Asset Management Companies

Sector Report

Play on retail financialization

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Play on retail financialization

We are constructive on Indian AMC space driven by its heathy growth potential given 1) AuM to GDP ratio is 16% for India compared to world average of 63% 2) financial assets make up for 41% of household savings, although MF allocation is only 2% and 3) low penetration despite 435mn PAN card holders, while MF unique investors are even lesser at 34mn. Further, the industry is slated to expand by ~13-15% over FY22-26E led by 1) growing investor base 2) higher disposable income levels & financial savings 3) deeper regional presence and 4) ease of investing along with digitalization.

We initiate coverage on HDFCAMC with 'BUY' rating, as it is regaining lost ground, since market share at 11.5% is improving led by consistent superior performance resulting in improved net flows. Post-merger, HDFCAMC could gain more share of gross MF sales by HDFCB, as currently it accounts for only 25% (peers at 70-98%). Better asset mix and cost control led to healthy profitability with operating yields at 36bps which should sustain. Valuation is at 22.5x FY25E core EPS; we assign a multiple of 27x to arrive at TP of Rs2100.

We also initiate coverage on UTIAMC with 'BUY' rating. Bolstering investment process resulted in better performance and distributor mind share leading to market share gains in net equity flows (-0.5% in FY20 to 5.9% FY22) and higher BND share in equity distribution. Debt revival is attributable to stronger risk management. Core profits would see a healthy CAGR of ~14% from FY23-25E driven by operating leverage. Valuation is at 10x on FY25E core EPS (discount of 56% to HDFCAMC). We assign 15x multiple to arrive at a TP of Rs830.

- **Significant under penetration of mutual funds (MFs):** Indian AMC space is materially underpenetrated compared to global peers since, AuM to GDP ratio is much lower at 16% for India than world average (63%) and US (140%). MF AuM as a percent of bank deposits was 22% in Dec'22 compared to 100%+ for USA. Moreover, 41% of household savings are invested in financial assets of which majority is in cash, while MF allocation is merely ~2%. India has more than 435mn PAN card holders of which only 70-80mn file their tax returns, while MF unique investor base is even lower at 34mn. Going forward we expect that unique client base can expand substantially with greater acceptance of mutual fund as a preferred saving and investment vehicle, which would eventually translate to healthier net MF flows.

- **AMC space slated to grow at 13-15% CAGR; operating yields improving:** Led by low penetration and buoyant equity markets, MF closing overall/equity AuM saw a 19%/25% CAGR over FY15-22 and moved up from Rs11tn/Rs4tn to Rs38tn/Rs18tn. According to CRISIL, MF total/equity QAAuM is expected to see a CAGR of 13-15% over FY22-26E driven by growing investor base, higher disposable income levels resulting in better household and financial savings, increase in geographical penetration, ease of investing and digitalisation. From a profitability standpoint, FY22 saw MF yields shrink YoY from 44.6bps to 43bps, owing to upsurge in gross flows and higher distributor payouts. However, with flows moderating post FY22 till date, competition has reduced and distributor commissions seem to have normalized.

HDFC Asset Management Company (HDFCAMC IN)
Rating: BUY | CMP: Rs1,797 | TP: Rs2,100
Key Financials - Standalone

Y/e Mar	2022	2023E	2024E	2025E
Revenue (Rs m)	21,154	22,021	23,661	25,768
Opex	5,779	6,269	6,525	7,109
Employee	3,122	3,208	3,536	3,864
Others	2,657	3,062	2,989	3,245
Core Inc. (Rs m)	15,375	15,752	17,136	18,659
PAT (Rs mn)	13,931	14,097	15,277	16,603
Core PAT (Rs m)	11,545	11,782	12,818	13,957
Core EPS (Rs.)	65.3	66.1	71.6	77.8
Gr. (%)	*4.9*	*1.2*	*8.4*	*8.7*
AAuM (Rs bn)	4,332	4,356	4,775	5,313
Gr. (%)	*12.8*	*0.6*	*9.6*	*11.3*
RoAAuM (bps)*	26.7	27.0	26.8	26.3
RoE (%)*	27.6	25.8	26.8	28.0
P/Core EPS (x)	38.7	28.5	24.9	22.5

**Core*

UTI Asset Management Company (UTIAM IN)
Rating: BUY | CMP: Rs668 | TP: Rs830
Key Financials - Consolidated

Y/e Mar	2022	2023E	2024E	2025E
Revenue (Rs m)	11,189	11,550	12,425	13,507
Opex	6,671	7,185	7,507	7,913
Employee	4,067	4,181	4,333	4,442
Others	2,604	2,634	2,636	2,648
Core Inc. (Rs m)	4,518	4,365	4,917	5,594
PAT (Rs mn)	5,346	4,610	5,595	6,257
Core PAT (Rs m)	3,658	3,403	3,885	4,419
Core EPS (Rs.)	28.8	26.8	30.6	34.8
Gr. (%)	*88.2*	*(7.0)*	*14.2*	*13.8*
AAuM (Rs bn)	2,112	2,365	2,655	3,002
Gr. (%)	*32.6*	*12.0*	*12.3*	*13.1*
RoAAuM (bps)*	17.3	14.4	14.6	14.7
RoE (%)*	15.7	13.7	15.2	16.8
P/Core EPS (x)	25.6	17.0	15.0	13.4

**Core*

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- **HDFCAMC regaining lost ground; initiate coverage with BUY:** We like HDFCAMC given 1) consistent equity outperformance translating to improved net flows and in turn market share (11.5%) 2) post-merger, HDFCAMC could gain more market share, as currently it accounts for only 25% of gross MF sales by HDFCB (peers are at 70-98%) 3) strong growth prospects of AMC space (over medium term likely AuM CAGR of 13-15%) which could benefit HDFC AMC since it is the 3rd largest player with a strong pedigree, 4) robust retail franchise (share in unique investor base higher at ~17%) and 5) class leading efficiency with operating yields at 35bps. Valuation is attractive at 22.5x FY25E core EPS. We assign a multiple of 27x to arrive at a TP of Rs2100.

- **UTIAMC transforming into a formidable franchise; initiate with BUY:** After navigating a tough phase from FY16-20 UTIAMC is back in the reckoning led by 1) debt resurgence attributable to stronger risk management and continuous client engagement and 2) equity revival driven by bolstering investment process resulting in better performance and distributor mind share. Net equity flows' share improved from -0.5% to 5.9% over FY20-22 given 1) most large banks and distributors re-empaneled UTI by Mar'20 and 2) equity BND share increased from 9% to 12% over last 2 years. From FY23-25E operating yield should sustain at 19bps while core profits would see a healthy CAGR of ~14% driven by better operating leverage (due to focus on cost control). Valuation is compelling at 10x on FY25E core EPS which suggests a discount of 56% to HDFCAMC. Assigning a multiple of 15x (ex-cash) we arrive at TP of Rs830.

- **Key risks: Industry** – SEBI could further cut the total expense ratio which would lead to cut in earnings estimates across AMCs. **HDFCAMC** – lower industry growth and underperformance on the equity and debt side could also affect AAuM growth. **UTIAMC** – Higher variable staff expenses or fresh hiring would keep employee cost elevated resulting in lower profitability.

Exhibit 1: Listed AMC players' valuation

Company	CMP	MCap (Rs bn)	MAAuM (Rs bn)	Mcap/MAAuM	PAT (Rs bn)				EPS				P/E				RoE (%)			
					FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
HDFCAMC	1,797	383	4,572	8.4%	13.9	14.1	15.3	16.6	65.3	66.1	71.6	77.8	27.6	27.2	25.1	23.1	27.0	24.5	24.5	24.9
UTIAMC	668	83	2,407	3.5%	5.3	4.6	5.6	6.3	42.1	36.3	44.1	49.3	15.7	18.2	15.0	13.4	15.5	12.4	14.1	14.9
NAM India	228	140	2,854	4.8%	7.4	7.1	7.9	9.0	12.0	11.3	12.8	14.6	16.1	17.3	15.6	13.5	22.6	20.0	22.4	25.1
ABSLAMC	377	109	2,854	3.8%	6.7	6.1	6.9	8.1	23.4	21.8	24.1	27.9	19.0	20.1	17.7	15.6	34.5	26.8	27.3	29.2

Source: Company, PL, Bloomberg

Exhibit 2: Peer comparison across metrics

Particulars (Rs mn)	HDFC AMC			UTI AMC			Nippon Life			Birla AMC		
	FY21	FY22	9MFY23	FY21	FY22	9MFY23	FY21	FY22	9MFY23	FY21	FY22	9MFY23
P&L												
Revenue	**21,154**	**22,021**	**23,661**	**11,189**	**11,550**	**12,425**	**13,066**	**13,294**	**14,042**	**12,635**	**12,123**	**12,440**
Opex	**5,779**	**6,269**	**6,525**	**6,671**	**7,185**	**7,507**	**5,470**	**5,815**	**6,192**	**5,242**	**5,424**	**5,684**
Employee	3,122	3,208	3,536	4,067	4,181	4,333	2,903	3,109	3,333	2,656	2,782	2,938
Others	2,657	3,062	2,989	2,604	3,004	3,175	2,567	2,706	2,859	2,586	2,642	2,746
Core Income	**15,375**	**15,752**	**17,136**	**4,518**	**4,365**	**4,917**	**7,597**	**7,478**	**7,849**	**7,393**	**6,700**	**6,756**
PAT	13,931	14,097	15,277	5,346	4,610	5,595	7,434	7,308	7,617	6,399	5,997	6,083
Core PAT	**11,545**	**11,782**	**12,818**	**3,658**	**3,403**	**3,885**	**5,712**	**5,594**	**5,871**	**5,534**	**5,025**	**5,067**
Du-pont (%)												
Revenue	**0.48**	**0.49**	**0.51**	**0.51**	**0.53**	**0.49**	**0.55**	**0.52**	**0.47**	**0.45**	**0.47**	**0.43**
Opex	**0.12**	**0.13**	**0.14**	**0.36**	**0.32**	**0.30**	**0.28**	**0.22**	**0.21**	**0.21**	**0.20**	**0.19**
Employee	0.06	0.07	0.07	0.24	0.19	0.18	0.14	0.12	0.11	0.10	0.10	0.09
Others	0.06	0.06	0.07	0.12	0.12	0.13	0.14	0.10	0.10	0.12	0.10	0.10
Core Income	**0.36**	**0.35**	**0.36**	**0.15**	**0.21**	**0.19**	**0.27**	**0.30**	**0.26**	**0.24**	**0.28**	**0.24**
PAT	0.35	0.32	0.33	0.31	0.25	0.20	0.30	0.26	0.24	0.22	0.24	0.22
Core PAT	**0.28**	**0.27**	**0.28**	**0.12**	**0.17**	**0.14**	**0.23**	**0.20**	**0.20**	**0.18**	**0.21**	**0.18**
ROE (%)	30.11	27.03	26.18	16.35	15.54	15.24	23.86	22.60	21.53	33.61	32.62	26.02
Core ROE (%)	28.76	27.56	28.01	9.02	15.67	16.71	21.17	26.94	27.32	35.59	37.11	27.40
Cash + Investments	**47,556**	**55,783**	**52,588***	**30,786**	**33,765**	**33,124***	**29,106**	**32,801**	**31,166***	**18,056**	**22,292**	**23,084***
AAuM (Rs bn)	**3,841**	**4,332**	**4,287**	**1,592**	**2,112**	**2,328**	**1,927**	**2,496**	**2,858**	**2,307**	**2,684**	**2,814**
Equity (%)	23.4	28.3	32.6	27.0	31.1	31.1	31.5	34.3	35.9	28.7	32.0	34.5
Balanced (%)	15.1	15.3	16.7	2.3	2.0	1.9	3.7	3.1	3.3	4.2	4.5	5.2
Index (%)	0.9	1.6	2.7	29.3	33.1	5.1	0.2	0.4	1.0	0.1	0.2	0.2
Debt (%)	32.9	34.1	26.6	24.4	20.2	14.9	34.4	32.3	23.4	43.6	42.5	35.5
Liquid (%)	27.2	19.8	20.2	25.4	20.6	20.8	15.8	12.2	14.0	23.1	20.4	24.0
Others (%)	0.6	0.9	1.2	18.7	22.8	26.2	14.5	17.7	22.4	0.2	0.4	0.6

*Source: Company, PL. *H1FY23*

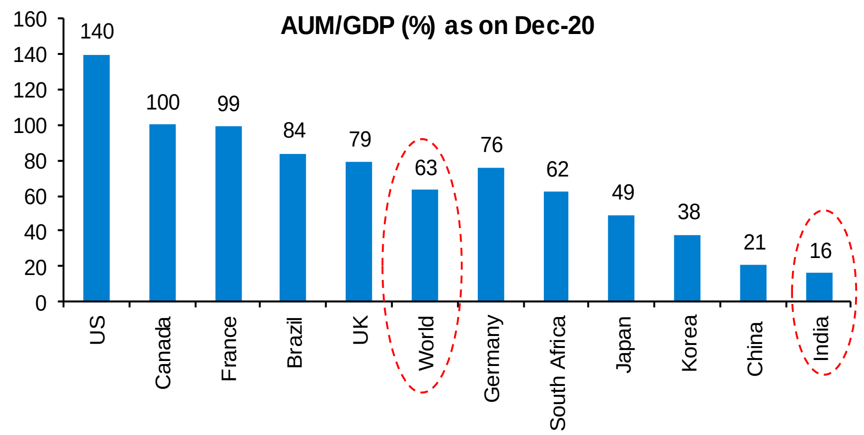
Indian Asset Management Industry

Attractive underlying growth opportunity

Indian mutual fund industry's AuM as a share of GDP has risen from 4.3% in FY02 to 16% in CY20. However, the industry still has tremendous potential for growth, considering that India is largely an untapped market (unique mutual fund investors in the industry are ~34mn as at Mar'22, compared to India's population of ~1.4bn).

India's AuM to GDP is significantly lower than the world average of 63% and also lower than many developed economies like US (140%), Canada (100%), France (99%), UK (79%), Germany (76%), Japan (49%) and China (21%). We believe, this relatively low penetration provides a large scope for strong growth ahead.

Exhibit 3: Mutual fund AuM to GDP ratio very low for India at 16%



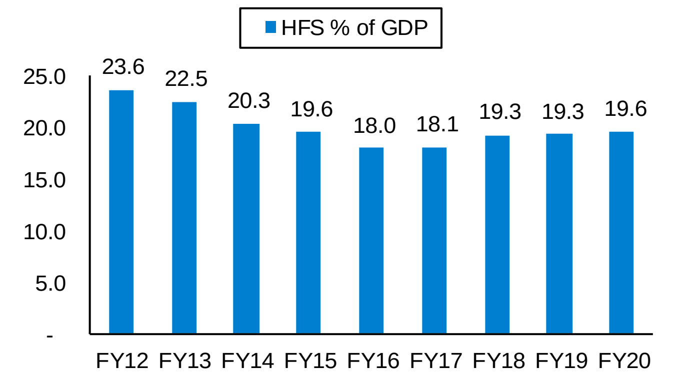
Source: World Bank, PL

India's household savings (rose to 41% over FY16-20)

Interestingly, appropriation towards financial assets from household savings (HFS) has increased from an average of 34% over FY12-15 to 41% over FY16-20. This increase in allocation was in-line with GDP growth during the same time frame.

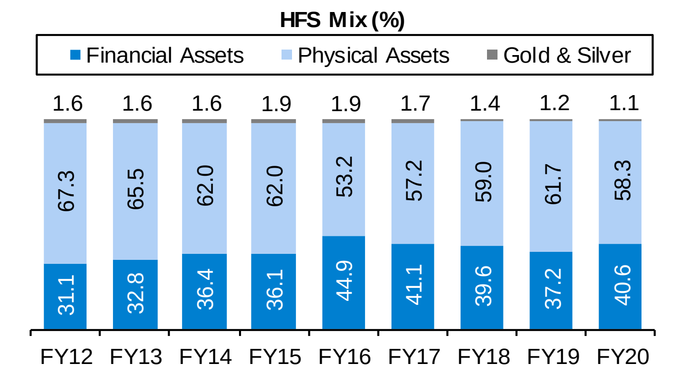
While India's overall household savings (as a % of GDP) has been on a declining trend since FY11-12, bulk of this decline is attributable to fall in physical savings rather than financial savings. Main reason behind this appears to be falling or stagnating returns in real estate and gold, as opposed to higher returns in equity and debt markets.

Exhibit 4: HFS seeing an uptrend since FY16



Source: MOSPI, PL

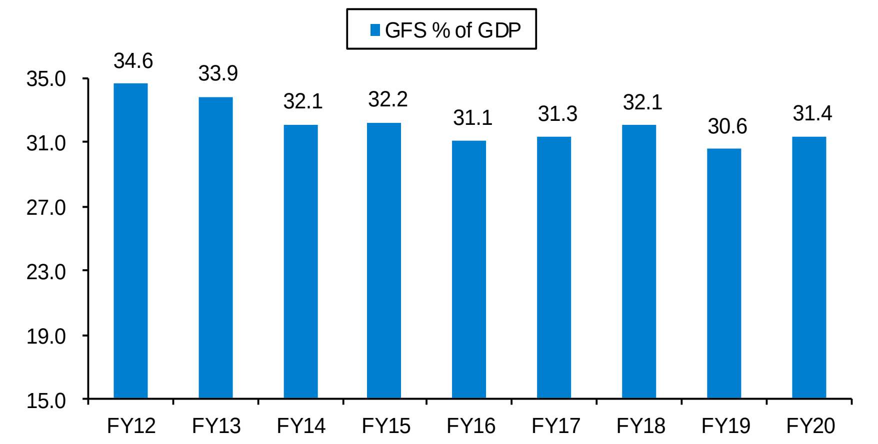
Exhibit 5: Financial assets' share rose from 37% to 41%



Source: MOSPI, PL

As of FY20, gross financial savings (GFS) were about 31% of total household savings, with headroom to grow even further, driven by structural drop in inflation and ongoing formalization of the economy. Within financial assets, share of non-bank deposit instruments is rising.

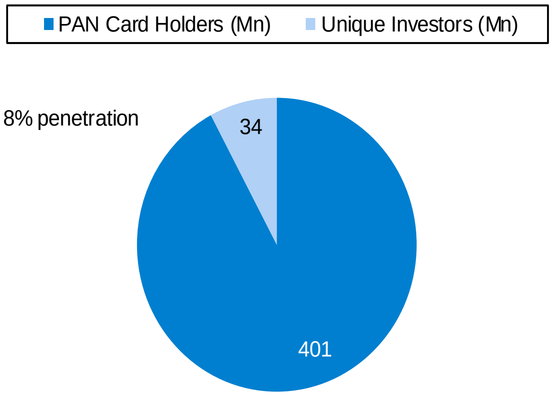
Exhibit 6: GFS between FY16-20 have remained range bound (30-32%)



Source: MOSPI, PL

As at March'22, of the ~1.4bn population, ~435mn held a PAN Card, whereas unique investors in India stood only at 34mn i.e. 8% penetration; signifying immense potential exists for further penetration and growth.

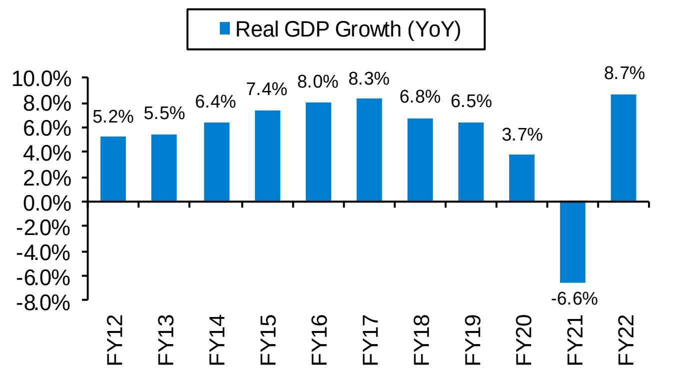
Exhibit 7: Only ~8% of PAN Cardholders invest in MF



Source: HDFCAMC, PL

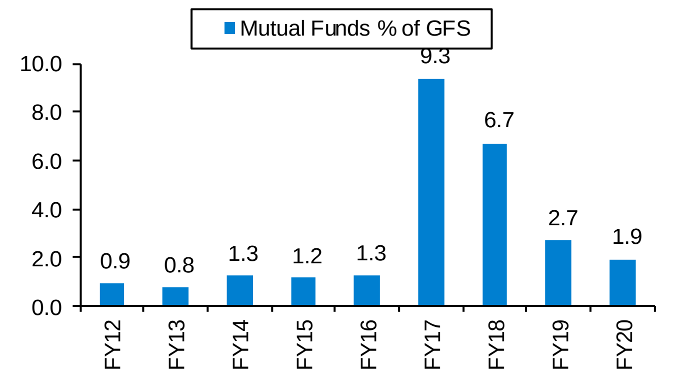
Our analysis suggests that allocation to mutual funds from gross financial savings (GFS) increases with uptrend in GDP. Data below shows, as GDP growth rate consistently rose from 5.2% in FY12 to 8.3% in FY17, India saw spike in contribution of mutual funds from GFS increasing from 0.9% in FY12 to 9.3% in FY17. Hence, with broad based economic recovery likely to sustain, GDP growth should continue to enhance and translate into better mutual fund flows.

Exhibit 8: Real GDP growth bounced back to 8.7% in FY22



Source:CMIE, PL

Exhibit 9: MF share in savings higher in last 4 years

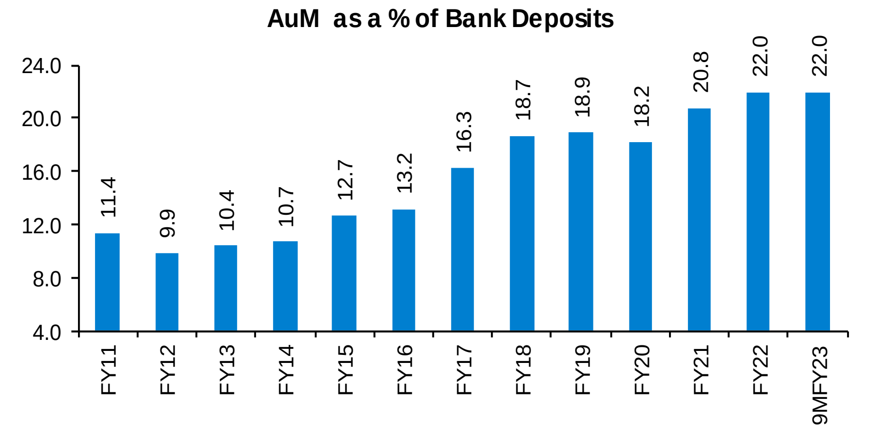


Source: MOSPI, PL

High long-term average growth in mutual funds AuM

MF AuM as a percentage of bank deposits has grown over 10 years i.e. FY12 to FY22 from 10% to 22%. However, India still has tremendous potential for MF AuM growth, since AUM to deposit ratio is significantly lower than global peers. This ratio was 100% for USA, 46% of China and 29% of Japan.

Exhibit 10: MF AUM/SCB deposits increased from 10% to 22% over a decade



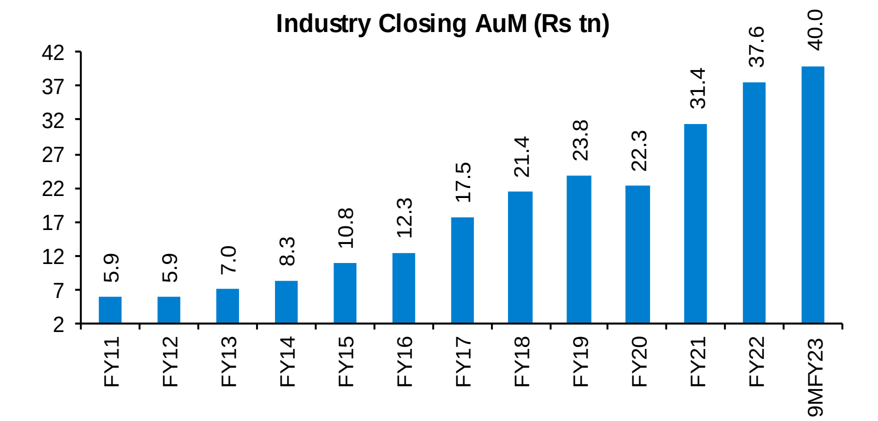
Source: AMFI, RBI, PL. Note: SCB - scheduled commercial banks

The mutual funds industry in India started in 1963 with formation of the first mutual fund, Unit Trust of India (UTI). In the second phase, public sector banks and LIC entered the space and by 1993 end AuM reached Rs470bn. As private players entered by Jan'03, the MF industry reached a size of Rs1.2tn with 33 players which increased to over 40 players with MAAuM of Rs40.6tn as at Dec'22.

Since then, despite being subject to cyclical factors (that is, performance of capital markets in equity segment and interest rate cycle in debt segment), the mutual fund industry has witnessed healthy growth driven by various regulatory measures and investor education initiatives while equity AuM attaining all-time highs in Dec'22.

Even from a more recent starting point (FY11), overall MF AuM growth has been strong. Through the cycle, overall MF AuM saw a 20% CAGR over FY12-22, despite March 2020 seeing a sharp correction in broader markets due to covid.

Exhibit 11: Industry closing AuM (Rs tn) saw a CAGR of 20% over FY12-22



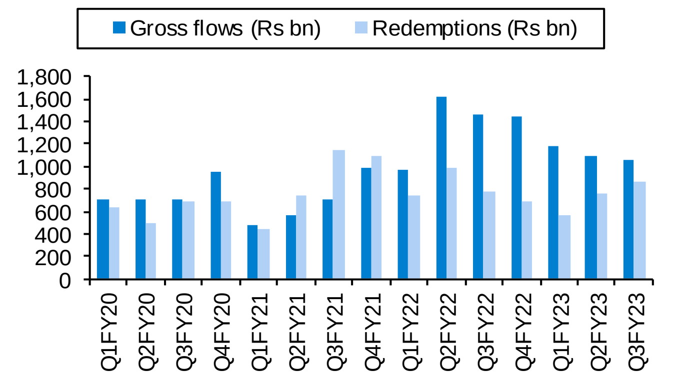
Source: AMFI, PL

Distributor commissions seem to be moderating

We analyzed industry level distributor commission since Q1FY20; data suggests that distributor payouts increased over Q3FY20 to Q4FY22, from 69bps to 86bps which resulted in decline of blended net yields. The reason was, through FY21 payouts increased due to higher redemption pressure while FY22 saw higher payouts since gross equity flows saw a sharp jump and almost doubled over FY21 to FY22 from Rs2.76tn to Rs5.49tn.

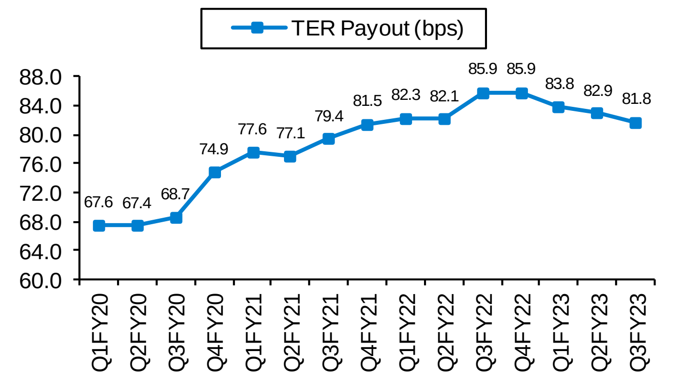
Also, in terms of FY22, money which came in was lower yielding while money that went out (redemptions) was higher yielding; due to sharp jump in gross inflows competition intensified giving distributors higher bargaining power resulting in higher distributor payouts. Hence overall blended yields declined across AMCs. However, commissions seem to be normalizing with **fall in gross equity flows from Rs5.49tn in FY22 to Rs3.32tn in 9MFY23**. Hence, distributor commissions slightly moderated from 86bps in Q4FY22 to 82bps in Q3FY23.

