

07 May 2024

India | Equity Research | Q4FY24 results review

UTI Asset Management Company

Asset Management Companies

Cost and subsidiary outperformance are available earnings levers; market share improvement key for re-rating

UTI Asset Management Company (UTI) reported flattish core EBITDA in FY24 with a decline in equity market share by 53bps to 5.3%. The company has shown strong operating cost performance (7.4% growth in FY24), which could lead to possible operating leverage and higher EBITDA growth ahead (UTI has higher scope for cost reduction vs. peers). International and retirement subsidiaries offer good diversification (revenue of INR 2.2bn/2.3bn in FY23/24). Maintain **HOLD**, basis pending improvement in market share.

Maintain HOLD

We factor in AAUM CAGR of 14.2% between FY24–FY26E (FY21–24 CAGR stands at 13.8%) and a decline of 3.9bps in standalone MF investment income yields between FY24–FY26E, which results in standalone revenue CAGR of 7.7%. Ending standalone AUM CAGR would stand at 15% between FY24–26E. We expect revenue from subsidiaries to grow at a CAGR of 12.9% (CAGR of 42.8% between FY21–FY24), resulting in overall consolidated revenue CAGR of 8.7% between FY24–26E. We expect total opex of INR 7.4bn/7.8bn for FY25/26E (INR 7.04bn in FY24) resulting in 13.3%/16.3% core EBITDA/core PAT CAGR for UTI over FY24–FY26E. We peg UTI's target price at INR 911, based on 15x (unchanged) FY26E core EPS of INR 33 and cash investments of INR 419 per share. Decline in equity yields, cost overrun and volatile performance of international subsidiaries are key risks. Positive movement in equity/SIP market share is key for multiples and pose an upside risk.

Equity, SIP market share improvement key for re-rating

UTI AMC's overall QAAUM market share dipped 17bps QoQ, from 5.54% in Q3FY24 to 5.37% in Q4FY24. Equity/liquid/passive QAAUM market share dipped 20/36/21bps in Q4FY24 on a QoQ-basis, while debt QAAUM gained market share by 6bps. Equity QAAUM mix increased 91bps QoQ to 42.6% in Q4FY24 while passive AUM mix increased to 31.2%. SIP gross inflow stood at INR 17.7bn in Q4FY24 while SIP AUM grew 43% YoY to INR 307bn, with average ticket size of INR 3,164. As such, SIP flow market share has declined by 19bps between Q3FY24 and Q4FY24. SIP tenure book remains long with > 5-year/10-year vintage consisting 95%/90% of SIP book.

Financial Summary

| Y/E March (INR mn) | FY23A | FY24A | FY25E | FY26E |
|--------------------|--------|--------|--------|--------|
| Net Revenue | 11,314 | 11,821 | 12,849 | 13,971 |
| EBITDA | 4,764 | 4,785 | 5,431 | 6,141 |
| Net Income | 4,397 | 8,020 | 7,777 | 8,302 |
| Core PAT | 3,182 | 3,090 | 3,652 | 4,177 |
| EPS (INR) | 34.5 | 60.2 | 61.1 | 65.2 |
| P/E (x) | 27.2 | 15.6 | 15.4 | 14.4 |
| Core EPS (INR) | 25.1 | 24.3 | 28.7 | 32.8 |
| Core P/E (x) | 26.1 | 22.9 | 19.0 | 15.9 |
| Dividend Yield | 2.3 | 5.0 | 4.6 | 5.1 |
| RoE (%) | 11.7 | 18.5 | 17.3 | 17.6 |

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Market Data

| | |
|---------------------|------------|
| Market Cap (INR) | 116bn |
| Market Cap (USD) | 1,386mn |
| Bloomberg Code | UTIAM IN |
| Reuters Code | UTIA BO |
| 52-week Range (INR) | 1,005 /639 |
| Free Float (%) | 32.0 |
| ADTV-3M (mn) (USD) | 2.1 |

| Price Performance (%) | 3m | 6m | 12m |
|-----------------------|-------|------|------|
| Absolute | (1.2) | 16.2 | 37.5 |
| Relative to Sensex | (3.1) | 3.0 | 17.1 |

