

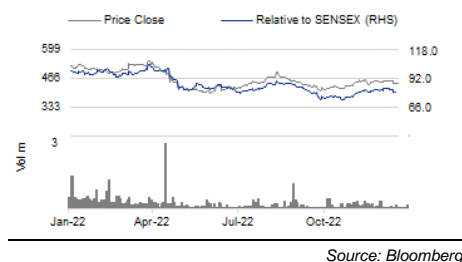
India

ADD (no change)

Consensus ratings*: Buy 10 Hold 2 Sell 0	
Current price:	Rs442
Target price:	Rs560
Previous target:	Rs560
Up/downside:	26.7%
InCred Research / Consensus:	9.8%
Reuters:	
Bloomberg:	ABSLAMC IN
Market cap:	US\$1,753m
	Rs127,296m
Average daily turnover:	US\$0.6m
	Rs45.0m
Current shares o/s:	288.0m
Free float:	46.0%
*Source: Bloomberg	

Key changes in this note

- We expect debt flow volatility to continue till the monetary tightening stabilizes
- With a surge in equity AUM, we expect profitability to improve



Price performance	1M	3M	12M
Absolute (%)	1.3	3.4	(15.6)
Relative (%)	0.7	2.2	(18.9)

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

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Aditya Birla Sunlife AMC

Volatile 3Q amid elevated debt fund outflows

- Aditya Birla Sunlife (ABSL) AMC posted lower-than-estimated 3Q PAT of Rs1,650.1m (-10% yoy) amid flat yields and volatile investment income.
- Mutual fund QAAUM (including alternate) was flat QoQ at Rs2.93tr (-5.8% yoy) with debt outflow continuing amid a tighter monetary policy stance.
- We like ABSL AMC for its diversifying product portfolio, superior return ratios and favourable risk-reward. Retain ADD with Rs560 TP or ~23.6x FY24F EPS.

Weak growth momentum in AUM amid higher debt fund outflows

Mutual fund QAAUM (including alternate) was flat sequentially at Rs2.93tr (-5.8% yoy) due to a sharp decline in debt AUM. Overall equity AUM for the company remained flat sequentially as well as on a yoy basis whereas with rising interest rates, debt AUM continued to decline by ~19.9% yoy while liquid AUM rose by ~28.3% yoy. We expect debt flow volatility to continue till the monetary tightening stabilizes. Alternate fund AUM for AMC decline remained flat on a yoy basis. However, management remains firm over the company's consistent efforts towards outperformance as well as improving the distribution reach through various networks (including banking channels).

Focus on granularity of inflow, SIP trend steady

ABSL AMC is investing in digital infrastructure to smoothen the customer on-boarding process and deepen penetration in B-30 cities (beyond Top-30 cities). Even on SIP inflow front, total AUM touched Rs530bn with a monthly inflow of Rs9.4bn and live outstanding SIP folios at 3.26m as at end-Dec 2022. We are confident of these measures achieving success and expect a surge in equity AUM (including ETFs) in the coming quarters.

Profitability impacted due to investment losses

We have been highlighting that the AMC's earnings, being sensitive to the investment portfolio, may remain volatile amid adverse capital market movements. Aditya Birla Sunlife (ABSL) AMC reported a lower-than-estimated PAT of Rs1,650.1m (-10% yoy) amid flat yields (sequentially) & volatile negative investment income. The expenses run-rate is likely to witness a spike amid normalization of economic activities, but with a gradual surge in revenue we expect an improvement in PAT yield. With a surge in equity AUM along with alternative investments taking the front seat, we expect profitability to improve.

Outlook and valuation

We like ABSL AMC considering its diversified product portfolio, superior return ratios and favourable risk-reward. The AMC has lost overall market share to ~7.9% (8.2% in Sep 2022) as well as on equity AUM at ~5.8% (~6% in Sep 2022), but we expect a recovery in the coming quarters with new launches and outperformance of schemes. We maintain our ADD rating on the stock with an unchanged target price of Rs560, ~23.6x FY24F EPS. Key downside risks: Low traction in new funds, branding risk and industry-related risks.

