14% upside potential).

Key risks

- **Decline in AUM growth due to increased competition:** ABSL AMC has witnessed intense competitive pressure that has eroded market share over the past five years. Higher competition coupled with new entrants could dampen AUM growth and hurt revenue.
- **Prolonged weakness in equity markets:** Equity assets constitute a significant portion of the company's AUM. Thus, a decline in Indian equity markets would cause AUM to decline directly as the value of the underlying securities fall, and indirectly as securities investments become less attractive for investors, resulting in net outflows or redemptions. Any decrease in AUM will impact fees and hence net profit.
- **Regulatory risks:** AMCs are regulated by SEBI and could be adversely impacted in case of unfavourable policy changes.
 - In the event the regulator mandates a further decline in TER, yields could reduce further.
 - SEBI in Apr'22 had barred fund houses from floating new schemes till the industry complied with its direction to discontinue mutual fund investments by distributors and brokers from their pool accounts. The deadline for implementation of the new guideline was 1 Jul 2022. Thus, Q1FY23 didn't see any new fund offers.
- **Covid-like disruptions.** While Covid-related lockdowns are unlikely to be unduly harsh in future, we believe that any such lockdowns/disruptions due to any pandemic/virus mutations would be a risk to retail customer acquisition and could also result in higher redemptions.
- **Scheme underperformance:** Fund returns are an important determinant of inflows and outflows into a scheme. Underperformance of the company's schemes could lead to a fall in AUM

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Aditya Birla Sun Life AMC	ABSLAMC IN	1.5	427	488	HOLD
HDFC AMC	HDFCAMC IN	5.0	1,916	2,310	BUY
Nippon Life India AMC	NAM IN	1.9	241	347	BUY
UTI AMC	UTIAM IN	1.1	738	983	BUY

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

Glossary

Glossary			
AUM	Assets Under Management	MF	Mutual Fund
AIF	Alternative Investment Fund	NFO	New Fund Offer
B30	Beyond the Top 30 cities	QAAUM	Quarterly Average Assets Under Management
ETF	Exchange Traded Funds	SIP	Systematic Investment Plan
FOF	Fund of Funds	T30	Top 30 cities
MAAUM	Monthly Average Assets Under Management	TER	Total Expense Ratio

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Investment mgmt. fees	10,679	12,930	13,005	13,651	14,618
YoY (%)	(7.9)	21.1	0.6	5.0	7.1
Operating expenses	4,670	4,733	5,183	5,442	5,753
Core operating profits	6,010	8,196	7,821	8,209	8,865
Core operating profits growth (%)	(4.2)	36.4	(4.6)	5.0	8.0
Depreciation and Interest	430	405	383	420	451
Core PBT	5,580	7,791	7,438	7,788	8,414
Core PBT growth (%)	(4.7)	39.6	(4.5)	4.7	8.0
Other income	1,379	1,156	1,057	1,753	2,064
PBT	6,959	8,947	8,495	9,541	10,478
PBT growth (%)	5.3	28.6	(5.1)	12.3	9.8
Tax	1,696	2,219	2,141	2,404	2,640
Tax rate (%)	24.4	24.8	25.2	25.2	25.2
Reported PAT	5,263	6,728	6,354	7,136	7,837

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity capital	180	1,440	1,440	1,440	1,440
Reserves & surplus	16,866	20,525	23,066	25,921	29,056
Net worth	17,046	21,965	24,506	27,361	30,496
Borrowings	0	0	0	0	0
Other liab. & provisions	2,799	2,383	2,564	2,670	2,798
Total liab. & equities	19,846	24,347	27,070	30,031	33,294
Cash & bank balance	17,831	22,189	24,801	27,438	30,356
Fixed & Other assets	1,845	1,853	2,269	2,593	2,938
Total assets	19,846	24,347	27,070	30,031	33,294

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS	18.3	23.3	22.0	24.7	27.1
Dividend per share	77.8	11.5	13.2	14.9	16.3
Book value per share	59.2	76.0	84.8	94.7	105.6

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
P/E	23.4	18.3	19.4	17.3	15.7
P/BV	7.2	5.6	5.0	4.5	4.0
Dividend yield (%)	18.2	2.7	3.1	3.5	3.8

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	39.7	43.7	42.6	41.4	39.9
Operating expenses	17.3	16.0	17.0	16.5	15.7
EBITDA	27.4	31.6	29.1	30.2	29.8
Depreciation and Others	1.6	1.4	1.3	1.3	1.2
Core PBT	20.7	26.3	24.4	23.6	23.0
Other income	5.1	3.9	3.5	5.3	5.6
PBT	25.8	30.2	27.8	29.0	28.6
Tax	6.3	7.5	7.0	7.3	7.2
ROAAAUM	19.5	22.7	20.8	21.7	21.4

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Investment mgmt. fees	(7.9)	21.1	0.6	5.0	7.1
Core operating profit	(4.2)	36.4	(4.6)	5.0	8.0
EPS	6.4	27.5	(5.6)	12.3	9.8
Profitability & Return ratios (%)					
Operating income to Total inc.	88.6	91.8	92.5	88.6	87.6
Cost to Core income ratio	43.7	36.6	39.9	39.9	39.4
EBITDA margin	61.3	66.4	63.1	64.7	65.5
Core PBT margin	46.3	55.3	52.9	50.6	50.4
PBT margin (on total inc.)	57.7	63.5	60.4	61.9	62.8
ROE	34.8	34.5	27.3	27.5	27.1
Dividend payout ratio	26.6	49.2	60.0	60.0	60.0

Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
AAAUM (Rs bn)	2,693	2,958	3,051	3,294	3,662
YoY Growth (%)	8.8	9.9	3.1	8.0	11.2
% of AAAUM					
Equity	36	41	42	42	41
Debt	48	43	37	36	36
Liquid	16	16	20	22	22
Others	0	0	1	1	1

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

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

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ADITYA BIRLA SUN LIFE AMC (ABSLAMC IN)



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

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