Previous Reports

05-02-2024: [Q3FY24 results review](#)

20-10-2023: [Q2FY24 results review](#)

Q4FY24 core EBITDA increases 14% QoQ; MF yield improves 1bps QoQ with 7% QoQ increase in QAAUM

Q4FY24 AAUM increased 7% QoQ to INR 2.9trn. Yield in the standalone business improved across all categories. Standalone blended yields increased from 32.6bps in Q3FY24 to 34bps in Q4FY24. Equity & hybrid category saw 5bps improvement on a sequential-basis. This was due to 1) Commission charge overestimation that was added back to management fees. 2) B30 commission impacted the first three quarters (B30 accrual commission was stopped by SEBI in Feb'23, but was required to be paid for one-year additional trail) but was not there in Q4. The company has started FY25 with 34bps of revenue yield. It expects similar run rate of 76bps on equity & hybrid in Q1FY25. On cash and arbitrage category, yield improved from 9bps to 11bps and for fixed income- yield improved from 21bps to 22bps. UTI witnessed outflow in equity and hybrid funds from banks and national distributors while inflow from others have helped in managing that.

Consolidated costs increased 6.5% QoQ due to higher employee expenses to INR 1.9bn while operating revenue increased 10% QoQ to INR 3.2bn, resulting in 14% QoQ core EBITDA improvement to INR 1.3bn. Employee expense was higher during the quarter due to one-time gratuity expenses. On the international front, there was increased cost of INR 30mn with expansion in Europe and North America markets.

Management expects employee expenses to grow 2–3% for standalone and slightly higher for international, basis expansion plans. ESOP costs on standalone basis for FY24 was INR 131.4mn; for FY25, it would be 45mn. ESOP costs on a consolidated basis for FY24 was INR 168mn; for FY25, it would be INR 50mn.

UTI AMC reported a PAT of INR 1.8bn, a decline of 11% QoQ, mainly on account of lower other income (36% QoQ decline). Core PAT for Q4FY24 stood at INR 0.96bn (up 22% QoQ).

UTI has been expanding its footprint into new locations across India, particularly in tier-2/3 cities. B-30 AUM contribution is ~21% with a total folio count of 4.1mn, which is 33% of total folios. During the year, UTI opened 29 new branches in tier-2/3 cities and will continue to expand presence in smaller towns in FY25 by using digital infrastructure. As a part of commitment to financial literacy, UTI partnered with Dainik Jagran to conduct investor awareness across 40 tier-1/2/3 cities.

New revamped website, caters to investors and distributors, offering enhanced accessibility and functionality. All digital assets are now consolidated under digital platform 'UTI HART'.

New product launches: During the year, the company launched UTI BAF in Jul'23 and the fund has an AUM of INR 27.5bn, as of Mar'24. Now, the company has five products under the smart-beta category, with a total AUM of INR 55bn. Also, the company has launched two differentiated products – Nifty 5-year and 10-year G-Sec ETFs – for institutional investors. During FY25, it plans to launch a multi-cap fund and innovate in passive and thematic funds as and when the market cycle and timing is right.

Subsidiary performance

UTI International's revenue grew 3% QoQ to INR 330mn with 2% decrease in AUM to INR 276bn. UTI's retirement solutions revenue also grew 7% to INR 310mn in Q4FY24 after a 2% QoQ increase in AUM to INR 2,909bn. We factor in annual revenue of INR 1.36bn/1.49bn for international subsidiary and INR 1.42bn/1.56bn for retirement solutions in FY25E/FY26E.

UTI International obtained license from French regulators for European regions through Paris office. This will give on-ground presence in continental Europe and create significant business opportunities in this market.

