

HOLD
 TP: Rs 909 | ▲ 5%

UTI AMC

| NBFC

| 30 January 2024

Core earnings miss estimates

- Q3 AUM growth in line at 13% YoY to Rs 2.7tn, but equity and hybrid schemes combined saw sustained outflows
- Yields slipped owing to higher growth in lower yielding ETFs; core net profit missed our estimate
- We tweak FY25/FY26 earnings projections, leading to a new TP of Rs 909 (vs. Rs 920); maintain HOLD

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AUM growth in line: UTI AMC’s QAAUM grew 13% YoY to Rs 2.7tn in Q3FY24 – in line with our estimate. ETFs constituted 38% of the total and grew 27% YoY whereas debt schemes grew 24% YoY. Equity schemes were up 7% YoY to Rs 1.1tn. Gross inflow mobilised through SIPs stood at Rs 17bn for the quarter, with SIP AUM rising 38% YoY to Rs 297bn. B30 MAAUM formed 23% of the mix vs. 15% for the industry at end-Dec’23. We raise our FY24-FY26 AUM estimates by 1-5% to bake in above-expected growth in the ETF and debt categories.

Overall flows positive but equity outflow continues: UTI AMC registered overall inflows of Rs 22bn in Q3, with ETFs and index funds attracting inflows of Rs 26bn and liquid schemes drawing Rs 13bn. However, the company saw sustained outflows in equity and hybrid schemes combined at Rs 11bn, on the heels of outflows of Rs 3bn in Q2FY24. This is a concern at a time when the industry is able to attract large equity inflows.

Core earnings fall short: Core PAT at Rs 784mn in Q3 missed our estimate by 7%. Core revenue grew 2% YoY to Rs 2.9bn, of which the mutual fund business was up only 3% YoY to Rs 2.2bn owing to lower growth in the equity segment. Reported net profit beat our forecast by 8% but only due to a surge in other income from MTM gains. Operating expenses increased 9% YoY to Rs 1.8bn as other expenses soared 25% to Rs 704mn while employee cost was flat at Rs 1.05bn. Baking in the Q3 print, we raise our FY24 PAT forecast by 15% but pare FY25/FY26 estimates by 1% each.

Yields dip: Q3 yield (calc.) dipped to 34bps in Q3 from 35bps in Q2FY24. The share of higher yielding equity in the AUM mix grew 55bps QoQ to 38.5% whereas lower yielding ETFs grew at a higher 120bps. Sequentially, yields on both the MF business and core revenue declined 1%. Subsidiaries’ revenue grew 8% QoQ to Rs 640mn.

Maintain HOLD: We value the stock at an unchanged 17x FY26E P/E – a 12% discount to mean. Following our earnings revision, our TP moves to Rs 909 (from Rs 920), which offers just 5% upside – maintain HOLD. Growth in equity AUM, net inflows and subsidiaries are key monitorables for the stock.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	UTIAM IN/Rs 867
Market cap	US\$ 1.3bn
Free float	65%
3M ADV	US\$ 1.7mn
52wk high/low	Rs 927/Rs 608
Promoter/FPI/DII	0%/6%/60%

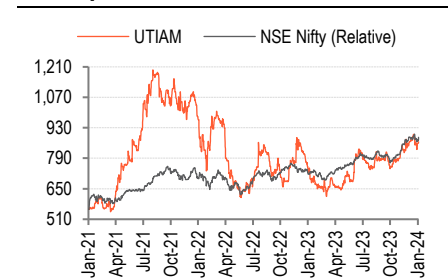
Source: NSE | Price as of 29 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	4,265	4,354	4,941
Core PBT (YoY)	(5.6)	2.1	13.5
Adj. net profit (Rs mn)	4,393	7,552	6,200
EPS (Rs)	34.4	59.5	48.8
Consensus EPS (Rs)	34.4	49.9	46.8
MCap/AAAUM (%)	4.6	4.0	3.5
ROAAAUM (bps)	18.4	27.6	20.0
ROE (%)	11.7	18.7	14.3
P/E (x)	25.2	14.6	17.8

