



# Diversified Financials

## Mutual fund industry – Onward and upward

January 2023

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## DIVERSIFIED FINANCIALS

11 January 2023

### Mutual fund industry – Onward and upward

- India's MF AUM on course for 11% CAGR over FY22-FY27E to ~Rs 64tn as financial savings, product literacy and digitisation rise
- Rising share of individuals vs. institutions, buoyed by SIPs, thus deepening the market for equity funds (48% of AUM vs. 30% in FY12)
- We initiate coverage on AMCs with a positive stance; UTI AMC (TP Rs 983) and Nippon AMC (TP Rs 347) are our top picks with BUY rating

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**MF AUM to reach ~Rs 64tn by FY27E:** After a robust 18% CAGR in QAAUM over FY15-FY22 to Rs 38tn, we expect the Indian mutual fund (MF) industry to end-FY27 at ~Rs 64tn, logging an 11% CAGR over FY22-FY27. Higher financial savings, broader regional penetration, ease of investing online, and rising awareness of mutual funds represent key growth catalysts.

**Market concentrated among top 10 AMCs:** The top 10 fund houses commanded 81.4% QAAUM market share in FY22, up from 79.5% in FY17. SBI AMC leads in the fast-growing equity and ETF categories, while IPRU AMC has the largest debt AUM.

**Equity funds gaining traction...:** The rapid growth in mutual funds has been headlined by a steady rise in equity QAAUM – from 30% of the total in FY12 to 46% in FY22 and further to 48% in H1FY23. Barring FY21, net equity flows have remained positive since FY15, hitting a peak of Rs 2.7tn in FY22. Systematic investment plans (SIP) have played an instrumental role in bolstering growth.

**...backed by a rising share of individuals:** The share of individual (retail + HNI) investors in MF industry MAAUM has swelled from 46% in FY17 to 55% in FY22 and 57% in H1FY23. Whereas institutional AUM logged an 11% CAGR over the past five years, individual investors grew at a brisk 20% led by equity funds and HNI demand.

**Smaller markets outpacing larger cities:** The industry is focused on penetrating smaller towns and cities, also called B30 (Beyond the Top 30 or T30) regions. T30 MAAUM logged a 15% CAGR over FY19-FY22 to Rs 31.5tn, constituting 83% of the total vs. 85% in FY19. The loss of share was because B30 markets grew at a faster 18% CAGR over the period.

**UTI AMC, Nippon AMC top picks:** We prefer UTI AMC (seasoned player, differentiated non-MF business: BUY, TP Rs 983) and Nippon AMC (competitive advantage in ETFs, stable market share: BUY, TP Rs 347). We also initiate coverage on the remaining two listed players, HDFC AMC (TP Rs 2,310) and ABSL AMC (TP Rs 488), with HOLD.

### Recommendation snapshot

Ticker	Price	Target	Rating
ABSLAMC IN	458	488	HOLD
HDFCAMC IN	2,143	2,310	HOLD
NAM IN	251	347	BUY
UTIAM IN	819	983	BUY

Price &amp; Target in Rupees | Price as of 11 Jan 2023

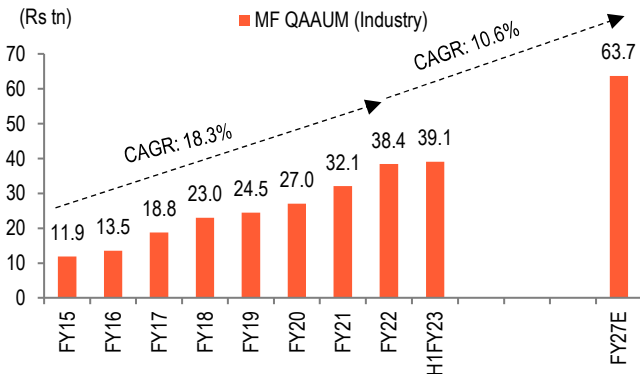


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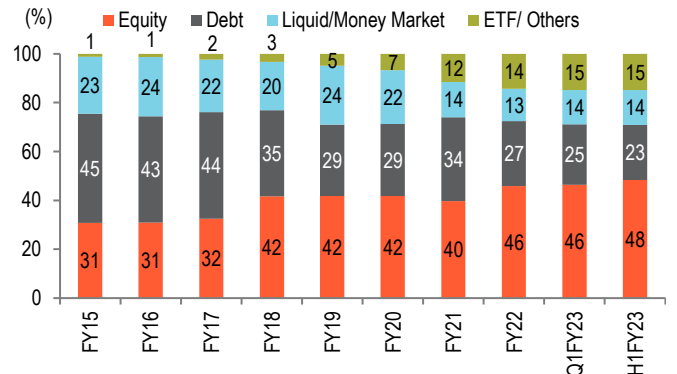
Focus charts

Fig 1 – MF AUM expected to reach Rs 64tn by FY27E



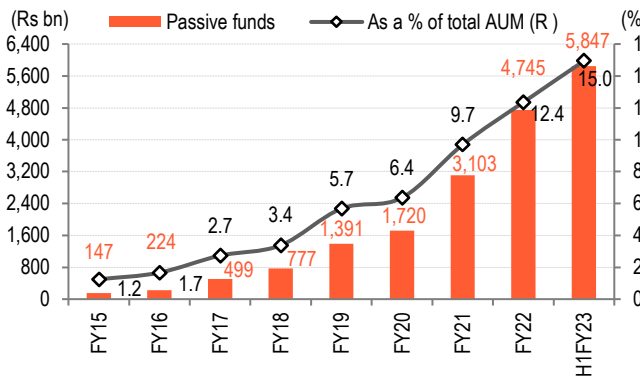
Source: IMF, BOBCAPS Research | Note: AUM = QAAUM

Fig 2 – Share of equity and ETFs in AUM increasing



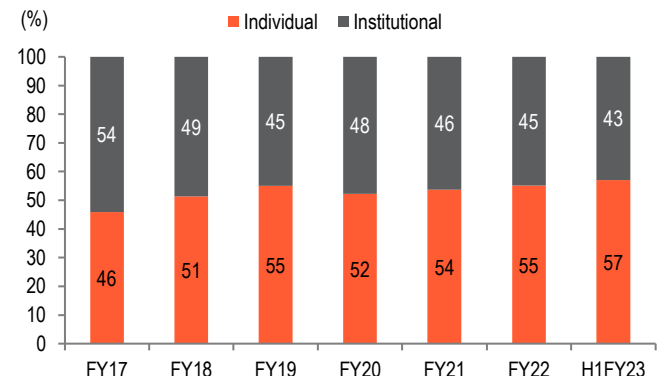
Source: ABSL AMC RHP, BOBCAPS Research | ETF: Exchange Traded Funds | Note: AUM = QAAUM

Fig 3 – Passive funds gaining traction



Source: AMFI, BOBCAPS Research | Note: AUM = QAAUM

Fig 4 – Individual investor AUM outpacing institutions



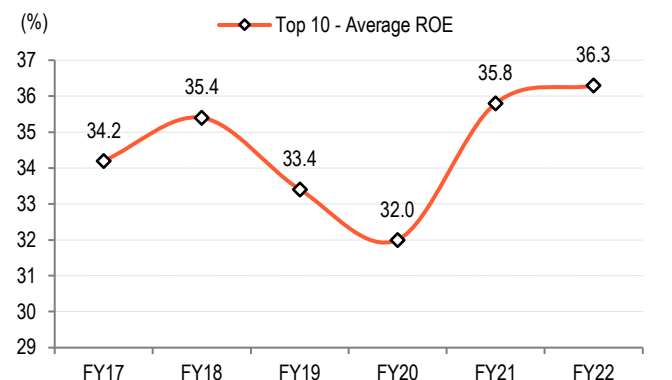
Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

Fig 5 – T30 AUM >80% but equal focus on B30 market



Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM; T30 – Top 30 cities, B30 – Beyond the T30 cities

Fig 6 – Average ROE expanding for top 10 AMCs



Source: Company, BOBCAPS Research

## Stock recommendations

UTI AMC (BUY, TP Rs 983) and Nippon AMC (BUY, TP Rs 347) are our preferred picks in the mutual fund sector. We also initiate coverage on HDFC AMC and ABSL AMC with HOLD ratings.

**Fig 7 – BOBCAPS AMC Universe: Valuation snapshot**

Ticker	Mcap (Rs bn)	Rating	QAAUM – FY22 (Rs bn)	PAT - FY22 (Rs bn)	CMP (Rs)	Target Price (Rs)	Upside (%)	P/E (x)		Implied P/E (x)	
								FY24E	FY25E	FY24E	FY25E
Nippon AMC	157	BUY	2,832	7.4	251	347	38	19	17	27	24
UTI AMC	104	BUY	2,238	5.3	819	983	20	17	15	21	18
HDFC AMC	457	HOLD	4,321	13.9	2,143	2,310	8	28	26	31	28
ABSL AMC	132	HOLD	2,958	6.7	458	488	7	19	17	20	18

Source: Company, BOBCAPS Research

### Nippon AMC: Early bird advantage – BUY

Nippon AMC, the #4 fund house in India by monthly average AUM (MAAUM), has successfully leveraged its first-mover advantage in exchange-traded funds (ETF) to command 71%/60% of volumes/folios in the segment. The company has maintained 7% MAAUM market share over FY21-H1FY23, especially after Nippon Life took over in Sep'19. Also, despite being a non-bank affiliated entity (no captive clients), the company has built a strong retail franchise at 29% of MAAUM vs. a 25% industry average at end-H1FY23, backed by top-quartile scheme performance in the equity large- and small-cap categories.

We expect quarterly average AUM (QAAUM) to log a 10% CAGR over FY22-FY25 from Rs 2.8tn to Rs 3.7tn, with the proportion of equity rising to 45% and ETFs at 26% at end-FY25. The stock is currently trading at 17x FY25E EPS. We initiate coverage with BUY and a TP of Rs 347, assigning the stock a P/E multiple of 24x on FY25E EPS – one standard deviation below the long-term mean multiple.

### UTI AMC: Holding its own – BUY

UTI AMC is the eighth largest fund house in India with QAAUM of Rs 2.3tn, having consistently generated positive net flows since FY21. The company yielded market share over FY17-FY20 from 7.5% to 5.4%, but has since partly retraced to 6% levels (+60bps) at end-H1FY23 as against steep declines for listed peers ABSL AMC (-190bps) and HDFC AMC (-270bps) since FY20. In the non-mutual fund business (offshore, pension, private equity and venture funds), UTI AMC has a key advantage as one of only two fund houses appointed to manage India's Employee Provident Fund corpus.

We model for a 10% CAGR in QAAUM over FY22-FY25 to Rs 3tn, with the proportion of equity rising to 43% and ETFs at 33% at end-FY25. The stock is currently trading at 15x FY25E earnings. We initiate coverage with BUY and a TP of Rs 983, set at 18x FY25E EPS –between the stock's long-term mean multiple and one standard deviation below the mean.

### HDFC AMC: Fairly priced – HOLD

HDFC AMC is the #3 player in India's asset management industry with QAAUM of Rs 4.3tn and 11% market share at end-H1FY23. The company has key moats in the form of a strong brand (as part of the reputed HDFC Group), large AUM base and retail-oriented strategy (individual MAAUM constitutes 66% of its mix at end-H1FY23 vs. 57% for the industry). However, the company has yielded substantial market share to competitors over the last few years (-270bps since FY20-H1FY23), and we expect recovery to be a long slog amid intense competitive headwinds.

We model for a 9% CAGR in HDFC AMC's QAAUM over FY22-FY25 to Rs 5.5tn, with the proportion of equity rising to 52% at end-FY25. Current valuations at 26x FY25E earnings don't offer significant upside – we initiate coverage with HOLD and a TP of Rs 2,310, based on 28x FY25E EPS, which is one standard deviation below the stock's long-term mean.

### ABSL AMC: Headwinds to growth – HOLD

ABSL AMC is the #5 fund house in India and is owned by seasoned promoters (86.5% shareholding). The company's broad distribution network and large AUM base in excess of Rs 2.8tn are key positives. However, receding market share (-190bps over FY20-H1FY23), mediocre equity scheme performance and a high proportion of debt AUM (43% at end-FY22 vs. 33%/26% for HDFC AMC/Nippon AMC), which is seeing industry-wide outflows, are overriding concerns.

We bake in a 7.4% QAAUM CAGR for ABSL AMC over FY22-FY25 to Rs 3.7tn, with the proportion of equity at 41% at end-FY25. The stock is currently trading at 17x FY25E earnings. We initiate coverage with HOLD and a TP of Rs 488, ascribing a P/E multiple of 18x on FY25E EPS – one standard deviation below the long-term mean multiple.



**Fig 8 – BOBCAPS AMC Universe: Financial snapshot**

Particulars	HDFC AMC			Nippon AMC			ABSL AMC			UTI AMC			Industry		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
<b>QAAUM (Rs bn)</b>	<b>3,698</b>	<b>4,156</b>	<b>4,321</b>	<b>2,049</b>	<b>2,286</b>	<b>2,832</b>	<b>2,475</b>	<b>2,693</b>	<b>2,958</b>	<b>1,515</b>	<b>1,829</b>	<b>2,238</b>	<b>27,050</b>	<b>32,000</b>	<b>38,400</b>
- Equity	43.1	41.2	47.9	42.0	41.0	42.0	35.4	36.0	40.9	39.0	40.0	42.8	41.8	39.7	45.8
- Debt	30.7	38.2	33.3	28.0	31.0	26.0	44.5	47.7	42.6	14.1	13.2	8.0	29.5	34.4	26.6
- Liquid	24.1	18.5	15.9	16.0	12.0	12.0	19.9	16.0	16.1	30.2	23.6	21.4	22.0	14.4	13.3
- ETF/Others	2.1	2.1	2.9	14.0	16.0	20.0	0.2	0.3	0.4	16.6	23.3	27.9	6.7	11.6	14.3
<b>Market share (MAAUM, %)</b>	<b>13.7</b>	<b>12.7</b>	<b>11.0</b>	<b>7.5</b>	<b>7.2</b>	<b>7.4</b>	<b>9.1</b>	<b>8.4</b>	<b>7.7</b>	<b>5.4</b>	<b>5.8</b>	<b>5.9</b>	-	-	-
- Equity	14.4	13.0	11.4	7.4	6.9	6.3	7.7	7.2	6.4	4.4	4.8	4.8	-	-	-
- Debt	13.2	14.4	13.8	7.0	6.7	7.7	12.0	11.6	11.9	4.3	4.0	3.8	-	-	-
- Liquid	17.0	15.5	12.9	5.5	5.4	5.9	10.2	10.2	10.5	6.9	7.6	7.4	-	-	-
- ETF/Others	0.7	1.1	1.3	16.6	12.6	13.2	0.3	0.3	0.4	12.0	12.7	12.2	-	-	-
<b>MAAUM split by Customer (%)</b>															
Individual	57.2	57.6	62.4	49.0	50.0	50.0	47.3	46.9	47.8	46.4	45.7	45.7	52.2	53.7	55.2
Non - individual	42.8	42.4	37.6	51.0	50.0	50.0	52.7	53.1	52.2	53.6	54.3	54.3	47.8	46.3	44.8
<b>MAAUM split by Distribution channel (%)</b>															
Banks	10.7	10.0	10.5	13.6	10.1	9.2	-	9.0	10.0	11	9.0	9.0	-	-	-
National Distributors	23.4	25.9	27.8	9.4	9.7	8.8	-	15.0	15.0	NA	NA	NA	-	-	-
MFDs	18.1	17.6	20.1	26.8	26.2	26.0	-	31.0	31.0	30	29.0	27.0	-	-	-
Direct	47.8	46.5	41.6	50.2	54.0	56.0	-	45.0	44.0	59	62.0	64.0	-	-	-
<b>MAAUM split by Geography (%)</b>															
T-30	86.4	85.1	83.5	82.6	82.1	82.8	85.1	83.9	84.1	74.2	76.6	76.8	84.4	83.7	83.4
B-30	13.6	14.9	16.5	17.4	17.9	17.2	14.9	16.1	15.9	25.8	23.4	23.2	15.6	16.3	16.6
<b>Key financials</b>															
Revenue (Rs mn)	21,434	22,017	24,332	11,932	14,193	15,356	12,348	12,058	14,085	8,901	11,733	13,274	-	-	-
PAT (Rs mn)	12,624	13,258	13,931	4,158	6,794	7,434	4,944	5,263	6,728	2,750	4,948	5,347	-	-	-
Revenue yield (bps)	54	45	49	59	46	46	47	40	44	52	44	50	-	-	-
Expense yield (bps)	12	9	12	29	22	18	21	17	16	33	29	28	-	-	-
PAT yield (bps)	34	32	32	20	30	26	20	20	23	18	27	24	-	-	-
ROAE (%)	35.6	30.1	27.0	16.1	23.9	22.6	39.0	34.8	34.5	10.1	16.4	15.5	-	-	-
ROAA (%)	33.5	28.2	25.4	14.7	21.7	20.7	32.2	29.6	30.4	8.9	14.5	14.0	-	-	-
Dividend Payout ratio (%)	47	55	64	75	73	93	67	27	49	33	44	50	-	-	-
<b>Other metrics</b>															
Branches/Locations	221	227	228	290	290	270	-	280	280	-	163	167	-	-	-
Unique customers (mn)	5.6	5.3	5.8	6.0	6.9	12.0	-	-	-	-	-	-	20.8	22.8	33.7
No of folios (mn)	9.4	9.0	9.9	8.7	10.0	17.0	7.2	7.1	7.9	10.9	11.0	11.9	89.3	97.3	128.7

Source: Company, BOBCAPS Research

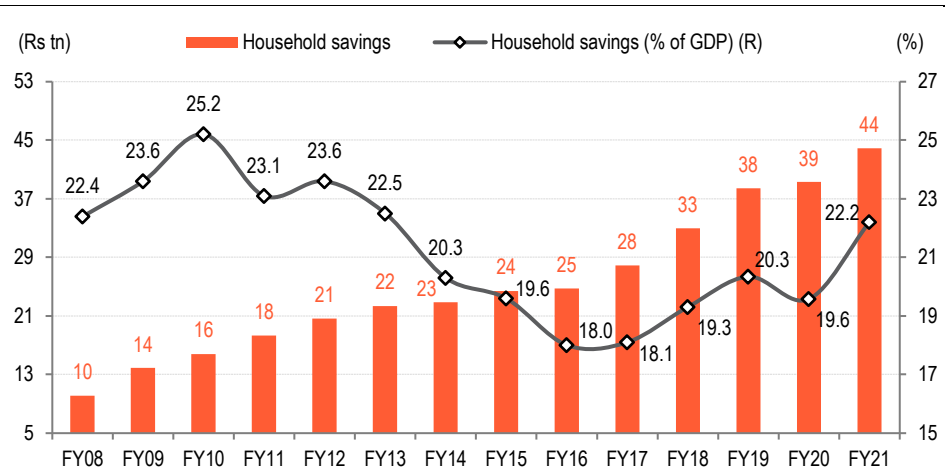
## MF industry – Healthy growth momentum

Post-pandemic, savings among Indian households have recovered to a healthy ~22% of GDP in FY21, which we expect will be sustained over the medium term. Further, in a trend reversal, financial savings have begun outpacing physical assets – rising from 31% of net household savings to 52% over FY12-FY21. Mutual funds are at 6.5% of gross financial savings and carry substantial growth potential considering that AUM penetration in India remains muted at 15% of GDP vs. the global average of 75% (CY20). We expect the Indian mutual fund industry to reach ~Rs 64tn by end-FY27, rising at a 10.6% CAGR over FY22-FY27.

### Sharp rise in household financial savings

After plunging from a peak of 25.2% of GDP in FY10 to 19.6% in FY20, India's household savings have risen to 22.2% in FY21. This increase, albeit still below historical highs, can be attributed to a boom in consumption, ranging from white goods to tourism. We expect savings to hold at this level in the medium term as households seek insulation against the lingering effects of the Covid-19 pandemic, including uncertainty over future income, the risk of sudden unemployment and precautionary medical expenses. Elevated inflation is a primary risk to our view as tepid wage growth or job losses could take a bite out of household savings.

**Fig 9 – Households began saving more due to Covid-19**

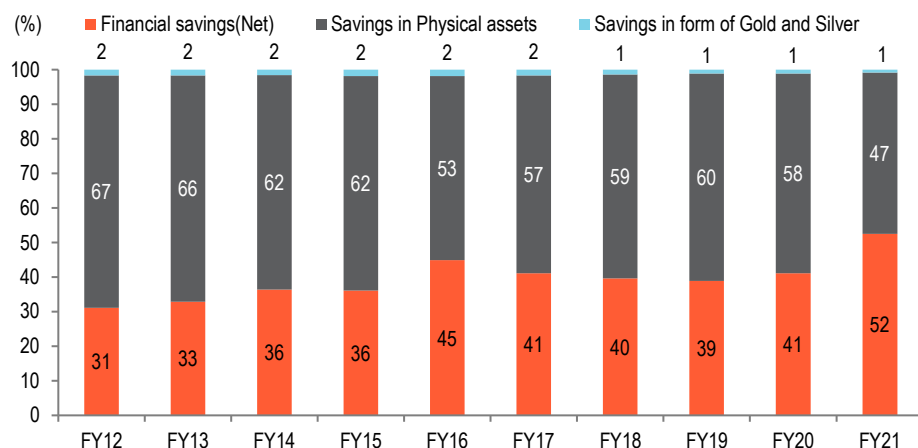


Source: RBI, MOSPI, BOBCAPS Research | Note: The above data is based on current prices

Rising awareness and a broader geographical reach of financial products in India have boosted the share of financial assets in net household savings from 31% to 52% over FY12-FY21. Physical assets in household savings have correspondingly declined to 47% in FY21 from 67% in FY12. This shift in mix bodes well for the financial services industry, primarily mutual funds. Even in years of fluctuating household savings (stoked by higher inflation), we observe that the share of mutual fund investments has increased.



**Fig 10 – Financial savings growing faster than physical assets**



Source: RBI, MOSPI, BOBCAPS Research

### Mutual funds a growing piece of the pie

Barring precipitous declines in FY19 and pandemic-hit FY20, the share of mutual funds in household savings has been on an upward trajectory – rising from ~1% of gross household financial savings in FY13 to a peak of 9.4% in FY17 before settling at ~6.5% in 9MFY21, underpinned by the popularity of SIPs among retail investors.

Per AMFI, MF industry QAAUM has clocked a ~20% CAGR over FY12-FY22 to Rs 38tn. Further, MF AUM as a percentage of GDP has climbed to 15.4% in FY21 from 6.7% in FY12 (and 4.3% in FY02). Robust growth in mutual fund demand over the last few years can be attributed to the rising share of financial versus physical assets, rapid expansion of the investor base aided by higher market penetration, deepening of capital markets led by retail participation, technological progress, and regulatory efforts aimed at making products more transparent and investor-friendly.

**Fig 11 – Rising share of mutual funds in gross financial savings of households**

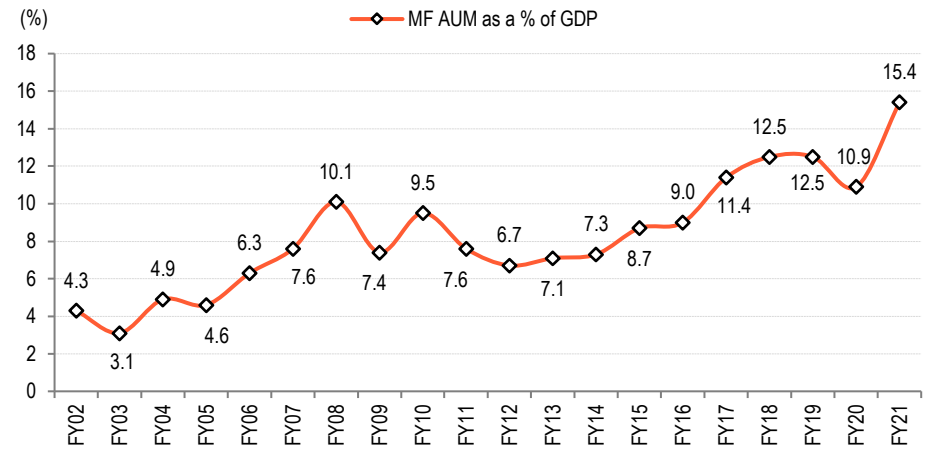
(Rs bn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	9MFY21
<b>Gross financial household savings</b>	<b>10,640</b>	<b>11,908</b>	<b>12,572</b>	<b>14,962</b>	<b>16,147</b>	<b>20,564</b>	<b>21,341</b>	<b>22,846</b>	<b>21,780</b>
Currency	1,115	995	1,333	2,005	(3,329)	4,847	2,779	2,826	3,156
Deposits	6,062	6,670	6,124	6,445	9,778	5,252	8,143	8,697	6,662
With Banks	5,339	5,986	5,390	5,666	8,707	5,057	7,287	7,688	6,413
Shares and debentures	170	189	204	284	1,745	1,774	790	774	1,796
Mutual funds	82	150	145	189	1,510	1,382	576	444	1,434
Insurance funds	1,799	2,045	2,993	2,642	3,543	3,440	3,588	3,178	4,221
Provident and pension funds	1,565	1,778	1,909	2,907	3,255	3,694	3,977	4,655	3,638
Others	(71)	231	10	679	1,155	1,557	2,064	2,715	2,308
<b>Mutual funds – as a percentage of gross financial household savings (%)</b>	<b>0.8</b>	<b>1.3</b>	<b>1.2</b>	<b>1.3</b>	<b>9.4</b>	<b>6.7</b>	<b>2.7</b>	<b>1.9</b>	<b>6.6</b>

Source: RBI, MOSPI, BOBCAPS Research

### Market remains underpenetrated

Despite visible growth, mutual fund penetration in India at ~15% remains well below that of developed and fast-growing peers. The world average stood at 75% in CY20 whereas many developed economies such as the US (140%), Canada (98%), France (98%) and the UK (78%) are much ahead. Even key emerging economies such as Brazil (81%) and South Africa (62%) are better placed.

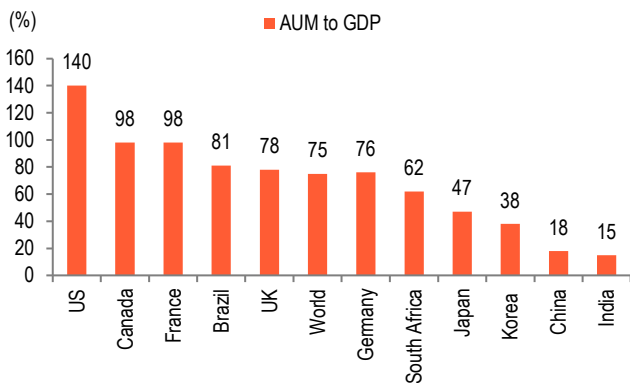
**Fig 12 – MF AUM in terms of GDP increasing but remains low**



Source: ABSL AMC RHP, BOBCAPS Research | Note: AUM = QAAUM

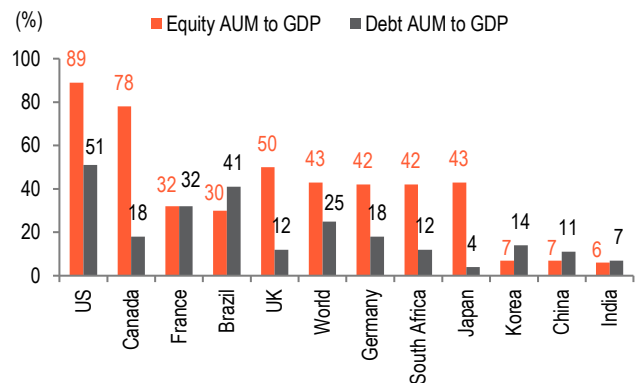
This apart, equity QAAUM to GDP in India is considerably low at 6% vs. 89% in the US, 78% in Canada, 50% in the UK, and 30% in Brazil. On the debt side as well, we remain below developed countries and the global average.

**Fig 13 – Lower MF penetration as compared to peers...**



Source: ABSL AMC RHP, BOBCAPS Research | Note: AUM = QAAUM

**Fig 14 – ...as also evident in equity and debt AUM, CY20**



Source: ABSL AMC RHP, BOBCAPS Research | Note: AUM = QAAUM

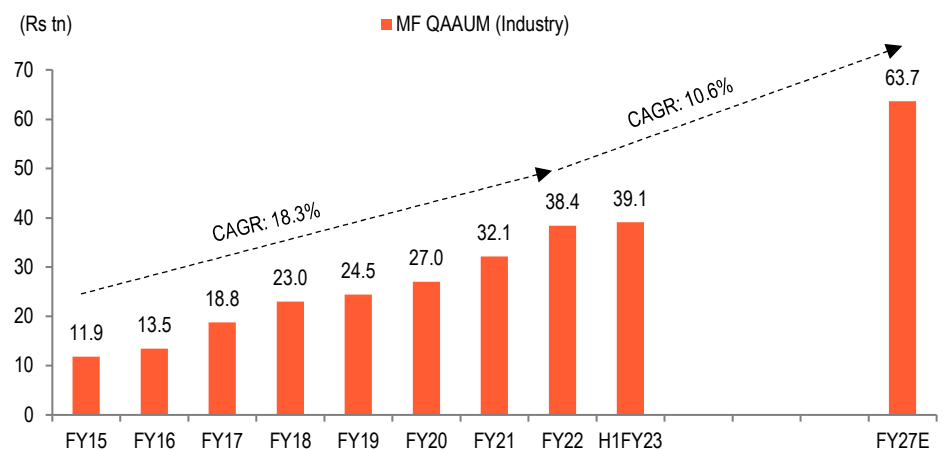
### AUM on course to reach Rs 64tn by FY27E

Mutual fund QAAUM posted an 18% CAGR over FY15-FY22 to Rs 38.4tn and further to Rs 39.1tn at end-H1FY23. As a percentage of GDP, QAAUM grew from 10% at end-FY15 to 16% at end-FY22. Even at a conservative assumption of QAAUM at 15% of GDP by FY27, the MF industry would log a 11% CAGR over FY22-FY27 to Rs 63.7tn.

We believe growth would be underpinned by (i) a pick-up in corporate earnings following stronger economic growth, (ii) higher disposable income and investable household surplus, (iii) increase in aggregate household and financial savings, (iv) deeper regional penetration as well as better awareness of mutual funds as an investment vehicle, and (v) continuous improvement in ease of investing with technological innovations and an expanding internet footprint.

The announcement in Union Budget 2021-22 that ULIP contributions over Rs 250,000 per annum will no longer be exempt from tax, which is in line with equity mutual funds, is also expected to partly aid inflows into mutual funds.

**Fig 15 – MF industry AUM expected to reach Rs 64tn mark by FY27E**



Source: IMF, BOBCAPS Research | Note: AUM = QAAUM

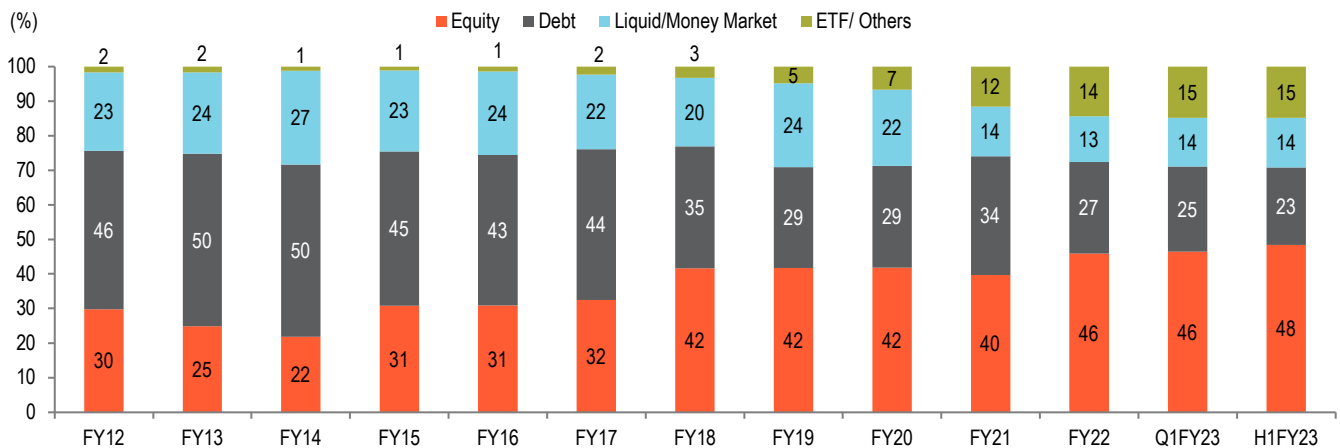
## Key growth themes

The rapid growth in India's mutual fund assets over the past five years has been marked by (i) a progressive rise in equity flows to 48% share (QAAUM) in H1FY23, (ii) robust demand for systematic and direct plans, (iii) traction in passive funds, and (iv) quicker uptake among individual vs. institutional investors (20% vs. 11% MAAUM CAGR, FY17-FY22) and among smaller markets vs. the top 30 cities (18% vs. 15% CAGR, FY19-FY22), with both individuals and tertiary cities showing a clear preference for equities.

## Equity flows propelling MF growth

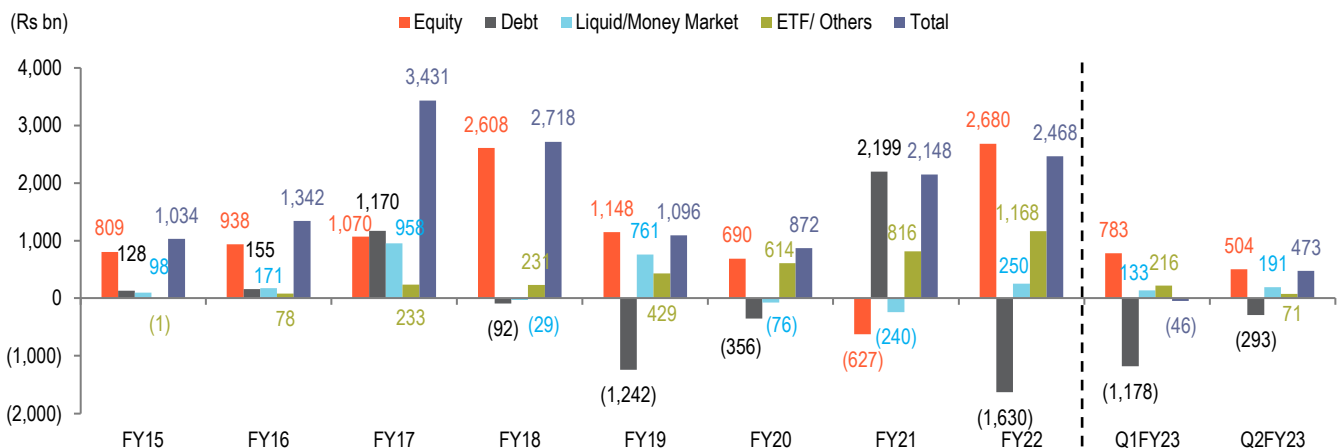
Growth in mutual funds is being fuelled by equity flows where QAAUM share has ramped up from 30% in FY12 to 46% in FY22 and further to 48% in H1FY23. Barring a pandemic-ridden FY21, equity net flows have been positive since FY15, hitting a peak of Rs 2.7tn in FY22. Expectations of higher returns have drawn smaller investors to equities, particularly via the SIP mode, supporting stronger growth in individual AUM vs. institutions over the past five years. Debt, however, has seen outflows in FY19, FY20 and H1FY23 owing to northbound interest rates, high inflation and liquidity concerns.

**Fig 16 – MF AUM mix: Equity a preferred asset class**



Source: ABSL AMC RHP (FY12 to FY20 data), HDFC AMC Presentation (FY21 to FY23YTD data), BOBCAPS Research | | Note: AUM = QAAUM

**Fig 17 – Equity net flows positive barring pandemic blip**



Source: Industry reports, BOBCAPS Research | Note: AUM = QAAUM

**Fig 18 – Equity constitutes higher share of net flows**

Net flows as a % of total	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Q1FY23	Q2FY23
Equity	78.2	69.9	31.2	96.0	104.7	79.1	(29.2)	108.6	NA	106.6
Debt	12.4	11.5	34.1	(3.4)	(113.3)	(40.8)	102.4	(66.0)	NA	(61.9)
Liquid/Money Market	9.5	12.7	27.9	(1.1)	69.4	(8.7)	(11.2)	10.1	NA	40.4
ETF	(0.1)	5.8	6.8	8.5	39.1	70.4	38.0	47.3	NA	15.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>NA</b>	<b>100.0</b>

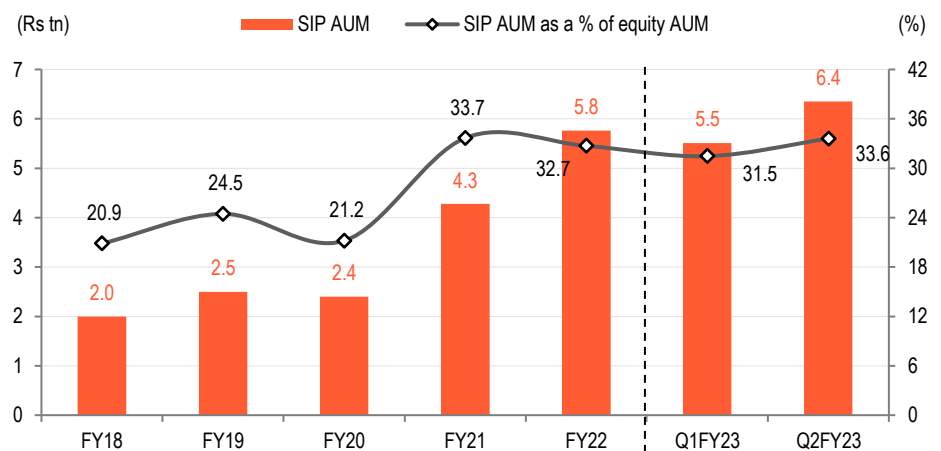
Source: Industry reports, BOBCAPS Research | Note: AUM = QAAUM; For Q1FY23, the data is NA as there was a net outflow

### SIP funds find favour

Systematic investment plans (SIP) have proved popular as investing a fixed amount at regular intervals (daily, monthly, weekly or quarterly) is convenient and allows investors to start small with an aim to accumulate capital over time. With contribution levels set low enough to make inflows less susceptible to cycles, SIPs have also helped reduce volatility in aggregate inflows.

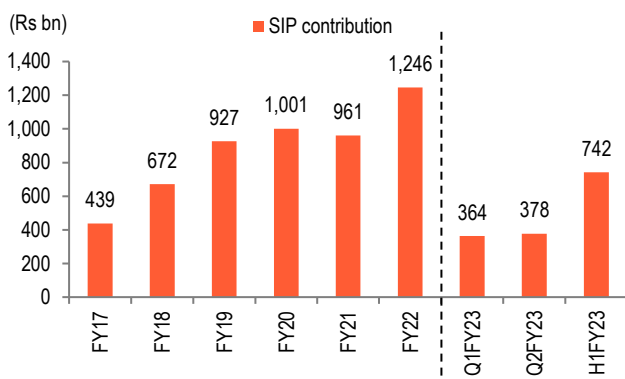
Monthly inflows into mutual funds through the SIP route have progressively increased, from Rs 37bn in FY17 to Rs 104bn in FY22. SIP QAAUM has swelled to Rs 5.8tn in FY22, forming 33% of equity assets as compared to 21% (Rs 2tn) in FY18. The number of outstanding SIP accounts has risen at a 26% CAGR over FY18-FY22 to 52.8mn.

**Fig 19 – SIPs gaining prominence in equity funds**



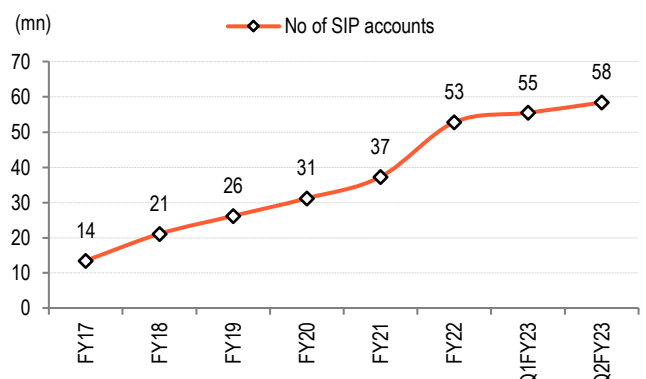
Source: Industry reports, BOBCAPS Research | Note: AUM = QAAUM

**Fig 20 – SIPs show strong momentum...**



Source: AMFI, BOBCAPS Research | Note: The above data is based on QAAUM

**Fig 21 – ...with rise in outstanding SIP accounts**



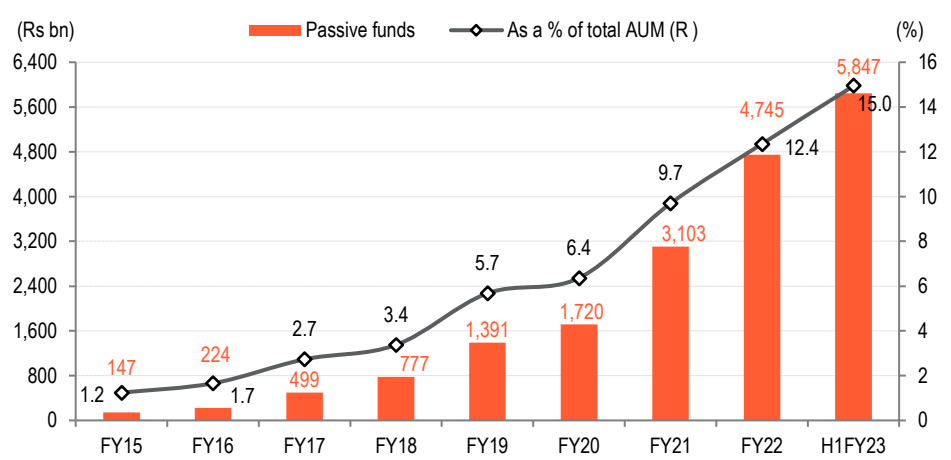
Source: AMFI, BOBCAPS Research

### Passive funds gaining traction

Passive funds are schemes that attempt to mimic a particular index, and include exchange traded funds (ETF) and index funds. These schemes dominate the market in developed countries but are only now gaining traction in India – from 1.2% of total QAAUM as of FY15 to 12.4% or Rs 4.7tn in FY22.

