

Insurance/AMC/Broking Tracker

1QFY20: Insurance strong, MF tepid, broking challenged

Life insurance and mutual funds: Despite 1Q being a seasonally slow quarter, private life insurers' individual NBPs grew a strong 28% YoY to Rs 92bn. On the other hand, equity (ex arbitrage and ETF) flows for 1QFY20 were muted at Rs 83.0bn (72% below FY19 avg).

Higher life insurance sales vs. mutual fund sales may owe to changes in distributor commission payouts. While asset managers are not allowed to pay upfront commissions, insurers continue to pay out heavily. Our channel checks indicate this is tempting banks/national distributors to push insurance savings products.

We have also reviewed recent mutual fund performance and are encouraged to find that HDFCAMC has significantly improved its performance with 64.9% (+1,280bps vs. Oct-18) of rated AUM now outperforming (rated 4 star +). RNAMEC has slipped a bit, as only 36.1% (-1,700bps vs. Oct-18) of rated AUM is now outperforming.

HDFCAMC has most efficiently passed on the TER cuts to distributors. Commissions now stand at 48bps (-29bps vs. Dec-18).

'Jio'fication of Retail Broking: Competitive environment continues to remain tough for brokers with many leading names (Axis, Angel and Sharekhan) moving to the fixed/subscription pricing model. Additionally, while ISEC has displayed a strong +35k (1QFY20) addition in active customers, discount brokers continue to charge ahead

(Zerodha and Upstox added 70/86k). Lastly, we believe blended yields will continue to slide downwards as derivative volumes grew 69.5/26.5% YoY/QoQ, while total market ADTVs (ex-prop) grew 66.1/25.5% YoY/QoQ taking F&O:Cash mix to 97:3 vs 95:5 in 1QFY19.

- Life Insurance:** We expect private insurers' indiv. NBP/APE growth to moderate to 16-22%/12-17% for FY20E. Our top pick in the sector is SBILIFE with TP of Rs 850 (+8.9%). As a result of sun up in stock price, we recently downgraded IPRU to NEUTRAL with TP of Rs 407.
- AMC:** We expect near-term lump-sum equity inflows to remain volatile, while flows to SIPs are expected to provide support. We have a BUY on RNAMEC as we believe exit of the stressed ADA group will allow it to raise funds from HNIs and institutions. Our TP is Rs 254 (+12.9%). We have a NEUTRAL rating on MOFS with a TP of Rs 656.
- Broking:** Increased competitive intensity driven by adoption of fixed/subscription based pricing is likely to keep profitability subdued. Additionally, lower TERs on distribution of mutual funds will also negatively impact profitability. Cost control will be key. We have a NEUTRAL on ISEC with TP of Rs 216 (-1.3%).

Life Insurance

Company	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Rating
HDFCLIFE	966	481	383*	NR
IPRU	552	385	407	NEU
MAXF	114	423	681	BUY
SBILIFE	780	850	850	BUY

Asset Management

Company	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Rating
HDFCAMC	414	1940	1,777*	NR
MOFS	98	663	650	NEU
RNAMEC	135	219	254	BUY

Broking

Company	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Rating
ISEC	70	219	216	NEU

Source: HDFC sec Inst Research

*Fair Value

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Life insurance

Jun-19: Strong show continues as private insurers individual NBP/APE grows +29/24% YoY

Individual business

- Individual NBP and APE growth for private players was strong in Jun-19 at +29% YoY and +24% YoY respectively.
- LIC's Individual NBP/APE rose 6.0/-0.1% YoY each while total industry (including LIC) NBP/APE growth was also 17/13%.
- Private companies (ex. SBILIFE and IPRU) recorded NBP growth of 36% in Jun-19.
- **HDFCLIFE continues strong show as Individual NBP/APE came in at Rs 8.5/5.9bn +78/87% YoY. Strong growth at HDFCLIFE comes on the back of launch of annuity products- Jeevan Sanchay and Sanchay Plus.**
- **IPRU continues to disappoint as the company printed individual NBP/APE grew 5/1% to Rs 6.4/5.5bn. The growth is disappointing despite favorable base as NBP/APE growth in Jun-18 was just +5/-5% each YoY.**
- **MAXL reported an NBP/APE of Rs 4.0/3.1bn (+21/20% YoY). The growth comes off a high base of Jun-18 NBP/APE growth of 18/20% YoY.**
- **SBILIFE recorded above expected Individual NBP/APE of Rs 7.9/6.7bn, +33/25% YoY. This was also helped by a favorable base as Jun-18 NBP/APE growth was 9/8%.**
- Other private insurers such as TATA AIA and Birla Sun Life continue to display strong growth on account of distribution partnership with HDFC Bank, as Jun-19 NBP grew 88 and 22% respectively.

Private insurance industry growth continued in Jun-19 as total NBP/APE grew 14/21% YoY.

Growth is tapering off in group business as private insurers NBP/APE declined 5/10% YoY in Jun-19. LIC is gaining big in this business as Jun-19 NBP growth was 188%.

Individual NBP/APE growth remained superior at 29/24% YoY.

Birla SL and TATA AIA have shown impressive growth largely due to tie up with HDFC Bank.

1QFY20 Individual NBP and market-share

(Note: Private insurers' market-share is calculated excluding LIC.)

- Private insurers NBP grew 27.8% YoY to Rs 92bn in 1QFY20.
- LIC's market share reduced by 448bps to ~49.8% while NBP increased a mere 6.8% to Rs 91bn.
- HDFCLIFE's NBP market share increased materially by ~450bps to 21.6% as NBP came in at 20bn (61.3% YoY)
- IPRU NBP premium growth (1QFY20: 2.7%) remained soft as the company printed NBP of Rs 15.3bn, consequently leading to loss of market share to the tune of ~405bps to 16.6%.
- Max's 1QFY20 NBP at Rs 8.2bn (+22% YoY), slightly below pvt. insurers growth leading to drop in market share to 8.9% (-43bps YoY).
- SBI Life printed NBP at Rs 18.7bn (+41.2% YoY). Market share improved by ~190bps to 20.3%.

Group Business

- In the group business HDFCLIFE NBP declined 21% YoY, while IPRU, MAXL and SBILIFE reported growth of 143%, -29% and 21% respectively.
- Bajaj Allianz Life printed superior growth of 59% in Jun-19 as group NBP came in at Rs 3.2bn.
- Driven by partnerships, IPRU has been growing its credit protect business at a fast pace.

View

- We remain positive on the long term prospects of life insurers, however strong sales growth (+26.0% p.a) in FY17 and FY18 followed by 16.6% growth in FY19 has set the companies up with a high base.
- Despite the high base due to the commissions/incentive payout arbitrage for distributors, we expect FY20E Indiv. NBP/APE for the private sector insurers to grow ~16-22/12-17%.
- Our top pick in the sector is SBILIFE with TP of Rs 850 (+13%) i.e. (FY20E EV + 21.4 FY21E VNB). CMP of MAXF also adequately builds in risks and offers meaningful upside potential. We have a BUY with TP of Rs 681 (+66%) ie. (FY20E EV + 15.6x FY21E VNB).

