

# Asset Management Companies

## Tough times to continue

FY20 was a difficult year for asset managers as equity flows deteriorated (-50.9% YoY), commissions increased (although managably), and performance deteriorated- as listed AMC's outperforming AUMs declined. Lastly, we have also worked out sensitivity of FY21E earnings to equity AAUMs and yields. While we continue to hold our constructive view on the sector, we believe flows to mutual funds may improve only in 2HFY21 and earnings will remain under pressure in FY21E.

- Performance tracker.** Value research indicates that with 90.3% of rated AUM in outperforming (4 star plus rated) schemes, MOAMC ranks the highest amongst the large mutual funds in the country. Performance has lagged for HDFCAMC/NAM as underperforming (1 to 3 star rated schemes) comprise 87.8/77.6% of their respective rated AUMs. Since our last update (May-19), outperforming AUM is down for HDFCAMC by a whopping 52.6%, while for NAM outperforming AUM is down by 13.7%.
- Flows.** For the first time in the last 5 years, ETF net inflows at Rs 664.4bn surpassed equity (ex. arbitrage and ex. ETF) inflows. We believe that this is significant as any sustained shift towards ETFs (unlikely for now!) will have an adverse impact on the business model of asset managers. Given tepid market conditions, FY20 equity (ex. arb. and ETF) inflows at Rs 582.9bn were down 50.9% YoY. We expect flows and equity market sentiment to improve only in 2HFY21.
- Commissions and TER tracker.** An analysis of the TERs of the top fund houses reveals that most large asset managers have been able to pass on the TER reduction to distributors. HDFC AMC has been able to pass on ~81%; commission payouts for NAM, however increased by ~23.6bps. This is despite reduction in TERs by ~10.9bps for NAM. As commissions have increased materially in Mar-20, we await future data points.
- Earnings sensitivity.** Post the sharp correction in equity prices, we ran sensitivities on our earnings estimates on two parameters 1) equity AAUM FY21E growth and 2) equity yields (bps). For NAM, 10% change in AAUM results in a 13.2% change in NOPLAT, while 2bps change in equity yields moves NOPLAT by 3.1%.

### Companies:

- NAM:** We rate Nippon Life India Asset Management (NAM) a BUY with a TP of Rs 349 (40x Mar-22E NOPLAT + cash & investments). We appreciate the recent ownership change with Nippon Life buying out stake, and believe that the current management team has the ability to regain market share, although the same will not be easy. At CMP of Rs 285 stock trades at a FY21E/22E P/E of 31.5/27.6x.
- MOFS:** We have a BUY rating on MOFS with TP of Rs 668. We like MOFS' differentiated business model and unique client franchise. There are headwinds in the near term in the form of a difficult fund raising environment due to regulatory changes and tough market conditions. We are also concerned of increased competition in broking. Lastly, MOHL too needs to display scalability. Having said the above valuations are compelling- at CMP of Rs 538 MOFS (ex. MOHL) trades at FY21E/22E P/E of 15.9/13.1x.

Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)
HDFCAMC	596	2793	NR	2683*
MOFSL	78.4	538	BUY	668
NAM	179	285	BUY	349

\*Fair Value

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## Fund House Performance Tracker

- Value research indicates that with 90.3% of AUM in outperforming (4 star plus rated) schemes, MOAMC ranks the highest amongst the large mutual funds in the country.
- Performance has lagged for HDFCAMC/NAM as underperforming (1 to 3 star schemes) comprise 87.8/77.6% of their respective AUMs.
- Since we last did our analysis in May-19, outperforming schemes are down for HDFCAMC by a whopping 52.6%. For NAM the number is 13.7%.

