

HOLD

TP: Rs 520 | ▼ 4%

**ADITYA BIRLA SUN LIFE
AMC**

| NBFC

| 29 April 2024

Better quarter

- QAAUM grew 21% YoY to Rs 3.3tn in Q4 with equity assets rising even faster at 31%; however, market share declined
- SIP book showed strong double-digit growth and beat industry growth QoQ (25% vs 10%) but lagged on a YoY basis (25% vs 35%)
- TP raised to Rs 520 (from Rs 500) on unchanged valuation of 17x FY26E P/E; maintain HOLD

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Healthy quarter, yet market share loss continues: ABSL AMC's QAAUM grew 21% YoY to Rs 3.3tn at end-Q4FY24 and equity QAAUM increased even faster at 31% YoY to Rs 1.5tn, making up 46% of the total. However, the company's overall QAAUM market share slipped 80bps YoY to 6.9% and equity share fell 70bps to 4.9%. Sequentially, the loss of share has been lower at 10bps for each. Although ABSL AMC's industry ranking has held at #6, management's efforts to protect market share remain a key aspect to watch.

Strong revenue growth: Revenue from operations grew 23% YoY to Rs 3.7bn and other income soared 131% YoY on MTM gains, leading to a 34% rise in total income to Rs 4.4bn. Yield on the equity segment was 68bps, debt was stable at 23-25bps and liquid at 10-13bps. The blended yield (calc.) grew 1bps QoQ to 44bps owing to higher share of equity in the AUM mix. Operating expenses increased 16% YoY and net profit rose 54% to Rs 2.1bn, with core PAT up 35%.

Strong growth in SIP book: ABSL AMC's monthly SIP book advanced 25% YoY to Rs 12.5bn (vs. industry growth of 35%), though on a QoQ basis it beat industry growth (25% vs 10%). It closed Q4 with a total of 3.6mn SIP accounts and AUM of Rs 692bn (+35% YoY). The company registered 0.6mn new SIPs (including STP) for Q4, witnessing 125% YoY growth.

Distribution trends stable: The direct channel accounted for 41% share, MFDs 34% and the banking channel 8% on overall AUM basis. In terms of equity asset distribution, MFDs maintained the lion's share of 53%, followed by national distributors with 20%. The direct channel constituted 18%.

Maintain HOLD: Strong earnings growth lead us to increase our FY25/FY26 estimates by 5%/4%. Strong equity AUM growth along with SIP book is a positive. However, market share losses remain key concerns. Our forecast changes yield a revision in TP to Rs 520 (from Rs 500) based on an unchanged target P/E of 17x on FY26E EPS – a 10% discount to the long-term mean. We maintain HOLD as we await sustainable growth and market share gains before revisiting our estimates.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ABSLAMC IN/Rs 539
Market cap	US\$ 1.9bn
Free float	7%
3M ADV	US\$ 1.6mn
52wk high/low	Rs 569/Rs 331
Promoter/FPI/DII	87%/2%/5%

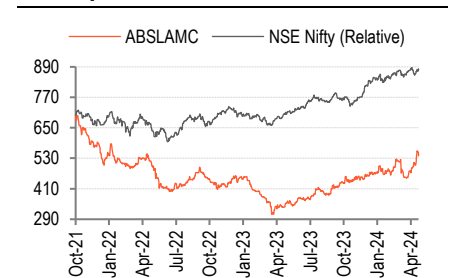
Source: NSE | Price as of 29 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Core PBT (Rs mn)	7,208	8,491	9,017
Core PBT (YoY)	8.1	17.8	6.2
Adj. net profit (Rs mn)	7,804	8,070	8,833
EPS (Rs)	27.0	27.9	30.6
Consensus EPS (Rs)	27.0	27.9	30.6
MCap/AAAUM (%)	4.7	4.3	4.0
ROAAAUM (bps)	23.5	22.3	22.6
ROE (%)	27.4	24.1	23.7
P/E (x)	20.0	19.3	17.6