Among top insurance companies, HDFC Life's Individual NBP growth has been the best at 78%.

IPRU's growth was disappointing despite favorable base as NBP/APE growth in Jun-18 was +5/-5% YoY.

HDFC Life's Individual growth is coming largely because of annuity products.

HDFC Life now becomes the market leader with ~21.4% Individual NBP market share.

LIC has become very aggressive in group business leading to market share shifting back to the incumbent. Group business growth in Jun-19/FYTD was 188/81%.

Private sector Individual NBP growth was 29% in Jun-19.

NBP (Rs bn)	Individual		Group		Total		YTD - Individual		YTD - Group		YTD - Total	
	Jun-19	YOY (%)	Jun-19	YOY (%)	Jun-19	YOY (%)	FY20TD	YOY(%)	FY20TD	YOY(%)	FY20TD	YOY(%)
Aditya Birla Sun Life	1.5	22	0.6	-72	2.1	-40	3.2	30	1.9	-52	5.1	-20
Bajaj Allianz Life	1.5	36	3.2	59	4.7	51	3.5	17	6.7	57	10.1	41
Bharti Axa Life	0.5	13	0.2	-1	0.7	8	1.3	19	0.6	-6	1.9	10
DHFL Pramerica Life	0.2	-54	0.3	-68	0.5	-65	0.5	-49	1.0	-64	1.5	-61
HDFC Standard Life	8.5	78	5.1	-21	13.6	21	19.9	61	19.9	38	39.8	49
ICICI Prudential Life	6.4	5	2.6	143	9.0	26	15.3	3	6.9	197	22.3	29
IDBI Federal Life	0.4	-15	0.1	101	0.5	0	0.7	-30	0.3	69	1.0	-16
Kotak Mahindra Life	1.2	20	1.7	1	2.9	8	3.0	8	6.4	67	9.4	42
Max Life	4.0	21	0.3	-29	4.2	16	8.2	22	0.9	-5	9.1	19
PNB Met Life	1.0	2	0.4	186	1.4	25	2.4	5	0.8	127	3.3	21
SBI Life	7.9	33	5.2	21	13.1	28	18.7	41	12.8	71	31.5	52
Tata AIA Life	2.5	88	0.1	212	2.6	90	5.6	109	0.2	-1	5.8	100
Private players Total	40	29	23	-5	62	14	92	28	66	38	158	32
LIC	36	6	224	188	260	133	91	7	356	121	448	81
Industry total	75	17	247	143	322	94	184	16	423	102	606	65

Source: IRDAI, HDFC sec Inst Research

Individual NBP Market Share: Private players gaining big

Particulars	Individual		Group		Total		YTD - Individual		YTD - Group		YTD - Total	
	Jun-19	YOY (bps)	Jun-19	YOY (bps)	Jun-19	YOY (bps)	FY20TD	YOY(bps)	FY20TD	YOY(bps)	FY20TD	YOY(bps)
Aditya Birla Sun Life	3.7	-23	2.9	-165	3.4	-309	3.5	6	2.8	-537	3.2	-54
Bajaj Allianz Life	3.7	18	14.2	294	7.5	185	3.8	-35	10.1	122	6.4	-229
Bharti Axa Life	1.3	-18	1.0	-20	1.2	-6	1.4	-10	0.9	-43	1.2	77
DHFL Pramerica Life	0.4	-72	1.5	-35	0.8	-175	0.5	-73	1.6	-443	0.9	281
HDFC Standard Life	21.4	584	22.7	-385	21.9	125	21.6	449	30.0	-8	25.1	1059
ICICI Prudential Life	16.1	-368	11.6	-36	14.5	138	16.6	-406	10.5	560	14.1	-115
IDBI Federal Life	0.9	-47	0.5	6	0.8	-11	0.8	-65	0.5	8	0.6	8
Kotak Mahindra Life	3.1	-25	7.5	-494	4.7	-28	3.3	-60	9.6	167	5.9	193
Max Life	10.0	-71	1.2	-61	6.8	10	8.9	-43	1.3	-59	5.7	54
PNB Met Life	2.6	-69	1.8	57	2.3	21	2.6	-58	1.2	49	2.1	-105
SBI Life	20.0	58	23.1	778	21.1	231	20.3	192	19.4	370	19.9	-266
Tata AIA Life	6.3	197	0.4	-1	4.2	167	6.0	233	0.3	-13	3.6	-47
Private players*	52.4	496	9.2	-1434	19.3	-1351	50.2	448	15.7	-719	26.1	-655
LIC*	47.6	-496	90.8	1434	84.3	1351	49.8	-448	84.3	719	73.9	655
Industry	100.0	0	100.0	0	100.0	0	100.0	0	100.0	0	100.0	0

* LIC, Total private players market share on total market share basis while individual insurers on private market share basis

Source: IRDAI, HDFC sec Inst Research

Private sector Individual APE growth was 24% in Jun-19

(Rs bn)	Individual		Group		Total		YTD - Individual		YTD - Group		YTD - Total	
	Jun-19	YOY (%)	Jun-19	YOY (%)	Jun-19	YOY (%)	FY20TD	YOY(%)	FY20TD	YOY(%)	FY20TD	YOY(%)
Aditya Birla Sun Life	1.4	22	0.1	-79	1.5	0	2.9	30	0.2	-65	3.1	11
Bajaj Allianz Life	1.4	36	0.3	59	1.7	40	3.3	17	0.7	55	4.0	22
Bharti Axa Life	0.5	15	0.0	-1	0.5	14	1.2	19	0.1	-6	1.3	17
DHFL Pramerica Life	0.2	-53	0.0	-68	0.2	-56	0.4	-51	0.1	-64	0.5	-54
HDFC Standard Life	5.9	87	0.5	-21	6.4	69	13.2	63	2.0	38	15.2	59
ICICI Prudential Life	5.5	1	0.3	143	5.7	3	13.0	1	0.7	197	13.6	5
IDBI Federal Life	0.3	-14	0.0	79	0.3	-12	0.5	-22	0.0	48	0.6	-19
Kotak Mahindra Life	0.9	11	0.2	-4	1.1	9	2.2	5	0.7	48	2.8	13
Max Life	3.1	20	0.0	-29	3.2	19	6.4	23	0.1	-5	6.5	22
PNB Met Life	1.0	3	0.0	166	1.1	6	2.4	6	0.1	111	2.5	8
SBI Life	6.7	25	0.5	19	7.2	25	16.2	35	1.3	68	17.5	37
Tata AIA Life	2.1	56	0.0	-17	2.1	55	4.6	73	0.1	-72	4.7	62
Private players total	32.8	24	2.3	-10	35.1	21	75.4	24	6.8	22	82.3	23
LIC	20.8	0	122.0	1402	142.9	393	53.9	3	161.5	813	215.4	208
Industry total	53.6	13	124.4	1060	178.0	207	129.3	14	168.3	622	297.6	118

