

Stock Update

# UTI Asset Management Company Ltd.

December 17, 2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
AMC	Rs.1055	Buy in Rs.1030-1065 band & add more on dips to Rs.948-956 band	Rs.1155	Rs.1210	2 quarters

HDFC Scrip Code	UTIAMCEQNR
BSE Code	543238
NSE Code	UTIAMC
Bloomberg	UTIAM IN
CMP Dec 16, 2021	1055
Equity Capital (Rs mn)	1,268
Face Value (Rs)	10
Equity Share O/S (mn)	127
Market Cap (Rs bn)	133.9
Book Value (Rs)	254.3
Avg. 52 Wk Volumes	349739
52 Week High	1,216.6
52 Week Low	534.5

Share holding Pattern % (Sept, 2021)	
Promoters	-
Institutions	90.12
Non Institutions	9.88
Total	100.00



HDFCsec Retail research  
stock rating meter

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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### Our Take:

UTI AMC is the 8th largest asset management company in India in terms of quarterly average AUM (QAAUM). It has presence across all AUM segments - Mutual Funds, Alternate Investment Funds (AIFs), Retirement Business and Portfolio Management Services. It is also an Indian AMC with International footprint. The company has been growing its AUM for the last four consecutive quarters on the back of strong performance as well as overall higher flows due to improved market scenario. UTI AMC's established presence in B30 cities has enabled it to attract new clients and positions it to capitalise on future growth in those underpenetrated cities. Management has guided for a healthy NFO pipeline. Retirement solutions business also presents a strong growth outlook given vast underpenetrated market. UTI AMC has a share of 27.98% of the retirement industry AUM. The company has taken several initiatives for the development of digital infrastructure, which has resulted in higher sales through digital platforms. Going ahead, margins should improve gradually on the back of change of product mix strategy, lower employee cost (A large natural retirement is schedule for ~FY24-FY25) and higher focus on digitization.

Despite unprecedented rise in the influx of mutual funds in last decade, the industry is still underpenetrated. Favorable demographics and changing investment patterns of retail class makes us believe that Indian mutual fund industry has a multiyear growth story lying ahead of them.

We had issued Initiating Coverage report on UTI AMC on 24th February, 2021 and recommended Buy at LTP of Rs.584 and add further on dips to Rs.538 band, for base case target of Rs.653 and bull case target of Rs.717 over the next two quarters. The stock entered average band on 12<sup>th</sup> April, 2021. The bull case target of Rs.717 was achieved on 10<sup>th</sup> May 2021.

Link for the Initiating Coverage:

<https://www.hdfcsec.com/hsl.research.pdf/UTI%20AMC%20Ltd.-%20Initiating%20Coverage-%2024022021.pdf>

### Valuation & Recommendation:

UTI AMC has posted decent Q2FY22 results with strong bottom line growth and healthy growth of QAAUM (Quarterly Average Asset under Management). We have envisaged a rise of 19% CAGR for both topline and bottom line over FY21-24E. Operating margin is estimated to grow to 54.6% in FY24E compared to current 35%. RoE is expected to hover around the current level. Market share trend both in equity and debt segment will be the key thing to watch out for. Cash and investments of the company is ~Rs.30,700 mn as at FY21 (~23% of the market capitalization). The company has been constantly paying healthy dividend to its shareholders. Yield compression due to high competition despite higher share of equity in total AUM, should start to recover or strong inflow could set off the impact.



There has been strong catch up rally done by the company in terms of filling valuation gap compared to other peers since our initiating coverage. However, the company is still trading at attractive valuation level 22.7x FY23E EPS and 20.1x FY24E EPS. **We feel that investors can Buy in Rs.1030-1065 band (21.2x Sep-23E EPS) & add more on dips to Rs.948-956 band (19.2x Sep-23E EPS) band. We expect the Base case fair value of Rs.1155 (23.3x Sep-23E EPS) and the Bull case fair value of Rs.1210 (24.4x Sep-23E EPS) over the next 2 quarters.**

### Financial Summary

Particulars (Rs bn)	Q2 FY22	Q2 FY21	YoY (%)	Q1FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	2.80	1.99	40.6	2.61	7.2	7.9	8.1	11.1	12.1	13.5
Operating profits	1.30	0.67	93.0	1.05	23.9	3.1	2.8	5.2	6.1	7.3
OP Margin (%)	46.5	33.9	1260bps	40.2	626bps	39.2	35	46.8	50.3	54.6
APAT	1.99	1.19	67.6	1.55	28.2	2.7	4.9	6.2	5.9	6.7
P/BV						4.8	4.1	3.9	3.6	3.4
P/E (x)						49.1	27.1	21.6	22.7	20.1
ROE (%)						10.2	16.5	18.5	16.4	17.4

(Source: Company, HDFC sec)

### Recent Developments

#### Q2FY22 Result Update

Revenue for the quarter stood at Rs.2.80 bn up 40.6% YoY and 7.2% QoQ. Revenue as a percentage of MF QAAUM declined 2.2bps to 53.7bps. PFRDA's fee revision for NPS resulted in a jump in topline for UTI RSL. Employee cost was high due to spot bonuses and other accruals booked during the quarter. Operating profit was up 24% with margin improvement of 626 bps QoQ. The company has reported higher other income due to strong MTM gain and capital gain from exit of Ascent India fund and one Fixed Maturity Plan (FMP) got matured. This has resulted in strong net profit growth of 67.6% YoY and 28.2% QoQ to Rs. 1.99 bn. The management highlighted a healthy NFO pipeline. The company has hired Mr. Anurag Mittal as a Fund Manager and Deputy Head of Fixed Income. Further, the management has informed that they will continue to strengthen the fixed income team.