### Performance comparison of top AMCs

Fund Houses / (%)	ABSL	HDFC	IPRU	MO	NAM	SBI	UTI
<b>Total Equity AuM (Rs bn)</b>	<b>658</b>	<b>1,292</b>	<b>1,184</b>	<b>145</b>	<b>631</b>	<b>883</b>	<b>449</b>
<b><u>Rated AUM</u></b>							
5 Star	-	-	23.5	7.2	-	46.8	-
4 Star	14.1	12.2	37.4	83.1	22.4	10.4	36.5
3 Star	34.5	41.5	21.3	9.7	34.5	5.1	31.0
2 Star	46.6	39.9	17.3	-	26.5	34.6	30.8
1 Star	4.8	6.3	0.5	-	16.6	3.2	1.7
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### As % of total equity AUM (%)

- Rated AUM	88.0	71.1	82.1	94.5	90.7	91.3	74.0
- Unrated AUM	12.0	28.9	17.9	5.5	9.3	8.7	26.0

### Mar-20

	ABSL	HDFC	IPRU	MO	NAM	SBI	UTI
Rated AuM (Rs bn)	579.3	919.3	971.9	137.5	572.0	806.1	332.2
Total rated AuM (%)	88.0	71.1	82.1	94.5	90.7	91.3	74.0

### As a percentage of Rated AUM

<b>Outperforming Schemes- 4 star plus (%)</b>	<b>14.1</b>	<b>12.2</b>	<b>60.9</b>	<b>90.3</b>	<b>22.4</b>	<b>57.2</b>	<b>36.5</b>
Underperforming Schemes- 1 to 3 star (%)	85.9	87.8	39.1	9.7	77.6	42.8	63.5

### May-19

	ABSL	HDFC	IPRU	MO	NAM	SBI	UTI
Rated AuM (Rs bn)	812.5	1,186.4	1,267.2	175.9	887.6	902.2	NA
Total rated AuM (%)	88.9	71.1	83.7	94.1	96.3	95.1	NA

### As a percentage of Rated AUM

<b>Outperforming Schemes- 4 star plus (%)</b>	<b>44.3</b>	<b>64.9</b>	<b>75.6</b>	<b>91.8</b>	<b>36.1</b>	<b>75.5</b>	<b>NA</b>
Underperforming Schemes- 1 to 3 star (%)	55.7	35.1	24.4	8.2	63.9	24.5	NA

### **Increase / (decrease) in outperforming AUM (%)**

	<b>(30.2)</b>	<b>(52.6)</b>	<b>(14.7)</b>	<b>(1.5)</b>	<b>(13.7)</b>	<b>(18.3)</b>	<b>NA</b>
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Source: Value Research Mar-20, HSIE Research

## Flows

FY20 ETF net-inflows at Rs 664bn (+50.0% YoY) are at an all time high and are more than active equity inflows of Rs 583bn.

### Equity

- FY20 Equity Inflows (ex. arbitrage and ETF) were at s 582.9bn (-50.9% YoY).
- Gross SIP inflows averaged at a healthy ~Rs 84 bn during the year. In Mar-20 the same were highest ever at Rs 86.4bn (+1.5% MoM). FY20 Gross SIP inflows aggregated to Rs 1.0tn (+8.0% YoY).
- Total lumpsum flows were Rs (418)bn in FY20 vs. Rs 260 bn in FY19 and Rs 1.94tn in FY18. Lump sum flows in Mar-20 were just at Rs 2bn vs. 6.6bn in Feb-20.
- Low cost AUM: For the first time in the last 5 years ETF net inflows at Rs 664.4bn beat equity net-inflows of Rs 582.9bn. Any significant sustained shift towards ETFs could adversely impact earnings of asset managers. FY20 arbitrage inflows are at Rs 17bn.
- Total equity inflows (incl. arb and ETFs) for FY20 was at Rs 1.26tn (-19.9% YoY).

### Debt/Liquid

- Debt schemes continued to witness outflows, but the pace reduced significantly: FY20 outflows were at Rs 327.3bn vs. Rs 1.24tn in FY19.
- Inflows were primarily in safer schemes such as banking and PSU debt funds and short duration funds. Credit risk funds continue to see outflows.
- Liquid schemes recorded net outflows of Rs 1.11tn.