Passive funds have shot up further over FY22 to H1FY23 to Rs 5.8tn, forming 15% of total QAAUM. This can be attributed to (i) the underperformance of most active funds vis-à-vis the benchmark, and (ii) lower fees charged. ETF investments have also received a boost with the Employees’ Provident Fund Organisation (EPFO) now investing in this category.

**Fig 22 – Passive funds on the rise**



Source: AMFI, BOBCAPS Research | Note: AUM = QAAUM | Passive funds include gold ETFs, other ETFs and index funds

### Direct plans growing apace

Direct mutual fund plans (no distributor involvement) have gained traction, as evident from their growing share in the distribution mix – from 42% of MAAUM in FY17 to 45.6% in FY22 (44.8% in H1FY23). Consequently, non-associate distributor share has fallen from 51% to 47.2% in FY22.

**Fig 23 – Share of direct mutual fund plans in AUM is increasing**

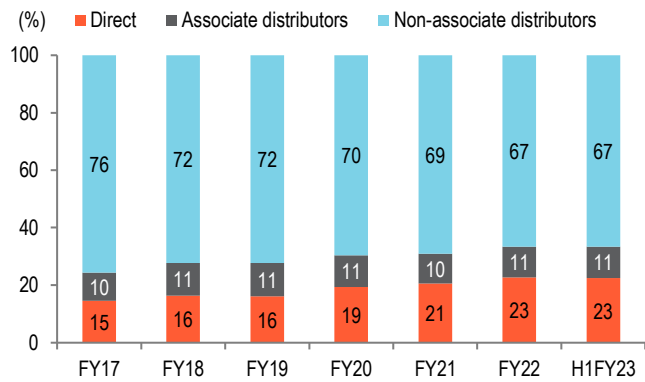
(%)	FY17	FY18	FY19	FY20	FY21	FY22	H1FY23
Direct	42.0	40.7	41.1	45.4	45.4	45.6	44.8
Associate distributors	7.0	8.1	8.2	7.8	7.3	7.2	7.5
Non-associate distributors	51.0	51.2	50.8	46.8	47.3	47.2	47.7

Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

In the equity/debt segments, 67%/35% of MAAUM is distributed through non-associate distributors but this proportion has been on the decline over the last five years. Direct channels accounted for 23%/57% whereas associate distributors were largely stable at 11%/7%.

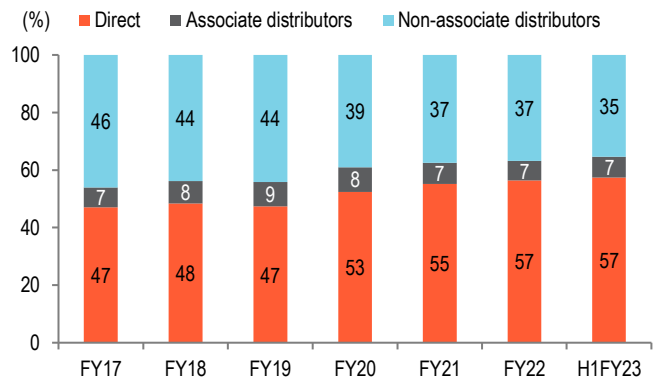


**Fig 24 – Share of non-associate distributors in equity AUM is declining**



Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

**Fig 25 – High share of direct channels in debt AUM**

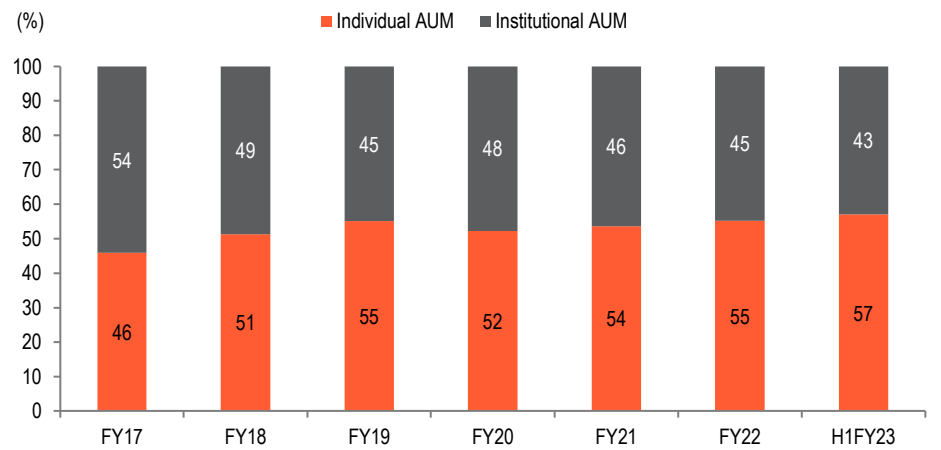


Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

### Individual investors outpacing institutions

The share of individuals in mutual fund MAAUM rose from 45.9% in FY17 to 55.2% in FY22 (and further to 57.1% in H1FY23). Institutional MAAUM registered an 11% CAGR vs. a much brisker 20% for individual assets over FY17-FY22, with investor interest focused largely on equity funds. Increased household participation stems from (i) financial inclusion and education, (ii) digitisation and thus convenient investment modes, and (iii) a marketing push by both, the regulator and distributors.

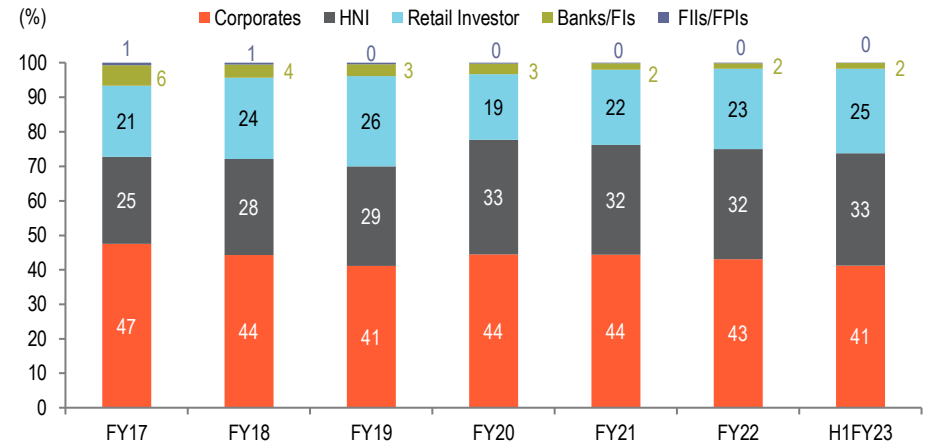
**Fig 26 – Individual investors win the race**



Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

Within individuals (defined as retail plus HNIs), retail investor share in AUM has risen by 275bps over FY17-FY22 whereas HNIs soared 650bps to 32%. Institutional investors – corporates, banks/financial institutions and foreign institutional/portfolio investors – saw a decline. The share of corporates and banks shrank over 400bps each whereas FIIs shed ~60bps.

**Fig 27 – HNI AUM the most impressive in the individual category**



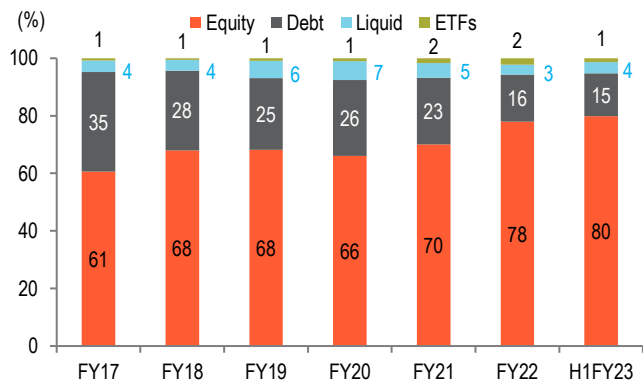
Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

**Equity preferred by individuals; debt/liquid funds by institutions**

Within the individual category, equity-based MAAUM more than tripled from Rs 5tn to Rs 16tn over FY17-FY22 (26% CAGR), constituting 78% of the total. This has swelled further to Rs 18.2tn or 80% share in H1FY23. Individuals constituted ~88% of total equity MAAUM in FY22 and H1FY23 vs. 85% in FY17, whereas debt funds grew at a meagre 3% CAGR and hence lost ground in the individual category.

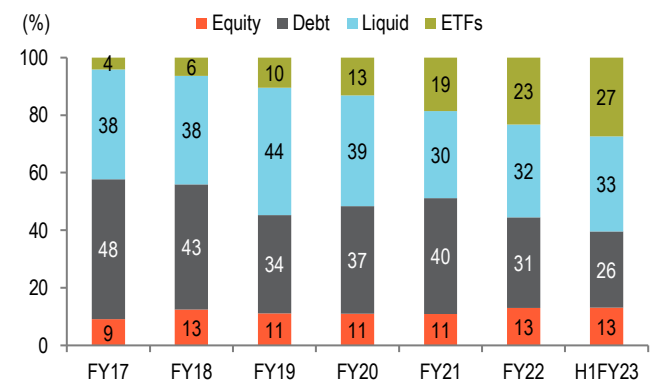
Debt and liquid funds together constituted the biggest chunk of institutional category MAAUM at 64% in FY22, but have seen a steady decline over the last five years from 86% in FY17. Equity has inched up from 9% to 13% and held ground in H1FY23. ETFs were the biggest gainers where MAAUM has soared from Rs 412bn (4%) in FY17 to Rs 3.9tn (23%) in FY22 and Rs 4.7tn in H1FY23 (27%).

**Fig 28 – Individual AUM – Equity dominates the investment mix**



Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

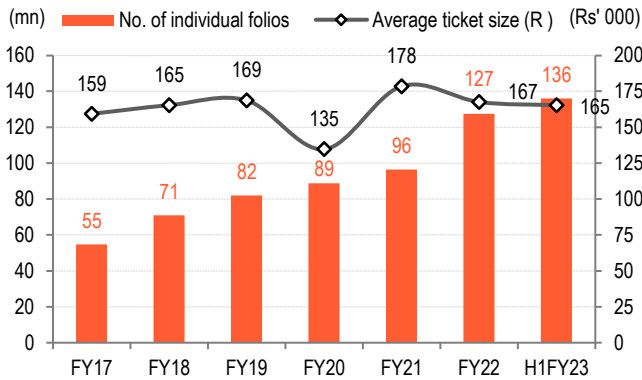
**Fig 29 – Institutional AUM – ETFs score big; debt and liquid funds have a high share but ceding ground**



Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

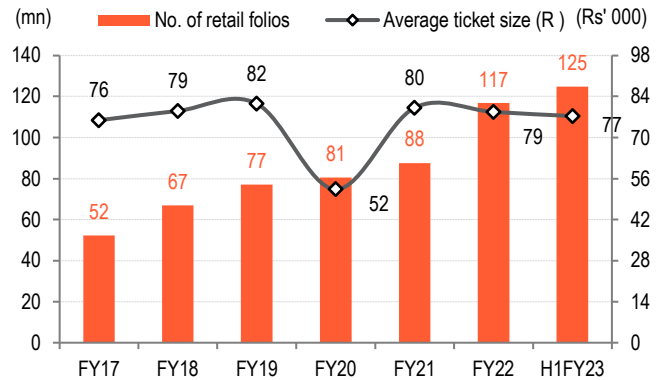
Rising retail participation can also be gauged from the increase in individual folios from 55mn in FY17 to 127mn in FY22 and further to 136mn in H1FY23. At the same time, average ticket size has not changed meaningfully, indicating that retail investors tend to invest a fixed sum in various schemes.

**Fig 30 – Steady increase in individual folios**



Source: AMFI, BOBCAPS Research

**Fig 31 – Increase in retail (individual + HNI) folios but avg. ticket size has fallen**



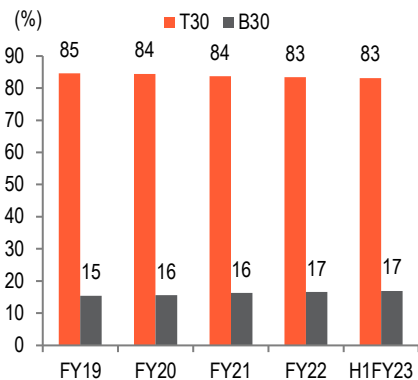
Source: Company, BOBCAPS Research

### T30 cities maintain 80% share

Mutual fund companies are focused on extending their reach in smaller towns and cities – also called B30 (Beyond the Top 30) regions – as the need for financialisation of savings is more acute in these areas. In order to encourage AMC's, the regulator in 2019 permitted them to charge an additional 30bps in expense ratios from retail investors. MAAUM for the T30 (Top 30) region has logged a 15% CAGR over FY19-FY22 to Rs 31.5tn, constituting 83% of the total vs. 85% in FY19. The loss of share was because B30 grew at a faster 18% CAGR over the same period.

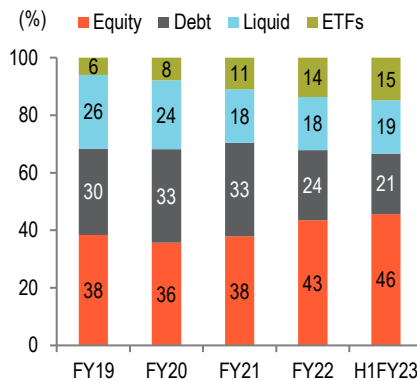
Within the T30, 43% of MAAUM was in equity during FY22 (46% in H1FY23), an increase of 500bps over the last four years. Debt and liquid funds witnessed declines, whereas ETFs were preferred at 14% of MAAUM vs. 6% in FY19. B30 was even more geared towards equity, whereas market share of debt and liquid funds declined. ETFs showed a minor increase.

**Fig 32 – T30 AUM share >80%**



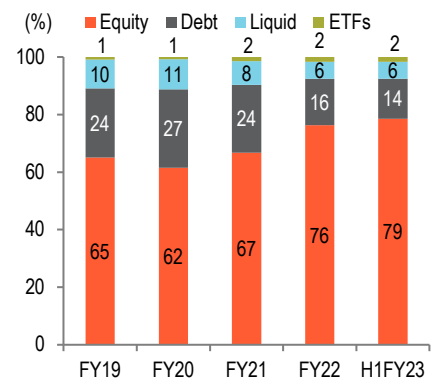
Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

**Fig 33 – T30 equity AUM share increasing...**



Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 34 – ...with the same trend in B30 mix**

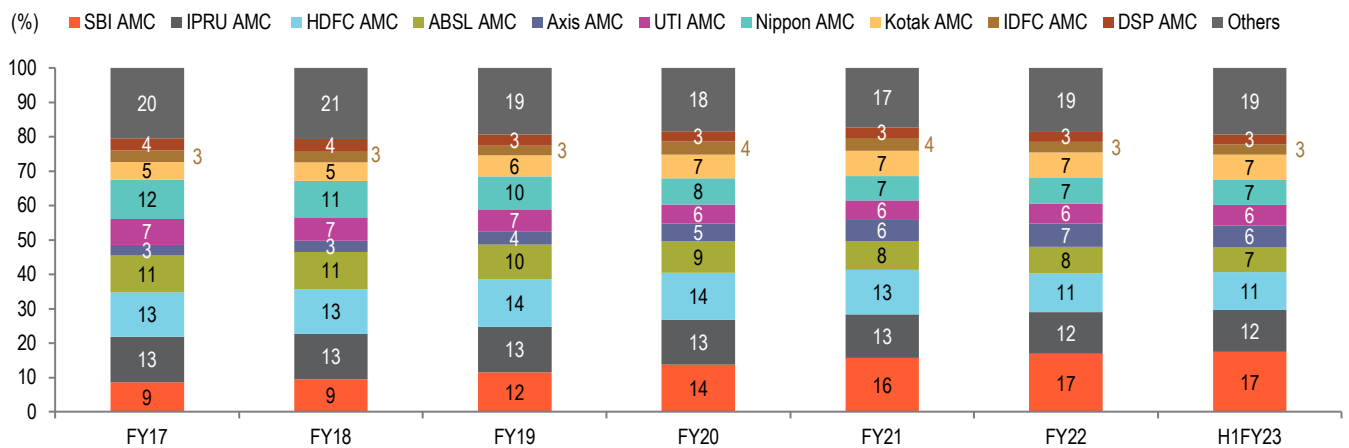


Source: Company, BOBCAPS Research | Note: AUM = MAAUM

## Top 10 players dominate the market

With the entrance of new players and consolidation among a slew of small and mid-sized companies, India currently has over 40 fund houses with non-zero mutual fund AUM. The mutual fund industry is dominated by the top 10 players who collectively command more than 80% of industry assets (QAAUM). Per AMFI, these players have gained market share over the last five years from 79.5% in FY17 to 81.4% in FY22 (80.7% in H1FY23) and strengthened their position in both T30 and B30 markets. The top 3 – SBI AMC, IPRU AMC and HDFC AMC – together constituted ~40% share, each supported/backed by a bank.

**Fig 35 – Leader SBI AMC has gained market share in AUM over last 5Y**



Source: AMFI, BOBCAPS Research | Note: AUM = QAAUM

**Fig 36 – Consolidation in the industry**

Year	Fund house exited	Merged with	Valuation (Rs bn)	AUM share in the industry while exiting (for the exiting entity, %)
2012	FIL Fund Management Pvt Ltd	L&T Investment Management Pvt Ltd	NA	1.31
2013	Daiwa Asset Management (India) Pvt Ltd	SBI AMC	NA	0.03
2014	ING Investment Management India Pvt Ltd	Aditya Birla Sun Life AMC	NA	0.06
2014	PineBridge Mutual Fund	Kotak Mahindra AMC	NA	0.07
2014	Morgan Stanley Investment Management Pvt Ltd	HDFC AMC	NA	0.28
2015	Goldman Sachs Asset Management (India) Pvt Ltd	Nippon India AMC	2.4	0.68
2015	Deutsche Bank Asset Management India Pvt Ltd	DHFL Pramerica Asset Managers	NA	1.89
2016	JP Morgan Asset Management India Pvt Ltd	Edelweiss Asset Management	NA	0.47
2019	DHFL Pramerica Asset Managers	PGIM India Asset Management Pvt Ltd	NA	0.31
2021	LT Finance Holdings	HSBC AMC	31	NA
2022	Yes Bank	White Oak	NA	NA
2022	BNP Paribas Asset Management India Pvt Ltd	Baroda Asset Management India	NA	0.24

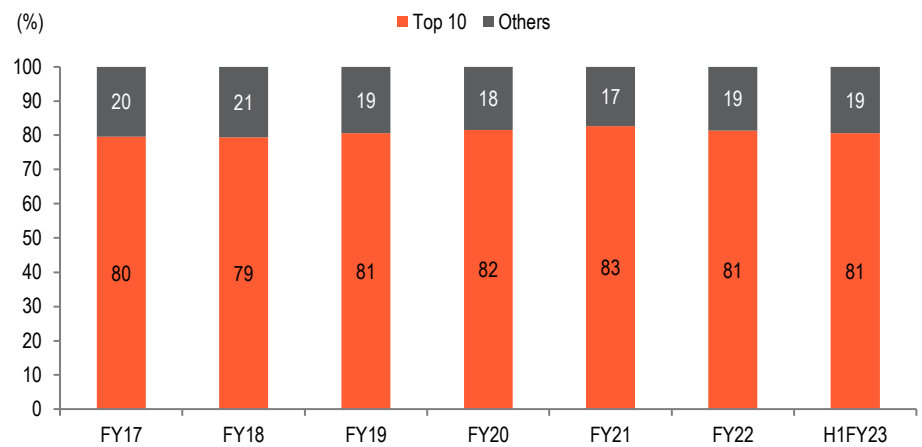
Source: ABSL AMC RHP, BOBCAPS Research

### SBI AMC remains in the lead

Of the top 10, only three players expanded market share in the last five years – SBI AMC, Axis AMC and Kotak AMC. SBI AMC remains the leader and biggest gainer, with its share surging to 16.9% in FY22 and 17.5% in H1FY23 from 8.6% in FY17.

Among the losers, Nippon AMC has shed 410bps to 7.4% in FY22 and remained flat in H1FY23. All the other three listed entities – UTI AMC, Aditya Birla Sunlife AMC and HDFC AMC – also witnessed market share losses of 160-300bps over the last five years. In H1FY23, however, UTI AMC gained 20bps to 6%, HDFC AMC held at 11%, and ABSL AMC fell to 7.2%. IPRU AMC, the #2 player, was steady at 12.2%.

**Fig 37 – Top 10 maintained AUM market share at ~80% for last six years**



Source: AMFI, BOBCAPS Research | Note: AUM = QAAUM

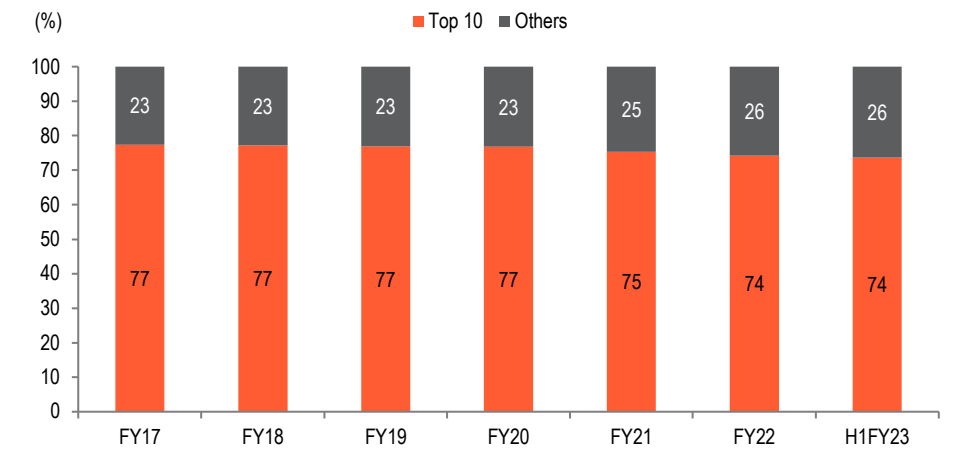
In terms of MAAUM as well, the top 10 players have gained market share over the last five years – from 79.7% in FY17 to 81.3% in FY22 (80.6% in H1FY23). The top 3 constituted 40% share.

### Equity – Keen investor interest

Over FY17-FY22, the MF industry’s MAAUM logged a 15% CAGR to Rs 37.7tn. Of this, equity assets grew at a faster 25% CAGR to Rs 18.4tn, constituting 49% of the total in FY22 and 51% in H1FY23 vs. 33% in FY17. However, the market share of the top 10 players in the equity category declined from 77.4% in FY17 to 74.2% in FY22 and 73.6% in H1FY23.

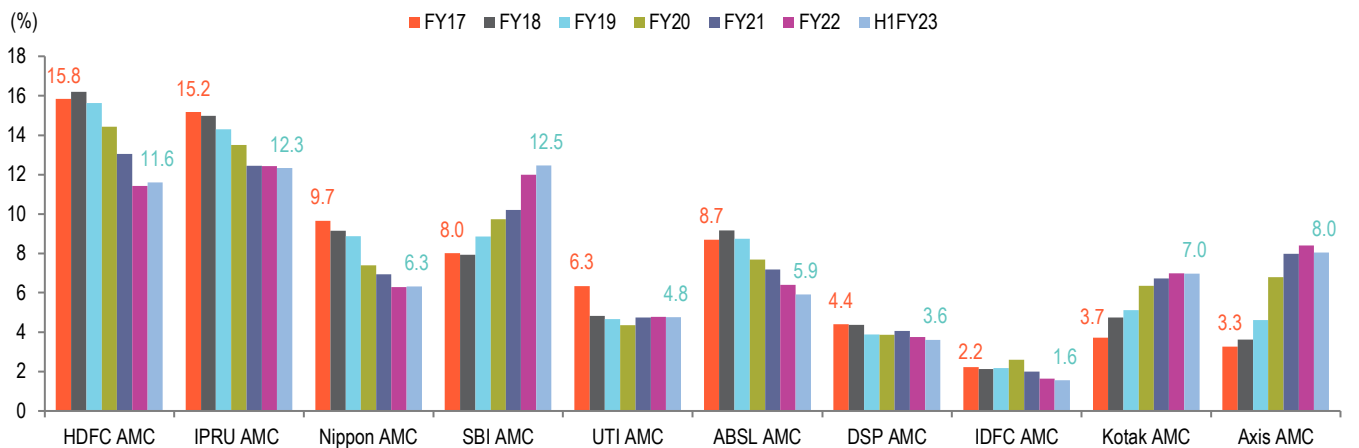
Among the listed players, HDFC AMC posted an increase from 11.4% in FY22 to 11.6% in H1FY23, Nippon AMC and UTI AMC held ground, whereas ABSL AMC lost share.

**Fig 38 – Equity AUM: Top 10 player market share has fallen over last 5Y**



Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

**Fig 39 – Equity AUM: Listed players-maintained market share in H1FY23; SBI AMC marched ahead**



Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

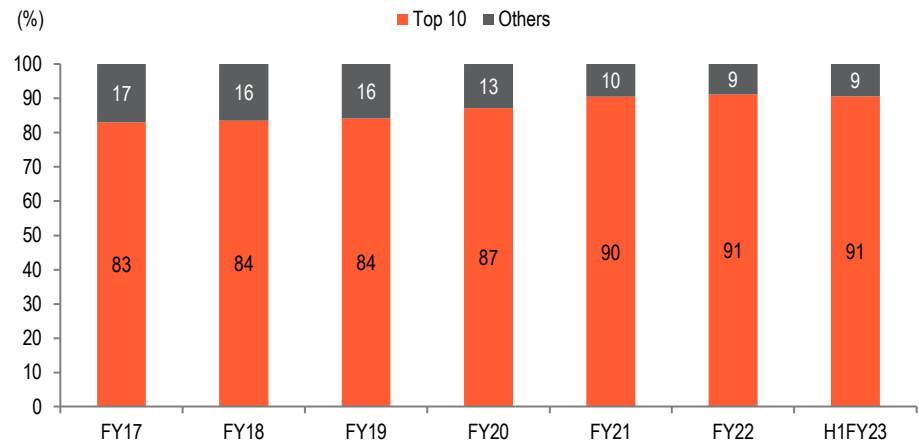
### Debt – Category losing sheen

The proportion of debt in MAAUM has dropped from 42% in FY17 to 23% in FY22 and 20% in H1FY23. Within this, the share of the top 10 players has risen from 83% in FY17 to 91.1% in FY22 (90.6% in H1FY23).

- Six of the top 10 have extended their foothold during FY17-FY22.
- IPRU AMC remains the biggest player with 15.7% share in H1FY23 (and also in FY22).
- Among the listed entities, #2 player HDFC AMC was able to expand market share over the past five years, whereas the other three, Nippon AMC, ABSL AMC and UTI AMC, ceded ground.
- SBI AMC’s share has grown from 7% in FY17 to 12.4% in FY22 and further to 13.3% in H1FY23, putting it in third place.

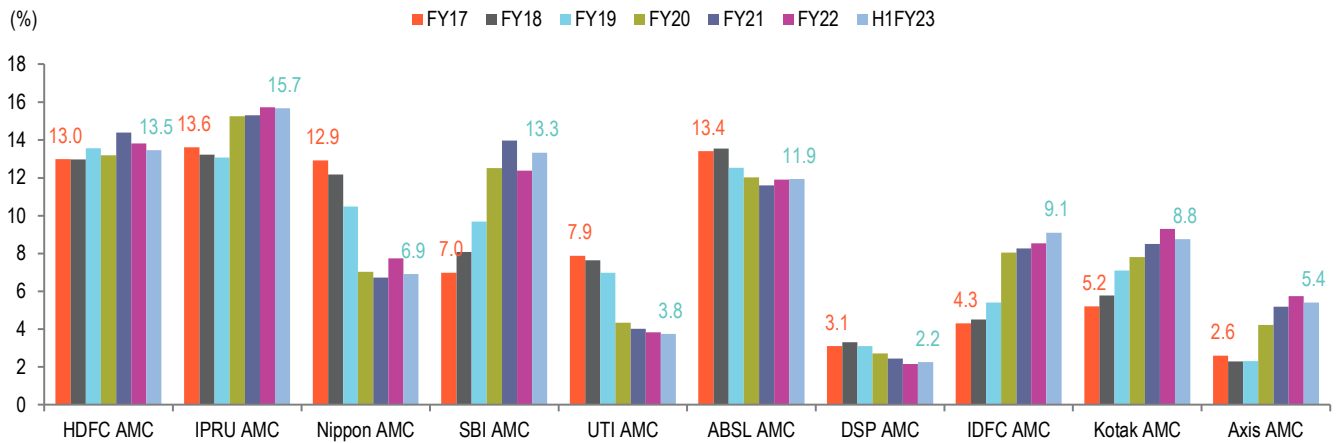


**Fig 40 – Debt AUM: Top 10 players expanded market share further over last 5Y**



Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

**Fig 41 – Debt AUM: SBI and HDFC AMC increased market shares**



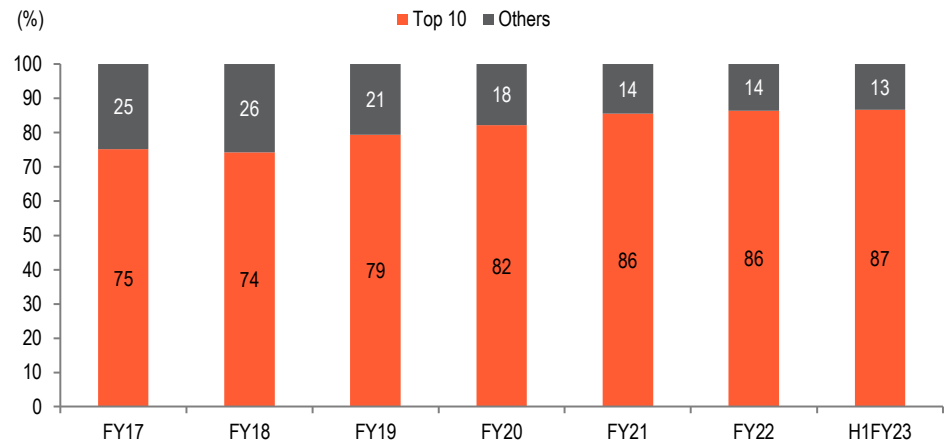
Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

### Liquid funds – Top 10 players at the fore

Liquid MAAUM constituted 16% of total AUM in FY22, down from 23% in FY17. Here too, the top 10 players have become more dominant, commanding 86.4% of the market in FY22 (86.7% in H1FY23) vs. 75.2% in FY17.

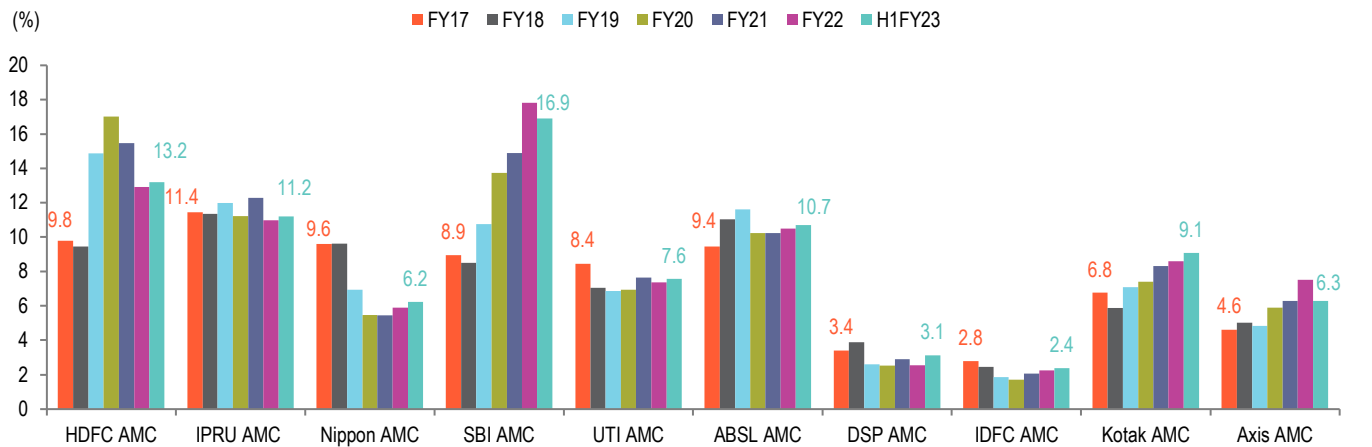
- Five of the top 10 have increased market share over FY17-FY22.
- Among the listed entities, HDFC AMC and ABSL AMC have moved up at the expense of Nippon AMC and UTI AMC. However, both the latter players saw some recovery in H1FY23 vs. FY22.
- SBI AMC’s share has risen from 8.9% to 17.8% (16.9% in H1FY23), making it the biggest player in the liquid segment.

**Fig 42 – Liquid AUM: Top 10 strengthened market share over last 5Y**



Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

**Fig 43 – Liquid AUM: SBI and HDFC AMC gained ground at the expense of Nippon and UTI AMC**



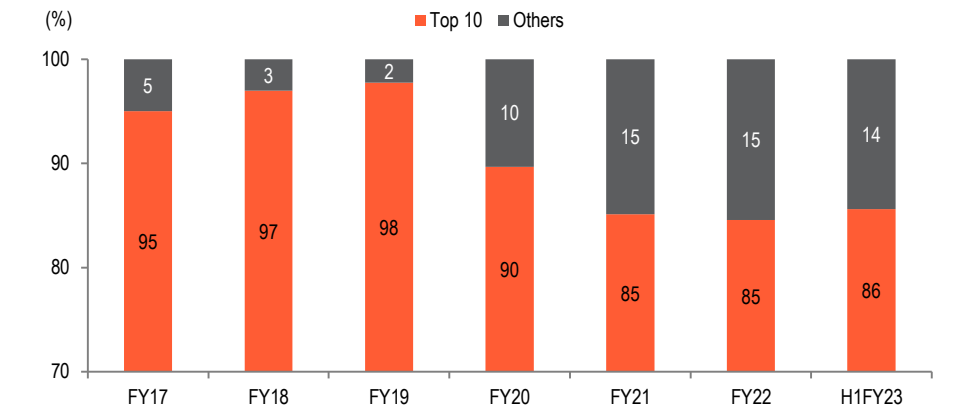
Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

### ETFs – Growing fast but top 10 cede ground

ETF/Others constituted 13% of total MAAUM in FY22, rising from 3% in FY17. Within this, the share of the top 10 players has decreased from 95% in FY17 to 84.6% in FY22 (85.6% in H1FY23).

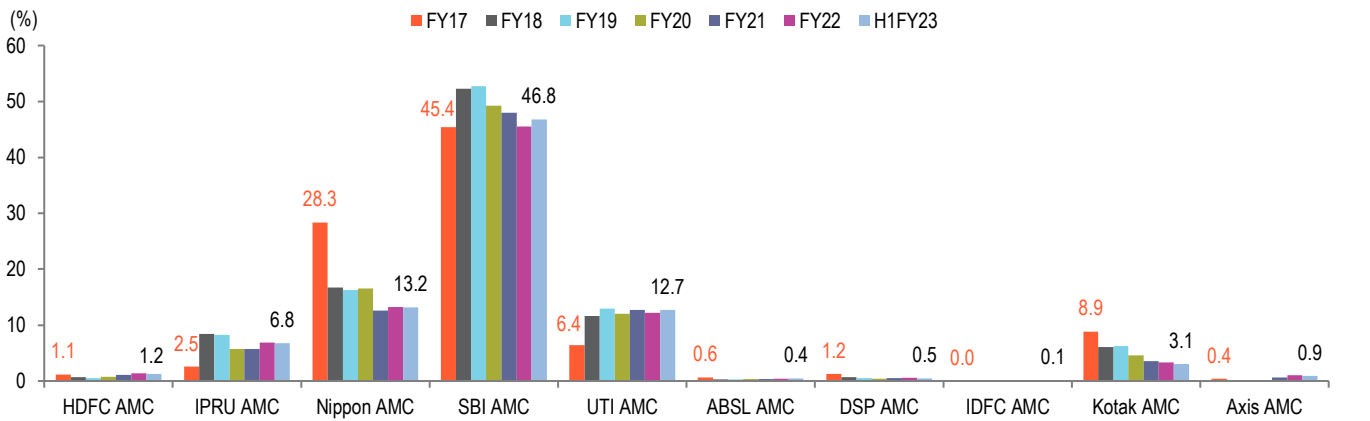
- Six of the top 10 have expanded market share over FY17-FY22.
- Despite a steady decline over the last four years, SBI AMC remains in the lead with 46% share (47% in H1FY23).
- Among the listed entities, UTI AMC increased market share over the last five years, whereas Nippon AMC has been the biggest loser. Both players remained stable between FY22 and H1FY23.

**Fig 44 – ETF/Others AUM: Top 10 players losing market share**



Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

**Fig 45 – ETF/Others AUM: SBI AMC remains the biggest player but is losing market share**

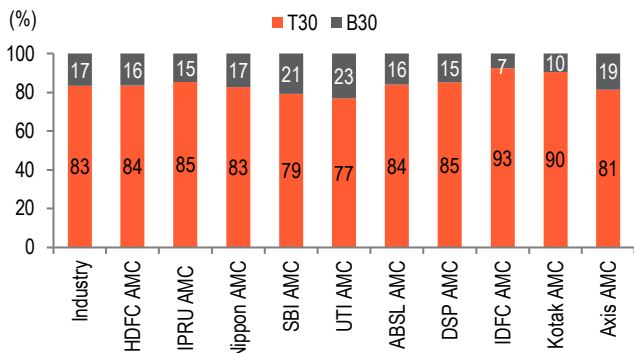


Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

### B30 – The key battleground

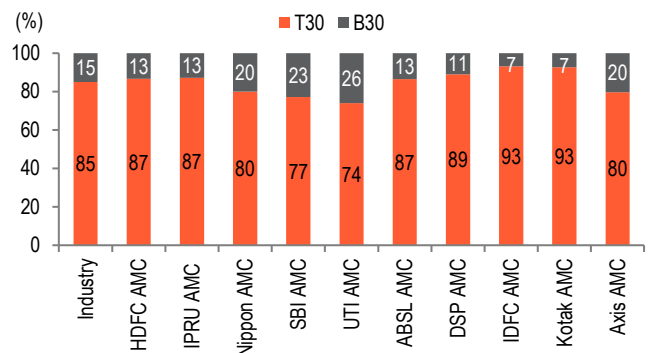
Geography-wise, the top 10 accounted for 81% of B30 AUM in FY22. SBI AMC and UTI AMC are the only two players with 20% or more share of respective MAAUM in the B30 region. IDFC AMC has the lowest penetration among the top 10 at ~7%. Among listed players, the market share of HDFC AMC and ABSL AMC improved over FY19-FY22 whereas UTI AMC and Nippon AMC saw declines.

**Fig 46 – AUM mix: UTI AMC’s B30 asset mix higher than peers in FY22...**



Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

**Fig 47 – ...remaining in the lead since FY19**



Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

## Scheme performance mixed

We have compared fund performance of listed players over one-year, three-year and five-year periods across three verticals: equity small-cap, equity mid-cap and equity large-cap. Our analysis shows a mixed performance across the four players.

**Fig 48 – Equity large-cap: UTI has fared well in the long term, HDFC, ABSL and Nippon in a 1Y time span**

Quartile	1Y performance		3Y performance		5Y performance	
	June'22	Sep'22	June'22	Sep'22	June'22	Sep'22
HDFC Top 100 Fund	Q1	Q1	Q4	Q3	Q2	Q2
Nippon India Large Cap Fund	Q1	Q1	Q3	Q1	Q2	Q1
Aditya Birla Sun Life Frontline Equity Fund	Q1	Q1	Q2	Q1	Q3	Q3
UTI Mastershare Fund	Q3	Q3	Q1	Q1	Q1	Q1

Source: AMFI, BOBCAPS Research | Note: Q1 - First Quartile, Q2 - Second Quartile, Q3 - Third Quartile, Q4 - Fourth Quartile | Note: Sharpe ratio taken as of Sep'30: HDFC – 0.12, Nippon – 0.14, ABSL – 0.40, UTI – 0.47

**Fig 49 – Equity mid-cap: HDFC's performance improved; others show decline in quartile performance**

Quartile	1Y performance		3Y performance		5Y performance	
	June'22	Sep'22	June'22	Sep'22	June'22	Sep'22
HDFC Mid-Cap Opportunities Fund	Q2	Q1	Q3	Q2	Q3	Q2
Nippon India Growth Fund	Q1	Q2	Q2	Q2	Q1	Q2
Aditya Birla Sun Life Mid Cap Fund	Q1	Q3	Q3	Q3	Q4	Q4
UTI Mid Cap Fund	Q2	Q2	Q2	Q2	Q2	Q2

Source: AMFI, BOBCAPS Research | Note: Q1 - First Quartile, Q2 - Second Quartile, Q3 - Third Quartile, Q4 - Fourth Quartile | Note: Sharpe ratio taken as of Sep'30: HDFC – 0.22, Nippon – 0.23, ABSL – 0.57, UTI – 0.98

**Fig 50 – Equity small-cap: Nippon's performance comparatively better in small-cap space**

Quartile	1Y performance		3Y performance		5Y performance	
	June'22	Sep'22	June'22	Sep'22	June'22	Sep'22
HDFC Small Cap Fund	Q4	Q3	Q4	Q4	Q2	Q2
Nippon India Small Cap	Q1	Q1	Q1	Q1	Q1	Q1
Aditya Birla Sun Life Small Cap Fund	Q4	Q4	Q4	Q4	Q4	Q4
UTI Small Cap Fund	Q2	Q1	NA	NA	NA	NA

Source: AMFI, BOBCAPS Research | Note: Q1 - First Quartile, Q2 - Second Quartile, Q3 - Third Quartile, Q4 - Fourth Quartile | Note: Sharpe ratio taken as of Sep'30: HDFC – 0.21, Nippon – 0.29, ABSL – 0.48, UTI - NA

## Financial review

While revenue yields for the sector have declined following regulatory curbs on management fees, we note that PAT yields have expanded for 8 of the top 10 AMCs over five years. In the listed space, HDFC AMC has the best revenue yield of 57bps but among the lowest ROE levels of 27% in FY22. On the flip side, ABSL AMC has the lowest yield of 49bps but the best ROE at ~34%.

