

CENTRUM

UTI Asset Management

Structural re-rating imminent

UTI AMC again saw a good quarter with revenue and operating income beat. Positive revenue deviation was due to higher yields as per new PFRDA rules while other opex included the Govt's share of the same. Opex was higher due to one-time expenses. SIP flows' market share is improving since the last 5 quarters. We see a strong CAGR in operating income of ~60% over FY21-23E led by a clear visibility of revenue growth, though there may be minor quarterly aberrations in opex. Given the evident positive delta in core RoE from 7.8% to 17.5% over FY21-23, valuation discount for UTI should narrow compared to listed peers. The company warrants a structural re-rating to ~31x FY23EPS (27% discount to Nippon). Further rating change would depend on a higher dividend payout ratio and industry dynamics. Raise TP to Rs1400. BUY.

Q1FY22-strong revenue with stable yields; some one-offs in opex

QAAuM was slightly higher at Rs1872bn (est. Rs1845bn). Revenue was a beat at Rs2.6bn (est. Rs2.4bn). The deviation of Rs238mn was mainly led by PFRDA fees. Stripping this income, yields were stable QoQ. Opex at Rs1.61bn missed est. since certain one-time expenses were incurred. Staff cost was Rs943mn (est. Rs900mn) while other opex came in at Rs664mn (est. Rs523mn). Better revenue offset higher opex leading to better core income at Rs1.0bn (est. Rs954mn). Other income was higher at Rs886mn (est. Rs500mn) due to gains on venture capital and equity investments. Tax rate continues to be lower at 19% (est. 22%) likely due to losses in offshore business. Led by core earnings, other income and lower tax, PAT was ahead at Rs1.55bn (est. Rs1.1bn).

Market share gains continue; higher fees from UTI RSL recognised

Market share in SIP flows has consistently enhanced since the last 5 quarters and it improved to 3.8% in Q1FY22 (QoQ 3.6% & YoY 2.9%). SIP accounts rose by 31% YoY. UTI captured 10.24% of net industry inflows in the quarter compared to 6% for last year. 0.1mn folios were added in Q1FY22 compared to 0.11mn for entire FY21. On the equity distribution side, basis better scheme performance, UTI's products are now being offered on 45 platforms vis-à-vis ~30 platforms a year ago. Overall AuM market share also rose QoQ from 5.6% to 5.7%. New PFRDA rules led to higher yields and revenue share for UTI that led to gross fees of Rs218mn, while Rs65mn was included in other expenses.

Certain one-time expenses incurred

Staff costs included an ESOP charge were ~Rs40mn and the balance for FY22 is Rs100mn. New ESOPS will be offered only to select employees and exercise price would be close to market price which may not materially impact on P&L. Variable pay cost of Rs70mn was also incurred (last qtr. reversal was Rs60mn). Other opex contained one-time brokerage of Rs69mn due to reduction of equity mix from 18% to 13%, in the post office insurance scheme (part of PMS), in accordance with the investment board directive. The company expects a normalised run-rate of Rs500mn in other opex.

Valuation and risks

We raise FY22/23 PAT by 13%/7% on higher other income and lower tax. UTI AMC should command a higher multiple and discount to listed peers should narrow basis a clear improvement in core RoE over FY21-23. Raise multiple to 31x FY23 EPS (earlier 20x) and increase TP to Rs1400 (Rs850 earlier). Reiterate BUY. **Risks:** weaker flows.

Financial and valuation summary

YE Mar (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E
Revenue	2,615	1,598	63.7	2,356	11.0	8,066	10,663	11,675
Operating Profit	1,010	140	622.5	943	7.2	2,110	4,408	5,493
Other Income	886	1,106	(19.9)	574	54.5	3,921	2,109	1,784
PAT	1,550	1,019	52.2	1,336	16.0	4,943	5,148	5,749
AAuM (Rs bn)	1872	1336	40.1	1829	2.4	1,473	1,842	2,003
ROAAUM (calc.) (bps)	0.33	0.31	2bps	0.29	4bps	0.34	0.28	0.29
PAT Margin	59.3	63.8	(4.5)	56.7	2.6	61.3	48.3	49.3
RoE (%)						16.4	15.2	15.7
P/E						13.5	24.4	21.9
P/B						2.0	3.1	2.8

Source: Company, Centrum Broking

Result Update

India I AMCs

29 July 2021

BUY

Target Price: Rs1,400

Price: Rs992

Forecast return: 41%

Institutional Research

Market Data

Bloomberg:	UTIAM IN
52 week H/L:	Rs1000/471
Market cap:	Rs126bn
Shares outstanding:	127mn
Free float:	54.8%
Avg. daily vol. 3mth:	521840