On international businesses, the company is investing and is in the process of launching a few funds. Currently, it is promoting two new products – 'India Innovative Fund' and 'Private Credit Real Estate Fund'. Both these funds have slightly better margins, which should aid margins for UTI International going ahead.

Retirement solutions business has obtained a point-of-presence license from PFRDA and a NOC from SEBI. The POP license will allow UTI RSL to reach out to new pension fund investors and engage the services of partners to grow the business.

For its **AIF business**, the company has received SEBI approval for starting operations in GIFT City, in Gujarat. This will enable foreign investors to invest in our domestic AIF funds.

UTI AMC and UTI Investment America Ltd. have been registered with the Securities Exchange Commission (SEC), USA, and plans to start its operations in the USA. SEBI has granted permission to UTI AMC to start operations in the US, as per management.

Key business focus areas

UTI AMC has six key business focus areas: 1) Prudent investment management process. 2) Geographical spread across the country. 3) Leveraging digital adoption. 4) Growth of international, retirement and alternate businesses. 5) Attracting right opportunities through partnerships. 6) Consistent development of human capital.

Flow performance is yet to pick up

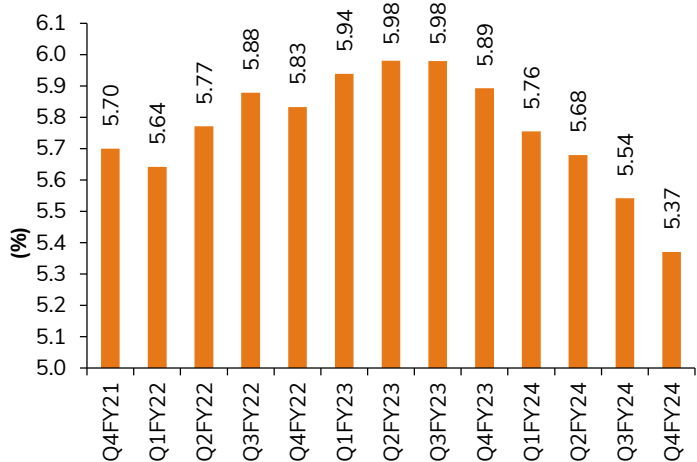
- UTI Mid Cap Fund (AUM of INR 99bn) ranked 27th in Mar'24 among peers, out of 29 schemes.
- UTI Large Cap Fund (AUM of INR 122bn) ranked 26th in Mar'24 among peers, out of 30 schemes.
- UTI Flexi Cap Fund (AUM of INR 26bn) ranked 34th in Mar'24, compared to 32nd rank in Dec'23 among peers.

Exhibit 1: Q4FY24 result review

| INR mn | Q4FY24 | Q4FY23 | YoY | Q3FY24 | QoQ |
|--|--------------|--------------|------------|--------------|-------------|
| AUM (INR bn) | 2,907 | 2,388 | 22% | 2,728 | 7% |
| MF op yields (on standalone AUM) | 34.0 | 34.5 | -1 bps | 32.6 | 1 bps |
| Operating revenue | 3,177 | 2,700 | 18% | 2,900 | 10% |
| Other Income | 1,026 | 387 | 165% | 1,602 | -36% |
| Total Income | 4,203 | 3,087 | 36% | 4,502 | -7% |
| Operating expenses | | | | | |
| Employee Benefit Expenses | 1,165 | 1,064 | 9% | 1,053 | 11% |
| Other Expenses | 711 | 723 | -2% | 709 | 0% |
| Total | 1,876 | 1,787 | 5% | 1,762 | 6.5% |
| Core EBITDA | 1,301 | 913 | 43% | 1,138 | 14% |
| Depreciation | 118 | 101 | 16% | 104 | 13% |
| Fin cost | 30 | 24 | 25% | 29 | 5% |
| Profit before tax | 2,180 | 1,174 | 86% | 2,607 | -16% |
| Tax | 365 | 317 | 15% | 573 | -36% |
| PAT | 1,814 | 857 | 112% | 2,034 | -11% |
| Core PAT | 960 | 575 | 67% | 784 | 22% |
| Tax rate | 17% | 27% | | 22% | |
| MF Fees | 2,470 | 2,060 | 20% | 2,220 | 11.3% |
| PMS Fees | 90 | 60 | 50% | 70 | 28.6% |
| SUUTI Support Service Fees | 10 | 20 | -50% | 20 | -50.0% |
| POP Fees & others | - | - | | - | |
| Sale of Service (UTI AMC Standalone) | 2,570 | 2,140 | 20% | 2,310 | 11.3% |
| UTI International | 330 | 310 | 6% | 320 | 3% |
| UTI RSL | 310 | 260 | 19% | 290 | 7% |
| UTI Capital & UTI Venture | 30 | 20 | 50% | 30 | 0% |
| Elimination | -60 | -30 | | -50 | |
| Sale of Service (UTI AMC Consolidated) | 3,180 | 2,700 | 18% | 2,900 | 10% |