Exhibit 12: Gross flows doubled over FY21 to FY22



Source: Company, PL

Exhibit 13: Distributor pricing gradually moderating



Source: Company, PL

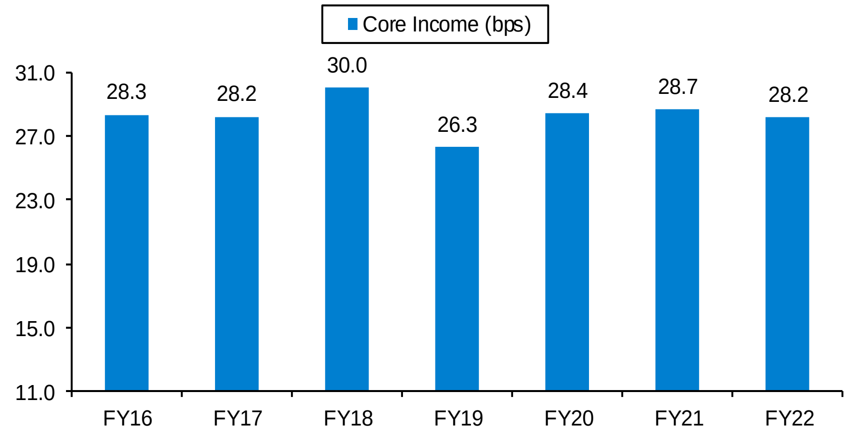
Profitability of industry over last 5 years (FY17-FY22)

MF QAAUM has grown at CAGR of 18% over FY17-22, while equity QAAuM has grown by 24% CAGR over same time frame. On profitability metrics we performed an analyses across top-8 equity mutual funds and consolidated numbers showed that despite strong growth in AuM, revenue has seen a ~6% CAGR over FY17-22. Some factors that have driven a slower revenue growth was a shift from up-front to trail model and higher flows in lower yielding segments - Index, Liquid and ETF.

Core profitability (core income to AAuM) declined over FY18-19 from 30bps to 26bps due to 1) SEBI in Oct'19 announcing reduction in maximum TER that can be charged. This had a negative impact on AMCs that operated large MF schemes (given higher TER cut for higher AuM slabs). 2) strong equity flows in FY18 & FY19 and 3) sharp growth in lower yielding segments of liquid and ETF.

As per our discussions with AMCs, of the TER cut 85-90% has been transferred to distributors. Post FY19, profitability reverted back to normalcy and improved from 26bps to 29bps in FY21. However, FY22 saw a dip in core income to 28bps due to stronger gross equity flows (at lower yields) and sharp growth in ETF segment.

Exhibit 14: Profitability dipped in FY19 due to change in revenue recognition

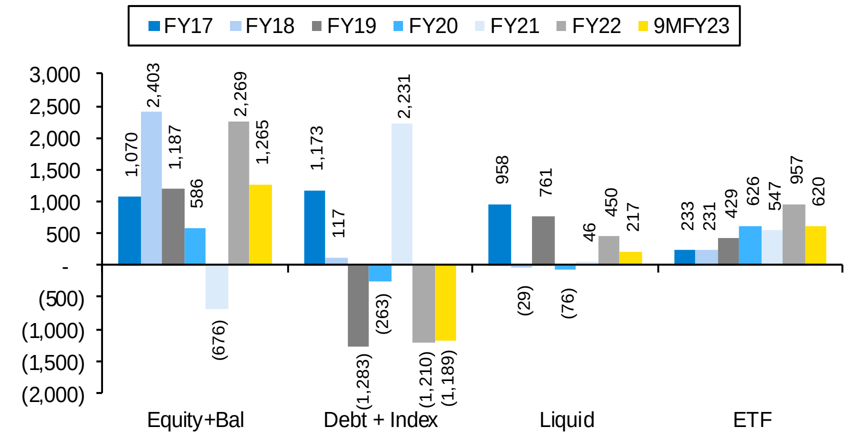


Source: Company, PL

Equity inflows declined in FY21; have now bounced back

Mutual fund flows rose sharply over FY12-20, owing to factors like largely controlled inflation, outperformance of capital markets and measures taken by the government to formalize the economy (e.g. demonetization) leading to financialization of savings – money flowing from real estate and gold to mutual funds.

Exhibit 15: Equity has seen strongest net inflows of >Rs1tn post covid-19

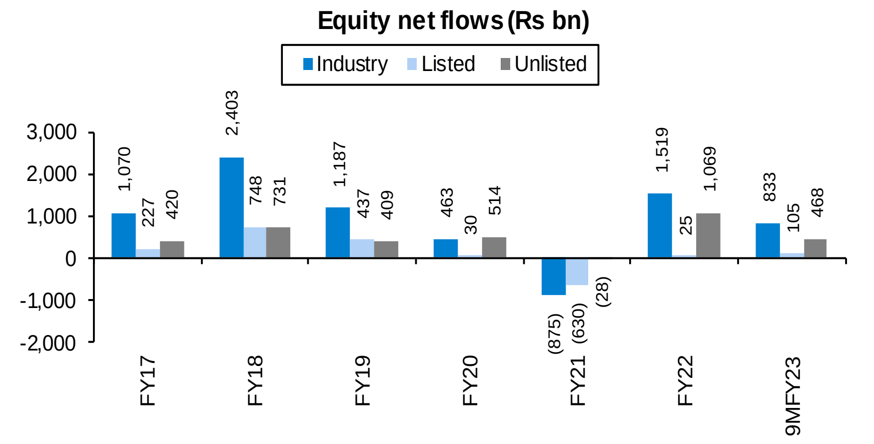


Source: Company, PL

Net equity flows (incl. balanced) have been healthy from FY17-9MFY23 and have witnessed a peak of Rs2300-2400bn in FY18 & FY22. As an asset class, equity has always seen healthier flows as compared to other asset classes.

Due to expectation of likely spike in interest rates, debt saw consistent outflows in FY22 & 9MFY23; however, with rates likely stabilizing in FY24E, debt might see strong inflows like equity. In-line with equity flows, ETF has grown strongly due to which ETF share in industry AuM rose from 3.7% in FY18 to 13.4% in 9MFY23.

Exhibit 16: Unlisted players have contributed materially to net equity flows



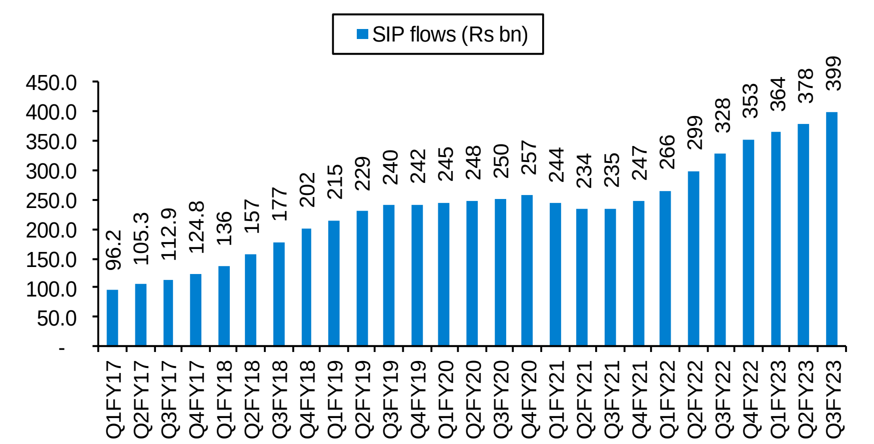
Source: Company, PL

Usually, flows to mutual funds improve during periods of weak equity markets, while redemptions increase during strong equity market performance owing to profit booking. Hence there was a YoY dip in net flows in FY19. However, FY20 was an exception due to Covid, as investors prioritized holding cash over investing. Analysis of data on net equity flows for the industry & top-9 players shows that share of unlisted players has increased post Covid.

Net inflows in equity segment which were healthy at ~Rs2.4tn in FY18, witnessed a decline in FY19 to ~Rs1.2tn. Further, equity + balanced MF flows declined to Rs586bn in FY20 followed by net outflows of Rs675bn in FY21. FY22 saw a strong rebound in equity MF flows to the tune of Rs2.3tn with momentum continuing in 9MFY23. Equity flows (excluding NFO) rebounded from net outflows of Rs875bn in FY21 to net inflows of Rs152bn in FY22.

SIP inflows witnessed an improving trend over FY17-20 with a blip at the start of FY21. SIP inflows improved from Rs439bn in FY17 to over Rs1,246bn in FY22 (9MFY23 – Rs1,142bn). Notably, Apr'20 onwards, SIP flows declined to Rs961bn in FY21 due to likely earnings impact of Covid lockdown. Given ease of transacting using technology, increasing appetite of retail investors, and low ticket size, SIP flows will continue to grow.

Exhibit 17: Industry SIP flows (Rs.bn) which dipped in FY21 have rebounded



Source: AMFI, PL

Threat from other equity products like PMS/AIF

Non-discretionary PMS AuM has grown at 16% CAGR from FY17-22, slightly lower than MF AuM (18% CAGR with a much higher base), indicating better demand for managed services. Number of PMS managers have increased to 150+, while client base is more than 1.3 lakhs.

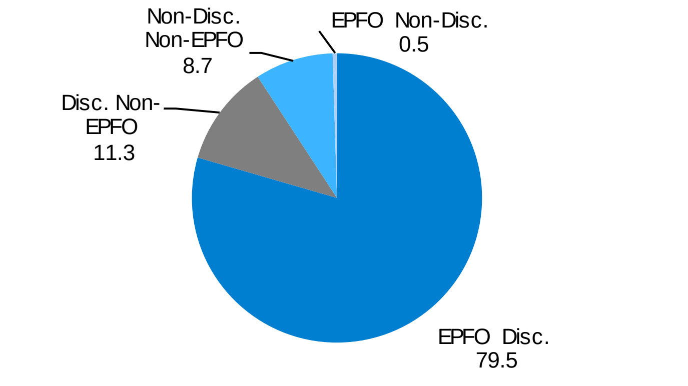
PMS schemes have garnered attention mainly from the HNI segment, due to high ticket size requirement for minimum investment (Rs5mn), while MF have minimum investment of Rs500 which enables MFs to cater to the mass segment.

While share of alternatives in MF portfolio has gone up over the years, its share remains miniscule. Our interactions with AMCs suggest that there have been mixed views towards alternative products. MF have witnessed migration of clients from MF schemes to PMS and vice versa.

History suggests that MF has been a preferred investment vehicle for the public compared to PMS. PMS as a product was launched in 1993 while MF AuM grew from ~Rs470bn in 1993 to Rs40.6tn in Dec'22. However, overall discretionary non-EPFO money totals to Rs2.8tn as at Dec'22 implying total PMS money is only 7% of overall MF AuM.

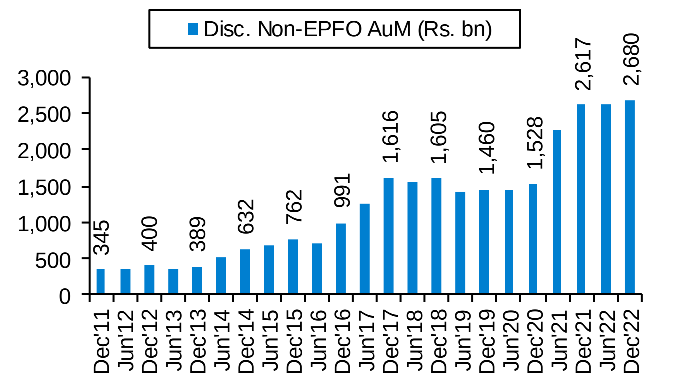
Hence, PMS/AIF would not pose a threat to the AMC industry as mutual funds would continue to be mass product due to lower ticket size, deeper penetration and easy accessibility.

Exhibit 18: Disc. PMS Non-EPFO AuM size at Rs.2.8tn



Source: AMFI, PL

Exhibit 19: Disc. Non-EPFO AuM has grown steadily



Source: AMFI, PL

Indian MF Industry profile

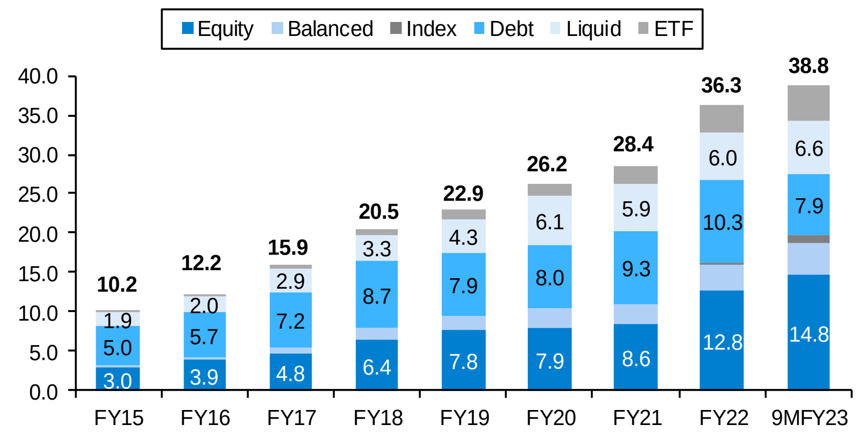
Growth softened in FY21, but FY22 sees sharp recovery

Over FY15-22, industry QAAuM saw 20% CAGR from Rs10.2tn to Rs36.3tn, while equity QAAuM (incl. balanced) grew at a faster pace (26%) from Rs3.2tn to Rs16tn. Trends we have observed are:

- ETF has grown with geometric progression with share rising from 1.6% in FY15 to 12.0% in Q3FY23.
- Balanced has been witnessing strong traction, resulting in its share enhancing from 2.1% in FY15 to 10% in Q3FY23. Index as a segment is also picking up with its share improving from 0.3% in FY20 to 2.9% in 9MFY23.

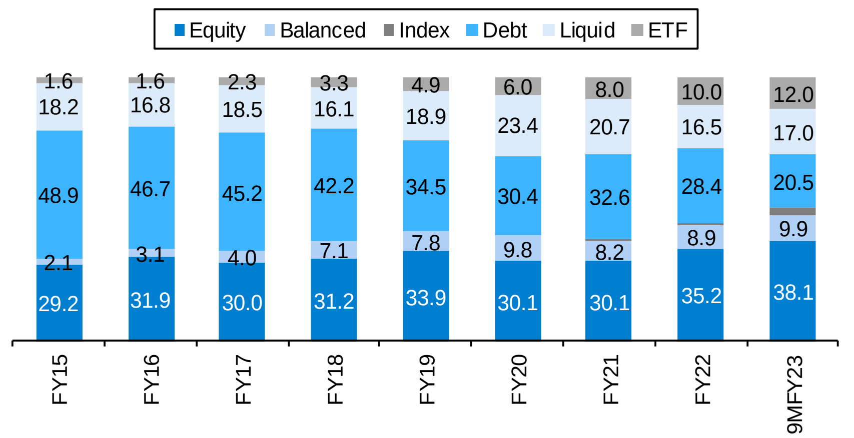
Share of debt decreased sharply from Q4FY21 till date from 32.6% to 20.5% driven by significant outflows, strong equity growth, dramatic increase in segments of ETF and balanced. However, debt share is expected to rise once inflation is controlled and systemic interest rates stabilize.

Exhibit 20: Equity QAAuM (Rs bn) saw a 23% CAGR over FY15-22



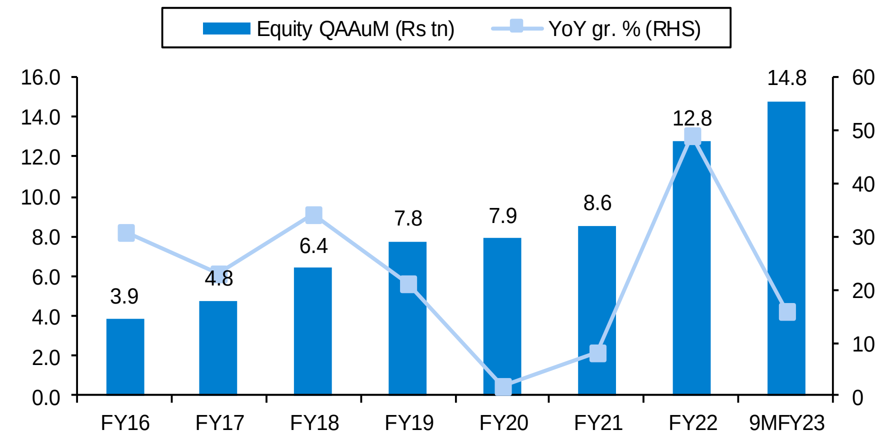
Source: AMFI, PL. Note: Total QAAuM shown at the top of bar

Exhibit 21: Equity share (%) rose due to solid equity markets & debt outflows



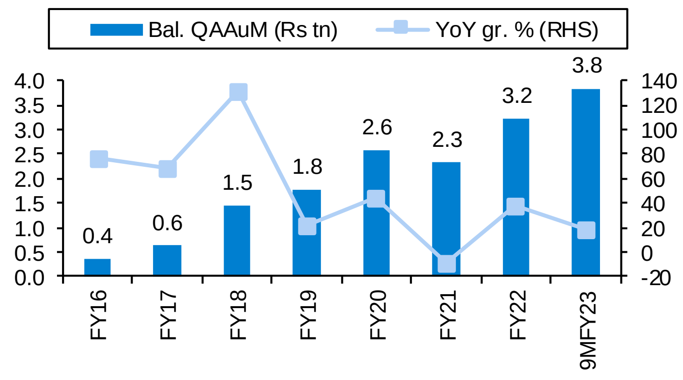
Source: AMFI, PL

Exhibit 22: Equity QAAuM rebounds strongly post correction in Mar'20



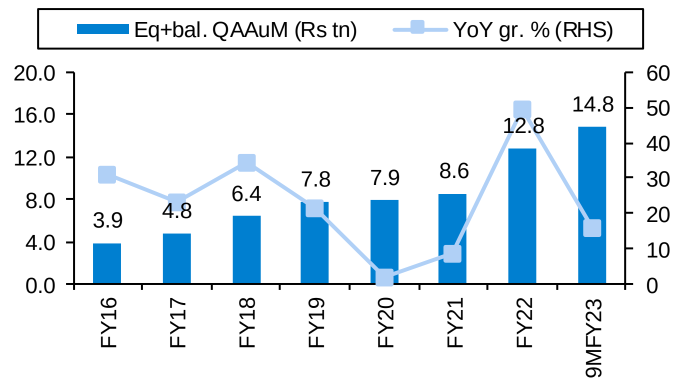
Source: AMFI, PL

Exhibit 23: Balanced AuM grew 10x till date



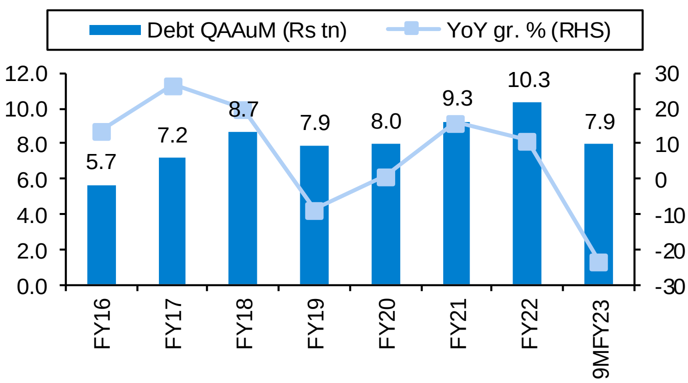
Source: AMFI, PL

Exhibit 24: Sharp spike in FY22 led by markets and flows



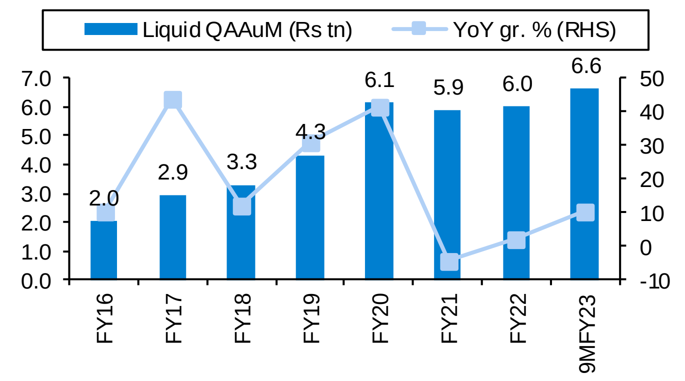
Source: AMFI, PL

Exhibit 25: Debt AuM has been fairly volatile



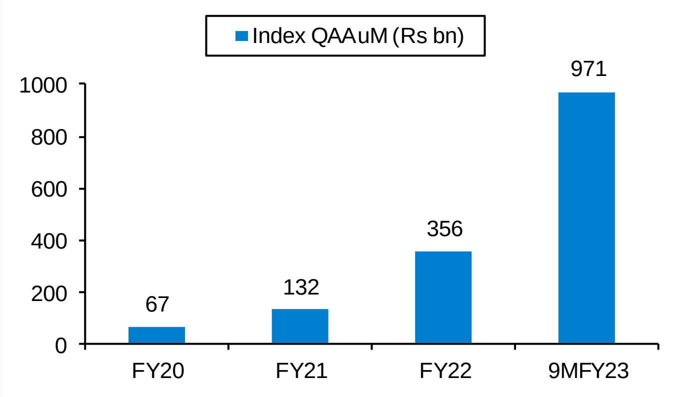
Source: AMFI, PL

Exhibit 26: Liquid AuM has seen steady rise



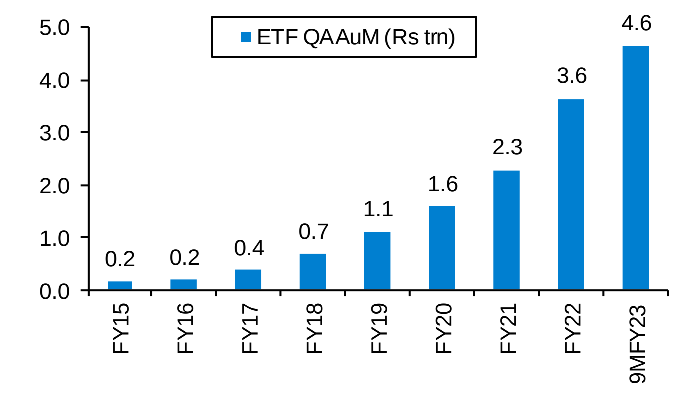
Source: AMFI, PL

Exhibit 27: Index AuM share rose from 0.3% to 2.3%



Source: AMFI, PL

Exhibit 28: ETF AuM contributing materially now



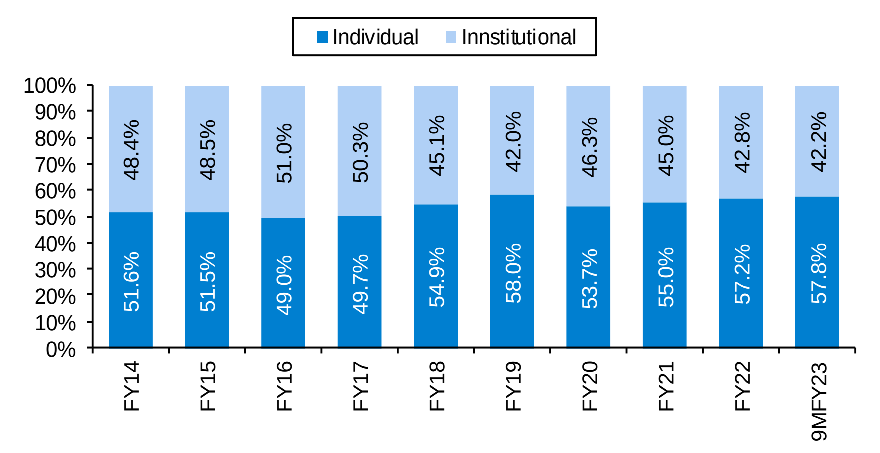
Source: AMFI, PL

Investor profile of the industry

Individual investor AuM share has increased from 51.6% in FY14 to 57.8% in 9MFY23, while share of institutional investors in industry assets has gradually declined from 48.4% to 42.2% over the same time frame. Individual investor AuM share also surged owing to low retail penetration in financial markets and equity.

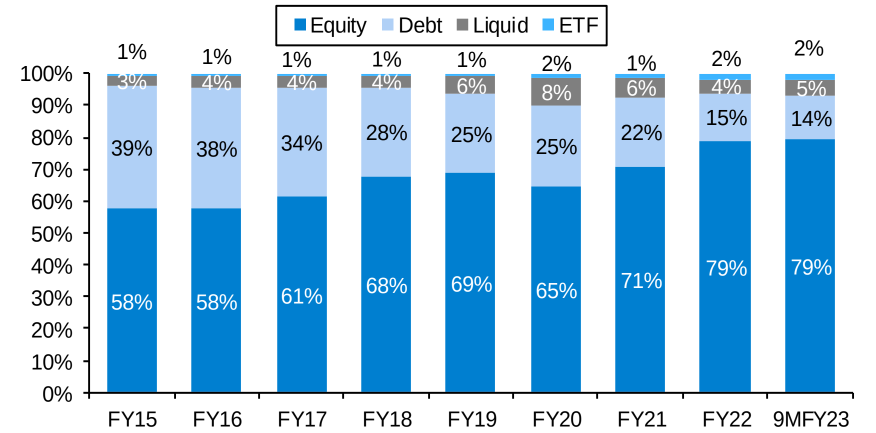
Industry witnessed faster growth in the recent past, with 20% QAAuM CAGR over FY15-22, driven by greater participation from individual investors due to greater awareness of capital markets. The rising preference of retail investors for investing in equity schemes augurs well in terms of overall yields.

Exhibit 29: Institutional share in AuM has steadily softened over FY14-FY22



Source: AMFI, PL

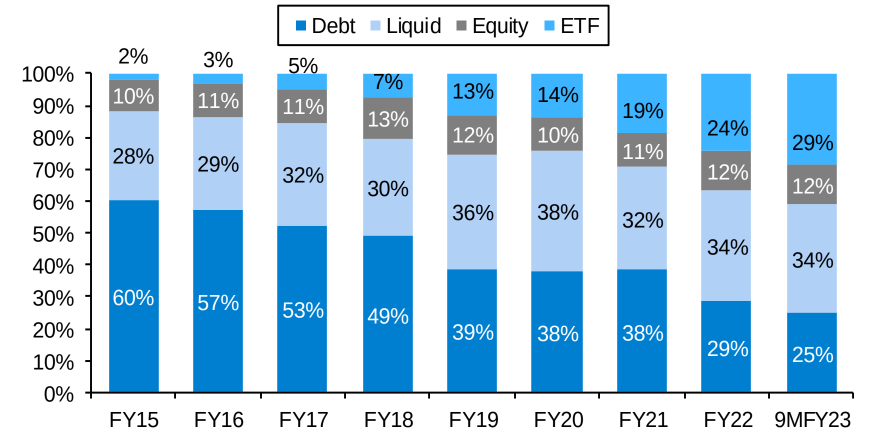
Exhibit 30: Individual investors' allocation (%) to equity is increasing



Source: AMFI, PL

AuM flows from individual investors have witnessed fastest growth among investor categories. The recent surge in individual investors' participation in mutual funds indicates growing preference for equity-oriented funds.

Exhibit 31: Institutional investors' allocation (%) to liquid and ETF rising



Source: AMFI, PL

Institutional investor AuM has witnessed a general slowdown in allocation to debt funds, while exhibiting growth in the liquid & other funds categories. The surge in ETF share from 2% in FY15 to 29% in 9MFY23 indicates higher institutional allocation towards ETF due to sharp flow of EPFO money. ETF share may grow at a faster pace compared to other segments, as seen in the recent past.