Source: IRDAI, HDFC sec Inst Research

Recent Individual NBP growth trend

(%)	Jun18	Jul18	Aug18	Sep18	Oct18	Nov18	Dec18	Jan19	Feb19	Mar19	Apr19	May19	Jun19
HDFC Standard Life	35.9	41.7	50.0	46.7	64.3	9.0	27.6	24.9	6.8	1.2	35.1	62.1	78.0
ICICI Prudential Life	(5.3)	5.3	9.9	2.5	(14.3)	(24.3)	(4.2)	10.6	12.2	9.7	(0.1)	1.9	5.4
SBI Life	9.2	6.6	10.2	22.8	16.6	9.3	22.3	(0.1)	29.4	26.4	51.3	45.2	33.3
Max Life	17.8	35.2	20.1	25.0	24.9	11.1	6.6	33.0	25.0	15.8	24.0	22.4	20.8
Total Private players	12.2	18.0	22.6	22.4	19.8	2.0	17.3	16.7	18.8	21.0	19.4	32.3	29.4
LIC	(11.8)	(5.3)	(14.0)	(2.7)	(5.0)	(48.8)	46.7	26.6	17.4	12.3	18.9	(0.5)	6.1
Total Industry	(1.8)	4.7	0.5	8.0	4.5	(34.2)	29.9	21.6	18.1	16.5	19.1	13.6	17.2

Source: IRDAI, HDFC sec Inst Research

Individual APE growth at 1% for IPRU during Jun-19 was disappointing.

Bajaj Life growth in group business was commendable at 59%. Bajaj is now a sizeable player in this business with NBP market share of 14.2% market share in Jun-19.

HDFC Life continues to deliver above expected growth. Individual NBP growth in Apr/May/June-19 was at 35.1/62.1/78.0%

SBI life too continues to deliver strong NBP growth. However APE growth was also strong, depicting more sales of regular premium products.

Industry over the years

Particulars	Individual NBP (Rs bn)						Growth YoY (%)						Market Share (%)					
	FY15	FY16	FY17	FY18	FY19	FYTD	FY15	FY16	FY17	FY18	FY19	FYTD	FY15	FY16	FY17	FY18	FY19	FYTD
Aditya Birla Sun Life	7.7	7.1	9.6	11.5	22.0	3.2	(12.9)	(6.9)	34.9	19.9	91.0	29.9	3.4	2.8	3.0	2.9	4.7	3.5
Bajaj Allianz Life	10.6	8.9	10.7	14.6	18.0	3.5	(10.3)	(15.7)	19.6	36.6	23.7	17.0	4.7	3.5	3.3	3.6	3.8	3.8
Bharti Axa Life	3.5	3.6	4.0	4.7	6.4	1.3	20.0	2.5	11.2	16.0	37.7	19.1	1.6	1.4	1.3	1.2	1.4	1.4
DHFL Pramerica Life	1.4	1.8	2.2	3.6	3.2	0.5	27.5	27.2	22.0	66.9	(13.0)	(48.7)	0.6	0.7	0.7	0.9	0.7	0.5
HDFC Standard Life	33.1	36.6	42.0	59.4	76.4	19.9	29.8	10.4	14.8	41.5	28.6	61.3	14.7	14.3	13.1	14.7	16.2	21.6
ICICI Prudential Life	48.2	53.6	69.8	84.0	81.4	15.3	40.4	11.1	30.3	20.4	(3.1)	2.7	21.4	21.0	21.7	20.8	17.3	16.6
IDBI Federal Life	3.5	4.9	6.3	7.3	6.4	0.7	14.6	40.3	30.0	15.5	(12.0)	(30.0)	1.5	1.9	2.0	1.8	1.4	0.8
Kotak Mahindra Life	7.5	10.6	14.4	19.7	21.3	3.0	16.5	42.0	35.1	37.3	8.1	8.0	3.3	4.2	4.5	4.9	4.5	3.3
Max Life	23.6	26.1	33.1	39.8	47.5	8.2	14.5	10.6	26.6	20.4	19.1	22.0	10.5	10.3	10.3	9.9	10.1	8.9
PNB Met Life	7.2	9.2	10.3	12.5	13.9	2.4	23.8	28.7	11.6	21.5	11.1	4.8	3.2	3.6	3.2	3.1	3.0	2.6
SBI Life	37.6	49.8	64.7	84.1	96.4	18.7	16.7	32.5	30.0	29.9	14.6	41.2	16.6	19.5	20.2	20.8	20.5	20.3
Tata AIA Life	2.4	6.1	10.5	14.0	23.5	5.6	(12.6)	160.6	71.3	33.4	67.5	108.6	1.0	2.4	3.3	3.5	5.0	6.0
Private players total *	225.9	254.9	320.9	403.6	470.7	92.2	17.7	12.9	25.9	25.8	16.6	27.8	40.8	43.7	41.3	43.8	48.0	50.2
LIC*	327.9	327.9	455.9	517.4	510.1	91.5	(21.5)	0.0	39.0	13.5	(1.4)	6.8	59.2	56.3	58.7	56.2	52.0	49.8
Industry total	553.7	582.8	776.8	921.1	980.9	183.7	(9.2)	5.3	33.3	18.6	6.5	16.4	100.0	100.0	100.0	100.0	100.0	100.0

Note: * LIC, Total private players market share on total market share basis while individual insurers on private market share basis

Source: IRDAI, HDFC sec Inst Research

Lumpsum redemption of Rs 29bn led to total inflows falling to Rs 52bn.

SIP inflows during Jun-19 were at Rs 81.1bn (-0.7% MoM).

SIP inflows remained strong throughout FY19 as flows were up 38.1 % YoY.

Multi and Large cap schemes witnessed highest inflows of Rs 18.3bn and 15.1bn respectively

Mutual fund flows

1QFY20: Over 1QFY20, equity (ex. arb. and ex. ETF) inflows remained weak as only Rs 83bn (72% below FY19 avg.). SIP inflows continued to remain strong at 245.4bn (+13.9% YoY), however flows were dragged down by lumpsum redemptions of Rs 162bn.

Over 1QFY20, inflow of low yielding AuM (ETF & Arbitrage) has been Rs 133bn (62% of total equity flows)

Turbulence in the debt markets resulted in outflows of Rs 147bn in 1QFY20. Overall AUMs for debt schemes declined to Rs 6.8tn -5.8% QoQ.

