

Institutional Research

We attended the IPO Analyst Zoom Call of UTI Asset Management Company Limited (UTI AMC) today and we share our takeaways from the call, commentary and data below. (The RHP can be accessed at this [link](#).)

Segments of operation

- UTI AMC is present in the entire gamut of asset management segments including Mutual funds, PMS funds, Retirement Solutions, Offshore Funds and Alternative Investment Funds.
- Non-mutual fund AUM at Rs 8.49 trn as of 1QFY21 is much larger than mutual fund AUM at Rs 1.34 trn but the former is far less profitable.
- Of the Non-mutual fund AUM, 82% contribution as of 1QFY21 is from PMS funds, which is primarily due to the mandate from the EPFO, which led to a jump in PMS funds AUM from Rs 1.33 trn in FY19 to Rs 6.97 trn as of 1QFY21.
- Retirement Solutions, Offshore Funds and Alternative Investment Funds contribute 16%, 1.8% and 0.1%, respectively to Non-mutual fund AUM, as of 1QFY21.

Discussion on profitability of Mutual fund business

- **Decisively positive aspects**
 - UTI MF has a relatively high share of B-30 centres in AUM at 24.0% compared with 15.1% for the industry, which is positive for profitability.
 - It also has a relatively high proportion of Individual customers in AUM at 45.5%, which is also positive for profitability.
- **Regarding share of equity AUM**
 - UTI's share of equity AUM in total AUM, as per a certain definition, is 43%.
 - However, it may be noted that, of the 43% equity share, 18% points are passive funds.
 - At the same time, hybrid funds, normally classified as equity-oriented (since they generally have more than 50% equity proportion) are not contained within the 43% and form 14% of total AUM.
 - Hence, proportion of actively-managed equity-oriented AUM can be said to 39% of total AUM.
 - Share of equity AUM that has a holding period of greater than 2 years is 32% compared with the industry at 21%, which is positive for UTI AMC's profitability.

Segment-wise profitability

- **Mutual fund segment-wise yield (fee to AUM)**
 - Equity and hybrid funds - ~100 bps of AUM
 - Fixed income funds (excluding Liquid funds) - ~28 bps
 - Exchange traded funds (ETFs) - ~5-6 bps
 - Liquid funds - ~9-10 bps
 - Weighted average yield for the mutual funds business - ~45-46 bps
- **Non-mutual fund segment-wise yield / profit**
 - PMS business – 1-1.25 bps.
 - Retirement business – PAT was Rs 60-70 mn.

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Discussion around low profitability in FY20

- **Issues with debt mutual fund business**
 - There was a decline in management fees of about Rs 520 mn due to issues in the debt mutual fund business.
 - In some of the high-yield fixed income funds, fresh subscriptions were stopped and exit load was reduced.
- **Marked-to-market (MTM) loss on treasury investments**
 - There is a seed investment of USD 23 mn in the International business.
 - There was an MTM loss of Rs 820 mn in FY20 on this investment.

Other comments on profitability related matters

- The rise in ETFs is driven by new institutional money rather than a shift of preference of retail customers, for whom the share of ETF products is in the very low single digits.
- More than 50% of the SIP book has a vintage of 5 years or more.

Unique distribution network

- It is UTI AMC's wide reach that explains its higher share of B-30 AUM in total AUM.
- UTI AMC's distribution network provides access to 697 of 722 districts in India.
- The company has a large number of branches numbering 463.
- The key channel for sourcing of equity and hybrid funds is IFAs, which formed 60% of average AUM for these products as of 1QFY21.
- For overall sourcing, the Direct channel is most important with 59% share in 1QFY21.

Market share

- **General comments**
 - As such, UTI AMC has lost market share in recent years.
 - However, they have put in place building blocks to regain lost market share.
 - Among other steps, they have ensured that their flagship equity scheme is one of the best-performing ones.
- **Market share in non-mutual fund segments**
 - UTI AMC has a 44.7% market share in PMS funds, second only to SBI Group at 46.2%.
 - It has a market share of 29.2% in NPS, second only to SBI Group at 38.4%

Cost efficiency

- Overall cost to AUM of about 32 bps is higher than the industry average.
- This is, in part, due to a stagnant AUM in recent years.
- However, employee retirements, reduction in administrative expenses and technology initiatives will aid improvement in cost ratio over 2-3 years.