### Decline in revenue yield on expected lines

AMCs were adversely affected by a lower total expense ratio (TER), as mandated by the FY20 SEBI directive. Consequently, yield on AUM for the top 10 players dipped from 69bps in FY18 to 48bps in FY22. DSP AMC stands out with the highest yield at 67bps in FY22, whereas Kotak AMC lags at the bottom of the pack with 32bps. In the listed space, HDFC AMC tops at 57bps while ABSL AMC has the lowest yield of 49bps. Blended yields are dependent on product mix and fund size.

**Fig 51 – Revenue yield affected by lower TER**

(%)	FY18	FY19	FY20	FY21	FY22
SBI AMC	0.68	0.62	0.40	0.37	0.35
HDFC AMC	0.70	0.65	0.60	0.56	0.57
IPRU AMC	0.69	0.64	0.60	0.59	0.60
ABSL AMC	0.57	0.56	0.49	0.46	0.49
Kotak AMC	0.47	0.47	0.35	0.31	0.32
Nippon AMC	0.74	0.66	0.52	0.61	0.56
Axis AMC	1.11	0.82	0.42	0.39	0.41
UTI AMC	0.70	0.64	0.55	0.58	0.52
IDFC AMC	0.49	0.40	0.35	0.33	0.35
DSP AMC	1.00	0.88	0.57	0.65	0.67
<b>Top 10</b>	<b>0.69</b>	<b>0.63</b>	<b>0.50</b>	<b>0.48</b>	<b>0.48</b>

Source: AMFI, BOBCAPS Research

### PAT yield improves

Although revenue yields declined, AMCs witnessed an improvement in PAT yields, reflective of the operating leverage achieved after attaining a particular scale of business. Eight of the top 10 AMCs saw expansion in PAT yield over the past five years. Axis AMC and IPRU AMC clocked the highest expansion of ~11bps in FY22 vs. FY18. UTI AMC and IDFC AMC posted declines of 3bps and 1bps respectively. Among listed entities, ABSL AMC and Nippon AMC saw yields rise by 9bps and 8bps respectively.

**Fig 52 – PAT yield expanded due to operating leverage**

(%)	FY18	FY19	FY20	FY21	FY22
SBI AMC	0.18	0.17	0.18	0.20	0.19
HDFC AMC	0.26	0.29	0.35	0.34	0.33
IPRU AMC	0.22	0.22	0.31	0.33	0.33
ABSL AMC	0.15	0.18	0.20	0.20	0.23
Kotak AMC	0.07	0.17	0.19	0.15	0.15
Nippon AMC	0.20	0.20	0.19	0.30	0.28
Axis AMC	0.06	0.07	0.10	0.15	0.18
UTI AMC	0.23	0.22	0.20	0.21	0.21
IDFC AMC	0.16	0.07	0.09	0.13	0.14
DSP AMC	0.28	0.30	0.15	0.29	0.32
<b>Top 10</b>	<b>0.20</b>	<b>0.20</b>	<b>0.23</b>	<b>0.24</b>	<b>0.24</b>

Source: AMFI, BOBCAPS Research

### ROE expands on average for the top 10

In FY22, ROE of the top 10 players reached its highest in the last five years – rising from 35.4% on average in FY18 to 36.3% in FY22. IPRU AMC headlines the list at 75%+ ROE for the last three years accompanied by best-in-class PAT yield. Among the listed players, HDFC AMC is at its lowest ROE in the last five years and ABSL AMC has the highest ROE in the listed space at ~34%.

**Fig 53 – ROE moving higher**

(%)	FY17	FY18	FY19	FY20	FY21	FY22
SBI AMC	32.2	36.7	35.4	36.1	37.8	34.8
HDFC AMC	42.8	40.3	35.0	35.6	30.1	27.0
IPRU AMC	70.1	76.0	66.3	83.1	80.3	76.9
ABSL AMC	25.2	33.0	36.7	37.2	33.7	33.7
Kotak AMC	27.9	41.6	65.3	51.1	35.2	30.4
Nippon AMC	24.4	21.4	19.5	16.2	23.3	22.2
Axis AMC	30.9	18.3	19.3	31.2	43.1	45.4
UTI AMC	17.1	17.1	15.2	12.4	12.9	13.8
IDFC AMC	55.7	41.0	15.8	27.3	42.6	58.9
DSP AMC	15.5	28.9	25.3	10.0	19.1	20.0
<b>Top 10 - Average</b>	<b>34.2</b>	<b>35.4</b>	<b>33.4</b>	<b>32.0</b>	<b>35.8</b>	<b>36.3</b>

Source: Company, BOBCAPS Research

### Commission payout increased in FY22

The commission payout to distributors increased in FY22 on account of buoyant equity markets. Expense ratios were reset in FY19 after SEBI issued new regulations. At the industry level, the commission payout increased by 11bps to 77bps at end-FY22. Listed peers saw a 7-28bps YoY rise during FY22.

**Fig 54 – Commission payout moved up in FY22**

(bps)	FY18	FY19	FY20	FY21	FY22
<b>Industry</b>	<b>93</b>	<b>79</b>	<b>61</b>	<b>66</b>	<b>77</b>
UTI AMC	67	75	48	45	66
Nippon AMC	82	67	56	64	92
ABSL AMC	79	67	56	56	64
HDFC AMC	92	69	48	48	57

Source: Company, AMFI, BOBCAPS Research



## Key business risks

- **Decline in equity markets:** Equity constitutes a significant portion of mutual fund AUM. Thus, a steep fall-off in Indian equity markets would cause managed AUM to decline directly as securities lose value, and indirectly as investments become less attractive, resulting in net outflows or redemptions. Any decrease in AUM will cause a decline in fees and consequently net profit.
- **Regulatory risks:** AMCs are regulated by SEBI through a variety of regulations and guidelines. If an AMC is unable to comply with the observations made by SEBI, penalties and restrictions may be imposed.
- **Competition from other financial instruments:** Financial literacy in India is low. Thus, an investor may choose a fixed deposit for guaranteed returns. Also, some life insurance products provide guaranteed returns along with life risk cover. ULIPs provide exposure to equity markets along with life risk cover. Thus, the MF industry faces stiff competition.
- **Covid-like disruptions:** While we believe that Covid-related lockdowns may not be very severe 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.

## Annexures

### A: Key regulations

**Fig 55 – Key regulations for transparency and protecting consumers**

Date	Regulation
Oct'18	<ul style="list-style-type: none"> <li>Upfront commissions paid by AMC's for MF schemes banned and full trail-fee model introduced (SIPs excluded)</li> <li>Fees and expenses charged on a direct plan cannot exceed those of a regular plan</li> </ul>
Mar'19	<ul style="list-style-type: none"> <li>Rules tightened regarding upfront trail commissions paid to distributors on registering SIPs for first-time investors:                             <ul style="list-style-type: none"> <li>Upfront trail commission limited to up to 1% and payable yearly in advance for a maximum of three years; also, restricted to SIPs of up to Rs 3,000 a month per scheme for someone investing in mutual funds for the first time</li> <li>Upfront trail commission to be paid from the AMC's books and amortised daily to the scheme over the period for which the payment was made</li> </ul> </li> <li>SEBI had earlier allowed an additional total expense ratio (TER) of 30bps to attract retail investments from beyond the top-30 (B30) cities. It has now defined the term 'retail investor' from B30 cities as one who invests Rs 0.2mn per transaction</li> </ul>
Apr'19	<ul style="list-style-type: none"> <li>TER lowered and slabs changed</li> </ul>
Nov'19	<ul style="list-style-type: none"> <li>Minimum investment limit for PMS clients raised 2x to Rs 5mn and base net-worth requirement increased to Rs 50mn (from Rs 20mn), with portfolio managers given three years to meet the enhanced requirement</li> <li>Portfolio managers not permitted to invest more than 25% of their AUM in unlisted securities</li> </ul>
Feb'20 (effective Oct'20)	<ul style="list-style-type: none"> <li>PMS providers not allowed to pay upfront commissions to distributors; only trail commissions permitted</li> <li>A 'direct' option introduced for PMS investors who do not wish to invest through distributors, which would exclude distribution fees</li> <li>PMS providers could continue to charge annual fees, as a percent of an investor's corpus</li> </ul>
Sep'20	<ul style="list-style-type: none"> <li>Investment advisers must ensure segregation of advisory and distribution activities at the client level</li> <li>An individual shall have the option to register as an Investment Adviser or provide distribution services as a Distributor</li> <li>Under the assets under advice (AUA) mode, maximum fees to be charged cannot exceed 2.5% of AUA p.a. per client across all services offered by the investing agent</li> <li>In the fixed-fee mode, maximum fees to be charged cannot exceed Rs 125,000 p.a. per client across all services</li> </ul>
Apr'21	<ul style="list-style-type: none"> <li>A fifth of the income* net of income tax and any statutory contributions (provident fund and national pension scheme) of the top executives (CEO, CIO, Fund Managers, etc.) must be paid in the form of units of mutual fund schemes they oversee</li> </ul> <p>*Salary/perks/bonus/non-cash compensation (gross annual cost-to-company)</p>
Aug'21	<ul style="list-style-type: none"> <li>AMCs must mention the scheme risk-o-meter and benchmark in all promotional communications. The risk-o-meter mechanism was revamped by SEBI and made effective from Jan'21. It is based on the portfolio of the scheme and has six levels of risks. Unlike the old system where the risk-o-meter was decided at the time of scheme launch, the new system revisits the risk-o-meter every month.</li> </ul>

Source: SEBI, Newspaper articles, BOBCAPS Research

**Fig 56 – TER reduced for equity-oriented schemes**

Equity-oriented schemes		Equity-oriented schemes	
AUM slab (Rs bn)	Old (%)	AUM slab (Rs bn)	New (%)
0-1	2.50	0 - 5	2.25
1-4	2.25	5 - 7.5	2.00
4-7	2.00	7.5 - 20	1.75
>7	1.75	20-50	1.60
		50 - 100	1.50
		100 - 500	TER reduction of 0.05% for every increase of Rs 50bn AUM or part thereof
		>500	1.05

Source: SEBI, BOBCAPS Research

**Fig 57 – TER for other schemes also lowered**

AUM slab (Rs bn)	Debt-oriented schemes	Exchange-traded funds (ETFs, incl. gold ETFs) / Index funds	Fund of Funds (FoF) domestic and foreign	AUM slab (Rs bn)	TER except equity-oriented schemes
	Old (%)	Old (%)	Old (%)		New (%)
0-1	2.25	1.50	Maximum 2.5% including the TER of underlying schemes	0 - 5	2.00
1-4	2.00	1.50		5 - 7.5	1.75
4-7	1.75	1.50		7.5 - 20	1.50
>7	1.50	1.50		20-50	1.35
				50 - 100	1.25
				100 - 500	TER reduction of 0.05% for every increase of Rs 50bn AUM or part thereof
				>500	0.80

Source: SEBI, BOBCAPS Research

## B: Classification of mutual funds

### Mutual funds based on structure

- **Open-ended schemes** do not have a fixed maturity period, i.e., schemes are available for subscription and repurchase on a continuous basis. They can be purchased and redeemed on any transaction day. A mutual fund may stop accepting new subscriptions for open-ended schemes from investors, but is required to repurchase investor units at any time.
- **Closed-ended schemes** can be purchased only during the new fund offer period and redeemed only at maturity. However, the funds are listed on stock exchanges (as mandated by regulation), where investors can sell their units to other investors. The units may trade on the exchange at a premium or discount to their issue price.

### Mutual funds based on management style

- **Passive funds** are schemes that attempt to mimic a particular index. They include ETFs and index funds. Expenses for passive funds are typically lower than those for active funds due to their lower fund management costs.
- **Active funds** attempt to generate higher returns than their benchmark index by actively managing the portfolio. An active fund investor relies on the expertise of a fund manager who buys and sells securities based on his/her research and judgment of the market.

### Mutual funds based on asset class

- **Equity schemes** include funds that invest in multi-caps, flexi-caps, large-caps, large-and mid-caps, mid-caps and small-caps; dividend yield, value, contra, focused, sectoral/thematic funds; and equity-linked savings scheme (ELSS). The characteristics of these equity schemes typically vary in terms of the minimum investment in equity and equity-related instruments as a percentage of the fund's total assets.

- **Debt schemes** include overnight, liquid, ultra-short duration, low-duration, money market, short-duration, medium-duration, medium-to-long-term duration, and long-duration funds; dynamic bond, corporate bond and credit risk funds; banking and PSU funds, gilt and floater funds. The characteristics of these debt schemes typically vary in terms of the maturity duration of the portfolio and the type of debt assets they invest in.
- **Hybrid schemes** include conservative hybrid, balanced hybrid, aggressive hybrid, dynamic asset allocation or balanced advantage funds, arbitrage funds and equity savings funds. The characteristics of these hybrid schemes typically vary in terms of the proportion of total assets invested in equity versus debt assets.
- **Solution-oriented schemes** are primarily retirement and children funds, which typically have lock-in periods for at least five years or until retirement or until the child attains majority, as applicable.
- **Other schemes** include index funds/ETFs, which replicate or track a particular index, and funds of funds, which are typically further categorised as overseas or domestic.

## C: Glossary

Glossary of Abbreviations	
<b>AIF:</b> Alternative Investment Funds	<b>HNI:</b> High Networth Individual
<b>AMC:</b> Asset Management Company	<b>KYC:</b> Know Your Customer
<b>AUA:</b> Assets Under Advice	<b>LRS:</b> Liberalised Remittance Scheme
<b>AUM:</b> Assets Under Management	<b>MAAUM:</b> Monthly Average Assets Under Management
<b>B30:</b> Beyond the Top 30 cities	<b>MF:</b> Mutual Fund
<b>BOT:</b> Build, Operate & Transfer (BOT) model	<b>MFD:</b> Mutual Fund Distributor
<b>CMPFO:</b> Coal Mines Provident Fund Organization	<b>NFO:</b> New Fund Offer
<b>ELSS:</b> Equity-linked Savings Scheme	<b>NRI:</b> Non-Resident Indian
<b>EMR:</b> Emerging Market Representative	<b>NSDF:</b> National Skill Development Fund
<b>EPFO:</b> Employees' Provident Fund Organization	<b>PMS:</b> Portfolio Management Services
<b>ESIC:</b> Employee State Insurance Corporation	<b>QAAUM:</b> Quarterly Average Assets Under Management
<b>ETF:</b> Exchange Traded Funds	<b>SEBI:</b> Securities and Exchange Board of India
<b>FI:</b> Financial Institution	<b>SIP:</b> Systematic Investment Plan
<b>FII:</b> Foreign Institutional Investor	<b>STP:</b> Systematic Transfer Plan
<b>FMP:</b> Fixed Maturity Plan	<b>T30:</b> Top 30 cities
<b>FoF:</b> Fund of Funds	<b>TER:</b> Total Expense Ratio
<b>FPI:</b> Foreign Portfolio Investment	<b>ULIP:</b> Unit-linked Insurance Plan

Source: BOBCAPS Research



# Companies

**BUY**

TP: Rs 347 | ▲ 38%

NIPPON LIFE INDIA AMC | NBFC

11 January 2023

## Early bird advantage – initiate with BUY

- Leveraged early entry into the crowded ETF space to cement leadership in category volumes/folios (+70%/60% market share)
- Focus on fast-growing retail segment (29% of MAAUM in H1FY23), aided by strong distribution backbone
- Expect AUM CAGR of 10% for FY22-FY25; initiate with BUY and a TP of Rs 347

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**Competitive advantage in ETFs; top-quartile equity fund performance:** Nippon AMC is a leader in the ETF industry with 71%/60% volume/folio share on both exchanges (NSE, BSE). Category market share has risen from 12.6% in FY21 to 13.2% at end-H1FY23, with overall share stable at ~7%. ETFs within its QAAUM swelled from 6% (Rs 125bn) at end-FY17 to 22% (Rs 638bn) in H1FY23, logging a 35% CAGR in absolute terms over FY17-FY22. The company has the largest bouquet of ETFs (25), spread across equity, debt and commodities. This apart, we expect top-quartile scheme performance in the equity large- and small-cap categories to aid an overall AUM CAGR of 10% over FY22-FY25 to Rs 3.7tn.

**Robust retail franchise:** Despite the absence of a captive client base as compared to bank-managed entities, retail investors contributed 29% of Nippon AMC's MAAUM vs. 25% for the industry on average at end-H1FY23. The overall individual segment (retail plus HNI) also has a healthy share, at 53% vs. 57% for the industry. In a key positive, the company's SIP book shows longevity with 14% of total folios and 53% of AUM continuing for over five years (vs. 10% and 22% for the industry respectively).

**Broad distribution network:** Nippon AMC has a multi-channel distribution network consisting of partnerships with 73 banks, 92 national distributors, 79 alternate channels (incl. state-owned banks) and 87,000+ distributors. The company has also partnered with new-age fintech players for better coverage. Its own physical touch-points are spread over 270 locations pan-India – amongst the highest in the industry. Mutual fund distributors contributed a lion's share of distributed assets at 60%; banks/national distributors constituted 19%/21% at end-H1FY23.

**Initiate with BUY:** Nippon AMC is currently trading at 17x FY25E EPS. We value the stock at 24x FY25E EPS, 1SD below the long-term mean, to arrive at a TP of Rs 347. We like the company for its competitive advantage in ETFs, stable market share, high retail focus, diversified distribution network and sustained high dividend payout – initiate with BUY.

Ticker/Price	NAM IN/Rs 251
Market cap	US\$ 1.9bn
Free float	11%
3M ADV	US\$ 1.3mn
52wk high/low	Rs 376/Rs 243
Promoter/FPI/DII	74%/6%/9%

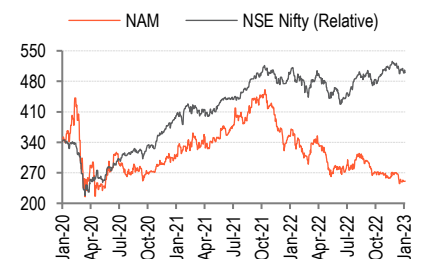
Source: NSE | Price as of 11 Jan 2023

## Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Core PBT (Rs mn)	7,597	7,528	8,249
Core PBT (YoY)	46.1	(0.9)	9.6
Adj. net profit (Rs mn)	7,434	7,259	8,177
EPS (Rs)	11.8	11.6	13.0
Consensus EPS (Rs)	11.8	11.6	13.6
MCap/AAAUM (%)	5.6	5.1	4.6
ROAAAUM (bps)	26.2	23.5	24.1
ROE (%)	22.6	20.7	22.5
P/E (x)	21.3	21.7	19.3

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



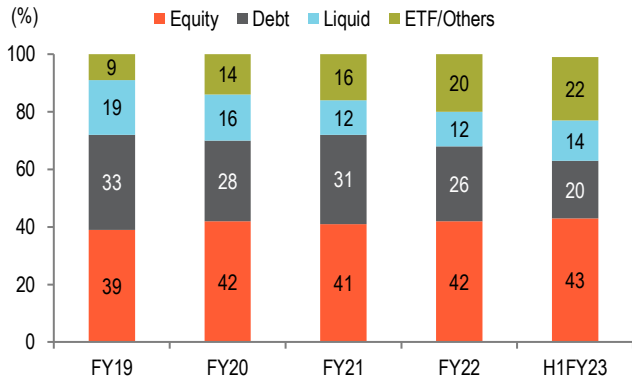
Source: NSE

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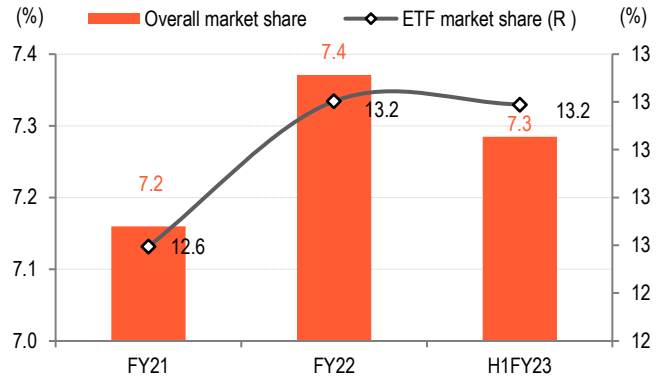
## Focus charts

**Fig 1 – Share of ETFs in Nippon AMC's AUM has more than doubled since FY19**



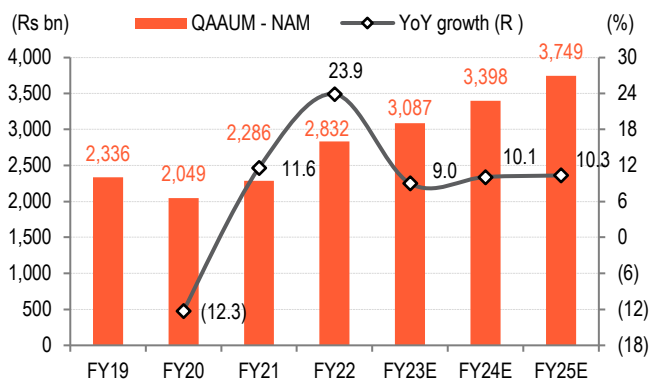
Source: Company, BOBCAPS Research | Note: AUM = QAAUM

**Fig 2 – Market share in ETFs has risen to 13%; overall share stable at ~7%**



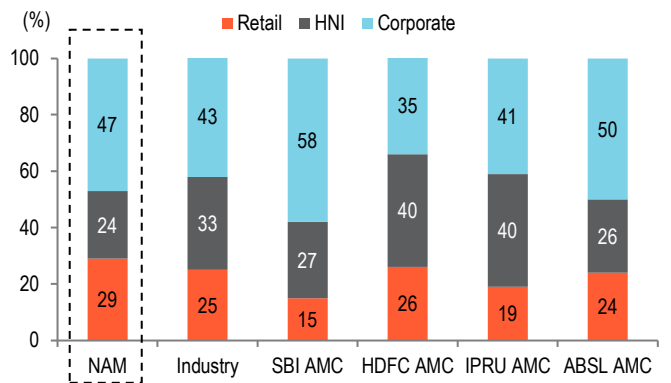
Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 3 – Expect AUM CAGR of 10% for FY22-FY25E**



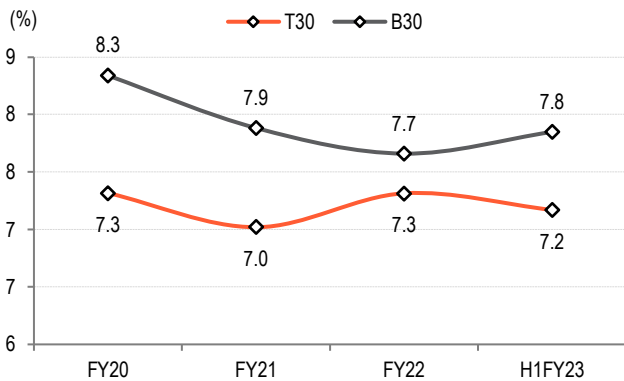
Source: Company, BOBCAPS Research | Note: AUM = QAAUM

**Fig 4 – Retail share higher than the industry despite being a non-bank-managed entity, H1FY23**



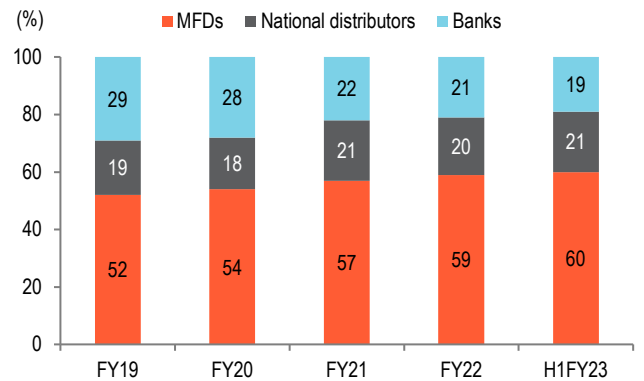
Source: Company, BOBCAPS Research

**Fig 5 – Market share in T30 & B30 geographies broadly stable**



Source: Company, BOBCAPS Research

**Fig 6 – MFD share in distributed assets has increased**



Source: Company, BOBCAPS Research | MFD – Mutual Fund Distributor



## Investment rationale

### Key competitive advantage in ETFs

Nippon Life India AMC (Nippon AMC) was among the early entrants into exchange-traded fund (ETF) segment and maintains a strategic focus on the business. The company has successfully leveraged its first-mover advantage to cement leadership in ETF volumes and folios, commanding 71% and 60% of the market respectively (NSE and BSE combined). Offerings in the segment comprise an extensive bouquet of 25 ETFs – the largest in the industry – spread across equities, debt and commodities.

The company's overall QAAUM posted a 6.1% CAGR during FY17-FY22 to Rs 2.8tn, with ETFs soaring from Rs 125bn (6% of the mix) to Rs ~560bn (20%) over this period – a 35% CAGR in absolute terms. As at H1FY23, assets in this category have risen further to Rs 638bn (22% of the mix).

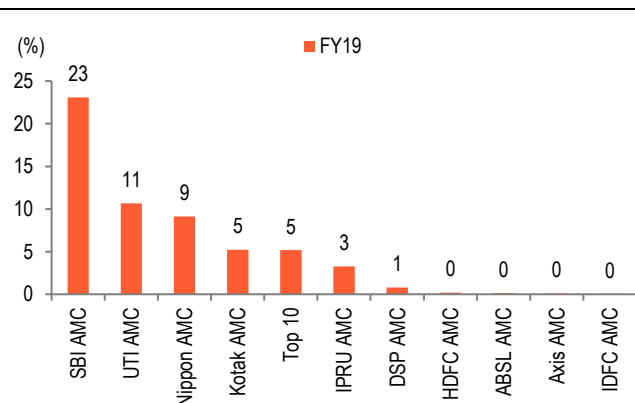
We expect Nippon AMC to maintain its leadership in ETFs and model for a 20% CAGR in the segment over FY22-FY25 to Rs 986bn, supporting 10% growth in overall AUM to Rs 3.7tn. The proportion of equity in the company's total assets has risen from 27% at end-FY17 to 42% in FY22 (43% in H1FY23) and we expect to reach 45% at end-FY25.

**Fig 7 – Competitive advantage in ETF volumes (NSE volume Jul-Sep 2022)\***

Mutual Funds (Rs mn)	Nifty 50 ETFs	Nifty Bank ETFs & Nifty Private Bank ETFs	Gold ETFs	Liquid ETFs
<b>Nippon AMC</b>	<b>682</b>	<b>329</b>	<b>140</b>	<b>1,801</b>
SBI AMC	87	60	26	-
Kotak AMC	20	79	12	-
ICICI Prudential AMC	81	35	21	265
HDFC AMC	11	2	24	-
Others	46	2	9	33
<b>Total</b>	<b>926</b>	<b>507</b>	<b>232</b>	<b>2,100</b>
Industry Average (excl. Nippon ETF)	15	16	9	149
<b>Nippon AMC's volume vis-à-vis Industry average</b>	<b>45x</b>	<b>20x</b>	<b>15x</b>	<b>12x</b>

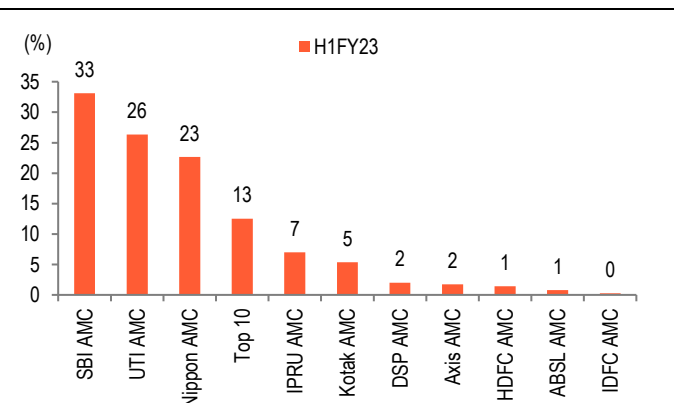
Source: Company, BOBCAPS Research | \*Average Daily Turnover

**Fig 8 – ETFs in AMCs' AUM mix was lower across players in FY19...**

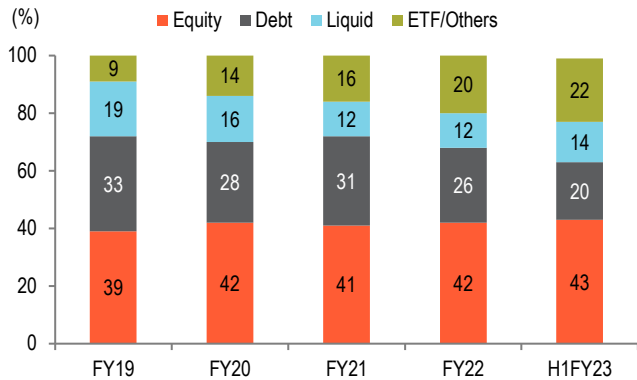


Source: Company, BOBCAPS Research | Note: AUM = MAAUM

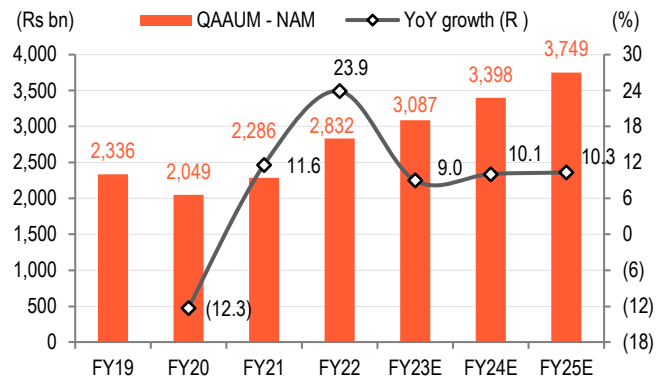
**Fig 9 – ...but has steadily gained traction across the board**



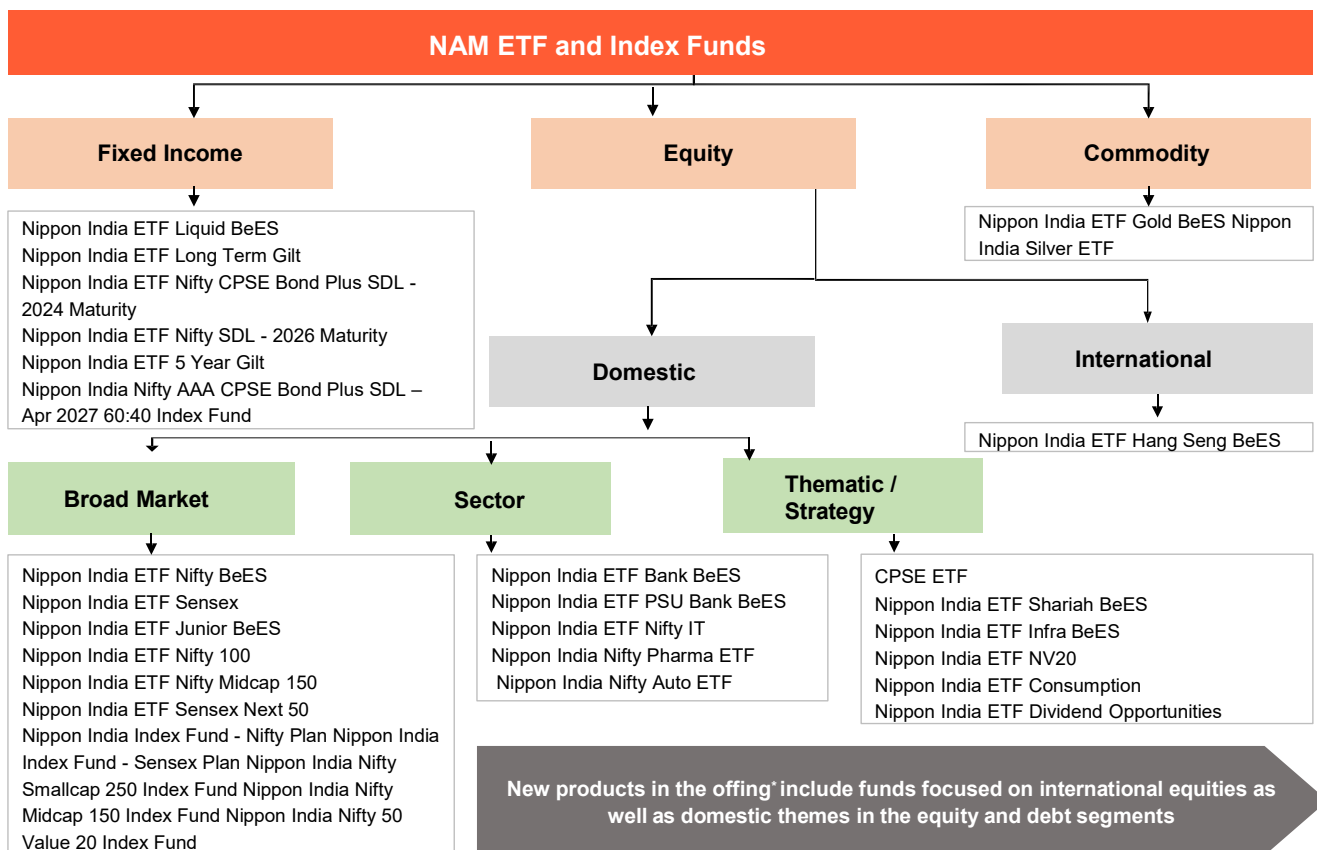
Source: Company, BOBCAPS Research

**Fig 10 – ETF share in Nippon AMC’s AUM has more than doubled to 22% in 5Y**


Source: Company, BOBCAPS Research | Note: AUM = QAAUM

**Fig 11 – Expect 10% AUM CAGR for Nippon AMC led by 20% growth in ETFs over FY22-FY25E**


Source: Company, BOBCAPS Research | Note: AUM = QAAUM

**Fig 12 – Nippon AMC’s broad ETF product slate reflects strategic focus on the segment**


Source: Company, BOBCAPS Research | Note: The above data is as of H1FY23 | \* Draft schemes filed with SEBI

## SIP book remains sticky with increasing flows

Flows into Nippon AMC's systematic investment plans (SIP) have increased steadily to Rs 9bn at end-H1FY23, representing 6.9% market share. The company's SIP book also shows longevity with 14% of the total folios (vs. 10% for the industry) and 53% of the AUM (22%) running for over five years. As much as 45% of the company's equity QAAUM is routed via SIPs.

**Fig 13 – SIP inflow has increased steadily since Mar'21**

(Rs mn)	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Jun-22	Sep-22
Nippon AMC's SIP inflows	7,500	8,590	6,830	6,560	7,330	8,000	9,000
Industry inflows	71,190	80,550	86,410	91,820	1,23,280	1,23,000	1,30,000
SIP flow market share (%)	10.5	10.7	7.9	7.1	5.9	6.5	6.9

Source: Company, BOBCAPS Research

**Fig 14 – Large share of equity AUM comes from SIPs**

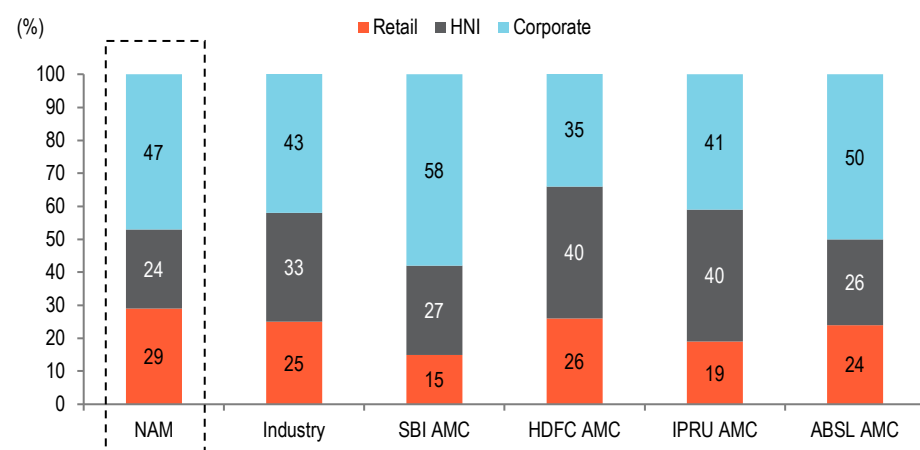
(Rs bn)	Mar-22	Sep-22
SIP QAAUM	514	555
Equity QAAUM	1,189	1,240
SIP QAAUM as a % of Equity QAAUM	43	45

Source: Company, BOBCAPS Research

## Robust retail franchise

Despite being a non-bank affiliated entity (and hence lacking a captive base of banking clients), Nippon AMC has been able to build a strong retail franchise. Retail investors contributed 29% of its MAAUM vs. 25% for the industry on average at end-H1FY23. Performance in the overall individual segment (retail plus HNI) is also healthy, at 53% of MAAUM vs. 57% for the industry.

**Fig 15 – Focus on individual segment; retail AUM mix higher than industry average, H1FY23**



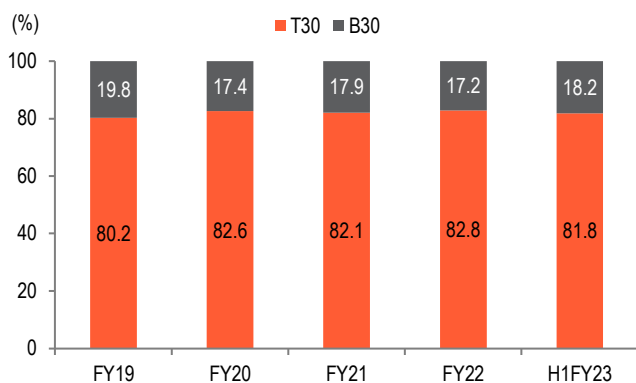
Source: Company, BOBCAPS Research | Note: AUM = MAAUM

## Growing mix of B30 markets in AUM

Smaller towns and cities (B30) currently form 17% of India's mutual fund market and are growing faster than the top 30 markets, logging an 18% MAAAUM CAGR over FY19-FY22 vs. 15% for T30 cities. Nippon AMC has a higher share of B30 markets in its mix (18.2%) at end-H1FY23 as compared to the industry average (16.9%), which augurs well for growth and also signifies a broad-based distribution network.

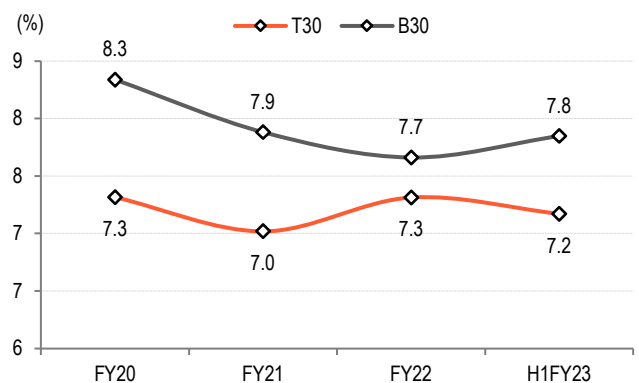
The company accounted for 7.7%/7.3% of B30/T30 MAAUM at end-FY22, which was largely maintained in H1FY23. B30 folio share was higher at 11.7% of the market and numbered 7.1mn (or 38% of its mix) as at end-H1FY23.

**Fig 16 – Higher share of B30 AUM in mix vs. industry**



Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 17 – Market share in B30 areas largely maintained**



Source: Company, BOBCAPS Research

## High-quartile scheme performance

Nippon AMC has been able to deliver top-quartile scheme performance, which we believe attracts retail investors. A comparison of its large-cap equity fund with that of peers (Fig 18) shows that the company has delivered impressive returns, not only in the short term but also longer term. Its small-cap equity fund has similarly been in the top quartile, while it has also performed well in the mid-cap category.

**Fig 18 – Equity large-cap: Nippon's performance in top quartile**

Quartile	1Y performance		3Y performance		5Y performance	
	June'22	Sep'22	June'22	Sep'22	June'22	Sep'22
HDFC Top 100 Fund	Q1	Q1	Q4	Q3	Q2	Q2
Nippon India Large Cap Fund	Q1	Q1	Q3	Q1	Q2	Q1
Aditya Birla Sun Life Frontline Equity Fund	Q1	Q1	Q2	Q1	Q3	Q3
UTI Mastershare Fund	Q3	Q3	Q1	Q1	Q1	Q1

Source: AMFI, BOBCAPS Research | Note: Q1 - First Quartile, Q2 - Second Quartile, Q3 - Third Quartile, Q4 - Fourth Quartile | Note: Sharpe ratio taken as of Sep'30: HDFC - 0.12, Nippon - 0.14, ABSL - 0.40, UTI - 0.47

**Fig 19 – Nippon AMC’s mid-cap fund shows a better long-term performance comparatively**

Quartile	1Y performance		3Y performance		5Y performance	
	Q1FY23	Q2FY23	Q1FY23	Q2FY23	Q1FY23	Q2FY23
HDFC Mid-Cap Opportunities Fund	Q2	Q1	Q3	Q2	Q3	Q2
Nippon India Growth Fund	Q1	Q2	Q2	Q2	Q1	Q2
Aditya Birla Sun Life Mid Cap Fund	Q1	Q3	Q3	Q3	Q4	Q4
UTI Mid Cap Fund	Q2	Q2	Q2	Q2	Q2	Q2

Source: AMFI, BOBCAPS Research | Note: Q1 - First Quartile, Q2 - Second Quartile, Q3 - Third Quartile, Q4 - Fourth Quartile | Note: Sharpe ratio taken as of Sep'30: HDFC – 0.22, Nippon – 0.23, ABSL – 0.57, UTI – 0.98

**Fig 20 – Nippon AMC’s performance is comparatively better than peers in the small-cap equity space**

Quartile	1Y performance		3Y performance		5Y performance	
	Q1FY23	Q2FY23	Q1FY23	Q2FY23	Q1FY23	Q2FY23
HDFC Small Cap Fund	Q4	Q3	Q4	Q4	Q2	Q2
Nippon India Small Cap	Q1	Q1	Q1	Q1	Q1	Q1
Aditya Birla Sun Life Small Cap Fund	Q4	Q4	Q4	Q4	Q4	Q4
UTI Small Cap Fund	Q2	Q1	NA	NA	NA	NA

Source: AMFI, BOBCAPS Research | Note: Q1 - First Quartile, Q2 - Second Quartile, Q3 - Third Quartile, Q4 - Fourth Quartile | Note: Sharpe ratio taken as of Sep'30: HDFC – 0.21, Nippon – 0.29, ABSL – 0.48, UTI - NA

## Market share stable; visible gains in ETFs

In Sep'19, Nippon Life Insurance acquired 75% stake in Reliance Nippon Life Asset Management (RNAM) and rechristened it as Nippon AMC. If we evaluate market share performance in the wake of this management change, we find that the company has been able to retain 7% of the market over FY21-H1FY23. Within this, its ETFs and liquid funds have gained ground, whereas equity has declined –

- Nippon AMC’s ETF market share has risen from 12.6% to 13.2%, and we expect the segment to remain a key growth driver.
- Liquid funds have climbed from 5.4% at end FY21 to 6.2% at end H1FY23.
- Debt has remained stable at 6.9% vis-à-vis FY21 levels but given up some gains made thereafter. The board in May'20 decided to make new investments only in AA-and-Above-rated issuers.
- Equity fund share has dipped from 6.9% to 6.3%. In our view, outperformance over the last few quarters and management’s marketing efforts should help arrest the decline.