#### Healthy NFO in pipeline:

In Aug-21, the company has raised Rs.25.4 bn via UTI Focused Equity Fund NFO and has added 1.54 lakh folios. Currently, it has received SEBI approval for launching a UTI Multi Cap Fund which will be on the active side. Management has informed that they will launch it at an appropriate time. Apart from that the company has also planned to float some of the other passive funds for which they have already got approval.



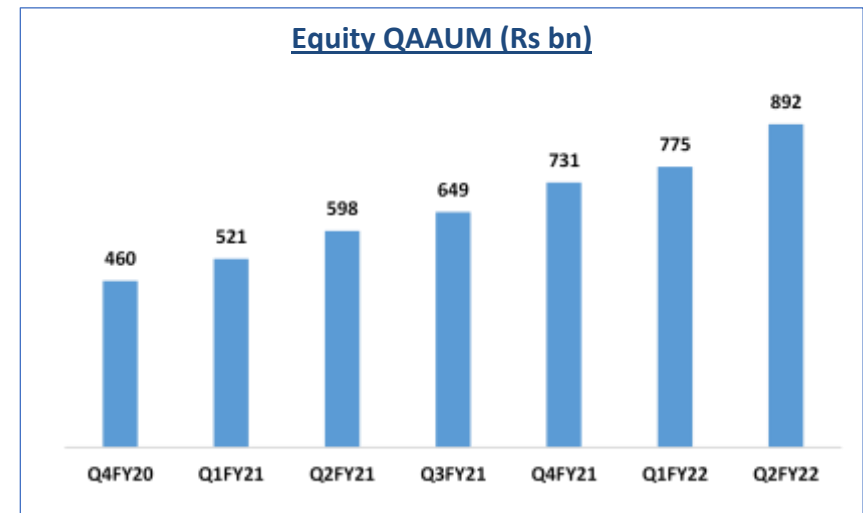
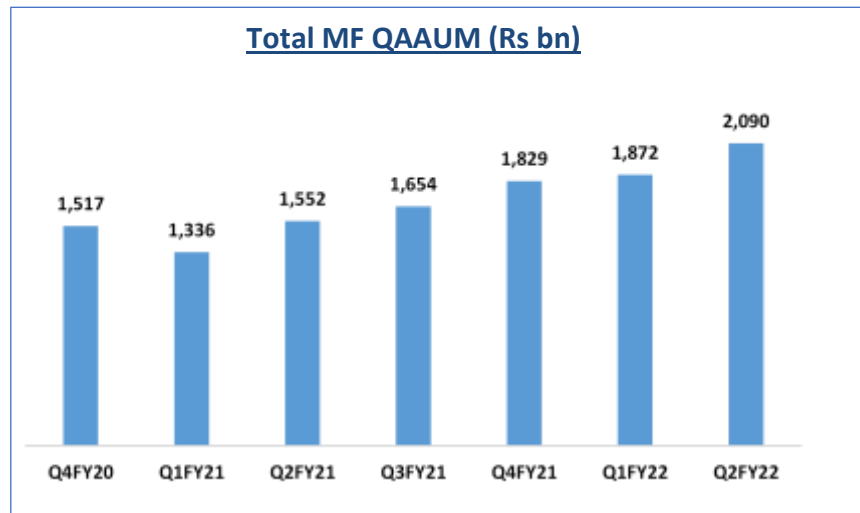
### Improving operating performance:

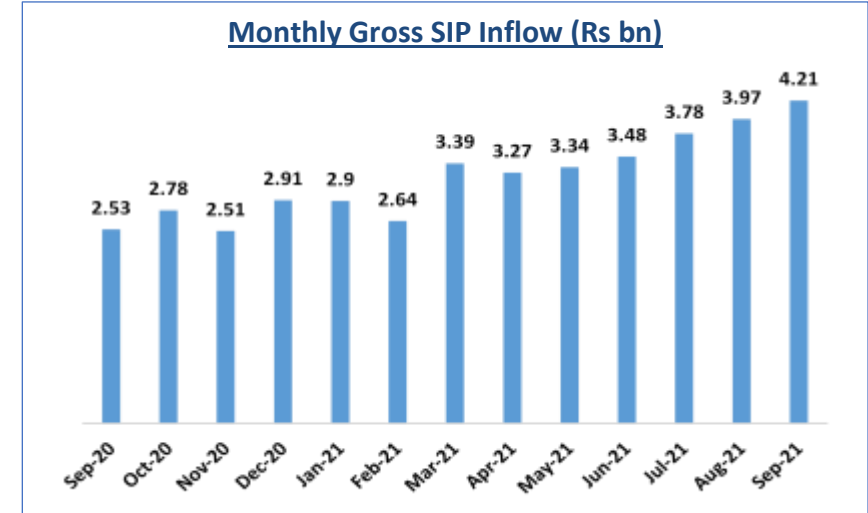
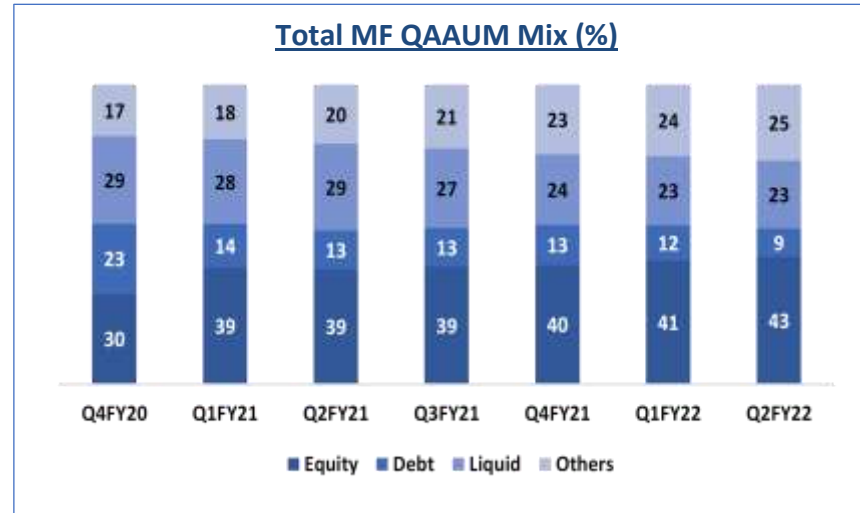
Across the industry level, even though there is improvement in the asset mix (rising share of equity as a percentage of portfolio), there is compression in yield. Same is the case for UTI AMC due to rising competition. The company was able to increase equity and hybrid fund composition by 400 bps in H1FY22 but yield was under pressure. However, the management has guided that, they are confident that they will be clocking AMC margin yield of close to around 44-45 bps, similar to last financial year.

**OPEX:** Management has guided that overall staff costs will grow in 0-5% range over FY22, and any further improvement in fund performance will result in higher bonus pay-outs. A large natural retirement is scheduled for ~FY24-FY25, which could save around Rs750mn-800mn employee cost (net of replacement costs). Further, UTI AMC has been constantly investing in technologies which will over time help the company in reducing the operating cost and turnaround time.

### Strong AUM growth trend:

The company has been growing AUM for the last four consecutive quarters on the back of strong performance as well as overall higher flows due to improved market scenario. Overall mutual fund QAAUM rose by 35% YoY to Rs. 2.09 trn supported by strong Equity + Hybrid QAAUM growth of 49.3% YoY. Gross Inflow mobilized through SIP for the quarter ended September 30, 2021 stood as Rs. 11.96bn. SIP AUM as of September 30, 2021 stood at Rs. 173.89 bn, an increase of 12.02% QoQ. Monthly SIP for Sep-21 stood at Rs.4.21 bn. Market share for total MF stood at 5.77% (+15 bps YoY) in Q2FY22. For Equity / Hybrid QAAUM, the market share was 5.19%/ 5.61% (+32bps/-114bps YoY). Management is confident on regaining lost market share with superior performance and renewed focus on distribution front.





Change of product mix strategy could bring higher margins for the company in future. UTI AMC’s established presence in B30 cities has enabled to attract new clients and positions it to capitalise on future growth in those underpenetrated cities. We believe the sustained out-performance of its equity schemes will help in attracting equity flows thereby augmenting its market share.

**Under-penetration of mutual funds in India**

Over the last decade, the Indian MF Industry has grown at a steady pace from Rs.7 trn to Rs.32.1 trn, an approximately 4 times increase in a span of 10 years. Further, during the year Industry saw a healthy growth of 18.5% in total folios largely due to increasing awareness and higher retail participation.

India’s mutual fund penetration (AUM to GDP) has now risen to 12.1%, which is still much lower than the world average of 63%. India’s equity mutual fund AUM to GDP ratio is at 5%, vis-à-vis 75% in US, 55% in Canada and 40% in UK. Going forward, favourable demographics, growing financial inclusion, increasing financial savings, higher investor awareness, investor friendly regulations, digitalisation etc. are expected to be key drivers for the growth of the Mutual Fund industry. The industry will continue to benefit from shift of household savings towards mutual funds from physical assets and bank deposits. We believe that Indian mutual fund industry has a multiyear growth story lying ahead of them on the back of several structural benefits.



### Sector tailwind

Q2FY22 GDP growth has almost reached the pre-pandemic level, led by sharp pickup in services and supported by low base. Corporate earnings in Q2FY22 were better than expectations, despite sharp input cost inflation impacting several sectors. The growth momentum seems to be continued as seen in Google mobility data, services and manufacturing PMI numbers. Also the GST collections have been consistent above the Rs.1 trn level for past five months. Indian capital market also (benchmark indices) clearly reflects the robust earnings recovery. This equity market rally has helped the AMCs fetch unprecedented flows. The quarterly average AUM for the mutual fund industry stood at Rs. 36.21 trn as on September 30, 2021 up 9.1% QoQ and 31.2% YoY. The total number of folios for the industry also grew 20% YoY to 111.7 mn. The SIP inflows crossed Rs.100 bn mark for the first time in September 2021 taking the SIP AUM of the industry to Rs.5.45 trn, an increase of 12.6% over the last quarter.