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

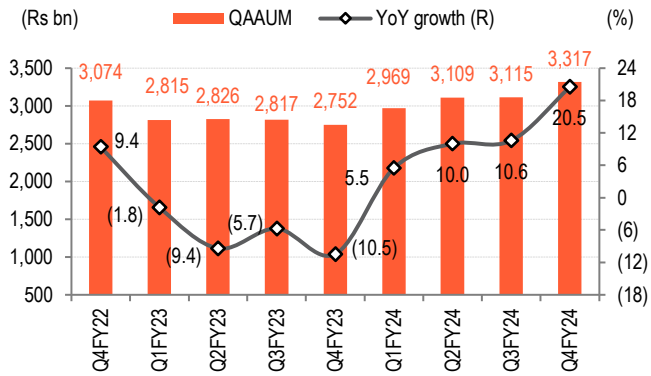
Stock performance



Source: NSE

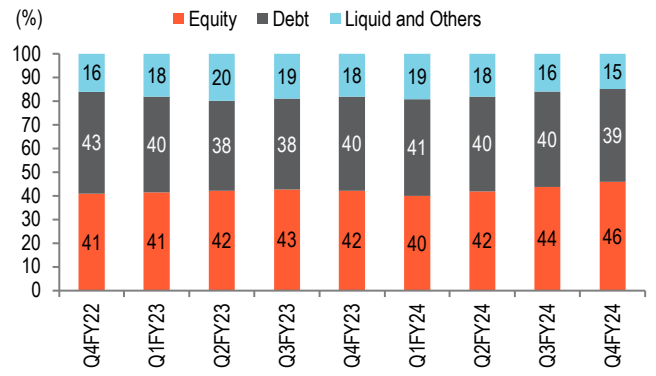


Fig 1 – QAAUM growth strong



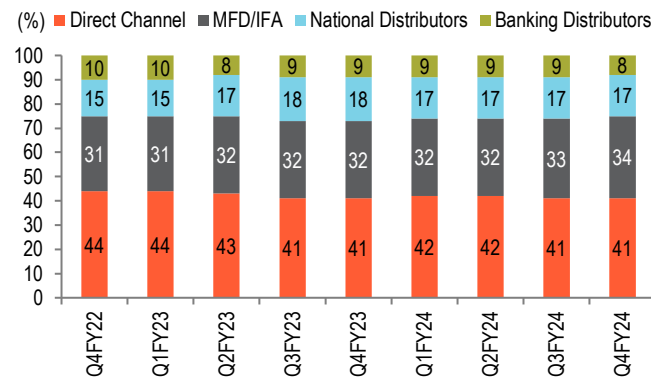
Source: Company, BOBCAPS Research

Fig 2 – Equity component rises QoQ to 46% at end-Q4



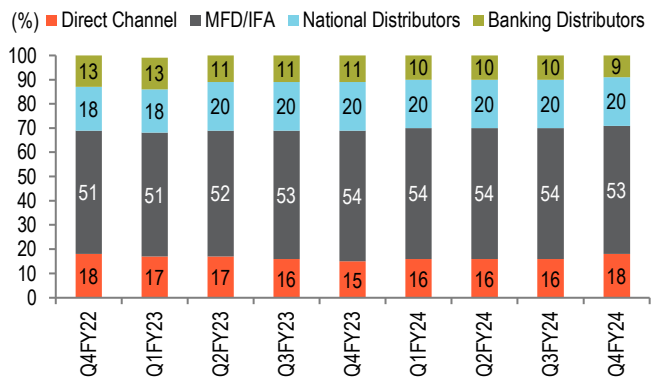
Source: Company, BOBCAPS Research

Fig 3 – Direct channel forms bulk of QAAUM distribution mix



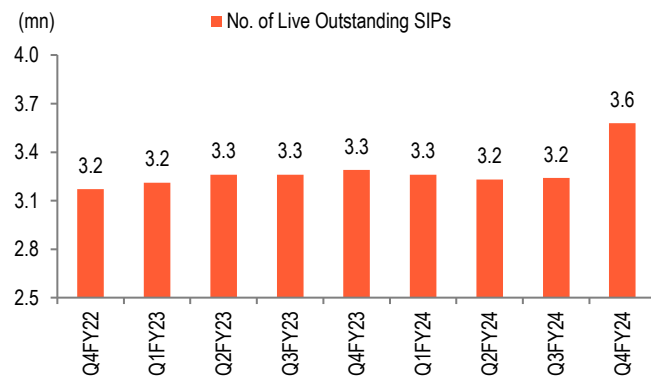
Source: Company, BOBCAPS Research

Fig 4 – Equity QAAUM largely dependent on MFDs



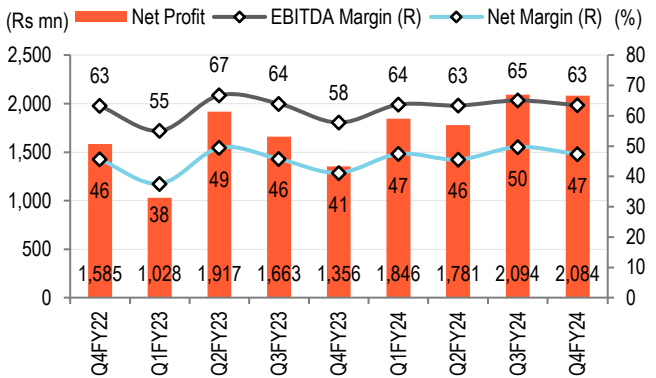
Source: Company, BOBCAPS Research

Fig 5 – Number of live outstanding SIPs broadly stable



Source: Company, BOBCAPS Research

Fig 6 – Net profit grew 54% YoY at end Q4



Source: Company, BOBCAPS Research

Fig 7 – P&L account

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Asset Management Services	3,656	2,970	23.1	3,415	7.1	13,532	12,266	10.3
Other Income	745	322	131.2	795	(6.4)	2,874	1,271	126.1
Total Income	4,400	3,292	33.7	4,210	4.5	16,406	13,537	21.2
Expenses								
Fees and Commission Expenses	99	74	33.3	87	13.6	351	229	53.3
Employee Benefits Expenses	842	665	26.7	794	6.1	3,208	2,772	15.7
Other Expenses	666	651	2.4	591	12.7	2,364	2,215	6.7
Total Operating Expenses	1,607	1,390	15.6	1,472	9.2	5,922	5,216	13.5
EBITDA	2,793	1,902	46.8	2,738	2.0	10,484	8,321	26.0
Depreciation, Amortisation and Impairment	101	84	19.5	88	14.3	346	343	0.8
Finance Costs	17	8	102.1	15	15.0	56	39	44.3
Profit Before Tax	2,676	1,810	47.9	2,635	1.5	10,082	7,939	27.0
Total Tax Expense	592	454	30.4	542	9.3	2,278	1,975	15.3