**Fig 21 – Overall market share stable; ETF share increasing**

Market share (%)	FY21	FY22	H1FY23
Equity	6.9	6.3	6.3
Debt	6.7	7.7	6.9
Liquid/Money Market	5.4	5.9	6.2
ETF	12.6	13.2	13.2
<b>Total</b>	<b>7.2</b>	<b>7.4</b>	<b>7.3</b>

Source: Company, BOBCAPS Research | Note: AUM =MAAUM

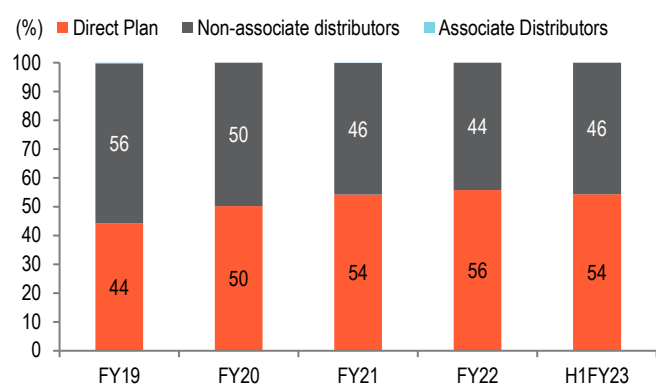
## Strong distribution network

Nippon AMC has a multi-channel distribution network consisting of partnerships with 73 banks, 92 national distributors, 79 alternate channels (including state-owned banks) and 87,000+ distributors. The company has also partnered with new-age fintech players for better coverage. Its own physical touchpoints are spread over 270 locations pan-India – amongst the highest in the industry.

In terms of sourcing, 54% of business came through the direct channel and 46% was distributed. Mutual fund distributors (MFD) contributed a lion's share of distributed assets at 60%; banks/national distributors constituted 19%/21% at end-H1FY23.

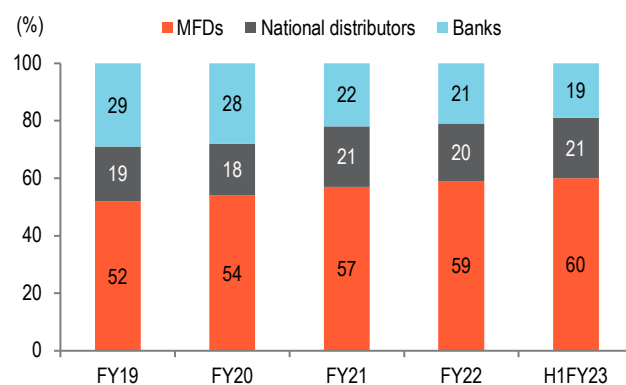
In FY22, the company launched 'Business Easy 2.0' for traditional/conventional distributors that acts as a complete business enablement and customer relationship management tool. It comprises a mobile application plus website and functions as a digital branch where funds can be managed virtually.

**Fig 22 – Direct plans have increased in the distribution mix**



Source: Company, BOBCAPS Research

**Fig 23 – MFDs have expanded in distributed assets**



Source: Company, BOBCAPS Research

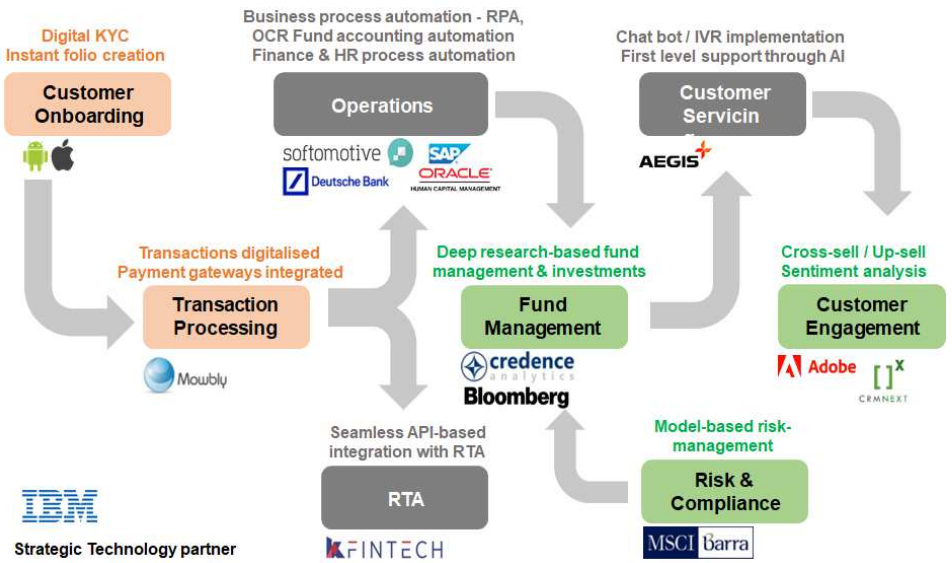
## Digital partnerships a focus area

With the boom in online transactions, Nippon AMC is focused on developing the digital mode and has a distinctly articulated strategy based on the 3Fs – Friendly, Futuristic & Frictionless. The company has strengthened its digital reach by partnering with new-age players such as PayTM, Groww, Kuvera and IND Money Tarrakki, besides recently launching a new mobile app to further penetrate the market, especially among younger investors (~45% of its digital consumers are below the age of 35).

The success of its digital strategy can be seen from the following –

- Digital contribution to total purchase transactions stood at 58% in FY22 and 56% in Q2FY23.
- Digital SIP registrations contributed 47% of total new SIPs registered in FY22.
- At end-H1FY23, digital lumpsum purchase transactions formed 64% of overall lumpsum purchases.

**Fig 24 – Building a digital ecosystem**



Source: Company, BOBCAPS Research | KYC – Know Your Customer, RPA – Robotic Process Automation, OCR – Optical character recognition, IVR: Interactive Voice Response, RTA – Robotic Test Automation, API – Application Programming Interfaces

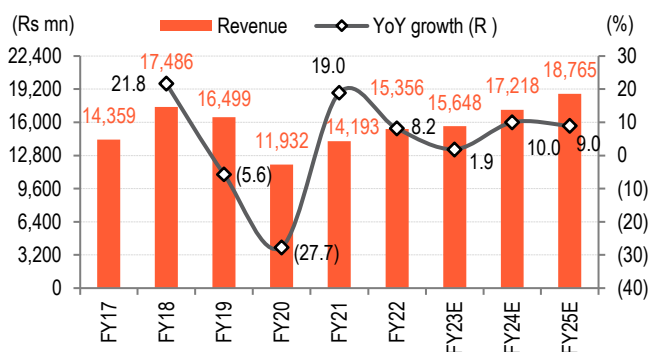
## Financial analysis

### Expect total income to log 7% CAGR

We model for a 7% CAGR in Nippon AMC's total income over FY22-FY25 to Rs 18.8bn vs. a ~1% CAGR over FY17-FY22. Operating revenue is expected to clock a 6.3% CAGR to Rs 15.7bn, with AUM registering a 10% CAGR and overall yields flattish. We factor in equity assets at 45% of total AUM in FY25 as compared to 42% at end-FY22.

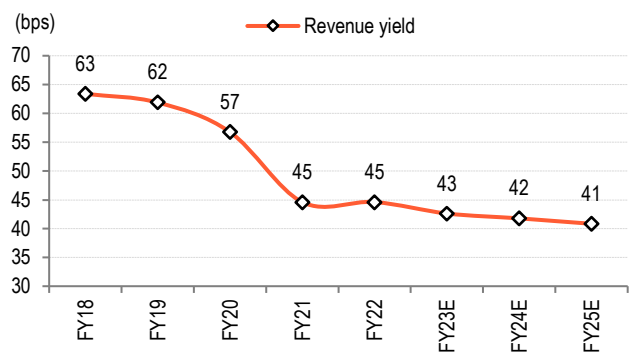
Other income is derived from mark-to-market accounting. The company has invested 82% of available cash flow in its own mutual funds. Of this, barring seed capital investment in equity schemes, the remainder is parked in fixed income schemes. Thus, as yields go up, realisations increase. Other income constituted ~15% of total income in FY22; we expect it to hold at similar levels, clocking a 10% CAGR over FY22-FY25 (vs. 12% for FY17-FY22).

**Fig 25 – Revenue growth in lower single digits**



Source: Company, BOBCAPS Research

**Fig 26 – Overall revenue yield stable**

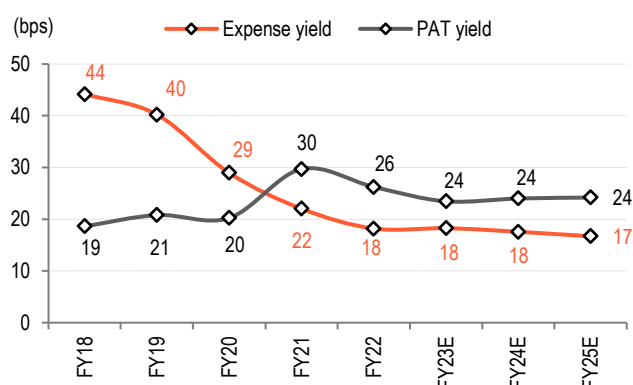


Source: Company, BOBCAPS Research

### Operating leverage to aid profitability

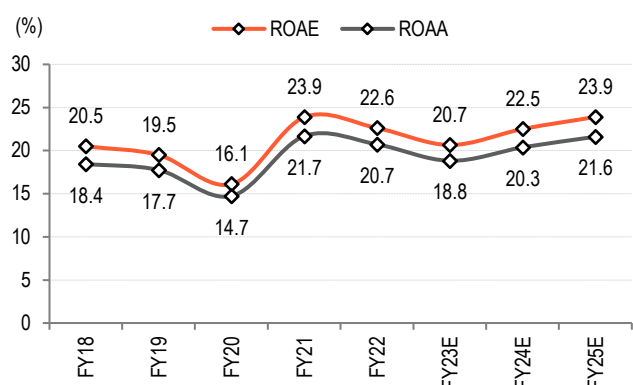
We expect revenue yields to remain flattish, keeping operating cost in focus. Operating expense declined from Rs 8.4bn in FY17 to Rs 5bn in FY21, followed by a slight increase to Rs 5.2bn in FY22. About 56% of this is made up of employee expenses which rose at a CAGR of 8.2% over FY17-FY22 – a similar run-rate we expect will continue through to FY25. We forecast a 6.8% CAGR in operating expenses to Rs 6.3bn through to FY25, a 7% EBITDA CAGR to Rs 12.5bn, stable PAT yields and ROE gains from FY24.

**Fig 27 – PAT yield largely stable**



Source: Company, BOBCAPS Research

**Fig 28 – ROE to improve FY24E onwards**



Source: Company, BOBCAPS Research



## Valuation methodology

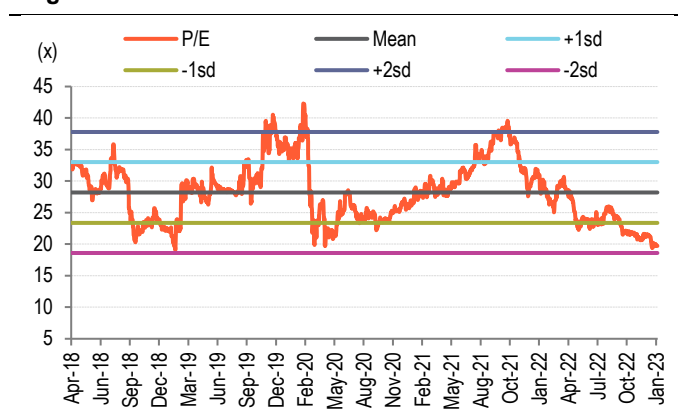
Nippon AMC is currently trading at 17x FY25E earnings. We initiate coverage on the company with a BUY rating and a TP of Rs 347, assigning the stock a P/E multiple of 24x on FY25E EPS – one standard deviation below the long-term mean multiple. Our positive investment view is based on Nippon AMC's undisputed competitive advantage in ETFs, stable market share, high retail focus and diversified distribution network. Dividend payout has also remained high.

**Fig 29 – BOBCAPS AMC Universe: Valuation snapshot**

Ticker	Mcap (Rs bn)	Rating	QAAUM – FY22 (Rs bn)	PAT - FY22 (Rs bn)	CMP (Rs)	Target Price (Rs)	Upside (%)	P/E (x)		Implied P/E (x)	
								FY24E	FY25E	FY24E	FY25E
Nippon AMC	157	BUY	2,832	7.4	251	347	38	19	17	27	24
UTI AMC	104	BUY	2,238	5.3	819	983	20	17	15	21	18
HDFC AMC	457	HOLD	4,321	13.9	2,143	2,310	8	28	26	31	28
ABSL AMC	132	HOLD	2,958	6.7	458	488	7	19	17	20	18

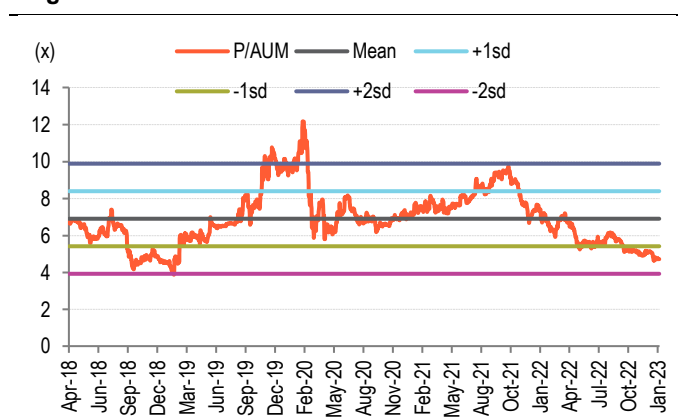
Source: Company, BOBCAPS Research

**Fig 30 – 1Y fwd P/E band**



Source: BOBCAPS Research

**Fig 31 – 1Y fwd P/AUM band**



Source: BOBCAPS Research

## Key risks

- **Decline in AUM growth due to increased competition:** Nippon AMC has witnessed intense competitive pressure in the AUM industry. 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 Nippon AMC's AUM. Thus, a fall in Indian equity markets would cause AUM to decline directly as the value of underlying securities falls, and indirectly as securities investments become less attractive for investors, resulting in net outflows or redemptions. Any decrease in AUM will impact fees and consequently net profit.
- **Regulatory risks:** AMCs are regulated by SEBI and could be adversely impacted in the event of unfavourable policy changes.
  - Should the regulator mandate a further decline in total expense ratio, yields could weaken even more.
  - SEBI in Apr'22 had barred fund houses from floating new schemes till the industry complied with its direction to discontinue mutual fund investments by distributors and brokers from their pool accounts. 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.

## Company profile

### Background

In Sep'19, Nippon Life Insurance acquired a 75% stake in Reliance Nippon Life Asset Management (RNAM) and rechristened it as Nippon Life India Asset Management (Nippon AMC). Nippon AMC is involved in managing mutual funds, such as ETFs, as well as handling managed accounts by way of portfolio management services, alternative investment funds and pension funds, offshore funds and advisory mandates. It has a presence in ~300 locations across the country.

### Key management personnel

- **Sundeep Sikka, Executive Director & CEO:** Sundeep joined Nippon AMC in 2003, holding various leadership positions before being elevated to CEO in 2009. He has held both Vice Chairman and Chairman positions at industrial body AMFI (Association of Mutual Funds in India). Sundeep has expanded the company into an all-round brand that thrice won 'Aon Best Employer' in the last four years and was certified 'Great Place to Work' in 2018. He is an alumnus of Harvard Business School.
- **Prateek Jain, CFO:** Prateek has been associated with the company since 2013. He has over two decades of experience and has held senior positions with AIG Investments and Howden India in his earlier stints. He is a qualified Chartered Accountant and has completed Wharton Business School's leadership program.
- **Ameeta Chatterjee, Independent Director:** Ameeta has been working as an independent consultant, advising companies on strategic growth and their India entry strategy since 2011. She has over 18 years of corporate finance experience in developing, managing and executing infrastructure projects across sectors in India and the UK.
- **Kazuyuki Saigo, Non-Executive & Nominee Director:** Kazuyuki is the Managing Executive Officer, Regional CEO for Asia Pacific Head of India, and is responsible for operations in the Asia Pacific. He joined Nippon Life Insurance in 1988 and has since held several leadership positions in the Nippon Life Group, including General Manager – Global Business Planning and Global Insurance Business, General Manager – Personnel Department, and Sales Manager – Personnel Department.
- **Yutaka Ideguchi, Non-Executive & Nominee Director:** Yutaka is a member of the Board of Directors and Senior Managing Executive Officer of Nippon Life Insurance. He has been involved in the areas of Finance, International Planning & Operations at Nippon Life, and has served as Regional CEO for America/Europe as well as Head of Global Business at the insurer.
- **Akira Shibata, Associate Director:** Akira currently serves as General Manager – Global Business Planning, at Nippon Life Insurance. In his 20-year career with Nippon, Akira has engaged in Finance Planning Management for three years. He has also spent his professional career in Nippon's US group insurance subsidiary, Nippon Life Insurance Company of America, as Vice President for four years.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Investment mgmt. fees</b>	<b>10,621</b>	<b>13,066</b>	<b>13,470</b>	<b>14,534</b>	<b>15,687</b>
YoY (%)	(11.7)	23.0	3.1	7.9	7.9
Operating expenses	5,046	5,159	5,655	5,977	6,280
Core operating profits	5,575	7,907	7,815	8,557	9,406
Core operating profits growth (%)	(8.4)	41.8	(1.2)	9.5	9.9
Depreciation and Interest	377	310	287	309	331
Core PBT	5,198	7,597	7,528	8,249	9,075
Core PBT growth (%)	(8.7)	46.1	(0.9)	9.6	10.0
Other income	3,572	2,290	2,177	2,683	3,078
PBT	8,770	9,887	9,705	10,932	12,153
PBT growth (%)	56.7	12.7	(1.8)	12.6	11.2
Tax	1,976	2,453	2,446	2,755	3,063
Tax rate (%)	22.5	24.8	25.2	25.2	25.2
<b>Reported PAT</b>	<b>6,794</b>	<b>7,434</b>	<b>7,259</b>	<b>8,177</b>	<b>9,091</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity capital	6,170	6,228	6,220	6,220	6,220
Reserves & surplus	24,838	28,558	29,284	30,919	32,737
Net worth	31,009	34,786	35,504	37,139	38,958
Borrowings	0	0	0	0	0
Other liab. & provisions	2,914	3,179	3,777	3,975	4,196
<b>Total liab. &amp; equities</b>	<b>33,922</b>	<b>37,965</b>	<b>39,281</b>	<b>41,114</b>	<b>43,154</b>
Cash & bank balance	29,106	32,801	34,615	36,652	38,933
Fixed & Other assets	4,457	4,784	4,666	4,462	4,221
<b>Total assets</b>	<b>33,922</b>	<b>37,965</b>	<b>39,281</b>	<b>41,114</b>	<b>43,154</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS	10.9	11.8	11.6	13.0	14.5
Dividend per share	8.0	11.0	10.5	10.5	11.7
Book value per share	49.7	55.2	56.5	59.1	62.0

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
P/E	23.0	21.3	21.7	19.3	17.3
P/BV	5.0	4.5	4.4	4.2	4.0
Dividend yield (%)	3.2	4.4	4.2	4.2	4.7

### DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	46.5	46.1	43.6	42.8	41.8
Operating expenses	22.1	18.2	18.3	17.6	16.8
EBITDA	40.0	36.0	32.4	33.1	33.3
Depreciation and Others	1.6	1.1	0.9	0.9	0.9
Core PBT	22.7	26.8	24.4	24.3	24.2
Other income	15.6	8.1	7.1	7.9	8.2
PBT	38.4	34.9	31.4	32.2	32.4
Tax	8.6	8.7	7.9	8.1	8.2
<b>ROAAAUM</b>	<b>29.7</b>	<b>26.2</b>	<b>23.5</b>	<b>24.1</b>	<b>24.2</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>YoY growth (%)</b>					
Investment mgmt. fees	(11.7)	23.0	3.1	7.9	7.9
Core operating profit	(8.4)	41.8	(1.2)	9.5	9.9
EPS	62.9	8.3	(2.1)	12.6	11.2
<b>Profitability &amp; Return ratios (%)</b>					
Operating income to Total inc.	74.8	85.1	86.1	84.4	83.6
Cost to Core income ratio	47.5	39.5	42.0	41.1	40.0
EBITDA margin	64.4	66.4	63.9	65.3	66.5
Core PBT margin	36.6	49.5	48.1	47.9	48.4
PBT margin (on total inc.)	61.8	64.4	62.0	63.5	64.8
ROE	23.9	22.6	20.7	22.5	23.9
<b>Dividend payout ratio</b>	<b>73.4</b>	<b>93.2</b>	<b>90.0</b>	<b>80.0</b>	<b>80.0</b>

### Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
AAAUM (Rs bn)	2,286	2,832	3,087	3,398	3,749
YoY Growth (%)	11.6	23.9	9.0	10.1	10.3
<b>% of AAAUM</b>					
Equity	41	42	44	45	45
Debt	31	26	20	18	17
Liquid	12	12	13	13	12
Others	16	20	23	25	26

Source: Company, BOBCAPS Research

**BUY**

TP: Rs 983 | ▲ 20%

UTI AMC

| NBFC

| 11 January 2023

**Holding its own – initiate with BUY**

- Among the top 10 AMC's with QAAUM of Rs 2.3tn; added market share over FY20-H1FY23 whereas listed peers lost ground
- Non-MF business gaining traction led by differential status as fund manager for large organisations such as EPFO
- Expect AUM to cross Rs 3tn at 10% CAGR over FY22-FY25; initiate with BUY for a TP of Rs 983

**Mohit Mangal**

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**Clawing back market share:** UTI AMC is the eighth largest fund house in India with QAAUM of Rs 2.3tn, having consistently generated positive net flows since FY21. The company yielded market share over FY17-FY20 from 7.5% to 5.4%, but has since partly retraced to 6% levels (+60bps) at end-H1FY23 as against steep declines for listed peers ABSL AMC (-190bps) and HDFC AMC (-270bps).

**Expect a 10% AUM CAGR:** QAAUM posted a 10% CAGR over FY18-FY22 to Rs 2.2tn (Rs 2.3tn in H1FY23), with the share of equity rising from 37.8% to 41.6% in H1FY23 and that of ETFs swelling from 5.9% to 31%. We expect a sustained equity share (41-43%) coupled with higher ETFs in the mix (~33%) to support a 10% CAGR in UTI AMC's QAAUM over FY22-FY25 to Rs 3tn (forming >75% of revenue).

**Non-MF products gaining pace:** The non-mutual fund business is majorly operated via subsidiaries and comprises management of offshore, pension, private equity and venture funds. Revenue share of this business swelled to 22% in FY22 as compared to 12% in FY18 owing to UTI AMC's key advantage in the PMS space as one of only two fund houses (SBI MF being the second) appointed to manage EPFO corpus as well as its appointment as fund manager for other large public corporates such as CMPFO, ESIC and NSDF. The non-MF business revenue is projected to grow at 11% constituting 23% of total revenue by FY25.

**PAT yield to remain healthy:** Despite higher operating expenses, UTI AMC generated a PAT yield of 24bps in FY22, in line with that of listed peers (23-32bps). We expect yields to hold close to current levels as (i) equity flows likely offset the lower yielding ETF segment, and (ii) the projected total income CAGR of 10% over FY22-FY25 outpaces an estimated 7.7% annual rise in opex.

**Initiate with BUY:** UTI AMC enjoys considerable moats in the form of a sizeable AUM base, credibility arising from over five decades of experience, differentiated non-MF business, increasing market share and robust distribution channels. We value the stock at 18x FY25E EPS – (between -1SD and mean) to the long-term multiple, translating to a TP of Rs 983, and initiate coverage with a BUY rating.

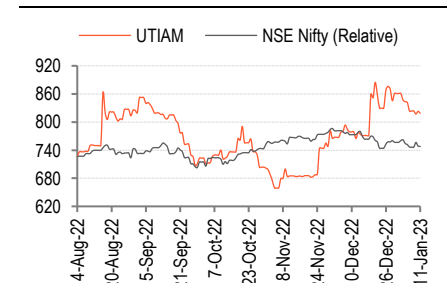
Ticker/Price	UTIAM IN/Rs 819
Market cap	US\$ 1.3bn
Free float	34%
3M ADV	US\$ 3.8mn
52wk high/low	Rs 908/Rs 656
Promoter/FPI/DII	0%/6%/60%

Source: NSE | Price as of 11 Jan 2023

**Key financials**

Y/E 31 Mar	FY22A	FY23E	FY24E
Core PBT (Rs mn)	4,519	4,820	5,682
Core PBT (YoY)	90.5	6.7	17.9
Adj. net profit (Rs mn)	5,347	5,291	6,061
EPS (Rs)	42.0	41.5	47.6
Consensus EPS (Rs)	42.0	42.9	50.4
MCap/AAAUM (%)	4.6	4.3	3.9
ROAAAUM (bps)	23.9	22.1	22.6
ROE (%)	15.5	14.1	15.1
P/E (x)	19.5	19.7	17.2

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

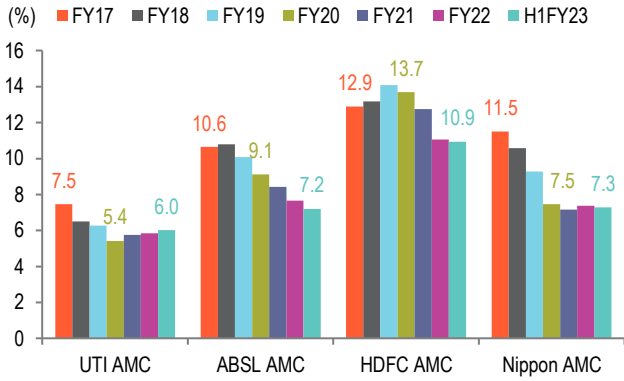
Source: NSE

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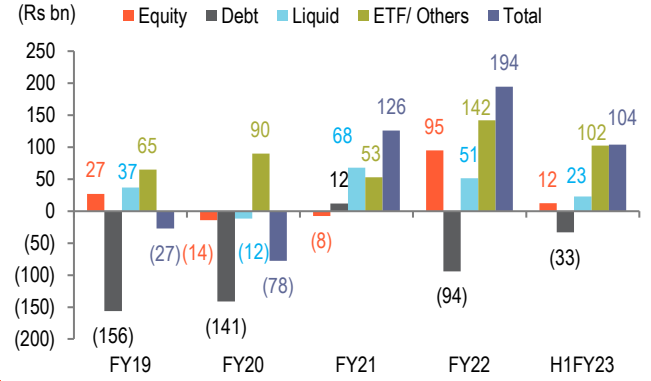
## Focus charts

**Fig 1 – Market share gains in AUM the highest among listed peers post FY20**



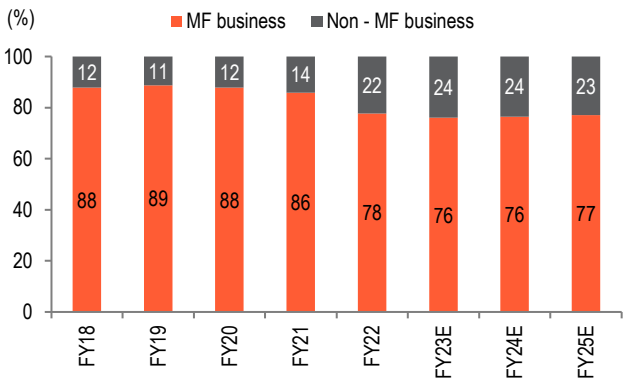
Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 2 – Net flows (sales) positive since FY21**



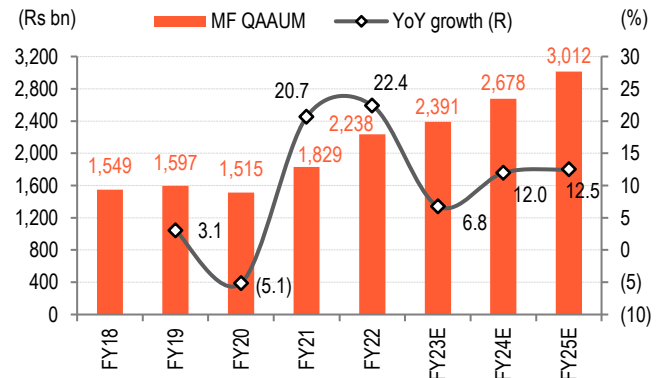
Source: Company, BOBCAPS Research

**Fig 3 – Non-MF business gaining traction**



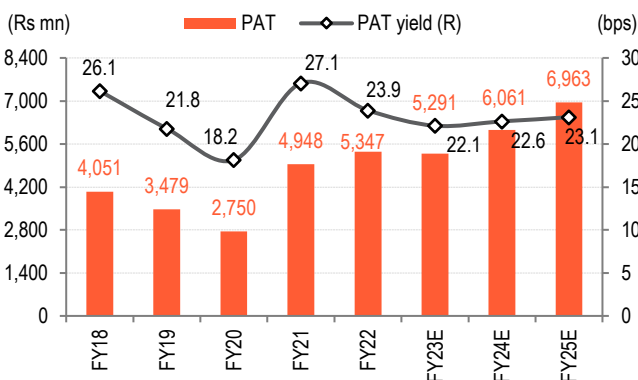
Source: Company, BOBCAPS Research

**Fig 4 – Expect MF AUM to cross Rs 3tn by FY25E**



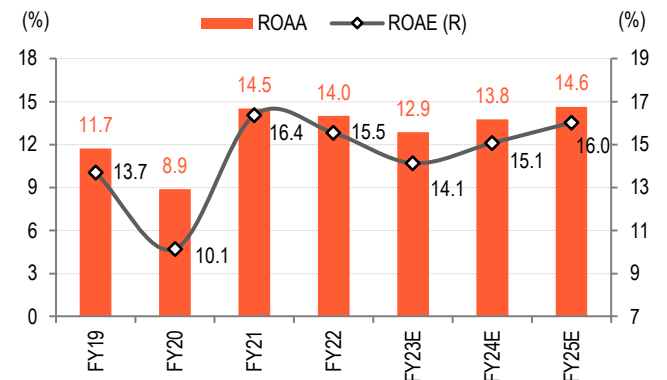
Source: Company, BOBCAPS Research

**Fig 5 – PAT yield likely to remain broadly stable**



Source: Company, BOBCAPS Research

**Fig 6 – Return ratios to expand by FY25E**



Source: Company, BOBCAPS Research

## Investment rationale

### Big player growing from strength to strength

UTI AMC is the eighth largest fund house in India with QAAUM of Rs 2.3tn and 6% market share in the Rs 39tn AMC industry. Carved out of the erstwhile Unit Trust of India, the company has been active in the asset management industry for over five decades and pioneered the mutual fund business in India. At end-FY22, it managed 93 MF schemes across investment strategies. Apart from the core MF business, the company also manages offshore, pension, private equity and venture funds via subsidiaries. Assets managed totalled Rs 14.4tn at end-H1FY23. We bake in a 10% CAGR in MF QAAUM over FY22-FY25 to Rs 3tn, forming >75% of revenue, with non-core business making up the balance.

**Fig 7 – Dominant player with diverse areas of operation**

(Rs bn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Abs. growth (Q1FY21-Q2FY23)	FY18-FY22 CAGR (%)
Mutual Funds	1,336	1,552	1,654	1,829	1,872	2,090	2,247	2,238	2,243	2,336	1,000	9.6
PMS	6,971	7,267	7,506	7,838	8,056	8,312	8,577	8,931	9,259	9,674	2,704	66.6
UTI International	157	163	217	268	305	345	346	290	260	251	94	11.4
UTI RSL	1,356	1,438	1,588	1,662	1,763	1,867	1,933	2,019	2,038	2,175	819	30.6
UTI Capital	12	12	16	16	12	11	11	11	16	15	3	11.7
<b>Total</b>	<b>9,832</b>	<b>10,431</b>	<b>10,981</b>	<b>11,612</b>	<b>12,009</b>	<b>12,625</b>	<b>13,114</b>	<b>13,489</b>	<b>13,815</b>	<b>14,452</b>	<b>4,620</b>	<b>39.2</b>

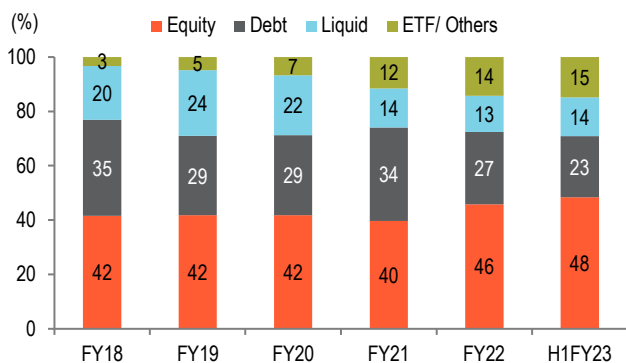
Source: Company, BOBCAPS Research | Note: Mutual fund data is based on QAAUM

### Equity the biggest component of AUM with rising ETF share

The company posted a 10% QAAUM CAGR over FY18-FY22 to Rs 2.2tn (Rs 2.3tn in H1FY23), with the share of equity rising from 37.8% to 42.8% at end-FY22 (41.6% in H1FY23). The proportion of ETFs in the mix has swelled from 5.9% to 31% in H1FY23, a 61% CAGR (over FY18-FY22), boosted by Employee Provident Fund Organization (EPFO) money being funneled into passive funds.

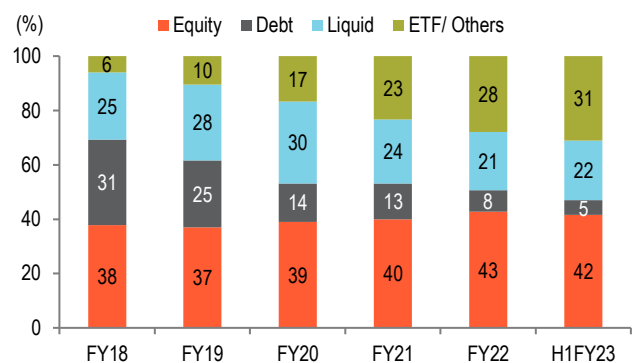
We note that UTI AMC is one of only two fund managers appointed to manage India’s EPFO corpus. Although the management fees earned on ETFs are lower than that in equity mandates, the segment does provide a consistent source of income and AUM growth. Moreover, other major industry players are now exploring this opportunity by introducing new schemes in passive funds to meet the growing customer demand.

**Fig 8 – UTI AMC’s share of ETF in AUM higher than the industry average**



Source: Company, BOBCAPS Research | Note: AUM = QAAUM

**Fig 9 – Industry increasingly looking to tap ETFs, as evident from its increasing share in the mix**



Source: Company, BOBCAPS Research | Note: AUM = QAAUM; Industry data for FY19 and FY20 is from ABSL AMC RHP and thereafter from an HDFC AMC presentation



### Clawing back market share

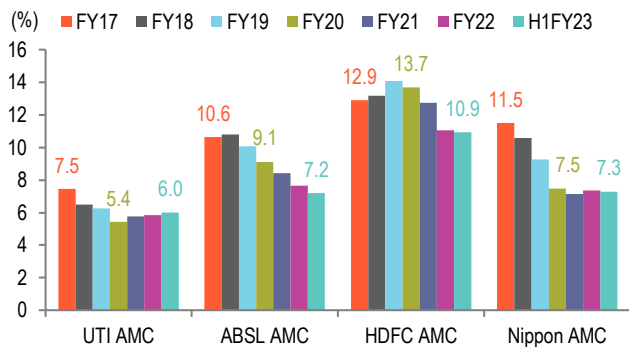
UTI AMC's market share slipped over FY17-FY20 from 7.5% to 5.4%, but the company has managed to recoup some ground to 6% at end-H1FY23. This contrasts with steep losses for listed peers, barring Nippon AMC, since FY20 (-190bps/-270bps for ABSL AMC/HDFC AMC). In terms of category share, both liquid and ETF funds have expanded by ~60bps and equity grew ~40bps. Only the company's debt schemes witnessed a reduction in market share by 60bps over FY20-H1FY23.

**Fig 10 – Market share by fund category – Gains visible post FY20**

(%)	FY17	FY18	FY19	FY20	FY21	FY22	H1FY23
Equity	6.3	4.8	4.7	4.4	4.8	4.8	4.8
Debt	7.9	7.6	7.0	4.3	4.0	3.8	3.8
Liquid	8.4	7.0	6.9	6.9	7.6	7.4	7.6
Others	6.4	11.6	12.9	12.0	12.7	12.2	12.7
<b>Total</b>	<b>7.5</b>	<b>6.5</b>	<b>6.3</b>	<b>5.4</b>	<b>5.8</b>	<b>5.9</b>	<b>6.0</b>

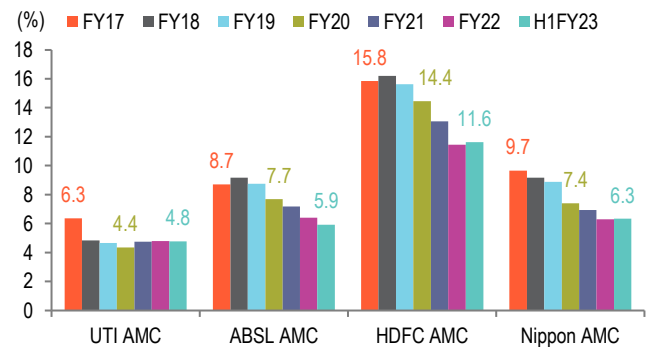
Source: Company, AMFI, BOBCAPS Research | Note: Based on MAAUM

**Fig 11 – Managed to claw back AUM market share since FY20 while peers show declines...**



Source: Company, AMFI, BOBCAPS Research | Note: AUM = MAAUM

**Fig 12 – ...and delivered gains in the equity space as well over the past 3Y**

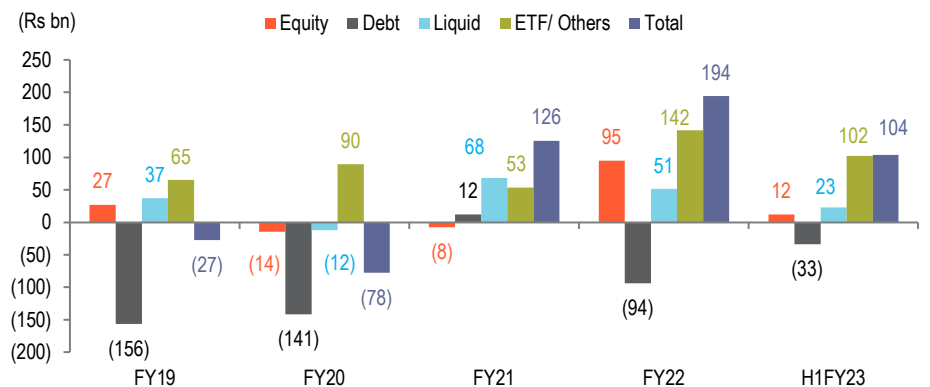


Source: Company, AMFI, BOBCAPS Research | Note: AUM = MAAUM

### Net flows positive since FY21

After negative net flows in FY19-FY20 due to underperformance in the debt segment, UTI AMC has consistently generated positive flows over the past three years as both the liquid and ETF segments ramped up. Equity remains a weak spot though FY22 did see positive flows after a two-year slump.

**Fig 13 – Net flows (sales) have been positive since FY21 on an aggregate level**



Source: Company, BOBCAPS Research

**Fig 14 – Overall market share in net flows has increased**

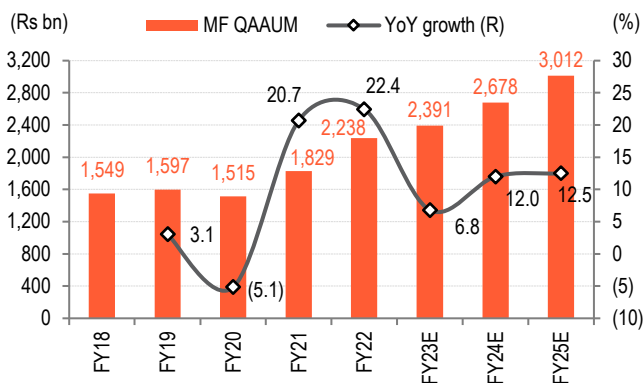
(%)	FY19	FY20	FY21	FY22	H1FY23
Equity	2.4	NA	1.2	3.5	1.0
Debt	12.6	39.7	0.5	5.8	2.3
Liquid	4.9	15.5	NA	20.6	7.0
ETF/Others	15.2	14.6	6.5	12.1	35.6
<b>Total</b>	<b>NA</b>	<b>NA</b>	<b>5.8</b>	<b>7.9</b>	<b>24.3</b>

Source: BOBCAPS Research | (1) NA indicates a mismatch between inflows and outflows (2) Industry data for FY19 and FY20 is from ABSL AMC RHP and thereafter from an HDFC AMC presentation

**Expect AUM to clock a 10% CAGR**

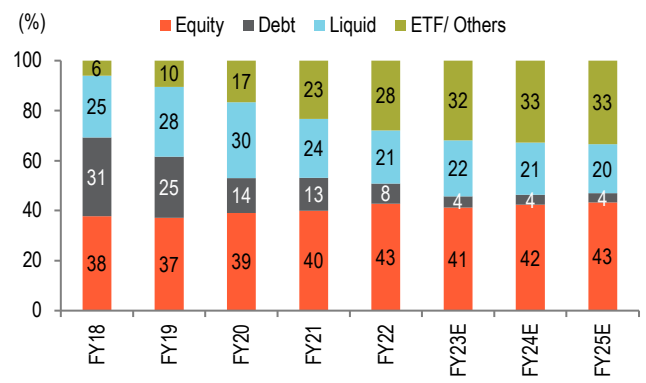
MF QAAUM grew at ~10% CAGR over FY18-FY22 to Rs 2.2tn, and we model for a similar run-rate over FY22-FY25 to Rs 3tn, with equity AUM constituting 43.3% and ETFs further expanding to 33.4% over our forecast period. Debt is likely to remain under pressure. We believe the core MF business will continue to contribute over 75% of total revenue.