In the Equity-oriented schemes, Multi-Cap, Flexi-Cap and Thematic Fund saw the highest inflow while ELSS and Value funds witnessed outflow during this quarter. Debt-oriented schemes especially liquid and low duration funds had sharp outflows. The portfolio mix of the industry has also improved supported by large flux of funds from the equity segment which has highest yield among all the categories. These favorable changes could bring higher blended revenue yield for the industry in coming quarters.

### Mutual Fund Industry AUM:

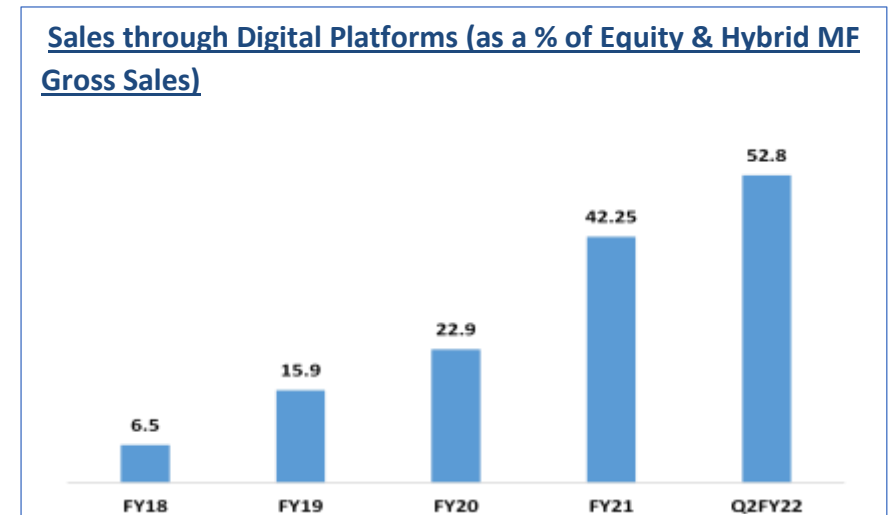
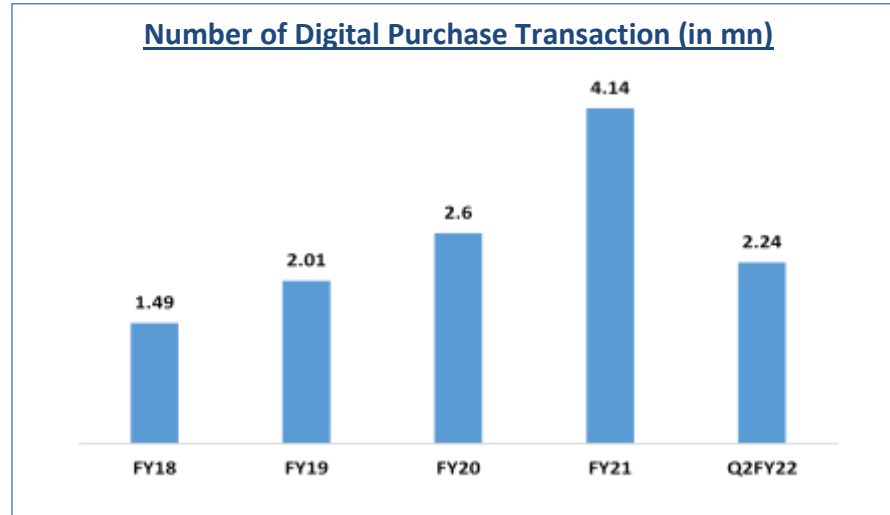
QAUM (Rs. bn)	Q2FY22	Q2FY21	Q1FY22	YoY	QoQ
Equity	20412	13222	17645	54%	16%
- Active Equity	15628	10409	13620	50%	15%
Liquid and Money	5924	6120	5777	-3%	3%
Debt	9514	8082	9444	18%	1%
Others	367	177	308	107%	19%
Total	36217	27601	33175	31%	9%

### Increased focus on digitization front

Online and digital assets have become a key source for investor acquisition and communication. The company has created a robust digital ecosystem that allows fast, secure payments and processes across the investor journey. Multiple initiatives have been taken with respect to application modernisation, hybrid cloud architecture adoption, business process digitalisation, enterprise data platform adoption and cyber security enhancement. The company has also formed a Board level Digital Transformation Committee. The company has also implemented the next generation front-end trading system, Bloomberg Asset and Investment Manager. The new state-of-the-art trading



system is helping the company improve trade execution by providing a more responsive, agile and efficient interface for the dealing operations, with simplified risk and compliance monitoring. This will ultimately help them in reducing the tracking error and costs. During Q2FY22, ~53% of total gross sales of Equity & Hybrid funds were mobilized through digital platforms. Number of purchase transactions through Digital grew by 135.8% YoY in Q2FY22 while number of digital SIP transactions grew by 244.94% YoY.