*Note: As AMFI has changed reporting, we have clubbed liquid, money market and overnight funds in liquid.*

### View

- FY20 equity (ex. arbitrage and ETF) Inflows were down 50.9% YoY to Rs 582.9bn as equity markets remained sub-dued.
- For the first time in the last 5 years, ETF net inflows at Rs 664.4bn beat equity (ex. arbitrage and ETF) inflows. Any significant and sustained shift towards ETFs, will have an adverse impact on the business model of asset managers.
- Amidst the current debt crisis and series of defaults, investors preferred high quality fixed income assets and majority of inflows were in banking and PSU debt funds and low duration funds.

### Net Inflows

(Rs bn)	FY15	FY16	FY17	FY18	FY19	FY20
Equity	808.6	937.7	1,027.8	2,608.3	1,187.2	582.9
Equity(arbitrage)	-	-	-	-	(38.9)	16.8
Debt	127.8	159.0	1,672.2	(87.9)	(1,244.1)	(327.3)
Liquid	97.8	171.1	(18.4)	79.9	760.9	(75.6)
ETFs	7.7	78.2	202.7	231.2	429.4	664.4
<b>Total</b>	<b>1,041.9</b>	<b>1,346.0</b>	<b>2,884.3</b>	<b>2,831.5</b>	<b>1,094.5</b>	<b>861.2</b>

Note: Arbitrage funds inflows data is available beginning Apr-18. Prior to Apr-18 the same has been clubbed in equity. Source: AMFI, HSIE Research

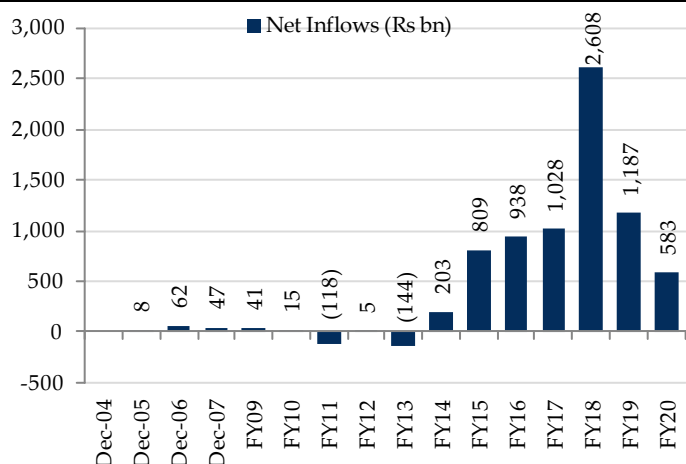
**AUM**

(Rs bn)	FY15	FY16	FY17	FY18	FY19	FY20	YoY (%)
Equity	3,715.1	4,255.5	6,283.0	9,219.4	10,206.9	8,286.0	(18.8)
Equity(arbitrage)	-	-	-	-	520.6	522.1	0.3
Debt	5,315.7	5,835.0	7,605.7	7,994.3	7,297.5	7,082.4	(2.9)
Liquid	1,625.6	1,994.0	3,140.9	3,355.3	4,362.2	4,719.2	8.2
ETFs/FoF	147.2	224.1	499.2	776.9	1,390.7	1,625.0	16.8
<b>Total</b>	<b>10,803.5</b>	<b>12,308.6</b>	<b>17,528.7</b>	<b>21,345.9</b>	<b>23,777.9</b>	<b>22,234.7</b>	<b>(6.5)</b>

Note: Arbitrage funds inflows data is available beginning Apr-18. Prior to Apr-18 the same has been clubbed in equity.