Industry product distribution

Direct investments gaining ground, boosted by online channel

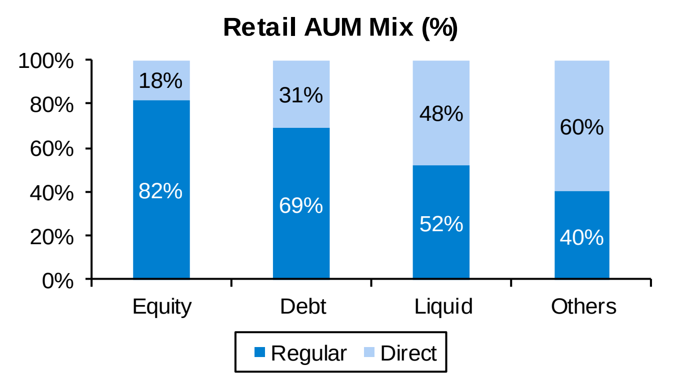
There are four main distribution channels for mutual funds as listed below:

- Banks
- National distributors
- Independent Financial Advisors
- Other empaneled distributors

Given their deep distribution network and retail clientele, banks form an important channel for distribution of mutual funds.

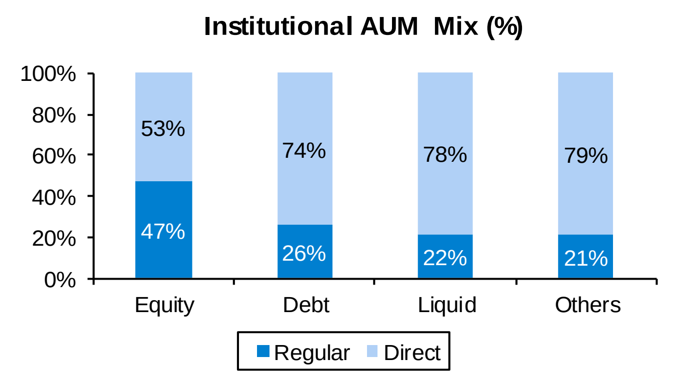
In 2012, SEBI mandated AMCs to provide a separate plan for direct investments (direct plans), i.e. investments not routed through a distributor. These plans were mandated to have a lower expense ratio excluding distribution expenses, commission, etc. Share of direct plans have been consistently rising in overall MAAuM. AMCs started offering direct plans since 2013 and institutional investors were quick to accept this route.

Exhibit 32: Retail equity dominated by distributors



Source: AMFI, PL

Exhibit 33: Institutional segment relying on direct channel

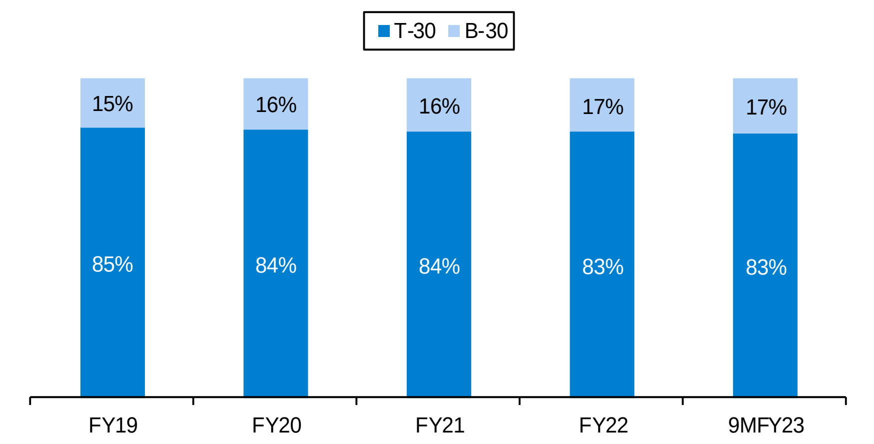


Source: AMFI, PL

Moreover, the share of direct plans has risen to 45% from 35% of the industry AuM over FY'14 to Oct'22. The integration of user interface through online channels has provided an additional push for growth in direct plan assets.

Continued focus on increasing penetration beyond major cities

Exhibit 34: B-30 share is increased from 15% in FY19 to 17% in 9MFY23

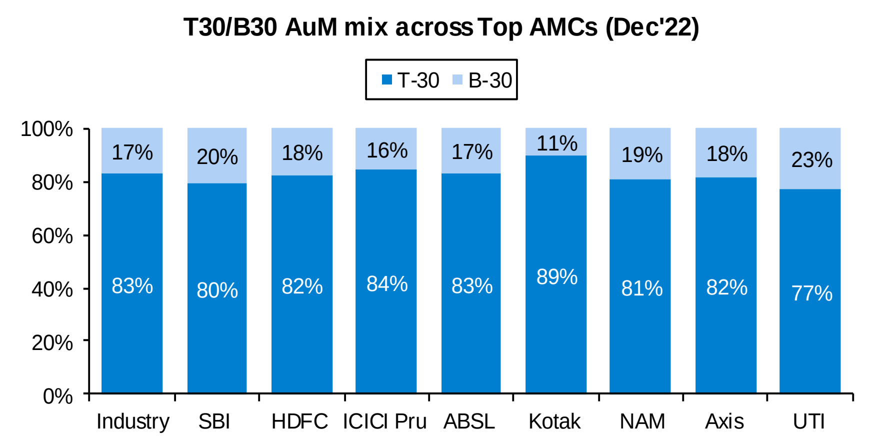


Source: AMFI, PL

In mutual fund industry, top 30 (T-30) cities account for ~83% of AuM as at Dec'22. Though T-30 cities have a major share in AuM, expanding in smaller cities is the likely way forward for supporting business; share of B-30 (beyond top 30) cities has increased from 15% in FY19 to ~17% in Dec'22. This rise is attributable to increasing penetration led by improvement in technology and access to data.

Higher B-30 share is associated with more stickiness and granular diversified book, as the ticket size is usually lower. UTI AMC is among the top 5 players in B-30, with contribution at 23%, which is higher than industry average. SBI MF (20.5%) is another strong player in B-30 space followed by NAM (18.2%) and Axis (17.9%).

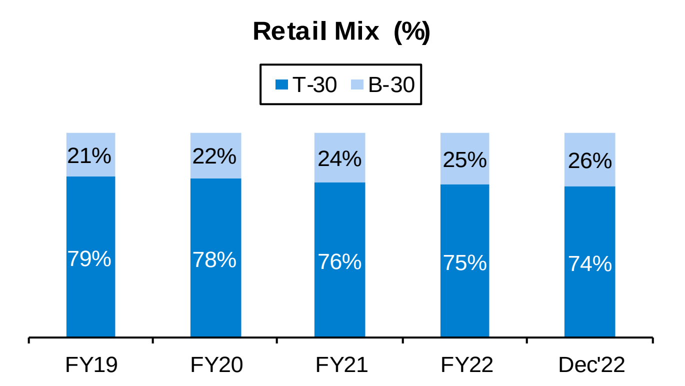
Exhibit 35: UTI's B30 share highest, Kotak's AuM dominated by T30



Source: Company, PL

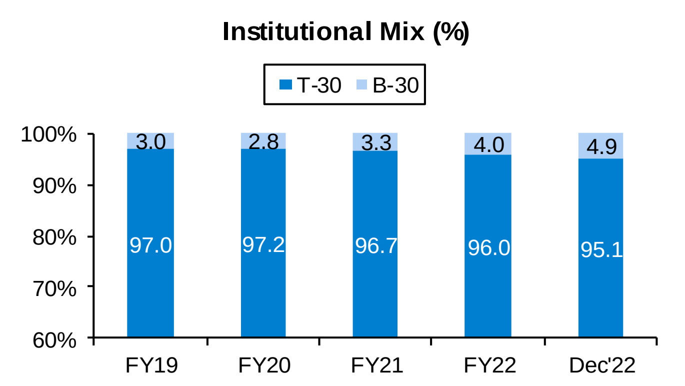
Incremental retail participation in MF industry is increasing from B30 cities, as share of B30 cities has risen from 21% in FY19 to 26% in Dec'22. Buoyant equity markets have attracted investors from B30 cities, which resulted in steep increase of equity share from 62% in FY21 to 79% in Dec'22. On the other hand, institutional penetration in B30 has been low at 5% in Dec'22.

Exhibit 36: Retail investor penetration increasing in B30



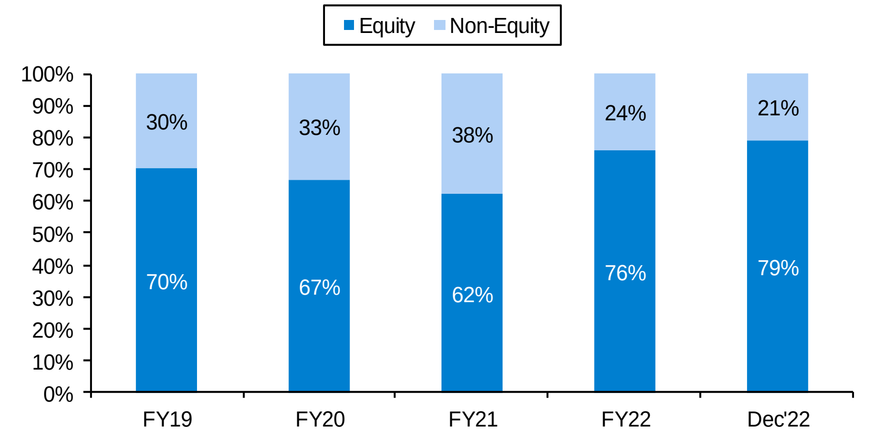
Source: AMFI, PL

Exhibit 37: Institutional dominated by larger cities



Source: AMFI, PL

Exhibit 38: Equity forms majority share (~79%) in B30



Source: AMFI, PL

Asset Management business model to remain sustainable

AMC industry in India has existed for a long time. However, it was only after enactment of mutual fund regulations by SEBI in 1996 that the industry witnessed healthy growth for over two decades. Profitability of this industry is an outcome of 1) AuM mix, 2) net inflows and 3) asset pricing (also a function distributor commissions).

We believe that inflows for next 5-7 years are likely to be reasonable led by 1) rising preference for financial assets within household savings, 2) improving risk appetite of consumers, 3) greater access to information and 4) increasing reach of AMCs in smaller cities and towns. Though, rising AuM and regulator's efforts to lower cost for customers is bringing down total expense ratios for the industry, which is a risk. However, AuM growth with favorable mix and continued focus on improving operational efficiency makes a case for industry's sustained earnings growth.

Industry to be dominated by top AMCs; consolidation may continue

Mutual fund industry continues to be concentrated: As of Dec-22, number of active AMCs were 40+, while AuM share of Top-5 and Top-8 fund houses was 55.4% and 74.6% respectively (basis QAAuM).

Exhibit 39: Market share of Top-8 Fund Houses (basis Q3FY23 QAAuM)

Mutual Fund	AuM (Rs Bn)	Market Share	Equity AuM	Market Share
Industry	40,061	-	19,762	-
SBI	7,113	17.8%	2,489	12.6%
ICICI Pru	4,890	12.2%	2,434	12.3%
HDFC	4,437	11.1%	2,269	11.5%
Nippon Life	2,928	7.3%	1,193	6.0%
Aditya Birla	2,811	7.0%	1,145	5.8%
Axis	2,459	6.1%	1,559	7.9%
Kotak Mahindra	2,836	7.1%	1,230	6.2%
UTI	2,407	6.0%	800	4.0%

Source: Company, PL

India's top 8 funds contributed ~71.4% to industry AuM in FY16, which increased to 74.6% in Q3FY23 (QAAuM), showing that scale is crucial to thrive in the industry. While industry has seen an increase in mutual fund players, it has also undergone consolidation. There has been fair amount of M&A over last 8-9 years, with profits skewed in favor of larger fund houses. Most deals have been by way of acquisitions, where entities bought out entire stake in other AMCs.

There have also been number of exits by foreign players, whose stakes were bought out by domestic companies looking to increase their market share inorganically. With some small loss-making entities still present, consolidation will likely continue in the mutual fund industry.

The Indian AMC industry continues to be dominated by domestic players. Many domestic AMCs are associated with banks (top-3 AMCs are bank backed), but some domestic business houses have also been able to capitalize on their brands that were built in other fields of business.

Recent Regulatory Changes

Following are key regulatory changes made by SEBI in the recent past:

- **Phase out of upfront commission:** SEBI banned payment of upfront commissions to distributors, with effect from Oct-18. Also, SEBI notified that all commissions and expenses are to be expensed from the MF scheme P&L alone and not through any other route (AMC/Trustee P&Ls – a common industry practice). AMCs generally paid out upfront commissions through the P&L of AMC, while trail commissions were paid out through respective schemes. Banning of upfront commissions and adoption of a full-trail model has led to decline in topline yields of AMCs, but they have also been accompanied by a commensurate decrease in opex.

- **Total expense ratio (TER) reduction:** In Oct-18, SEBI announced reduction in the maximum TER that can be charged to mutual fund schemes. This largely had a negative impact on AMCs, which operate large MF schemes (given higher TER cut for higher AuM slabs). However, majority of this TER cut has been transferred to distributors. As per our discussions with AMCs, of the TER cut, 85-90% has been transferred to distributors.

We believe that regulatory changes highlighted above are positive from an MF investor standpoint, as they reduce costs for retail MF investors and also improve transparency which could boost investor flows. From AMC standpoint, reduction in TER would be negative as it impacts yields unless passed on to customers. Hence would watch out for any announcements in this regard.

Companies

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

December 20, 2022

Company Report

HDFC Asset Management Company (HDFCAMC IN)

Rating: BUY | CMP: Rs1,797 | TP: Rs2,100

Regaining lost sheen

We initiate coverage on HDFCAMC with a 'BUY' rating given 1) its consistent equity outperformance translating to improved net flows and in-turn market share gain to 11.5% 2) post-merger, HDFCAMC could grab more market share, as currently it accounts for only 25% of gross MF sales by HDFCB (peers are at 70-100%) 3) strong growth prospects of AMC space (over medium term likely AuM CAGR of 13-15%) which could benefit HDFC AMC being the 3rd largest player having a strong pedigree, 4) robust retail franchise (share in unique investor base higher at ~17%) and 5) class leading efficiency with operating yields at 35bps. Valuation is attractive at 22.5x FY25E core EPS. We assign a multiple of 27x to arrive at a TP of Rs2100. Initiate BUY.

- **Better performance leading to market share gains:** Our analysis across Top-10 mutual funds' weighted average performance (WAP) suggests that WAP for HDFCAMC in 1-yr bucket has dramatically improved since Feb'21; besides, May-21 onwards HDFCAMC has consistently featured in Top-3 MFs. Performance in 3-yr bucket has also been enhancing. Better performance is translating into improved net equity flows. While company saw outflows in FY21 and FY22, better net flows are contributing to market share gains (-7% in FY22 to 7.1% in 9MFY23). Hence equity QAAuM market share that was consistently falling, improved QoQ from 11.29% to 11.48% in Q3FY23.

- **HDFC merger to boost sales aided by strong distribution:** Due to early mover advantage and its robust brand, HDFCAMC built a strong distribution network. However, owing to its open architecture, HDFCAMC only accounts for 25% of gross MF inflows by HDFCB, while SBIMF/ICICI Pru MF contribute 98%/71% in MF sales done by SBI/ICICIB. Post HDFC merger this ratio should improve as HDFCB would have access more customers and bank intends to be aggressive in selling MF products. Our analysis suggests that a 10% rise of HDFCAMC share in sales of HDFCB could lead to a 4%/5% increase in AAuM and core profits. HDFCB share in overall/equity distribution is 5.8%/8.4%.

- **Strong retail franchise and improvement in SIP share:** While HDFCAMC commands 11.2%/11.7% market share in overall/equity MAAuM as at Dec'22, its share in unique investor base is higher at ~17% indicating strong retail presence also attributable to customer trust in HDFC brand (owing to its strong parentage). Its individual share at 66% is also higher, compared to industry (58%) and peers like ICICI Pru MF (61%) and SBI MF (42%). SIP share is also improving with performance leading to rise in market share over last 4 quarters from 10.0% to 11.6%. The company has been investing heavily in promoting SIP through better engagement with distributors and partners.

- **Superior operational efficiency:** Achieving considerable scale, generating better yields led by higher equity but minimal ETF share and focused cost control, has led to class leading profitability with operating profit to AAuM at 35bps (FY22). Cost ratios are superior with opex to AuM at 13bps in FY22. We expect HDFCAMC to maintain its strong core profitability at 35-36bps over FY23-25E, as equity would remain the largest contributor to AuM and Indian AMC space is slated to grow at a 13-15% CAGR over the medium term.

Key Financials - Standalone

Y/e Mar	2022	2023E	2024E	2025E
Revenue (Rs m)	21,154	22,021	23,661	25,768
Opex	5,779	6,269	6,525	7,109
Employee	3,122	3,208	3,536	3,864
Others	2,657	3,062	2,989	3,245
Core Inc. (Rs m)	15,375	15,752	17,136	18,659
PAT (Rs mn)	13,931	14,097	15,277	16,603
Core PAT (Rs m)	11,545	11,782	12,818	13,957
Core EPS (Rs.)	65.3	66.1	71.6	77.8
Gr. (%)	*4.9*	*1.2*	*8.4*	*8.7*
AAuM (Rs bn)	4,332	4,356	4,775	5,313
Gr. (%)	*12.8*	*0.6*	*9.6*	*11.3*
RoAAuM (bps)*	26.7	27.0	26.8	26.3
RoE (%)*	27.6	25.8	26.8	28.0
P/Core EPS (x)	38.7	28.5	24.9	22.5

**Core*

Key Data	HDFA.BO | HDFCAMC IN
52-W High / Low	Rs. 2,480 / Rs. 1,690
Sensex / Nifty	60,224 / 17,711
Market Cap	Rs. 4,680.4bn/ $ 4.7m
Shares Outstanding	213.4m
3M Avg. Daily Value	Rs. 666.7m

Shareholding Pattern (%)

Promoter's	62.78
Foreign	12.09
Domestic Institution	13.40
Public & Others	11.73
Promoter Pledge (Rs bn)	–

Stock Performance (%)

	1M	6M	12M
Absolute	-6.0	-11.1	-14.5
Relative	-5.3	-10.9	25.5

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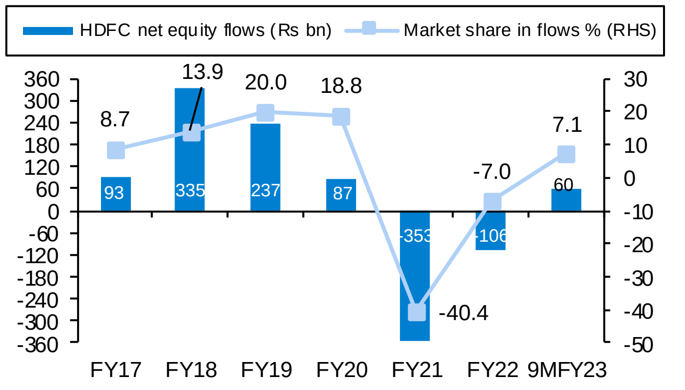
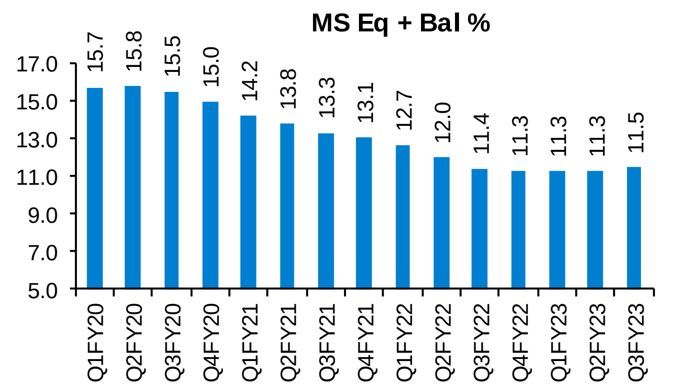
Story in charts

Exhibit 40: Good equity performance leading to better flows



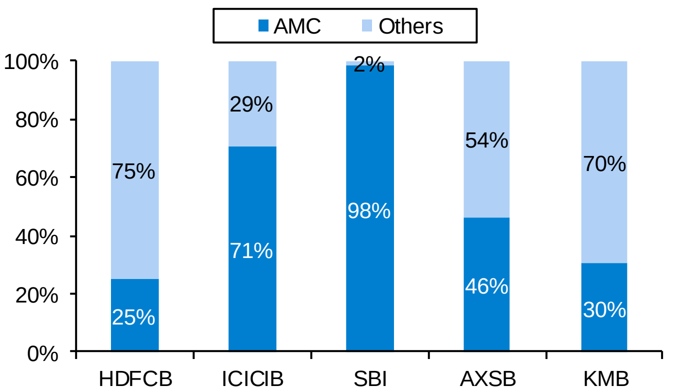
Source: Company, PL

Exhibit 41: …translating to improved equity market share



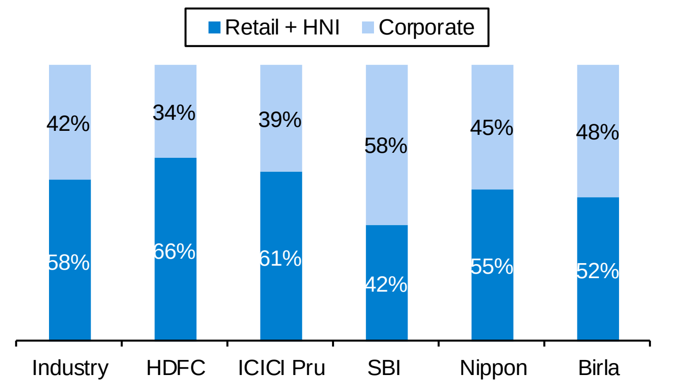
Source: Company, PL. MS – Market Share

Exhibit 42: Merger to boost HDFCAMC inflows by HDFCB



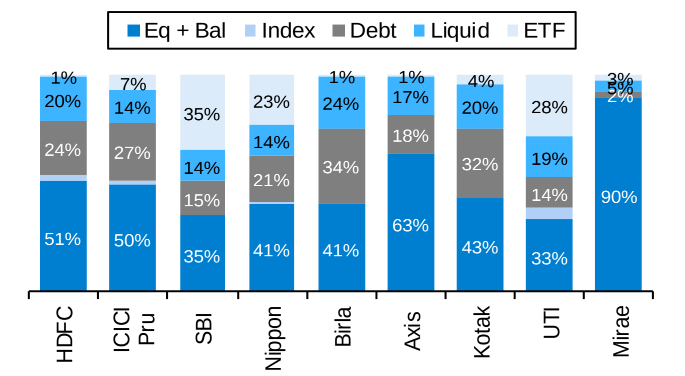
Source: Company, PL

Exhibit 43: Superior retail mix compared to peers



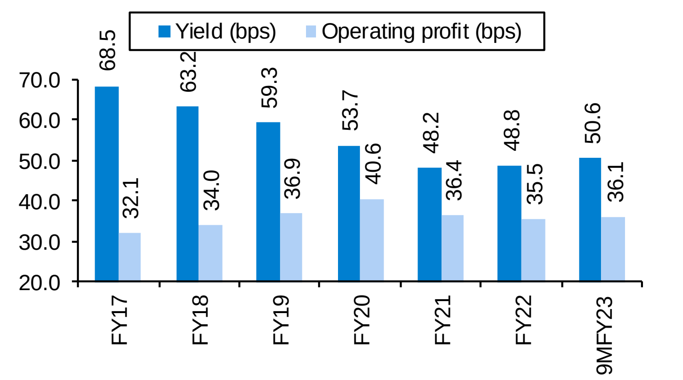
Source: Company, PL

Exhibit 44: Higher/lower equity/ETF share at 51%/1.3%



Source: Company, PL

Exhibit 45: …resulting in class leading profitability



Source: Company, PL

A strong franchise

HDFC Asset Management Company Limited (HDFCAMC) was incorporated in Mumbai on 10th Dec'99. HDFC Ltd. and Aberdeen Investment Management Ltd. are promoters who own 52.6% and 10.2% (Dec'22) respectively. The company has more than 75,000 empaneled distribution partners through 228 branches spread across more than 200 cities in India.

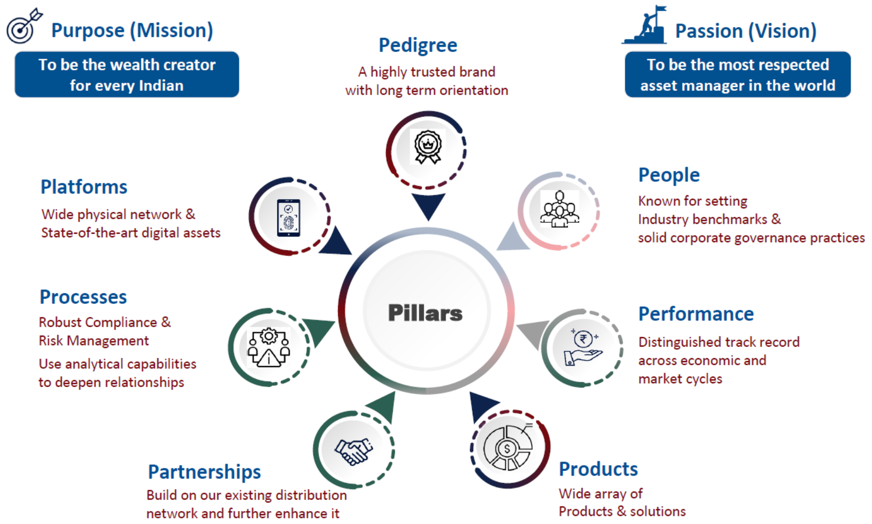
It is currently India's 3rd largest mutual fund and one of the most profitable AMC with actively managed equity mutual funds of Rs1.56tn, representing market share of ~10% as on 31st Dec'22. Company has expanded its product suite to provide PMS and separately managed account (SMA) services to (HNIs), family offices, domestic corporates, trusts, provident funds, and domestic and global institutions.

Exhibit 46: Leader on multiple key parameters

Distribution and Brand presence	• Presence in 99% of India's pincode through, >200 branches, investor service centres and modern digital platforms • Merger of parent with HDFC Bank to open up further penetration & cross selling, enhancing distribution and brand presence
Equity AAuM	• Share of equity in AAuM has grown from 45.4% in Q1FY20 to 51.1% in Q3FY23 and has grown at CAGR of ~16% from Dec'19-Dec'22. • At 51% share of equity in AAuM is amongst highest in the space.
Retail strength	• Company has 9.9mn live acconts as on March 31, 2022, predominantly comprising of individual (retail) unitholders • Share of retail (incl. HNI) in the overall AUM was 66% • Market share in assets from individual investors was 12.5%
Superior profitability	• Class leading profitability with core income at 35bps (FY22), driven by higher equity share and controlled opex. • Given industry growth potential, strong distribution and industry-leading profitability, we see premium valuation multiples sustaining.

Source: Company, PL

Exhibit 47: Strong pedigree and processes driving growth



Source: Company, PL

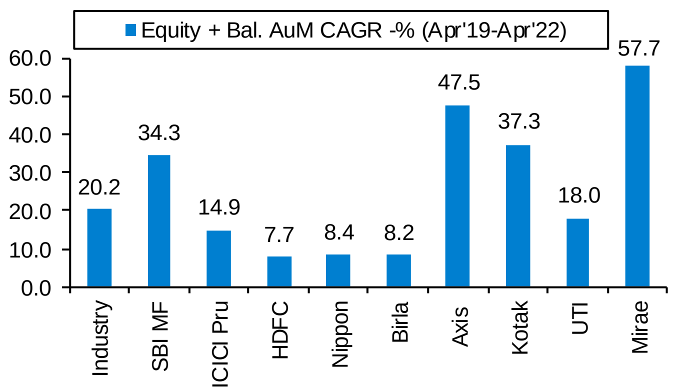
Key Investment Arguments

Market share improving due to better equity performance

Over Q2FY20-Q4FY22, HDFCAMC saw a consistent fall in equity QAAuM (incl. balanced) market share from 15.8% to 11.3%. The main reasons for loss were:

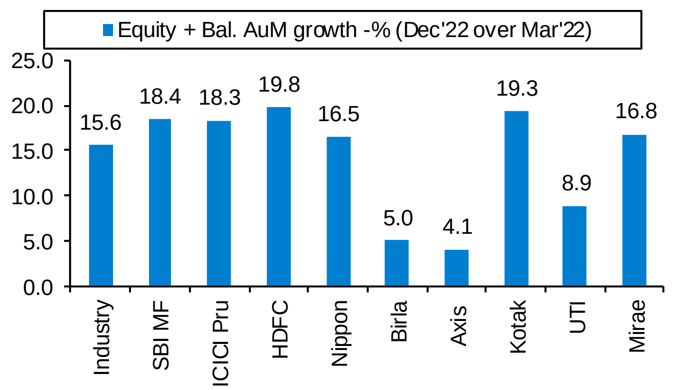
- HDFCAMC had a larger market share in 2017-18. However, once Covid hit, performance slipped in FY19 and H1FY20, then inflows post H1FY20 were substantial through indirect route towards other AMCs.
- SBI became one of the largest distributors accounting for 6-7% of system, while ICICI and Axis together accounted for 6-7%. Hence 12-14% of system was exclusively reserved for SBI, ICICI and Axis. While MF sales through SBI are 98% into SBIMF, they are 75-80% for Axis Bank and ICICI Bank into Axis MF and ICICI Pru MF. MF sales through HDFCB into HDFCAMC account for 25%, plus HDFCB was not very aggressive to sell MF as a product.
- HDFCAMC did not initially participate in sectoral and thematic funds which now have a size of Rs1.7tn (8.5% share in industry equity+bal.), while HDFCAMC market share in the same is 3%. Company believed that customers are not matured enough to invest in such funds, as historically it has been proven that money flows into a sector that has already done well.