IPO Basics

- The Price Band is Rs 552-554.
- The IPO is entirely an Offer for Sale i.e. there will be no fresh issue of shares.
- The purpose of the IPO is to allow certain shareholders, viz. LIC, SBI and BoB, sell 8.25% stake each whereas T Rowe Price and PNB will sell 3% each.

Role played by T Rowe Price

- T Rowe Price has not been a passive investor by any means but have rather been a strategic partner, providing active guidance to UTI AMC on various aspects.
- T Rowe Price finds representation on every key committee of the company including the steering committee.

Other aspects

- **Dividend policy**
 - The payout ratio as a proportion of PAT is expected to be 50%.
- **ESOP vs IPO pricing**
 - The pricing of the ESOP was higher than the IPO price band.
 - This is because the vesting period is 3 years and the exercise can happen in 4 years from vesting.

Disputed staff liability

- The matter is currently sub-judice in the Supreme Court.
- The Bombay High Court had set aside the award made by the CGIT in favour of the employees.
- UTI AMC has currently made no provisions against this.

Aspects related to the board and senior management

- **Composition of the Board of Directors**
 - 8 directors out of 11 are independent in nature.
 - 3 directors are women.
- **Personal involvement of the CEO with stakeholders**
 - At least 25 institutional clients are supervised by the CEO himself.
 - About 50 IFAs are handled by the CEO.

Valuation (at the upper end of the Price Band)

- The market cap to mutual fund AUM for UTI AMC would be 5.3% compared with 8.3% for Nippon Life India AMC and 13% for HDFC AMC.
- The FY20 P/B for UTI AMC would be 2.5x compared with 6.0x for Nippon Life India AMC and 11.2x for HDFC AMC.
- The average RoE over FY18-20 for UTI AMC is 12.9% compared with 18.9% for Nippon Life India AMC and 36.1% for HDFC AMC.
- The FY20 P/E for UTI AMC would be 25.7x compared with 37.8x for Nippon Life India AMC and 35.6x for HDFC AMC.
- The EPS CAGR over FY18-20 for UTI AMC is -13% compared with -5% for Nippon Life India AMC and 33% for HDFC AMC.
- It may be noted that FY20 saw a revenue loss amounting to Rs 1.34bn for UTI AMC due to factors that could be regarded as one-off in nature.

Exhibit 1: Key parameters – 1QFY21

	HDFC AMC	Nippon Life AMC	UTI AMC
Total MF AUM (Rs trn)	3.56	1.88	1.34
Equity AUM (Rs trn) – Excl. passive incl. hybrid	1.29	0.71	0.52
% Equity AUM – Excl. passive incl. hybrid	36%	38%	39%
Non-MF / Alternative Assets (Rs trn)	0.09	0.86	8.49
Live accounts (mn)	9.4	9.1	10.9
SIP accounts (mn)	3.1	3.4	1.2
SIP monthly flow (Rs bn)	9.6	7.0	7.2
Branch count	221	290	463
Distribution partners	65000	76900	53000

Source: Companies, AMSEC Research; UTI AMC Live accounts / Folio count is as of FY20

Exhibit 2: Share of sourcing (AUM) – 1QFY21

	HDFC AMC	Nippon Life AMC	UTI AMC
IFA	23%	26%	30%
National Distributors	18%	9%	11%
Banks	10%	13%	
Direct	49%	52%	59%

Source: Companies, AMSEC Research; N.B. For UTI AMC, the total share of Banks and ND is 13%

Exhibit 3: Market shares (AUM) – 1QFY21

Market shares	HDFC AMC	Nippon Life AMC	UTI AMC
Overall AUM	14.5%	7.7%	5.4%
Equity AUM	14.5%	8.0%	3.6%
B-30 AUM	11.7%	8.2%	8.5%

Source: Companies, AMSEC Research

Exhibit 4: Customer profile – 1QFY21

	HDFC AMC	Nippon Life AMC	UTI AMC
Proportion of B-30 AUM in Total AUM	13.0%	17.3%	24.0%
Proportion of Retail AUM in Total AUM	17.0%	24.0%	45.5%