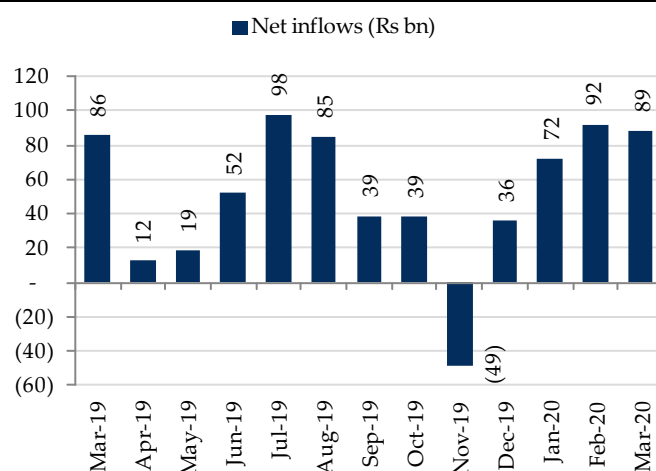
Source: AMFI, HSIE Research

**FY20 equity inflows are down 50.9% YoY.**



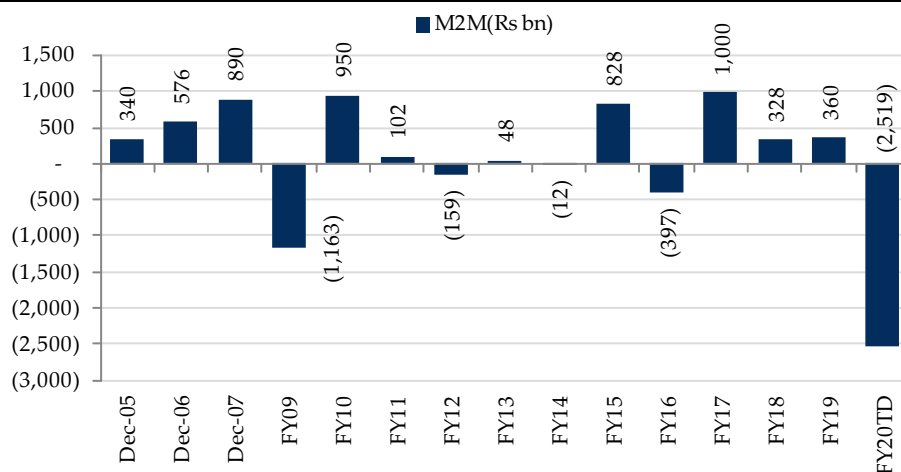
Source: AMFI, HSIE Research

**Equity inflows were strong in Mar-20**



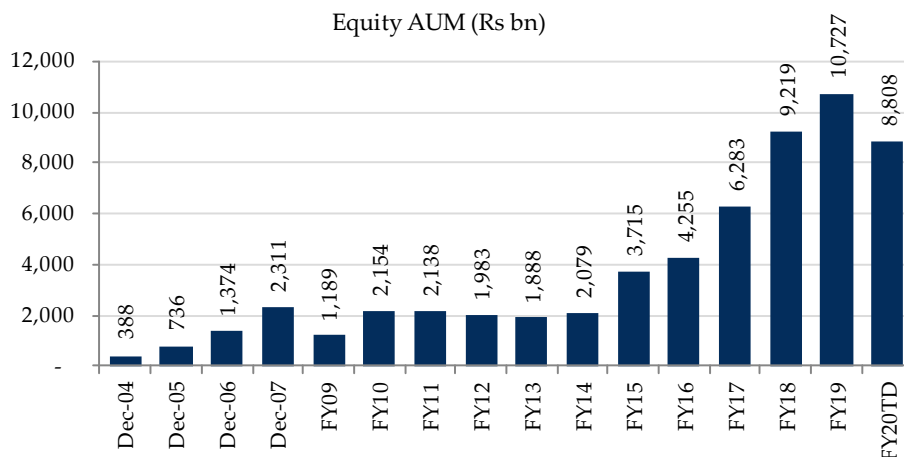
Source: AMFI, HSIE Research