Exhibit 48: Weak equity growth for HDFC AMC vs industry



Source: Company, PL

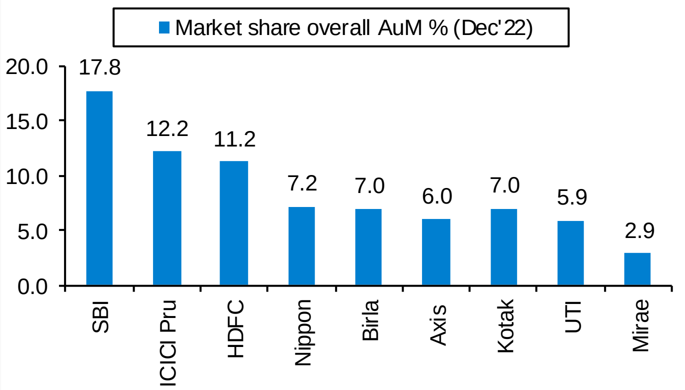
Exhibit 49: HDFC AMC outperforming industry



Source: Company, PL

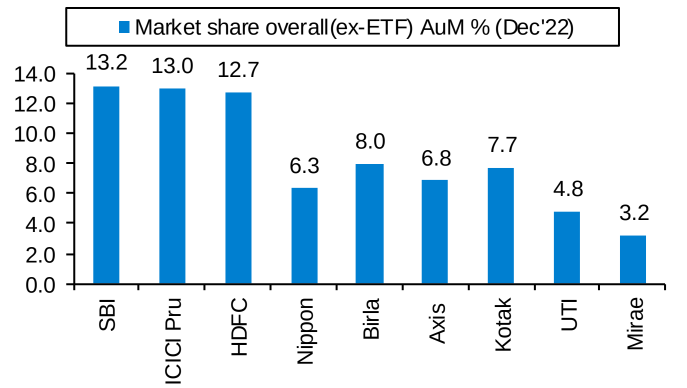
MAAuM market share data shows that, listed AMCs lost significant market share compared to non-listed ones. Over Dec'19 to Dec'22 industry's equity + balanced MAAuM grew at a CAGR of 22.5%. Over the same time frame **SBI MF gained share from 9.3% to 12.6%** followed by Axis MF, Kotak MF and Mirae MF who gained significant market share from ABSL AMC, HDFCAMC, Nippon and UTI AMC because non-listed AMCs grew at a much faster pace compared to listed ones.

Exhibit 50: HDFC is 3rd largest player basis overall AuM



Source: Company, PL

Exhibit 51: ...ex-ETF also it remains 3rd largest



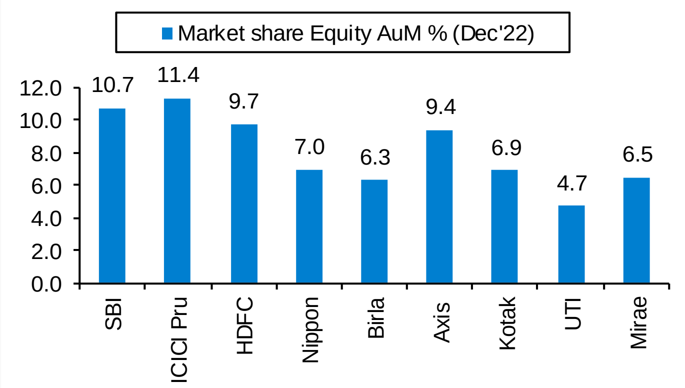
Source: Company, PL

A minor positive outcome for HDFC AMC during the phase of market share loss was that gross redemption was constant (did not increase). Gross flow share that had reduced to 20% of normal run-rate is now improving, owing to better returns and has reached 60%. Driven by a combination of superior performance and market share gains in net flows, **overall market share in equity+bal basis QAAuM has increased at 11.28% in Q4FY22 to 11.48%% in Q3FY23.**

As rank in terms of performance to benchmark keeps on further improving in 3-yr bucket, net flows should improve more translating to better overall MS. Distribution through HDFC Bank is expected to increase over the medium term especially post-merger, as there would be higher value alignment and **share of HDFC Bank could rise from 25% to 35-40%.**

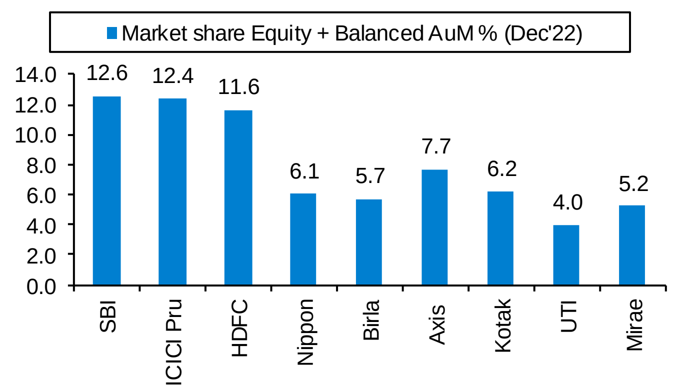
On sectoral/thematic funds, management did feel the need to increase presence, but fund launches are decided by the investment team. Hence BFSI fund was launched in FY22 and 3-4 more thematic funds are in pipeline.

Exhibit 52: Market share in equity AuM at 9.7%



Source: Company, PL

Exhibit 53: Incl. balanced too maintains 3rd position



Source: Company, PL

Improvement in equity performance

Our analysis of weighted average performance (WAP) to the benchmark across Top-10 mutual funds in terms of equity AuM size suggests that HDFCAMC's WAP in 1-yr bucket was weak until Nov'20. Between Dec-19 to Nov-20, HDFCAMC lagged for being worst performing mutual fund in the 1-yr bucket at Rank-10. However, its performance drastically improved since Feb'21 with an improvement to Rank-2. Further HDFCAMC featured in Top-3 along with Nippon MF between Sep-21 to Dec-22.

Exhibit 54: 1-year weighted average equity performance to benchmark improving since Dec'20

Name	Jun'19	Sep'19	Dec'19	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22	Jun'22	Sep'22	Dec'22
ICICI	-0.2	-2.2	-1.4	-0.7	-0.3	-1.1	-1.0	-0.9	-1.3	0.7	3.2	5.2	6.6	4.3	5.4
HDFC	**4.6**	**-0.3**	**-2.7**	**-5.9**	**-8.5**	**-9.2**	**-4.1**	**-1.8**	**4.4**	**8.1**	**5.1**	**4.2**	**4.9**	**6.4**	**9.4**
SBI	1.3	4.9	2.7	3.0	0.0	-3.4	-2.5	-4.4	0.5	2.8	3.5	1.4	1.5	2.3	0.1
Axis	-0.1	9.1	6.7	15.6	7.8	1.0	-1.9	-19.4	-6.0	-1.3	-4.0	-2.9	-5.7	-5.9	-10.7
Nippon	1.8	-0.6	-1.9	-4.1	-7.5	-5.5	-6.6	-2.9	4.9	8.3	6.9	5.1	6.1	6.3	5.8
ABSL	-4.5	-1.5	-2.3	-0.6	-0.4	-0.7	-3.3	-5.8	-2.8	-4.1	-1.3	-2.1	-2.9	-3.1	-3.1
Kotak	3.5	5.6	4.5	4.0	2.8	1.0	-2.0	-2.9	-0.9	-3.9	-0.9	-2.0	0.5	2.3	2.2
Mirae	6.0	5.5	5.1	3.1	3.1	4.4	3.6	3.5	5.4	1.9	4.4	0.2	0.1	-1.9	-2.3
UTI	-4.4	-1.7	-0.6	1.7	2.3	3.1	2.8	-1.2	2.5	1.3	1.5	-2.8	-2.8	-2.7	-6.7
DSP	2.8	8.5	7.3	6.1	4.9	0.2	-1.5	-10.0	-5.8	-5.7	-2.7	-3.5	-3.2	-2.1	-2.4

Source: AMFI, PL

Exhibit 55: HDFC has been consistently ranked 1 since Aug'20 among top-10 mutual funds

Rank	Jun'19	Sep'19	Dec'19	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22	Jun'22	Sep'22	Dec'22
ICICI	8	10	7	8	7	7	3	2	7	6	5	1	1	3	3
HDFC	**2**	**6**	**10**	**10**	**10**	**10**	**9**	**4**	**3**	**2**	**2**	**3**	**3**	**1**	**1**
SBI	6	5	5	5	6	8	7	7	5	3	4	4	4	4	5
Axis	7	1	2	1	1	3	5	10	10	7	10	9	10	10	10
Nippon	5	7	8	9	9	9	10	6	2	1	1	2	2	2	2
ABSL	10	8	9	7	8	6	8	8	8	9	8	7	8	9	8
Kotak	3	3	4	3	4	4	6	5	6	8	7	6	5	5	4
Mirae	1	4	3	4	3	1	1	1	1	4	3	5	6	6	6
UTI	9	9	6	6	5	2	2	3	4	5	6	8	7	8	9
DSP	4	2	1	2	2	5	4	9	9	10	9	10	9	7	7

Source: AMFI, PL

HDFCAMC's performance in the 3-yr bucket (that reflects with a lag 1-yr) has also been enhancing. It was in the bottom-3 from Feb-20 to Jul-22, but has consistently improved since Aug-22. **Our analysis suggests that usually equity flows start seeing traction post consistent outperformance in 1-yr and 3-yr buckets.**

Exhibit 56: 3-year weighted average equity performance to benchmark improving with a lag to 1-year

Name	Jun'19	Sep'19	Dec'19	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22	Jun'22	Sep'22	Dec'22
ICICI	-0.6	-1.0	-1.5	0.2	0.9	1.3	1.6	0.7	0.7	0.5	1.4	1.6	2.5	2.3	3.1
HDFC	**2.3**	**0.4**	**-0.5**	**-2.0**	**-2.7**	**-3.1**	**-2.6**	**-1.8**	**-0.3**	**-1.5**	**-1.9**	**-1.8**	**-0.6**	**1.0**	**2.8**
SBI	-1.0	-0.2	0.0	1.1	0.3	-0.2	0.3	0.1	1.3	1.6	2.3	1.6	1.3	0.6	0.5
Axis	2.0	3.8	4.6	7.2	4.9	3.9	5.3	3.5	2.9	4.1	3.2	2.5	-0.8	-3.0	-4.4
Nippon	0.5	-0.4	-0.4	-1.7	-2.8	-2.0	-2.0	-1.0	0.2	0.0	-0.5	0.5	0.7	1.9	2.1
ABSL	-1.6	-2.4	-1.8	-1.5	-2.0	-2.3	-1.6	-2.5	-1.8	-1.4	-1.3	-1.6	-1.5	-1.7	-2.0
Kotak	2.0	1.8	1.6	2.0	1.5	1.4	2.2	2.0	2.5	2.0	1.1	0.9	0.8	0.4	0.1
Mirae	3.9	3.1	3.3	2.5	1.8	2.0	2.2	3.0	3.7	3.6	3.0	2.1	3.5	5.1	0.8
UTI	-3.0	-2.4	-1.5	0.0	-0.1	0.7	2.0	0.8	0.7	1.6	2.1	0.6	0.7	0.3	-1.2
DSP	-0.2	0.6	0.6	1.6	1.6	1.2	2.1	1.0	2.3	1.9	1.6	0.4	0.2	-1.4	-1.9

Source: AMFI, PL

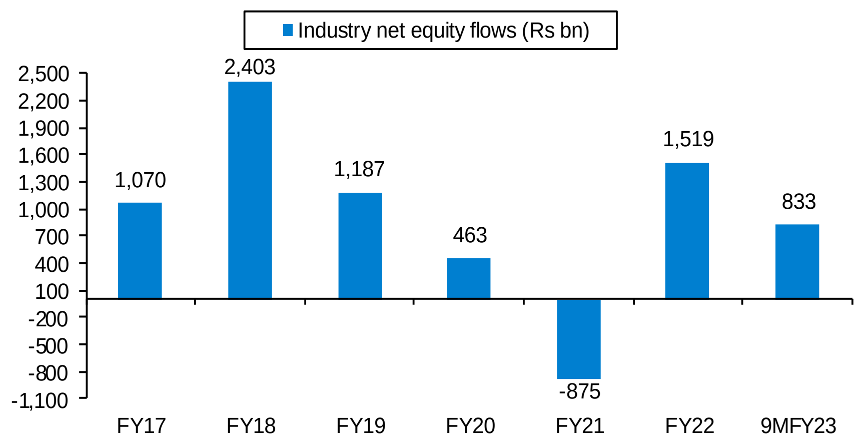
Exhibit 57: 3-year rank improving since Aug'22; from Oct-Dec'22 HDFCAMC advanced to top-3

Name	Jun'19	Sep'19	Dec'19	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22	Jun'22	Sep'22	Dec'22
ICICI	7	8	9	6	5	4	6	6	6	7	6	3	1	1	1
HDFC	**2**	**5**	**7**	**10**	**9**	**10**	**10**	**9**	**9**	**10**	**10**	**10**	**8**	**4**	**2**
SBI	8	6	5	5	6	7	7	7	5	5	3	4	3	5	5
Axis	3	1	1	1	1	1	1	1	2	1	1	1	9	10	10
Nippon	5	7	6	9	10	8	9	8	8	8	8	7	6	2	3
ABSL	9	10	10	8	8	9	8	10	10	9	9	9	10	9	9
Kotak	4	3	3	3	4	3	2	3	3	3	7	5	4	6	6
Mirae	1	2	2	2	2	2	3	2	1	2	2	2	2	3	4
UTI	10	9	8	7	7	6	5	5	7	6	4	6	5	7	7
DSP	6	4	4	4	3	5	4	4	4	4	5	8	7	8	8

Source: AMFI, PL

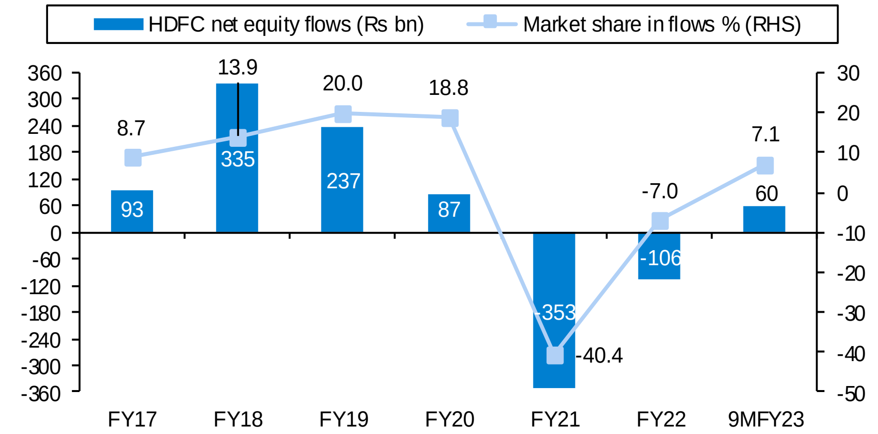
FY21 and FY22 witnessed equity outflows for HDFC AMC owing to weaker performance. As performance has been improving in the 1-yr and 3-yr buckets (as seen in exhibit 58), net flows have also witnessed a boost from negative Rs106bn in FY22 to Rs60bn in 9MFY23.

Exhibit 58: Industry flows bounced back post Covid



Source: Company, PL

Exhibit 59: HDFCAMC's markets share in net flows enhanced to 7.1%



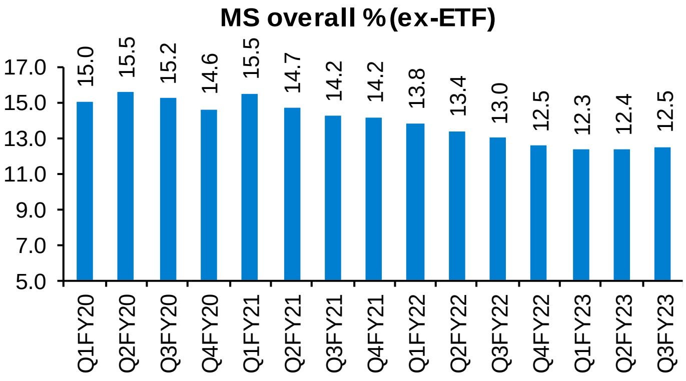
Source: Company, PL

Performance started improving since Feb'21 with rank in 1-yr bucket dramatically enhancing from 9 to 1 and HDFCAMC has been among the top-3 performing MFs since Sep'21. Due to consistent amelioration in performance, the **AMC's overall share in net equity flows enhanced from -7.0% in FY22 to 7.1% in 9MFY23.**

As better performance translates to enhanced market share with a lag, HDFCAMC's market share fall was arrested since Q1FY23, post which it has started witnessing market share gains.

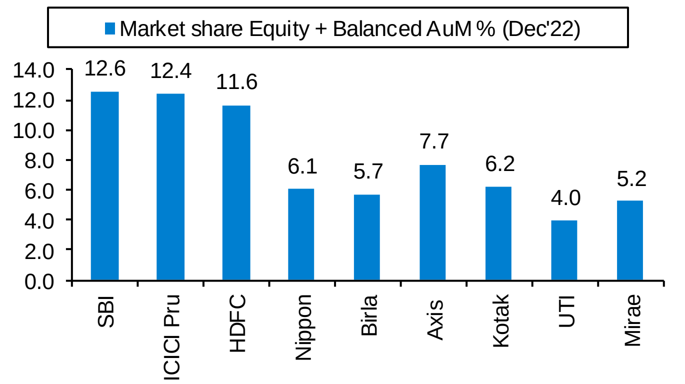
Overall (ex-ETF) market share which fell from 12.5/% to 12.3% **bounced back to 12.5%.** In terms of equity+balanced, market share which dropped from 11.43% to 11.31% **increased back to 11.48%.**

Exhibit 60: Overall MS (ex-ETF) rose in Q3FY23 by 15bps



Source: Company, PL Note: MS – market share

Exhibit 61: Eq + Bal MS also rose by 19bps in Q3FY23



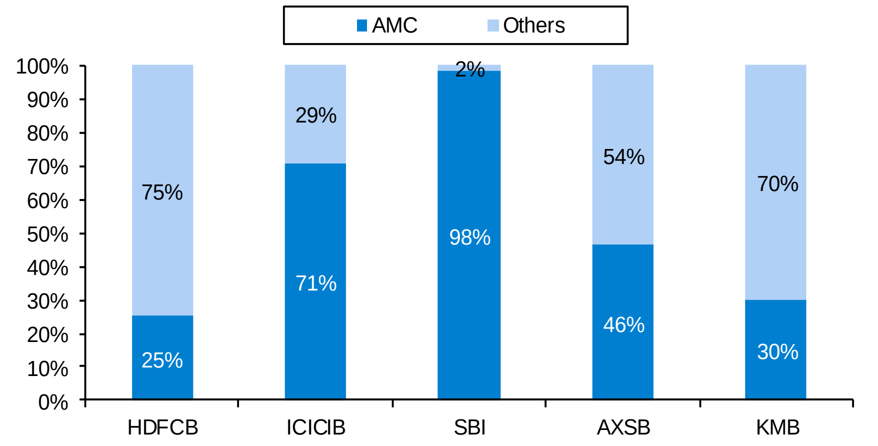
Source: Company, PL Note: MS – market share

HDFC merger to boost sales aided by strong distribution

HDFCAMC has an open architecture compared to a closed one for some peers and hence it only accounts for average 25% of gross MF inflows into HDFCB compared to 71% for ICICIB, 98% for SBI and 46% for Axis Bank. Post the HDFCB-HDFC merger this ratio would improve supported by access to a larger customer base and more aggressive to selling of MF products, thereby boosting HDFCAMC flows.

As per our analysis of data from FY17-22, a 10% increase of HDFCAMC share in gross sales of HDFCB would lead to a 10%/4% additional growth in equity/overall AAuM translating to 4%/5% boost in revenue and core income.

Exhibit 62: Share of HDFCAMC gross inflows in HDFCB much lower at ~25%

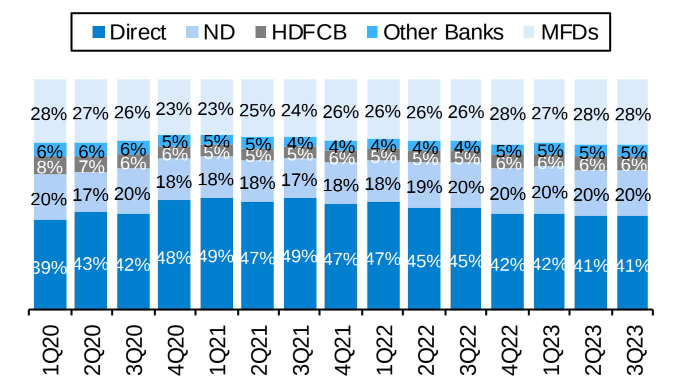


Source: Company, PL. Note: Average from FY17-22

For total AuM as at Dec'22, direct contributed 41%, MFDs made up for 28%, ND share was 20%, and banks/FIs contributed 11%. As of the same date, for equity QAAuM, direct made up for 22%, MFDs 41%, ND share 24%, and banks/FIs 13%.

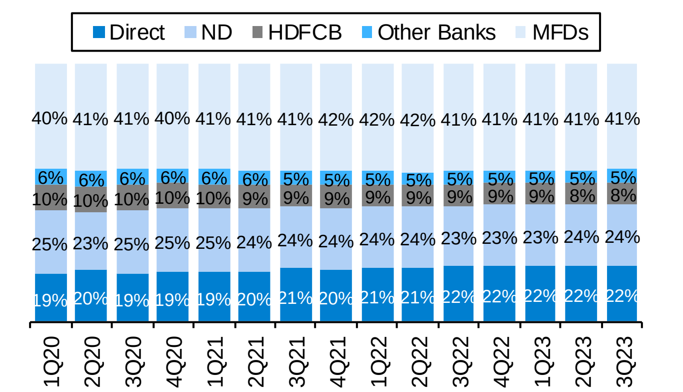
One of the merger synergies would be that as HDFCAMC gross sales from HDFB channel would be boosted, market share could enhance that would result in increase of contribution from HDFCB channel in overall/equity distribution.

Exhibit 63: Total Distribution(%) : Share of direct moderating



Source: Company, PL Note: MS – market share

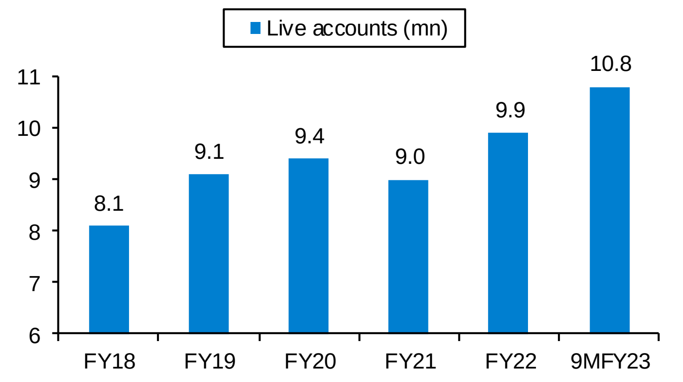
Exhibit 64: Equity Distribution(%): Share of direct enhancing



Source: Company, PL Note: MS – market share

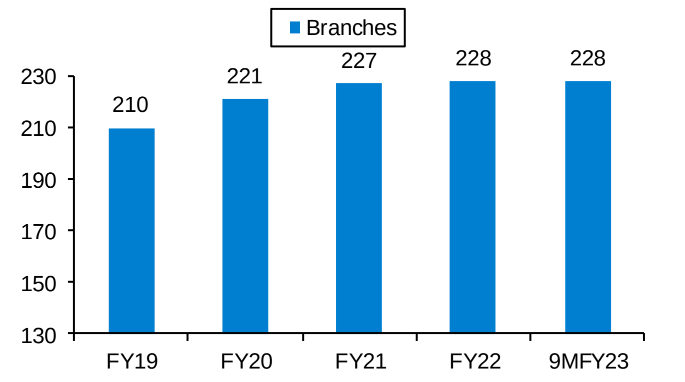
Indian AMC industry has seen a strong growth with overall/equity AuM seeing a CAGR of 20%/26% over FY15 to FY22 basis closing AuM. HDFCAMC being the third largest AMC in India, had an early mover advantage also supported by its strong parentage and brand name. As a result, expansion in its distribution network expansion started earlier which resulted in deeper presence.

Exhibit 65: Live accounts saw good growth post FY21



Source: Company, PL

Exhibit 66: Branch expansion has been flattish since FY20

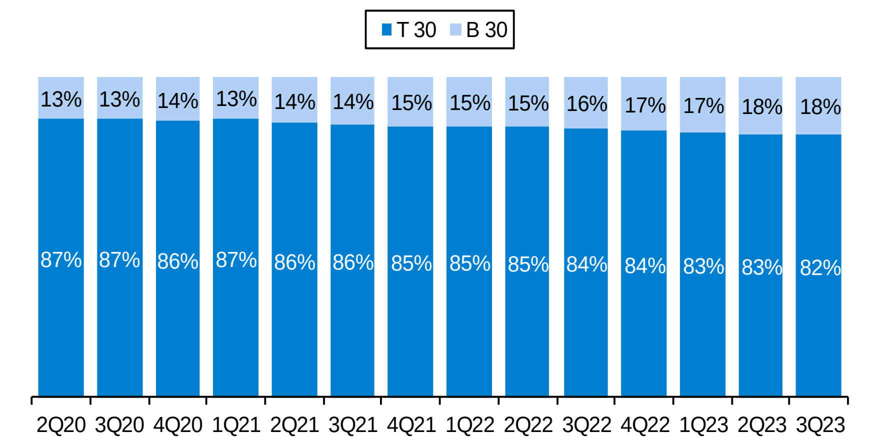


Source: Company, PL

Strategy of HDFCAMC on branch expansion is to create a business opportunity and then open a branch rather than vice-versa. Branch accretion may not be material in T-30, while presence in B-30 is anyway in 150 cities. Beyond 150 cities, branch opening depends on how industry shapes up. Company may only add 10-15 branches over next 3 years, unless MF industry in smaller cities sees a boom.

Branches are sales offices which service distributors, customers and enhance relationship with customers. Branches are opened after assessment of the potential basis likely AuM flows with respect to presence of HDFC brand and presence of the next door branch. Branch opening beyond T-30 cities do not entail a large cost (Rs2-3mn), which includes team plus rent cost.

Exhibit 67: HDFCAMC's B30 market share growing in-line with industry



Source: Company, PL

Strong Retail Franchise

Industry data suggests that individual (incl. HNI) money is invested for a longer tenure and hence stickier. As shown below, individual investors share in 6-24 months' bucket is higher as compared to institutional investors. Also, individual investors exhibit preference towards equity investments, while institutional investors prefer non-equity investments.

