

India

ADD (no change)

Consensus ratings*: Buy 10 Hold 1 Sell 0	
Current price:	Rs434
Target price:	Rs560
Previous target:	Rs560
Up/downside:	29.0%
InCred Research / Consensus:	8.1%
Reuters:	
Bloomberg:	ABSLAMC IN
Market cap:	US\$1,514m
	Rs124,920m
Average daily turnover:	US\$0.7m
	Rs57.5m
Current shares o/s:	288.0m
Free float:	46.0%
*Source: Bloomberg	



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.6)	2.0	(31.2)
Relative (%)	(9.7)	(2.9)	(30.9)

Major shareholders	% held
Aditya Birla Capital	50.0
SnI life	37.0
Public	13.0

Aditya Birla Sunlife AMC

Yields and investment income drive profits

- ABSL AMC posted 2QFY23 PAT of Rs1,899m (~11.7% yoy) amid improving yields and a rise in other income, despite a minor decline in market share qoq.
- Mutual fund QAAUM (including alternate) declined by ~5.8% yoy (up 0.4% qoq) to Rs2.9tr because of a sharp fall in debt fund AUM.
- We like ABSL AMC considering its diversified product portfolio and superior return ratios. Retain ADD rating on it with a TP of Rs560 or ~22.8x FY24F EPS.

Weak momentum on AUM side but gradual recovery likely

Mutual fund QAAUM (including alternate) declined by ~5.8% yoy (up 0.4% qoq) to Rs2.9tr in 2QFY23 due to a sharp fall in debt fund assets under management or AUM. Overall equity fund AUM for the company grew by ~2.5% yoy (-2% qoq) whereas with rising interest rates, debt fund AUM continued to decline by ~23.5% yoy (-5.6% qoq) whereas liquid fund AUM rose by ~19.1% yoy (+10.2% qoq). However, management remains firm on the company's consistent efforts towards outperformance as well as improving the distribution reach through various networks (including the banking channel). The company is investing in digital infrastructure to smoothen the customer onboarding process and deepen penetration in B-30 cities (beyond Top-30 cities). We are confident of these measures achieving success and expect a surge in equity fund AUM (including ETFs) in the coming quarters.

Investment income favourable

Asset management company or AMC earnings, being sensitive to investment portfolio, remain volatile due to capital market movement. Aditya Birla Sunlife (ABSL) AMC reported a higher-than-estimated PAT of Rs1,899m (up 11.7% yoy) amid positive investment income of Rs763m. Expenses run-rate is likely to witness a spike amid normalization of economic activities post Covid-19 pandemic, but with a gradual surge in revenue we expect an improvement in PAT yield. With a surge in equity fund AUM along with alternative investments taking the front seat, we expect profitability to improve backed by superior revenue growth.

Outlook and valuation

We like ABSL AMC considering its diversified product portfolio, superior return ratios and a favourable risk-reward ratio. On comparing listed AMCs, based on P/E to RoE multiple, we observed that ABSL AMC is attractively placed compared to peers. We retain our ADD rating on the stock with an unchanged target price of Rs560 based on the dividend discount model, corresponding to ~22.8x FY24F EPS and ~4.3% of FY24F AUM. Key downside risks: Low traction in new funds, branding risk, and industry-related risks.

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Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income (Rsm)	0	0	0	0	0
Total Non-Interest Income (Rsm)	11,779	13,790	13,697	15,919	18,391
Operating Revenue (Rsm)	11,779	13,790	13,697	15,919	18,391
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	5,157	6,604	6,081	7,083	8,135
Core EPS (Rs)	17.91	22.93	21.12	24.59	28.25
Core EPS Growth	6%	28%	(8%)	16%	15%
FD Core P/E (x)	24.22	18.92	20.54	17.64	15.36
DPS (Rs)	7.29	8.05	12.00	15.00	18.00
Dividend Yield	1.68%	1.86%	2.77%	3.46%	4.15%
BVPS (Rs)	59.2	76.4	85.5	95.1	95.1
P/BV (x)	7.33	5.68	5.07	4.56	4.56
ROE	34.1%	33.8%	26.1%	27.2%	29.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs m	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)
Revenue from operations	3,244	3,268	3,171	2,990	3,056	-5.8%	2.2%
Other income	402	187	235	-308	764	89.9%	-347.9%
Total revenue (Rs m)	3,646	3,456	3,406	2,682	3,820	4.8%	42.4%
Total expenditure	1,371	994	1,343	1,287	1,343	-2.1%	4.3%
<i>Cost-to-income (%)</i>	<i>37.6%</i>	<i>28.8%</i>	<i>39.4%</i>	<i>48.0%</i>	<i>35.1%</i>		
Profit before tax	2,275	2,462	2,064	1,395	2,477	8.9%	77.6%
Tax	574	627	508	380	577	0.5%	52.0%
<i>Tax rate (%)</i>	<i>25.2%</i>	<i>25.5%</i>	<i>24.6%</i>	<i>27.2%</i>	<i>23.3%</i>		
Profit after tax	1,700	1,834	1,556	1,015	1,900	11.7%	87.2%
QAAUM (Rs tr)	3.12	3.11	3.07	2.93	2.94	-5.8%	0.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Revision in our estimates