Source: Company, Bloomberg, BOBCAPS Research

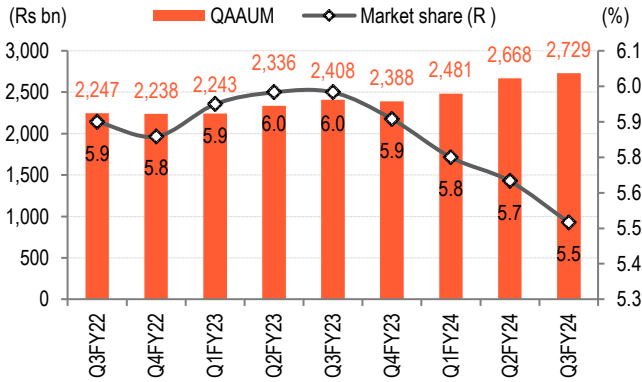
Stock performance



Source: NSE

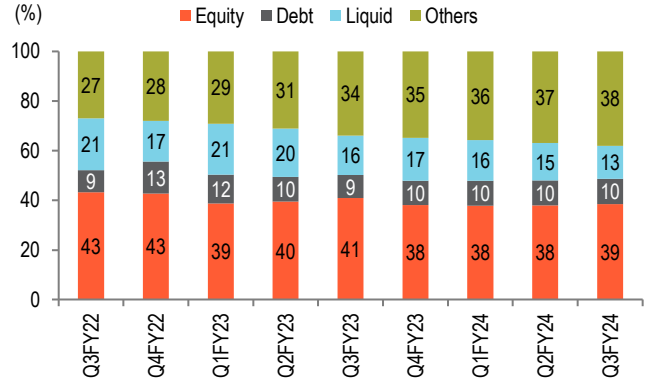


Fig 1 – QAAUM grew 13% YoY in Q3FY24; market share continues to slide



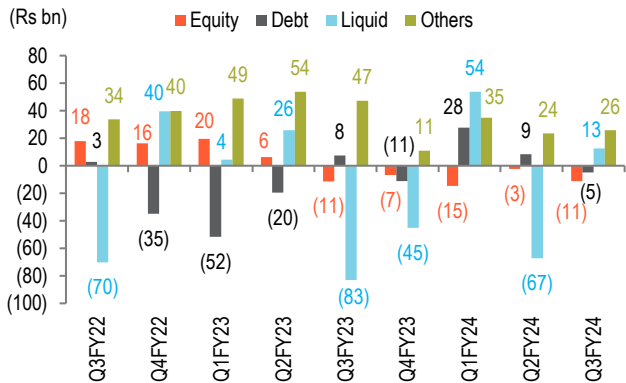
Source: Company, BOBCAPS Research

Fig 2 – Equity QAAUM share in the mix stable at 39%



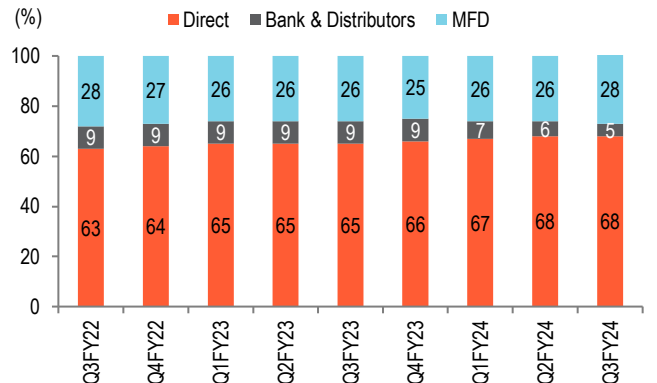
Source: Company, BOBCAPS Research

Fig 3 – Net equity sales remain weak



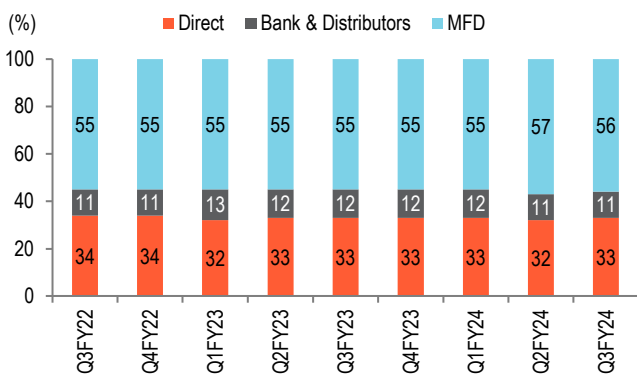
Source: Company, BOBCAPS Research

Fig 4 – Direct channel key for QAAUM distribution



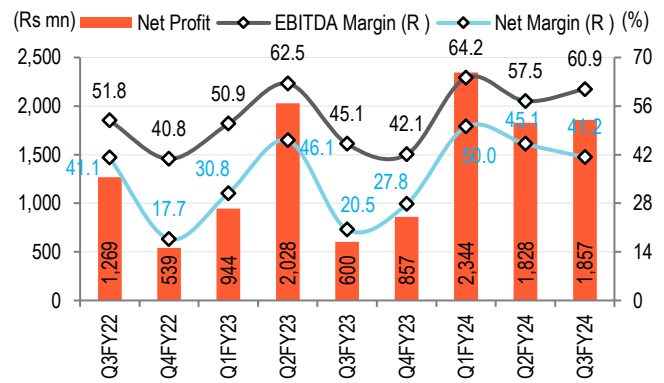
Source: Company, BOBCAPS Research | MFD: Mutual Fund Distributors

Fig 5 – Equity QAAUM largely dependent on MFDs



Source: Company, BOBCAPS Research

Fig 6 – Net profit doubles YoY in Q3 on high MTM gains



Source: Company, BOBCAPS Research

Fig 7 – Income statement – Consolidated

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue from Operations								
Asset Management Services	2,900	2,836	2.2	2,916	(0.6)	8,644	8,619	0.3
Other Income	1,602	98	1,539.8	1,140	40.6	4,600	1,774	159.3
Total Income	4,502	2,934	53.5	4,056	11.0	13,244	10,393	27.4
Expenses								
Fees and Commission Expenses	5	8	(38.2)	3	62.1	12	20	(40.2)