### **Strong growth outlook for the retirement solutions business**

UTI Retirement Solutions Limited (UTI RSL) was incorporated by UTI AMC on 14th December 2007 for managing the pension assets under the National Pension System (NPS). It is a 100% subsidiary of UTI AMC. This company was amongst the first set of companies, along with LIC and SBI, established for managing Pension Funds under NPS. As a result, it enjoys the first-mover’s advantage in the pension sector. The company has been managing the NPS corpus for both government and non-government sector. As of September 2021, the AUM is Rs.1867.16 bn and has a share of 27.98% of the industry AUM. For Q2FY22, the AUM growth was lower compared to peers due to lower funds from Government.

The Retirement Solutions industry is in a nascent stage with a small percentage of the working population being under pension and social security schemes. There is a vast potential for the industry. It is expected that within the next 10 years, Pension AUM is likely to cross Mutual Fund AUM, increasing the business opportunity.



### Risks & Concerns

- Market volatility (especially downward) has high correlation with fund flows into AUM. So any prolonged period of negative returns from equity market can hurt company’s revenues hard.
- Continuous under performance of the schemes could lead to high level of redemption.
- Any adverse change of regulations can also impact the business of the company.
- High competition from bank backed AMC and even the recent rise of digital disruptors poses pricing risk.
- The possibility of third wave and fresh lock downs could hurt the business on multiple fronts.
- Stagnation of growth and inability to gain market share over mid to long term will be an overhang on the stock performance
- SEBI, in its last year board meeting has relaxed the licensing norms for new AMCs. Now, the profitability criteria has been removed as long as the company maintains the minimum capital requirement capital until they get profitable in five years.
- UTI AMC has high employee cost and lower share of equity AUM as compared to other peers like NAM Indian and HDFC AMC. However, the things are improving in both of these parameters.

### Peer Comparison:

	CMP	Mcap (Rs. in bn)	H1FY21						FY23E	MCap/AUM	P/E FY23E
			QAAUM (Rs. bn)	Equity as % of total AUM	Margin %	Emp. Cost/Revenue	SIP Book (Rs. bn)	ROE	EPS		
HDFC AMC	2438	520	4,389	44.0%	72.5%	15.0%	5.4	30.1%	69.6	20%	35.0
NAM India	346	125	2,655	43.0%	53.0%	25.0%	6.4	25.0%	15	12%	23.1
UTI AMC	1055	133	2,089	43.0%	43.0%	32.0%	6.2	22.0%	46.4	6%	22.7