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	To Rs1400 from Rs850
EPS:	13.5% FY22E/7.1% FY23E

Source: Centrum Research

Shareholding pattern

	Jun-21	Mar-21	Dec-20
Promoter	0.0	0.0	0.0
FII's	4.1	5.4	5.2
DII's	62.0	61.1	59.0
Public/oth	34.0	33.5	35.8

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY22	Actual Q1FY22	Variance (%)
Revenue	2,377	2,615	10.0
Operating Inc	954	1,010	5.8
PAT	1,133	1,550	36.8

Source: Company, Centrum Research



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Thesis Snapshot

Estimate revisions

YE Mar (Rs mn)	FY22E New	FY22E Old	% chg	FY23E New	FY23E Old	% chg
Revenue	10,663	10,402	2.5	11,675	11,148	4.7
Opex	6,255	5,979	4.6	6,183	5,652	9.4
Operating Inc.	4,408	4,423	(0.3)	5,493	5,495	0.0
PAT	5,148	4,538	13.5	5,749	5,372	7.0
ROE (%)	15.2	13.5	1.7	15.7	14.8	0.9

Source: Centrum Broking

UTI AMC versus NIFTY Midcap 100

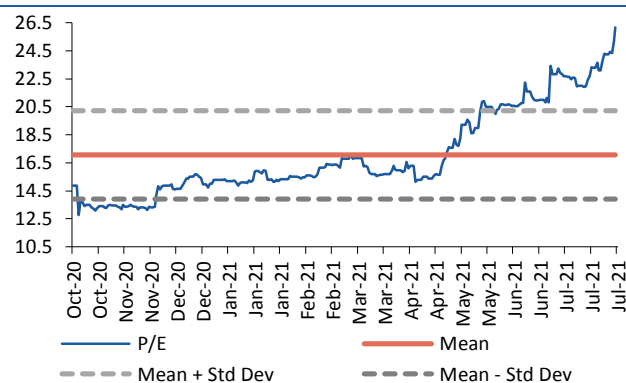
	1m	6m	1 year
UTIAMC IN	15.6	78.3	-
Nifty Midcap 100	2.3	31.6	77.1

Source: Bloomberg, NSE

Valuations

We raise FY22/23 PAT by 13%/7% on higher other income and lower tax. UTI AMC should command a higher multiple and discount to listed peers should narrow basis a clear improvement in core RoE over FY21-23. Raise multiple to 31x FY23 EPS (earlier 20x) and increase TP to Rs1400 (Rs850 earlier). Reiterate BUY. Risks: weaker flows.

P/E mean and standard deviation



Peer comparison

Company	Mkt Cap Rs bn	CAGR FY21-FY23E (%)			P/E (x)			P/B (x)			RoE (%)		
		Revenue	Core Profit	PAT	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
UTI AMC	125	20.3	61.4	7.9	13.5	24.4	21.8	2.0	3.1	2.8	16.4	15.2	15.7
NAM	248	10.0	12.6	(2.0)	30.2	41.8	37.8	5.5	7.7	7.3	23.9	18.6	19.6
HDFC AMC	602	9.9	10.8	6.6	39.9	43.2	39.9	10.4	11.9	10.9	30.1	27.6	26.9

Source: Company, Centrum Broking

Concall Highlights

Market share

- UTI AMC's market share for Q1FY22 stood at 5.64% on QAAUM basis and 5.76% on closing AUM basis.
- UTI captured 10.24% of the total net inflows of the industry this quarter vs 6% for last year. This figure was 11.58% for ETFs and 6.24% for equities.
- It added 103k folios in Q1FY22 vs 113k folios for entire FY21. Live folios stood at 11.1mn and SIP accounts rose by 31% YoY.

Revenue, expenditure and yields

- QoQ spike in staff cost was driven by Rs140mn of variable pay expenses and Rs40mn of increments made in Q1FY22. It expects to maintain full year FY22 EBE at FY21 levels.
- Exercise period of ESOPs was extended to 5years from 3years. New ESOPS will carry market price as exercise price and will not have material impact on P&L. Also, ESOPS will only be offered to selected employees going forward.
- Higher opex was driven by 1.5bps of PFRDA fees which amounted to Rs65mn included in administrative expenses. Also, opex had a one-off expense of Rs60mn brokerage fees paid on account of liquidation of equity portfolio in post office linked insurance scheme from 18% to 13% in accordance with investment board directive. Expect Rs500mn run rate on opex going forward.
- Other income was higher on account of stake sale in big basket by venture capital fund resulting in Rs240mn profit. Post liquidation, 1.73% stake of the company still remains with the fund.
- YoY increase in revenue yield was driven by higher equity and hybrid AUM levels. Management guided 33-34 bps revenue yield for full year FY22.
- Expect 18-19% effective tax rate for next 2-3 years on account of accumulated losses in the international business.