Equity (Jun-19)

- Equity Inflows (ex. arbitrage and ETF) during Jun-19 rebounded to Rs 52bn (-53.3% YoY). Lump-sum redemption continues (since Nov-18) however it has reduced to Rs 29bn in Jun-19 from 63bn in May-19.
- Despite challenging markets, SIP inflows continue to remain steady at Rs 81.2bn (-0.7% MoM). However this is the second straight month of decline in SIP inflows. SIPs inflows have been strong all through out FY19 as SIP inflows were up 38.1% YoY to Rs 927bn. We expect SIPs to continue to stay strong going forward.

- Among equity schemes, Multi and Large cap schemes witnessed highest inflows of Rs 18.3bn and 15.1bn respectively. Balance schemes continue to face outflows of Rs 19.1bn.
- **Low cost AUM:** ETF inflows continue to remain strong at Rs 56bn in Jun-19 vs FY19 average of Rs 36bn. Also, Arbitrage funds also witnessed inflows of Rs 32bn.
- **Total equity net inflows** (including arbitrage and ETF) jumped to Rs 140bn (vs. FY19 avg. of Rs 129bn/month). Total equity inflows for 1QFY20 was at 216bn (-44.2% below FY19 avg.).

Debt/Liquid

- Due to turmoil in debt markets, net outflows saw a sharp rise as outflows were Rs 134bn. Amongst debt schemes, credit risk funds (higher yielding for AMCs) faced net outflows of Rs 27bn. Almost all categories of debt schemes faced net outflows.
- Fixed maturity plans reported an outflow of Rs 23.6 bn.
- Liquid schemes recorded net outflows of Rs 1.6tn during Jun-19. Liquid schemes generally witness outflows in the last month of reporting quarter.

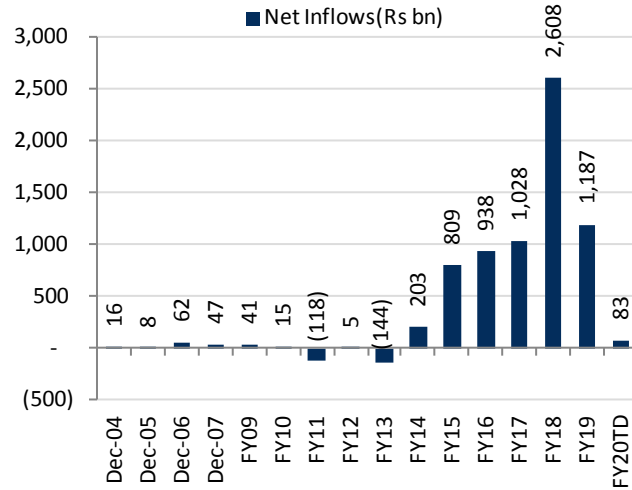
Note: As AMFI has changed reporting, we have clubbed Liquid, Money market and overnight fund in liquid.

As net inflows picked up meaningfully from FY14, industry equity AUM grew more than 4x during FY14-18.

Monthly equity inflows have been largely supported by SIP inflows.

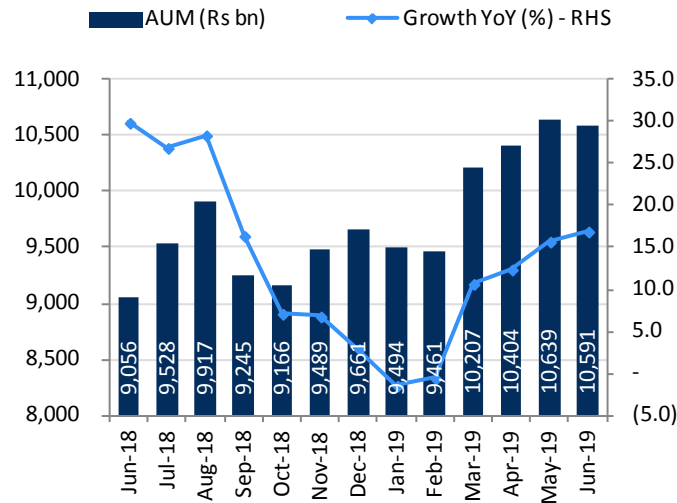
Market rally lead to M2M gain of Rs 301bn for equity schemes during 1QFY20.

Equity inflows: FY19 inflows were down 54.4%.