Employee Benefits Expenses	1,053	1,041	1.2	1,112	(5.3)	3,228	3,081	4.8
Other Expenses	704	563	25.1	611	15.3	1,927	1,661	16.0
Total Operating Expenses	1,762	1,611	9.4	1,725	2.1	5,167	4,763	8.5
EBITDA	2,740	1,323	107.1	2,330	17.6	8,076	5,630	43.5
Depreciation, Amortisation and Impairment	104	103	1.5	104	(0.1)	305	298	2.3
Finance Costs	29	25	17.1	28	1.4	83	71	15.7
Profit Before Tax	2,607	1,024	154.6	2,198	18.6	7,689	4,714	63.1
Tax Expense								
Current Tax	374	365	2.5	341	9.7	1,134	1,076	5.4
Deferred Tax Charge/(Credit)	199	59	239.6	28	600.7	349	66	430.2
Total Tax Expense	573	424	35.2	370	55.2	1,483	1,142	29.8
Profit After Tax	1,857	600	209.4	1,828	1.6	6,029	3,549	69.9
Non-controlling interest	177	-	NA	-	NA	177	23	661.6

Source: Company, BOBCAPS Research

Fig 8 – QAAUM and Net Sales

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
QAAUM (Rs bn)	2,729	2,408	13.3	2,668	2.3	2,729	2,408	13.3
Equity and Hybrid	1,052	984	6.8	1,013	3.8	1,052	984	6.8
Debt	278	223	24.5	269	3.3	278	223	24.5
Liquid	361	385	(6.3)	402	(10.1)	361	385	(6.3)
ETF	1,039	816	27.4	984	5.6	1,039	816	27.4
Net Sales (Rs bn)	22	(40)	NA	(37)	NA	86	48	81.1
Equity and Hybrid	(11)	(11)	NA	(3)	NA	(29)	15	NA
Debt	(5)	8	NA	9	NA	31	(64)	NA
Liquid	13	(83)	NA	(67)	NA	(1)	(53)	NA
ETF	26	47	(45.3)	24	9.5	84	150	(43.6)