Subsidiaries

- Management reiterated that UTI International is a profitable business. Profitability will be function of scale. Higher opex in this business is on account of trail fees paid.
- UTI retirement solutions business is looking forward to attract more private clients. Flows in the business are higher than the private AMC and future flows will depend on performance of the fund.

Other points

- Mr. Verti Subramaniam is elevated to CIO and Mr. Ajay Tyagi will be Head of Equity from 1st August'21.
- Mr. Peshotan Dastoor is appointed as head of sales and Mr. Sudhanshu Asthana is appointed as Fund Manager.
- UTI has received a nod for 2 NFOs viz. focused equity fund and multicap fund which are in pipeline for launch.

Fig 1: Quarterly financials

(Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenue from Operations	2,038	2,035	1,981	1,825	1,598	1,993	2,118	2,356	2,615
Expenses	1,311	1,263	1,303	1,610	1,458	1,403	1,681	1,414	1,605
EBE	844	696	756	1103	980	911	1161	743	943
Other Expenses	467	488	467	406	397	401	425	580	572
Depreciation	76	79	80	101	81	92	95	90	90
Operating Income	727	772	678	216	140	590	437	943	1,010
Other Income	395	487	504	(365)	1106	877	1,365	574	886
PBT	1,122	1,259	1,182	(150)	1,246	1,467	1,802	1,516	1,896
Tax	348	(94)	284	126	227	281	399	180	346
PAT	774	1,353	898	(276)	1,019	1,186	1,402	1,336	1,550
AUM (Rs in bn)	1,579	1,542	1,571	1,515	1,336	1,552	1,654	1,829	1,872
Yields	0.52%	0.53%	0.50%	0.48%	0.48%	0.51%	0.51%	0.52%	0.56%
SIP Flows Quarterly (in bn)	7.5	7.34	7.3	7.3	7.2	7.6	8.2	8.9	10.1
Growth ratios (%) (QoQ)									
AUM	N/A	(2.3)	1.9	(3.6)	(11.8)	16.2	6.5	10.6	2.4
Revenue from Operations	N/A	(0.2)	(2.7)	(7.9)	(12.4)	24.8	6.3	11.2	11.0
EBE	N/A	(17.5)	8.6	45.8	(11.1)	(7.1)	27.5	(35.9)	26.8
PAT	N/A	74.7	(33.7)	N/A	N/A	16.4	18.2	(4.7)	16.0
Profitability Ratios (%)									
EBE / Revenue	41.4	34.2	38.2	60.4	61.3	45.7	54.8	31.6	36.0
Operating Income/ Revenue	35.7	37.9	34.2	11.8	8.7	29.6	20.6	40.0	38.6
Other Income / Revenue	19.4	23.9	25.4	(20.0)	69.2	44.0	64.4	24.3	33.9
Effective tax rate	31.0	(7.5)	24.0	(84.2)	18.2	19.1	22.2	11.9	18.2
PAT Margin	38.0	66.5	45.3	(15.1)	63.8	59.5	66.2	56.7	59.3
ROAAUM in bps	0.2	0.4	0.2	(0.1)	0.3	0.3	0.3	0.3	0.3