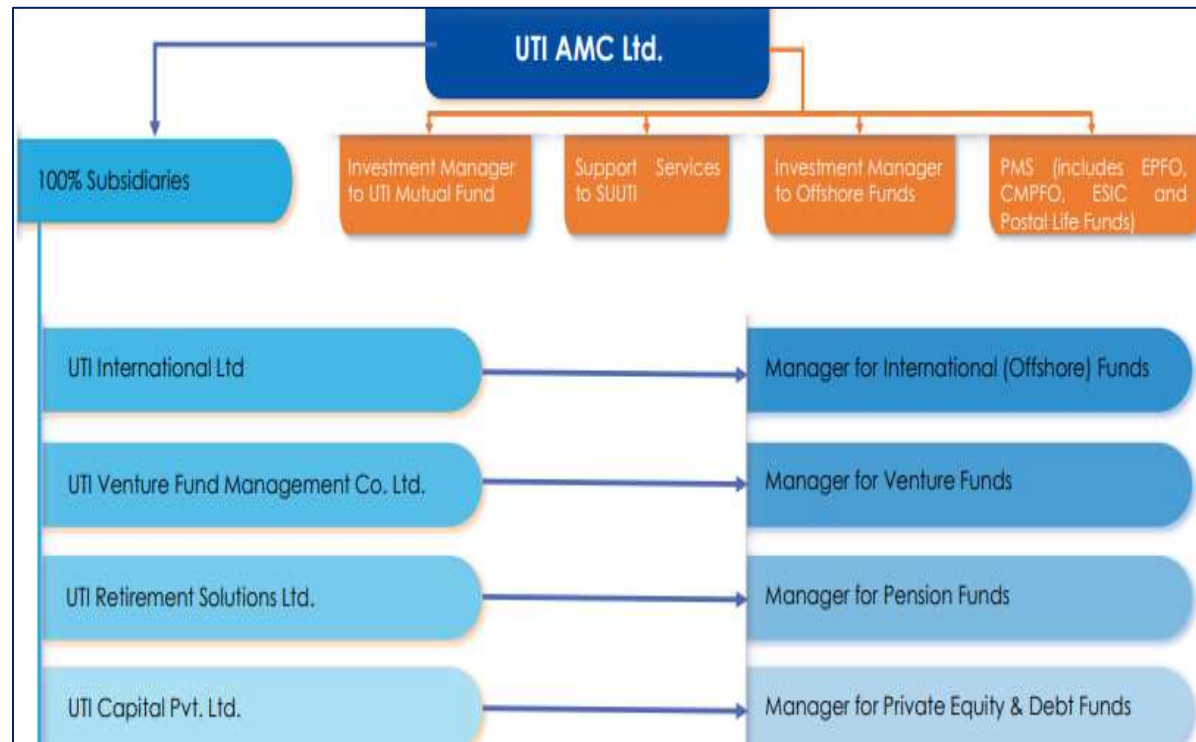


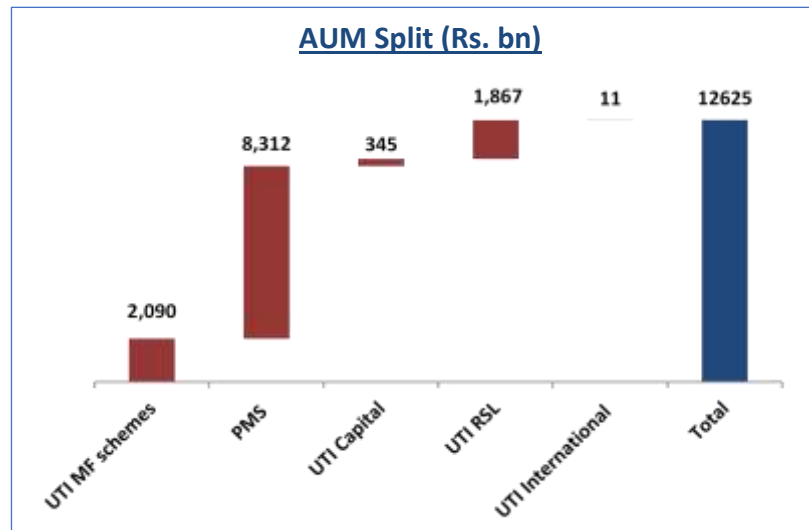
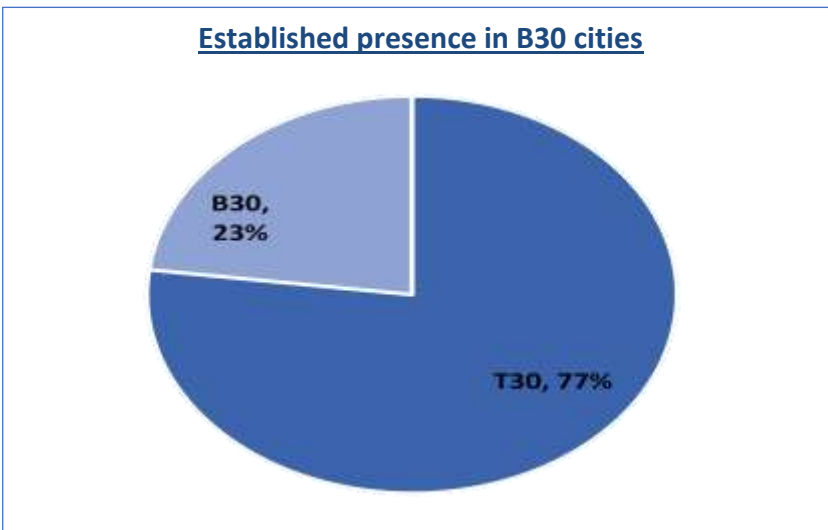
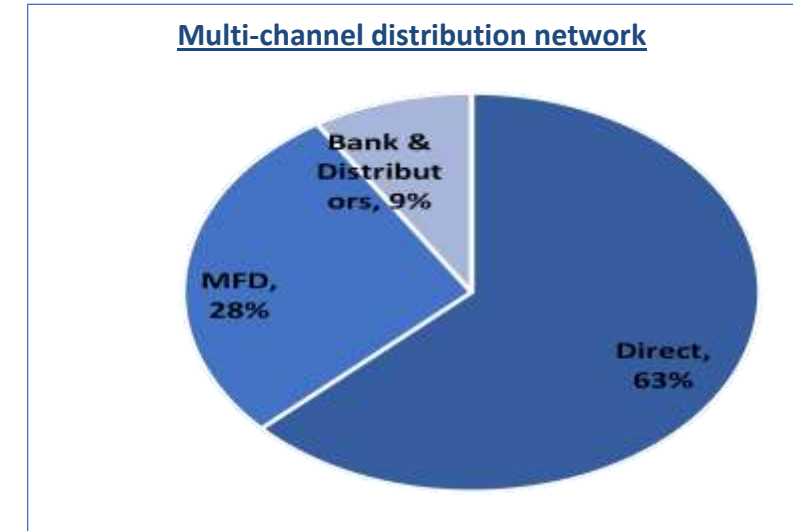
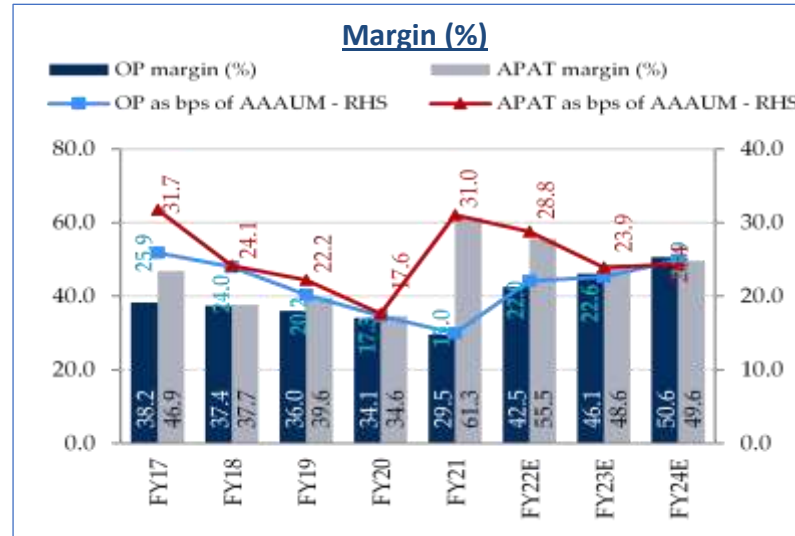
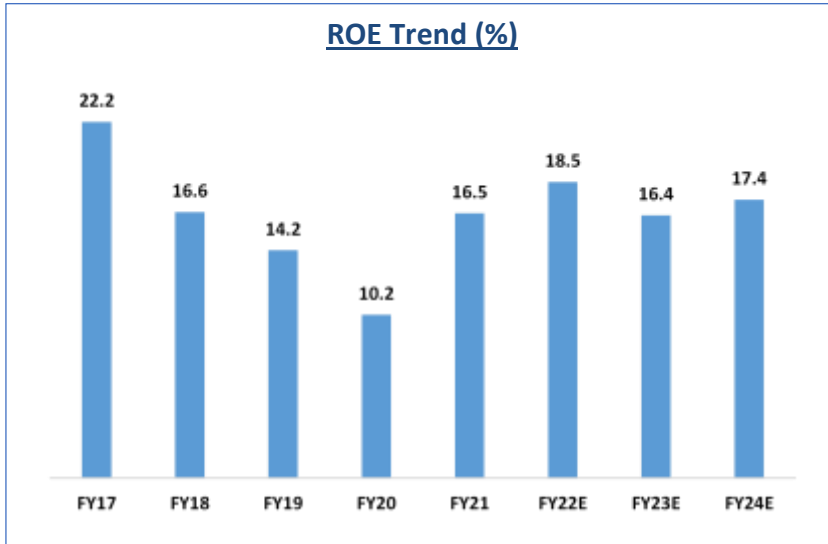