**Equity AUM MTM**



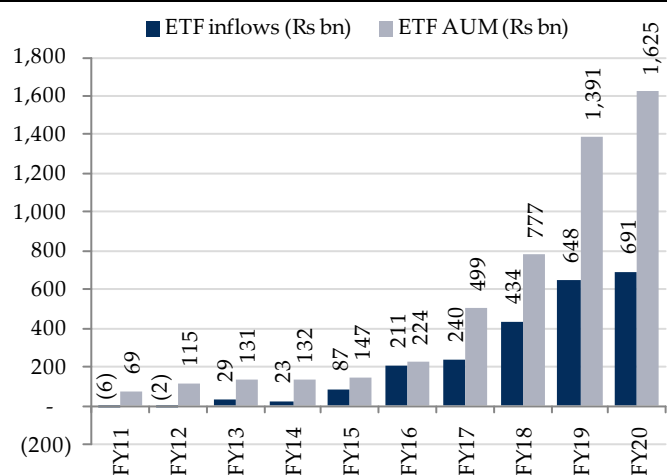
Source: AMFI, HSIE Research

### Equity AUM



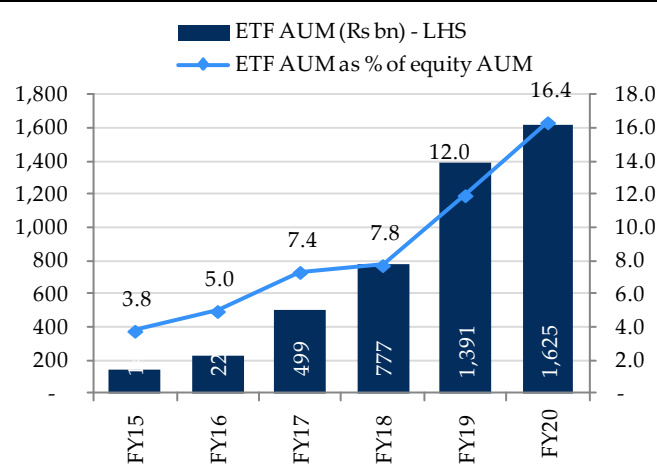
Source: AMFI, HSIE Research

### ETFs attracting flows



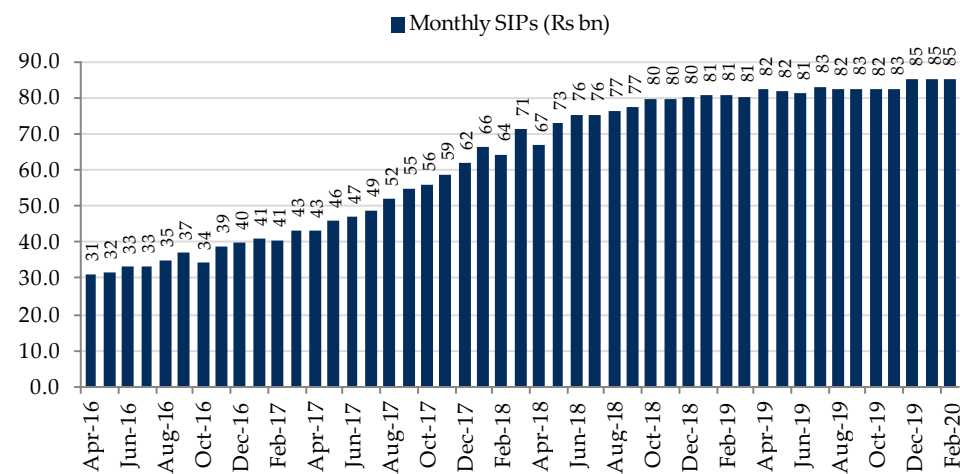
Source: AMFI, HSIE Research

### ETF AUM as % of Equity AUM



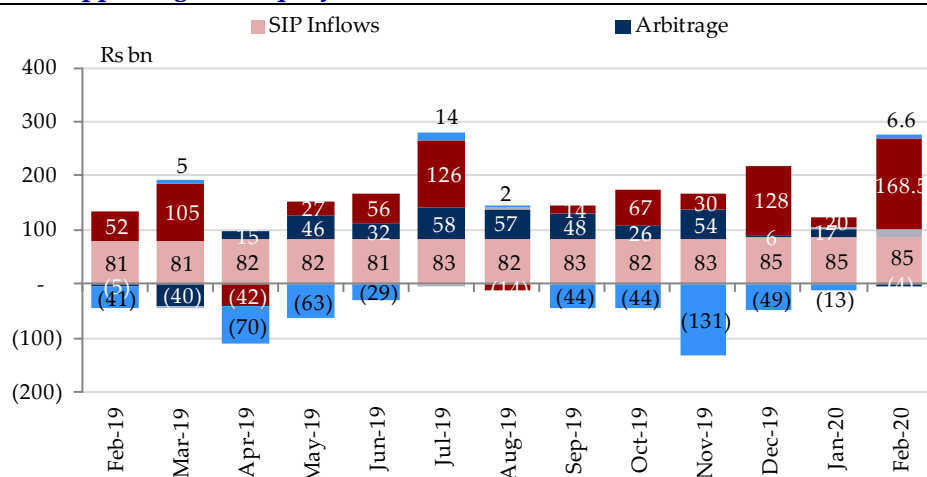