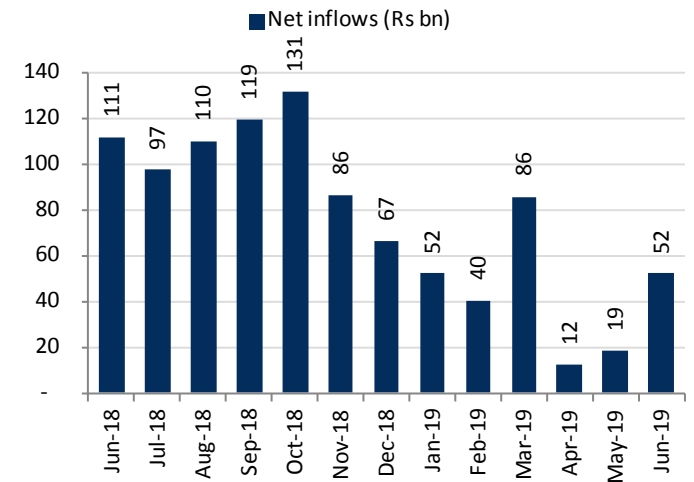
Source: AMFI, HDFC sec Inst Research

Equity AUM growth was at 16.9% YoY



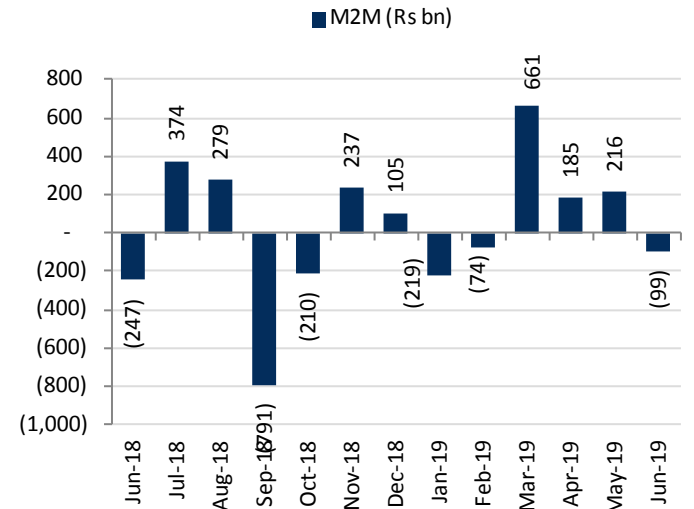
Source: AMFI, HDFC sec Inst Research

Monthly equity inflows : Weak start to FY20



Source: AMFI, HDFC sec Inst Research

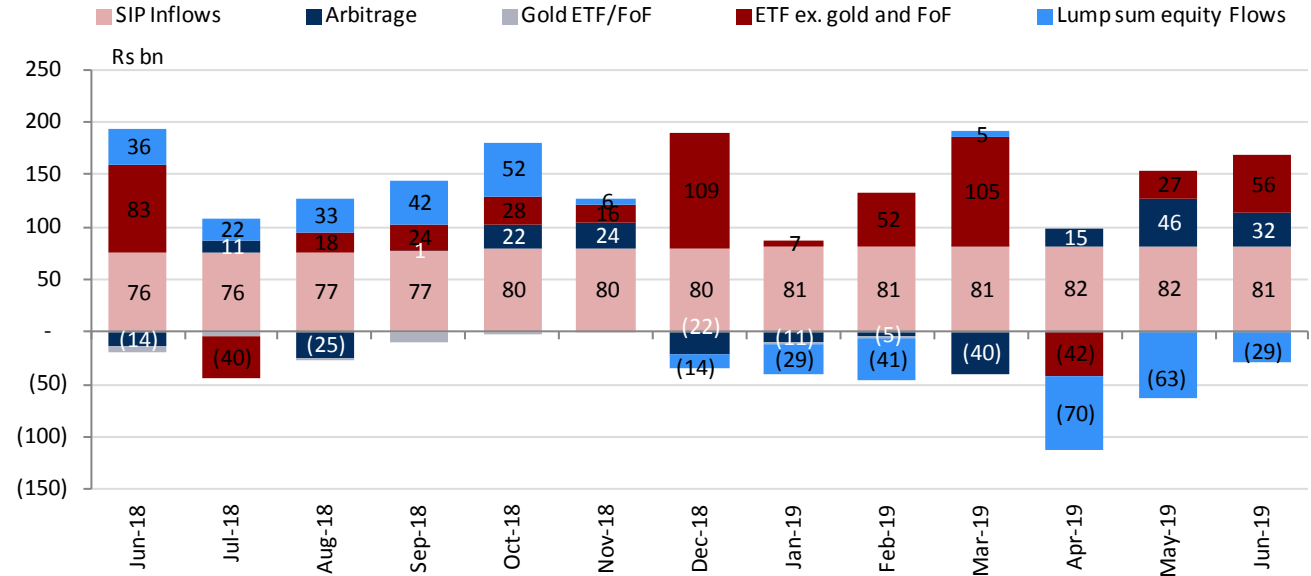
1QFY20: M2M impact of Rs 301bn on equity AUM



Source: AMFI, HDFC sec Inst Research

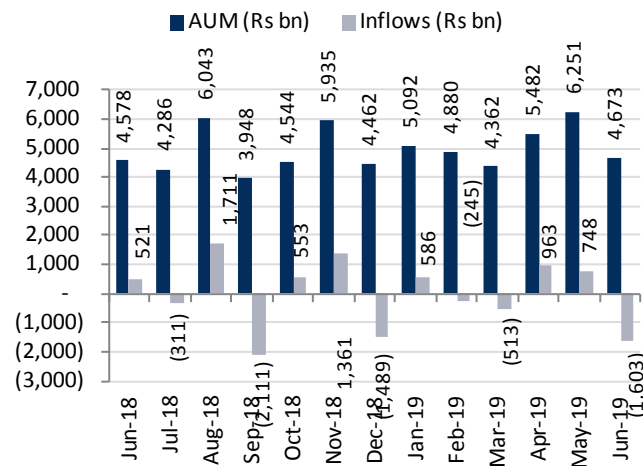
Arbitrage funds continue to see inflows. Flows during 1QFY20 were Rs 93bn. TER charged to such schemes is comparatively lower than equity schemes.

SIP supporting total equity flows



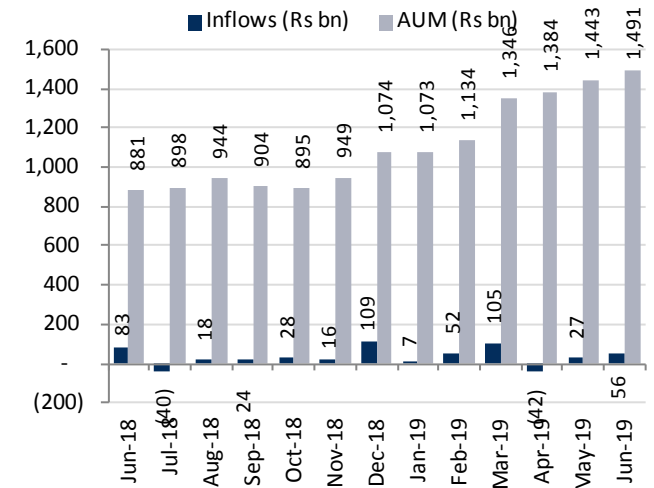
Note: Arbitrage funds inflows data is available beginning Apr-18. Prior to Apr-18 the same has been clubbed in equity.
Source: AMFI, HDFC sec Inst Research

Liquid funds



Source: AMFI, HDFC sec Inst Research

ETFs attracting flows



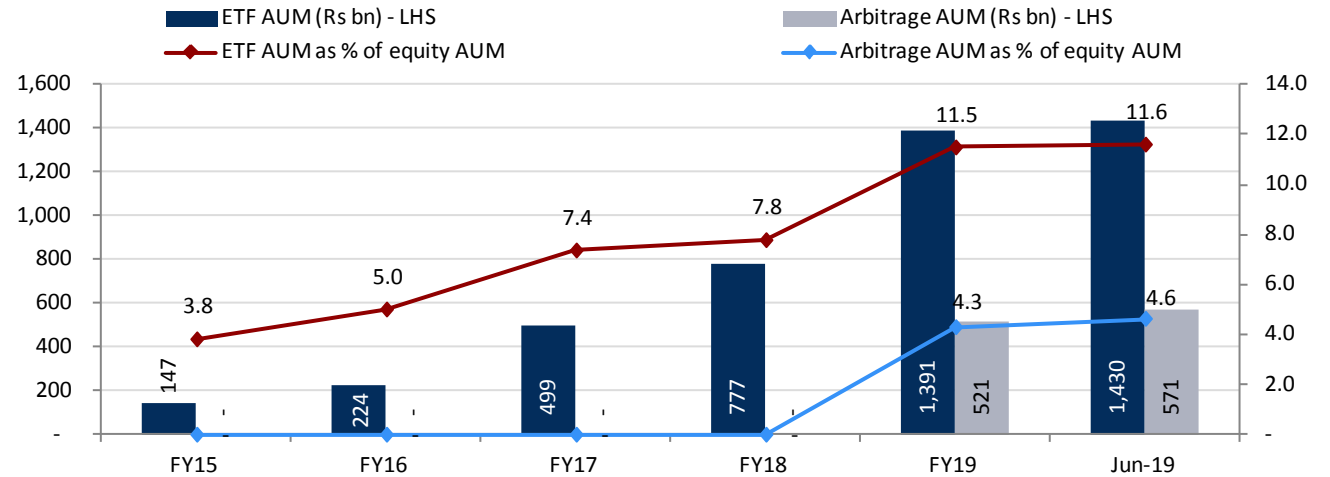
Source: AMFI, HDFC sec Inst Research

Inability of money managers to beat benchmark returns has paved way for ETF investing in India.