**Fig 15 – AUM to cross Rs 3tn by FY25E...**



Source: Company, BOBCAPS Research | Note: AUM = QAAUM

**Fig 16 – ...backed by equity and ETF**



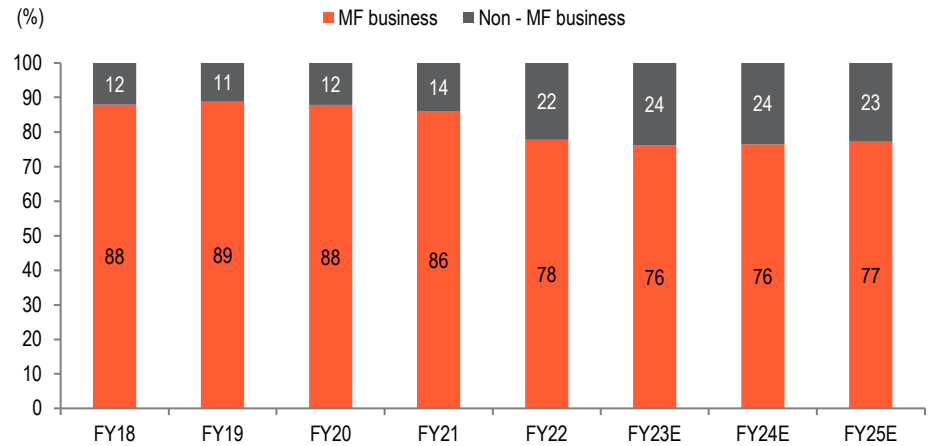
Source: Company, BOBCAPS Research | Note: AUM = QAAUM

**Non-MF business gaining traction**

The non-mutual fund business is operated through subsidiaries and comprises management of offshore, pension, private equity and venture funds. Revenue share of this business increased to 22% in FY22 as compared to 12% in FY18 as subsidiaries have grown substantially over the last couple of years. The non-MF business revenue is projected to grow at 11% constituting 23% of total revenue by FY25.

UTI AMC has a key advantage in the PMS space as it is one of only two fund managers (SBI MF being the second) appointed to manage the corpus of India’s Employee Provident Fund Organization (EPFO). It has also been appointed fund manager for Coal Mines Provident Fund Organization (CMPFO), Employee State Insurance Corporation (ESIC), and National Skill Development Fund (NSDF).

**Fig 17 – Non-MF business contributes nearly a fourth of revenue**

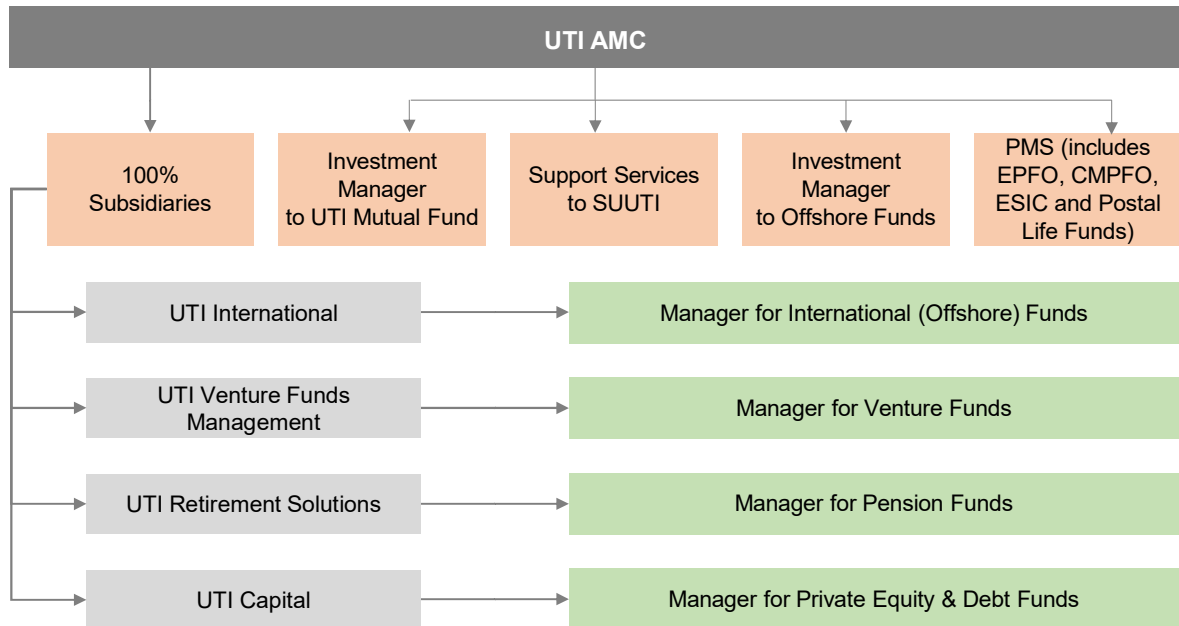


Source: Company, BOBCAPS Research

**Strong outlook for subsidiaries**

UTI AMC has four major subsidiaries that run its non-MF operations – UTI International, UTI Venture Funds Management, UTI Retirement Solutions, and UTI Capital.

**Fig 18 – Group structure**



Source: Company, BOBCAPS Research

- UTI International:** Incorporated in Guernsey in 1996, UTI International has three wholly-owned subsidiaries collectively representing the offshore interests of UTI AMC: (i) UTI Investment Management Company (Mauritius), (ii) UTI International (Singapore), and (iii) UTI International France SA (France). The Group manages assets of over Rs 2.5tn across four funds in Ireland, six in Mauritius, two in the Cayman Islands and two in Singapore. These funds span 3 asset classes – equities, debt and private credit. Investors primarily comprise institutions such as pension funds, insurance companies, private banks, wealth managers and family offices.

**Fig 19 – UTI International: Manages assets of >Rs 2.5tn with decent PAT yields**

(Rs mn)	FY20A	FY21A	FY22A	H1FY23A
Sale of Service	560	650	1,270	650
<b>Total Revenues</b>	<b>120</b>	<b>2,190</b>	<b>1,860</b>	<b>980</b>
Expenses	630	760	1,070	440
PBT	(510)	1,430	790	540
<b>PAT</b>	<b>(520)</b>	<b>1,420</b>	<b>760</b>	<b>530</b>
<b>Total AUM</b>	<b>1,57,650</b>	<b>2,68,210</b>	<b>2,89,740</b>	<b>2,51,050</b>
<b>Key ratios (bps)</b>				
Revenue Yield	35.5	24.2	43.8	51.8
Opex Ratio	40.0	28.3	36.9	35.1
PAT Yield	(33.0)	52.9	26.2	42.2

Source: Company, BOBCAPS Research

- UTI Retirement Solutions (UTI RSL):** Incorporated in 2007, UTI RSL manages domestic pension assets under the National Pension System (NPS). It holds a license issued by Pension Fund Regulatory & Development Authority (PFRDA) to manage government and non-government NPS. The subsidiary has clocked a robust AUM CAGR of 31% over five years (29% over FY20-FY22) and manages assets of over Rs 2tn. As 80% of India’s private sector is yet to adopt a pension scheme, the segment carries a large opportunity.

Net profit grew at 210% CAGR over FY20-FY22 to Rs 423mn, and the subsidiary is on course to have a strong FY23 with H1 PAT at Rs 226mn. The increase in net profit is primarily due to a revision in PFRDA fees in FY22 – now payable in advance on a quarterly basis at 0.00375% (yearly 0.015%) of the last quarter’s closing AUM balance as compared to a yearly advance at 0.005%.

**Fig 20 – UTI RSL: Higher fees boosted yields in FY22**

(Rs mn)	FY20A	FY21A	FY22A	H1FY23A
Sale of Service	112	149	914	492
Total Revenues	143	196	938	511
Expenses	91	153	373	211
PBT	52	43	565	300
PAT	44	38	423	226
<b>Total AUM</b>	<b>12,22,010</b>	<b>16,62,100</b>	<b>20,19,190</b>	<b>21,75,150</b>
<b>Key ratios (bps)</b>				
Revenue Yield	0.9	0.9	4.5	4.5
Opex Ratio	0.7	0.9	1.8	1.9
PAT Yield	0.4	0.2	2.1	2.1

Source: Company, BOBCAPS Research

- UTI Capital:** Incorporated in 2011, UTI Capital is a 100% subsidiary of UTI AMC and is mandated to manage the private capital investment business as an alternate investment fund (AIF). As of Sep’22, UTI Capital manages four active AIFs, including UTI Structured Debt Opportunities Fund I (UTI SDOF I, AUM Rs 2.4bn, fund in exit mode); UTI SDOF II (AUM Rs 5.1bn, commitment received, in investing stage); and UTI Multi Opportunities Fund I (AUM Rs 7.6bn, commitments received from investors, in investing stage, launched In Mar’22).

UTI Capital received a co-investment portfolio manager (CPM) license in Aug'22. The company is also raising funds for UTI SDOF III and UTI Real Estate Opportunities Fund I. It made a net loss of Rs 22mn in FY22 and AUM reduced 30% YoY to ~Rs 11bn, possibly due to exits from various funds, before bouncing back in H1FY23 to close at ~Rs 15bn. We believe that expense control would be key for profitability as revenue yields have broadly held in the 47-50bps range during FY21-FY22.

**Fig 21 – UTI Capital: Expense control key to profitability**

(Rs mn)	FY20A	FY21A	FY22A	H1FY23A
Sale of Service	74	73.1	53.4	24.0
Total Revenues	71	91.6	76.8	30
Expenses	92	90.3	106.8	66
PBT	(21.0)	1.3	(30.0)	(36.0)
PAT	(14.4)	1.8	(22.1)	(25.0)
<b>Total AUM</b>	<b>13,050</b>	<b>15,670</b>	<b>10,880</b>	<b>15,090</b>
<b>Key ratios (bps)</b>				
Revenue Yield	57	47	49	32
Opex Ratio	70	58	98	87
PAT Yield	(11)	1	(20)	(33)

Source: Company, BOBCAPS Research

- **UTI Venture Funds Management:** UTI Venture was incorporated in 2001 and is primarily involved in servicing institutional clients and HNIs. Its principal business comprises the management of venture capital and private equity funds.

**Fig 22 – UTI Venture Funds: Manages VC and PE funds**

(Rs mn)	FY20A	FY21A	FY22A	H1FY23A
Net Gain on fair value changes	(1.0)	20.0	9.0	4.0
Other Income	8.0	1.0	1.0	2.0
<b>Total Revenues</b>	<b>7.0</b>	<b>21.0</b>	<b>10.0</b>	<b>6.0</b>
Expenses	12.0	4.0	1.0	1.0
Net Loss on fair value changes	1.0	0.0	0.0	0.0
Admin & Other Expenses	11.0	4.0	1.0	1.0
PBT	(5.0)	17.0	9.0	5.0
Tax	0.0	5.0	0.0	1.0
<b>PAT</b>	<b>(5.0)</b>	<b>12.0</b>	<b>9.0</b>	<b>4.0</b>

Source: Company, BOBCAPS Research

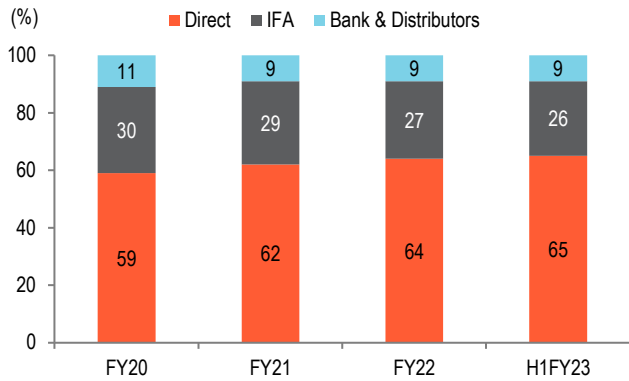
## Strong distribution network

Over the past five decades, UTI AMC has been able to build an expansive pan-India distribution presence. In H1FY23, the company had 166 UTI financial centres (UFC), 60,000+ individual financial advisors (IFA), and 1,350+ employees.

A distinguishing feature of its distribution network vis-à-vis peers is the presence of 233 district associates (DA) engaged on an exclusive basis, primarily in B30 cities, that allows the company to develop, maintain and service relationships with distributors and investors. DAs generated 11.6% of B30 business in FY22 (10.8% in FY21).

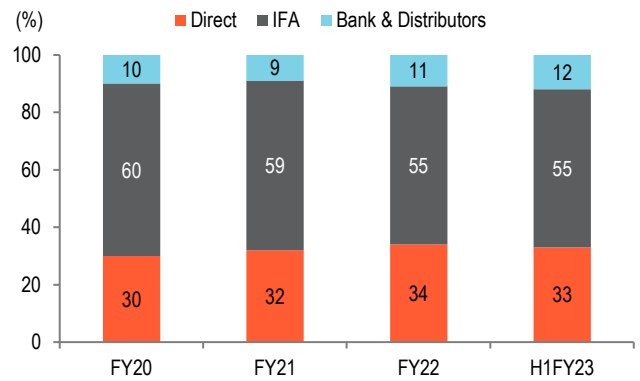
The core sales team totalled 643 personnel at end-H1FY23, besides which the company has offices globally to market its offshore and domestic schemes to foreign investors.

**Fig 23 – Direct channel contributes >60% of overall AUM sourcing**



Source: Company, BOBCAPS Research | Note: AUM = QAAUM

**Fig 24 – IFAs contribute >55% of equity AUM**

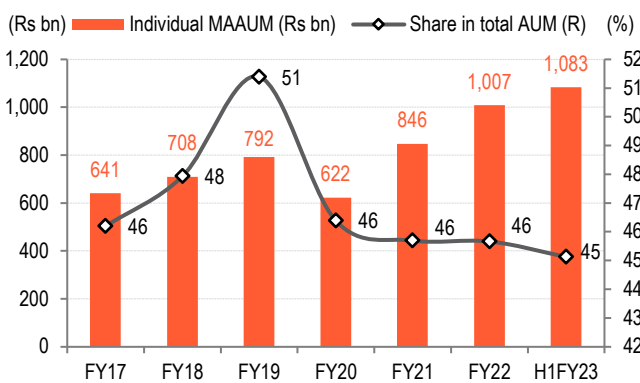


Source: Company, BOBCAPS Research | Note: AUM = QAAUM

### Granular retail business; above-industry B30 mix

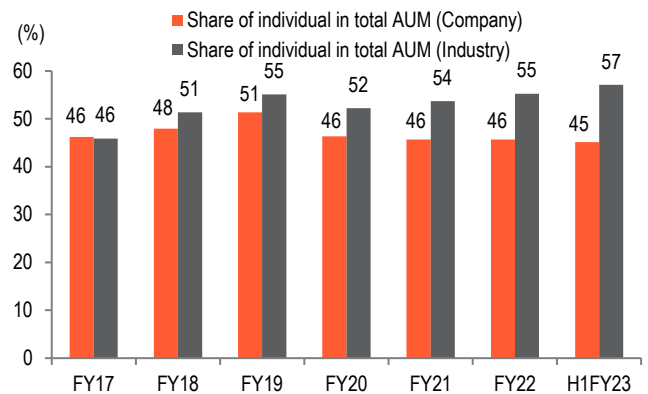
Individual investor MAAUM posted a 9% CAGR from Rs 641bn as of FY17 to Rs 1,007bn in FY22 and further to Rs 1,083bn in H1FY23. The share of individual assets in total AUM remained stable at ~45% but lagged behind industry levels (57%). That said, the company has built a granular retail book with assets constituting 28.4% of its AUM at end-H1FY23 as compared to 24.5% for the industry.

**Fig 25 – Share of individual investment in total AUM stable...**



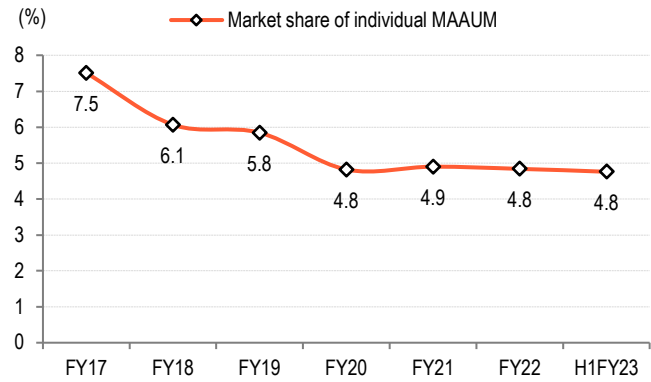
Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 26 – ...but lags behind the industry**



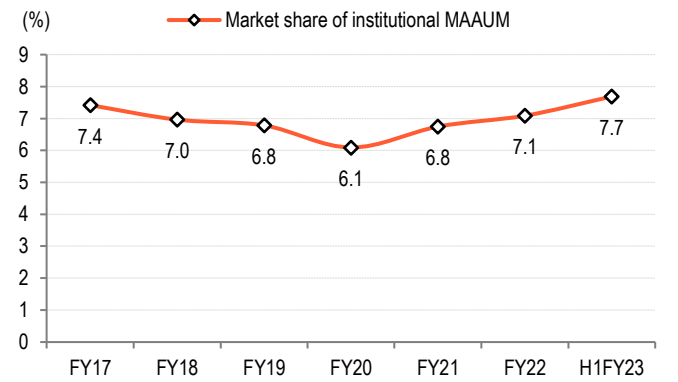
Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 27 – Market share in individual AUM remained stable over past 4Y...**



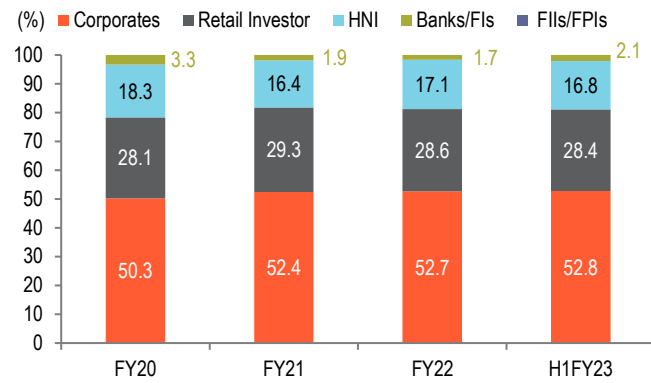
Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 28 – ...with some increase in institutional businesses**



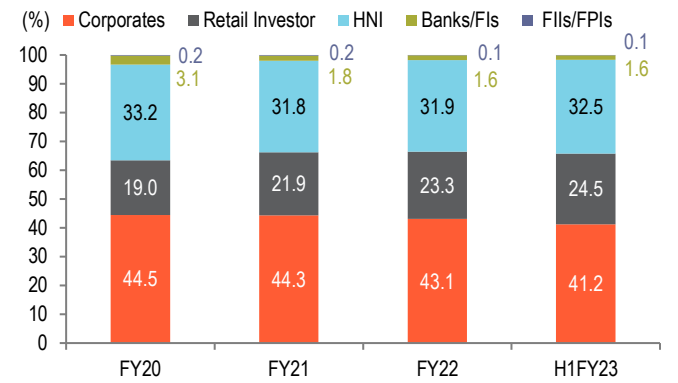
Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 29 – Retail proportion in company's AUM stable**



Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

**Fig 30 – Industry has lower retail share in the mix**

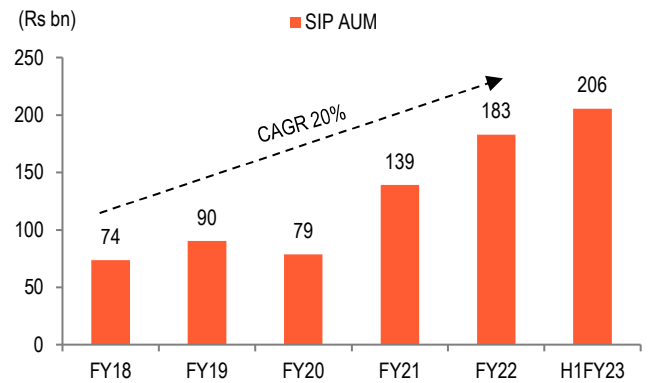


Source: AMFI, BOBCAPS Research | Note: AUM = MAAUM

**SIP book sticky but market share low**

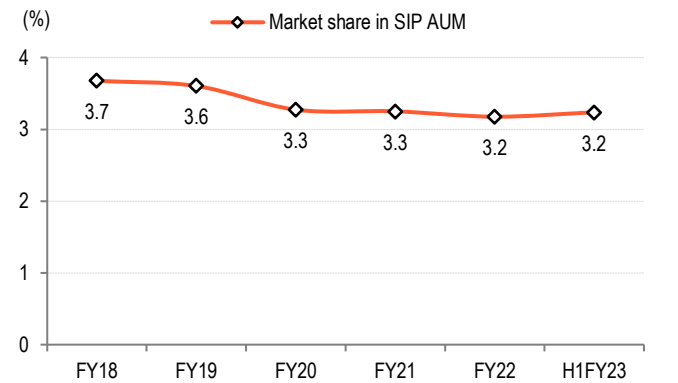
SIP AUM for UTI AMC increased at a CAGR of 20% over FY18-FY22 from Rs 74bn as at end-FY18 to Rs 183bn as at FY22. Assets climbed further to Rs 206bn in H1FY23, with 90% of SIPs running for over five years and 85% for over ten years, indicating a long-tenured book. However, market share remains low at ~3% of SIP AUM.

**Fig 31 – SIP AUM posted a 20% CAGR over FY18-FY22...**



Source: Company, BOBCAPS Research

**Fig 32 – ...with a stable but low market share**



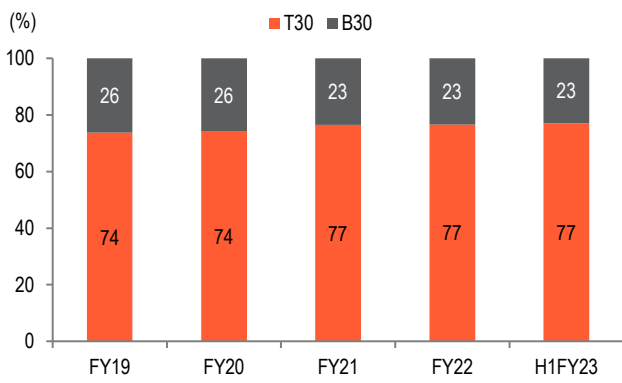
Source: Company, BOBCAPS Research

**B30 share higher than industry though market share declining**

Strong business from small cities ensures that B30 markets form a consistently larger proportion of the company’s AUM mix vis-à-vis the industry. UTI AMC derived ~23% of its MAAUM from B30 cities vs. the industry average of ~17% at end-H1FY23. However, B30 market share declined from 10.6% at end-FY19 to 8.1% at end-H1FY23. In T30 cities, market share has been maintained at 5.6% vs. 5.5% over this period.

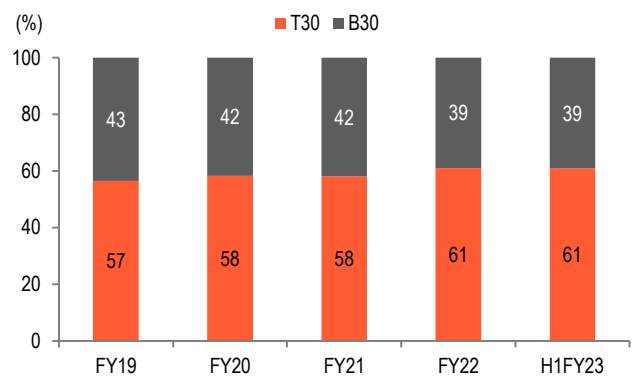
In terms of equity MAAUM, the company generated 39% from B30 markets at end-H1FY23 as compared to 26% for the industry, but saw a 130bps drop in market share. T30 cities in the mix expanded from 57% of equity MAAUM at end-FY19 to 61% at end-H1FY23, with market share rising from 3.5% to 3.9%.

**Fig 33 – Share of T30 cities increasing in overall AUM...**



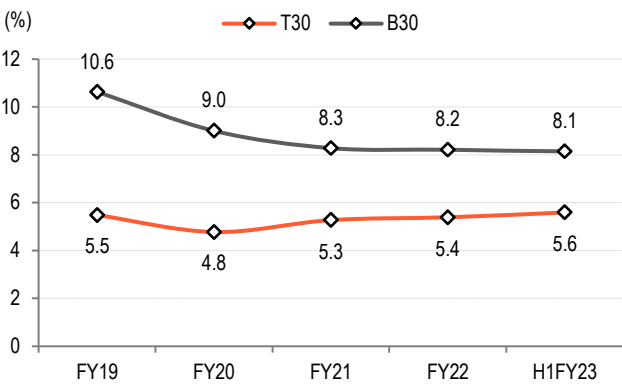
Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 34 – ...with a similar trend in equity AUM**



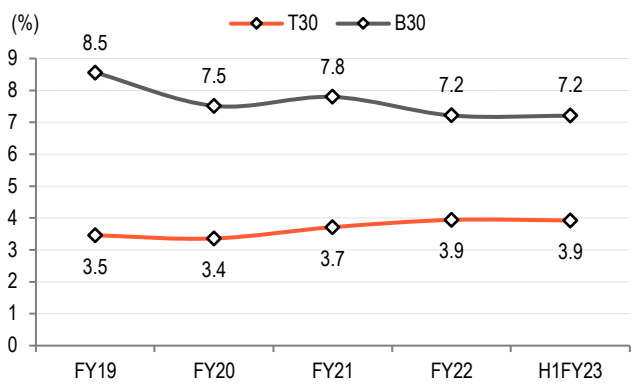
Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 35 – T30 market share in overall AUM has risen; B30 on the decline...**



Source: Company, BOBCAPS Research Note: AUM = MAAUM

**Fig 36 – ...similar trends in equity AUM market share**



Source: Company, BOBCAPS Research



## Leveraging digital adoption

The company consciously invests to upgrade infrastructure such as technology systems and software. Digital platforms, including website, customer and distributor-facing apps, are an increasingly important component of the distribution mix, particularly after the Covid-19 pandemic. Key initiatives include:

- Offering seamless access through the website and app
- Provision of an end-to-end digital KYC (know your customer) process
- Identifying and capitalising on cross-selling and upselling opportunities by integrating analytical tools with the digital marketing platform
- Enhancing customer engagement and ensuring data security
- Introducing digital training initiatives to engage new mutual fund distributors (MFD) at a pan-India level, ensuring their business readiness

**Fig 37 – Robust digital journey**



Source: Company, BOBCAPS Research | RM: Relationship Manager, MFD: Mutual Fund Distributor

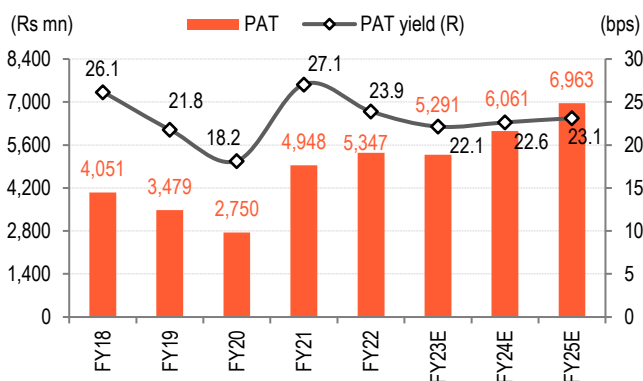
## Financial review

### Expect 10% revenue CAGR; PAT yield healthy

UTI AMC has higher opex relative to peers, at 28bps in FY22 vs. 15bps on average for the other three listed peers. Although the expense yield has come down for all listed players, the company’s employee costs relative to QAAUM remains relatively high. At end-Q2FY23, the company had 1,358 employees, of which 58 belong to subsidiaries. Management anticipates cost savings on account of employee retirements which would be replaced by lower cost hiring.

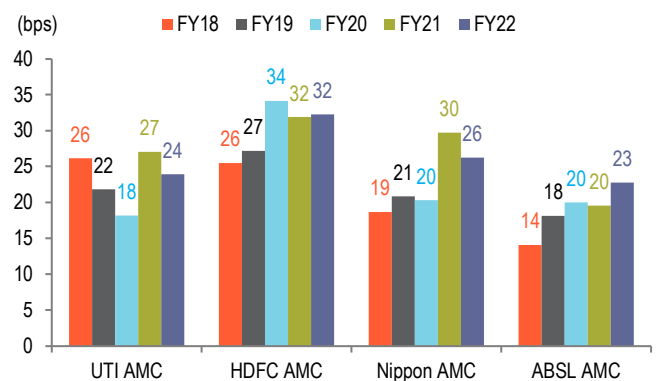
Despite high opex, UTI AMC generated a PAT yield of 24bps in FY22, in line with that of listed peers (23-32bps). We believe yields will hold near current levels given that (i) QAAUM is forecast to register a 10% CAGR over FY22-FY25 with a higher proportion of equity flows likely to offset the lower yielding ETF segment, (ii) the non-MF segment continues to deliver healthy growth, and (iii) consequently, total income is projected to post a CAGR of 10% through to FY25, outpacing an estimated 7.7% annual rise in opex, thereby supporting PAT yields.

**Fig 38 – PAT yield expected to sustain**



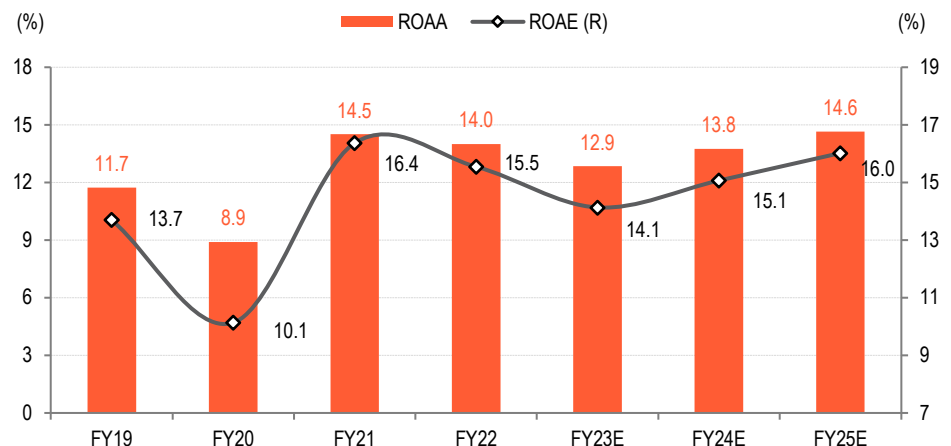
Source: Company, BOBCAPS Research

**Fig 39 – PAT yield healthy despite high opex**



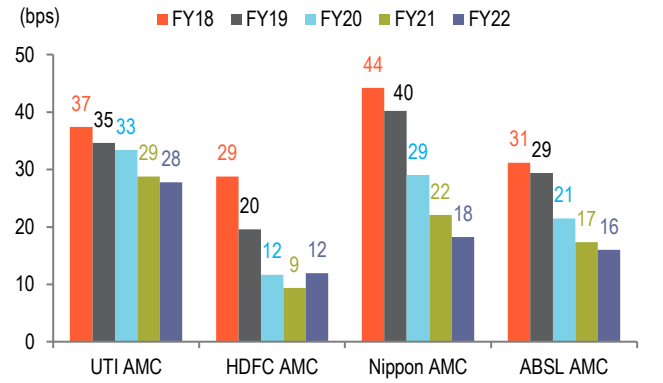
Source: Company, BOBCAPS Research

**Fig 40 – Return ratios to expand**



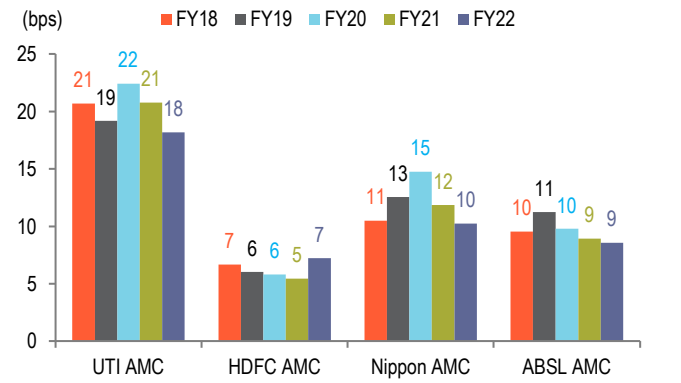
Source: Company, BOBCAPS Research

**Fig 41 – UTI AMC has the highest expense ratio vs. peers...**



Source: Company, BOBCAPS Research Note: Expense yield = Operating expenses/ QAAUM

**Fig 42 – ...with higher employee cost the major factor**

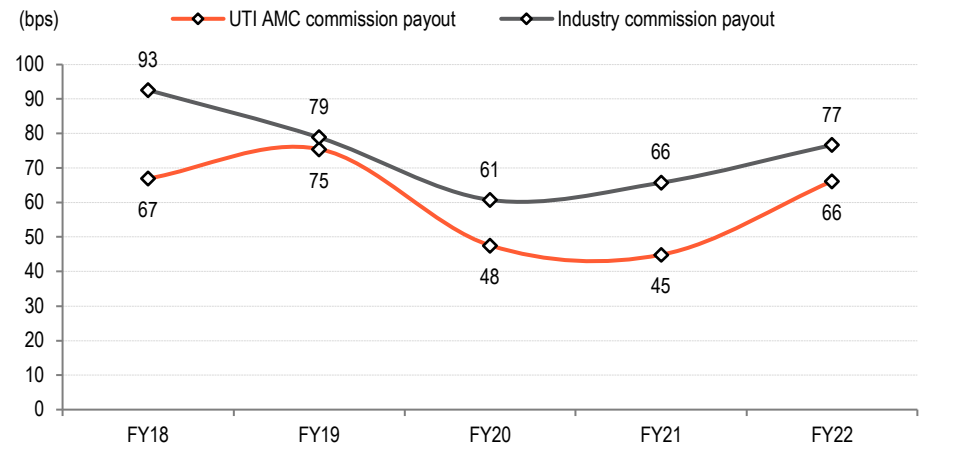


Source: Company, BOBCAPS Research Note: It is calculated as Employee cost/ QAAUM

### Commission payout below industry average

We note that UTI AMC’s commission rates have been historically lower than the industry, but the gap has narrowed from 26bps at end-FY18 to 11bps at end-FY22. As of FY22, the company’s commission payout of 66bps was 21bps higher than that paid in FY21.

**Fig 43 – Commission payout rose in FY22**



Source: Company, AMFI, BOBCAPS Research

## Valuation methodology

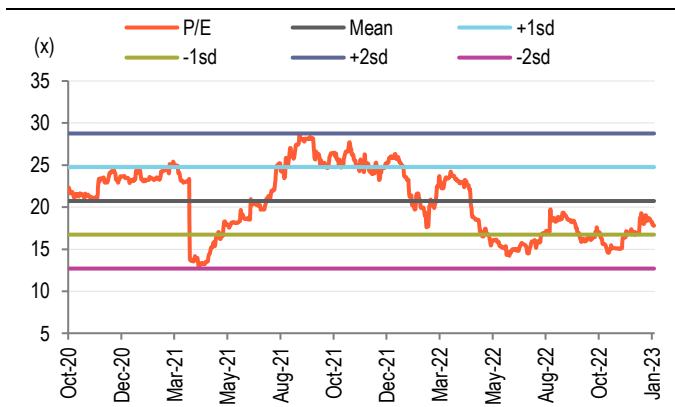
UTI AMC is the eighth biggest fund house in India and enjoys considerable moats in the form of a sizeable AUM base, credibility arising from over five decades of fund management experience, positive net flows since FY21 with reviving market share, differentiated non-MF business, and well-diversified distribution channels. We value the stock at 18x FY25E EPS – (between -1SD and mean) to the long-term multiple, translating to a TP of Rs 983. This offers 20% upside over the current price – initiate with BUY.

**Fig 44 – BOBCAPS AMC Universe: Valuation snapshot**

Ticker	Mcap (Rs bn)	Rating	QAAUM – FY22 (Rs bn)	PAT - FY22 (Rs bn)	CMP (Rs)	Target Price (Rs)	Upside (%)	P/E (x)		Implied P/E (x)	
								FY24E	FY25E	FY24E	FY25E
Nippon AMC	157	BUY	2,832	7.4	251	347	38	19	17	27	24
UTI AMC	104	BUY	2,238	5.3	819	983	20	17	15	21	18
HDFC AMC	457	HOLD	4,321	13.9	2,143	2,310	8	28	26	31	28
ABSL AMC	132	HOLD	2,958	6.7	458	488	7	19	17	20	18

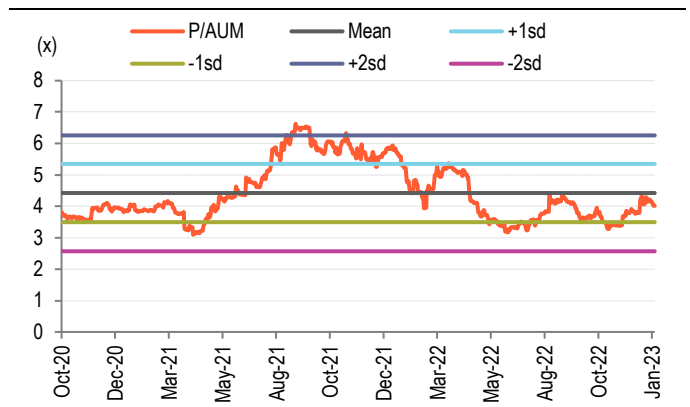
Source: Company, BOBCAPS Research

**Fig 45 – 1Y fwd P/E band**



Source: BOBCAPS Research

**Fig 46 – 1Y fwd P/AUM band**



Source: BOBCAPS Research

## Key risks

- **Decline in AUM growth due to increased competition:** UTI AMC has witnessed intense competitive pressure that has impacted its market share. Although the company has been successful in arresting market share loss, higher competition coupled with new entrants could dampen AUM growth and hurt revenue.
- **Prolonged weakness in equity markets:** Equity assets constitute a significant portion of the company's AUM. Thus, a fall in Indian equity markets would cause AUM to decline directly as the value of underlying securities falls, and indirectly as securities investments become less attractive for investors, resulting in net outflows or redemptions. Any decrease in AUM will impact fees and consequently net profit.
- **Regulatory risks:** AMCs are regulated by SEBI and could be adversely impacted in the event of unfavourable policy changes.
  - Should the regulator mandate a further decline in total expense ratio, yields could weaken even more.
  - SEBI in Apr'22 had barred fund houses from floating new schemes till the industry complied with its direction to discontinue mutual fund investments by distributors and brokers from their pool accounts. 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.

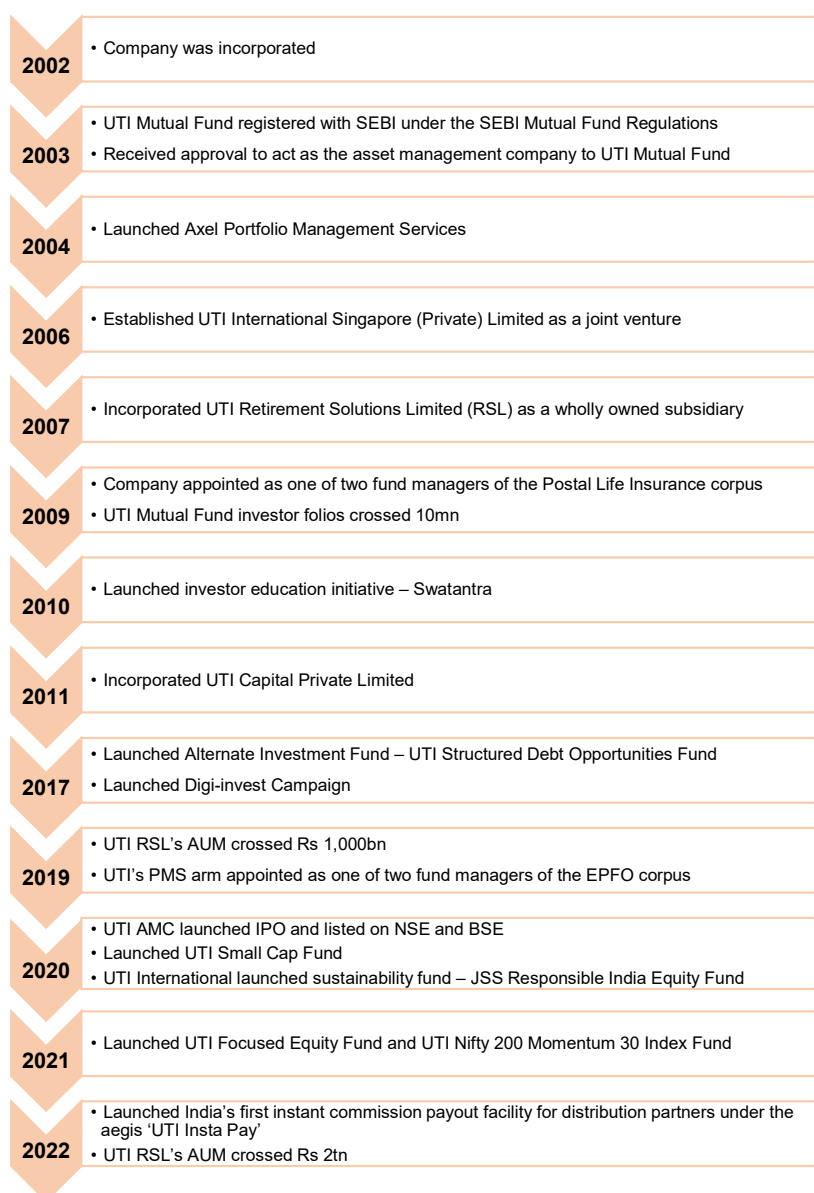
## Company profile

### Background

UTI AMC is one of the largest fund houses in India managing QAAUM of Rs 2.3tn as of 30 Sep 2022. Carved out of the erstwhile Unit Trust of India (UTI), the company has been active in the asset management industry for over five decades and launched the first mutual fund in India.