### Company Background:

UTI Asset Management Company (UTI AMC) is one of the largest asset management company (AMC) in India, in terms of Total Assets Under Management (AUM). It is also the eighth largest AMC in terms of mutual fund Quarterly Average Assets Under Management (QAAUM) as of September 2021. T Rowe Price as a sponsor has 23% stake in the AMC and has two representatives on the board. It also has 51% stake in the UTI Trustee Company.

The company caters to a diverse group of individual and institutional investors through a wide variety of funds and services. It manages the domestic mutual funds of UTI Mutual Fund, provides portfolio management services (PMS) to institutional clients and high net worth individuals (HNIs) and manages retirement funds, offshore funds and alternative investment funds. The company manages 148 (138 including 10 Segregated portfolio) domestic mutual fund schemes, comprising equity, balanced / hybrid, income, ETFs / Index, liquid and money market funds as of March 31, 2021. UTI AMC is physically present across 96% of India’s districts through branches, banks, or distributors, and has business development associates across 270 centers.







## Financials

### Income Statement

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	7,879	8,066	11,145	12,090	13,452
Growth (%)	-11.5%	2.4%	38.2%	8.5%	11.3%
Employee expenses	3,399	3,795	3,829	3,741	3,691
Operating expenses	1,395	1,450	2,097	2,265	2,419
<b>EBITDA</b>	<b>3,085</b>	<b>2,821</b>	<b>5,219</b>	<b>6,084</b>	<b>7,341</b>
<b>EBITDA Margin (%)</b>	<b>39.2</b>	<b>35.0</b>	<b>46.8</b>	<b>50.3</b>	<b>54.6</b>
<b>EBITDA Growth (%)</b>	<b>-13.9%</b>	<b>-8.5%</b>	<b>85.0%</b>	<b>16.6%</b>	<b>20.7%</b>
Depreciation	313	358	388	408	420
EBIT	2,771	2,463	4,831	5,677	6,921
Other Income	768	3,648	2,840	1,804	2,184
Interest	85	81	91	102	109
PBT	3,454	6,030	7,580	7,380	8,995
Tax	690	1,087	1,364	1,439	2,258
APAT	2,765	4,943	6,216	5,941	6,737
APAT Growth (%)	-20.5%	78.8%	25.7%	-4.4%	13.4%
Minority Interest	(35)	(2)	(31)	(59)	(67)
<b>APAT</b>	<b>2,730</b>	<b>4,941</b>	<b>6,185</b>	<b>5,881</b>	<b>6,670</b>
RPAT	2,730	4,941	6,185	5,881	6,670
<b>RPAT Growth (%)</b>	<b>-22.6%</b>	<b>81.0%</b>	<b>25.2%</b>	<b>-4.9%</b>	<b>13.4%</b>
AEPS (diluted)	21.5	39.0	48.8	46.4	52.6