Source: Company, BOBCAPS Research

Fig 9 – Other key metrics

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
SIP Gross Sales (Rs bn)	17	17	2.4	16	2.9	17	17	2.4
SIP AUM (Rs bn)	297	215	38.0	265	11.7	297	215	38.0
B30 share in AUM (%)	23	23	0bps	23	0bps	23	23	0bps

Source: Company, BOBCAPS Research

Fig 10 – Margin indicators

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
EBITDA margin – consolidated (%)	60.9	45.1	1,577bps	57.5	340bps	61.0	54.2	681bps
Net margin – consolidated (%)	41.2	20.5	2,079bps	45.1	(383bps)	45.5	34.4	1,115bps
Revenue yield – calculated (bps)	33.9	37.5	(4bps)	34.9	(1bps)	33.7	38.4	(5bps)

Source: BOBCAPS Research

Valuation methodology

UTI AMC is among the top 10 fund houses in India and enjoys considerable moats in the form of a sizeable AUM base, credibility from more than five decades of fund management, a differentiated non-mutual fund business, and well-diversified distribution channels. Of late, however, continued underperformance of the equity mutual fund business has been a key concern.

The company generated Rs 22bn of net inflows in Q3FY24 but saw combined outflows in equity (including hybrid) schemes, continuing the downtrend of the last few quarters, even as the industry has been successful in attracting equity inflows. Consequently, it has lost market share in overall QAAUM by 44bps YoY and 14bps QoQ in Q3.

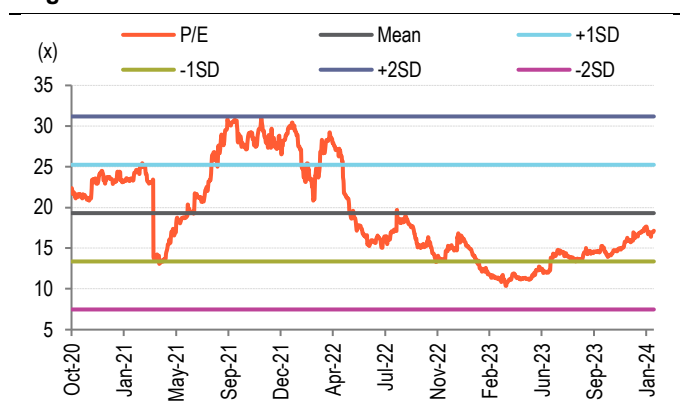
Though quarterly net profit was ahead of our estimate, leading us to raise our FY24 earnings forecast by 15%, the beat stemmed from a surge in other income. Stripping away MTM gains, core PAT missed our estimate by 7% in Q3 due to the slowdown in the equity MF business. We therefore cut our FY25/FY26 revenue estimates by 3% each and PAT forecasts by 1% each. We continue to value the stock at an unchanged 17x FY26E P/E – a 12% discount to mean. Following our earnings revision, our TP moves to Rs 909 (from Rs 920), which offers just 5% upside – maintain HOLD.

Fig 11 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Total Income/ Revenue	16,793	15,790	17,170	16,212	16,298	17,764	3.6	(3.1)	(3.3)
EBITDA	9,959	8,489	9,280	9,250	8,845	9,737	7.7	(4.0)	(4.7)
Profit After Tax (PAT)	7,552	6,200	6,788	6,555	6,234	6,875	15.2	(0.5)	(1.3)
AUM (Rs bn)	2,738	3,100	3,492	2,700	2,998	3,333	1.4	3.4	4.8
EBITDA Margin (%)	59.3	53.8	54.0	57.1	54.3	54.8	225bps	(51bps)	(77bps)
Net Margin (%)	45.0	39.3	39.5	40.4	38.2	38.7	454bps	101bps	83bps

