DIVERSIFIED FINANCIALS

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AMCs – Product focus and financial advisory taking root

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We spoke with Mirae AMC CEO Swarup Mohanty recently. Key takeaways: (1) India's AMC industry is increasingly focusing on products rather than distribution as industry assets have not beaten respective benchmarks over long horizons. (2) Most investor portfolios lack prudent asset allocation, offering tailwinds to financial advisory. (3) Yields are likely to shrink further given growing market efficiencies and a rising mix of passive funds. (4) Equity flows could remain muted till Dec'20.

Focus on products rather than distribution: According to Mr Mohanty, the AMC industry has followed a distribution-led business model, which is slowly making way for a product-based model. This stems from (a) a shift in market dynamics owing to the mid-cap meltdown post-FY17, (b) disruption to traditional distribution channels by online platforms, and (c) inability of industry assets to beat respective benchmarks even over longer horizons. A mix of long-only assets (debt/equity) delivers better returns and so the broadly accepted thesis that only equity makes more money will need to be gradually unlearnt. Investors are now looking at good products over good brands.

Financial advisory taking root: Financial advisory services have become increasingly popular during the Covid-19 lockdown, as investors who have been onboarded since FY15 are mostly first-time entrants to equity products and are nascent to current market volatility. The lack of prudent asset allocation for new and old investors alike offers vast scope for financial advisory.

Yields to shrink but can be offset by opex reduction: Mr Mohanty believes yields are likely to shrink further due to better market efficiencies and an increasing mix of passive funds in AUM. Opex could reduce as digitisation and financial advisory drive changes in the current physical sales model over the medium term while an increased focus on product development will shift manpower needs elsewhere.

Active vs. passive debate has started in India: With many first-time equity investors shying away from volatility, financial advisory taking root and markets becoming efficient, flows into passive funds are likely to increase. We are also likely to see more thematic funds and solutions, where sustainable alpha generation is feasible. First-time investors could enter through the passive route to eliminate the downside risk of beating the benchmark.

RECOMMENDATION SNAPSHOT

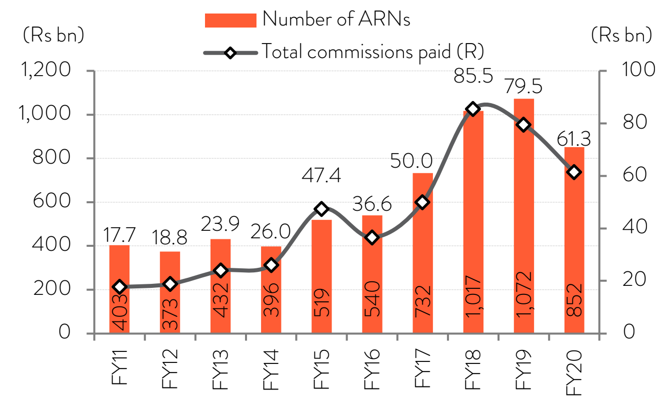
Ticker	Price	Target	Rating
HDFCAMC IN	2,421	3,000	BUY
NAM IN	281	210	SELL

Price & Target in Rupees

Better pricing power for AMCs

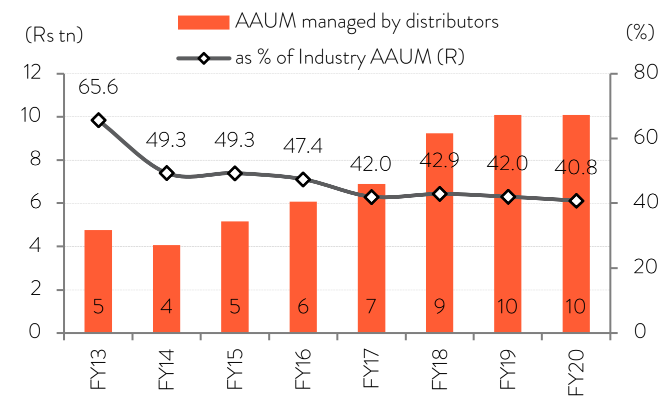
With both institutional and individual investors moving towards direct plans, assets managed by distributors have come off from 66% of industry AAUM in FY13 to 41% in FY20. Given the proliferation of technology aggregators selling a bouquet of funds at a low fee and the increase in registered investment advisors (RIA), we expect distributors to manage a lower proportion of industry AAUM in the near term.

FIG 1 – COMMISSIONS DIPPED ~23% IN FY20 DUE TO FULL TRAIL MODEL



Source: AMFI, BOBCAPS Research

FIG 2 – SECULAR INDUSTRY AAUM SHIFT TOWARDS DIRECT PLANS (SANS DISTRIBUTOR)

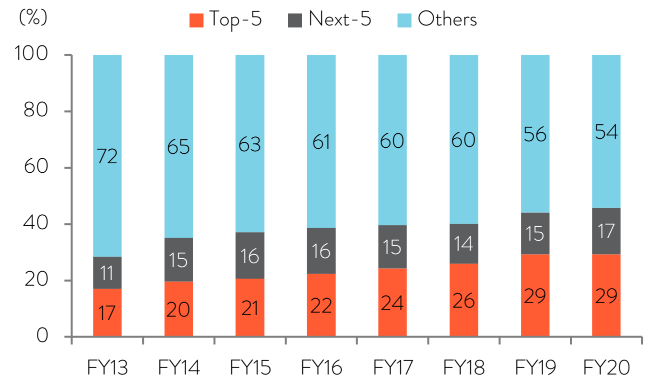


Source: AMFI, BOBCAPS Research

The top-5 distributors, viz. NJ IndiaInvest, Axis Bank, HDFC Bank, State Bank of India and ICICI Securities, have been gaining share in the commissions pool over FY13-FY20 due to their pan-India reach and vintage client relationships. As of FY13, they accounted for 17% of AAUM managed by distributors, which increased to 29% in FY20. We expect this concentration to continue in the near term, rising to ~35% of distributor-managed AAUM by FY22. Consequently, commission rates are also better for these players – at an average of ~25bps higher.

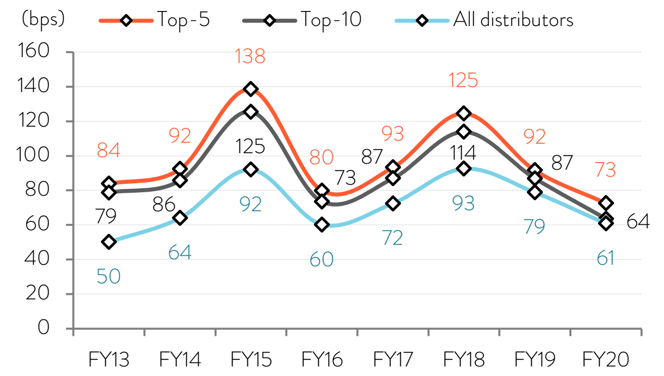
We expect the top-5 distributors to continue to command a premium in the near term. However, smaller distributors are likely to alter their business models due to lower volumes and consequently lower commissions. AMCs would benefit from this churn as commission expenses will taper down – leading to increasing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

FIG 3 – TOP-5 DISTRIBUTORS MANAGING INCREASING SHARE OF AAUM…



Source: AMFI, BOBCAPS Research

FIG 4 – …THEREBY EARNING BETTER COMMISSIONS THAN OTHER DISTRIBUTORS



Source: AMFI, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

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

SELL – Expected return <-5%

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

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