Source: AMFI, HSIE Research

### Monthly SIPs remain strong



Source: AMFI, HSIE Research

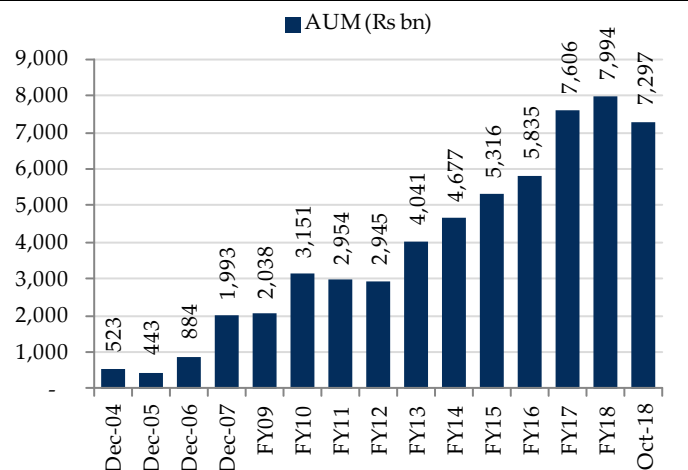
### SIP supporting total equity flows



Note: Arbitrage funds inflows data is available beginning Apr-18. Prior to Apr-18 the same has been clubbed in equity.

