

India

ADD (no change)

Consensus ratings*: Buy 14 Hold 0 Sell 1

Current price:	Rs810
Target price:	Rs1,000 ▲
Previous target:	Rs900
Up/downside:	23.5%
InCred Research / Consensus:	24.3%
Reuters:	
Bloomberg:	UTIAM IN
Market cap:	US\$1,417m Rs102,889m
Average daily turnover:	US\$2.8m Rs200.3m
Current shares o/s:	0.0m
Free float:	46.0%

*Source: Bloomberg

Key changes in this note

- UTI AMC continued losing market share sequentially in Equity AUM to ~4.63% against ~4.82% as of Dec'22 & ~4.99% as of Sept'22



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	18.5	22.2	16.0
Relative (%)	12.5	11.1	(3.3)

Major shareholders	% held
T ROWE PRICE	23.0
PNB	15.0
SBI	10.0

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UTI AMC

Subdued performance; attractive valuation

- UTI AMC posted a better-than-estimated 1Q PAT of Rs2.34bn, despite qoq flat yields and elevated operating expenses, amid strong investment income.
- However, consistent loss in market share (total as well as equity) remains an issue. The share in equity AUM dipped to ~4.47% against ~4.63% in Mar 2023.
- UTI AMC is better placed on TER change but uncertainty over regulatory norms to weigh on the sector. Retain ADD rating with a higher TP of Rs1,000.

Yields down sequentially but investment income aids profitability

UTI AMC witnessed sequentially flat yields in 1QFY24, but profit beat our estimate amid a rise in other income, which is linked to market investments that have seen a significant improvement during the past quarter but the same remains volatile and can see a reversal in an adverse market.

Market share trend disappointing across portfolios

UTI AMC reported a dip in its overall market share sequentially to ~5.76% against 5.89% last quarter despite mutual fund QAAUM improving sequentially by ~3.9% to Rs2.48tr. Equity AUM witnessed a sequential decline to ~4.47% against ~4.63% in the previous quarter.

We factor in ~4bp decline in revenue yield

As highlighted earlier, ~15-18bp TER impact for equity-oriented schemes (including arbitrage) may have ~6-8bp impact on overall revenue yield as the equity portfolio constitutes ~30% of assets under management or AUM as of end-Mar 2023. Our base-case assumption is that the company will be able to pass on ~50% of the TER cut to its distributors and can even moderate the overall portfolio churn, which indicates ~4bp impact on FY24F revenue yield. However, with the rise in equity AUM, UTI AMC will face pressure on the overall yield due to a lower TER being implemented. Our discussions with industry players suggest a negligible impact of the proposed norms on debt schemes.

Outlook & valuation

UTI AMC is losing market share, mainly in equity funds, but the impact on revenue yield due to the change in the Securities and Exchange Board of India or SEBI norms remain uncertain. However, even post recent run-up, UTI AMC continues to offer an attractive risk-reward ratio. We retain ADD rating on the stock, revising our earnings estimates by ~6%/6.8% for FY24/25F, respectively, with a higher target price of Rs1,000 (from Rs900 earlier), corresponding to ~19.3x FY25F EPS. Key downside risks: Lower growth and industry-related risks.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	0	0	0	0	0
Total Non-Interest Income (Rsm)	13,189	12,669	14,053	16,464	19,275
Operating Revenue (Rsm)	13,271	12,901	14,332	16,793	19,657
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	5,341	4,374	5,436	6,574	7,698
Core EPS (Rs)	42.12	34.46	42.84	51.80	60.66
Core EPS Growth	8%	(18%)	24%	21%	17%
FD Core P/E (x)	19.24	23.51	18.91	15.64	13.36
DPS (Rs)	21.00	22.00	30.00	40.00	50.00
Dividend Yield	2.59%	2.72%	3.70%	4.94%	6.17%
BVPS (Rs)	284.4	304.8	317.8	329.8	340.7
P/BV (x)	2.85	2.66	2.55	2.46	2.38
ROE	15.6%	11.7%	13.8%	16.0%	18.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Revenue from operations	2,931	4,358	2,952	3,007	4,678	59.6%	55.6%
Other income	129	41	-18	80	8		
Total revenue (Rs m)	3,060	4,399	2,934	3,087	4,686	53.1%	51.8%
Total expenditure	1,995	1,774	1,910	1,913	1,802	-9.7%	-5.8%
<i>Cost-to-income (%)</i>	<i>65.2%</i>	<i>40.3%</i>	<i>65.1%</i>	<i>62.0%</i>	<i>38.4%</i>		
Profit before tax	1,065	2,626	1,024	1,174	2,884	170.9%	145.6%
Tax	121	597	424	317	540	347.1%	70.2%
<i>Tax rate (%)</i>	<i>22.9%</i>	<i>22.9%</i>	<i>22.9%</i>	<i>22.9%</i>	<i>22.9%</i>		
Profit after tax	944	2,028	600	857	2,344	148.3%	173.5%