Profit After Tax	2,084	1,356	53.7	2,093	(0.5)	7,804	5,964	30.8

Source: Company, BOBCAPS Research

Fig 8 – QAAUM mix

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
MF QAAUM (Rs bn)	3,317	2,752	20.5	3,115	6.5	3,317	2,752	20.5
Equity	1,520	1,158	31.3	1,360	11.8	1,520	1,158	31.3
Debt *	1,300	1,093	18.9	1,258	3.3	1,300	1,093	18.9
Liquid	497	501	(0.8)	497	-	497	501	(0.8)
MF QAAUM mix (%)								
Equity	45.8	42.1	375bps	43.7	216bps	45.8	42.1	375bps
Debt*	39.2	39.7	(52bps)	40.4	(119bps)	39.2	39.7	(52bps)
Liquid	15.0	18.2	(322bps)	16.0	(97bps)	15.0	18.2	(322bps)

Source: Company, BOBCAPS Research | *Debt includes ETF

Fig 9 – Sourcing mix

Particulars (%)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Direct Channel	41	41	0bps	41	0bps	41	41	0bps
MFD/IFA	34	32	200bps	33	100bps	34	32	200bps
National Distributors	17	18	(100bps)	17	0bps	17	18	(100bps)
Banking Distributors	8	9	(100bps)	9	(100bps)	8	9	(100bps)

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

Fig 10 – Other key metrics

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Individual MAAUM (Rs bn)	1,732	1,403	23.4	1,663	4.1	1,732	1,403	23.4
Systematic Transactions (Rs mn)	12,520	10,030	24.8	10,050	24.6	12,520	10,030	24.8
No. of Live Outstanding SIPs (mn)	3.6	3.3	8.8	3.2	10.5	3.6	3.3	8.8
B-30 MAAUM (Rs bn)	578	448	29.0	555	4.1	578	448	29.0

Source: Company, BOBCAPS Research

Fig 11 – Margin indicators

Parameter	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
EBITDA margin (%)	63.5	57.8	569bps	65.0	(156bps)	63.9	61.5	244bps
Net margin (%)	47.4	41.2	617bps	49.7	(238bps)	47.6	44.1	351bps
Revenue yield (bps)	44.1	43.2	1bps	43.8	0bps	41.3	41.4	(0bps)