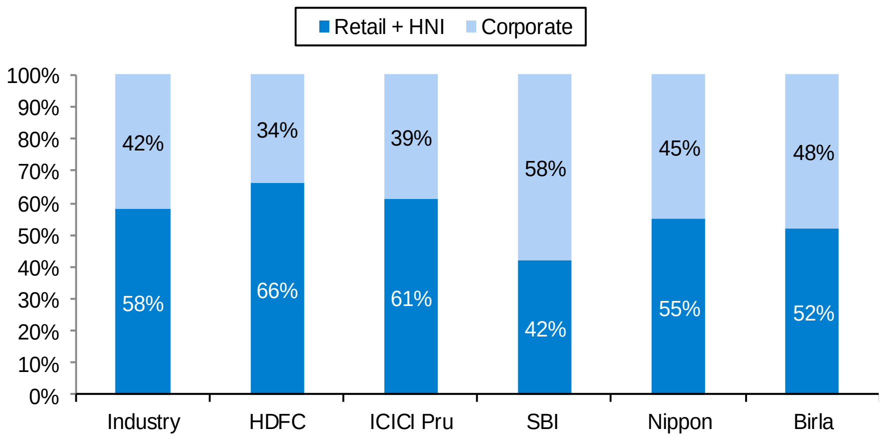
Exhibit 68: Retail investors continue to be invested for long tenure

		0-1M	1-3M	3-6M	6-12M	12-24M	>24M
Equity	Retail	27.2%	29.7%	33.9%	34.8%	27.7%	50.6%
	HNI	29.6%	31.4%	37.0%	38.4%	34.3%	36.2%
	Inst.	43.1%	38.9%	29.2%	26.8%	38.0%	13.2%
Non-equity	Retail	1.3%	2.5%	3.4%	5.3%	7.1%	12.3%
	HNI	10.1%	22.1%	28.5%	30.2%	35.1%	46.8%
	Inst.	88.6%	75.4%	68.1%	64.5%	57.8%	40.9%
Total	**Retail**	**5.8%**	**13.0%**	**16.8%**	**23.2%**	**21.1%**	**37.9%**
	HNI	**13.5%**	**25.7%**	**32.2%**	**35.1%**	**34.6%**	**39.7%**
	Inst.	**80.7%**	**61.4%**	**51.0%**	**41.7%**	**44.3%**	**22.4%**

Source: AMFI, PL

While HDFCAMC has a market share of 11.2%/11.5% in overall and equity (incl. balanced) MAAuM as at Dec'22, its market share in unique investor base is higher at ~17% indicating a stronger retail presence. Higher retail share is preferred as it is not only stickier but also well spread.

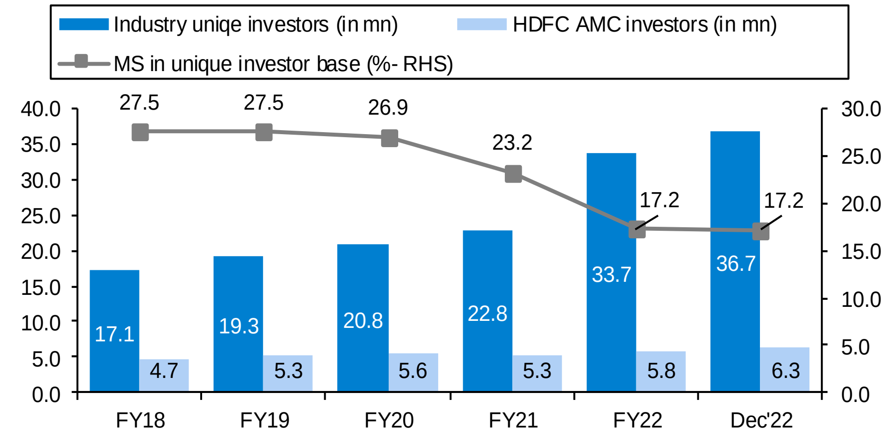
Exhibit 69: Retail+HNI share higher to industry/peers showing stickiness



Source: Company, PL

HDFCAMC also commands a higher individual share at 66% compared to 58% for industry. Comparable peers like ICICI Pru MF/SBI MF command a share of 61% and 42%. Strong retail presence has been possible owing customer trust in HDFC brand due to its strong parentage. With HDFC merger, the company could benefit from access to a larger customer base thereby further enhancing its retail share.

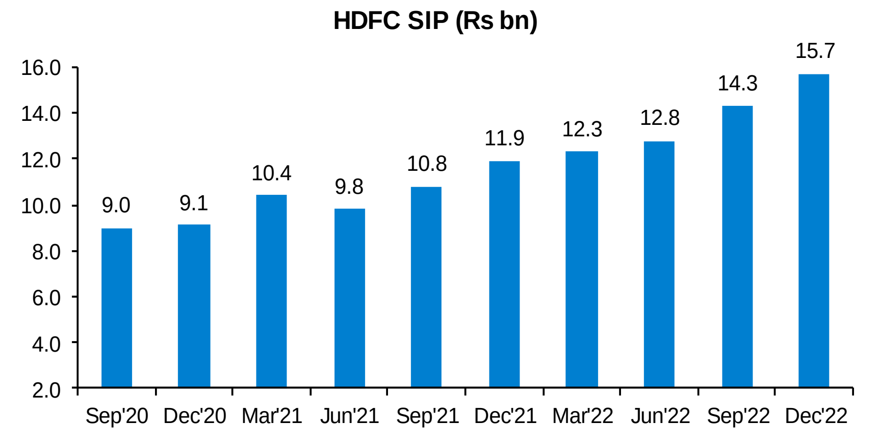
Exhibit 70: Market share in unique investor base higher vs AuM in value



Source: Company, PL. Note: MS – Market Share

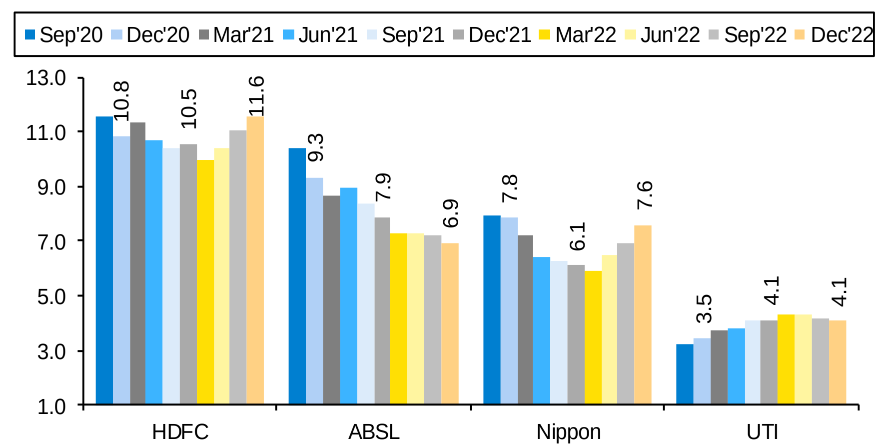
Robust retail presence is also indicated by HDFCAMC's market share in SIP (similar to overall equity + balanced share at 11.5%) which has been improving owing to better equity performance.

Exhibit 71: SIP market share rose from 10% in Mar'22 to 11.6% in Dec'22



Source: Company, PL

Exhibit 72: HDFC SIP MS (%) rose from 10% to 11.6% over Mar'22 to Dec'22

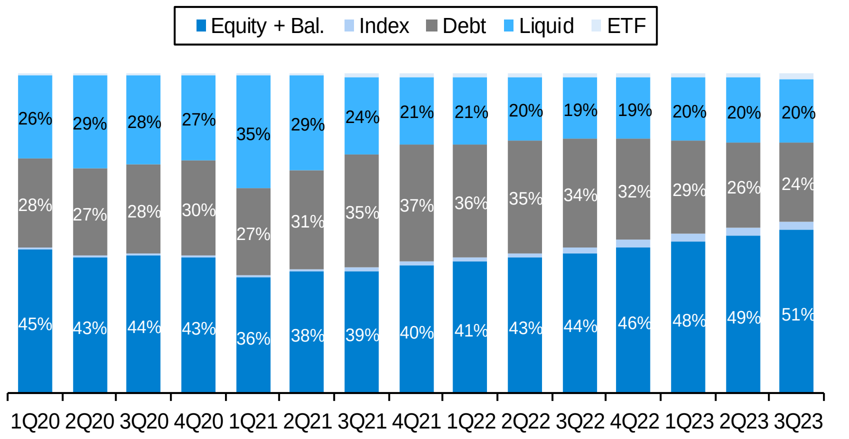


Source: AMFI, Company, PL Note: MS – market share

Larger scale has enabled operating leverage to play out

HDFCAMC has achieved a considerable scale by becoming one of the largest players in AMC space, which has led to **controlled opex to AuM at 13bps as at FY22** and class leading profitability as defined by operating profit to AAuM and core PAT to AuM. Higher operating profitability has also been a function of superior yields attributable to higher yielding equity share and minimal share of lower yielding ETF.

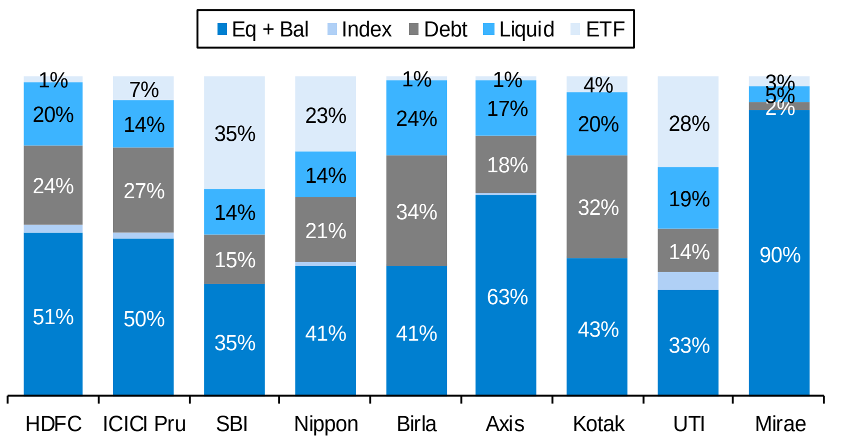
Exhibit 73: Equity+bal. share inched up from 39% to 51% over last 2 years



Source: Company, PL

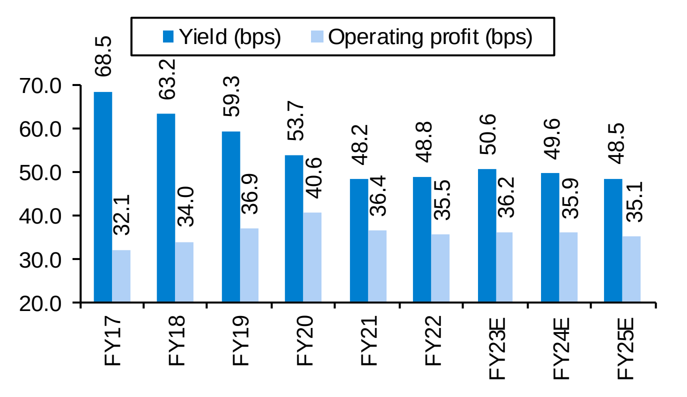
Equity plus balanced contribution in case of **HDFCAMC is the third highest at 51% after Mirae and Axis MF.** Also, ETF share at 1.3% is one of the lowest which bodes well from an overall yield perspective. Contrastingly, SBI MF and UTI MF have a lower share of equity + balanced owing to higher ETF proportion which has been a function of EPFO money flowing into both these funds.

Exhibit 74: Superior equity+balanced mix at 51% compared to peers



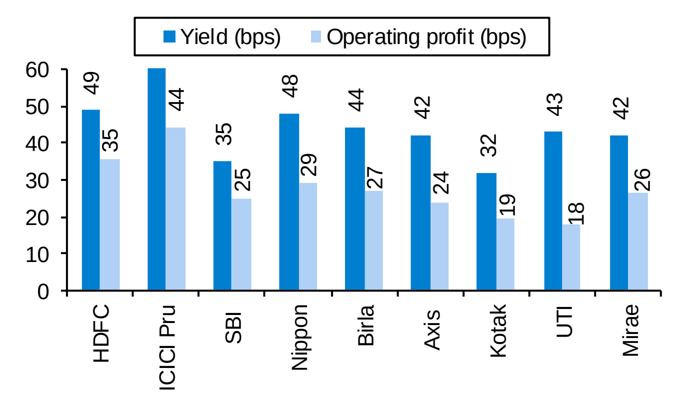
Source: Company, PL

Exhibit 75: Yield improving due to better performance



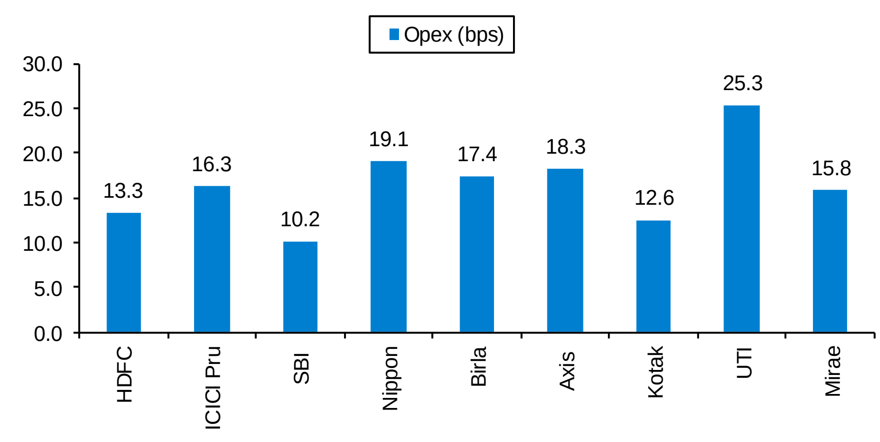
Source: Company, PL

Exhibit 76: One of the best in class operating profitability



Source: Company, PL, Note – FY22, Mirae – CY21

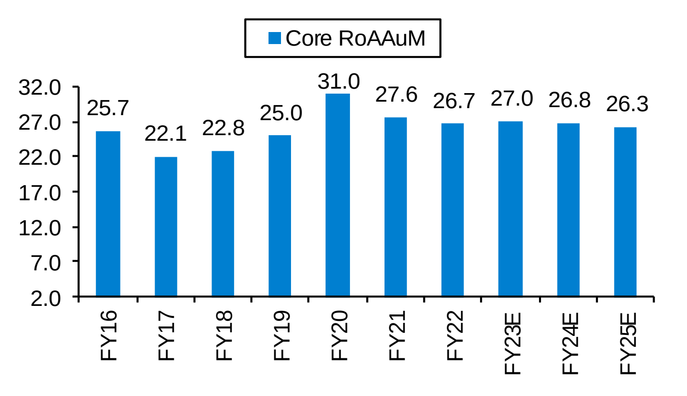
Exhibit 77: Opex to QAAuM lower compared to peers at 13bps



Source: Company, PL, Note – FY22, Mirae – CY21

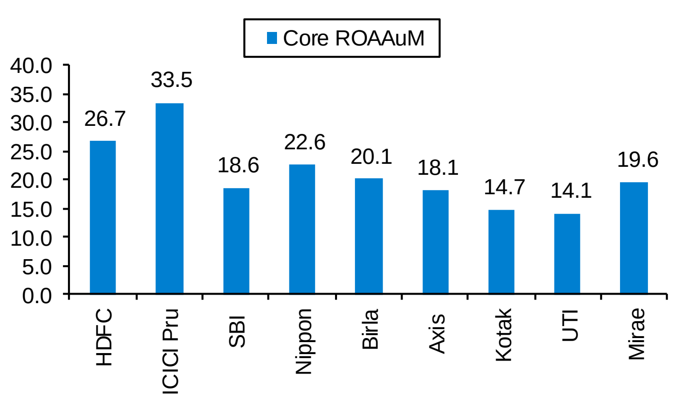
Healthier operating metrics has also been a function of lower operating cost to AAuM ratios driven by scale. We expect HDFC AUM to maintain healthy profitability as equity is expected to grow at a 14% CAGR over the medium term. **We expect core income and core PAT between 35-36bps and 26-27bps over FY23-25E.**

Exhibit 78: Core RoA upticked in 9MFY23 to 27.5bps



Source: Company, PL

Exhibit 79: Superior core profitability at 26.7bps



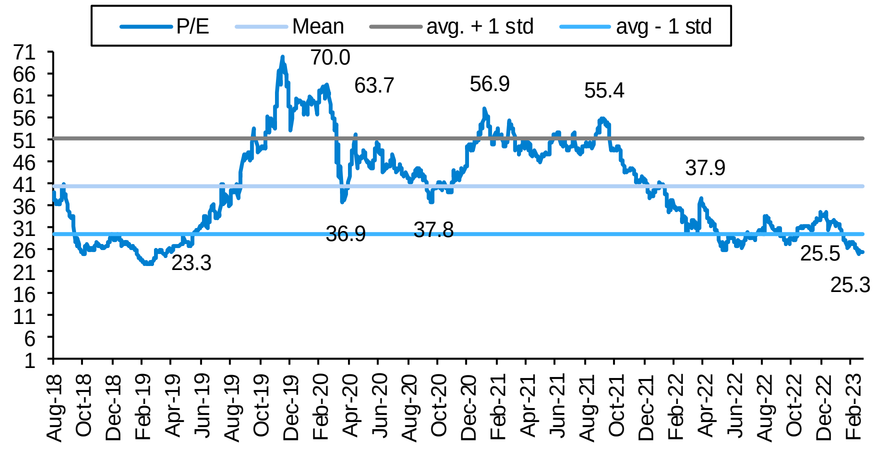
Source: Company, PL, Note – FY22, Mirae on CY21

Valuation & Risks

Valuation

We are optimistic on HDFCAMC as (i) it is the 3rd largest player with a strong franchise that would benefit from healthy industry growth (likely to be 13-15% over medium term) (ii) share of AMC in gross bank flows (currently ~25%) could see a fillip after the HDFC merger due to a more aggressive focus and (iii) it has one of the best in-class profitability with core income at 35bps. For FY23-25E we expect a 10.4%/12.5% CAGR in overall/Equity AAuM which would translate to a core income CAGR of 9%. Core income to AAuM should be maintained between 35-36bps. We assign a multiple of 27.1x on FY25E core EPS to arrive at a TP of Rs2100. Initiate coverage with BUY.

Exhibit 80: One-year forward P/E of HDFC AMC trades at 25.3x



Source: Company, PL

Risks

We expect a 12.5% CAGR growth in equity + balanced for HDFCAMC which would coincide with industry growth. However, if industry growth is lower driven by sluggish equity market performance, it would impact AAuM growth of HDFCAMC. Secondly, underperformance on the equity and debt side could also affect net flows. Sharper yield correction each year is another risk.

Experienced Management Team

Exhibit 81: Experienced Management Team

Name	Designation	Brief Profile
Mr. Navneet Munoot	MD&CEO	Mr. Navneet Munoot is the Managing Director of HDFC AMC Ltd since July 2000. Prior to HDFC AMC, he served as the General Manager of Treasury at HDFC Ltd. and headed the department for 14 years. He was responsible for the management of HDFC's Treasury portfolio and for raising funds from financial institutions and capital markets. Previously, he was also the Head of Marketing for retail deposit products.
Mr. Nazaod Sirwalla	CFO	Mr. Nazaod Sirwalla has been the Chief Financial Officer at HDFC AMC Ltd. since February 2022. Prior to joining the Company, was associated with Lupa Systems Investment Advisors India Private Limited as its Chief Financial Officer. He is a Chartered Accountant and a Company Secretary.
Mr. Chirag Setalvad	CIO & Head of Equity	Mr. Chirag Setalvad is the Chief Investment Officer & head of Equities at HDFC AMC. He has been associated with the company since inception. After a brief stint of 2.5 years outside starting in October 2004, he joined back again in March 2007.
Mr. Shobhit Mehrotra	Head of Fixed Income	Mr. Shobhit Mehrotra has been associated with the company since 2004. He has over 26 years of experience in fixed income, credit ratings. He is an MBA from Clemson University, USA. Prior to joining HDFC AMC he has worked with Franklin Templeton AMC, and ICRA.
Mr. Sameer Seksaria	Head – Client Services	Mr. Sameer Seksaria has been associated with the company since 2021. He has over 25 years of experience in operations and client services. He is BE, PGDM (IIM B), CFA. Prior to joining HDFC AMC, he has worked with Franklin Templeton, ABSL AMC and Reliance Nippon Life.
Dr. Leena Vijayvargiy	Chief Risk Officer	Dr. Leena Vijayvargiy has recently joined HDFC AMC in 2022. She is PhD (Finance), IIT Bombay; Master in International Business, B.A (Mgmt) and has over 14 years of experience in Risk Management. Prior to HDFC AMC, she has worked with BNP Paribas and SBI Funds Management
Mr. Naveen Gogia	Co-Head Sales & Distribution; Co-Head - International Business and Head - Public Relations	Mr. Naveen Gogia has been associated with HDFC AMC since 2002 and currently co-heading sales and distribution. He is an MBA from Nottingham University. He has over 26 years of experience in marketing, sales & distribution and client servicing
Mr. Rajiv Maniar	Co-Head Sales & Distribution	Mr. Rajiv Maniar has over 25 years of experience in Product Management, Sales, Distribution and Advisory of mutual fund products to retail and institutional channels. He is BE (Mechanical), MMS (Mumbai University). He has been associated with HDFC AMC since 2008.
Mr. Simal Kanuga	Head – PMS Sales, New Initiatives and Product Development and Chief Investor Relations Officer	Mr. Simal Kanuga is B.Com, ACA, Grad CWA and has over 24 years of experience in PMS Sales, Mutual Fund Sales and wealth management. He has been associated with the company since 2004. Prior to that he has worked with Citibank, Zurich Asset Management (India) Private Limited.
Ms. Supriya Sapre	Chief Compliance Officer	Ms. Supriya Sapre is Chief Compliance Officer at HDFC AMC and has over 28 years of experience in compliance, legal. Internal and statutory audit. She is Bcom, CA. Prior to HDFCAMC, she has worked with ICICI Prudential AMC.

Source: Company, PL

Financials

Exhibit 82: Quarterly Financials

Particulars (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	**4,819**	**5,029**	**5,071**	**5,423**	**5,497**	**5,163**	**5,216**	**5,447**	**5,596**
Expenses	**1,123**	**1,226**	**1,419**	**1,470**	**1,507**	**1,383**	**1,479**	**1,558**	**1,622**
Employee	569	638	835	798	775	714	780	839	790
Others	414	451	449	536	599	534	564	587	699
Depreciation	140	136	135	136	133	134	135	132	134
Core Income	**3,696**	**3,804**	**3,652**	**3,953**	**3,989**	**3,780**	**3,737**	**3,889**	**3,974**
Other Income	1,131	426	1,009	661	862	647	113	1,042	1,034
PBT	4,826	4,230	4,661	4,614	4,852	4,427	3,850	4,931	5,007
Tax	1,134	1,069	1,207	1,170	1,254	991	708	1,290	1,313
PAT	**3,693**	**3,161**	**3,455**	**3,444**	**3,598**	**3,436**	**3,142**	**3,641**	**3,694**
Core PAT	**2,828**	**2,842**	**2,707**	**2,951**	**2,958**	**2,934**	**3,050**	**2,872**	**2,931**
QAAuM	**38,94,008**	**41,54,966**	**41,69,535**	**43,89,238**	**44,58,524**	**43,09,627**	**41,42,806**	**42,81,979**	**44,37,050**
Equity	23.7%	24.9%	26.1%	27.6%	28.9%	30.4%	31.2%	32.6%	34.0%
Balanced	15.0%	15.2%	15.2%	15.1%	15.2%	15.5%	16.3%	16.7%	17.1%
Index	1.0%	1.1%	1.2%	1.4%	1.7%	2.0%	2.4%	2.7%	2.9%
Debt	35.5%	36.9%	35.7%	35.0%	34.0%	31.8%	29.0%	26.4%	24.5%
Liquid	24.2%	21.1%	20.9%	19.9%	19.3%	19.1%	19.9%	20.4%	20.2%
ETF	0.7%	0.8%	0.9%	0.9%	1.0%	1.1%	1.2%	1.2%	1.3%
Market share (%)	**13.14**	**12.99**	**12.62**	**12.19**	**11.75**	**11.29**	**11.03**	**11.02**	**11.08**
Equity	10.3	10.2	10.0	9.6	9.4	9.4	9.4	9.4	9.6
Balanced	24.8	24.5	23.4	21.8	19.4	18.4	18.4	18.6	19.0
Eq+Bal	**13.3**	**13.1**	**12.7**	**12.0**	**11.4**	**11.3**	**11.3**	**11.3**	**11.5**
Index	26.9	26.7	23.9	21.9	19.2	16.6	13.4	11.6	10.9
Debt	13.8	14.4	14.4	14.4	14.5	14.2	14.0	14.5	14.6
Liquid	16.4	15.9	15.1	14.7	14.4	13.0	12.7	13.0	13.5
ETF	1.1	1.1	1.2	1.1	1.1	1.1	1.1	1.1	1.2
QAAuM Growth (%)	**3.7**	**6.7**	**0.4**	**5.3**	**1.6**	**-3.3**	**-3.9**	**3.4**	**3.6**
Equity	6.4	12.5	5.0	11.5	6.3	1.6	-1.2	8.0	7.9
Balanced	2.3	8.0	0.7	4.5	1.9	-1.0	0.6	6.2	6.1
Eq+Bal	**4.8**	**10.8**	**3.4**	**8.9**	**4.7**	**0.7**	**-0.6**	**7.4**	**7.3**
Index	15.1	20.2	15.7	20.1	22.0	14.4	14.6	14.3	12.6
Debt	18.4	11.0	-2.9	3.3	-1.4	-9.5	-12.3	-6.0	-4.0
Liquid	-13.8	-6.9	-0.9	0.4	-1.7	-3.9	0.0	5.8	2.6
ETF	16.7	16.1	13.2	9.8	8.4	7.9	3.1	8.0	15.1
Dupont (bps)									
Revenue yield	**49.5**	**48.4**	**48.6**	**49.4**	**49.3**	**47.9**	**50.4**	**50.9**	**50.4**
Opex to AuM	**11.5**	**11.8**	**13.6**	**13.4**	**13.5**	**12.8**	**14.3**	**14.6**	**14.6**
Staff cost	5.8	6.1	8.0	7.3	7.0	6.6	7.5	7.8	7.1
Other opex	4.3	4.3	4.3	4.9	5.4	5.0	5.4	5.5	6.3
Depreciation	1.4	1.3	1.3	1.2	1.2	1.2	1.3	1.2	1.2
Core income/AuM	**38.0**	**36.6**	**35.0**	**36.0**	**35.8**	**35.1**	**36.1**	**36.3**	**35.8**
PAT/AuM	**37.9**	**30.4**	**33.1**	**31.4**	**32.3**	**31.9**	**30.3**	**34.0**	**33.3**
Core PAT/AuM	**29.0**	**27.4**	**26.0**	**26.9**	**26.5**	**27.2**	**29.4**	**26.8**	**26.4**
Profitability (%)									
Staff cost/revenue	11.8	12.7	16.5	14.7	14.1	13.8	15.0	15.4	14.1
Other opex/revenue	8.6	9.0	8.9	9.9	10.9	10.4	10.8	10.8	12.5
Core income/revenue	76.7	75.6	72.0	72.9	72.6	73.2	71.6	71.4	71.0
Tax rate	23.5	25.3	25.9	25.4	25.8	22.4	18.4	26.2	26.2
PAT margin	76.6	62.8	68.1	63.5	65.4	66.5	60.2	66.8	66.0
Core PAT margin	58.7	56.5	53.4	54.4	53.8	56.8	58.5	52.7	52.4

Source: Company, PL

Exhibit 83: Summary Financials (Rs mn)