UTI AMC provides portfolio management services, international business, retirement solutions, and alternate investment assets. The company is managed professionally and its board comprises 10 directors, consisting of 6 independent, 3 non-executive non-independent, and 1 whole-time director. Employee count totalled 1,358 as on 30 Sep 2022, including 1,300 UTI MF employees and 58 of subsidiaries.

**Fig 47 – Key milestones**



Source: Company, BOBCAPS Research

## Key management personnel

- **Imtaiyazur Rahman, CEO & Whole Time Director:** Imtaiyazur has over three decades of experience in management, business leadership and forming strategic alliances. He joined UTI AMC in 2003 and was CFO of the company from 2005 where he headed the functions of Finance, Accounts, Taxation, Information Technology, Board-related matters, Offshore funds, Alternate Investments and Portfolio Management Services.

He is a member of the CII National Committee on Financial Markets as well as the Banking & Finance Committee of IMC Chamber of Commerce & Industry. He was on the Board of Association of Mutual Funds in India (AMFI) and is currently a permanent invitee to AMFI board meetings. Prior to joining the company, he was associated with Sumeet Machines, Leasing Finance India, Bells Controls, New India Rubber Works, and S. Gupta & Co.

Imtaiyazur is a Science graduate, Fellow member of Institute of Cost Accountants of India and Institute of Company Secretaries of India, Certified Public Accountant (and GAMP from Indian School of Business and Kellogg School of Management). He has been conferred an Honorary doctorate degree, D.Litt. by ITM University, Raipur.

- **Surojit Saha, Chief Financial Officer:** Surojit joined erstwhile UTI in 1990 and was subsequently transferred to the company in 2003. Prior to joining, he was associated with National Insurance Company. He holds a Bachelor of Commerce (Honours) degree and a Master of Commerce degree, both from University of Calcutta. He is a member of the Institute of Cost and Works Accountants of India.
- **Vinay Lakhotia, Head of Operations:** Vinay joined erstwhile UTI in 1999 and was transferred to the company in 2003. He holds a Bachelor of Commerce (Honours) degree from University of Calcutta. He is an associate of the Institute of Chartered Accountants of India and is also a Chartered Financial Analyst from the CFA Institute.
- **Vivek Maheshwari, Head of Risk and Compliance Officer:** Vivek joined the erstwhile UTI in 1994 and was subsequently transferred to the company in 2003. He holds a Bachelor of Commerce degree from University of Lucknow, is a Chartered Accountant from the Institute of Chartered Accountants of India, and is also a Financial Risk Manager certified by Global Association of Risk Professionals.
- **Dinesh Kumar Mehrotra, Non-Executive Chairman and Independent Director:** Dinesh has been on the board since Aug'17. He has previously served as the Chairman and Managing Director of LIC, as well as its Executive Director of International Operations. He holds a Bachelor of Science (Honours) degree from the University of Patna.
- **Deepak Kumar Chatterjee, Independent Director:** Deepak was appointed as an Independent Director in Sep'18. He was previously associated with SBI Funds Management as Managing Director and Chief Executive Officer, and SBI Capital Markets as a General Manager. He was also associated with IIFCL Projects as its Chief Executive Officer and IIFCL Asset Management as a Director. He holds a Bachelor of Science (Honours) degree in Physics from University of Delhi, a Master of Science degree in Agricultural Physics from Indian Agricultural Research Institute, New Delhi, and an MBA degree from University of Delhi. He is also a certified associate of the Indian Institute of Bankers.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Investment mgmt. fees</b>	<b>8,070</b>	<b>11,190</b>	<b>11,745</b>	<b>13,229</b>	<b>14,973</b>
YoY (%)	2.4	38.7	5.0	12.6	13.2
Operating expenses	5,260	6,211	6,450	7,034	7,749
Core operating profits	2,811	4,979	5,295	6,196	7,223
Core operating profits growth (%)	(0.4)	77.2	6.3	17.0	16.6
Depreciation and Interest	438	460	475	513	559
Core PBT	2,372	4,519	4,820	5,682	6,664
Core PBT growth (%)	(0.9)	90.5	6.7	17.9	17.3
Other income	3,663	2,084	2,253	2,421	2,644
PBT	6,035	6,603	7,073	8,103	9,308
PBT growth (%)	76.8	9.4	7.1	14.6	14.9
Tax	1,087	1,256	1,782	2,042	2,346
Tax rate (%)	18.0	19.0	25.2	25.2	25.2
<b>Reported PAT</b>	<b>4,948</b>	<b>5,347</b>	<b>5,291</b>	<b>6,061</b>	<b>6,963</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity capital	1,268	1,270	1,270	1,270	1,270
Reserves & surplus	31,252	34,793	37,438	40,469	43,950
Net worth	32,631	36,176	38,708	41,738	45,219
Borrowings	0	0	0	0	0
Other liab. & provisions	3,873	3,701	3,750	3,941	4,172
<b>Total liab. &amp; equities</b>	<b>36,504</b>	<b>39,877</b>	<b>42,458</b>	<b>45,680</b>	<b>49,391</b>
Cash & bank balance	30,786	33,765	36,008	38,696	41,927
Fixed & Other assets	5,121	5,544	5,888	6,429	6,916
<b>Total assets</b>	<b>36,504</b>	<b>39,877</b>	<b>42,458</b>	<b>45,680</b>	<b>49,391</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS	39.0	42.0	41.5	47.6	54.6
Dividend per share	17.0	21.0	20.8	23.9	27.4
Book value per share	257.0	283.9	303.7	327.5	354.8

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
P/E	21.0	19.5	19.7	17.2	15.0
P/BV	3.2	2.9	2.7	2.5	2.3
Dividend yield (%)	2.1	2.6	2.5	2.9	3.3

### DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	44.1	50.0	49.1	49.4	49.7
Operating expenses	28.8	27.7	27.0	26.3	25.7
EBITDA	35.4	31.6	31.6	32.2	32.8
Depreciation and Others	2.4	2.1	2.0	1.9	1.9
Core PBT	13.0	20.2	20.2	21.2	22.1
Other income	20.0	9.3	9.4	9.0	8.8
PBT	33.0	29.5	29.6	30.3	30.9
Tax	5.9	5.6	7.5	7.6	7.8
<b>ROAAAUM</b>	<b>27.1</b>	<b>23.9</b>	<b>22.1</b>	<b>22.6</b>	<b>23.1</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>YoY growth (%)</b>					
Investment mgmt. fees	2.4	38.7	5.0	12.6	13.2
Core operating profit	(0.4)	77.2	6.3	17.0	16.6
EPS	82.0	7.7	(1.1)	14.6	14.9
<b>Profitability &amp; Return ratios (%)</b>					
Operating income to Total inc.	68.8	84.3	83.9	84.5	85.0
Cost to Core income ratio	65.2	55.5	54.9	53.2	51.8
EBITDA margin	55.2	53.2	53.9	55.1	56.0
Core PBT margin	20.2	34.0	34.4	36.3	37.8
PBT margin (on total inc.)	51.4	49.7	50.5	51.8	52.8
ROE	16.4	15.5	14.1	15.1	16.0
<b>Dividend payout ratio</b>	<b>43.6</b>	<b>50.0</b>	<b>50.0</b>	<b>50.0</b>	<b>50.0</b>

### Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
AAAUM (Rs bn)	1,829	2,238	2,391	2,678	3,012
YoY Growth (%)	20.7	22.4	6.8	12.0	12.5
<b>% of AAAUM</b>					
Equity	40	43	41	42	43
Debt	13	8	4	4	4
Liquid	24	21	22	21	20
Others	23	28	32	33	33

Source: Company, BOBCAPS Research



**HOLD**

TP: Rs 2,310 | ▲ 8%

HDFC AMC

| NBFC

| 11 January 2023

**Fairly priced; initiate with HOLD**

- AUM expected to clock a respectable 9% CAGR over FY22-FY25 backed by retail focus and extensive network
- Lost 275bps MAAUM share (highest in listed space) over FY20-H1FY23; new funds launched to reclaim ground ceded to peers
- Initiate at HOLD with TP of Rs 2,310 given limited stock triggers; market share and new scheme performance key monitorables

**Striving to recoup lost ground:** HDFC AMC is the #3 player in India's asset management industry with QAAUM of Rs 4.3tn and 11% market share at end-H1FY23. The company has ceded market share to competitors over the last few years (-275bps since FY20-H1FY23), but is striving to recoup its losses via a slew of product launches over the past 8-10 quarters. AUM clocked an 8% CAGR over FY19-FY22 and we expect a slightly faster 9% run-rate over FY22-FY25 to Rs 5.5tn. Revenue and PAT yields, however, are likely to remain flat as a higher share of equity AUM would attract expense ratio regulatory caps.

**Retail in focus but facing competitive headwinds:** HDFC AMC remains retail-centric, as evident from the fact that individual MAAUM constitutes 66% of the total at end-H1FY23 vs. 52% in FY20 and 57% for the industry. Within the company's SIP book, 86% of assets carry a tenure of over five years and 76% are tenured for over ten years, denoting a strong order book and predictable retail flows. However, in terms of performance against peers, we note that the company has shed 240bps in individual MAAUM market share over FY20-H1FY23 and 300bps over FY17-H1FY23.

**Diversified distribution network:** HDFC AMC has 228 branches (150 in B30 cities) and tie-ups with over 80,000 distribution partners, servicing customers across ~99% of India's pin-codes. Direct channels contributed 41% of AUM in H1FY23. HDFC Bank, however, brought in only 5.8% of business as compared to 10.3% in FY18, a key addressable area. Within equity AUM, direct channels account for ~22% whereas mutual fund distributors bring in 41% of business (H1FY23).

**Upside capped; initiate with HOLD:** HDFC AMC has business moats in the form of its brand strength (as part of the reputed HDFC Group), large AUM base and retail-oriented strategy. Management is also focused on reclaiming market share through new scheme launches. However, we expect a reversal of its weakened positioning vis-à-vis peers to be a long slog amid intense competitive headwinds. We, thus, value the stock at 28x FY25E EPS, 1SD below the long-term mean, translating to a TP of Rs 2,310 that carries 8% upside – initiate with HOLD.

**Mohit Mangal**

research@bobcaps.in

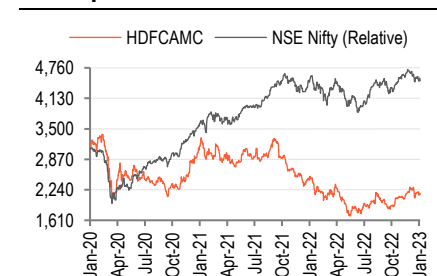
Ticker/Price	HDFCAMC IN/Rs 2,143
Market cap	US\$ 5.6bn
Free float	13%
3M ADV	US\$ 6.6mn
52wk high/low	Rs 2,509/Rs 1,690
Promoter/FPI/DII	63%/12%/12%

Source: NSE | Price as of 11 Jan 2023

**Key financials**

Y/E 31 Mar	FY22A	FY23E	FY24E
Core PBT (Rs mn)	15,375	16,022	17,334
Core PBT (YoY)	9.8	4.2	8.2
Adj. net profit (Rs mn)	13,931	14,525	16,067
EPS (Rs)	65.3	68.0	75.3
Consensus EPS (Rs)	65.3	67.5	75.4
MCap/AAAUM (%)	10.6	9.9	9.1
ROAAAUM (bps)	32.2	31.4	32.0
ROE (%)	27.0	25.3	25.9
P/E (x)	32.8	31.5	28.5

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

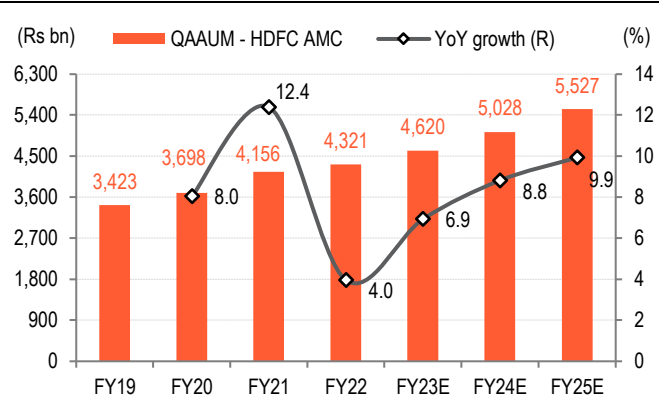
Source: NSE

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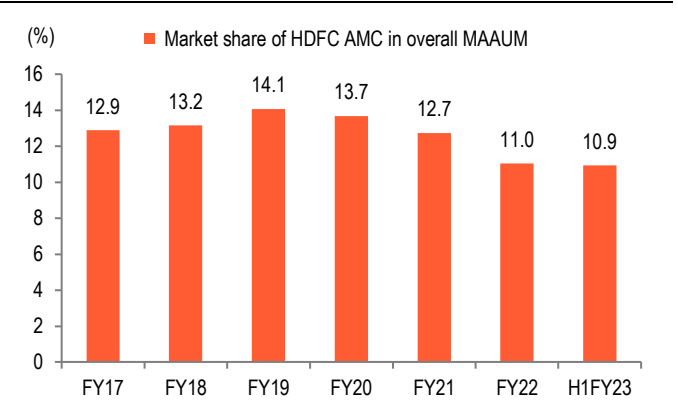
Focus charts

Fig 1 – Expect AUM to post 9% CAGR over FY22-FY25E



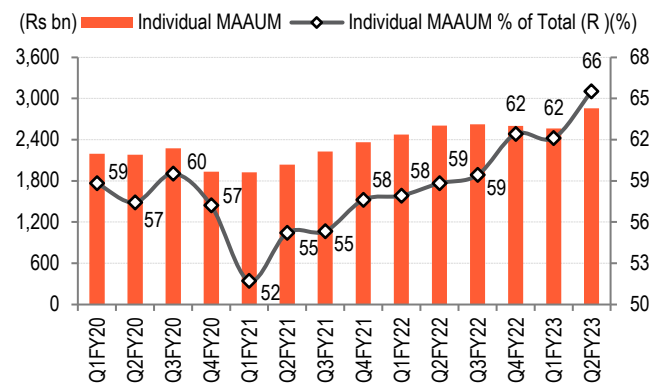
Source: Company, BOBCAPS Research

Fig 2 – Market share maintained at 11% levels but recovery to prior peaks looks difficult



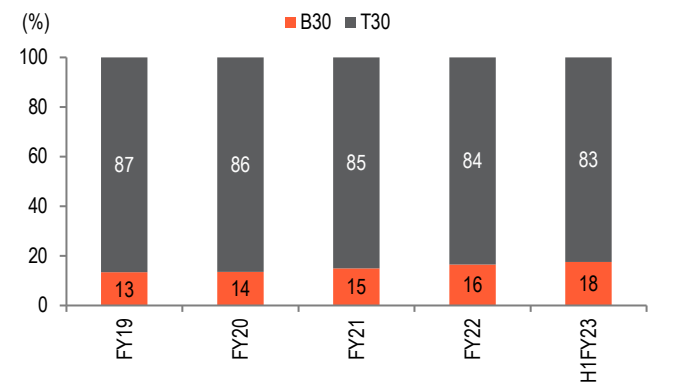
Source: Company, BOBCAPS Research

Fig 3 – Retail-oriented strategy bodes well for growth



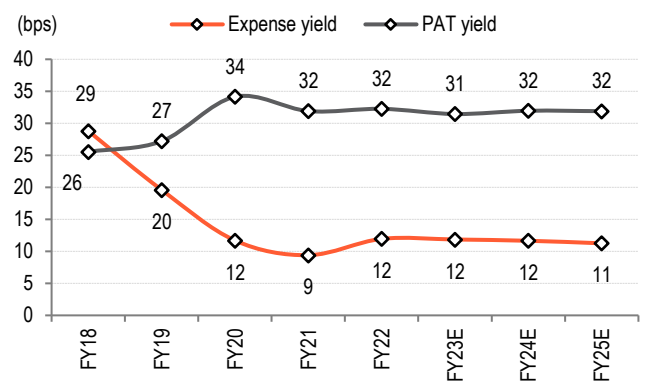
Source: Company, BOBCAPS Research

Fig 4 – T30 QAAUM share >80%; B30 business also rising



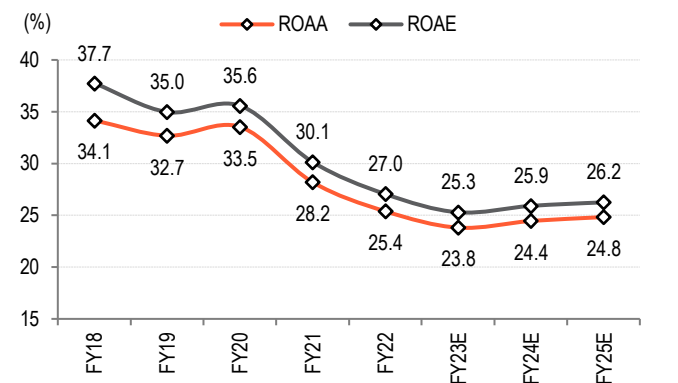
Source: Company, BOBCAPS Research

Fig 5 – PAT yield expected to be maintained



Source: Company, BOBCAPS Research

Fig 6 – Return ratios likely to improve from FY24E



Source: Company, BOBCAPS Research

## Market share headwinds overshadow positives

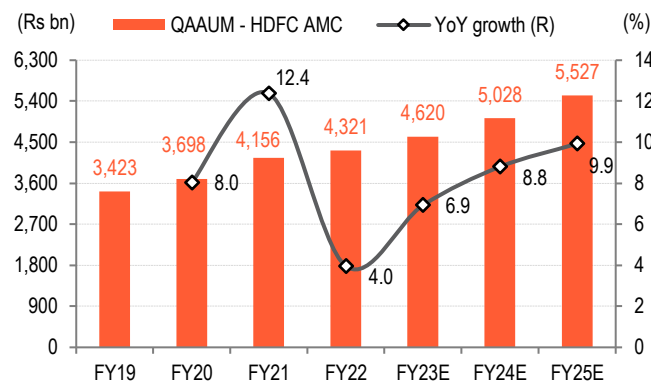
### Top 3 player with healthy growth outlook

HDFC AMC is the #3 player in India’s asset management industry with QAAUM of Rs 4.3tn at end-H1FY23. Despite intensifying competition, its AUM has logged a respectable 8% CAGR over FY19-FY22, with the proportion of equity assets rising from 45% in FY19 (42% for the industry) to 48% (46%) in FY22 and 52% (48%) in H1FY23.

Although the company has ceded market share and its #1 position over the last few years, a raft of product launches during the past three quarters (18 funds launched across categories but more focused on ETF space) coupled with management’s avowed goal of reviving market share indicates a renewed thrust on growth.

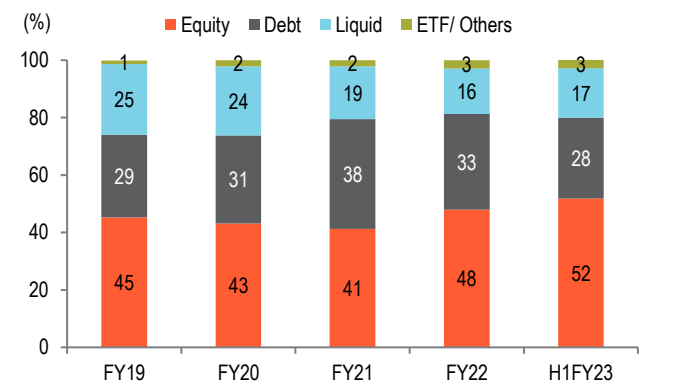
HDFC AMC continues to enjoy the key competitive moats of brand strength, a large AUM base and strategic orientation toward the fast-growing retail segment. We thus model for a 9% CAGR in AUM over FY22-FY25 to Rs 5.5tn, with equity assets forming 52% of managed assets at end-FY25 as compared to 45% in FY19.

**Fig 7 – Expect 9% CAGR over FY22-FY25E**



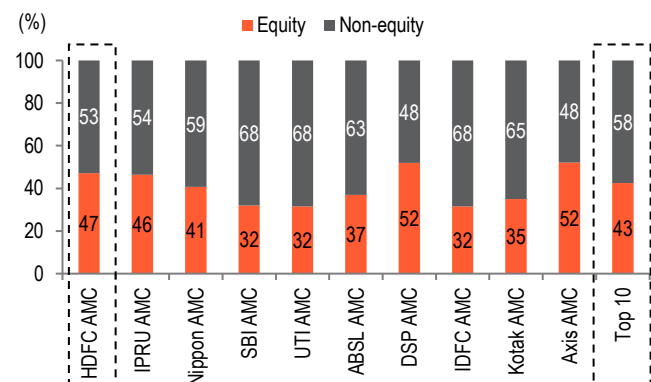
Source: Company, BOBCAPS Research

**Fig 8 – Share of equity assets in AUM has risen**



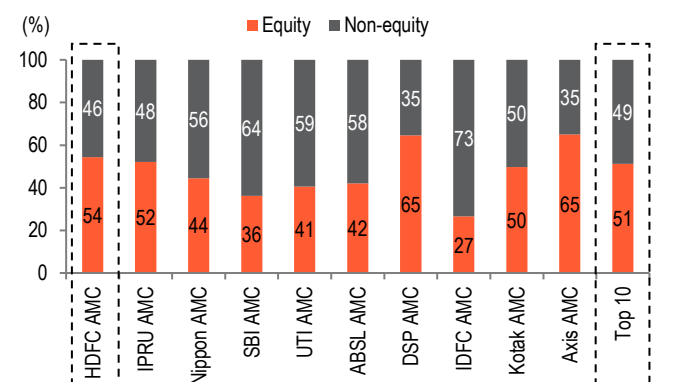
Source: Company, BOBCAPS Research | Note: AUM = QAAUM

**Fig 9 – Share of equity AUM was <50% in FY19...**



Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 10 – ...which has improved for all players in H1FY23**



Source: Company, BOBCAPS Research | Note: AUM = MAAUM

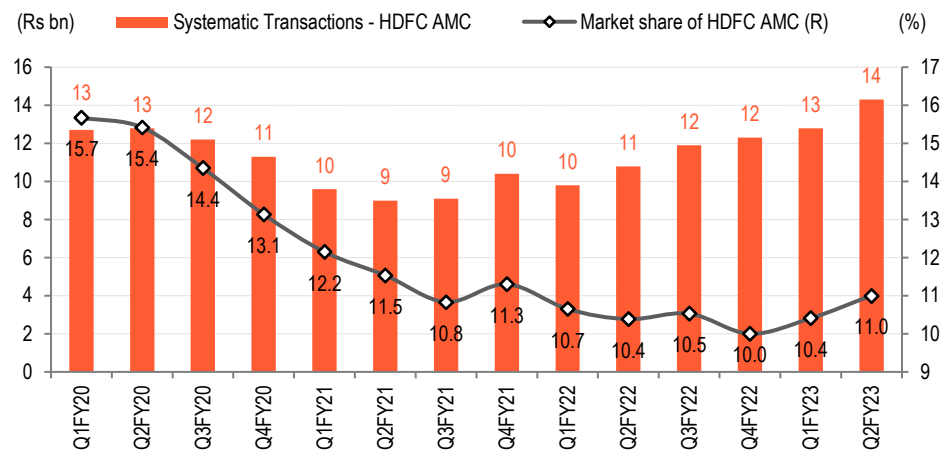
### SIP flows stable and long-tenured

Systematic investment plans (SIP) have proved popular among the retail segment as they offer a convenient mode for investors to start small and accumulate capital over time. Contribution levels are set low enough to render inflows less susceptible to market cycles and, hence, SIPs have also helped curb volatility in aggregate mutual fund inflows.

HDFC AMC has recorded an improvement in systematic transactions, including SIPs, to Rs 14.3bn at end-Sep'22. The company's market share also expanded from 10.4% in Q2FY22 to 11% in Q2FY23, albeit still well below the 15-16% levels seen in FY20. Within this, SIP flows grew from an average of Rs 9bn-10bn in FY21 to Rs 13bn in H1FY23, representing 10% market share.

SIP AUM grew from Rs 454bn at end-Q2FY21 to Rs 786bn at end-Q2FY23, forming 37% of the company's actively managed equity QAAUM and 12.5% of industry SIP AUM. The company's SIP book is long-tenured with 86% of the assets running for five years and 76% for ten years, denoting a stable order book and predictable flows.

**Fig 11 – Systematic flows picking up pace**



Source: Company, BOBCAPS Research

**Fig 12 – Share of SIP in equity AUM increasing**

Particulars	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
HDFC AMC SIP AUM (Rs bn)	454	532	567	636	696	702	712	685	786
Industry SIP AUM (Rs bn)	3,356	3,981	4,279	4,840	5,450	5,654	5,764	5,512	6,353
Share of HDFC AMC (%)	13.5	13.4	13.3	13.1	12.8	12.4	12.4	12.4	12.4
HDFC AMC Equity AUM (Rs bn)	1,436	1,505	1,666	1,723	1,877	1,966	1,980	1,968	2,113
Share of SIP in Equity AUM (%)	31.6	35.3	34.0	36.9	37.1	35.7	36.0	34.8	37.2

Source: Company, BOBCAPS Research | Note: AUM = QAAUM

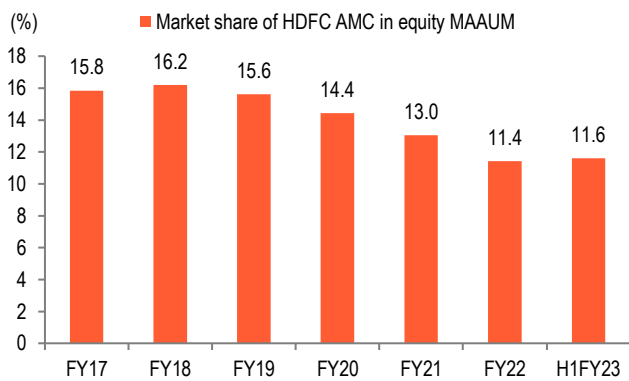
### Fund launches aim to recoup market share but an uphill task

After being the top-ranking player, HDFC AMC’s market share retreated considerably to 11.0% in FY22 (10.9% in H1FY23) as compared to 12.9% in FY17 and 14.1% in FY19, causing it to slip to the #3 position. Notably, in equity – the biggest component of the AUM mix, it has seen a sharp drop from 15.8% in FY17 to 11.4% in FY22 (11.6% in H1FY23). The company has not only lost ground in assets managed but also in unique customers and MF folios. Stiff competition, fewer new fund offerings and underperformance vis-à-vis peers are key reasons for the loss of positioning, in our view.

On the positive side, HDFC AMC has largely held its ground since FY22, and management recently stressed that it is working to recoup lost share via the introduction of new funds, particularly in the passive space. To this end, the company rolled out nine new schemes in FY22 and another nine in FY23 YTD, with launch momentum maintained despite SEBI’s moratorium on new fund offers by the industry in Q1FY23.

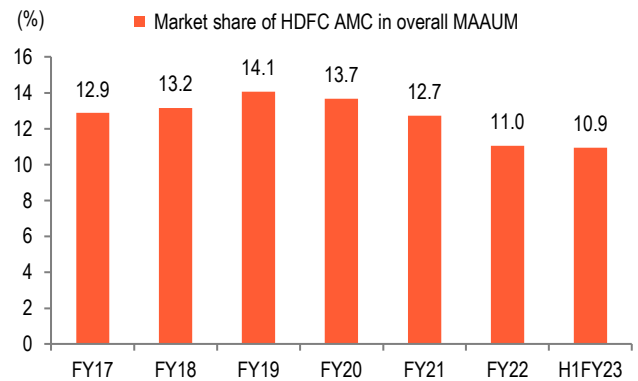
While the launch focus could drive some gains for the company, we believe any progress in clawing back share from peers will be plodding given sustained competitive headwinds in the mutual fund industry. Moreover, new scheme performance would remain a key monitorable.

**Fig 13 – Market share in equity MAAUM has retreated...**



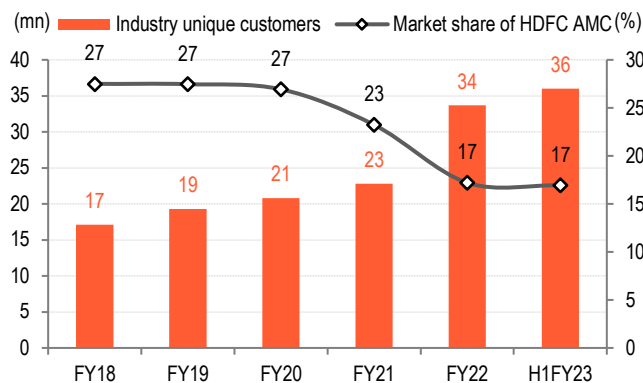
Source: Company, BOBCAPS Research

**Fig 14 – ...with a concurrent drop in overall QAAUM**



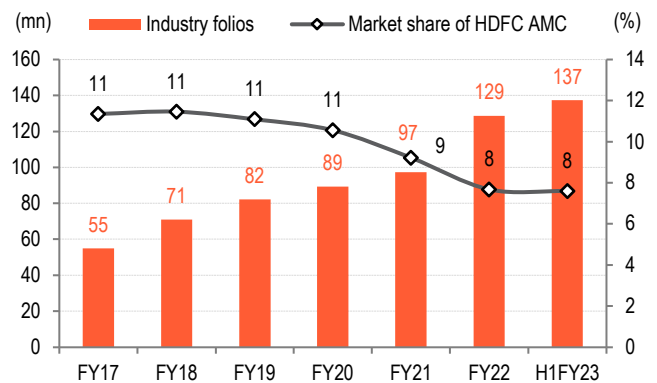
Source: Company, BOBCAPS Research

**Fig 15 – Share in unique customers has contracted...**



Source: Company, BOBCAPS Research

**Fig 16 – ...with a similar trend in folios which now appears to have stabilised**



Source: Company, BOBCAPS Research

**Fig 17 – New products gained traction from FY22 onwards**

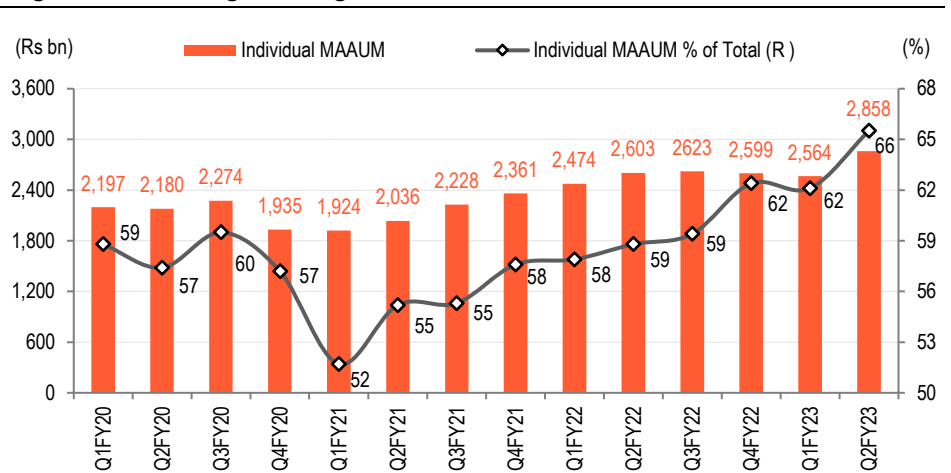
New fund launches					
FY18	FY19	FY20	FY21	FY22	FY23 YTD
2	1	1	2	9	9
HDFC Equity Opportunities Fund – Series II  HDFC Housing Opportunities Fund – Series I	HDFC Ultra Short-Term Fund	HDFC FMP 1100D April 2019	HDFC Banking ETF  HDFC Dividend Yield Fund	HDFC Asset Allocator Fund of Funds  HDFC Banking & Financial Services Fund  HDFC Nifty 50 Equal Weight Index Fund  HDFC Developed World Indexes Fund of Funds  HDFC Nifty Next 50 Index Fund  HDFC Multi-Cap Fund  HDFC Nifty 100 Index Fund  HDFC Nifty 100 Equal Weight Index Fund  HDFC FMPs	HDFC NIFTY 200 Momentum 30  HDFC NIFTY 100 Low Volatility 30  HDFC Nifty IT ETF  HDFC Nifty Private Bank ETF  HDFC Silver ETF  HDFC NIFTY Growth Sectors 15 ETF  HDFC NIFTY 50 Value 20 ETF  HDFC NIFTY 100 Quality 30 ETF  HDFC FMPs

Source: Company, BOBCAPS Research

### Retail-centric strategy but yielding ground to peers

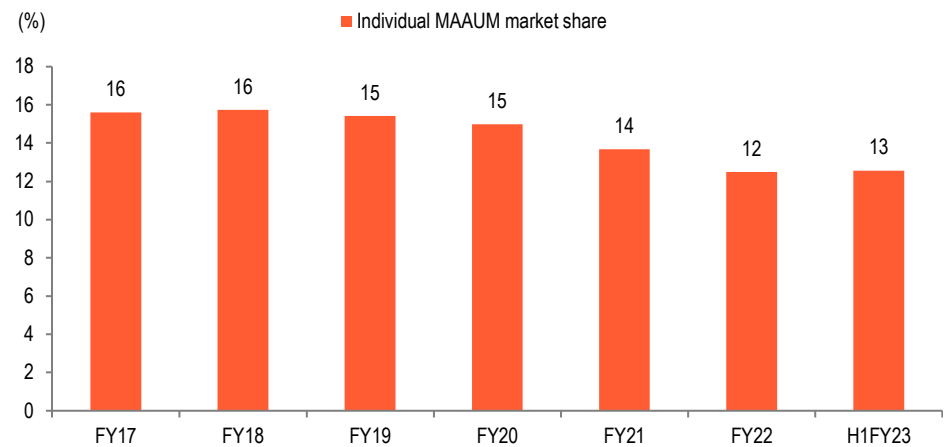
HDFC AMC is garnering growing retail interest, as evident from a 66% proportion of individual (retail plus HNI) MAAUM in its mix as against 57% for the industry at end-H1FY23. After a steep fall to 52% during the FY20 Covid phase, individual MAAUM in the mix has recovered steadily over the past four years, moving past pre-pandemic levels of 63% at end-FY19. However, in terms of performance against peers, we note that the company has shed 240bps in individual MAAUM market share over FY20-H1FY23 and 300bps over FY17-H1FY23.

**Fig 18 – Individual growth higher than non-individual in AUM mix...**



Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 19 – ...but individual AUM market share has contracted**

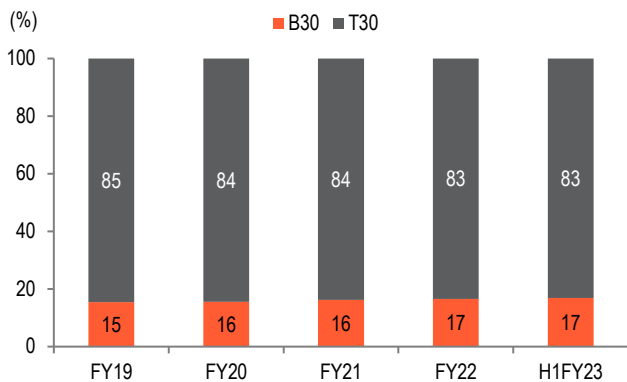


Source: Company, BOBCAPS Research | Note: AUM = MAAUM

### Losing steam in key T30 markets

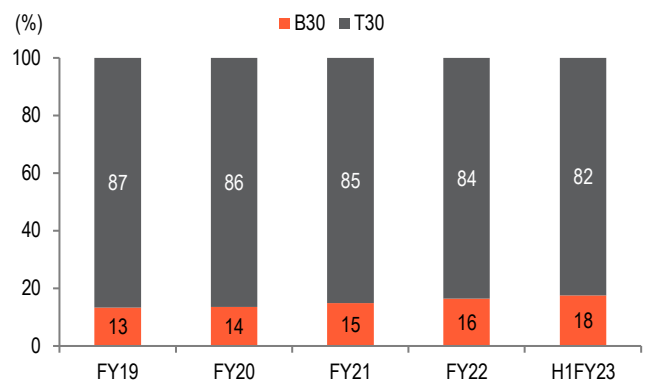
SEBI, through a circular effective Apr'18, permitted asset management companies to charge an additional total expense ratio or TER of up to 30bps on a scheme's daily net assets only to B30 cities. On an industry level, 16.5% of AUM came from B30 at end-FY22 as compared to 15.4% in FY19, with the balance from T30 cities. Similarly, for HDFC AMC, this number increased from 13% in FY19 to 16.5% in FY22 and 17.5% at end-H1FY23. However, in terms of market share, the company has lost 80bps in B30 cities over FY19-H1FY23, with a steeper 350bps loss in T30 cities.

**Fig 20 – Industry AUM from B30 cities showing traction...**



Source: Company, BOBCAPS Research | Note: AUM = MAAUM

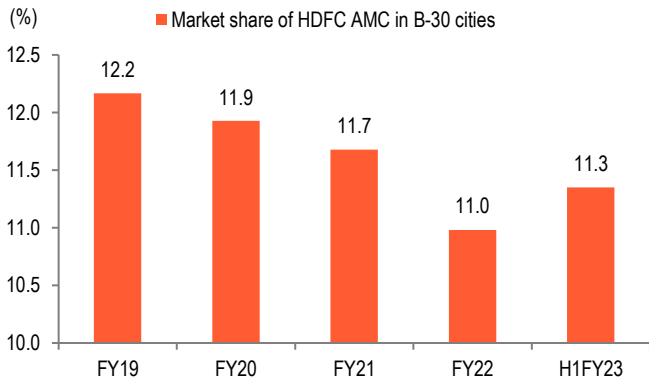
**Fig 21 – ...and HDFC AMC seeing similar trends**



Source: Company, BOBCAPS Research | Note: AUM = MAAUM

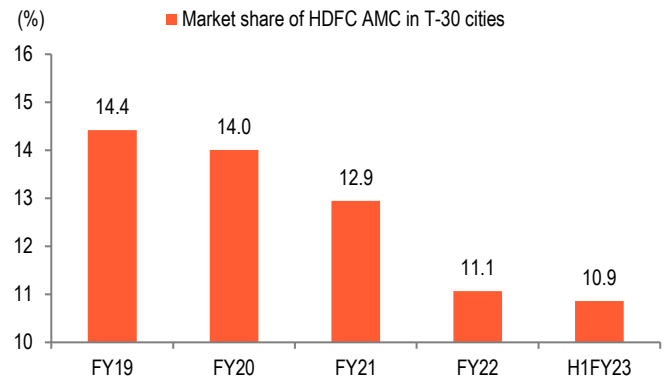


**Fig 22 – HDFC AMC had a better H1FY23 in B30 cities...**



Source: Company, BOBCAPS Research | Note: AUM=MAAUM

**Fig 23 – ...whereas decline in T30 areas continued**



Source: Company, BOBCAPS Research | Note: AUM=MAAUM

### Robust brand recall and pedigree...

HDFC AMC benefits from a strong brand recall among Indian customers due to its robust brand image and parentage. Housing finance major HDFC continues to hold >50% stake in the company, with the HDFC Group being a trusted household name in the field of financial services. HDFC Bank announced a merger with HDFC in Apr'22, subject to regulatory approvals, is expected to be completed in FY24. The change in the AMC's parentage to HDFC Bank – the #1 ranked private bank in India – will only serve to reinforce its brand image.

### ...but bank channel lags in otherwise strong distribution network

HDFC AMC has 228 branches (including 150 in B30 cities) and tie-ups with over 80,000 distribution partners, servicing customers across ~99% of India's pin-codes. Direct channels contributed 41% of AUM in H1FY23. In addition to the branch network, mutual fund transfer agency CAMS also services HDFC AMC's customers and the company provides end-to-end digital onboarding solutions to investors and distributors.

Despite being a bank-based AMC franchise, HDFC Bank originated just 5.8% of business as compared to 10.3% in FY18, an area that needs to be addressed. Within equity AUM, direct channels account for ~22% whereas mutual fund distributors have a higher presence at 41% (H1FY23). Here too, the share of HDFC Bank witnessed a decline to 8.3% vs. 12.6% in FY18.

We note that the impending merger of HDFC Bank and HDFC would bring the bank on as parent – a positive move for the AMC because it brings it under the fold of a larger entity with a deep distribution network. Nevertheless, we see a neutral impact in terms of distribution as the new parent is running an open architecture model where it promotes the products of multiple fund houses.

**Fig 24 – Direct channel and MF distributors play a crucial role in the distribution mix**

(%)	Total AUM						Equity AUM					
	FY18	FY19	FY20	FY21	FY22	H1FY23	FY18	FY19	FY20	FY21	FY22	H1FY23
Banks	17.3	14.2	10.7	10.0	10.5	10.6	19.8	16.9	15.7	14.2	13.5	13.4
- of which HDFC Bank	10.3	8.6	5.6	5.6	5.9	5.8	12.6	10.7	9.9	9.2	8.6	8.3
- of which Other Banks	7	5.6	5.1	4.4	4.6	4.8	7.2	6.2	5.8	5.0	4.9	5.1
MFD/IFA	27.6	27.5	23.4	25.9	27.8	28.2	39.9	41.1	40.3	41.7	41.3	41.1
National Distributors	21	20.0	18.1	17.6	20.1	20.2	24.7	24.8	24.8	23.9	23.3	23.5
Direct	34.1	38.3	47.8	46.5	41.6	41.0	15.5	17.2	19.2	20.2	21.9	22.1

Source: Company, BOBCAPS Research | Note: Mutual Fund Distributors (MFDs) erstwhile known as Independent Financial Advisers (IFAs)

## Building out PMS and AIF business

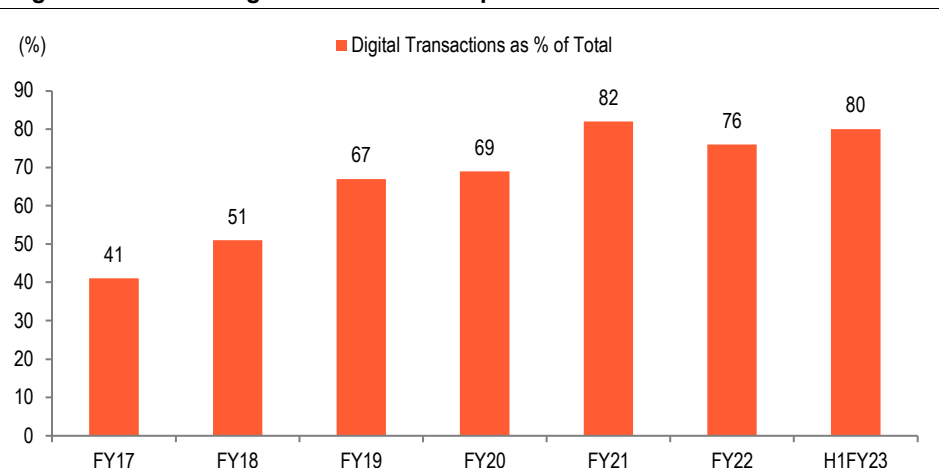
HDFC AMC derives a small portion of revenue from portfolio management and segregated account services (PMS and SMA) to high-net-worth individuals, family offices, domestic corporates, trusts, provident funds, and domestic and global institutions.