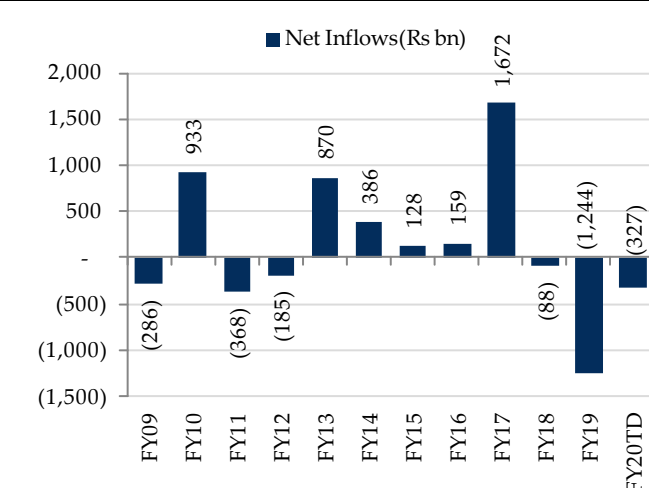
Source: AMFI, HSIE Research

### Debt AUM



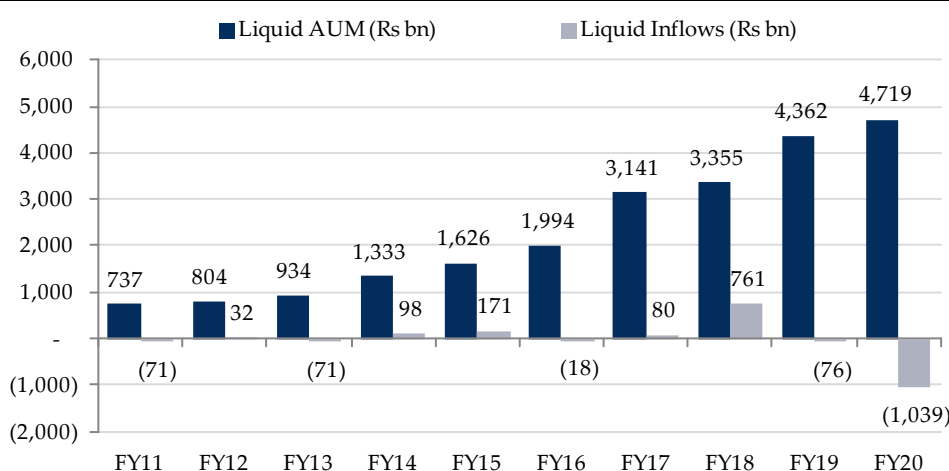
Source: AMFI, HSIE Research

### Debt inflows continue to remain strong



Source: AMFI, HSIE Research

### Liquid AUM and flows



Source: AMFI, HSIE Research

## Commissions and TER Tracker

- An analysis of the TERs of the top fund houses reveals that most large asset managers have been able to pass on the TER reduction to distributors.
- Commissions troughed around Jun-19 and then gradually increased for most of the large asset managers.
- HDFC AMC has been able to pass on ~81% of the TER reduction to distributors.
- Commission payouts for NAM however have increased by ~23.6bps despite reduction in TERs by ~10.9bps. Given that most of the increase has come only in 4QFY20, we wait to see if this is a recurring trend.
- It seems that commission payouts in general have increased in Mar-20. All asset managers except for ABSL AMC are showing a trend of increased commission payouts (see table).

### Commission and TER changes

Fund House	Commissions (bps)						Change in (Mar-20 less Dec-18) (bps)		TER reduction passed on (%)
	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Commissions	TER	
ABSL MF	85	86	69	61	74	73	(11.9)	(14.8)	80.6
HDFC MF	77	66	48	51	54	58	(19.9)	(24.6)	80.9
IPRU MF	82	77	49	46	46	52	(30.4)	(22.0)	138.1
MOAMC	100	95	85	85	87	95	(5.2)	(10.6)	48.9
NAM MF	77	78	61	61	62	101	23.6	(10.9)	(215.9)
SBI MF	69	68	59	61	62	65	(3.9)	(21.5)	18.1
UTI MF	53	53	46	52	54	57	3.8	(7.5)	(51.1)

Note: Our derived commission rates are the difference between regular and direct TER charged.

Above numbers capture the TERs of the top 5 equity schemes of each fund house.

Source: Companies, HSIE Research

## Earnings Sensitivity

- Post the sharp correction in equity prices we ran sensitivities on to our earnings estimates on both equity AAUM growth and equity yields (bps).
- For HDFCAMC, every 10% change in AAUM results in a 13.1% change in NOPLAT, while every change of 2bps in equity yield changes NOPLAT by 2.1%.
- Similarly for NAM, every 10% change in AAUM results in a 13.2% change in NOPLAT, while every change of 2bps in equity yield changes NOPLAT by 3.1%.