Source: Company, BOBCAPS Research

Earnings call highlights

- ABSL AMC's QAAUM grew 21% YoY to Rs 3.3tn at end-Q4FY24. Of this, the equity component increased 31% YoY to Rs 1.5tn, constituting 46% of the total (42% in Q4FY23).
- Yield on the equity segment was at 68bps, debt was stable at 23-25bps and liquid at 10-13bps.
- Total income increased 34% YoY to Rs 4.4bn, of which revenue from operations grew 23% to Rs 3.7bn and other income grew 131% to Rs 745mn. PAT clocked a 54% YoY rise to Rs 2.1bn whereas core PAT grew 35% YoY to Rs 1.5bn.
- Operating expenses rose 16% YoY to Rs 1.6bn, of which employee expense grew 27% to Rs 842mn whereas fee and commission expense surged 33% to Rs 99mn. Employee expenses in Q4 grew because of the bonuses and other expenses grew because it conducted a distributor meet Voyage (annual event).
- The company registered inflows in various schemes including Flexicap Fund, Small and Mid-cap Fund, BSE Equity Fund, etc. Per management, redemption pressures have eased owing to better scheme performance across categories.
- Monthly systematic flows (including STP) for Mar'24 stood at Rs 12.5bn, taking the total number of SIP accounts to 3.58mn. The average SIP flow for the quarter was Rs 1,143. The company registered 0.6mn new SIPs (including STPs) for Q4, witnessing 125% YoY growth.
- Passive AUM surged 36% YoY to Rs 293bn but declined sequentially on account of maturity of some of the debt-oriented index funds.
- The distribution mix was stable with the direct channel accounting for 41% share, MFDs 34% and the banking channel 8%. In terms of equity asset distribution, MFDs maintained the lion's share of 53%, followed by national distributors with 20%. The direct channel constituted 18%.
- The company hired a senior investment professional to expand its AIF product offerings catering to both institutional and high networth individual (HNI) customers.
- The company launched the industry-first ABSL Global Emerging Equity Fund. This enables the investor to access and benefit from emerging market opportunities.

Valuation methodology

ABSL AMC is one of the largest non-bank-backed players in the AMC industry and has maintained its #6 ranking by AUM at end-Q4FY24. Its AUM grew 21% YoY in Q4, with the equity component increasing 31%. It beat our estimate by 7%. Thus, we increase our FY25/FY26 AUM expectations by 7%/5% to Rs 3.6tn / Rs 3.9tn. At the same time, the core PAT beat was due to strong growth in revenue from operations coupled with lower operating expenses growth. We increase our PAT estimates by 5%/4% to Rs 8.1bn/Rs 8.8bn at end FY25/FY26.

Double-digit growth in the SIP book was a positive as it grew 25% YoY to Rs 12.5bn in Q4 although it fell short of industry growth of 35%. However, if compared on a QoQ basis, growth was 25% vs 10% for the industry. This apart, QAAUM market share has slipped 80bps YoY in Q4FY24 and equity share came in 70bps lower at 4.9%. However, the sequential drop has been low as management's initiatives to arrest this decline will be a key monitorable. We expect that an increase in the market share would be a key trigger for the stock.

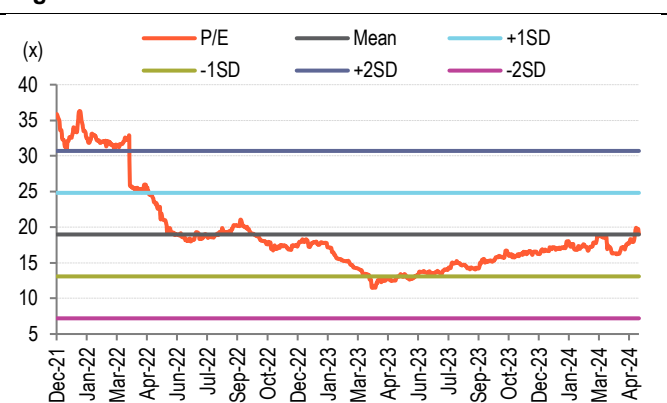
Factoring in Q4, we have raised TP to Rs 520 (previously Rs 500), which is based on an unchanged target P/E of 17x on FY26E EPS – a 10% discount to the stock's long-term mean. We maintain HOLD as we await sustainable equity QAAUM growth and consistent market share gains before revisiting our estimates.