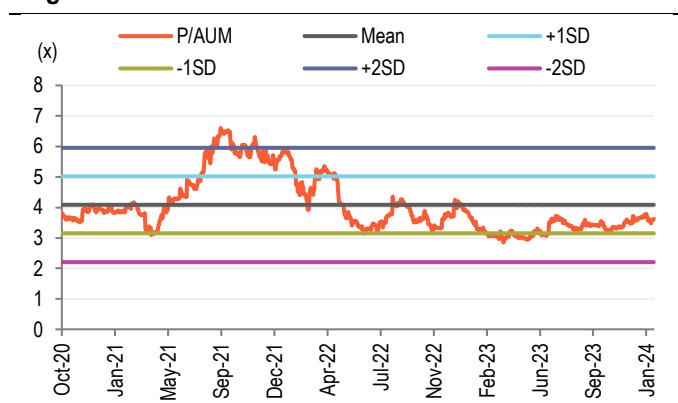
Source: BOBCAPS Research

Fig 12 – P/E band 1Y fwd



Source: Bloomberg, BOBCAPS Research

Fig 13 – P/AUM band 1Y fwd



Source: Bloomberg, BOBCAPS Research

Key risks

Upside risks

- **Substantial increase in equity AUM:** Above-expected equity AUM growth could take revenue and profitability ahead of our expectations. Moreover, the market share decline would be arrested.

Downside risks

- **Decline in AUM growth due to increased competition:** Intense competitive pressure has impacted UTI AMC's market share. Continued market share loss would 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:** AMC's are regulated by SEBI and could be adversely affected in the event of unfavourable policy changes. For instance, should the regulator mandate a further decline in total expense ratio, yields could weaken even more.
- **Covid-like disruptions:** While Covid-related lockdowns are unlikely to be unduly harsh in future, we believe that any such lockdowns/disruptions due to any pandemic/virus mutations would be a risk to retail customer acquisition and could also result in higher redemptions.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Aditya Birla Sun Life AMC	ABSLAMC IN	1.7	477	497	HOLD
HDFC AMC	HDFCAMC IN	9.1	3,510	3,425	HOLD
UTI AMC	UTIAM IN	1.3	867	909	HOLD

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

Glossary

Glossary			
AAAUM	Average Annual Assets Under Management	MF	Mutual Fund
AIF	Alternate Investment Fund	MFD	Mutual Fund Distributor
AUM	Assets Under Management	NFO	New Fund Offer
B30	Beyond the Top 30 cities	PMS	Portfolio Management Services
eKYC	Electronic Know Your Customer	QAAUM	Quarterly Average Assets Under Management
EPFO	Employees' Provident Fund Organisation	SIP	Systematic Investment Plan
ETF	Exchange Traded Funds	T30	Top 30 cities
MAAUM	Monthly Average Assets Under Management	TER	Total Expense Ratio

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Investment mgmt. fees	11,190	11,310	11,707	12,783	13,995
YoY (%)	38.7	1.1	3.5	9.2	9.5
Operating expenses	6,211	6,550	6,834	7,302	7,891
Core operating profits	4,979	4,760	4,873	5,481	6,105
Core operating profits growth (%)	77.2	(4.4)	2.4	12.5	11.4
Depreciation and Interest	460	495	519	540	577
Core PBT	4,519	4,265	4,354	4,941	5,527
Core PBT growth (%)	90.5	(5.6)	2.1	13.5	11.9
Other income	2,084	1,587	5,086	3,008	3,175
PBT	6,603	5,853	9,440	7,949	8,703
PBT growth (%)	9.4	(11.4)	61.3	(15.8)	9.5
Tax	1,256	1,459	1,888	1,749	1,915
Tax rate (%)	19.0	24.9	20.0	22.0	22.0
Reported PAT	5,347	4,393	7,552	6,200	6,788

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity capital	1,270	1,270	1,270	1,270	1,270
Reserves & surplus	34,932	37,409	40,807	43,287	46,002
Net worth	36,316	38,678	42,077	44,557	47,272
Borrowings	0	0	0	0	0
Other liab. & provisions	3,515	3,071	4,187	3,285	3,212
Total liab. & equities	39,830	41,749	46,263	47,842	50,484
Cash & bank balance	33,930	36,051	40,699	41,886	44,287
Fixed & Other assets	5,379	5,201	5,079	5,472	5,716
Total assets	39,830	41,749	46,263	47,842	50,484