### Balance Sheet

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>SOURCES OF FUNDS</b>					
Share Capital	1,268	1,268	1,268	1,268	1,268
Reserves	26,357	30,991	33,466	35,821	38,491
Minority Interest	108	111	142	202	269
Total Shareholders' Funds	27,733	32,370	34,877	37,290	40,027
Long-term Debt	1,104	1,050	1,101	1,151	1,264
Short-term Debt	-	-	-	-	-
<b>Total Debt</b>	<b>1,104</b>	<b>1,050</b>	<b>1,101</b>	<b>1,151</b>	<b>1,264</b>
Other Financial Liabilities	831	486	1,069	1,159	1,290
Other Non-Current Liabilities	78	137	144	151	158
Net Deferred Tax Liability	445	733	740	748	755
<b>TOTAL SOURCES OF FUNDS</b>	<b>30,190</b>	<b>34,775</b>	<b>37,930</b>	<b>40,499</b>	<b>43,495</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	3,636	3,647	3,817	3,991	4,136
Other Non-Current Assets	<b>232</b>	<b>252</b>	<b>260</b>	<b>267</b>	<b>275</b>
Total Non-current Assets	3,868	3,899	4,077	4,258	4,412
Current Investments	24,449	28,643	29,765	30,944	32,194
Debtors	554	497	763	828	921
Cash & Equivalents	1,193	2,060	3,388	4,597	6,186
Loans & Advances	374	252	257	262	267
Other Current Assets	1,112	1,298	1,324	1,351	1,363
Total Current Assets	27,681	32,749	35,498	37,981	40,931
Creditors	662	933	966	1,048	1,142
Other Current Liabilities	697	940	678	692	706
Total Current Liabilities	1,359	1,873	1,645	1,740	1,848
Net Current Assets	26,322	30,876	33,853	36,241	39,083
<b>TOTAL APPLICATION OF FUNDS</b>	<b>30,190</b>	<b>34,775</b>	<b>37,930</b>	<b>40,499</b>	<b>43,495</b>

(Source: Company, HDFC sec)



## Cash Flow Statement

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	3,454	6,030	7,580	7,380	8,995
Non-operating & EO Items	(557)	(3,153)	-	-	-
<b>Interest Expenses (net)</b>	<b>(93)</b>	<b>(86)</b>	<b>91</b>	<b>102</b>	<b>109</b>
Depreciation	313	358	388	408	420
Working Capital Change	(424)	63	63	97	135
Tax Paid	(747)	(721)	(1,364)	(1,439)	(2,258)
<b>OPERATING CASH FLOW ( a )</b>	<b>1,947</b>	<b>2,491</b>	<b>6,758</b>	<b>6,546</b>	<b>7,402</b>
Net Capex	(583)	(421)	(558)	(581)	(566)
Free Cash Flow (FCF)	1,364	2,070	6,200	5,965	6,836
Investments	(1,146)	(4,278)	(1,122)	(1,179)	(1,250)
Non-operating Income	671	3,706	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(1,059)</b>	<b>(993)</b>	<b>(1,681)</b>	<b>(1,760)</b>	<b>(1,816)</b>
Debt Issuance/(Repaid)	28	80	51	51	113
Interest Expenses	(85)	-	(91)	(102)	(109)
FCFE	1,307	2,149	6,160	5,914	6,840
(Buyback)/Proceeds From Issue of Share Capital	(264)	(71)	-	-	-
Dividend	(692)	(888)	(3,709)	(3,527)	(4,000)
Others	76	249	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(938)</b>	<b>(630)</b>	<b>(3,749)</b>	<b>(3,578)</b>	<b>(3,997)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(49)</b>	<b>867</b>	<b>1,329</b>	<b>1,208</b>	<b>1,589</b>
Opening Cash & Equivalents	1,241.83	1,192.55	2,059.75	3,388.49	4,596.85
Closing Cash & Equivalents	1,192.55	2,059.75	3,388.49	4,596.85	6,186.24

## Key Ratio

	FY20	FY21	FY22E	FY23E	FY24E
<b>PROFITABILITY (%)</b>					
EBITDA Margin	39.2	35.0	46.8	50.3	54.6
EBIT Margin	35.2	30.5	43.3	47.0	51.4
OP margin	34.1	29.5	42.5	46.1	50.6
APAT Margin	34.6	61.3	55.5	48.6	49.6
RoE	10.2	16.5	18.5	16.4	17.4
Core RoCE	86.2	72.0	142.7	162.3	187.6
RoCE	10.2	16.5	18.5	16.4	17.4
<b>EFFICIENCY</b>					
Tax Rate (%)	20.0	18.0	18.0	19.5	25.1
Asset Turnover (x)	2.2	2.2	3.0	3.1	3.3
Working Capital (days)	-33	-30	-33	-34	-34
Debt/EBITDA (x)	0.4	0.4	0.2	0.2	0.2
Net D/E	0.0	0.0	-0.1	-0.1	-0.1
Interest Coverage	32.7	30.6	53.3	55.9	63.3
<b>PER SHARE DATA</b>					
AEPS (Rs/sh)	21.5	39.0	48.8	46.4	52.6
DPS (Rs/sh)	7.0	17.0	29.3	27.8	31.5
BV (Rs/sh)	217.8	254.3	273.8	292.4	313.4
<b>VALUATION</b>					
P/E	49.1	27.1	21.6	22.7	20.1
P/BV	4.8	4.1	3.9	3.6	3.4
Dividend Yield (%)	0.7	1.6	2.8	2.6	3.0



One Year Price Chart





## HDFC Sec Retail Research Rating description

### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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