Particulars	FY22	FY23E	FY24E	FY25E
Profit & Loss				
Revenue	**21,154**	**22,021**	**23,661**	**25,768**
Investment mgmt.	21032	21895	23526	25620
PMS / Advisory	121	126	136	148
Expenses	**5,779**	**6,269**	**6,525**	**7,109**
Employee	3,122	3,208	3,536	3,864
Others	2,119	2,527	2,440	2,683
Depreciation	539	535	549	562
Core Income	**15,375**	**15,752**	**17,136**	**18,659**
Other Income	3,178	3,094	3,288	3,539
PBT	18,553	18,846	20,424	22,197
Tax	4,622	4,749	5,147	5,594
PAT	**13,931**	**14,097**	**15,277**	**16,603**
Core PAT	**11,545**	**11,782**	**12,818**	**13,957**
Dividend	8,958	9,445	10,695	12,121
Growth ratios (%)				
Revenue	**14.2**	**4.1**	**7.4**	**8.9**
Opex	**27.6**	**8.5**	**4.1**	**8.9**
Employee	37.7	2.7	10.2	9.3
Others	24.2	19.3	-3.4	10.0
Core income	**9.8**	**2.5**	**8.8**	**8.9**
PAT	5.1	1.2	8.4	8.7
Core PAT	**8.8**	**2.1**	**8.8**	**8.9**
DuPont analysis (%)				
Revenue	**0.49**	**0.51**	**0.50**	**0.49**
Expenses	**0.13**	**0.14**	**0.14**	**0.13**
Employee	0.07	0.07	0.07	0.07
Others	0.05	0.06	0.05	0.05
Depreciation	0.01	0.01	0.01	0.01
Core Income	**0.35**	**0.36**	**0.36**	**0.35**
Other Income	0.07	0.07	0.07	0.07
PBT	0.43	0.43	0.43	0.42
Tax	0.11	0.11	0.11	0.11
PAT (RoAAuM)	**0.32**	**0.32**	**0.32**	**0.31**
Core RoAAuM	**0.27**	**0.27**	**0.27**	**0.26**
ROE	27.0	24.5	24.5	24.9
Core RoE	**27.6**	**25.8**	**26.8**	**28.0**
Other Ratios (%)				
Staff cost/revenue	14.8	14.6	14.9	15.0
Other opex/revenue	10.0	11.5	10.3	10.4
Core Income/revenue	**72.7**	**71.5**	**72.4**	**72.4**
Other Income/revenue	15.0	14.0	13.9	13.7
Yield on Investments	6.0	5.2	5.1	5.1
Effective tax rate	24.9	25.2	25.2	25.2
PAT margin	65.9	64.0	64.6	64.4
Core PAT margin	**54.9**	**53.8**	**54.5**	**54.5**
Dividend payout (%)	**64.3**	**67.0**	**70.0**	**73.0**

Particulars	FY22	FY23E	FY24E	FY25E
Balance Sheet				
Net Worth	**55,300**	**59,953**	**64,536**	**69,019**
Capital (FV Rs5)	1,066	1,066	1,066	1,066
Reserves	54,234	58,886	63,470	67,953
Employee benefit	690	897	1,077	1,292
Others	3,152	3,324	3,507	3,700
Total Liabilities	**59,143**	**64,174**	**69,120**	**74,011**
Cash and Bank	81	81	81	81
Investment	**55,702**	**60,566**	**65,335**	**70,041**
Fixed assets	1,356	1,423	1,495	1,569
Others	2,004	2,105	2,210	2,320
Total Assets	**59,143**	**64,174**	**69,120**	**74,011**
AuM Data				
AAuM	**43,31,731**	**43,56,371**	**47,75,199**	**53,12,919**
Equity	12,25,036	14,32,979	16,29,951	18,58,145
Balanced	6,61,757	7,33,485	7,98,139	8,85,935
Eq+bal	**18,86,792**	**21,66,464**	**24,28,091**	**27,44,079**
Index	69,539	1,21,127	1,79,728	2,54,354
Debt	14,77,646	11,33,504	12,27,684	13,32,620
Liquid	8,56,603	8,78,641	8,66,984	8,87,339
ETF	41,151	56,634	72,713	94,527
Mix (%)				
Equity	28.3	32.9	34.1	35.0
Balanced	15.3	16.8	16.7	16.7
Eq+bal	43.6	49.7	50.8	51.6
Index	1.6	2.8	3.8	4.8
Debt	34.1	26.0	25.7	25.1
Liquid	19.8	20.2	18.2	16.7
ETF	0.9	1.3	1.5	1.8
Growth (%)				
Overall	**12.8**	**0.6**	**9.6**	**11.3**
Equity	36.6	17.0	13.7	14.0
Balanced	14.4	10.8	8.8	11.0
Eq+bal	**27.9**	**14.8**	**12.1**	**13.0**
Index	97.4	74.2	48.4	41.5
Debt	17.1	-23.3	8.3	8.5
ETF	66.3	37.6	28.4	30.0
Valuations				
EPS	**65.3**	**66.1**	**71.6**	**77.8**
Core EPS	**54.1**	**55.2**	**60.1**	**65.4**
CPS	261.5	284.4	306.7	328.8
DPS	42.0	44.3	50.1	56.8
Dividend yield	1.8	2.2	2.8	3.2
BVPS	259	281	303	324
P/B (x)	8.5	7.1	5.9	5.6
P/E (x)	**36.3**	**27.9**	**25.1**	**23.1**
P/core EPS (x)	**38.7**	**28.6**	**24.9**	**22.5**

Source: Company, PL

Prabhudas Lilladher®
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UTI Asset Management Company (UTIAM IN)

Rating: BUY | CMP: Rs668 | TP: Rs830

December 20, 2022

Company Report

Key Financials - Consolidated

Y/e Mar	2022	2023E	2024E	2025E
Revenue (Rs m)	11,189	11,550	12,425	13,507
Opex	6,671	7,185	7,507	7,913
Employee	4,067	4,181	4,333	4,442
Others	2,604	2,634	2,636	2,648
Core Inc. (Rs m)	4,518	4,365	4,917	5,594
PAT (Rs mn)	5,346	4,610	5,595	6,257
Core PAT (Rs m)	3,658	3,403	3,885	4,419
Core EPS (Rs.)	28.8	26.8	30.6	34.8
Gr. (%)	*88.2*	*(7.0)*	*14.2*	*13.8*
AAuM (Rs bn)	2,112	2,365	2,655	3,002
Gr. (%)	*32.6*	*12.0*	*12.3*	*13.1*
RoAAuM (bps)*	17.3	14.4	14.6	14.7
RoE (%)*	15.7	13.7	15.2	16.8
P/Core EPS (x)	25.6	17.0	15.0	13.4

**Core*

Key Data	UTIA.BO | UTIAM IN
52-W High / Low	Rs. 1,025 / Rs. 595
Sensex / Nifty	60,224 / 17,711
Market Cap	Rs. 1,035.4bn/ $ 1.0m
Shares Outstanding	127.0m
3M Avg. Daily Value	Rs. 276.8m

Shareholding Pattern (%)

Promoter's	–
Foreign	6.26
Domestic Institution	59.99
Public & Others	33.75
Promoter Pledge (Rs bn)	–

Stock Performance (%)

1M	6M	12M	
Absolute	-3.1	-20.8	-22.5
Relative	-2.4	-20.6	-33.4

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Operating leverage to drive core earnings growth

We initiate coverage on UTIAMC with a 'BUY' rating. UTIAMC has transformed into a formidable player after navigating a tough phase from FY16-20 led by 1) debt resurgence attributable to stronger risk management and continuous client engagement and 2) equity revival driven by bolstering investment process resulting in better performance and distributor mind share. Net equity flows' share improved from -0.5% to 5.9% over FY20-22 given 1) most large banks and distributors re-empanelled UTI by Mar'20 and 2) equity BND share increased from 9% to 12% over last 2 years. We believe that operating yield should sustain at 19bps from FY23-25E, while core profits would see healthy CAGR of ~14% driven by better operating leverage (due to focus on cost control). Valuation is compelling at 10x FY25E core EPS which suggests a discount of 56% to HDFCAMC. Assigning a multiple of 15x (ex-cash) we arrive at TP of Rs830. Initiate 'BUY'.

- **Positive shift in net equity flows from -0.5% to 5.9%:** After witnessing a tough phase over FY16-FY20 that resulted in a market share fall, UTI AMC turned the tide and saw improved net equity flows FY21 onwards. This revival was spearheaded by CIO, Mr. Vetri Subramanian who streamlined the investment process by creating portfolio management framework to be followed consistently. Accordingly, performance started improving, while distributor mind share also enhanced which translated to a positive shift in net equity flows. Market share in net equity flows rose from -0.5% to 5.9% over FY20-22 which is sustaining.

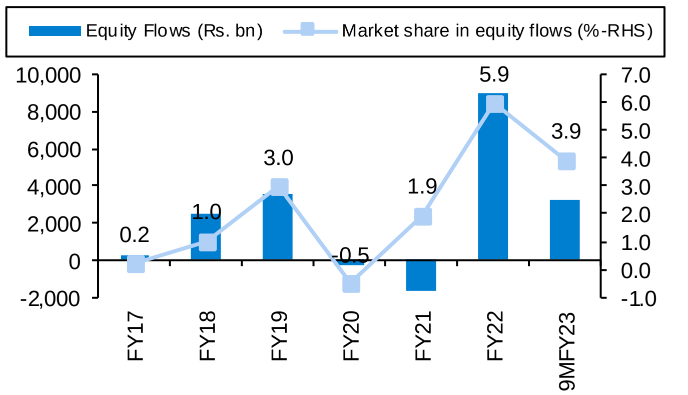
- **Debt market share stabilizing:** UTI saw significant debt outflows, due to exposure to troubled entities like IL&FS and DHFL. Hence, risk management was fortified and research team was augmented with hiring of 3 credit analysts including Head of Research. Portfolio level analytics (highlights potential issues of investee companies) was missing and hence a portfolio analyst was hired. Most large clients that had stopped doing business with UTI started to reinvest. Consequently, debt market share that declined from 6.3% to 4.1% over Q1FY20 to Q4FY21, has now stabilized and marginally improved to 4.4%.

- **Distribution mix gradually enhancing:** To bolster BND distribution which would in turn increase T-30 presence, UTI continued to articulate its investment thought process to distributors while consistently adhering to its investment strategy. This led to improved performance, which resulted in better flows. By Mar'20 UTI schemes were back on major platforms while flagship products are now empaneled with HDFC, Axis, Kotak, CitiBank, StanC and NJ. Over FY21, incremental market share in gross sales across most key platforms scaled back from 1.5-2% to 6.0-6.5%. SIP ticket size in Mar'20 that was Rs2700 increased to Rs3300 in H1FY23.

- **Operating efficiency to drive profitability:** Guidance to reduce employee cost over FY21-25E is intact, as net staff is expected to progressively decline due to retirements. On other opex, most advertisement and digital expenses would be minimal, while there could be tech expenses to build API network with fintechs. There is no plan to increase branches aggressively. Overall opex may see controlled growth over FY23-25E resulting in opex-to-AuM to reduce from 32bps in FY22 to 26bps in FY25E resulting in core PAT CAGR of 14%.

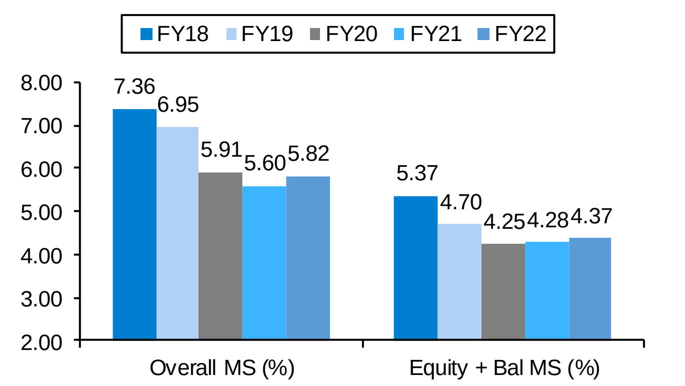
Story in Charts

Exhibit 84: Share in net equity flows improved post FY21



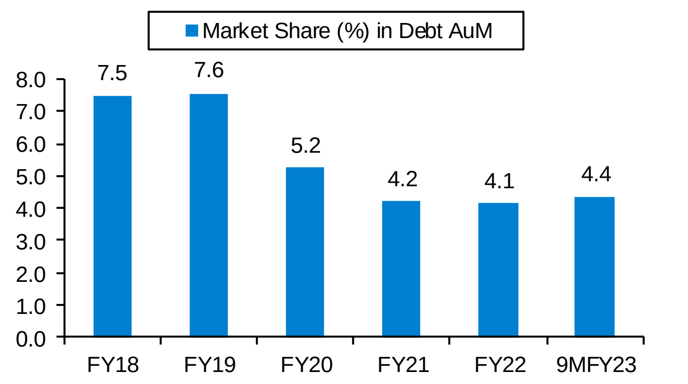
Source: Company, PL

Exhibit 85: Equity market share enhanced post FY20



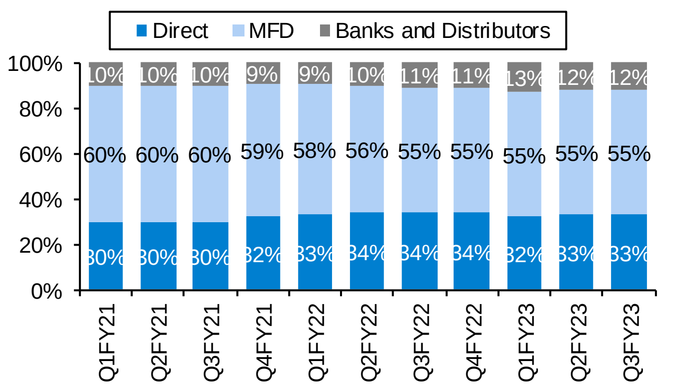
Source: Company, PL. Note: MS – Market Share

Exhibit 86: Debt segment back in reckoning



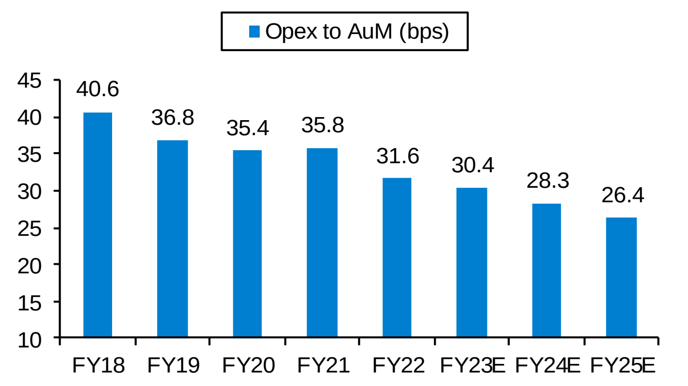
Source: Company, PL

Exhibit 87: BND share in equity inching up



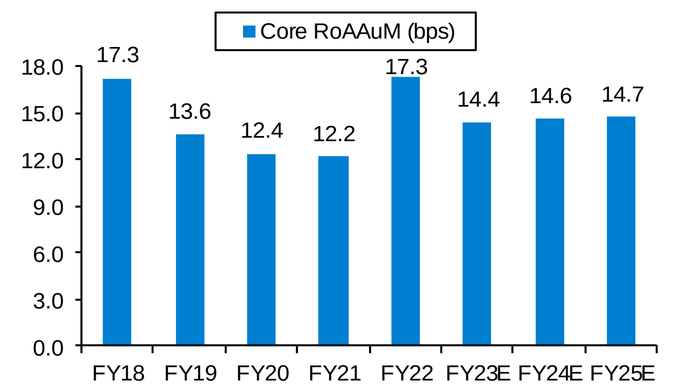
Source: Company, PL. Note: BND – Banks & Distributors

Exhibit 88: Opex to grow at a slower pace than revenue



Source: Company, PL

Exhibit 89: We see core RoAAuM at ~15bps in FY24/25E



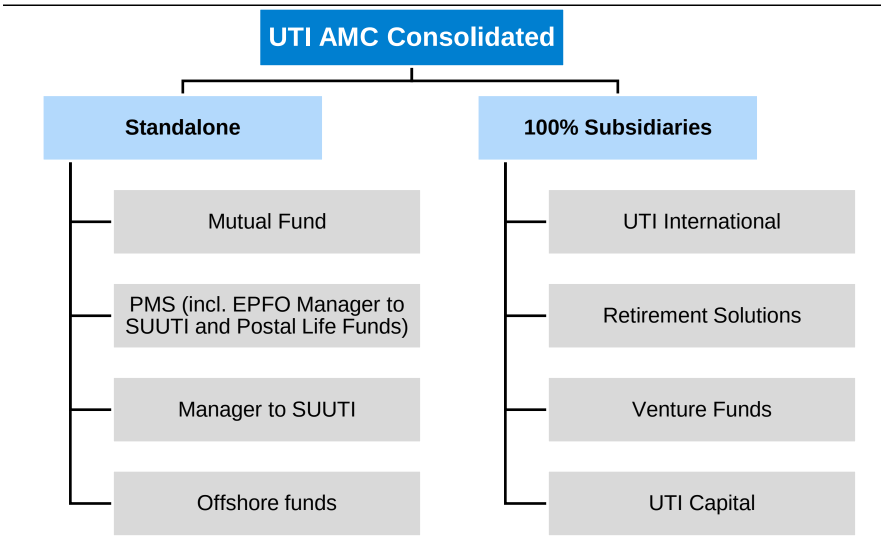
Source: Company, PL

Re-building the business

UTI AMCs' predecessor, Unit Trust of India, was established in 1964 by an Act of Parliament with an aim to mobilize retail savings and invest in capital markets for small investors. It launched a scheme US-64. Over time the company grew into one of the largest financial intermediary institutions in India, catering to a diverse group of investors through a wide variety of funds. As the first mutual fund provider in India, Unit Trust of India played a pioneering role in development and growth of India's capital markets, launched first ULIP in 1971, UTI mastershare, a pure equity oriented scheme, off-shore Indian fund targeted at PIO, NRIs, etc. in 1986.

UTI AMC was incorporated on November 14, 2002 and appointed by UTI Trustee Company Private Limited, as the trustee of UTI Mutual Fund, to manage funds of UTI Mutual Fund. UTI AMC was converted into a public limited company on November 14, 2007. In January 2010, T. Rowe Price Group Inc., through its wholly owned subsidiary, TRP, acquired a 26.0% stake in UTI AMC.

Exhibit 90: Structure of the company



Source: Company, PL

Exhibit 91: UTI AMC's business mix in terms of AuM and revenue

Business Mix (9MFY23)	AuM (Rs mn)	Rev (Rs mn)	Rev. Share (%)
MF	24,08,410	6,660	77.3
PMS	1,00,09,060	200	2.3
SUUTI	NA	80	0.9
POP	NA	10	0.1
Standalone	**1,24,17,470**	**6,950**	**80.6**
UTI Int.	2,38,260	980	11.4
UTI RSL	23,05,600	750	8.7
UTI Cap. & Ven.	16,430	40	0.5
Elimination	NA	-100	(1.2)
Consolidated	**1,49,77,770**	**8,620**	**100.0**

Source: Company, PL

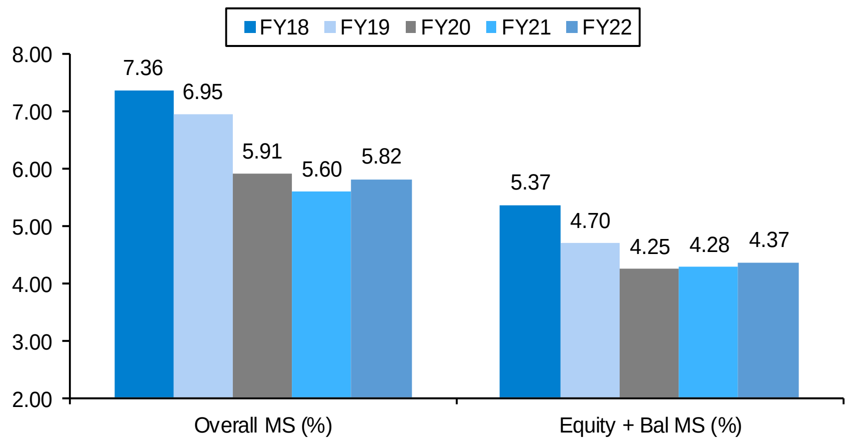
Key Investment Arguments

Market share improvement in net equity flows

UTIAM witnessed a tough phase between FY16-20 as equity flows were impacted after the 'Head of Equity' vacated office in Jan'16. Later Mr. Vetri Subramaniam took over the position in Jan'17. During this 1-yr gap equity flows were muted also affected by weakened distributor relationships and fund performance.

As a consequence, to these events, overall market share basis QAAuM, witnessed a sharp decline over FY18 to FY21 from 7.36% to 5.60%. Equity market share over FY18 to FY20 declined from 5.37% to 4.25%.

Exhibit 92: Overall market share fell between FY18-21 from 7.4% to 5.6%



Source: Company, PL. Note: MS – Market Share

Research has been intrinsic to UTIAMC as its process was fairly developed in terms of capturing, documenting, discussion and communication. When Mr. Vetri joined, research engine was running smoothly, however, what was lacking was commonality of thought process or a framework within fund management.

A bigger challenge was portfolio construction owing to 1) multiple schemes being launched, but difficult to demarcate and 2) actual strategy of the fund not being followed due to lack of discipline.

Hence the team was trained and a framework was implemented. It was ensured that there was diversity between fund management styles and every fund manager followed her/his stated strategy.

By July 2017, entire process was restructured and a single strategy was identified. This simplified fund management, such that a particular style followed by fund manager was replicated across all funds she/he would manage.

Exhibit 93: Equity performance (1-year) improved from Sep'19 to Mar'21 which led to sustained equity flows

Name	Jun'19	Sep'19	Dec'19	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22	Jun'22	Sep'22	Dec'22
ICICI	-0.2	-2.2	-1.4	-0.7	-0.3	-1.1	-1.0	-0.9	-1.3	0.7	3.2	5.2	6.6	4.3	5.4
HDFC	4.6	-0.3	-2.7	-5.9	-8.5	-9.2	-4.1	-1.8	4.4	8.1	5.1	4.2	4.9	6.4	9.4
SBI	1.3	4.9	2.7	3.0	0.0	-3.4	-2.5	-4.4	0.5	2.8	3.5	1.4	1.5	2.3	0.1
Axis	-0.1	9.1	6.7	15.6	7.8	1.0	-1.9	-19.4	-6.0	-1.3	-4.0	-2.9	-5.7	-5.9	-10.7
Nippon	1.8	-0.6	-1.9	-4.1	-7.5	-5.5	-6.6	-2.9	4.9	8.3	6.9	5.1	6.1	6.3	5.8
ABSL	-4.5	-1.5	-2.3	-0.6	-0.4	-0.7	-3.3	-5.8	-2.8	-4.1	-1.3	-2.1	-2.9	-3.1	-3.1
Kotak	3.5	5.6	4.5	4.0	2.8	1.0	-2.0	-2.9	-0.9	-3.9	-0.9	-2.0	0.5	2.3	2.2
Mirae	6.0	5.5	5.1	3.1	3.1	4.4	3.6	3.5	5.4	1.9	4.4	0.2	0.1	-1.9	-2.3
UTI	**-4.4**	**-1.7**	**-0.6**	**1.7**	**2.3**	**3.1**	**2.8**	**-1.2**	**2.5**	**1.3**	**1.5**	**-2.8**	**-2.8**	**-2.7**	**-6.7**
DSP	2.8	8.5	7.3	6.1	4.9	0.2	-1.5	-10.0	-5.8	-5.7	-2.7	-3.5	-3.2	-2.1	-2.4

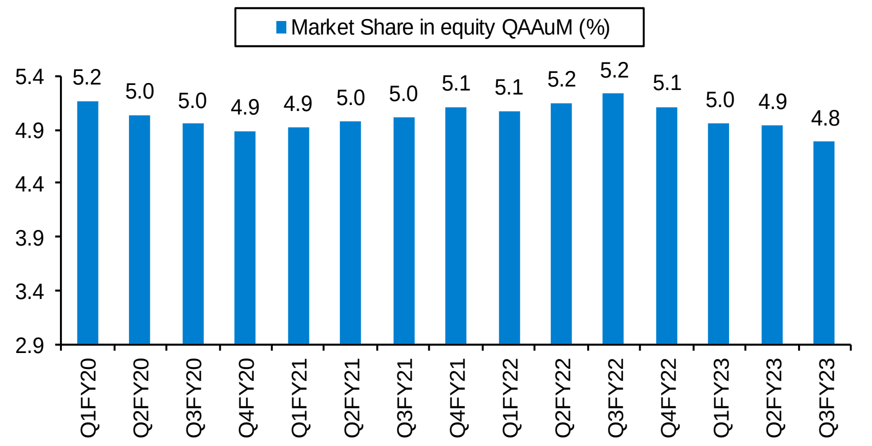
Source: AMFI, PL

Exhibit 94: Rank among top-9 AMCs has deteriorated although net flows sustaining

Rank	Jun'19	Sep'19	Dec'19	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22	Jun'22	Sep'22	Dec'22
ICICI	8	10	7	8	7	7	3	2	7	6	5	1	1	3	3
HDFC	2	6	10	10	10	10	9	4	3	2	2	3	3	1	1
SBI	6	5	5	5	6	8	7	7	5	3	4	4	4	4	5
Axis	7	1	2	1	1	3	5	10	10	7	10	9	10	10	10
Nippon	5	7	8	9	9	9	10	6	2	1	1	2	2	2	2
ABSL	10	8	9	7	8	6	8	8	8	9	8	7	8	9	8
Kotak	3	3	4	3	4	4	6	5	6	8	7	6	5	5	4
Mirae	1	4	3	4	3	1	1	1	1	4	3	5	6	6	6
UTI	**9**	**9**	**6**	**6**	**5**	**2**	**2**	**3**	**4**	**5**	**6**	**8**	**7**	**8**	**9**
DSP	4	2	1	2	2	5	4	9	9	10	9	10	9	7	7

Source: AMFI, PL

Exhibit 95: Recent MS loss due to underperformance; flows sustaining

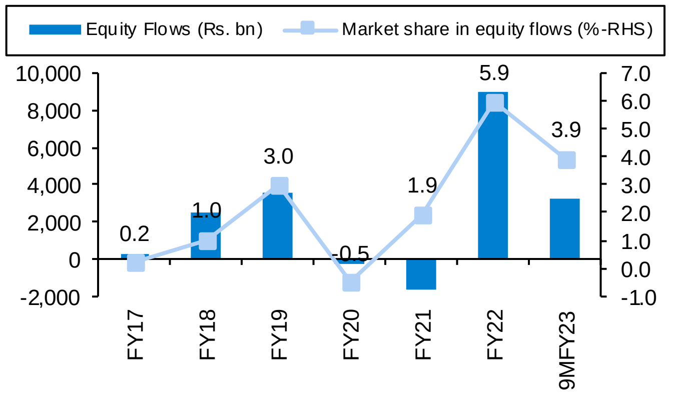


Source: Company, PL Note MS – market share

As the investment process was streamlined and followed consistently, performance started improving and UTI AMC started to see a positive shift in equity flows. It saw marked improvement in terms of market share in incremental equity flows.