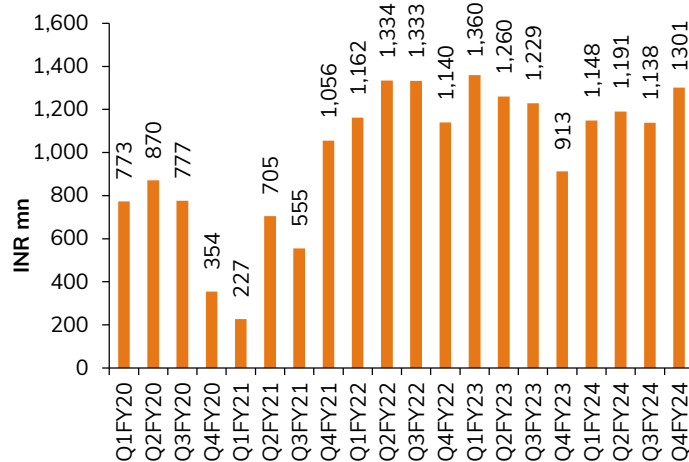
Source: I-Sec research, Company data

Exhibit 2: Total MF AUM market share has been declining for UTI AMC

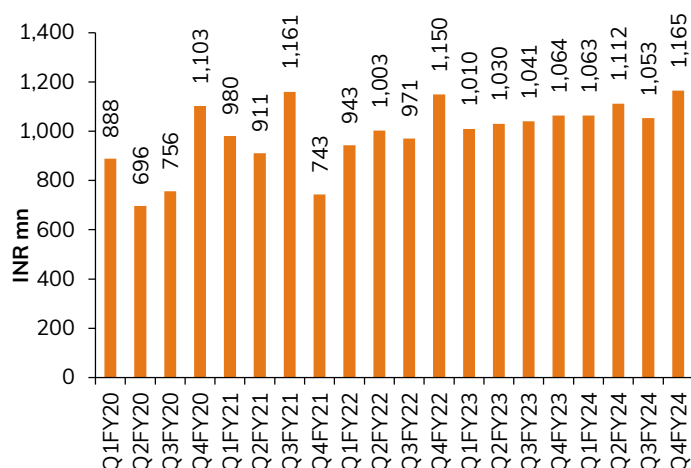


Source: I-Sec research, Company data

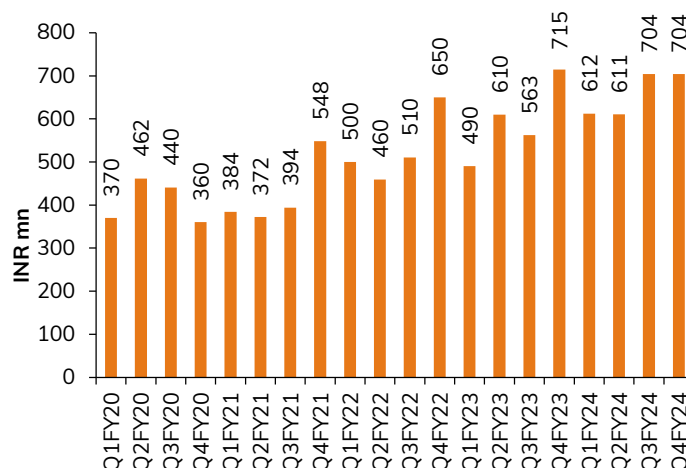
Exhibit 3: EBITDA trend improved QoQ, but remains lower