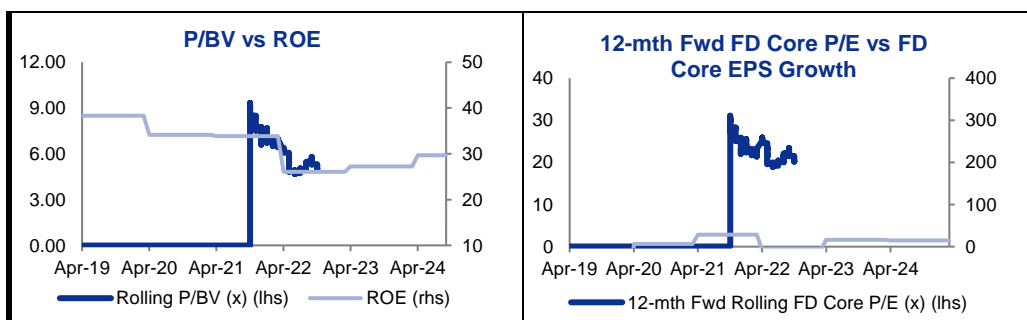
Y/e Mar (Rs m)	FY23F			FY24F			FY25F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Revenue from operations	13,557	13,557	0.0%	15,771	15,771	0.0%	18,236	18,236	0.0%
PAT	6,081	6,081	0.0%	7,083	7,083	0.0%	8,135	8,135	0.0%
EPS (Rs)	21.1	21.1	0.0%	24.5	24.5	0.0%	28	28.2	0.0%
Dividend payout (%)	55	55	0.0%	60	60	0.0%	65	65	0.0%
QAAUM (Rs tr)	3.4	3.4	0.0%	3.8	3.8	0.0%	4	4.3	0.0%

SOURCE: INCRED RESEARCH

Conference-call highlights

- ABSL AMC continued its focus on customer acquisition and acquired 0.2m new folios. It now has 8.1m folios.
- Increase in the share of equity funds led to better yields.
- Employee cost increased during the quarter due to annual increment given in Jul 2022.
- The ESOP (employee stock option) scheme was launched last year.
- SIP (systematic investment plan) registrations per quarter stood at 0.62m, up from 0.59m in 1QFY23 but lower than 0.75m in 2QFY22.
- Employee count stands at 1,351.
- ABSL AMC shares 60-65% of its fees with distributors, which it intends to continue.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income					
Total Non-Interest Income	11,779	13,790	13,697	15,919	18,391
Operating Revenue	11,779	13,790	13,697	15,919	18,391
Total Non-Interest Expenses	(4,562)	(4,622)	(5,204)	(6,069)	(7,115)
Pre-provision Operating Profit	6,853	8,823	8,130	9,469	10,875
Total Provision Charges					
Operating Profit After Provisions	6,853	8,823	8,130	9,469	10,875
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	6,853	8,823	8,130	9,469	10,875
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	6,853	8,823	8,130	9,469	10,875
Exceptional Items					
Pre-tax Profit	6,853	8,823	8,130	9,469	10,875
Taxation	(1,696)	(2,219)	(2,049)	(2,386)	(2,741)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	5,157	6,604	6,081	7,083	8,135
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	5,157	6,604	6,081	7,083	8,135
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	2.9%	2.2%	1.1%	1.6%	3.2%
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					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
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	19,280	23,951	26,986	29,446	29,370
Total Non-Interest Earning Assets	19,280	23,951	26,986	29,446	29,370
Cash And Marketable Securities	565	392	169	724	1,217
Long-term Investments					
Total Assets	19,846	24,343	27,155	30,170	30,587
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	1,433	1,468	1,585	1,743	2,005
Total Interest-Bearing Liabilities	1,433	1,468	1,585	1,743	2,005
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,366	869	939	1,033	1,188
Total Liabilities	2,799	2,337	2,524	2,776	3,193
Shareholders Equity	17,046	22,006	24,631	27,394	27,394
Minority Interests					
Total Equity	17,046	22,006	24,631	27,394	27,394

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Income Growth					
Operating Profit Growth	4.9%	27.1%	(7.4%)	16.0%	14.5%
Pretax Profit Growth	5%	29%	(8%)	16%	15%
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	24.7%	25.2%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio					
Return On Average Assets	29.00%	29.89%	23.62%	24.71%	26.78%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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