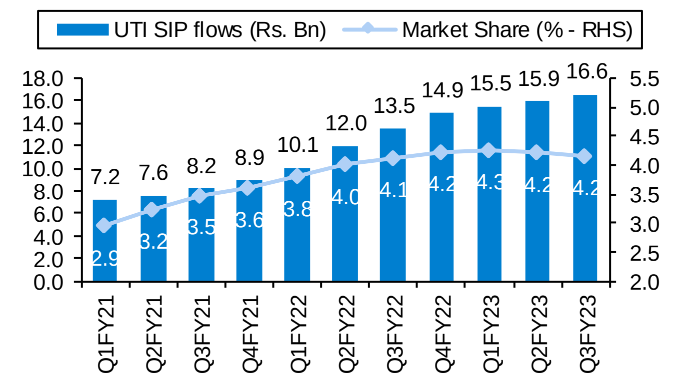
In the table below, data shows that there has been a material positive shift in equity flows' market share in favour of UTI AMC FY20 onwards, post which market share consistently improved till FY22. **Market share enhanced from -0.5% in FY20 to 5.9% in FY22. Market share has also improved in SIP flows.**

Exhibit 96: Share in net equity flows improved post FY21



Source: Company, PL

Exhibit 97: SIP flows' share rose from 2.9% to 4.2%

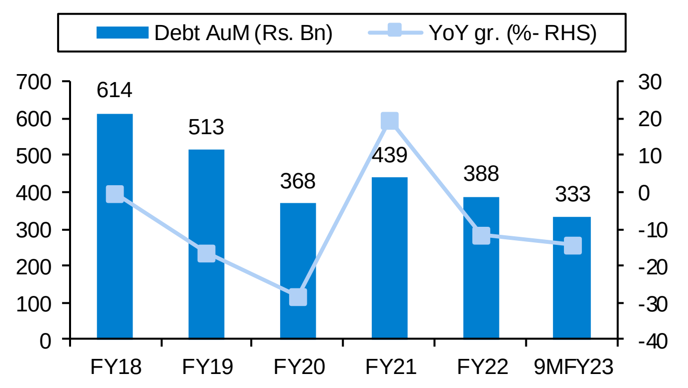


Source: Company, PL

Debt franchise stabilizing due to better risk management

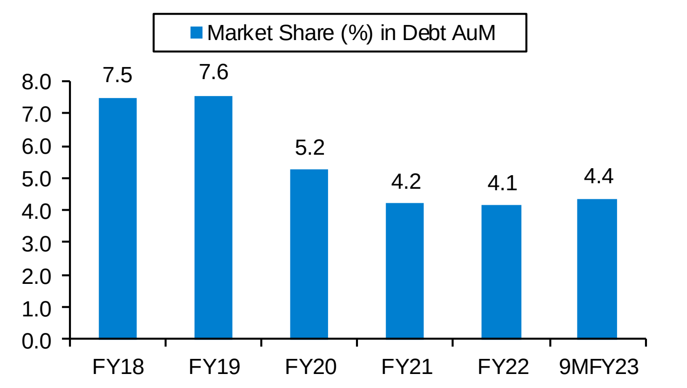
Company witnessed significant fall in debt AUM market share from 7.5% in FY18 to 4.2% in FY21 resulting from outflows due to exposure to troubled entities such as IL&FS, DHFL AND Yes Bank. To arrest these outflows, UTI AMC increased exit loads for its troubled schemes, resulting in a halt of fresh outflows from these schemes. Since then the company side pocketed most troubled papers and provided some other schemes.

Exhibit 98: Debt franchise on the mend…



Source: Company, PL

Exhibit 99: ...leading to market share improvement (%)



Source: Company, PL

UTI AMC reviewed its risk management processes to the level of each and every operational activity and portfolio to ensure that incidents which happened in the past do not recur. This necessitated addition of more credit analysts and 3 of them were hired with 1 being a Head of Research and Senior analyst.

Portfolio level analytics, which are internal mechanisms highlighting potential issues that could crop up related to investee companies (also for peer group), was missing. As a result, a portfolio analyst was hired, so as to flag off potential risks.

Similar to Equity Yatra, a Debt yatra was conducted in Oct'21 to showcase its stronger investment team and how UTI MF strengthened its risk management processes. Hence fixed income team has been augmented and head of fixed income research has 3 people reporting to her. Mr. Vetri Subramanian, now CIO also gives his research insights to debt team.

For reaching out to distributors and investors/potential investors, UTIAM organised a virtual debt symposium in FY22 which provided a platform that hosted debt experts. Hence engagement has been increased with every institutional client and most clients that had stopped doing business have started to reinvest with UTI.

Exhibit 100: Debt performance enhancing leading to rank improving from 12 to 1

Name	Jun'19	Sep'19	Dec'19	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22	Jun'22	Sep'22	Dec'22
ICICI	-0.1	-0.5	0.4	0.0	0.3	0.9	0.9	1.2	1.1	1.0	0.4	0.0	0.1	0.4	0.5
HDFC	-0.3	-0.3	0.2	0.1	0.2	0.8	1.1	1.0	1.1	0.9	0.2	0.2	-0.2	-0.3	-0.3
SBI	0.0	0.0	0.4	0.0	0.3	0.0	-0.2	-0.2	-0.6	-0.4	-0.2	-0.2	0.4	0.3	0.2
Kotak	0.2	0.0	0.3	0.1	0.7	0.9	1.0	0.8	0.4	0.6	0.2	0.4	0.2	0.1	0.0
ABSL	-0.5	-0.4	-1.1	-1.4	-0.4	0.3	1.1	1.5	0.9	0.6	0.1	0.4	0.4	0.7	0.7
IDFC	0.7	0.6	0.1	0.3	0.6	0.2	0.3	0.0	-0.4	-0.2	-0.4	-0.3	0.1	0.0	-0.1
Nippon	-0.8	-1.2	-1.0	-2.7	-0.8	-0.2	0.2	1.0	0.6	0.9	0.6	0.6	0.8	0.4	0.3
Axis	0.2	0.4	0.6	0.2	0.8	0.6	0.4	0.4	0.1	-0.1	0.0	0.0	0.5	0.5	0.2
L&T MF	-1.5	-1.8	-0.3	0.0	0.6	0.4	0.5	-0.2	-0.6	-0.3	-0.3	-0.2	-0.8	-1.1	-0.9
UTI	**-7.2**	**-8.0**	**-6.4**	**-8.3**	**-1.7**	**-1.4**	**-0.7**	**0.4**	**-0.2**	**2.2**	**2.3**	**2.3**	**2.8**	**0.4**	**0.4**
DSP	-3.3	-1.4	-0.1	-0.6	0.8	0.2	-0.1	0.2	-0.3	-0.5	-0.4	0.1	-0.2	-0.2	-0.2
Tata	-5.5	-3.9	-0.7	-0.7	1.1	1.2	1.2	1.1	0.4	0.3	0.0	0.2	0.5	0.4	0.3

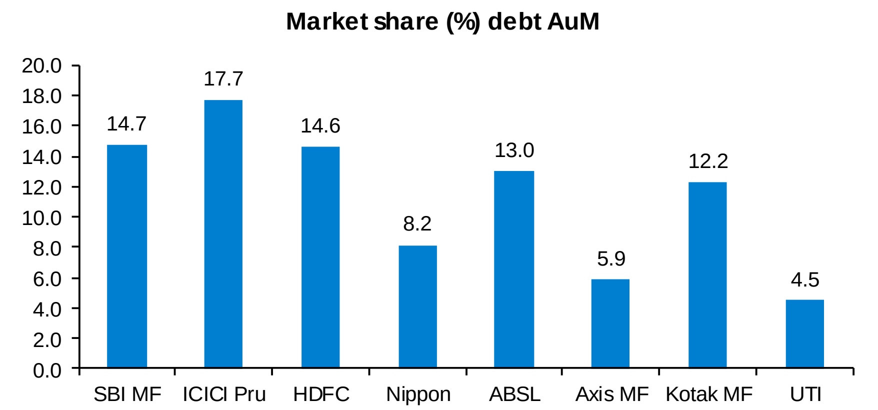
Source: AMFI, PL

Exhibit 101: Debt performance rank significantly improved since Dec'20

Rank	Jun'19	Sep'19	Dec'19	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22	Jun'22	Sep'22	Dec'22
ICICI	5	7	2	5	8	2	5	2	1	2	3	8	9	3	2
HDFC	6	5	5	3	9	4	2	4	2	3	4	6	11	11	11
SBI	4	4	3	6	7	10	11	12	12	11	9	10	5	7	7
Kotak	3	3	4	4	4	3	4	6	5	5	5	3	7	8	8
ABSL	7	6	11	10	10	7	3	1	3	6	6	4	6	1	1
IDFC	1	1	6	1	5	8	8	10	10	9	11	12	8	9	9
Nippon	8	8	10	11	11	11	9	5	4	4	2	2	2	4	5
Axis	2	2	1	2	3	5	7	7	7	8	7	9	3	2	6
L&T MF	9	10	8	7	6	6	6	11	11	10	10	11	12	12	12
UTI	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**8**	**8**	**1**	**1**	**1**	**1**	**6**	**3**
DSP	10	9	7	8	2	9	10	9	9	12	12	7	10	10	10
Tata	11	11	9	9	1	1	1	3	6	7	8	5	4	5	4

Source: AMFI, PL

Exhibit 102: Significant potential to gain market share in debt (%)

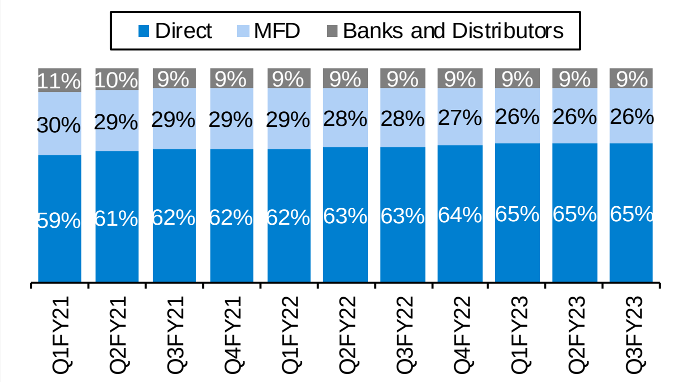


Source: Company, PL

Distribution mix veering towards direct and BND

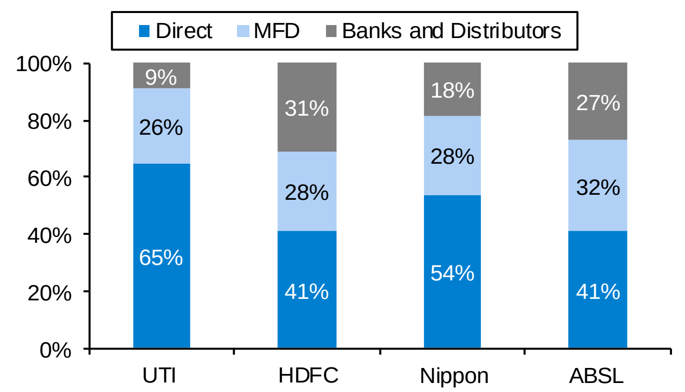
UTIAMC has been agency-driven, given that it was established as Unit Trust of India. It current employee base is 1379 with core sales strength of 655. Its network comprises 166 branches known as UTI Financial Centres (UFCs) and 213 District Associates (DAs). Of the 166 branches, 108 are located in B-30 cities.

Exhibit 103: Share of direct (%) improving which is positive



Source: Company, PL

Exhibit 104: Overall BND a tad lower to peers

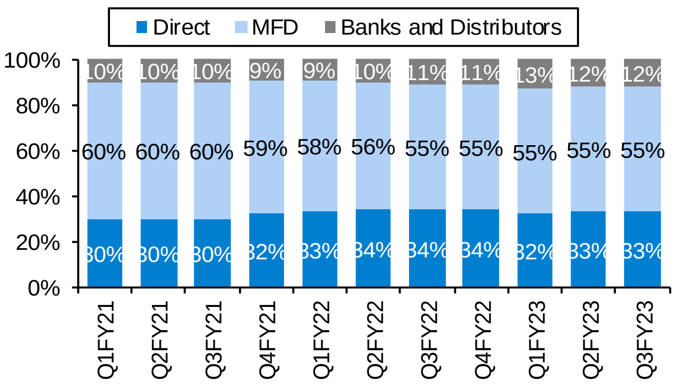


Source: Company, PL. Note: BND – Banks & Distributors

Through Mar&Apr'19 company conducted a roadshow in India for 14 days travelling across 52 cities, where entire equity investment team presented how UTI manages its investment process.

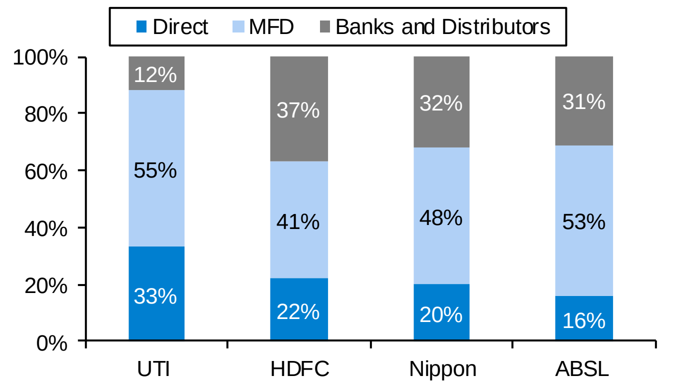
This impact of communicating and adhering to investment process along with some benefit of performance, started resulting in better flows as most distributor feedback would suggest a 1-3 year lookback period. By Mar'20, UTI got back to doing business on majority of platforms.

Exhibit 105: Better BND share led by revival in equity



Source: Company, PL. Note: BND – Banks & Distributors

Exhibit 106: Scope for expansion in BND network



Source: Company, PL. Note: BND – Banks & Distributors

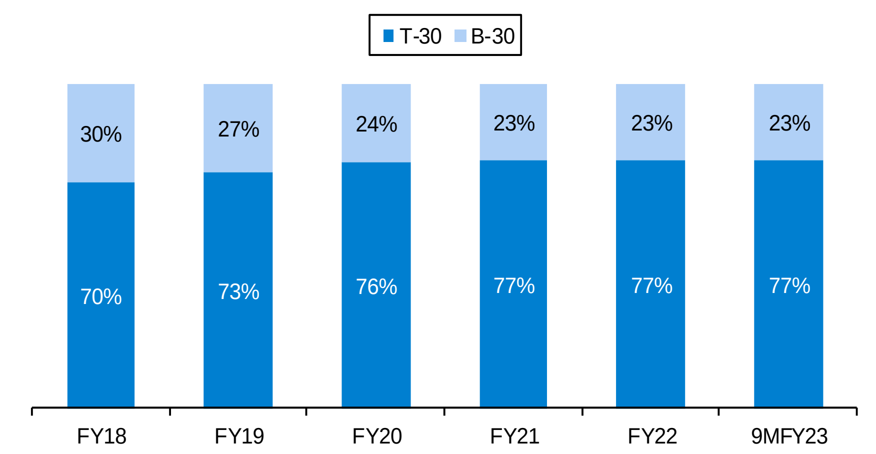
As a result of these efforts, UTI schemes are now on the platform of all banks which distribute their product. The company is revisiting its business development partnership with major banks and its flagship products are now empanelled with banks like HDFC, Axis, Kotak, CitiBank and StanC.

Efforts to increase distribution started bearing fruit and over the course of FY21, gross sales trajectory indicate that with most key platforms incremental market share scaled back to 6-6.5% from 1.5-2%. SIP ticket size in Mar'20 that was Rs2700, increased to Rs3300-3400 in FY22.

To further strengthen its Banking and Fintech channels, the company hired Mr. Peshotan Dastoor from Franklin Templeton. He internally re-organised the entire sales team and now there is a dedicated team looking at banks and fintechs as a separate channel.

National distributor channel was a bit weaker for UTIAMC. Decision was taken many years ago to not tie up with NJ Group as its catchment area was similar and conflicting with UTI's core constituency. Hence there was a hesitancy to engage with NJ for many years. However, relationship was re-established with NJ in in 2020 which is ramping up.

Exhibit 107: Strategy to increase T30 share (%) materializing



Source: Company, PL

While UTI's BND share has been lower owing to strong B-30 presence, its retail system is a well-oiled machine which was supportive during tough times of FY17 to FY20. Further, depth of relationships in Tier-2,3 cities has been very helpful.

Historically, UTIAMC has stronger presence in B-30, due to which its business through MFD distribution has been higher. Average ticket size in UTI equity scheme is 40% lower than industry average owing to higher B-30 contribution, while B-30 share in equity and hybrid is 42% compared to industry average of 25%.

However, longevity and stickiness of B-30 money is longer and higher compared to T-30. Hence incremental focus has been on expanding presence in T-30 coupled with increasing footprint in BND distribution.

With sharper focus on Bank channels and T-30, scorecards were introduced to monitor sales of 4 large focused schemes viz. flexicap, mastershare, value opportunities and midcap funds. To cater to the retail segment, ELSS is also a focused scheme.

Operating leverage, a key to improve profitability

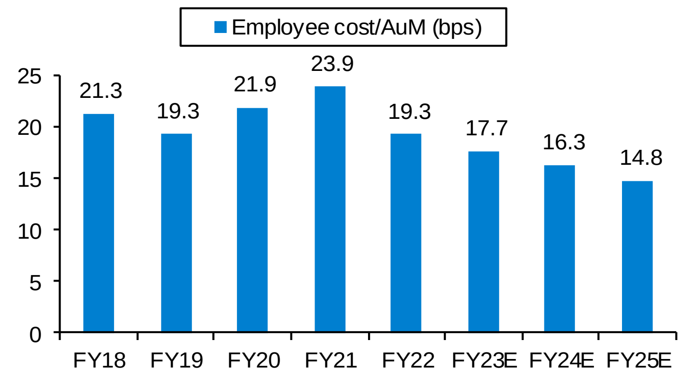
Overall opex for UTI AMC has been much higher compared to peers, which has led to depressed core profitability. Management is focused to structurally reduce costs. Employee base as at 31st Dec'22 is 1379, of which 1318 belongs to UTI MF and 58 work with subsidiaries.

Employee split is 1060 officers and 385 non-officers. 1056 people (802 officers and 254 non-officers) are in sales and rest in other support. 385 non-officer base would reduce by 35% or 120 in 5 years. By 2028, this number would fall to 50-60.

Average salary of older employees is higher at ~Rs2.0mn. By 2028, 90% of these employees will retire. Mainly these employees (largely clerical staff) are unionised and based out of Kolkata while some are in Mumbai, HO.

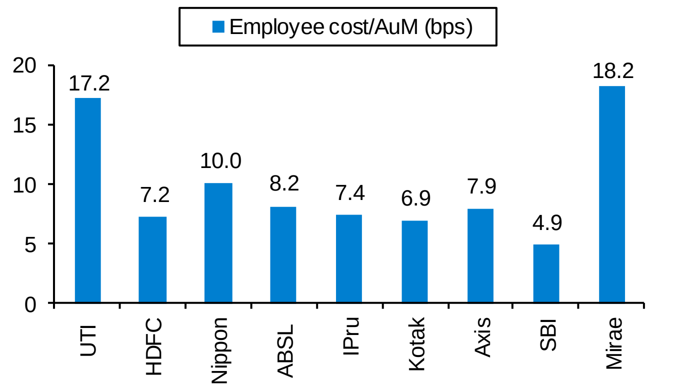
As per management, a reasonable increase in cost per employee excluding **ESOP would be 6-7% including inflation**, while net employee staff would gradually decline as only retirees would be replaced.

Exhibit 108: Employee cost to AuM to taper off



Source: Company, PL

Exhibit 109: Staff costs much higher for UTI vs peers

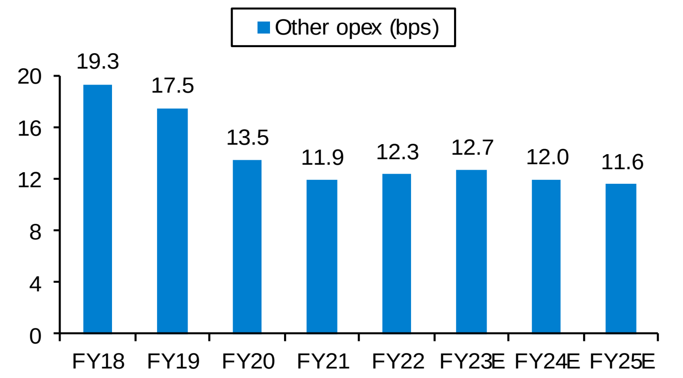


Source: Company, PL Note: UTI Standalone nos

Over the past ~20 years work culture has become more professional, as post 2003 the company shifted to lateral recruitment process. Due to this change there has been lot of competitiveness that brought in fresh talent resulting in the organization moving towards meritocracy and competency.

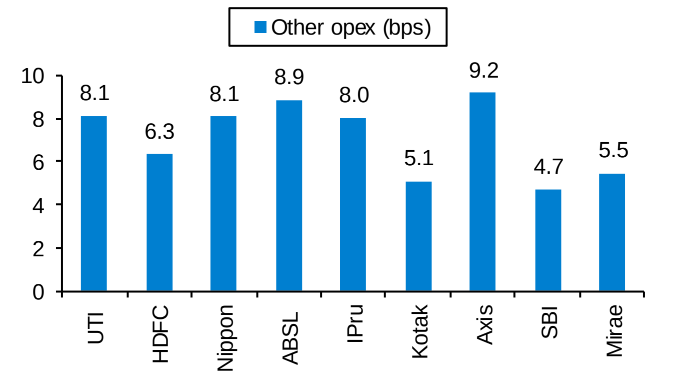
Senior level hiring is all done through a rigorous process wherein all board members have a one-on-one discussion with the candidate. During IPO process in Dec'2019, ESOPs were offered to 100% of employees in order to bring inclusiveness and ownership. Higher weightage was given to fund management and sales team in terms of ESOPs.

Exhibit 110: Other opex/AuM also to trend downwards



Source: Company, PL

Exhibit 111: Other opex (standalone) comparable to peers

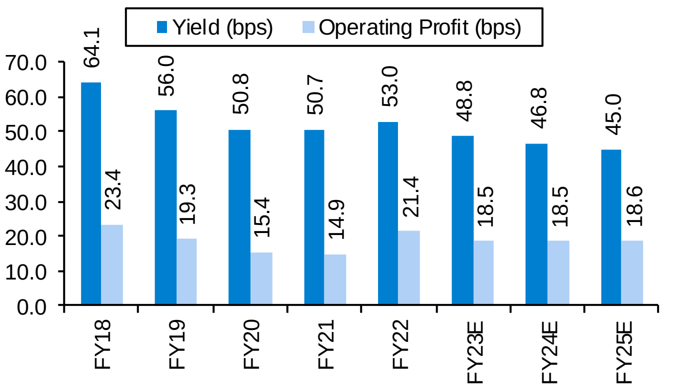


Source: Company, PL. Note: UTI Standalone nos

The company has invested in training and development and moved to paperless document management system, which has helped to reduce printing, stationery and courier costs. Administrative cost is also managed effectively and vendor cost negotiation prior to pandemic is resulting in cost savings now.

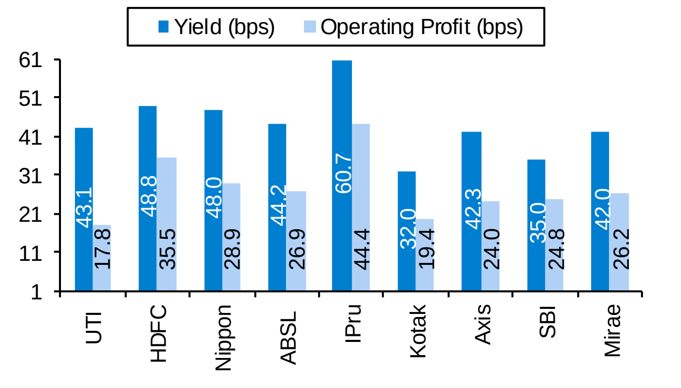
There is no plan to increase branches aggressively while UTI plans to leverage on its DA strength, which other AMCs do not possess. Idea is to increase number of district associates (DA) which will help in increasing distribution reach in a cost effective manner. **Where UTI is not present, DA garners business.** If DA is performing well and reaches a specific AuM, it would entail opening up a branch.

Exhibit 112: Reducing opex to aid operating profitability



Source: Company, PL

Exhibit 113: UTI needs to work on the cost front

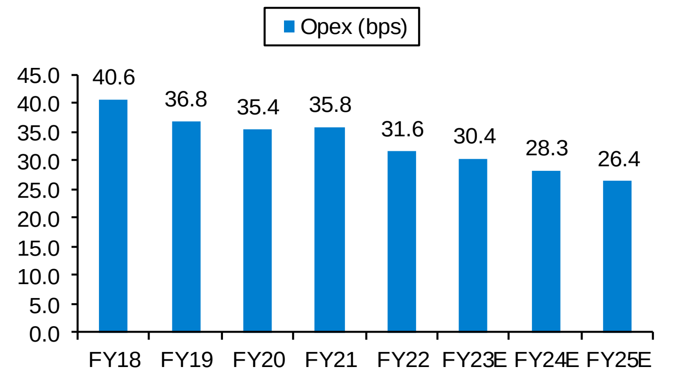


Source: Company, PL. Note: UTI Standalone nos

With employee retirements expected over medium term and focus to keep other opex low, we expect operating leverage to play out and employee cost and other opex may see controlled growth over FY22-25E resulting in **opex to AuM to reduce from 32bps in FY22 to 26bps in FY25E.**

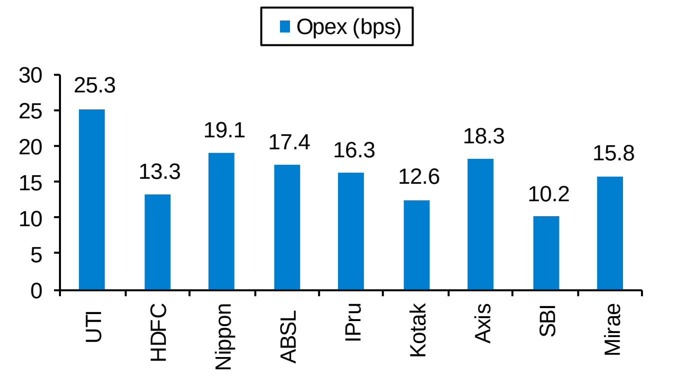
While yields would see contraction over FY22-25E as AuM grows, we expect revenue CAGR (~8%) to exceed opex growth (~5%) over the same time frame resulting in **operating profit/core PAT CAGR of 13%/14%.**

Exhibit 114: Operating to drive opex/AuM reduction



Source: Company, PL

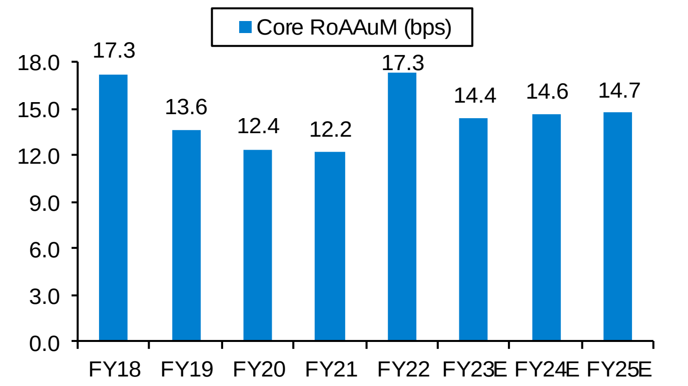
Exhibit 115: Opex/AuM significantly higher to peers



Source: Company, PL. Note: UTI Standalone nos

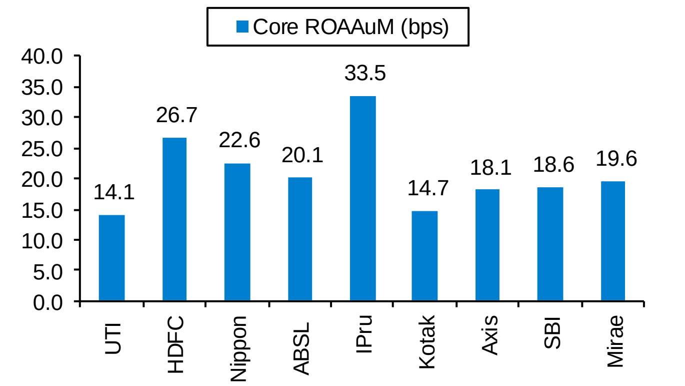
Payout ratio has consistently increased over FY18-22 from 15% to 50% and as per the management payout is expected to further increase over medium term which we have factored in. Consequently, **we see core RoE to enhance from 14% to 17% over FY23-25E.**