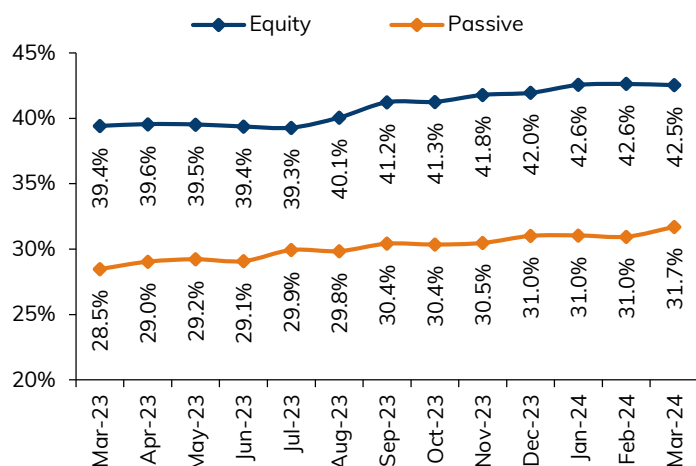
Source: I-Sec research, Company data

Exhibit 4: Employee cost trend remains flattish, as per expectations


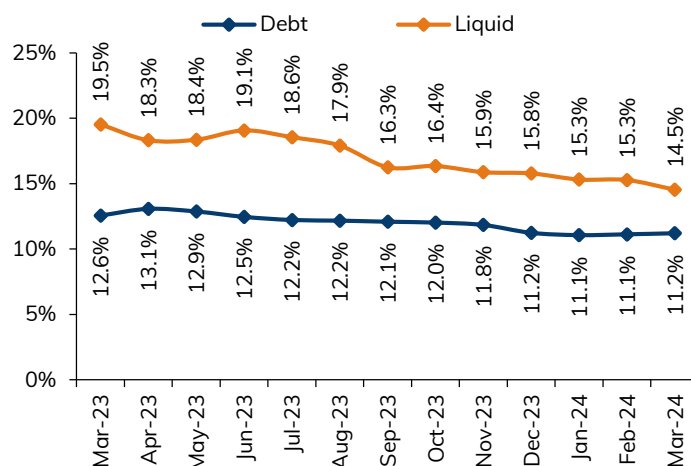
Source: I-Sec research, Company data

Exhibit 5: Other expenses trend remains in control


Source: I-Sec research, Company data

Exhibit 6: Equity and passive AUM mix has increased in 9MFY24


Source: I-Sec research, AMFI

Exhibit 7: Debt and liquid AUM mix has decreased in 9MFY24


Source: I-Sec research, AMFI

Exhibit 8: UTI AMC's scheme performance is awaiting improvement

| Type | Fund | AUM (INR bn) | Return (1-year) | Number of Funds (as on Mar'24) | Rank - Mar-24 | Rank - Feb-24 | Rank - Jan-24 | Rank - Dec-23 | Rank - Sep-23 | Rank - Feb-23 |
|------------------------------|---|--------------|-----------------|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Equity Linked Savings Scheme | UTI LT Equity Fund (Tax Saving)-Reg(IDCW) | 34 | 31.9 | 40 | 35 | 37 | 33 | 30 | 35 | 33 |
| Flexi Cap Fund | UTI Flexi Cap Fund-Reg(IDCW) | 243 | 22.9 | 34 | 34 | 34 | 32 | 32 | 32 | 28 |
| Focused Fund | UTI Focused Equity Fund-Reg(G) | 24 | 38.5 | 26 | 13 | 16 | 15 | 10 | 18 | 8 |
| Large & Mid Cap | UTI Core Equity Fund-Reg(G) | 27 | 47.6 | 26 | 8 | 7 | 9 | 4 | 4 | 9 |
| Mid Cap Fund | UTI Mid Cap Fund-Reg(IDCW) | 99 | 40.7 | 29 | 27 | 25 | 26 | 27 | 23 | 21 |
| Large Cap | UTI Mastershare-Reg(IDCW) | 122 | 30.0 | 30 | 26 | 25 | 26 | 26 | 25 | 21 |

Source: I-Sec research, Company data

Exhibit 9: Shareholding pattern

| % | Sep'23 | Dec'23 | Mar'24 |
|-------------------------|--------|--------|--------|
| Promoters | 0 | 0 | 0 |
| Institutional investors | 66.3 | 65.9 | 66.9 |
| MFs and other | 13.2 | 15.2 | 15.3 |
| FIs/ Banks | 35.2 | 35.2 | 35.1 |
| Insurance | 11.6 | 10.4 | 10.4 |
| FIs | 6.3 | 5.1 | 6.1 |
| Others | 33.7 | 34.1 | 33.1 |

Source: Bloomberg, I-Sec research

Exhibit 10: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|--|---------------|---------------|---------------|---------------|