ETF investing is gradually picking up (12.1% of equity AUM vs 8.8% in Jun-18).

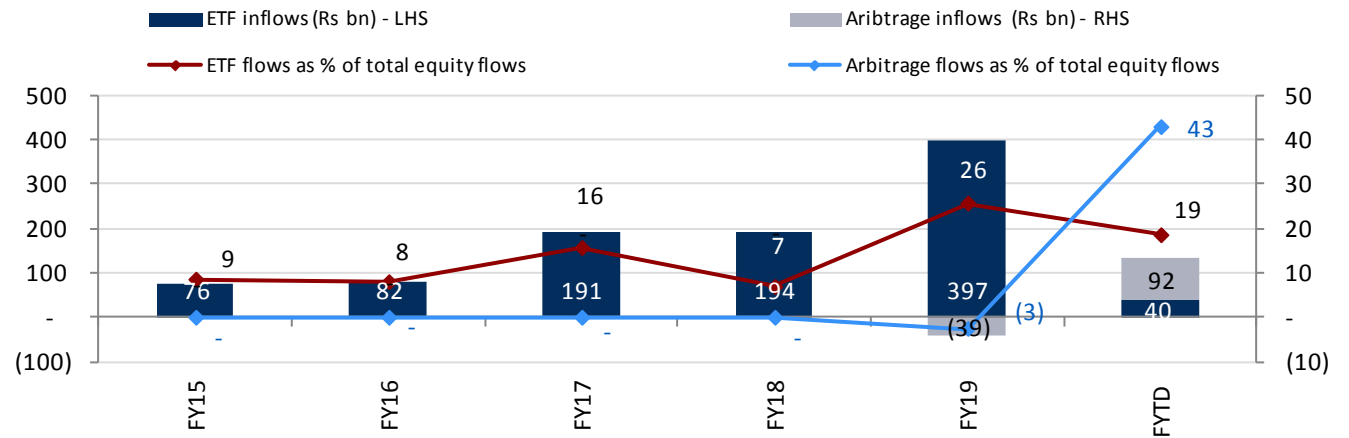
Although it is worthwhile to note that ~87% of ETF AUM is held by Institutions and only ~5% is held by retail.

Rise of low yielding AUM (ETFs and arbitrage)



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

Rise of low yielding flows (ETFs and arbitrage)



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

Blended commission payouts across AMCs

- An analysis of the TER of top fund houses reveals that HDFCAMC and IPRU have been most successful in passing the recent TER cuts to distributors.
- Commission payouts for RNAMC have reduced by 16bps over 1HCY19 vs. 29bps for HDFCAMC.
- We believe that lower commissions are impacting distributor behavior, this is due to the ban on upfront commissions and lower TERs, both mandated by SEBI.
- We believe that as life insurance products and other investment alternatives such as PMS and AIFs continue to offer high upfront commissions, banks and other national distributors are now focusing more on these higher paying products.

Over 1HCY19, distributor commissions have reduced the most for

Blended commission payouts across AMCs

Fund House	Commissions (bps)								Reduction in commissions - 1HCY19 (bps)	Commission reduction as % of estimated TER cut (%)
	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19		
Birla	85	85	86	86	86	69	69	69	16	78.7
HDFC	80	77	74	66	66	54	48	48	29	99.0
ICICI	83	82	79	76	77	55	55	49	33	128.7
MOAMC	100	100	100	95	95	85	85	85	15	96.0
RNAMC	73	77	78	78	78	55	55	61	16	90.1
SBI	62	69	69	69	68	57	57	59	10	38.2

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, HDFC sec Inst Research

RNAMC and SBI's commission payouts have increased in from Jun-19. This will negatively impact revenue yields of these AMCs.

HDFCAMC's performance has significantly improved with now 64.9% (+12.8% from Oct-18) of rated AUM outperforming.

Mutual Fund Performance

- Value research indicates that with 92.2%/91.8% of outperforming (4 star plus rated) assets Kotak and Motilal rank the highest amongst the largest mutual funds in the country.
- Performance has lagged in the case of Reliance MF as only 36.1% (-17% vs. Oct-18) of its rated AUM is now outperforming. There seems to be a major setback here. This is despite several new additions to the fund management team.
- On the contrary, HDFCAMC's performance has significantly improved with now 64.9% (+12.8% from Oct-18) of rated AUM outperforming. This is the sharpest improvement amongst the top mutual funds.
- The biggest disappointment has been Birla MF as its share of outperforming equity schemes reduced to 44.3% (-25.3% vs. May-19).

Performance comparison of top AMCs

	Birla-SL	HDFC AMC	ICICI Pru	Kotak MF	MOAMC	RNAMC	SBI MF
May-19							
Total rated AuM (%)	88.9	71.1	83.7	97.3	94.1	96.3	95.1
As a percentage of Rated AUM							
Outperforming Schemes- 4 star plus (%)	44.3	64.9	75.6	92.2	91.8	36.1	75.5
Underperforming Schemes- 1 to 3 star (%)	55.7	35.1	24.4	7.8	8.2	63.9	24.5
Rated AUM (Rs bn)	812	1,186	1,267	544	176	888	902
Oct-18							
Total rated AuM (%)							
As a percentage of Rated AUM							
Outperforming Schemes- 4 star plus (%)	69.6	52.1	73.6	82.8	92.1	53.1	75.6
Underperforming Schemes- 1 to 3 star (%)	30.4	47.9	26.4	17.2	7.9	46.9	24.4
Rated AUM (Rs bn)	773	998	1,209	457	162	834	753
Change Oct-18 to May-19							
Outperforming Schemes- 4 star plus (%)	(25.3)	12.8	2.0	9.4	(0.3)	(17.0)	(0.2)
Underperforming Schemes- 1 to 3 star (%)	25.3	(12.8)	(2.0)	(9.4)	0.3	17.0	0.2