In FY22, AUM in this business totalled Rs 92bn (Rs 85bn in FY20), yielding revenue of just Rs 121mn (0.6% of total revenue from operations). In Q2FY23, AUM plunged to Rs 27bn as a large global institution closed its mandate. To counter this decline, the company is working through various modes to build up its international business, including the setup of an office in GIFT city, Gujarat.

Management intends to focus on PMS and AIF in the non-mutual fund space. The company recently launched a category-II AIF fund-of-funds, which is investing across VC and PE funds.

## Digital mode drives business

The company has consistently invested in technology and built a robust digital environment to ensure paperless transactions. Total transactions logged a 16% CAGR over FY17-FY22 with those in electronic mode growing at 31%. About 76% of total transactions were in electronic mode in FY22 which has increased to 80% in H1FY23. Roughly 15% of all transactions during FY22 were through the company's online and mobile applications.

**Fig 25 – Growth in digital transactions impressive**

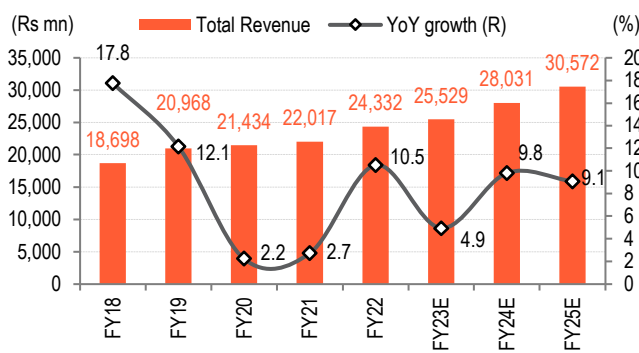
Source: Company, BOBCAPS Research

## Financial review

### Expect 8% revenue CAGR, FY22-FY25

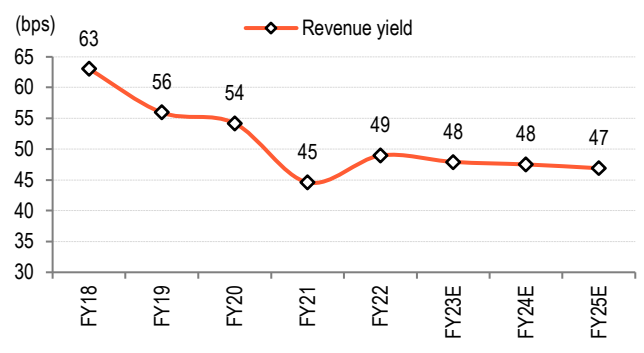
We expect HDFC AMC’s total income to clock an 8% CAGR over FY22-FY25 to Rs 30.6bn (vs. 9% over FY17-FY22). Within this, we forecast a 7% CAGR in operating revenue to Rs 25.9bn supported by (i) estimated 8.6% growth in AUM through to FY25, and (ii) stable blended yields despite softness in the equity segment. We are factoring in equity AUM at 51.7% of the total at end FY25 as compared to 45.8% in FY22. Other income is projected to rise from ~13% of total income in FY22 to 15% by FY25 on higher yielding investment assets.

**Fig 26 – Expect revenue growth in lower single digits**



Source: Company, BOBCAPS Research

**Fig 27 – Revenue yield to remain stable**



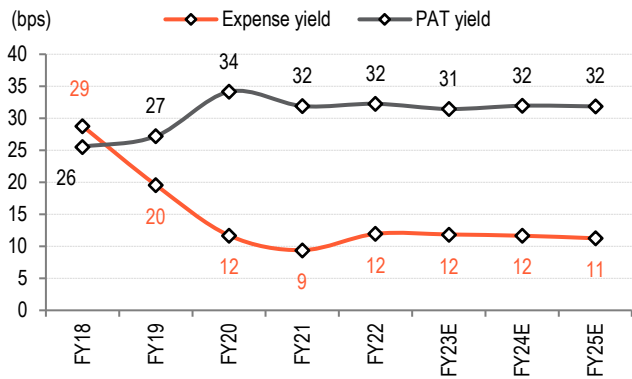
Source: Company, BOBCAPS Research

### Tighter opex to benefit PAT yields

Given a deterioration in revenue yields over FY18-FY21, HDFC AMC has taken steps to curtail operating costs, which declined from Rs 7.7bn in FY17 to Rs 3.9bn in FY21, before rising to Rs 5.1bn in FY22. Employee cost formed ~60% of operating expense in FY22 and moved higher owing to a non-cash charge towards the amortised cost of outstanding employee stock options. Other expenses also rose in FY22 on account of (i) a low base effect of the lockdown in FY21, (ii) expenses on new fund launches and regular business promotion, and (iii) investment in technology and digital infrastructure.

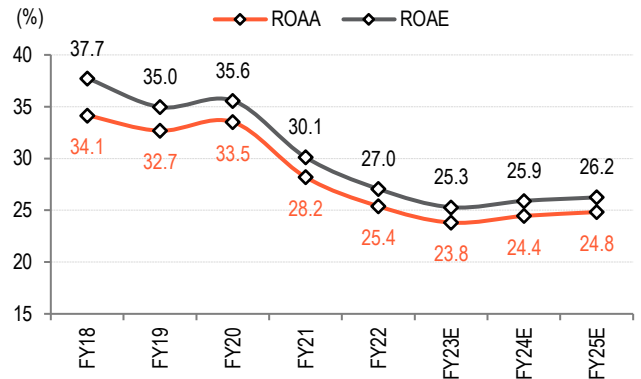
We expect operating expenses to remain under control, posting a 6.4% CAGR over FY22-FY25 to Rs 6.2bn, aiding an EBITDA CAGR of 8.3% to Rs 24.4bn. PAT yields are thus likely to remain stable at ~32bps with an improvement in ROE.

**Fig 28 – PAT yield looks largely stable**



Source: Company, BOBCAPS Research

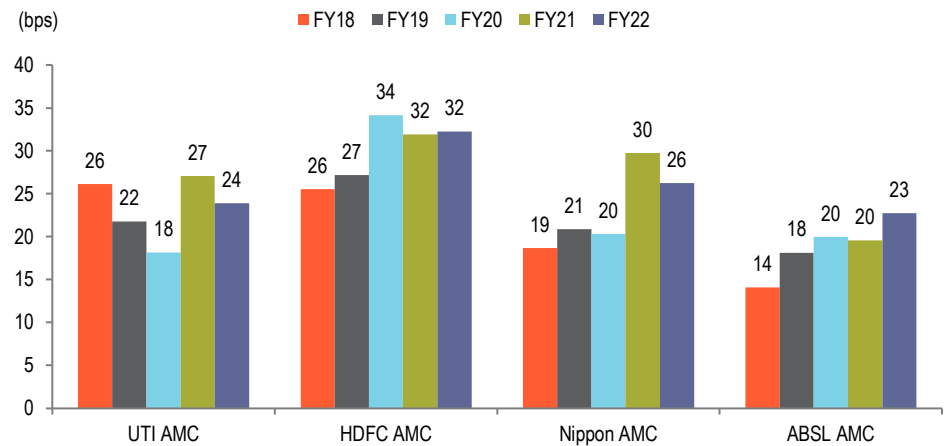
**Fig 29 – ROE expected to improve from FY24E**



Source: Company, BOBCAPS Research

PAT yield has been higher than competition in the listed space by 6-9bps at end-FY22. HDFC AMC generated PAT yields of 32bps in FY22 vs. 23-26bps for the listed peers.

**Fig 30 – PAT yield superior to competition**



Source: Company, BOBCAPS Research

## Valuation methodology

HDFC AMC is one of the biggest fund houses in India and enjoys considerable moats in the form of brand strength, pedigree and a large AUM base. However, the company has been unable to fend off competition, witnessing steep market share contraction of 275bps over FY20-H1FY23 – the highest among listed peers. Management has reiterated its focus on recouping lost ground through new scheme launches. However, we expect any reversal of the AMC’s weakened positioning to be a long slog amid sustained competitive headwinds.

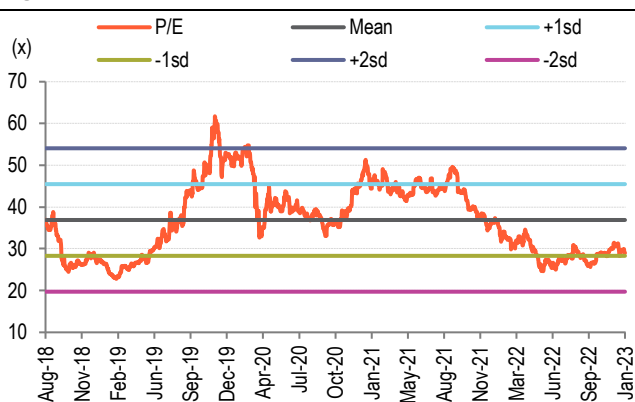
We, thus, value the stock at 28x FY25E EPS – one standard deviation below the long-term mean multiple, translating to a TP of Rs 2,310. This offers just 8% upside over the current price – initiate with HOLD.

**Fig 31 – BOBCAPS AMC Universe: Valuation snapshot**

Ticker	Mcap (Rs bn)	Rating	QAAUM – FY22 (Rs bn)	PAT - FY22 (Rs bn)	CMP (Rs)	Target Price (Rs)	Upside (%)	P/E (x)		Implied P/E (x)	
								FY24E	FY25E	FY24E	FY25E
Nippon AMC	157	BUY	2,832	7.4	251	347	38	19	17	27	24
UTI AMC	104	BUY	2,238	5.3	819	983	20	17	15	21	18
HDFC AMC	457	HOLD	4,321	13.9	2,143	2,310	8	28	26	31	28
ABSL AMC	132	HOLD	2,958	6.7	458	488	7	19	17	20	18

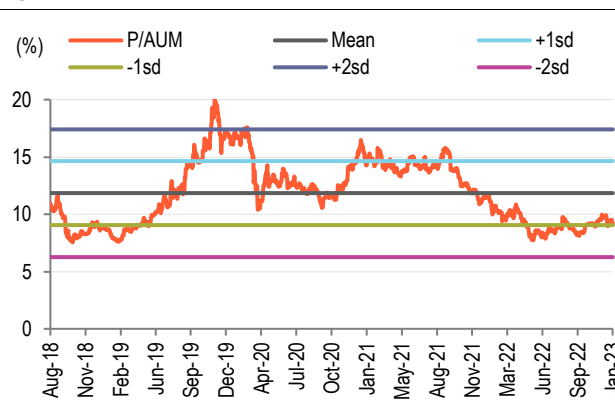
Source: Company, BOBCAPS Research

**Fig 32 – 1Y fwd P/E band**



Source: BOBCAPS Research

**Fig 33 – 1Y fwd P/AUM band**



Source: BOBCAPS Research

## Key risks

- **Decline in AUM growth due to increased competition:** HDFC 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.

## Company profile

### Background

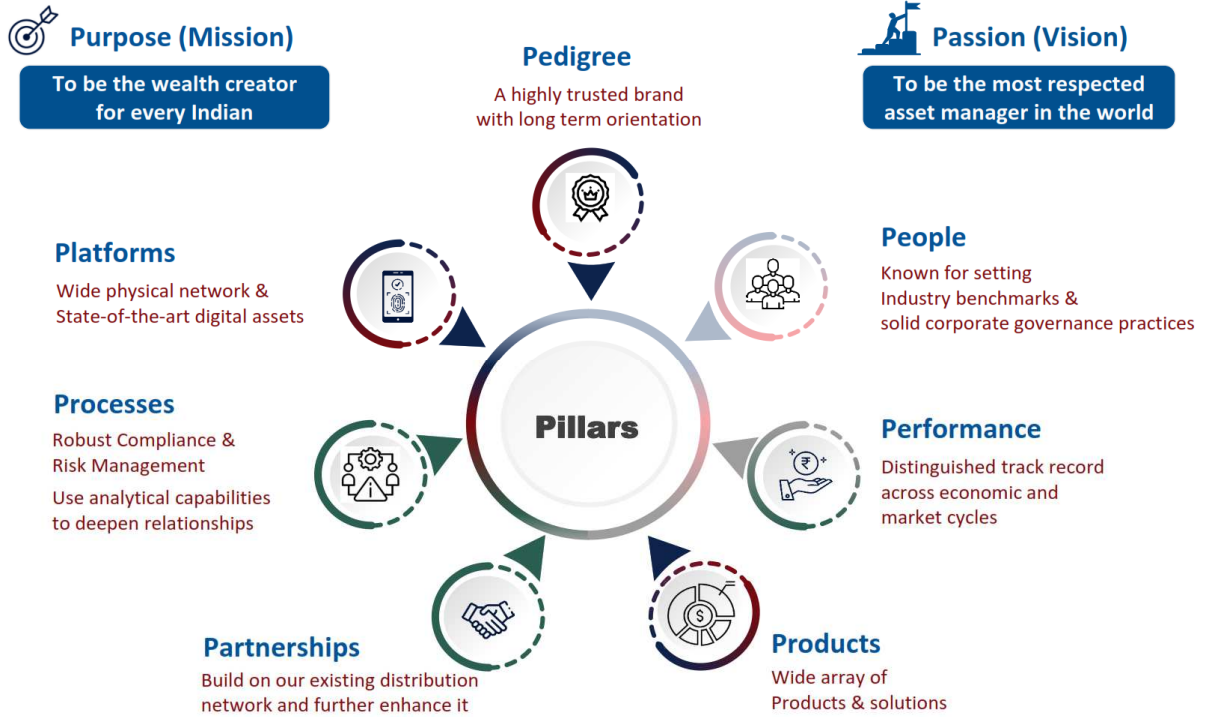
Incorporated in Dec'99, HDFC Asset Management Company (HDFC AMC) is headquartered in Mumbai. It is a subsidiary of Housing Development Finance Corp (HDFC) which owned 52.6% as at end-FY22. The company has been listed on the stock exchange since 2018. As at 31 March 2022, it had a closing AUM of Rs 4.1tn.

### Key management personnel

- **Navneet Munot, Managing Director & Chief Executive Officer:** Navneet has three decades of experience and has previously worked with SBI Funds Management as Executive Director & CIO and was a key member of the Executive Committee since Dec'08. He was also a nominee director on the Board of SBI Pension Funds. He is the Chairman of the Board of Indian Association of Investment Professionals (CFA Society, India). Navneet is a Chartered Accountant, Chartered Financial Analyst, Chartered Alternative Investment Analyst, and Certified Financial Risk Manager.
- **Leena Vijayvargiy, Chief Risk Officer:** Leena's experience includes risk functions at BNP Paribas Asset Management and SBI Mutual Fund. She has completed her PhD from Shailesh J Mehta School of Management, IIT Bombay, and was an Associate Researcher at University of Louis Pastor, Strasbourg (France).
- **Naozad Sirwalla, Chief Financial Officer:** Naozad started his career in 1995 with PricewaterhouseCoopers (PwC) in Corporate Finance. He was earlier associated with Lupa Systems Investment Advisors India as CFO and has also worked with Kotak Mahindra Group where roles during his 13-year stint included Executive Vice President – Group Finance & Strategy at Kotak Mahindra Bank and Chief Operating Officer of Kotak Investment Advisors. Naozad joined KKR India Advisors as Chief Financial Officer in 2013 and o3 Capital Global Advisory as Managing Director – Credit Strategies in 2019. He is a Chartered Accountant and Company Secretary.
- **Deepak S Parekh, Non-Executive Director and Chairman:** Deepak has been on the board since Jul'00. He is also a Non-Executive Director and Chairman of the promoter company HDFC and its key subsidiaries. Further, he is on the board of several leading companies across diverse sectors. Deepak is a fellow of the Institute of Chartered Accountants (England and Wales).
- **Keki Mistry, Non-Executive Director:** Keki has been on the board since Dec'07 and is also the Vice Chairman and Chief Executive Officer of HDFC. He is a fellow of the Institute of Chartered Accountants of India, Chairman of the CII National Council on Corporate Governance, and member of the Primary Market Advisory Committee set up by SEBI. He was also a member of the Committee on Corporate Governance set up by SEBI.
- **Renu Karnad, Non-Executive Director:** Renu has been on the board since Jul'00 and is the Managing Director of HDFC. She holds a Master's degree in Economics from the University of Delhi and a Bachelor's degree in Law from the University of

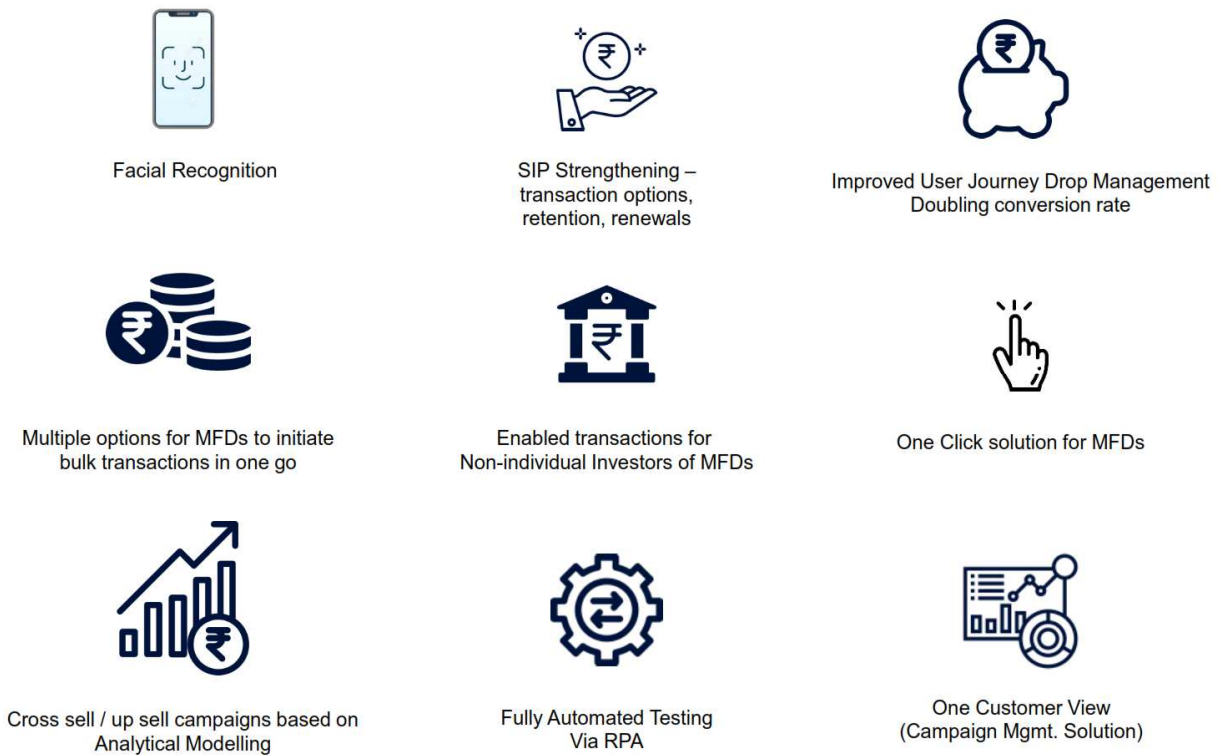
Mumbai. Renu is a Parvin Fellow – Woodrow Wilson School of Public and International Affairs, Princeton University, US.

**Fig 34 – Pillars of HDFC AMC**



Source: Company, BOBCAPS Research

**Fig 35 – Digital initiatives**



Source: Company, BOBCAPS Research Note: RPA is Robotic Process Automation MFD is Mutual Fund Distributor



## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Investment mgmt. fees</b>	<b>18,525</b>	<b>21,154</b>	<b>22,134</b>	<b>23,886</b>	<b>25,914</b>
YoY (%)	(7.5)	14.2	4.6	7.9	8.5
Operating expenses	3,884	5,154	5,460	5,847	6,206
Core operating profits	14,641	15,999	16,674	18,039	19,708
Core operating profits growth (%)	(6.9)	9.3	4.2	8.2	9.3
Depreciation and Interest	644	625	651	704	824
Core PBT	13,997	15,375	16,022	17,334	18,884
Core PBT growth (%)	(7.5)	9.8	4.2	8.2	8.9
Other income	3,492	3,178	3,396	4,145	4,658
PBT	17,490	18,553	19,418	21,479	23,542
PBT growth (%)	5.8	6.1	4.7	10.6	9.6
Tax	4,232	4,622	4,893	5,413	5,933
Tax rate (%)	24.2	24.9	25.2	25.2	25.2
<b>Reported PAT</b>	<b>13,258</b>	<b>13,931</b>	<b>14,525</b>	<b>16,067</b>	<b>17,610</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity capital	1,065	1,066	1,066	1,066	1,066
Reserves & surplus	46,697	54,234	58,591	63,411	68,694
Net worth	47,762	55,300	59,658	64,478	69,761
Borrowings	0	0	0	0	0
Other liab. & provisions	3,185	3,503	3,584	3,721	3,900
<b>Total liab. &amp; equities</b>	<b>50,947</b>	<b>58,804</b>	<b>63,242</b>	<b>68,198</b>	<b>73,661</b>
Cash & bank balance	47,556	55,783	60,505	65,286	70,671
Fixed & Other assets	3,078	2,714	2,737	2,912	2,990
<b>Total assets</b>	<b>50,947</b>	<b>58,804</b>	<b>63,242</b>	<b>68,198</b>	<b>73,661</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS	62.2	65.3	68.0	75.3	82.5
Dividend per share	34.0	42.0	47.7	52.7	57.8
Book value per share	223.9	259.2	279.5	302.1	326.8

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
P/E	34.5	32.8	31.5	28.5	26.0
P/BV	9.6	8.3	7.7	7.1	6.6
Dividend yield (%)	1.6	2.0	2.2	2.5	2.7

### DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	44.6	49.0	47.9	47.5	46.9
Operating expenses	9.3	11.9	11.8	11.6	11.2
EBITDA	43.6	44.4	43.4	44.1	44.1
Depreciation and Others	1.5	1.4	1.4	1.4	1.5
Core PBT	33.7	35.6	34.7	34.5	34.2
Other income	8.4	7.4	7.3	8.2	8.4
PBT	42.1	42.9	42.0	42.7	42.6
Tax	10.2	10.7	10.6	10.8	10.7
<b>ROAAAUM</b>	<b>31.9</b>	<b>32.2</b>	<b>31.4</b>	<b>32.0</b>	<b>31.9</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>YoY growth (%)</b>					
Investment mgmt. fees	(7.5)	14.2	4.6	7.9	8.5
Core operating profit	(6.9)	9.3	4.2	8.2	9.3
EPS	4.9	5.1	4.2	10.6	9.6
<b>Profitability &amp; Return ratios (%)</b>					
Operating income to Total inc.	84.1	86.9	86.7	85.2	84.8
Cost to Core income ratio	21.0	24.4	24.7	24.5	23.9
EBITDA margin	82.4	78.8	78.6	79.1	79.7
Core PBT margin	63.6	63.2	62.8	61.8	61.8
PBT margin (on total inc.)	79.4	76.2	76.1	76.6	77.0
ROE	30.1	27.0	25.3	25.9	26.2
<b>Dividend payout ratio</b>	<b>54.7</b>	<b>64.3</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>

### Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
AAAUM (Rs bn)	4,156	4,321	4,620	5,028	5,527
YoY Growth (%)	12.4	4.0	6.9	8.8	9.9
<b>% of AAAUM</b>					
Equity	40	46	49	51	52
Debt	38	33	28	26	25
Liquid	19	16	17	16	15
Others	3	5	6	7	8

Source: Company, BOBCAPS Research

**HOLD**

TP: Rs 488 | ▲ 7%

**ADITYA BIRLA SUN LIFE  
AMC**

| NBFC

| 11 January 2023

**Headwinds to growth; initiate with HOLD**

- Seasoned promoters, large AUM base in excess of Rs 2.8tn and wide distribution footprint represent key positives
- Franchise remains focused on fast-growing retail market, marked by rising share of individual investors in AUM and sticky SIP book
- Receding market share, mediocre equity scheme performance and high proportion of debt funds in AUM mix key concerns; TP Rs 488 – HOLD

**Mohit Mangal**

research@bobcaps.in

**Large player with a broad footprint...:** ABSL AMC is managed by seasoned promoters (86.5% shareholding) and its QAAUM has clocked a 5% CAGR over FY18-FY22 to Rs 2.9tn (Rs 2.8tn at end-H1FY23). The company has a wide presence across 280+ locations with 200 branches, 270+ national distributors, 80+ banks and 68,000+ mutual fund distributors as at end-H1FY23.

**...but facing challenges to AUM growth:** The company has slipped from its longstanding #4 ranking to #5 at end-H1FY23 (7.2% MAAUM market share). This apart, debt constituted 43% of QAAUM at end-FY22, well above peers (33% for HDFC AMC and 26% for Nippon AMC), which is a concern as the high interest rate climate is inducing debt outflows at the sector level, in turn affecting AUM growth. Scheme performance remains mediocre as well. We bake in a 7.4% QAAUM CAGR for ABSL AMC over FY22-FY25 to Rs 3.7tn.

**Retail thrust with sticky SIP book:** Individual investor MAAUM has posted a 5% CAGR from Rs 1.11tn (47.1% of the mix) as of FY18 to Rs 1.43tn (49.9%) in H1FY23. Within this, SIP AUM has risen at a faster 25% CAGR over FY18-FY22 from Rs 214bn to Rs 510bn. As of H1FY23, 90% of the company's SIPs have a tenure of over five years and 81% have been running for over 10 years, indicating long-tenured inflows.

**Passive funds gaining traction:** The company's passive AUM has grown 10x to Rs 169bn at end-Q2FY23 from Rs 17bn in Q4FY21, underpinned by strategic partnerships, passive-only digital platforms and emphasis on smart beta (alternate weighting) strategies for ETFs, FoFs and index funds.

**Initiate at HOLD:** While ABSL AMC remains a force to contend with, we initiate coverage with HOLD as we monitor the company's ability to rebuild market share and rejuvenate its asset mix. We value the stock at 18x FY25E EPS, 1SD below the long-term multiple, leading to a TP of Rs 488 – HOLD.

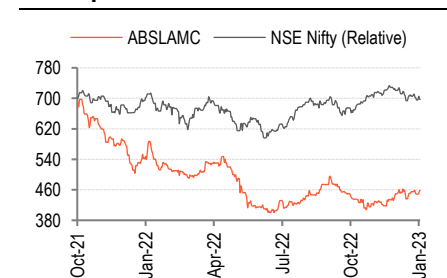
Ticker/Price	ABSLAMC IN/Rs 458
Market cap	US\$ 1.6bn
Free float	7%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 590/Rs 375
Promoter/FPI/DII	87%/2%/4%

Source: NSE | Price as of 11 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 (%)	4.5	4.3	4.0
ROAAAUM (bps)	22.7	20.8	21.7
ROE (%)	34.5	27.3	27.5
P/E (x)	19.7	20.8	18.5

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

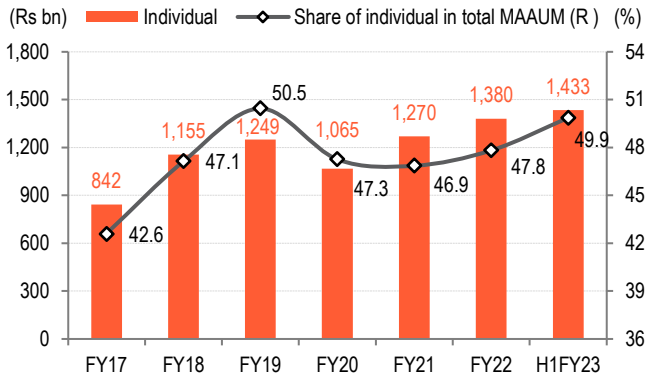
Source: NSE

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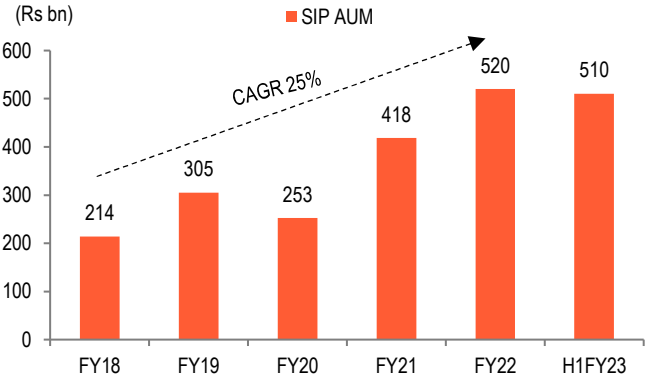
**Focus charts**

**Fig 1 – Retail share in AUM increasing**



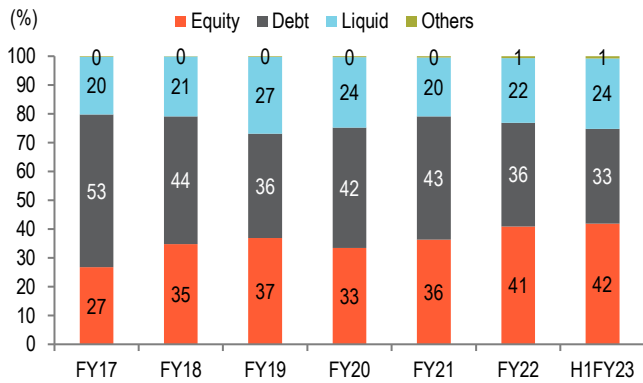
Source: Company, BOBCAPS Research | Note AUM = MAAUM

**Fig 2 – SIP AUM growth strong**



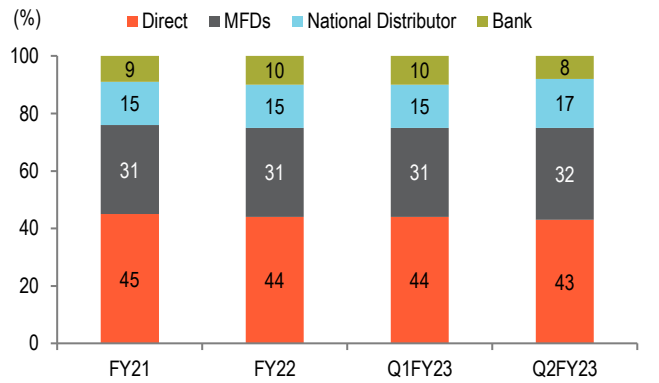
Source: Company, BOBCAPS Research

**Fig 3 – High proportion of debt in AUM mix remains a risk in a high interest rate environment**



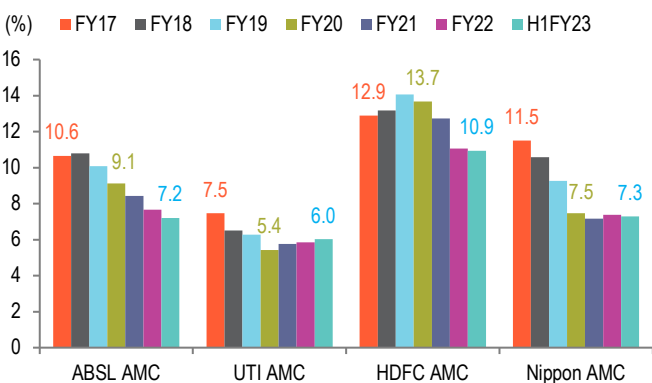
Source: Company, BOBCAPS Research | Note AUM = QAAUM

**Fig 4 – Direct channel forms >40% and MFDs >30% in overall sourcing**



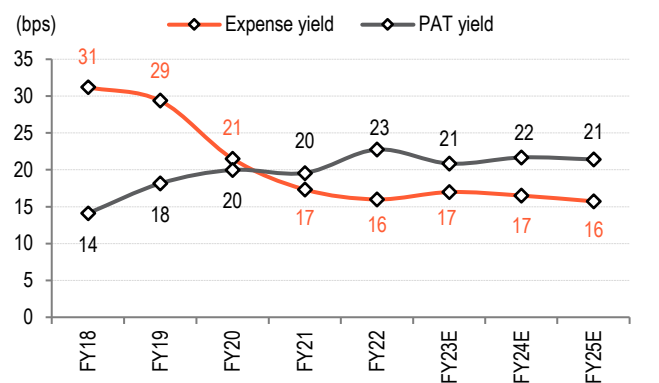
Source: Company, BOBCAPS Research

**Fig 5 – Fall in market share by 190bps over FY20-H1FY23**



Source: Company, BOBCAPS Research Note AUM = MAAUM

**Fig 6 – PAT yield largely stable**



Source: Company, BOBCAPS Research

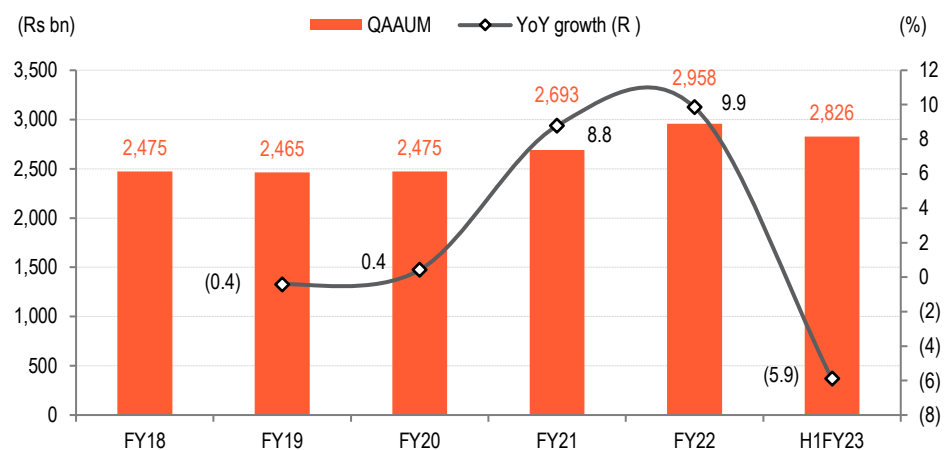
## Growth concerns cloud outlook

### Large player backed by seasoned promoters

Aditya Birla Sun Life AMC (ABSL AMC) logged a 4.6% CAGR in QAAUM to Rs 2.96tn over FY18-FY22 (Rs 2.8tn in H1FY23), making it the fifth largest fund house in India. About 42% of its managed assets are currently in the equity segment and 33% in debt. The company has a diversified pan-India distribution presence covering over 280 locations with 68,000+ distributors.

Apart from a large AUM base, ABSL AMC has the backing of well-established promoters, Aditya Birla Capital (an Aditya Birla group company) and Sun Life AMC, which further deepens customer confidence. Aditya Birla Capital is a market leader in diverse sectors and has a presence in 36 countries around the world. Sun Life provides insurance, wealth and asset management solutions to individual and corporate clients across several countries, including Canada, the US and UK. The promoters held 86.5% stake at end-Sep'22.

**Fig 7 – QAAUM posted 4.6% CAGR over FY18-FY22**



Source: Company, BOBCAPS Research

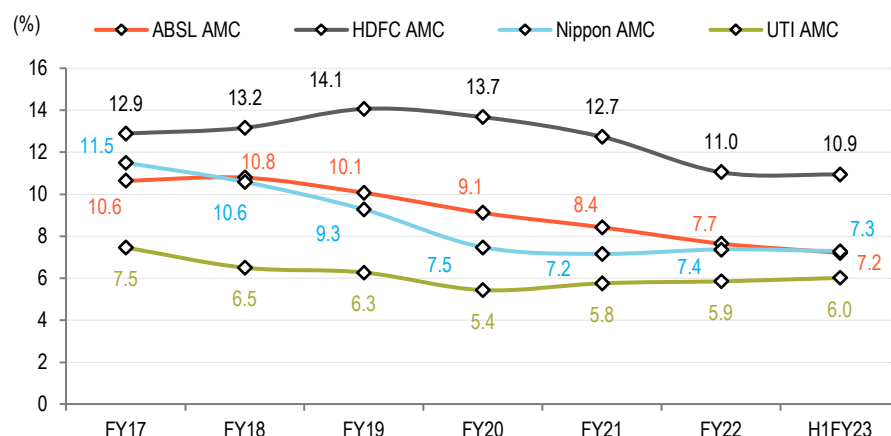
### Weak market share and asset mix key concerns

#### Steady market share bleed with loss of ranking

ABSL AMC's ranking has slipped from #4 (maintained till FY22) to #5 at end-H1FY23 as it shed 190bps market share in MAAUM to 7.2% over FY20-H1FY23. This was second only to HDFC AMC which yielded 270bps over the same period and moved from #2 to #3.

In contrast, Nippon AMC's share was largely steady, enabling it to overtake the company at #4, while UTI AMC was the only listed peer to gain ground (60bps over FY20-H1FY23) although its rank fell from #7 to #8 amid stiff competition from unlisted players.

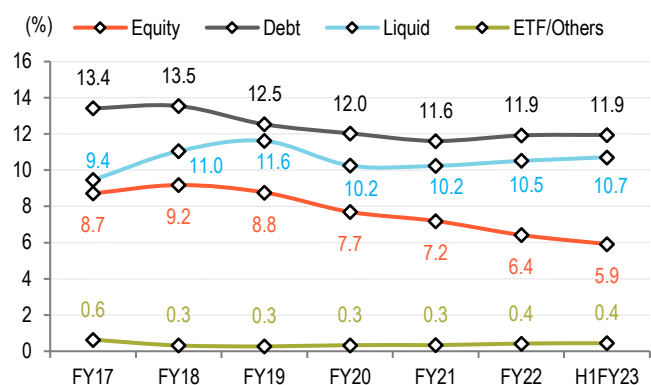
**Fig 8 – Visible decline in market share**



Source: AMFI, Company, BOBCAPS Research | Note: MAAUM market share

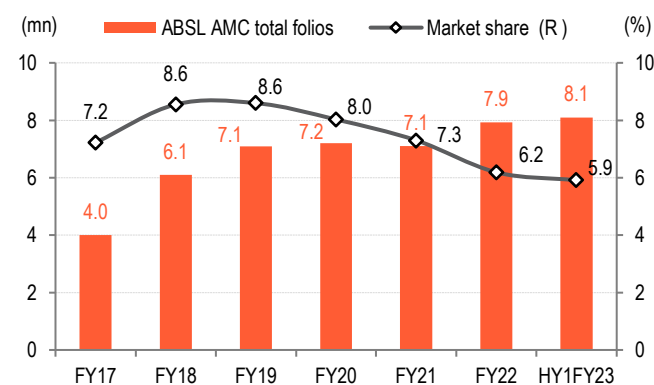
Equity MAAUM market share has deteriorated from 8.7% at end-FY17 to 6.4% at end-FY22 and further to 5.9% in H1FY23. Similarly, in debt AUM, it has dropped from 13.4% to 11.9%. On the contrary, liquid funds have gained from 9.4% to 10.7% over this period.

**Fig 9 – Market share slippage across categories except liquid funds...**



Source: Company, BOBCAPS Research | Note: MAAUM market share

**Fig 10 – ...with a loss in folio market share as well**



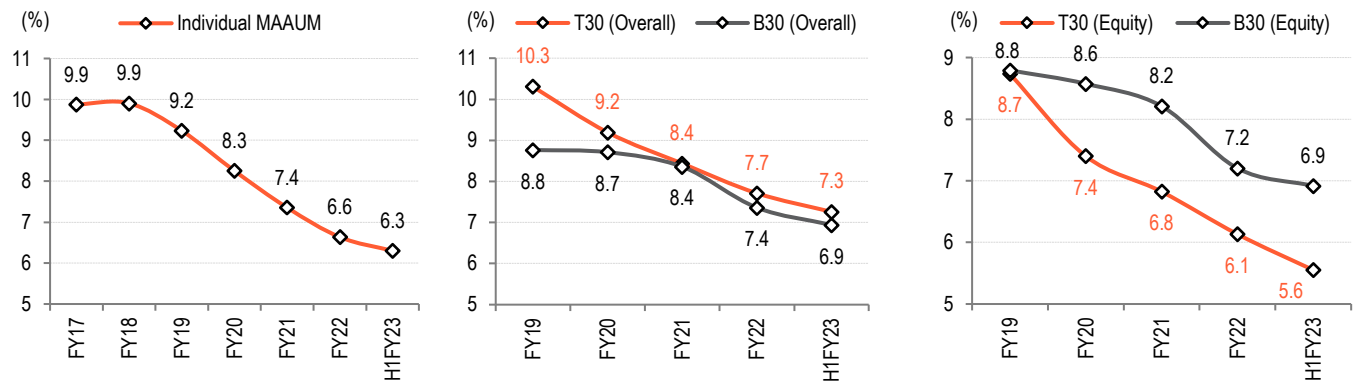
Source: Company, BOBCAPS Research | For computing market share, industry data excludes Fund of Funds investing overseas

**Fig 11 – Competitive intensity increasing**

Company	FY20 market share (%)	H1FY23 (%)	Gain / Loss (bps)	Rank (FY20)	Rank (H1FY23)
IPRU AMC	13.0	12.1	(92)	3	2
HDFC AMC	13.7	10.9	(274)	2	3
Nippon AMC	7.5	7.3	(19)	5	4
SBI AMC	14.2	17.7	350	1	1
UTI AMC	5.4	6.0	59	7	8
<b>ABSL AMC</b>	<b>9.1</b>	<b>7.2</b>	<b>(191)</b>	<b>4</b>	<b>5</b>
DSP AMC	3.0	2.9	(12)	10	10
IDFC AMC	4.0	3.0	(96)	9	9
Kotak AMC	6.9	7.2	26	6	6
Axis AMC	5.3	6.3	101	8	7

Source: Company, BOBCAPS Research Note: Data based on MAAUM

**Fig 12 – Market share: Ceding ground across categories**



Source: Company, BOBCAPS Research | Note: MAAUM market share

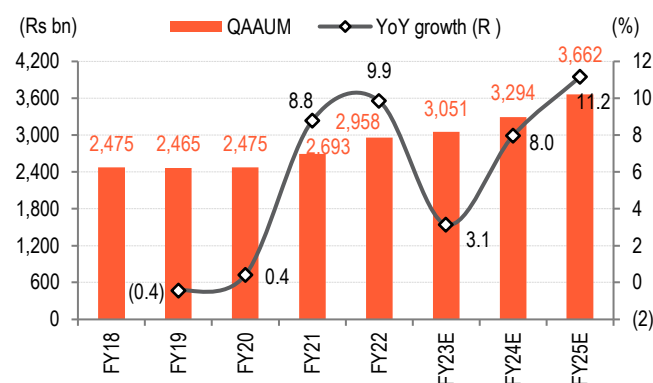
**Debt AUM – a key player but outflows afflicting the industry**

ABSL AMC has remained a key player in the debt segment with ~12% market share. Debt has risen from 40% of QAAUM in FY19 to ~48% in FY21 before settling at 43% of end-FY22 – on the higher side as compared to peers such as HDFC AMC (33%) and Nippon AMC (26%) and UTI AMC (8%). This is worrying considering that the high interest rate climate is prompting debt outflows across the industry, which will take a toll on the company’s AUM growth.