Exhibit 116: Core ROAAuM to sustain over FY23-25E



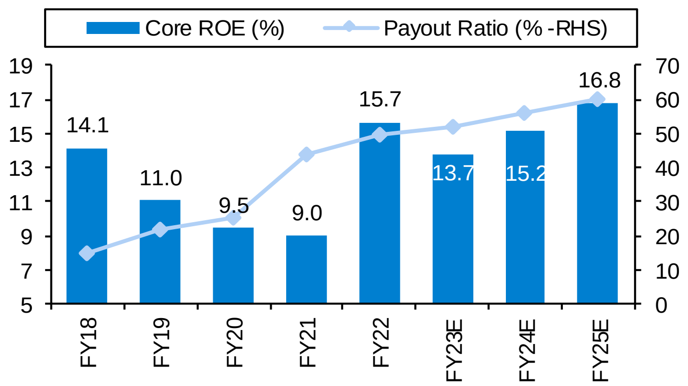
Source: Company, PL

Exhibit 117: Core ROAAuM lower to listed peers



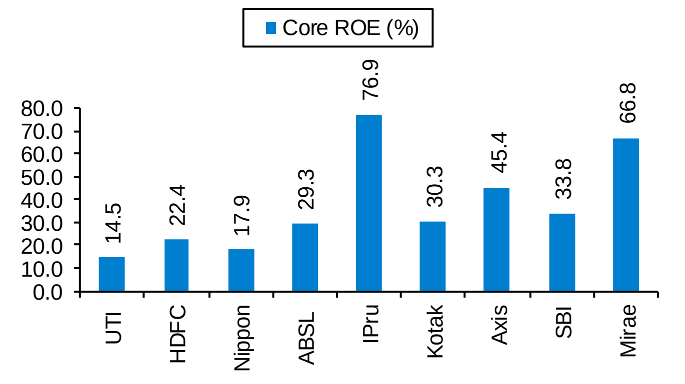
Source: Company, PL, Note: UTI Standalone nos

Exhibit 118: Core ROE set to improve over FY23-25E



Source: Company, PL

Exhibit 119: RoE lowest to peers due to opex/low payout

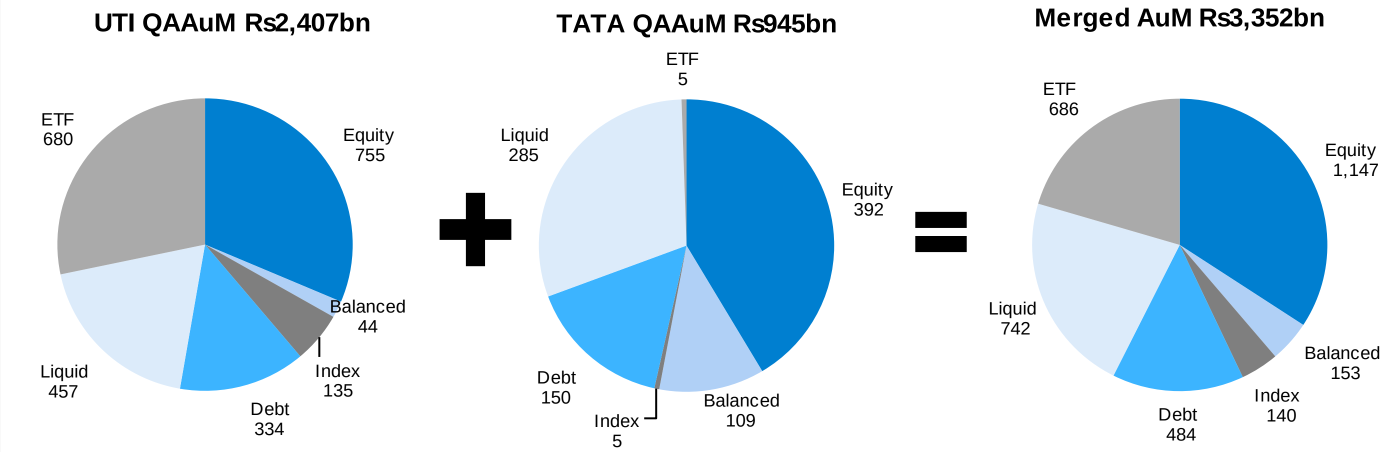


Source: Company, PL. Note: UTI Standalone nos

If UTIAMC and TATA AMC merge

As of Q3FY23 TATA AMC had a QAAuM of Rs945bn with equity + balanced AuM of Rs501bn. In case the acquisition of UTIAMC by TATA MF fructifies it would create the 4th largest AMC as of Q3FY23 with QAAuM of Rs3.35tn having a market share of 8.4%, while equity + balanced QAAuM would sum up to Rs1.3tn with market share of 6.6%. For a like-to-like comparison we have considered standalone financials in case of UTI AMC.

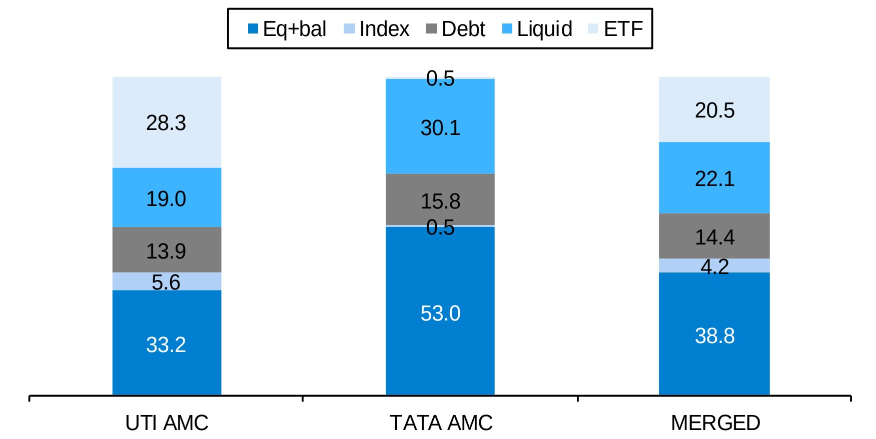
Exhibit 120: UTI+TATA AMC merger could create 4th largest AMC with QAAuM (Q3FY23) of Rs3.35tn



Source: Company, PL

On a combined basis, the mix would largely shift towards equity (~39%) compared to standalone UTI (33%) as TATA has a higher proportion of equity (53%). While there would not be a significant change in debt proportion (14%), liquid would contribute 22% to combined AuM. Since UTI is a major player in ETF, its share in the combined entity would be 20.5%.

Exhibit 121: Equity mix increases to ~39%; ETF share falls to 21%



Source: Company, PL

On merged basis, operating yields would largely remain steady at 18bps as yields for UTI/TATA as at FY22 were 43.1/43.6bps while opex was 25.3bps/25.4bps. As a result, core PAT yields are 14bps. However, due to lower other income of TATA MF, ROA would dip from 20bps for UTI to 18bps for the merged entity.

Exhibit 122: Du-pont (merged) suggests no major change in core profits

FY22 Particulars (bps)	UTI AMC	TATA AMC	Merged
Revenue	**43.1**	**43.6**	**43.2**
Expenses	**25.3**	**25.4**	**25.3**
Employees	17.2	16.0	16.9
Others	6.5	7.6	6.8
Depreciation	1.6	1.8	1.7
Core Income	**17.8**	**18.2**	**17.9**
Other Income	7.1	0.1	5.2
PBT	24.9	18.2	23.1
Tax	5.1	4.2	4.9
PAT	19.8	14.0	18.2
Core PAT	**14.1**	**14.0**	**14.1**

Source: Company, PL

Indian AMC witnessed some consolidation over the recent past with 3 deals materializing i.e. take-over of L&T MF, IDFC MF and Principal MF by HSBC MF, Bandhan Bank and Sundaram MF respectively. Transaction details suggest that these deals were done with market cap/AUM ratio ranging from 3.9% to 4.5%.

Given that post UTI-TATA AMC merger, core profitability would be ~14bps with an AuM size of Rs3.35tn, market cap to AuM ratio could range from 3.9-4.3% suggesting a combined market cap of Rs130-145bn.

Exhibit 123: Recent M&A in MF space suggests a valuation of 3.9-4.3%

Mutual Fund	Merger date	Consideration (Rsmn)	AuM (Rs mn)	Valuation
L&T MF	26th Nov'22	31,875	7,38,279	4.3%
IDFC MF	4th Jun'22	45,000	11,50,000	3.9%
Principal MF	31st Dec'21	3,385	74,470	4.6%

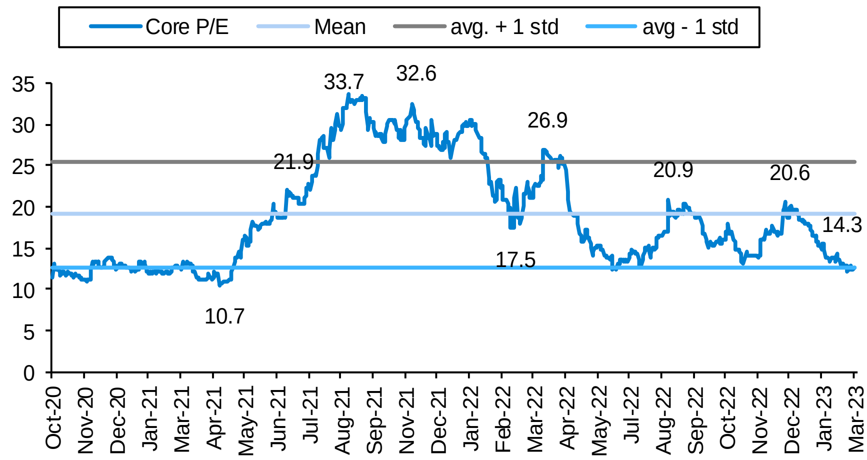
Source: Company, PL

Valuation & Risks

Valuation

After navigating a tough period from FY16-20, UTIAMC has turned the tide since its equity and debt segments have revived, attributable to strengthened processes. Net equity flows' share improved from -0.5% to 5.9% over FY20-22 while debt market share, that fell sharply over FY20 and FY21 by 220bps to 4.1%, has enhanced to 4.4% in Q3FY23. Guidance to reduce employee cost over FY21-25E is intact due to likely progressive retirements that would lead to controlled growth in overall opex over FY23-25E. Hence, opex-to-AuM should reduce from 32bps in FY22 to 26bps in FY25E resulting in core PAT CAGR of 14%. Valuation is compelling at 10x FY25E core EPS suggesting a 57% discount to HDFCAMC. Assigning a multiple of 15x we arrive at TP of Rs830. Initiate 'BUY'.

Exhibit 124: One year forward P/E of UTIAMC trades at 14.3x



Source: Company, PL

Risks

We expect a 13-15% CAGR growth in industry equity AAuM and if industry growth is muted driven by weak equity markets, AAuM growth of UTIAMC would be lower. Secondly, underperformance on equity and debt could also impact net flows. Higher variable staff expenses or fresh hiring would keep employee cost elevated resulting in lower profitability. Sharper yield correction each year is also another risk.

Experienced Management Team

Exhibit 125: Experienced Management Team

Name	Designation	Brief Profile
Mr. Imtaiyazur Rahman	Chief Executive Officer	Mr. Imtaiyazur Rahman is a whole-time director and CEO of the company. He holds a B.Sc. degree and a PGDCA from Institute of Modern Management, Calcutta. He also completed the executive program conducted by Indian School of Business and Kellogg School of Management. He has over 30 years of experience in management and business leadership. He is with UTI AMC since 2003.
Mr. Surojit Saha	Chief Financial Officer	Mr. Surojit Saha holds a B.Com degree from University of Calcutta and M.Com degree from the University of Calcutta. He has passed the ICWAI's final examination. He joined erstwhile UTI in December 1990, and was subsequently transferred to UTI AMC in 2003. He was earlier associated with National Insurance Company Ltd.
Mr. Vetri Subramaniam	Chief Investment Officer	Mr. Vetri Subramaniam is chief investment officer. He holds a B.Com degree from the University of Madras and a PGDM from IIM, Bangalore. He joined the company with effect from Jan'17. He was earlier associated with Invesco, Kotak Asset Management, Motilal Oswal Securities Limited, etc.
Mr.Ajay Tyagi	Head of Equity	Mr.Ajay Tyagi is the Head of Equities at UTI Asset Management. He is a CFA Charter holder from The CFA Institute, USA and also holds a Masters degree in Finance from Delhi University. He has been associated with UTI since 2000 and has successfully carried out various roles and responsibilities across equity research, offshore funds as well as domestic onshore funds.
Mr. Amandeep Chopra	Head of Fixed Income	Mr. Amandeep Chopra holds a B.Sc degree from University of Delhi and an MBA degree from University of Delhi. He joined erstwhile UTI in June 1994 and was subsequently transferred to UTI AMC with effect from January 2003. Prior to joining erstwhile UTI, he was associated with Aaina Exports Private Limited and Stenay Limited.
Mr. Vinay Lakhotia	Head of Operations	Mr. Vinay Lakhotia holds a B.Com (Honours) degree from University of Calcutta. He is a Rank holder Chartered Accountant and admitted as an associate of the Institute of Chartered Accountants of India. He was also awarded the Chartered Financial Analyst designation from the CFA institute in the year 2007. He joined erstwhile UTI in July 1999 and was subsequently transferred to UTI AMC with effect from Jan'03.
Mr Peshotan Dastoor	Group President & Head – Sales at UTI AMC	Mr Peshotan Dastoor is the Group President & Head – Sales at UTI AMC. He holds double post-graduation qualification - Masters of Commerce degree from the University of Mumbai and Masters in Business Administration degree from Xavier's Institute of Management. He also holds the Calritas Investment Certificate from CFA Institute, USA. Mr. Dastoor joined UTI AMC in 2021 and has over 27 years of valuable experience in the financial services sector across banking and mutual funds. Before joining UTI AMC, he has been associated with Franklin Templeton Asset Management India Pvt. Ltd, ING Bank N.V, ING Private Banking.
Mr. Vivek Maheshwari	Senior Executive Vice President and Chief Risk Officer of our Company	Mr. Vivek Maheshwari is Senior Executive Vice President and Chief Risk Officer. He holds a BCom degree from University of Lucknow, rank holder Chartered Accountant and Financial risk manager certified by Global Association of Risk Professionals. He has over 25 years of experience in diverse streams of functioning such as Accounts, Investments, Funds management, Internal Audit, Compliance, and Risk Management in various capacities.
Ms. Suruchi Wanare	Executive Vice President and Compliance Officer	Ms. Suruchi Wanare is the Executive Vice President and Compliance Officer of UTI Mutual fund. She is a commerce graduate from Mumbai University. She also holds a Master's degree in Business Administration in finance. She has over 30 years of diverse experience in branch operations, fund accounting, and Regulatory Compliances.

Source: Company, PL

Financials

Exhibit 126: Quarterly Financials

Particulars (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	**2,118**	**2,356**	**2,615**	**2,804**	**2,820**	**2,950**	**2,874**	**2,909**	**2,836**
Expenses	**1,681**	**1,414**	**1,564**	**1,581**	**1,606**	**1,923**	**1,620**	**1,774**	**1,910**
Employee	1161	743	943	1003	971	1151	1008	1033	1041
Others	394	548	501	460	510	647	487	611	734
Depreciation	95	90	90	91	93	95	96	100	103
Core Income	**437**	**943**	**1,051**	**1,223**	**1,215**	**1,027**	**1,253**	**1,135**	**926**
Other Income	1365	574	845	1030	265	-54	-189	1490	98
PBT	1,802	1,516	1,896	2,252	1,480	973	1,065	2,626	1,024
Tax	399	180	346	265	211	434	121	597	424
PAT	**1,402**	**1,336**	**1,550**	**1,987**	**1,269**	**539**	**944**	**2,028**	**600**
Core PAT	**340**	**831**	**859**	**1,079**	**1,042**	**569**	**1,111**	**877**	**543**
QAAuM	**16,52,073**	**18,27,731**	**18,71,803**	**20,90,646**	**22,45,462**	**22,38,889**	**22,41,872**	**23,36,829**	**24,06,774**
Equity	25.5%	24.9%	25.7%	26.0%	25.7%	26.1%	27.2%	28.5%	29.6%
Balanced	3.6%	3.3%	3.0%	2.7%	2.6%	2.4%	2.3%	2.1%	2.1%
Index	1.1%	1.2%	1.5%	1.6%	1.9%	2.1%	2.2%	2.3%	2.7%
Debt	29.9%	26.9%	25.5%	25.3%	26.2%	23.9%	24.0%	24.0%	22.8%
Liquid	28.4%	30.9%	30.0%	29.3%	27.2%	27.8%	25.2%	22.1%	21.7%
ETF	11.5%	12.7%	14.3%	15.1%	16.4%	17.7%	19.1%	21.0%	21.2%
Market share (%)	**5.57**	**5.71**	**5.67**	**5.81**	**5.92**	**5.87**	**5.97**	**6.01**	**6.01**
Equity	5.02	5.12	5.08	5.15	5.24	5.12	4.96	4.95	4.79
Balanced	1.59	1.51	1.44	1.35	1.23	1.18	1.14	1.13	1.11
Eq+Bal	4.30	4.39	4.35	4.41	4.43	4.30	4.16	4.16	4.05
Index	26.5	25.1	23.0	22.0	19.6	17.1	13.7	12.4	11.4
Debt	3.96	4.11	4.12	4.01	4.22	4.24	4.25	4.37	4.49
Liquid	7.26	7.30	7.02	7.45	7.33	7.13	7.67	7.30	6.91
ETF	12.98	13.32	13.02	13.43	13.46	12.95	12.93	13.09	13.46
QAAuM Growth (%)	**6.5**	**10.6**	**2.4**	**11.7**	**7.4**	**-0.3**	**0.1**	**4.2**	**3.0**
Equity	10.9	16.1	6.4	17.0	10.8	-1.1	-3.7	7.5	2.7
Balanced	0.3	3.8	0.8	5.5	4.2	-0.1	-2.9	4.3	2.2
Eq+Bal	10.0	15.1	6.0	16.2	10.4	-1.0	-3.6	7.3	2.7
Index	13.2	14.4	18.7	25.3	23.4	15.7	14.2	18.5	11.2
Debt	7.1	10.3	-2.6	0.5	3.2	-7.3	-11.0	-6.6	-2.0
Liquid	-3.4	-3.1	0.4	9.0	-0.7	2.9	10.5	-1.3	-7.0
ETF	14.9	21.9	3.3	18.0	12.4	1.6	2.8	9.8	12.7
Dupont (bps)									
Revenue yield	**51.3**	**51.6**	**55.9**	**53.6**	**50.2**	**52.7**	**51.3**	**49.8**	**47.1**
Opex to AuM	**40.7**	**30.9**	**33.4**	**30.2**	**28.6**	**34.3**	**28.9**	**30.4**	**31.7**
Staff cost	28.1	16.3	20.1	19.2	17.3	20.6	18.0	17.7	17.3
Other opex	9.5	12.0	10.7	8.8	9.1	11.6	8.7	10.5	12.2
Depreciation	2.3	2.0	1.9	1.7	1.7	1.7	1.7	1.7	1.7
Core income/AuM	**10.6**	**20.6**	**22.5**	**23.4**	**21.6**	**18.4**	**22.4**	**19.4**	**15.4**
PAT/AuM	**34.0**	**29.2**	**33.1**	**38.0**	**22.6**	**9.6**	**16.8**	**34.7**	**10.0**
Core PAT/AuM	**8.2**	**18.2**	**18.4**	**20.6**	**18.6**	**10.2**	**19.8**	**15.0**	**9.0**
Profitability (%)									
Staff cost/revenue	54.8	31.6	36.0	35.8	34.4	39.0	35.1	35.5	36.7
Other opex/revenue	18.6	23.3	19.2	16.4	18.1	21.9	17.0	21.0	25.9
Core income/revenue	20.6	40.0	40.2	43.6	43.1	34.8	43.6	39.0	32.7
Tax rate	22.2	11.9	18.2	11.8	14.2	44.6	11.3	22.8	41.4
PAT margin	64.4	24.3	32.3	36.7	9.4	-1.8	-6.6	51.2	3.4
Core PAT margin	16.1	35.3	32.9	38.5	36.9	19.3	38.7	30.1	19.1

Source: Company, PL

Exhibit 127: Summary Financials (Rs mn)

Particulars	FY22	FY23E	FY24E	FY25E
Profit & Loss				
Revenue	**11,189**	**11,550**	**12,425**	**13,507**
Investment mgmt.	11,173	11,532	12,407	13,489
PMS / Advisory	16	18	18	18
Expenses	**6,671**	**7,185**	**7,507**	**7,913**
Employee	4,067	4,181	4,333	4,442
Others	2,236	2,605	2,774	3,059
Depreciation	368	398	400	412
Core Income	**4,518**	**4,365**	**4,917**	**5,594**
Other Income	2,084	1,600	2,165	2,326
PBT	6,602	5,965	7,082	7,920
Tax	1,256	1,355	1,487	1,663
PAT	**5,346**	**4,610**	**5,595**	**6,257**
Core PAT	**3,658**	**3,403**	**3,885**	**4,419**
Dividend	2,666	2,398	3,134	3,755
Growth ratios (%)				
Revenue	**38.7**	**3.2**	**7.6**	**8.7**
Opex	**17.1**	**7.7**	**4.5**	**5.4**
Employee	7.0	2.8	3.6	2.5
Others	45.2	16.5	6.5	10.2
Core income	**90.8**	**-3.4**	**12.6**	**13.8**
PAT	**8.1**	**-13.8**	**21.4**	**11.8**
Core PAT	**88.5**	**-7.0**	**14.2**	**13.8**
DuPont analysis (%)				
Revenue	**0.53**	**0.49**	**0.47**	**0.45**
Expenses	**0.32**	**0.30**	**0.28**	**0.26**
Employee	0.19	0.18	0.16	0.15
Others	0.11	0.11	0.10	0.10
Depreciation	0.02	0.02	0.02	0.01
Core Income	**0.21**	**0.18**	**0.19**	**0.19**
Other Income	0.10	0.07	0.08	0.08
PBT	0.31	0.25	0.27	0.26
Tax	0.06	0.06	0.06	0.06
PAT (RoAAuM)	**0.25**	**0.19**	**0.21**	**0.21**
Core RoAAuM	**0.17**	**0.14**	**0.15**	**0.15**
ROE	15.5	12.4	14.1	14.9
Core RoE	**15.7**	**13.7**	**15.2**	**16.8**
Other Ratios (%)				
Staff cost/revenue	36.4	36.2	34.9	32.9
Other opex/revenue	20.0	22.6	22.3	22.6
Core Income/revenue	**40.4**	**37.8**	**39.6**	**41.4**
Other Income/revenue	18.6	13.8	17.4	17.2
Yield on Investments	6.56	4.50	5.00	5.00
Effective tax rate	19.0	22.7	21.0	21.0
PAT margin	47.8	39.9	45.0	46.3
Core PAT margin	**32.7**	**29.5**	**31.3**	**32.7**
Dividend payout	**49.9**	**52.0**	**56.0**	**60.0**

Particulars	FY22	FY23E	FY24E	FY25E
Balance Sheet				
Net Worth	**36,177**	**38,390**	**40,852**	**43,355**
Capital (FV Rs5)	1,270	1,270	1,270	1,270
Reserves	34,907	37,120	39,583	42,086
Employee benefit	1,763	1,798	1,834	1,871
Others	1,938	2,023	2,113	2,207
Total Liabilities	**39,877**	**42,211**	**44,799**	**47,433**
Cash and Bank	3,983	4,382	4,820	5,302
Investment	**29,782**	**31,268**	**33,043**	**34,796**
Fixed assets	3,911	4,102	4,303	4,515
Others	2,202	2,459	2,633	2,821
Total Assets	**39,877**	**42,211**	**44,799**	**47,433**
AuM Data				
AAuM	**21,11,700**	**23,64,741**	**26,54,813**	**30,01,602**
Equity	6,57,502	7,34,363	8,06,826	9,10,491
Balanced	41,609	43,674	46,208	48,846
Eq+bal	**6,99,111**	**7,78,037**	**8,53,034**	**9,59,337**
Index	70,104	1,24,861	1,63,389	2,09,209
Debt	4,27,137	3,44,482	3,60,632	3,71,518
Liquid	4,34,025	4,78,609	4,90,034	5,16,270
ETF	4,81,324	6,38,752	7,87,723	9,45,268
Mix (%)				
Equity	31.1	31.1	30.4	30.3
Balanced	2.0	1.8	1.7	1.6
Eq+bal	**33.1**	**32.9**	**32.1**	**32.0**
Index	3.3	5.3	6.2	7.0
Debt	20.2	14.6	13.6	12.4
Liquid	20.6	20.2	18.5	17.2
ETF	22.8	27.0	29.7	31.5
Growth (%)				
Overall	**32.6**	**12.0**	**12.3**	**13.1**
Equity	53.1	11.7	9.9	12.8
Balanced	12.6	5.0	5.8	5.7
Eq+bal	**49.9**	**11.3**	**9.6**	**12.5**
Index	103.5	78.1	30.9	28.0
Debt	9.8	-19.4	4.7	3.0
ETF	61.5	32.7	23.3	20.0
Valuations				
EPS	**42.1**	**36.3**	**44.1**	**49.3**
Core EPS	**28.8**	**26.8**	**30.6**	**34.8**
CPS	266.0	280.8	298.2	315.9
DPS	21.0	18.9	24.7	29.6
Dividend yield	2.3	2.5	3.7	4.5
BVPS	285	302	322	342
P/B (x)	3.1	2.3	2.1	1.9
P/E (x)	**25.6**	**17.0**	**15.0**	**13.4**
P/core EPS (x)	**24.8**	**15.4**	**11.9**	**9.9**

Source: Company, PL

Notes

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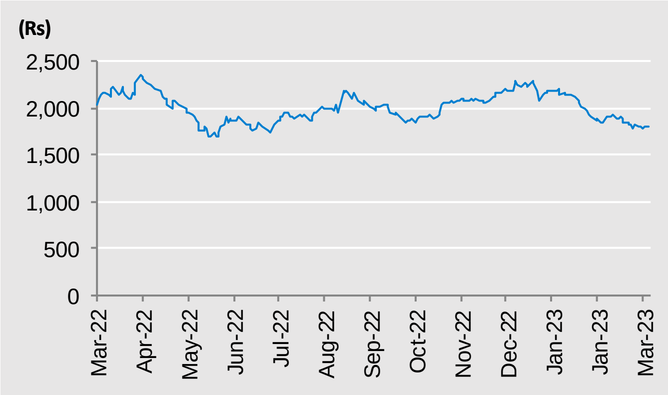
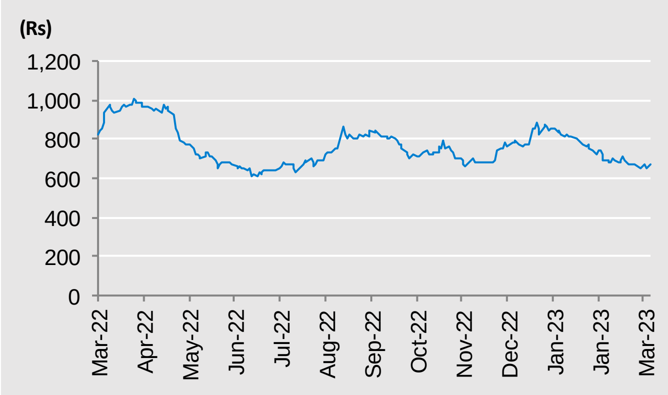
HDFC Asset Management Company	UTI Asset Management Company





Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,200	1,999
2	Axis Bank	BUY	1,100	865
3	Bank of Baroda	BUY	220	164
4	Can Fin Homes	BUY	700	521
5	City Union Bank	BUY	190	160
6	DCB Bank	BUY	150	114
7	Federal Bank	BUY	175	129
8	HDFC	BUY	3,000	2,613
9	HDFC Bank	BUY	1,850	1,601
10	ICICI Bank	BUY	1,090	870
11	IDFC First Bank	UR	-	60
12	IndusInd Bank	BUY	1,500	1,223
13	Kotak Mahindra Bank	BUY	2,100	1,763
14	LIC Housing Finance	Accumulate	410	376
15	Punjab National Bank	UR	-	57
16	State Bank of India	BUY	730	544

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Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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