

**BUY**

TP: Rs 983 | ▲ 35%

UTI AMC

| NBFC

| 02 February 2023

## Dull quarter on MTM losses; maintain BUY

- **MTM loss from subsidiary UTI International coupled with softer yields dampens Q3; core MF business market share intact at ~6%**
- **Steadfast focus on driving growth through product launches and cost rationalisation**
- **Trading at compelling valuations of 13x FY25E EPS; TP unchanged at Rs 983 (18x P/E)**

**Dull Q3:** UTI AMC's Q3FY23 net profit fell 53% YoY to Rs 600mn due to a Rs 172mn MTM loss, primarily in subsidiary UTI International which witnessed currency losses on a fund it had invested in. Operating expense also increased 8% YoY to Rs 1.6bn as employee cost grew 7% to Rs 1bn (ESOP at Rs 150mn). Moreover, the company had a one-time legal expense toward opening an office in Paris. Yields remained low due to an increase in share of lower yielding (5-6bps) ETF products to 34% of QAAUM vs. 31% in Q2 (27% in Q3FY22). Equity share held above 40% in QAAUM, but outflow in equity schemes in Q3 remains a key addressable area.

**Stable market share:** UTI AMC registered QAAUM growth of 7% YoY (3% QoQ) to Rs 2.4tn, maintaining market share of 6% with a further goal to reverse the loss in equity share (4.8% in Q3 vs. 5.3% in the year-ago quarter) by pushing flagship schemes. In our view, key strengths that can help expand market share include a strong distribution network of 61,500+ MFDs, 166 UTI financial centres (UFC), a large footprint in B30 cities with its MAAUM share in these markets totaling 23% vs. 17% for the industry at end-Q3, and the launch of three new funds in January with a pipeline of five more funds.

**Targeted cost reduction strategy:** Employee cost typically forms over 60% of operating expenses for UTI AMC. The company has 1,379 employees (including 1,318 in the MF business), but is showing a clear trend of retirees over the next 4-5 years (60 in FY23, 50 in FY24, 71 in FY25, 111 in FY26). Only a few of these would be filled and those too by low-cost employees.

**Maintain BUY:** UTI AMC enjoys considerable moats in the form of a sizeable AUM base, credibility from over five decades of experience, a differentiated non-MF business, growing market share and robust distribution channels (for details, see our recent [initiation report](#)). We continue to value the stock at an unchanged 18x FY25E EPS – (between -1SD and mean) to the long-term multiple, translating to a TP of Rs 983, and maintain 'BUY' rating.

**Mohit Mangal**

research@bobcaps.in

### Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	UTIAM IN/Rs 726
Market cap	US\$ 1.1bn
Free float	34%
3M ADV	US\$ 3.7mn
52wk high/low	Rs 908/Rs 656
Promoter/FPI/DII	0%/6%/60%

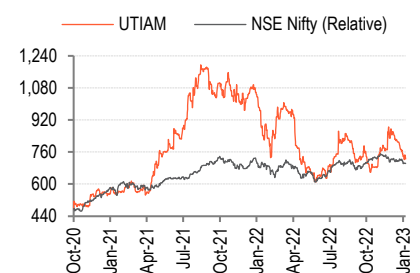
Source: NSE | Price as of 2 Feb 2023

### 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	43.3	49.9
MCap/AAAUM (%)	4.1	3.9	3.4
ROAAAUM (bps)	23.9	22.1	22.6
ROE (%)	15.5	14.1	15.1
P/E (x)	17.3	17.5	15.3

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



**Fig 1 – Income statement – Consolidated**

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
<b>Revenue from Operations</b>					
Asset Management Services	2,836	2,820	0.6	2,909	(2.5)
Other Income	98	265	(63.2)	1,490	(93.4)
<b>Total Income</b>	<b>2,934</b>	<b>3,086</b>	<b>(4.9)</b>	<b>4,399</b>	<b>(33.3)</b>
<b>Expenses</b>					
Fees and Commission Expenses	8	6	26.7	6	20.6
Employee Benefits Expenses	1,041	971	7.2	1,033	0.8
Other Expenses	563	510	10.3	611	(7.9)
<b>Total Operating Expenses</b>	<b>1,611</b>	<b>1,487</b>	<b>8.3</b>	<b>1,650</b>	<b>(2.4)</b>
<b>EBITDA</b>	<b>1,323</b>	<b>1,599</b>	<b>(17.2)</b>	<b>2,749</b>	<b>(51.9)</b>
Depreciation, Amortisation and Impairment	103	93	10.5	100	3.1
Finance Costs	25	26	(3.5)	24	3.4
<b>Profit Before Tax</b>	<b>1,024</b>	<b>1,480</b>	<b>(30.8)</b>	<b>2,626</b>	<b>(61.0)</b>
<b>Tax Expense</b>					
Current Tax	365	317	15.4	427	(14.4)
Deferred Tax Charge/(Credit)	59	(106)	(155.4)	171	(65.7)
<b>Total Tax Expense</b>	<b>424</b>	<b>211</b>	<b>101.1</b>	<b>597</b>	<b>(29.0)</b>
<b>Profit After Tax</b>	<b>600</b>	<b>1,269</b>	<b>(52.7)</b>	<b>2,028</b>	<b>(70.4)</b>