### HDFCAMC earnings sensitivity to AAuM growth:

#### NOPLAT:

	FY21E Equity AAuM growth (%)						
	10.3	-40	-30	-20	-10	0	10
FY21E Equity yield (bps)	70	7.0	8.0	8.9	9.8	10.7	11.6
	72	7.2	8.1	9.1	10.0	11.0	11.9
	74	7.4	8.3	9.3	10.2	11.2	12.2
	76	7.5	8.5	9.5	10.5	11.5	12.5
	78	7.7	8.7	9.7	10.7	11.7	12.8
	80	7.8	8.9	9.9	11.0	12.0	13.0

Source: Company, HSIE Research

**APAT:**

	FY21E Equity AAuM growth (%)						
	12.6	-40	-30	-20	-10	0	10
FY21E Equity yield (bps)	70	9.4	10.3	11.2	12.1	13.0	13.9
	72	9.5	10.5	11.4	12.3	13.3	14.2
	74	9.7	10.6	11.6	12.6	13.5	14.5
	76	9.8	10.8	11.8	12.8	13.8	14.8
	78	10.0	11.0	12.0	13.0	14.1	15.1
	80	10.1	11.2	12.2	13.3	14.3	15.4

Source: Company, HSIE Research

Parameter	NOPLAT (%)	APAT (%)
Every 10% change in AAUM impacts	13.1	7.7
Every 2bps change in AAUM impacts	2.1	1.9

Source: Company, HSIE Research

**NAM earnings sensitivity to AAuM growth:****NOPLAT:**

	FY21E Equity AAuM growth (%)						
	4.1	-40	-30	-20	-10	0	10
FY21E Equity yield (bps)	73	2.3	2.8	3.3	3.8	4.3	4.8
	75	2.4	2.9	3.4	3.9	4.4	5.0
	77	2.4	3.0	3.5	4.0	4.6	5.1
	79	2.5	3.1	3.6	4.2	4.7	5.3
	81	2.6	3.2	3.7	4.3	4.9	5.4
	83	2.7	3.3	3.8	4.4	5.0	5.6

Source: Company, HSIE Research

**APAT:**

	FY21E AAuM growth (%)						
	5.7	-40	-30	-20	-10	0	10
Equity yield (bps)	73	3.8	4.3	4.8	5.4	5.9	6.4
	75	3.9	4.4	4.9	5.5	6.0	6.6
	77	4.0	4.5	5.1	5.6	6.2	6.7
	79	4.0	4.6	5.2	5.7	6.3	6.9
	81	4.1	4.7	5.3	5.9	6.5	7.0
	83	4.2	4.8	5.4	6.0	6.6	7.2

Source: Company, HSIE Research

Parameter	NOPLAT (%)	APAT (%)
Every 10% change in AAUM impacts	13.2	9.9
Every 2bps change in AAUM impacts	3.1	2.3

Source: Company, HSIE Research

**Peer set comparison**

	MCap (Rs bn)	CMP (Rs)	Reco	TP (Rs)	P/E (x)			Mkt. Cap/AUM (%)			EPS (Rs)			MF AUM (Rs bn)			ROIC (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
HDFC AMC	596	2,793	NR	2,677*	47.0	47.2	42.2	19.8	19.3	16.8	59.4	59.2	66.1	3,014.0	3,079.7	3,545.5	903.3	728.0	1,027.3
MOFS(ex. MOHL)	78	538	BUY	668	17.9	15.9	13.1	2.4	2.2	2.0	27.9	31.3	37.9	211.4	232.4	256.8	14.1	14.6	16.0
NAM	179	285	BUY	349	38.2	31.5	27.6	10.0	9.1	8.0	7.5	9.0	10.3	1,789.0	1,955.1	2,227.5	131.8	146.7	169.5

\*Fair Value Source : HSIE Research



### Rating Criteria

BUY: >+15% return potential  
 ADD: +5% to +15% return potential  
 REDUCE: -10% to +5% return potential  
 SELL: > 10% Downside return potential

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