Source: Value Research Jun-19, HDFC sec Inst Research

Particulars (% except stated otherwise)	Birla-SL	HDFC AMC	ICICI Pru	Kotak MF	MOAMC	RNAMC	SBI MF
5 Star	14.4	11.8	20.1	79.4	91.8	14.8	3.4
4 Star	29.8	53.1	55.5	12.8	-	21.2	72.0
3 Star	39.7	29.9	24.2	4.9	-	46.5	7.8
2 Star	16.1	4.5	0.2	2.9	8.2	-	12.7
1 Star	-	0.7	-	-	-	17.4	4.1
Total	100	100	100	100	100	100	100
Rated AUM (as % of total AUM) - a	88.9	71.1	83.7	97.3	94.1	96.3	95.1
Not rated schemes (% of equity AUM) - b	11.1	28.9	16.3	2.7	5.9	3.7	4.9
Total (a + b)	100	100	100	100	100	100	100
Total actively managed equity AUM (Rs bn)	914	1,669	1,514	559	187	922	949

Source: Value Research Jun-19, HDFC sec Inst Research

View

- Debt and liquid funds:** A series of events as default by IL&FS group companies, rating downgrades of DHFL to 'default', ADAG Group and deadlock over resolution of MF industry exposure to Essel Group firms continues to hurt investor sentiment and negatively impact flows.
- Rise in low yielding AuM:** Also inability of money managers to beat benchmark returns has paved way for ETF investing in India which is gradually picking up (12.1% of equity AUM vs 8.8% in Jun-18). Although it is worthwhile to note that ~87% of ETF AUM is held by Institutions and only ~5% is held by retail.
- Regulatory stimulus to low yielding AuM:** Also in the recent budget, Investment in ETFs (including CPSE ETFs) on the lines of Equity Linked Savings Scheme (ELSS) will only promote ETF investing culture in India. This might broaden the market, but is negative for AMCs as TER charged is much lower than equity schemes.
- Change in distributor preference:** We also believe that distributor behavior has been influenced negatively towards mutual funds due to the ban on upfront commissions and lower TERs as mandated by SEBI. We believe that as Life insurance products and other investment alternatives such as PMS and AIFs continue to offer high upfront commissions banks

and other national distributors are now focusing more these high paying products.

- We believe lump sum flows will remain choppy and SIPs will continue to support overall flows.

Recommendations

- Amongst AMCs, we have a BUY on RNAM with a TP of Rs 254 (26x FY21E NOPLAT + FY20E Cash + Investments). We appreciate RNAM's focus on building granular, stickier retail assets (39% of AUM, best in the industry). We are also encouraged by the emerging cost consciousness shown by the company and believe that it will continue in the future. Additionally, we are excited by the exit of ADAG as promoter and Nippon Life's takeover of 75% of the company; this we believe, will aid fund raising from HNIs and institutions and increase focus on profitability.
- While we like the AMC slice of MOFS given the scale it has achieved, we remain concerned about fund raising, fee renegotiations and regulatory clampdown, while on broking we are wary of increased competition. Lastly, despite much of the negatives in MOHL being factored in, the business needs to display scalability. Challenging macros compel us to retain NEUTRAL with a TP of Rs 656 (10/20x FY21E PAT for Broking/AMC + 0.7x book MOHL+ Treasury).

With Axis, Angel and Sharekhan offering broking at discounted prices, it seems like industry is moving the discount way.

Upstoxx has added more than ~86K active clients in 1QFY20.

The 'Jio'fication of Retail Broking

Competitive intensity continues to remain elevated in the sector.

- Axis Securities and Angel Broking have already introduced fixed/subscription based pricing for retail broking.
- Axis Securities offers trading across segments at flat Rs 20 per order, subject to maintenance of minimum balance of Rs 75k in savings account. For non-Axis bank customers Axis Securities is offering low broking rates for a subscription fee of Rs 250/month.
- Angel Broking charges Rs 15 per order for order size of less than Rs 50,000 and Rs 30 for order size of more than Rs 50,000.
- Sharekhan is offering steep cuts in its pricing and is offering a one-time joining fee led lower pricing model to its customers. After payment of the joining fee the customer will enjoy zero brokerage in the discounting period and low rates post the discounting period. Details of plan given in exhibit.
- 3 out of top 10 brokers (by active customers) have started offering broking at discounted charges. Axis is currently ranked 7th whereas Angel is ranked 6th in the pecking order and with Zerodha occupying the 1st slot it seems that the industry is moving the discount broking way.
- We believe this will lead to additional pressures on broking yields and make customer retention challenging.

Active subscribers

- We are impressed by the gain ISEC (+35k QoQ to ~879k) has shown in its active subscribers.
- Zerodha continues to top the charts with 979k customers i.e. +70k QoQ.
- Despite launch of discount broking schemes Axis' active customer base dropped ~30k QoQ to 389k. Angel on the other hand gained by 14k customers to 426k.
- Upstoxx (RKSV, a discount broker) has been growing at the fastest pace. The company has added ~86k customers in the last quarter. Even in FY19 it more than doubled its customer base from ~44k in FY18 to 100k in FY19.
- 5 Paise has gained active customers and is not at 147k (+41k customers).

Broking volume update

Market volumes (ex-prop) grew 78.3/3.9% YoY/MoM to Rs 9.4tn on back of increased volatility in equity markets during Jun-19. While ADTV growth remains robust, cash ADTV (higher yielding) growth continues to remain soft at 3.9/-11.4% YoY/MoM. Consequentially Cash: F&O mix was 3:97 in Jun-19 as against 5:95 in Jun-19. Derivatives ADTV growth continues to outperform total ADTV growth.

Cash ADTV growth in 1QFY20 was 3.0/0.9% YoY/QoQ.

Share of delivery volumes continue to remain low at 24.3%.

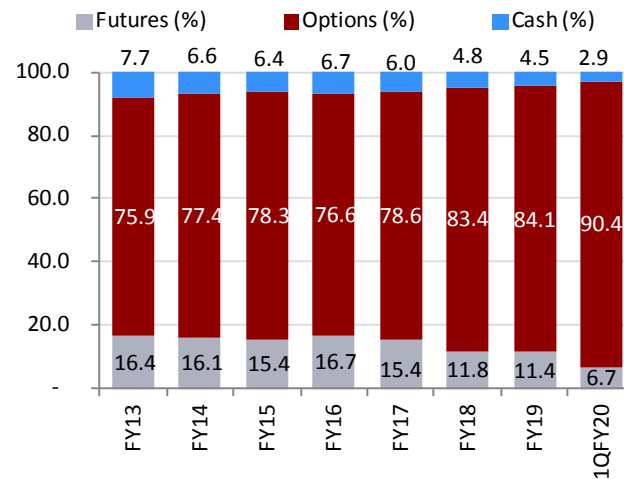
Rising share of F&O in the mix and fall in share of delivery based volumes have contributed to fall in blended yields for most brokerages.