Fig 12 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Total Income	17,486	18,959	16,704	18,272	4.7	3.8
EBITDA	11,052	12,105	10,501	11,629	5.3	4.1
Profit After Tax (PAT)	8,070	8,833	7,654	8,479	5.4	4.2
AUM (Rs bn)	3,615	3,914	3,391	3,726	6.6	5.0
EBITDA Margin (%)	63.2	63.8	62.9	63.6	34bps	20bps
Net Margin (%)	46.2	46.6	45.8	46.4	33bps	19bps

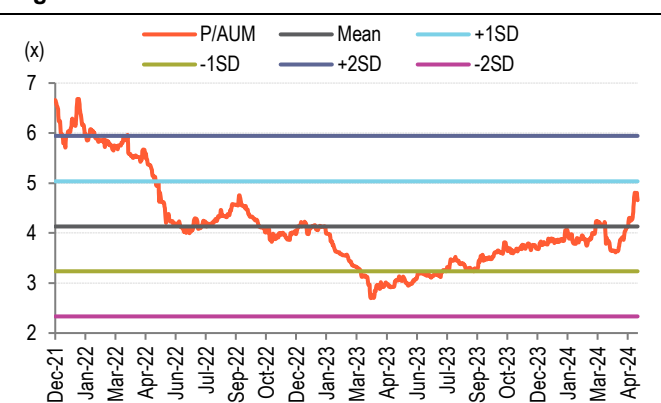
Source: BOBCAPS Research

Fig 13 – 1Y fwd P/E band



Source: Bloomberg, BOBCAPS Research

Fig 14 – 1Y fwd P/AUM band



Source: Bloomberg, BOBCAPS Research

Key risks

Upside risks

- **Substantial increase in equity AUM:** Above-expected equity AUM growth could take revenue and profitability ahead of our expectations, besides arresting the company's market share decline.

Downside risks

- **Decline in AUM growth due to increased competition:** ABSL AMC has witnessed intense competitive pressure that has eroded market share over the past few 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 falls, and indirectly as securities investments become less attractive to investors, resulting in net outflows or redemptions. Any decrease in AUM will impact fees and, hence, net profit.
- **Regulatory risks:** AMCs are regulated by the Securities Exchange Board of India and could be adversely impacted in the event of unfavourable policy changes. For instance, should the regulator mandate a further decline in total expense ratio, yields could weaken even more.
- **Covid-like disruptions:** While Covid-related lockdowns are unlikely to be unduly harsh in future, we believe that any such lockdowns/disruptions due to any pandemic/virus mutations would be a risk to retail customer acquisition and could also result in higher redemptions.
- **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	1.9	539	520	HOLD
HDFC AMC	HDFCAMC IN	9.8	3,771	3,675	HOLD
Nippon Life India AMC	NAM IN	4.6	587	675	BUY
UTI AMC	UTIAM IN	1.5	969	925	HOLD

Source: BOBCAPS Research, NSE | Price as of 29 Apr 2024

Glossary

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Investment mgmt. fees	12,930	12,266	13,532	15,359	16,354
YoY (%)	21.1	(5.1)	10.3	13.5	6.5
Operating expenses	4,733	5,216	5,922	6,434	6,854
Core operating profits	8,196	7,050	7,610	8,925	9,500
Core operating profits growth (%)	36.4	(14.0)	7.9	17.3	6.4
Depreciation and Interest	405	382	402	434	482
Core PBT	7,791	6,668	7,208	8,491	9,017
Core PBT growth (%)	39.6	(14.4)	8.1	17.8	6.2
Other income	1,156	1,271	2,874	2,127	2,605
PBT	8,947	7,939	10,082	10,618	11,623
PBT growth (%)	28.6	(11.3)	27.0	5.3	9.5
Tax	2,219	1,975	2,278	2,548	2,789
Tax rate (%)	24.8	24.9	22.6	24.0	24.0
Reported PAT	6,728	5,964	7,804	8,070	8,833

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Equity capital	1,440	1,440	1,441	1,441	1,441
Reserves & surplus	20,525	23,730	30,248	33,880	37,855
Net worth	21,965	25,170	31,689	35,320	39,295
Borrowings	0	0	0	0	0
Other liab. & provisions	2,383	2,711	3,330	3,552	3,786
Total liab. & equities	24,347	27,881	35,019	38,873	43,081
Cash & bank balance	22,189	24,858	32,070	36,062	40,125
Fixed & Other assets	1,853	2,603	2,772	2,811	2,956
Total assets	24,347	27,881	35,019	38,873	43,081