**Expect tepid AUM growth in FY23**

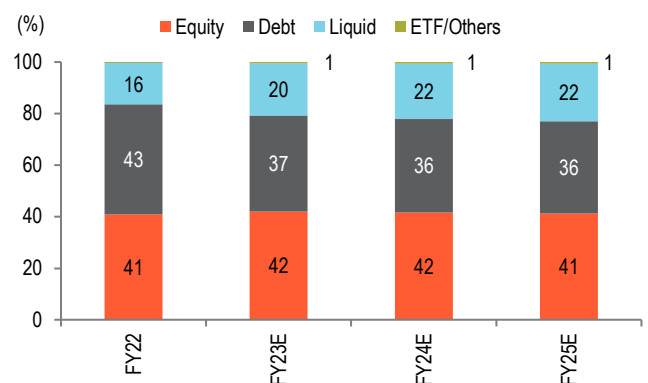
We expect ABSL AMC to post a QAAUM CAGR of 7.4% over FY22-FY25 to Rs 3.6tn, marked by tepid growth in FY23 at 3% followed by a pickup from FY24. We assume that the share of equity will remain above 40% until FY25, liquid funds will swell further, and debt funds will reduce to 36-37% of the mix.

**Fig 13 – AUM forecast to clock 7% CAGR over FY22-FY25E**



Source: Company, BOBCAPS Research

**Fig 14 – Expect proportion of liquid funds to rise and equity to stabilise in QAAUM mix**



Source: Company, BOBCAPS Research

## Low-quartile equity scheme performance

Our analysis of equity scheme performance – a key metric for retail investors – shows that while ABSL AMC does well in the one-to-three-year timeframe in the large-cap category, it underperforms peers over the longer term with low-quartile five-year returns. In mid-caps, it has a lower quartile performance across three- and five-year periods while its small-cap scheme lags across tenures.

**Fig 15 – ABSL AMC performs well in the shorter run but has a low-quartile performance in the long run...**

Quartile	1Y performance		3Y performance		5Y performance	
	Q1FY23	Q2FY23	Q1FY23	Q2FY23	Q1FY23	Q2FY23
HDFC Top 100 Fund	Q1	Q1	Q4	Q3	Q2	Q2
Nippon India Large Cap Fund	Q1	Q1	Q3	Q1	Q2	Q1
Aditya Birla Sun Life Frontline Equity Fund	Q1	Q1	Q2	Q1	Q3	Q3
UTI Mastershare Fund	Q3	Q3	Q1	Q1	Q1	Q1

Source: AMFI, BOBCAPS Research | Note: Q1 - First Quartile, Q2 - Second Quartile, Q3 - Third Quartile, Q4 - Fourth Quartile | Note: Sharpe ratio taken as of Sep'30: HDFC – 0.12, Nippon – 0.14, ABSL – 0.40, UTI – 0.47

**Fig 16 – ...with similar underperformance in the mid-cap space**

Quartile	1Y performance		3Y performance		5Y performance	
	Q1FY23	Q2FY23	Q1FY23	Q2FY23	Q1FY23	Q2FY23
HDFC Mid-Cap Opportunities Fund	Q2	Q1	Q3	Q2	Q3	Q2
Nippon India Growth Fund	Q1	Q2	Q2	Q2	Q1	Q2
Aditya Birla Sun Life Mid Cap Fund	Q1	Q3	Q3	Q3	Q4	Q4
UTI Mid Cap Fund	Q2	Q2	Q2	Q2	Q2	Q2

Source: AMFI, BOBCAPS Research | Note: Q1 - First Quartile, Q2 - Second Quartile, Q3 - Third Quartile, Q4 - Fourth Quartile | Note: Sharpe ratio taken as of Sep'30: HDFC – 0.22, Nippon – 0.23, ABSL – 0.57, UTI – 0.98

**Fig 17 – ABL AMC's small-cap equity scheme lags peers across tenures**

Quartile	1Y performance		3Y performance		5Y performance	
	Q1FY23	Q2FY23	Q1FY23	Q2FY23	Q1FY23	Q2FY23
HDFC Small Cap Fund	Q4	Q3	Q4	Q4	Q2	Q2
Nippon India Small Cap	Q1	Q1	Q1	Q1	Q1	Q1
Aditya Birla Sun Life Small Cap Fund	Q4	Q4	Q4	Q4	Q4	Q4
UTI Small Cap Fund	Q2	Q1	NA	NA	NA	NA

Source: AMFI, BOBCAPS Research | Note: Q1 - First Quartile, Q2 - Second Quartile, Q3 - Third Quartile, Q4 - Fourth Quartile | Note: Sharpe ratio taken as of Sep'30: HDFC – 0.21, Nippon – 0.29, ABSL – 0.48, UTI - NA

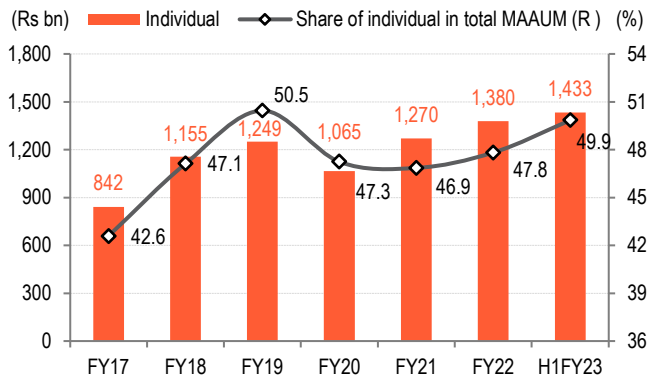
## Healthy growth in retail and B30 markets; sticky SIP book

ABSL AMC's individual investor (retail + high net worth) MAAUM has posted a 5% CAGR from Rs 1,155bn as of FY18 (47.1% of the mix) to Rs 1.38tn (47.8%) as of FY22 and further to Rs 1.43tn (49.9%) in H1FY23. This apart, the company has a strong systematic investment (SIP) book, where AUM increased at a 25% CAGR over FY18-FY22 from Rs 214bn to Rs 520bn (Rs 510bn in H1FY23). Outstanding SIP accounts totaled 3.3mn at end-H1FY23, with 90% of the investments running for over five years and 81% for over 10 years, indicating a predictable book.

Geography-wise, while the company has lost market share in both T30 and B30 cities, we note that MAAUM contribution from the fast-growing B30 market has risen from 13.4% of its mix at end-FY19 to 16.3% in H1FY23 (23.8% to 30.3% for equity MAAUM).

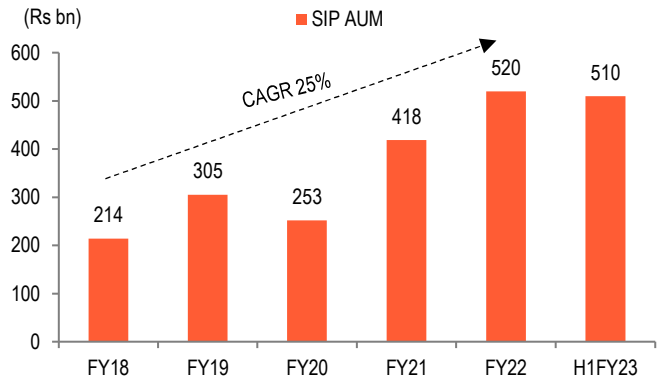


**Fig 18 – Share of individuals in total AUM increasing**



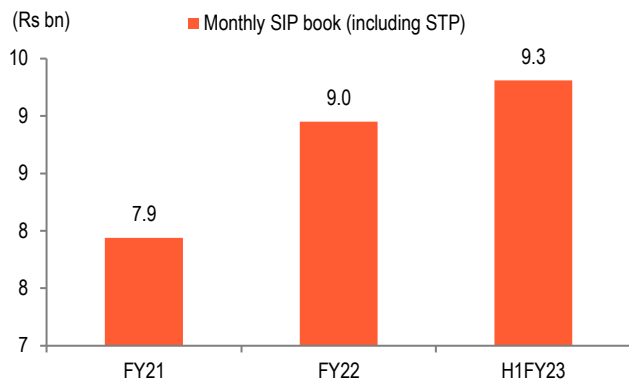
Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 19 – SIP AUM clocked 25% CAGR in last 5Y**



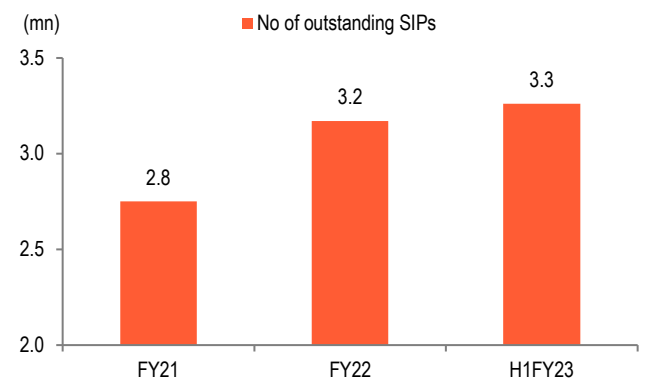
Source: Company, BOBCAPS Research

**Fig 20 – Monthly SIP book shows consistent increase...**



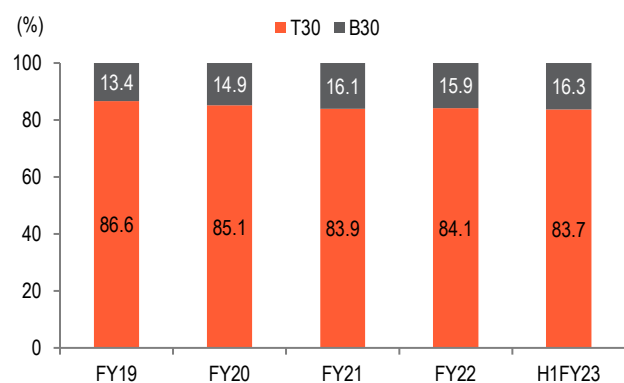
Source: Company, BOBCAPS Research Note: STP – Systematic Transfer Plans

**Fig 21 – ...as do outstanding SIP accounts**



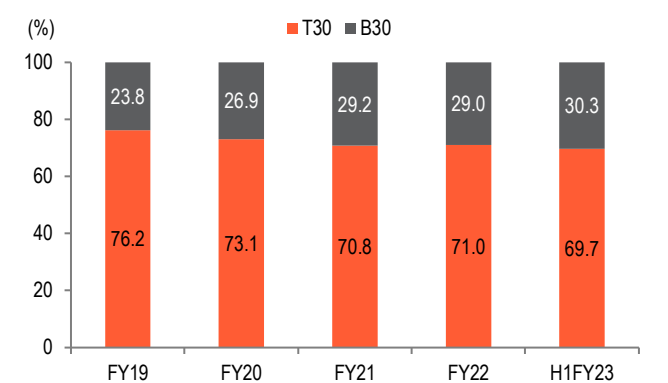
Source: Company, BOBCAPS Research

**Fig 22 – Share of B30 cities increasing in overall AUM...**



Source: Company, BOBCAPS Research | Note: AUM = MAAUM

**Fig 23 – ...with a similar trend in B30 equity AUM**



Source: Company, BOBCAPS Research | Note: AUM = MAAUM

## Strong new product development

### Passive funds

ABSL AMC's passive fund AUM has grown 10x to Rs 169bn at end-Q2FY23 from Rs 17bn in Q4FY21, underpinned by (i) strategic collaborations, (ii) digital platforms dedicated to passive funds, and (iii) emphasis on smart beta (alternate weighting) passive strategies through exchange traded funds (ETF), fund of funds (FoF) and index

funds. In FY22, the company launched 13 new passive products, including its first smart beta and first debt index fund, taking its product count in the category to 28+ at end-H1FY23.

**Fig 24 – Traction in passive funds**

AUM (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
ETF	8,053	9,211	10,081	10,759	13,555	14,201	17,418
Index	2,333	4,041	10,777	31,869	74,389	1,01,606	1,40,174
FoF	6,537	7,645	8,779	10,392	11,673	11,147	11,633
<b>Total Passive Funds</b>	<b>16,923</b>	<b>20,897</b>	<b>29,637</b>	<b>53,020</b>	<b>99,617</b>	<b>1,26,954</b>	<b>1,69,225</b>

Source: Company, BOBCAPS Research

## PMS and AIF

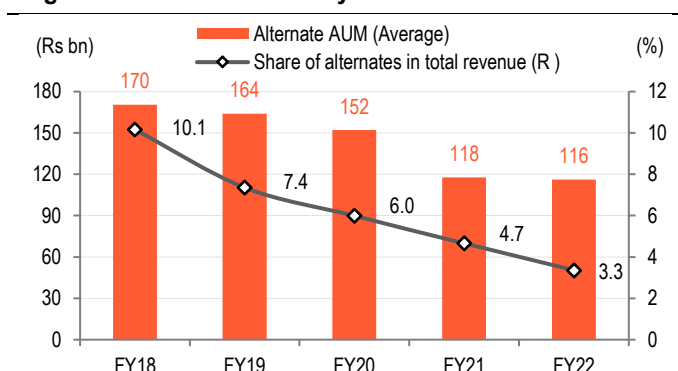
ABSL AMC has fortified its alternatives portfolio via differentiated offshore, PMS and AIF offerings. AUM in alternative funds stood at Rs 112bn as of H1FY23 (~4% of the total). To expand this HNI-focused portfolio, the company has built a dedicated team to launch funds, reach out to potential customers and sell through existing channel partners as well as new-age platforms. Moreover, it has received approval to offer PMS from GIFT City, Gandhinagar (Gujarat), to serve global investors.

In FY22, the company collaborated with BentallGreenOak – the fifth largest global real estate advisory with US\$ 78bn in AUM – to jointly raise funds, source and underwrite deals for real estate schemes. Further, it has completed the first round of fundraising for the Aditya Birla Real Estate Credit Opportunities Fund (Category II AIF) and has plans to launch funds for non-resident Indians (NRI) and liberalised remittance scheme (LRS) investors in India after regulatory clearance. Products in the pipeline include: (a) Service Leaders AIF, (b) Market Linked Debentures, and (c) Credit Opportunities Fund.

## High growth potential

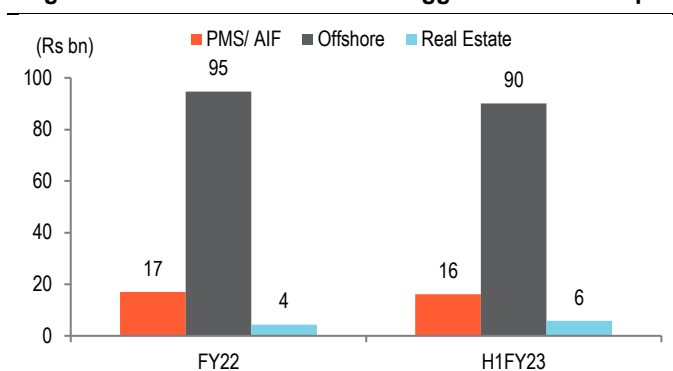
Management's primary strategy for alternative assets is (i) to focus on scaling up the business which includes passive, offshore and alternate investment funds, PMS and real estate; and (ii) to explore merger & acquisition opportunities as well as a strategic partnership model to augment its alternative business. The company appointed a Head of PMS (~25 years of experience) in July and has since launched its first AIF product, with plans to roll out a series of such funds. The revenue share from alternative investments is low at ~3% as at end-FY22 (<5% in FY21), but management sees strong potential for growth.

**Fig 25 – Alternate AUM – key focus area**



Source: Company, BOBCAPS Research

**Fig 26 – Offshore funds form the biggest share of the pie**



Source: Company, BOBCAPS Research

### Multichannel distribution network

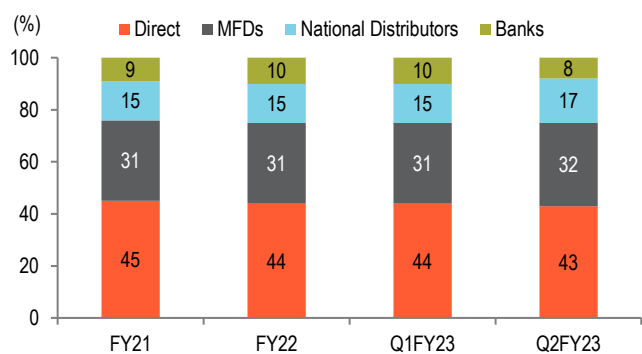
ABSL AMC has an expansive pan-India distribution presence across 280+ locations as at end-H1FY23, comprising ~200 branches, 270+ national distributors, 80+ banks and 68,000+ MFDs. In addition, the company has tie-ups with 80+ digital partners, besides an emerging market representative (EMR) mode, whereby EMRs are stationed in B30 locations. This has been hugely successful as 70+ EMR locations have been converted into branches since the initiative began.

In a bid to attract and retain MFDs, the company offers a club channel loyalty programme which carries a host of benefits, including life and health insurance, retirement planning and children’s scholarships, as well as professional enrichment tools such as access to management development programmes, business support platforms and social media support.

Distribution is typically undertaken through either of the models below:

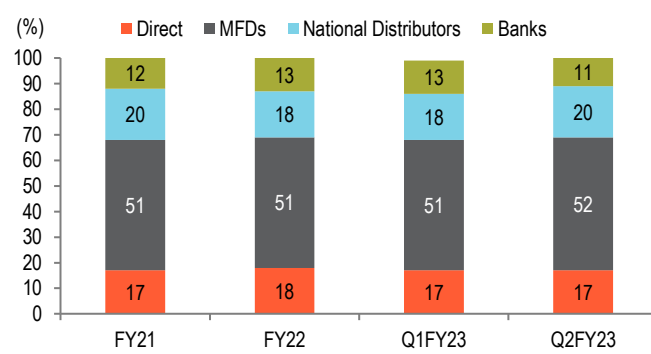
- **Hub & Spoke:** Under this model, branches serve as hubs and the nearby locations as spokes wherein the EMRs focus on brand building, increasing AUM and servicing investors.
- **BOT:** Under its build, operate & transfer (BOT) model, ABSL AMC evaluates each potential location meticulously for several parameters, including banking deposit base, MFD base and per capita income.

**Fig 27 – Direct channel contributes >40% of ABSL AMC’s overall AUM...**



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

**Fig 28 – ...MFDs contribute >50% of equity AUM**



Source: Company, BOBCAPS Research

**Fig 29 – Market share decline evident in ABSL AMC’s direct channel**

Market share as a % of AUM	FY17	FY18	FY19	FY20	FY21	FY22	H1FY23
Direct	10.8	11.7	11.0	9.8	9.4	8.3	7.8
Associate Distributors	6.7	3.2	2.5	2.4	2.2	2.8	2.7
Non-associate Distributors	11.1	11.2	10.5	9.6	8.5	7.8	7.4
<b>Total</b>	<b>10.6</b>	<b>10.8</b>	<b>10.1</b>	<b>9.1</b>	<b>8.4</b>	<b>7.7</b>	<b>7.2</b>

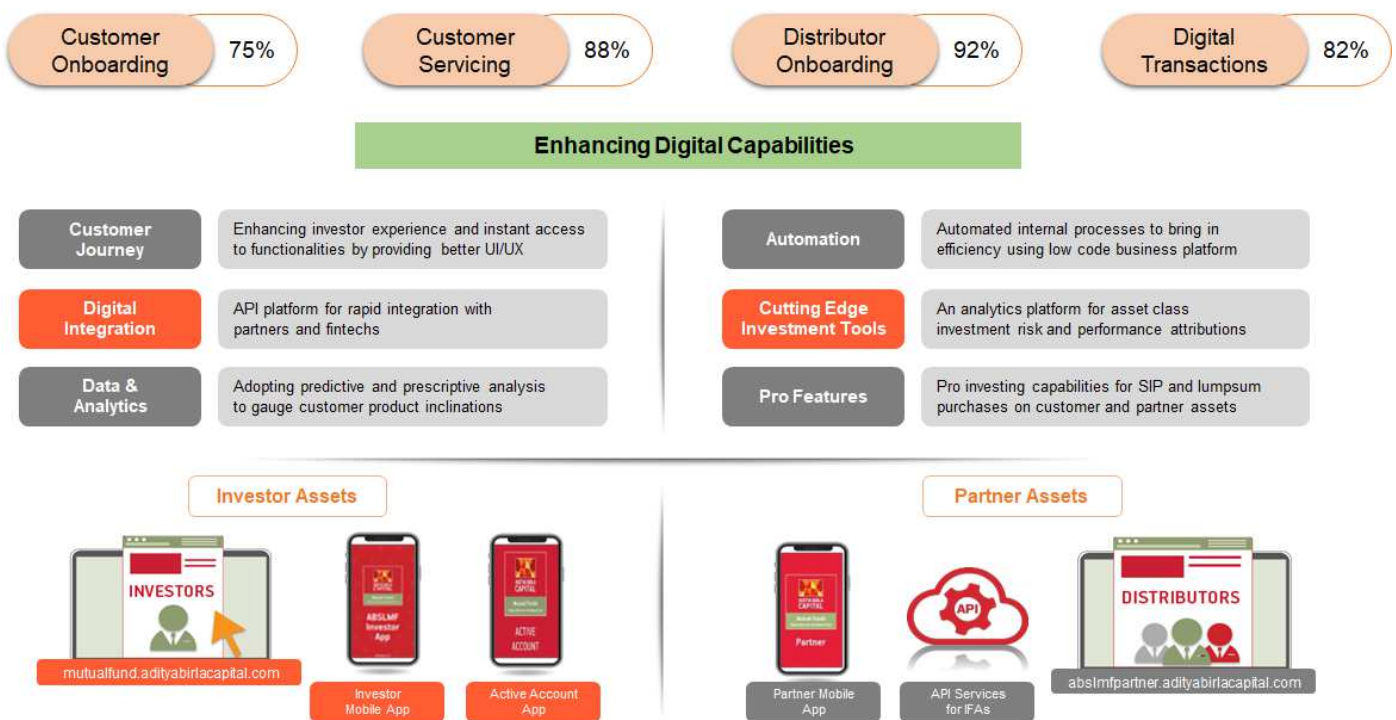
Source: Company, BOBCAPS Research | Note: AUM = MAAUM

### Robust digitisation strategy

ABSL AMC has a dedicated application development unit and builds many of its technology assets in-house. The company has also tied up with 80+ digital partners, including PhonePe and Vymo. A few of its recent digital initiatives include:

- **New investment platform (NIP):** The NIP is a third-party investment platform which includes a front office system that is integrated with a middle-/back-office system. This enables seamless processing of trades directly from dealers to the exchange, reducing turnaround time.
- **Robotic process automation (RPA):** The company has implemented over 27 RPA initiatives to automate manual business functions such as cash flow automation, redemption payout and brokerage reconciliation. This has resulted in a substantial improvement in process efficiency and minimisation of human error.
- **API gateway for fintech:** An enterprise-grade application programming interface (API) gateway has been implemented for direct, secure connectivity with various fintechs and other external organisations.

Fig 30 – Digital assets and partnerships



Source: Company, BOBCAPS Research | UI/UX – User Interface/User Experience

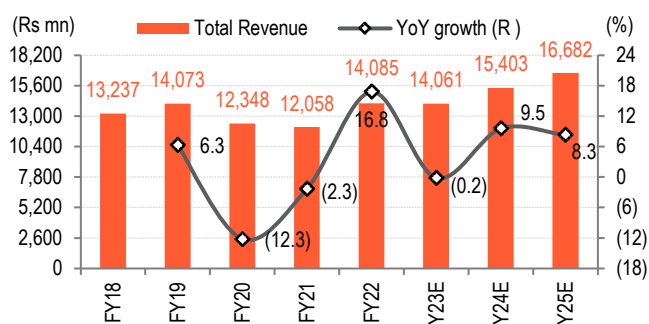
## Financial review

### Expect 6% revenue CAGR over FY22-FY25

We estimate that ABSL AMC will log a 6% CAGR in total income over FY22-FY25 to Rs 16.7bn (vs. a 1.6% CAGR over FY18-FY22), led by higher operating revenue and other income.

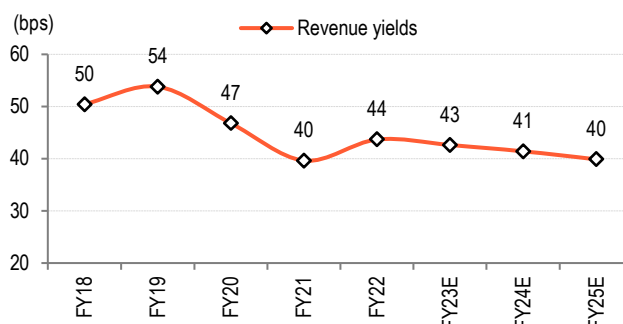
- We model for a 4% CAGR in operating revenue to Rs 14.6bn as (i) AUM grows at a projected 7.4% CAGR, and (ii) overall yields remain stable despite softer equity yields. We bake in equity AUM at 41.2% of the total vs. 40.9% at end-FY22.
- Other income is projected to pick up from FY24 onwards on expectations of higher yielding investment assets. It constituted ~8% of total income at end-FY22 and we forecast a 12% share by end-FY25, clocking a 21% CAGR over FY22-FY25 (vs. 12% over FY18-FY22).

**Fig 31 – Revenue growth expected in lower single digits**



Source: Company, BOBCAPS Research

**Fig 32 – Revenue yield forecast at ~40bps**

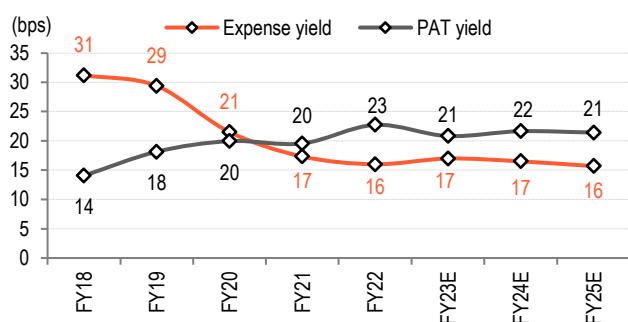


Source: Company, BOBCAPS Research

### Muted year likely; growth to resume in FY24

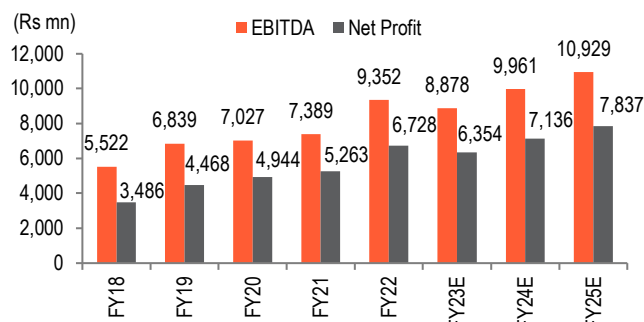
To address flattish revenue yields, ABSL AMC has worked on lowering operating costs. Opex declined from Rs 7.7bn at end-FY17 to ~Rs 4.7bn in FY21 and FY22. About 54% of operating cost is composed of employee expenses which grew 5% YoY in FY22 despite a 16% decline in salaries and allowances. This was because of a Rs 482mn employee stock option or ESOP expense in FY22 (no such scheme till FY21). Going forward, we expect operating expenses to post a 6.7% CAGR over FY22-FY25 to Rs 6.7bn, with EBITDA forecast to grow 5.3% to Rs 10.9bn.

**Fig 33 – PAT yield largely stable**



Source: Company, BOBCAPS Research

**Fig 34 – Profit growth to resume after a muted FY23E**



Source: Company, BOBCAPS Research

## Valuation methodology

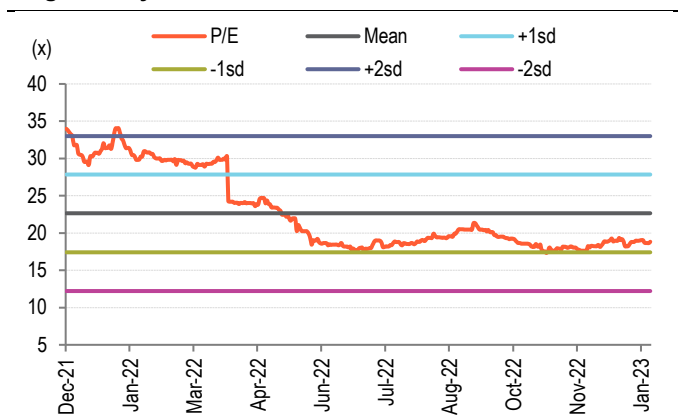
While ABSL AMC is one of the biggest non-bank-backed players in the AMC industry, concerns persist over its market share slippage and unfavourable asset mix skewed toward debt flows. The company appears confident of arresting market share losses, but we believe that competitive pressures would remain a headwind as will its underperformance in equity schemes. The stock is currently trading at 17x FY25E earnings. We value it at 18x FY25E EPS, one standard deviation below the long-term multiple, leading to a TP of Rs 488. Initiate at HOLD.

**Fig 35 – BOBCAPS AMC Universe: Valuation snapshot**

Ticker	Mcap (Rs bn)	Rating	QAAUM – FY22 (Rs bn)	PAT - FY22 (Rs bn)	CMP (Rs)	Target Price (Rs)	Upside (%)	P/E (x)		Implied P/E (x)	
								FY24E	FY25E	FY24E	FY25E
Nippon AMC	157	BUY	2,832	7.4	251	347	38	19	17	27	24
UTI AMC	104	BUY	2,238	5.3	819	983	20	17	15	21	18
HDFC AMC	457	HOLD	4,321	13.9	2,143	2,310	8	28	26	31	28
ABSL AMC	132	HOLD	2,958	6.7	458	488	7	19	17	20	18

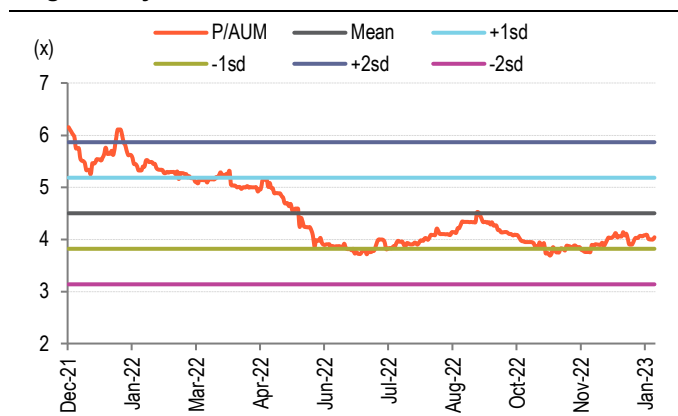
Source: Company, BOBCAPS Research

**Fig 36 – 1-year fwd P/E band**



Source: BOBCAPS Research

**Fig 37 – 1-year fwd P/AUM band**



Source: BOBCAPS Research

## 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 fall in Indian equity markets would cause AUM to decline directly as the value of underlying securities falls, and indirectly as securities investments become less attractive for investors, resulting in net outflows or redemptions. Any decrease in AUM will impact fees and consequently net profit.
- **Regulatory risks:** AMCs are regulated by SEBI and could be adversely impacted in the event of unfavourable policy changes.
  - Should the regulator mandate a further decline in total expense ratio, yields could weaken even more.
  - SEBI in Apr'22 had barred fund houses from floating new schemes till the industry complied with its direction to discontinue mutual fund investments by distributors and brokers from their pool accounts. 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.

## Company profile

### Background

Incorporated in 1994, Aditya Birla Sun Life AMC (ABSL AMC) is the largest non-bank asset manager and among the top five AMCs in India. With a presence in over 280 locations in India (with 68,000+ MFDs) and subsidiaries in Singapore, Dubai and Mauritius, the company has an expansive empanelled base of distributors which is one of the largest in India. It is the primary investment manager of the mutual fund business and also offers portfolio management services, real estate investments and alternative investment funds. As of 31 Mar 2022, the company had a QAAUM of Rs 2.96tn.

### Key management personnel

- Kumar Mangalam Birla, Non-Executive Chairman:** Kumar Mangalam Birla is also chairman of the Aditya Birla group and chairman on the boards of key group companies in India and globally. He holds a Bachelor of Commerce degree from University of Bombay, a Master's in Business Administration from London Business School, and is a qualified Chartered Accountant.

He has held several key positions on various regulatory and professional boards. An erstwhile director of the Central Board of Directors of the RBI, he was also chairman of the advisory committee on Corporate Governance constituted by SEBI and served on the Prime Minister of India's Advisory Council on Trade and Industry.

- Sandeep Asthana, Non-Executive Director:** Sandeep has been on the board since Apr'11 and has over 27 years of experience across insurance and asset management. He has also been the Country – Head, India, for Sun Life Financial since 2011. His experience covers leadership roles in Reinsurance Group of America (RGA Re), Unit Trust of India (UTI) and Zurich Risk Management Services (India). He is also on the board of Aditya Birla Sun Life Insurance Company and Aditya Birla Sun Life Pension Management.
- Colm Freyne, Non-Executive Director:** Colm has been on the board since Oct'16. He holds a Bachelor of Commerce degree from the University College Dublin, is a Chartered Professional Accountant in Canada and a Chartered Accountant in Ireland. He is the Executive Vice-President and Chief Risk Officer of Sun Life Financial Inc and Sun Life Assurance Company of Canada. He joined Sun Life Financial in 2003 and has experience in the area of risk management.
- A Balasubramanian, Managing Director and Chief Executive Officer:** A Balasubramanian has been the Chief Executive Officer of the company since 2009 and was the Chief Investment Officer from 2006 to 2009. He has completed advanced management programs from Indian Institute of Management, Bangalore, and Harvard Business School. He also holds a Bachelor of Science (Mathematics) degree and a Master's in Business Administration from GlobalNxt University.



He has been on the board of AMFI since 2009 and was the vice chairman of AMFI in 2015-16. During 2016-18, he was appointed as chairman of the AMFI board and also chairman of the financial literacy committee. At present, he is chairman of the valuation committee at AMFI, a member of the Board of Governors of National Institute of Securities Markets, and a member of the advisory committee of the SEBI Investor Protection and Education Fund and the Corporate Bonds and Securitization Advisory Committee. He is also on the board of governors of the National Institute of Securities Market.

- **Parag Joglekar, Chief Financial Officer (CFO):** Parag has been a part of ABSL AMC since 2006. Prior to joining the company, he worked with Strategic Capital. He holds a Bachelor of Commerce degree from the University of Bombay and is a member of Institute of Chartered Accountants of India and of the Institute of Cost and Works Accountants of India.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Investment mgmt. fees</b>	<b>10,679</b>	<b>12,930</b>	<b>13,005</b>	<b>13,651</b>	<b>14,618</b>
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
<b>Reported PAT</b>	<b>5,263</b>	<b>6,728</b>	<b>6,354</b>	<b>7,136</b>	<b>7,837</b>

### 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
<b>Total liab. &amp; equities</b>	<b>19,846</b>	<b>24,347</b>	<b>27,070</b>	<b>30,031</b>	<b>33,294</b>
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
<b>Total assets</b>	<b>19,846</b>	<b>24,347</b>	<b>27,070</b>	<b>30,031</b>	<b>33,294</b>

### 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	25.1	19.7	20.8	18.5	16.9
P/BV	7.7	6.0	5.4	4.8	4.3
Dividend yield (%)	17.0	2.5	2.9	3.2	3.6

### 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
<b>ROAAAUM</b>	<b>19.5</b>	<b>22.7</b>	<b>20.8</b>	<b>21.7</b>	<b>21.4</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>YoY growth (%)</b>					
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
<b>Profitability &amp; Return ratios (%)</b>					
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
<b>Dividend payout ratio</b>	<b>26.6</b>	<b>49.2</b>	<b>60.0</b>	<b>60.0</b>	<b>60.0</b>

### 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
<b>% of AAAUM</b>					
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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**BUY** – Expected return >+15%

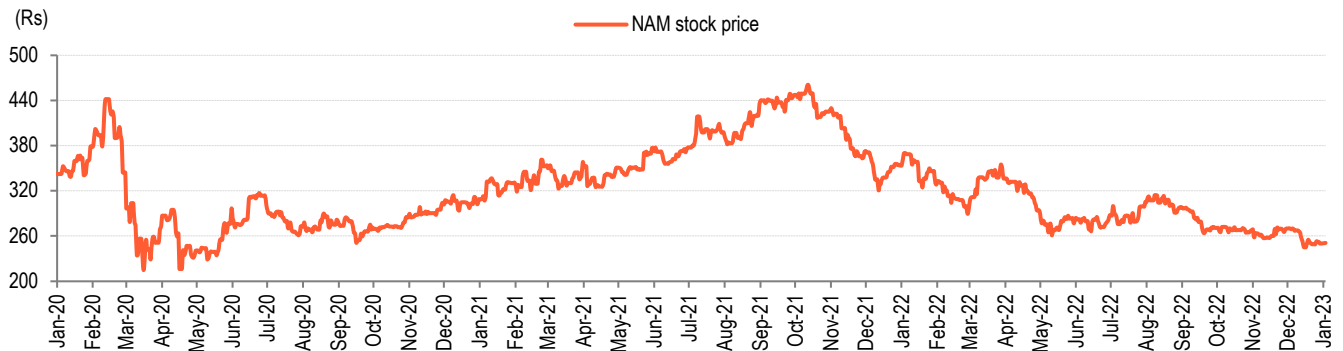
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

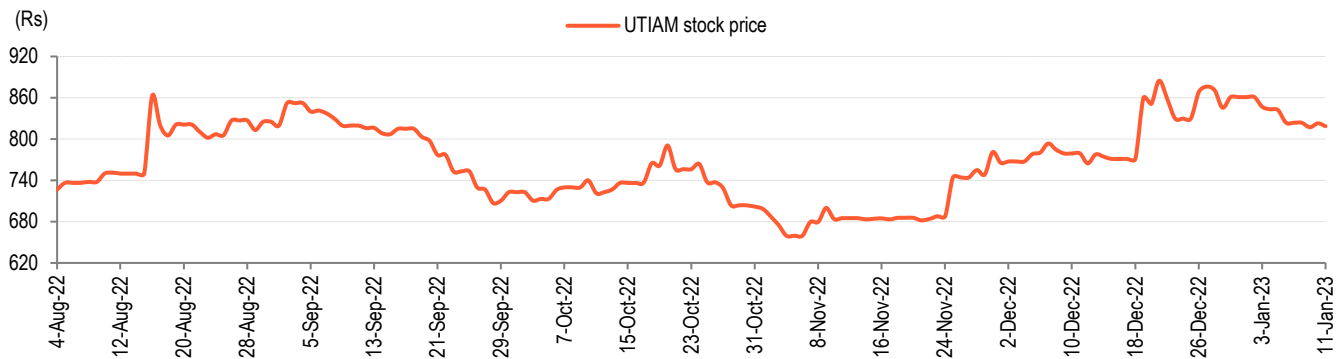
Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

#### Ratings and Target Price (3-year history): NIPPON LIFE INDIA AMC (NAM IN)



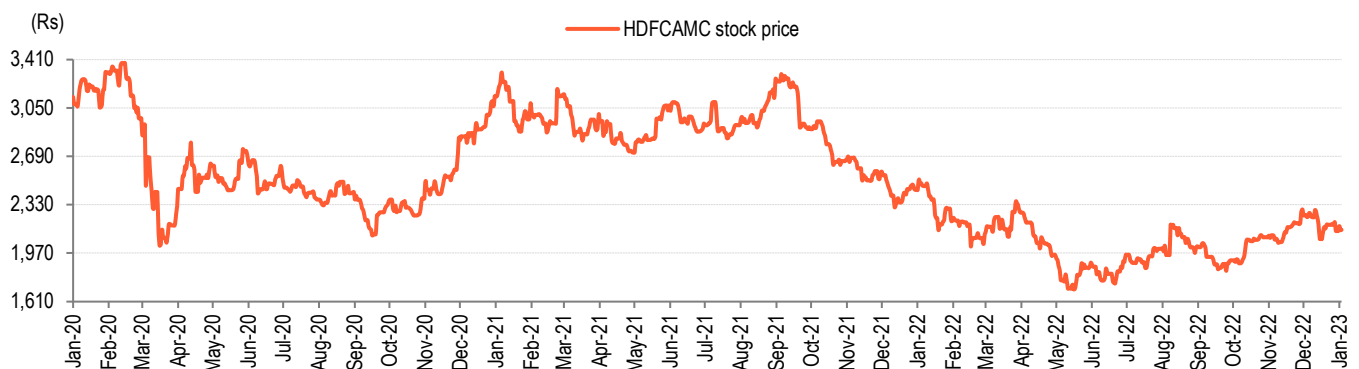
B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

#### Ratings and Target Price (3-year history): UTI AMC (UTIAM IN)



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

#### Ratings and Target Price (3-year history): HDFC AMC (HDFCAMC IN)



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

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



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