Source: Company, Centrum Broking

Annual financials

P&L					
YE March (Rs bn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue from Operations	8,906	7,879	8,066	10,663	11,675
Investment Management Fees	8,814	7,865	8,060	10,647	11,657
PMS and Advisory Fees	92	14	6	16	18
Expenses	5,845	5,487	5,956	6,255	6,183
Employee benefit	3,067	3,399	3,795	3,867	3,645
Other Expenses	2,596	1,723	1,774	2,031	2,163
Depreciation	162	336	358	319	335
Fees and Commission	21	29	30	37	40
Operating Income	3,061	2,392	2,110	4,408	5,493
Other Income	1,905	1,021	3,921	2,109	1,784
PBT	4,966	3,413	6,030	6,518	7,281
Tax	1,447	664	1,087	1,369	1,528
PAT	3,519	2,749	4,943	5,148	5,749
Dividend	764	692	2,155	2,317	2,702
Retained Earnings	2,755	2,057	2,788	2,832	3,047
Growth ratios (%)					
AAuM	5.4	(6.5)	13.3	25.0	8.7
Revenue from Operations	(7.9)	(11.5)	2.4	32.2	9.5
EBE	(4.6)	10.8	11.7	1.9	(5.8)
PAT	(11.3)	(21.9)	79.8	4.2	11.7
Profitability Ratios (%)					
Yield on AUM	0.64	0.61	0.55	0.58	0.58
Yield on Investments	6.9	2.48	13.8	6.0	4.5
EBE / Core Revenue	34.4	43.1	47.0	36.3	31.2
Operating Income/ Core Revenue	34.4	30.4	26.2	41.3	47.0
Other Income / Core Revenue	21.4	13.0	48.6	19.8	15.3
Effective tax rate	29.1	19.5	18.0	21.0	21.0
PAT Margin	39.5	34.9	61.3	48.3	49.3
ROE	13.9	10.1	16.4	15.2	15.7
Core RoE	8.6	7.1	7.8	14.9	17.5
ROAAAUM	0.25	0.21	0.34	0.28	0.29
Core RoAAuM	0.16	0.15	0.12	0.19	0.22
DuPont analysis (%)					
Revenue from Operations	0.64	0.61	0.55	0.58	0.58
Investment Management Fees	0.63	0.60	0.55	0.58	0.58
PMS and Advisory Fees	0.01	0.00	0.00	0.00	0.00
Expenses	0.42	0.42	0.40	0.34	0.31
Fees and Commission	0.00	0.00	0.00	0.00	0.00
Employees	0.22	0.26	0.26	0.21	0.18
Depreciation	0.01	0.03	0.02	0.02	0.02
Other Expenses	0.19	0.13	0.12	0.11	0.11
Operating Income	0.22	0.18	0.14	0.24	0.27
Other Income	0.14	0.08	0.27	0.11	0.09
PBT	0.36	0.26	0.41	0.35	0.36
Tax	0.10	0.05	0.07	0.07	0.08
PAT	0.25	0.21	0.34	0.28	0.29
Core PAT	0.16	0.15	0.12	0.19	0.22

Source: Company, Centrum Broking

Balance sheet					
YE March (Rs bn)	FY19A	FY20A	FY21A	FY22E	FY23E
Share Capital	1,268	1,268	1,268	1,268	1,268
Reserves and Surplus	25,263	26,563	31,102	33,934	36,981
Net Worth	26,530	27,831	32,370	35,202	38,249
Trade Payables	713	662	933	850	905
Employee Benefit	590	1,726	1,715	1,324	1,248
Others	1,470	1,433	1,631	1,655	1,680
Total Liabilities and Equity	29,304	31,654	36,649	39,031	42,083
Cash and Bank	1,242	1,193	2,060	2,060	2,060
Investment	22,614	23,558	27,469	29,005	31,609
Fixed Asset	2,687	3,737	3,647	3,824	4,010
Receivables	929	933	748	1,169	1,279
Others	1,833	2,233	2,725	2,974	3,124
Total Assets	29,304	31,654	36,649	39,031	42,083
Closing AUM (Rs bn)					
Overall	1,423	1,178	1,768	1,915	2,090
Equity	499	413	667	667	739
Debt	486	308	350	350	364
Liquid	265	240	326	326	333
Others	174	217	425	425	479
Closing AUM Breakup (%)					
Overall	100.0	100.0	100.0	100.0	100.0
Equity	35.0	35.1	37.7	38.6	39.6
Debt	34.2	26.1	19.8	19.0	18.8
Liquid	18.6	20.4	18.5	17.4	16.1
Others	12.2	18.4	24.0	25.0	25.5
Closing AUM Growth (%)					
AuM	4.7	(17.2)	50.1	8.3	9.1
Equity	11.2	(17.1)	61.4	10.8	12.0
Debt	(20.2)	(36.7)	13.6	4.1	8.1
Liquid	28.7	(9.4)	36.2	2.0	1.0
Others	80.5	24.8	95.5	12.9	11.1
Valuations					
EPS	27.8	21.7	39.0	40.6	45.3
DPS	6.0	5.5	17.0	18.3	21.3
BVPS	209	220	255	278	302
Dividend Yield	-	1.0	3.1	2.1	2.5
P/E	0.0	14.0	13.5	24.4	21.9
P/B	0.0	2.1	2.0	3.6	3.3

Source: Company, Centrum Broking

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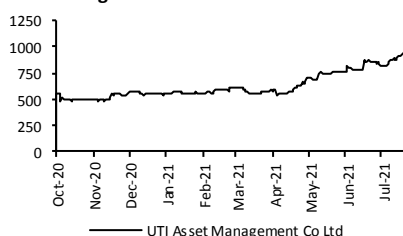
Buy – the stock is expected to return above 15.

Add – the stock is expected to return 5-15.

Reduce – the stock is expected to deliver -5-+5 returns.

Sell – the stock is expected to deliver <-5 returns.

UTi Asset Management



Source: Bloomberg

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