| Net Sales | 11,314 | 11,821 | 12,849 | 13,971 |
| Operating Expenses | 6,550 | 7,036 | 7,418 | 7,831 |
| EBITDA | 4,764 | 4,785 | 5,431 | 6,141 |
| EBITDA Margin (%) | 42.1 | 40.5 | 42.3 | 44.0 |
| Depreciation & Amortization | 399 | 423 | 461 | 471 |
| EBIT | 4,365 | 4,362 | 4,970 | 5,670 |
| Interest expenditure | 96 | 113 | 100 | 100 |
| Other Non-operating Income | - | - | - | - |
| Recurring PBT | 5,856 | 9,868 | 10,370 | 11,070 |
| Profit / (Loss) from Associates | - | - | - | - |
| Less: Taxes | 1,459 | 1,848 | 2,592 | 2,767 |
| PAT | 4,397 | 8,020 | 7,777 | 8,302 |
| Less: Minority Interest | 23 | 364 | - | - |
| Extraordinaries (Net) | - | - | - | - |
| Net Income (Reported) | 4,397 | 8,020 | 7,777 | 8,302 |
| Core PAT | 3,182 | 3,090 | 3,652 | 4,177 |

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|--|---------------|---------------|---------------|---------------|
| Total Current Assets | 4,510 | 4,039 | 4,677 | 5,345 |
| of which cash & cash eqv. | 3,572 | 3,200 | 3,360 | 3,528 |
| Total Current Liabilities & Provisions | - | - | - | - |
| Net Current Assets | 4,510 | 4,039 | 4,677 | 5,345 |
| Investments | 32,536 | 45,544 | 46,665 | 49,747 |
| Net Fixed Assets | 3,735 | 2,886 | 3,633 | 2,277 |
| ROU Assets | - | - | - | - |
| Capital Work-in-Progress | - | - | - | - |
| Total Intangible Assets | - | - | - | - |
| Other assets | 853 | 855 | 855 | 855 |
| Deferred Tax assets | - | - | - | - |
| Total Assets | 41,749 | 53,410 | 55,915 | 58,309 |
| Liabilities | | | | |
| Borrowings | - | - | - | - |
| Deferred Tax Liability | - | - | - | - |
| provisions | 3,071 | 3,678 | 3,678 | 3,678 |
| other Liabilities | - | - | 200 | 400 |
| Equity Share Capital | 1,270 | 1,273 | 1,273 | 1,273 |
| Reserves & Surplus | 37,409 | 42,609 | 44,914 | 47,108 |
| Total Net Worth | 38,678 | 43,882 | 46,187 | 48,381 |
| Minority Interest | - | 5,850 | 5,850 | 5,850 |
| Total Liabilities | 41,749 | 53,410 | 55,915 | 58,309 |