Key takes:

- Cash ADTVs (ex-prop) growth remains soft at 3.9/-11.4% YoY/MoM. Cash ADTV growth in 1QFY20 was 3.0/0.9% YoY/QoQ.
- Whereas derivatives ADTV growth continues to remain very strong at 81.9/17.0% YoY/MoM. In 1QFY20 growth was 69.5/26.5% YoY/QoQ.
- Delivery volumes share in 1QFY20 was at 24.3% (-210/-60 bps YoY/QoQ).

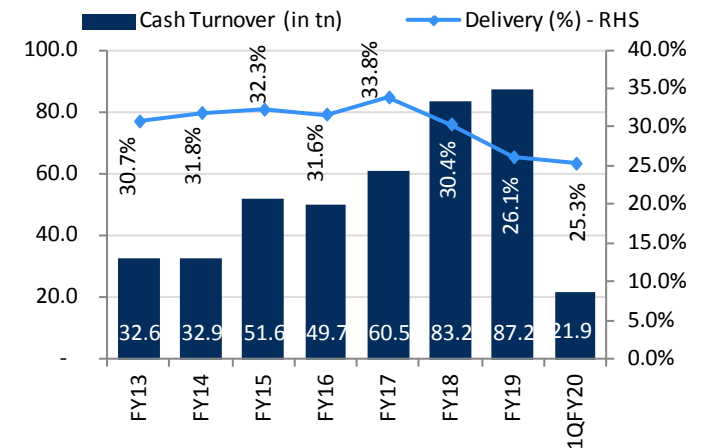
- Share of F&O in the overall mix has been consistently rising. Historically F&O in the mix has been at 94.0/95.2/95.5% in FY17/18/19 respectively. Even within F&O volume growth has sharply been for options (see chart) where yields are significantly lower than futures.
- The financial performance of the sector shall continue to remain under stress as traditional brokers with credible names like Axis Securities and Angel Broking have moved to fixed/subscription based business models. We believe this can lead to further decline in yields.
- Amongst brokers, we cover ISEC and have a NEUTRAL with TP of Rs 216 i.e. (14x FY21E EPS).

Rising share of derivates ADTV



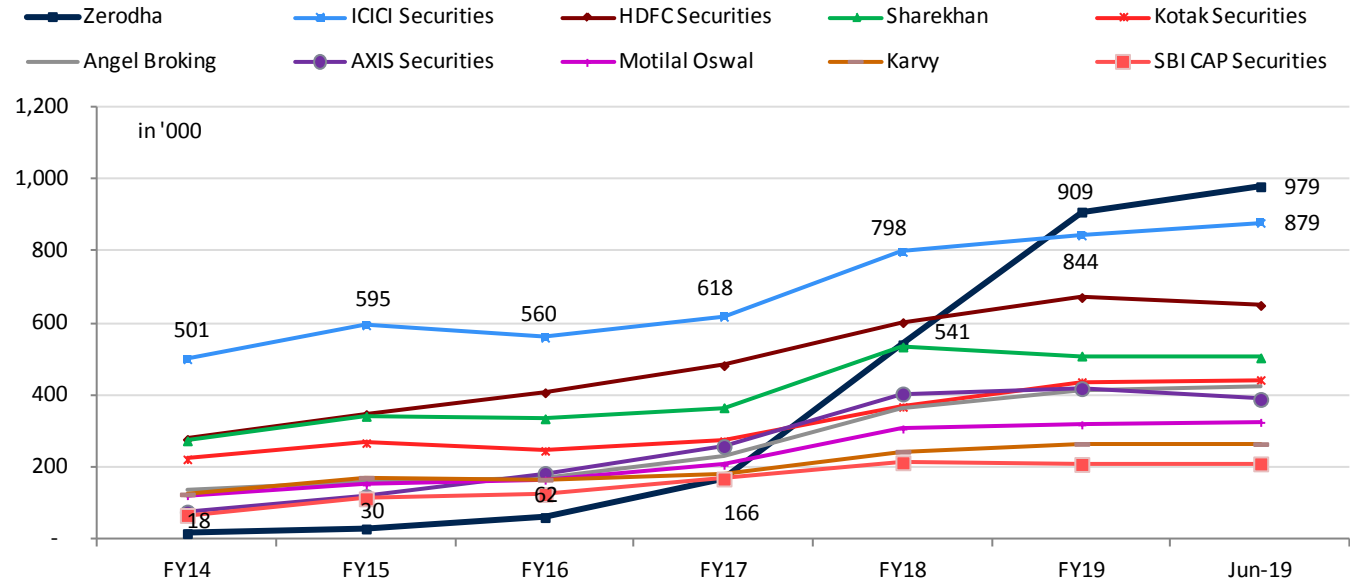
Source: NSE,BSE,HDFC sec Inst Research

Falling delivery volumes



Source: NSE,BSE,HDFC sec Inst Research

Rise of Zerodha is striking in the chart.



Source: NSE, HDFC sec Inst Research

NSE Active Clients data

Broker	FY14	FY15	FY16	FY17	FY18	FY19	Jun-19
Zerodha	17,523	30,379	61,970	165,586	540,905	909,008	979,241
ICICI Securities	500,733	594,714	560,438	618,359	798,355	843,975	878,884
HDFC Securities	278,706	347,555	408,059	483,244	602,493	672,044	650,114
Sharekhan	274,777	342,592	335,843	366,468	535,003	509,787	504,796
Kotak Securities	223,280	268,459	246,945	273,895	368,638	437,822	443,461
Angel Broking	140,174	160,354	170,808	230,194	363,663	412,809	426,716
Axis Securities	77,333	120,292	184,325	259,006	404,769	419,455	389,512
Motilal Oswal Financial Services	123,022	152,608	165,844	207,194	307,647	319,138	326,011
Karvy Stock Broking	126,308	172,489	166,923	181,384	244,753	266,287	265,798
SBI Cap Securities	68,328	113,810	125,828	169,345	213,616	209,301	210,892
IIFL Securities	235,241	286,032	262,930	197,996	225,435	214,149	203,702
RKSV Securities	4,631	7,372	10,622	17,229	43,889	99,546	186,456
Geojit Financial Services	NA	NA	NA	NA	183,466	162,789	160,984
5Paisa Capital	NA	12	NA	3,652	36,034	106,280	147,499
Edelweiss Broking	23,601	47,123	77,459	74,631	104,643	120,132	122,784
Reliance Securities	92,907	114,086	97,390	83,430	122,858	120,227	119,904
SMC Global Securities	55,627	63,148	64,231	74,227	103,047	105,981	106,354
Nirmal Bang Securities	49,797	59,283	61,362	72,795	95,918	93,607	92,975
Marwadi Shares And Finance	22,385	26,598	33,442	53,712	NA	83,111	82,113
Anand Rathi	49,860	57,205	58,264	64,451	77,554	76,095	75,204

Source: NSE, HDFC sec Inst Research

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