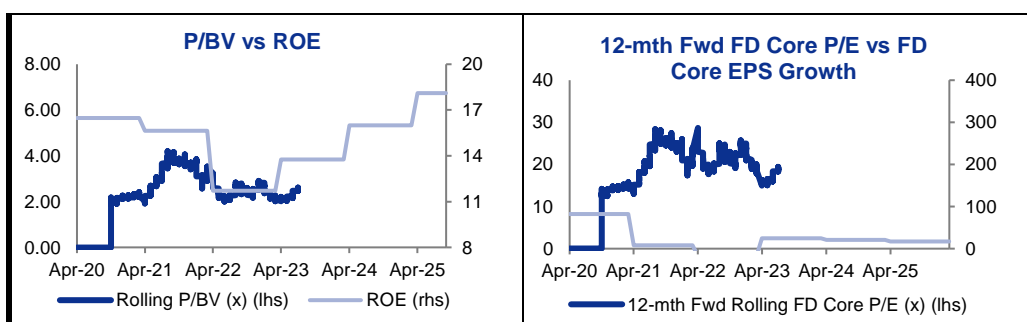
SOURCE: INCRED CAPITAL, COMPANY REPORTS.

Figure 2: Our revised estimates

Y/e Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Revenue from operations	12,810	14,332	12%	15,323	16,793	10%	18,108	19,657	9%
PAT	4,278	5,436	27%	5,471	6,574	20%	6,536	7,698	18%
EPS (Rs)	34	43	27%	43	52	20%	52	61	18%
Dividend payout (%)	70	70	0%	80	80	0%	90	80	-11%
QAAUM (Rs tn)	3	3	0%	3	3	-1%	4	4	1%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income					
Total Non-Interest Income	13,189	12,669	14,053	16,464	19,275
Operating Revenue	13,271	12,901	14,332	16,793	19,657
Total Non-Interest Expenses	(6,303)				
Pre-provision Operating Profit	6,600	5,856	7,280	8,796	10,294
Total Provision Charges					
Operating Profit After Provisions	6,600	5,856	7,280	8,796	10,294
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	6,600	5,856	7,280	8,796	10,294
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	6,600	5,856	7,280	8,796	10,294
Exceptional Items					
Pre-tax Profit	6,600	5,856	7,280	8,796	10,294
Taxation	(1,256)	(1,459)	(1,820)	(2,199)	(2,574)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	5,344	4,397	5,460	6,597	7,721
Minority Interests	(3)	(23)	(23)	(23)	(23)
Prof. & Special Div					
FX And Other Adj.					
Net Profit	5,341	4,374	5,436	6,574	7,698
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	7.9%	9.3%	8.4%	7.9%	7.0%
Avg Liquid Assets/Avg IEAs					
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans					
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets					
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets					
Intangible Assets					
Other Non-Interest Earning Assets	2,701	2,147	2,204	2,263	2,326
Total Non-Interest Earning Assets	6,108	5,699	5,827	5,960	6,096
Cash And Marketable Securities	3,983	3,572	3,605	3,428	3,023
Long-term Investments	29,782	32,479	34,103	35,808	37,599
Total Assets	39,873	41,751	43,536	45,196	46,717
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities					
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	3,697	3,071	3,203	3,342	3,488
Total Liabilities	3,697	3,071	3,203	3,342	3,488
Shareholders Equity	36,062	38,680	40,332	41,853	43,229
Minority Interests	114				
Total Equity	36,177	38,680	40,332	41,853	43,229

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth					
Operating Profit Growth	9.1%	85.1%	11.1%	17.2%	17.1%
Pretax Profit Growth	9%	(11%)	24%	21%	17%
Net Interest To Total Income					
Cost Of Funds					
Return On Interest Earning Assets					
Net Interest Spread					
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit					
Interest Return On Average Assets					
Effective Tax Rate	19.0%	24.9%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	49.9%	63.8%	70.0%	77.2%	82.4%
Return On Average Assets	13.96%	10.72%	12.75%	14.82%	16.75%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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