Source: Companies, AMSEC Research

Exhibit 5: Valuation

Valuation	HDFC AMC	Nippon Life AMC	UTI AMC
Market Cap to MF AUM	13%	8.3%	5.3%
P/B - FY20	11.2	6.0	2.5
Average RoE - FY18-20	36.1%	18.9%	12.9%
P/E - FY20	35.6	37.8	25.7
EPS CAGR - FY18-20	33%	-5%	-13%

Source: Companies, AMSEC Research

Financials

(Rs mn)

Income Statement

Y/E (Mar)	FY17	FY18	FY19	FY20
Net revenue	10,349	11,501	10,505	8,550
Employee expenses	2,866	3,208	3,067	3,399
Other expenses	2,062	2,606	2,457	1,658
EBITDA	5,422	5,687	4,982	3,493
Depreciation	256	273	291	313
EBIT	5,165	5,414	4,691	3,179
Interest/fin charges	93	87	82	85
Other income	133	127	304	360
PBT	5,205	5,454	4,912	3,454
Tax expense	1,253	1,403	1,433	690
PAT	3,952	4,051	3,479	2,765

Balance Sheet

Y/E (Mar)	FY17	FY18	FY19	FY20
SOURCES OF FUNDS				
Share capital	1,268	1,268	1,268	1,268
Reserves & surplus	18,992	22,406	24,776	26,357
Shareholders' funds	20,260	23,674	26,044	27,625
Other liabilities	4,771	5,518	4,089	3,924
Total equity & liabilities	25,031	29,193	30,133	31,549
APPLICATION OF FUNDS				
Investments	18,002	21,788	22,614	23,558
Fixed and other assets	7,029	7,404	7,519	7,992
Total assets	25,031	29,193	30,133	31,549

Cash Flow Statement

Y/E (Mar)	FY17	FY18	FY19	FY20
CASH FLOW - OP ACTIVITIES				
Profit before tax	5,205	5,454	4,912	3,454
Op. profit before WC changes	3,750	4,014	3,726	3,118
Net cash from oper. activities	3,608	2,686	1,227	1,947
CASH FLOW - INV ACTIVITIES				
Net purchase of investments	-2,791	-3,815	-1,174	-1,146
Net cash used in inv. activities	-2,630	-1,538	-258	-1,059
CASH FLOW - FIN ACTIVITIES				
Dividend paid	-469	-507	-634	-634
Tax paid on dividend	-110	-79	-130	-58
Net cash from finan. activities	-648	-746	-1,229	-938
Net incr./ (decr.) in cash/equiv.	330	401	-260	-49
Opening cash/equivalents	770	1,101	1,502	1,242
Closing cash/equivalents	1,101	1,502	1,242	1,193

Key Ratios

Y/E (Mar)	FY17	FY18	FY19	FY20
Assets under management				
Mutual fund AUM (Rs bn)	1,368	1,549	1,597	1,515
Advisory services + PMS AUM (Rs bn)	1,737	2,048	2,397	8,281
Aggregate AUM (Rsbn)	3,105	3,598	3,994	9,796
Growth (%)				
Aggregate AUM	na	15.9	11.0	145.3
Revenue	na	11.1	-8.7	-18.6
EBITDA	na	4.9	-12.4	-29.9
PAT	na	2.5	-14.1	-20.5
Shareholders' funds	na	16.9	10.0	6.1
Margins (%)				
EBITDA	52.4	49.4	47.4	40.9
EBIT	49.9	47.1	44.7	37.2
PBT	50.3	47.4	46.8	40.4
PAT	38.2	35.2	33.1	32.3
Profitability (%)				
ROA	na	14.9	11.7	9.0
ROE	na	18.4	14.0	10.3
Per share data (Rs)				
EPS	31.6	28.7	27.8	21.5
BVPS	159.8	186.7	205.4	217.9
Valuations				
P/E (x)	17.5	19.2	19.8	25.6
P/B (x)	3.5	3.0	2.7	2.5

Source: Company, AMSEC Research; Price is Upper End of Band i.e. Rs. 554

Recommendation rationale

Sector rating

Buy: Potential upside of >+15% (absolute returns)
Accumulate: >+5 to +15%
Hold / Reduce: +5 to -5%
Sell: < -5%
Not Rated (NR): No investment opinion on the stock

Overweight: The sector is expected to outperform relative to the Sensex.
Underweight: The sector is expected to underperform relative to the Sensex.
Neutral: The sector is expected to perform in line with the Sensex.

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