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
EPS	23.3	20.7	27.0	27.9	30.6
Dividend per share	11.5	10.3	13.5	15.4	16.9
Book value per share	76.0	87.2	109.7	122.3	136.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
P/E	23.2	26.1	20.0	19.3	17.6
P/BV	7.1	6.2	4.9	4.4	4.0
Dividend yield (%)	2.1	1.9	2.5	2.9	3.1

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY22A	FY23A	FY24P	FY25E	FY26E
Operating income	43.7	44.6	40.8	42.5	41.8
Operating expenses	16.0	19.0	17.9	17.8	17.5
EBITDA	31.6	30.2	31.6	30.6	30.9
Depreciation and Others	1.4	1.4	1.2	1.2	1.2
Core PBT	26.3	24.2	21.7	23.5	23.0
Other income	3.9	4.6	8.7	5.9	6.7
PBT	30.2	28.8	30.4	29.4	29.7
Tax	7.5	7.2	6.9	7.0	7.1
ROAAAUM	22.7	21.7	23.5	22.3	22.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Investment mgmt. fees	21.1	(5.1)	10.3	13.5	6.5
Core operating profit	36.4	(14.0)	7.9	17.3	6.4
EPS	27.5	(11.3)	30.8	3.4	9.5
Profitability & Return ratios (%)					
Operating income to Total inc.	91.8	90.6	82.5	87.8	86.3
Cost to Core income ratio	36.6	42.5	43.8	41.9	41.9
EBITDA margin	66.4	61.5	63.9	63.2	63.8
Core PBT margin	55.3	49.3	43.9	48.6	47.6
PBT margin (on total inc.)	63.5	58.6	61.5	60.7	61.3
ROE	34.5	25.3	27.4	24.1	23.7
Dividend payout ratio	49.2	49.6	50.0	55.0	55.0

Annual Average AUM

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
AAAUM (Rs bn)	2,958	2,752	3,317	3,615	3,914
YoY Growth (%)	9.9	(7.0)	20.5	9.0	8.3
% of AAAUM					
Equity	41	42	46	46	47
Debt	43	38	37	38	37
Liquid	16	18	15	14	14
Others	0	1	2	2	2

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

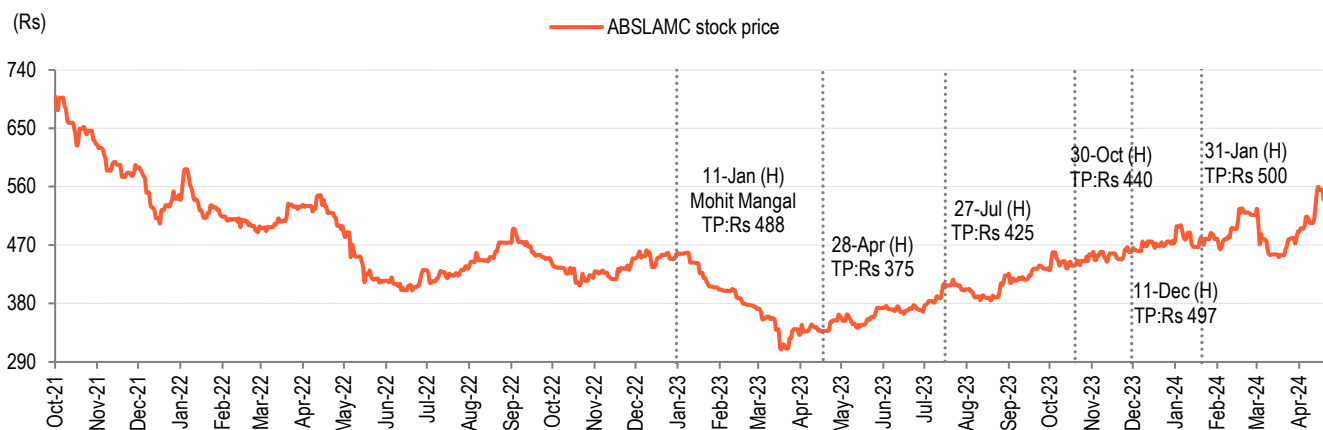
HOLD – Expected return from -6% to +15%

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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