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	42.0	34.4	59.5	48.8	53.5
Dividend per share	21.0	22.0	32.7	29.3	32.1
Book value per share	285.0	304.6	331.3	350.9	372.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	20.7	25.2	14.6	17.8	16.2
P/BV	3.0	2.8	2.6	2.5	2.3
Dividend yield (%)	2.4	2.5	3.8	3.4	3.7

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	50.0	47.4	42.8	41.2	40.1
Operating expenses	27.7	27.4	25.0	23.6	22.6
EBITDA	31.6	26.6	36.4	27.4	26.6
Depreciation and Others	2.1	2.1	1.9	1.7	1.7
Core PBT	20.2	17.9	15.9	15.9	15.8
Other income	9.3	6.6	18.6	9.7	9.1
PBT	29.5	24.5	34.5	25.6	24.9
Tax	5.6	6.1	6.9	5.6	5.5
ROAAAUM	23.9	18.4	27.6	20.0	19.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Investment mgmt. fees	38.7	1.1	3.5	9.2	9.5
Core operating profit	77.2	(4.4)	2.4	12.5	11.4
EPS	82.0	7.7	(17.9)	72.7	(17.9)
Profitability & Return ratios (%)					
Operating income to Total inc.	84.3	87.7	69.7	81.0	81.5
Cost to Core income ratio	55.5	57.9	58.4	57.1	56.4
EBITDA margin	53.2	49.2	59.3	53.8	54.0
Core PBT margin	34.0	33.1	25.9	31.3	32.2
PBT margin (on total inc.)	49.7	45.4	56.2	50.3	50.7
ROE	15.5	11.7	18.7	14.3	14.8
Dividend payout ratio	50.0	63.9	55.0	60.0	60.0

Annual Average AUM

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
AAAUM (Rs bn)	2,238	2,388	2,738	3,100	3,492
YoY Growth (%)	22.4	6.7	14.6	13.2	12.6
% of AAAUM					
Equity	43	40	37	35	33
Debt	8	10	11	11	11
Liquid	21	16	14	12	11
Others	28	35	38	41	44

Source: Company, BOBCAPS Research

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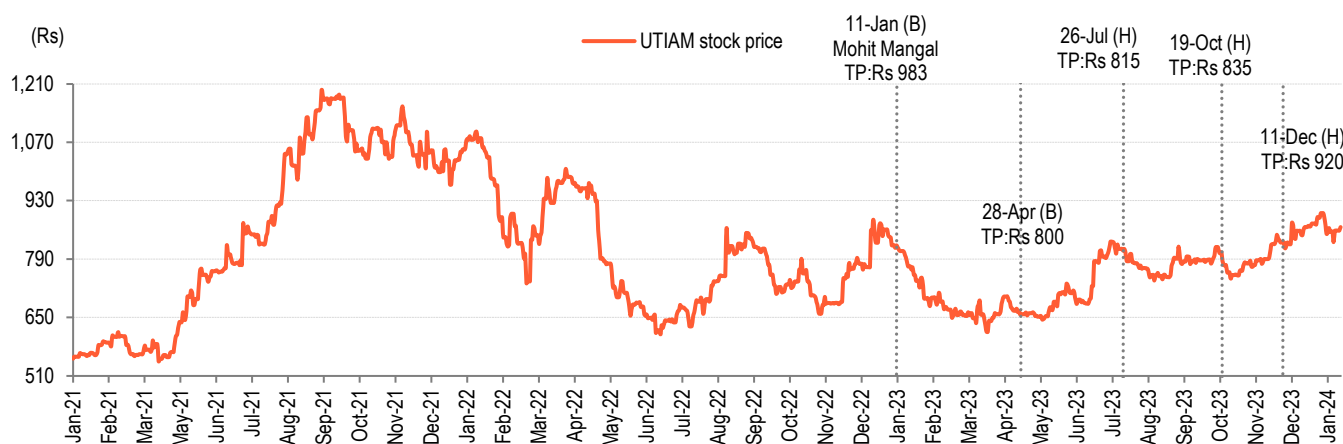
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BUY – Expected return >+15%
HOLD – Expected return from -6% to +15%
SELL – Expected return <-6%

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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