Source: Company, BOBCAPS Research

**Fig 2 – QAAUM – Market share maintained**

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
<b>QAAUM (Rs bn)</b>	<b>2,408</b>	<b>2,247</b>	<b>7.2</b>	<b>2,336</b>	<b>3.1</b>
Equity	984	971	1.3	971	1.4
Debt	131	201	(34.9)	127	2.6
Liquid	478	471	1.3	513	(6.9)
ETF	816	603	35.2	725	12.6
Market share - QAAUM - as provided (%)	6.0	5.9	NA	6.0	NA
<b>Gross Sales (Rs bn)</b>	<b>(40)</b>	<b>(15)</b>	<b>156.3</b>	<b>66</b>	<b>NA</b>
Equity	(11)	18	NA	(6)	103.9
Debt	8	3	173.0	(1)	NA
Liquid	(83)	(70)	18.4	19	NA
ETF	47	34	39.7	54	(12.0)

Source: Company, BOBCAPS Research

**Fig 3 – Other key metrics**

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
SIP Gross Sales (Rs bn)	17	14	22.5	16	4.2
SIP AUM (Rs bn)	215	181	18.6	206	4.5
B-30 share in AUM	23	24	(100bps)	23	20bps

Source: BOBCAPS Research

**Fig 4 – Margin indicators**

Particulars	Q3FY23	Q3FY22	YoY	Q2FY23	QoQ
EBITDA margin (%) - consolidated	45.1	51.8	(672bps)	62.5	(1,740bps)
Net margin (%) - consolidated	20.5	41.1	(2,068bps)	46.1	(2,565bps)
Revenue yield (bps) - calculated	35.9	38.5	NA	38.5	NA

Source: BOBCAPS Research

**Fig 5 – Distribution network (QAAUM)**

Particulars (%)	Q3FY23	Q3FY22	YoY	Q2FY23	QoQ
Direct	65.0	63.0	200bps	65.0	0bps
Bank & Distributors	9.0	9.0	0 bps	9.0	0bps
Mutual Fund Distributors (MFD)	26.0	28.0	(200bps)	26.0	0bps

Source: Company, 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. The stock is trading at compelling valuations of 13x FY25E EPS. We maintain our target P/E multiple at 18x FY25E EPS – (between -1SD and mean to the long-term mean multiple), translating to an unchanged TP of Rs 983. This offers 35% upside over the current price – retain BUY.

## 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.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Aditya Birla Sun Life AMC	ABSLAMC IN	1.4	410	488	HOLD
HDFC AMC	HDFCAMC IN	4.8	1,848	2,310	BUY
Nippon Life India AMC	NAM IN	1.8	235	347	BUY
UTI AMC	UTIAM IN	1.1	726	983	BUY

Source: BOBCAPS Research, NSE | Price as of 2 Feb 2023

## Glossary

Glossary			
<b>AUM</b>	Assets Under Management	<b>NFO</b>	New Fund Offer
<b>B30</b>	Beyond the Top 30 cities	<b>QAAUM</b>	Quarterly Average Assets Under Management
<b>ETF</b>	Exchange Traded Funds	<b>SIP</b>	Systematic Investment Plan
<b>MAAUM</b>	Monthly Average Assets Under Management	<b>T30</b>	Top 30 cities
<b>MF</b>	Mutual Fund	<b>TER</b>	Total Expense Ratio
<b>MFD</b>	Mutual Fund Distributor	<b>IFA</b>	Individual Financial Advisor

## 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	18.6	17.3	17.5	15.3	13.3
P/BV	2.8	2.6	2.4	2.2	2.0
Dividend yield (%)	2.3	2.9	2.9	3.3	3.8

### 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

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**BUY** – Expected return >+15%

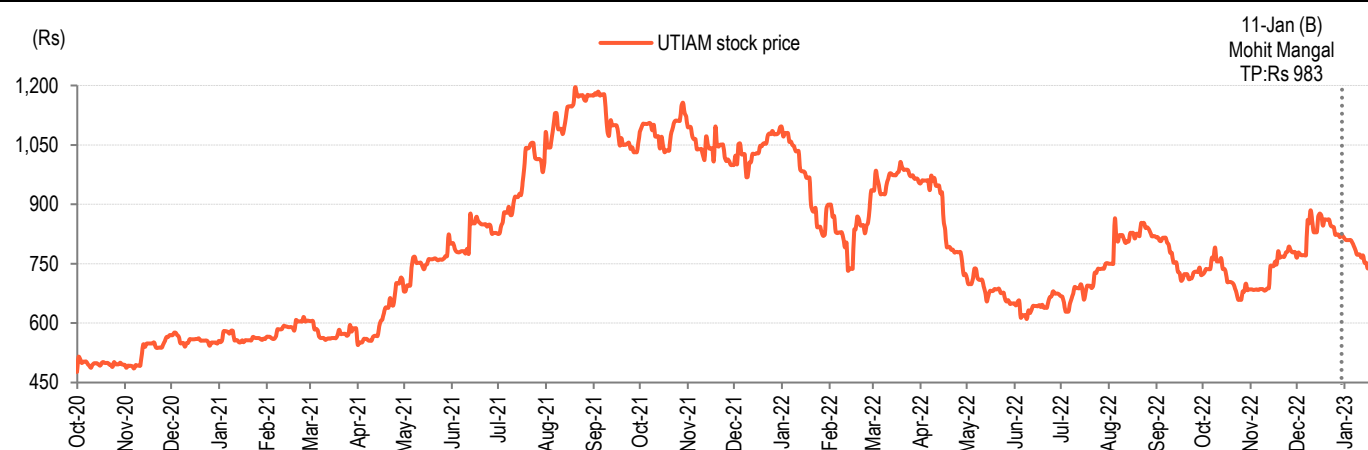
**HOLD** – Expected return from -6% to +15%

**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): UTI AMC (UTIAM IN)



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

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