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|--|----------------|-----------------|--------------|----------------|
| Operating Cashflow | 3,470 | 8,989 | 7,901 | 8,489 |
| Working Capital Changes | (859) | 733 | (278) | (300) |
| Capital Commitments | (100) | (100) | (100) | (100) |
| Free Cashflow | 3,370 | 8,889 | 7,801 | 8,389 |
| Other investing cashflow | (1,318) | (12,709) | (962) | (2,997) |
| Cashflow from Investing Activities | (1,418) | (12,809) | (1,062) | (3,097) |
| Issue of Share Capital | - | - | - | - |
| Interest Cost | - | - | - | - |
| Inc (Dec) in Borrowings | - | - | - | - |
| Dividend paid | (2,663) | (2,789) | (5,981) | (5,472) |
| Others | (96) | (113) | (100) | (100) |
| Cash flow from Financing Activities | (2,758) | (2,902) | (6,081) | (5,572) |
| Chg. in Cash & Bank balance | (706) | (6,722) | 758 | (181) |

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|---|-------------|-------------|-------------|-------------|
| Per Share Data (INR) | | | | |
| EPS(Basic Recurring) | 34.5 | 60.2 | 61.1 | 65.2 |
| Core EPS | 25.1 | 24.3 | 28.7 | 32.8 |
| Dividend per share (DPS) | 22.0 | 47.0 | 43.0 | 48.0 |
| Book Value per share | 305.1 | 344.8 | 362.9 | 380.2 |
| Growth Ratios (%) | | | | |
| MF AUM | 6.7 | 12.9 | 13.4 | 15.0 |
| Total Revenue | 1.1 | 4.5 | 8.7 | 8.7 |
| EBITDA | (4.3) | 63.8 | 5.1 | 6.5 |
| Recurring Net Income | (18.2) | 75.1 | 1.6 | 6.8 |
| Core PAT | (13.0) | (2.9) | 18.2 | 14.4 |
| Valuation Ratios (x) | | | | |
| P/E | 27.2 | 15.6 | 15.4 | 14.4 |
| P/BV | 3.1 | 2.7 | 2.6 | 2.5 |
| Core P/E | 26.1 | 22.9 | 19.0 | 15.9 |
| MCap to AUM | 5.0 | 4.4 | 3.9 | 3.4 |
| Operating Ratios | | | | |
| Investment management fees/total income | 87.7 | 67.8 | 70.0 | 71.8 |
| Operating expenses/total income | 50.8 | 40.3 | 40.4 | 40.2 |
| Employee expenses/operating expenses | 63.3 | 62.4 | 60.5 | 58.4 |
| Core PBT margin (of total income) | 33.1 | 24.4 | 26.5 | 28.6 |
| PAT margin (of total income) | 33.9 | 43.9 | 42.4 | 42.6 |
| Tax rate | 24.9 | 18.7 | 25.0 | 25.0 |
| Payout ratio (%) | 63.8 | 78.1 | 70.4 | 73.6 |
| % of MF AUM | | | | |
| Revenue | 47.4 | 43.8 | 42.0 | 39.7 |
| Operating expenses | 27.4 | 26.1 | 24.2 | 22.2 |
| Operating margins | 19.9 | 17.7 | 17.8 | 17.4 |
| PAT | 18.3 | 28.4 | 25.4 | 23.6 |
| ROE | 11.7 | 18.5 | 17.3 | 17.6 |

Source Company data, I-Sec research

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