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	13,756	15,142	17,196
Operating Profit (Rsm)	7,216	9,168	8,683	9,480	10,622
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	5,157	6,604	6,251	6,841	7,683
Core EPS (Rs)	17.91	22.93	21.70	23.75	26.68
Core EPS Growth	6%	28%	(5%)	9%	12%
FD Core P/E (x)	24.68	19.28	20.37	18.61	16.57
DPS (Rs)	7.29	8.05	12.00	14.00	17.00
Dividend Yield	1.65%	1.82%	2.71%	3.17%	3.85%
BVPS (Rs)	59.2	76.4	86.1	95.9	95.9
P/BV (x)	7.47	5.78	5.13	4.61	4.61
ROE	34.1%	33.8%	26.7%	26.1%	27.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs m	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Revenue from operations	2,952	3,244	3,268	3,171	2,990	3,056	3,087	-5.5%	1.0%
Other income	331	402	187	235	-308	764	489	160.9%	-36.0%
Total revenue (Rs m)	3,282	3,646	3,456	3,406	2,682	3,820	3,576	3.5%	-6.4%
Total expenditure	1,259	1,371	994	1,343	1,287	1,343	1,362	37.0%	1.5%
<i>Cost to Income (%)</i>	38.4%	37.6%	28.8%	39.4%	48.0%	35.1%	38.1%		
Profit before tax	2,023	2,275	2,462	2,064	1,395	2,477	2,214	-10.1%	-10.6%
Tax	509	574	627	508	380	577	564	-10.1%	-2.3%
<i>Tax rate (%)</i>	25.2%	25.2%	25.5%	24.6%	27.2%	23.3%	25.5%		
Profit after tax	1,514	1,700	1,834	1,556	1,015	1,900	1,650	-10.0%	-13.1%
QAAUM (Rs tr)	2.87	3.12	3.11	3.07	2.93	2.94	2.93	-5.8%	-0.3%

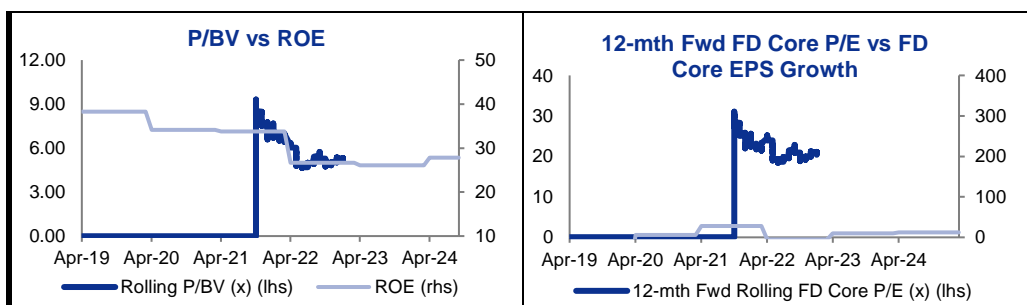
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/e Mar (Rs m)	FY23F			FY24F			FY25F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue from operations	13,557	12,265	-9.5%	15,771	13,412	-15.0%	18,236	15,379	-15.7%
PAT	6,081	6,251	2.8%	7,083	6,841	-3.4%	8,135	7,683	-5.5%
EPS (Rs)	21.1	21.6	2.8%	24.5	23.7	-3.4%	28	26.6	-5.5%
Dividend pay-out (%)	55	55	0.0%	60	60	0.0%	65	65	0.0%
QAAUM (Rs tr)	3.4	3.0	-10.9%	3.8	3.4	-10.9%	4	3.8	-12.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	13,756	15,142	17,196
Operating Revenue	11,779	13,790	13,756	15,142	17,196
Total Non-Interest Expenses	(4,562)	(4,622)	(5,073)	(5,661)	(6,574)
Pre-provision Operating Profit	6,853	8,823	8,334	9,121	10,245
Total Provision Charges					
Operating Profit After Provisions	6,853	8,823	8,334	9,121	10,245
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	6,853	8,823	8,334	9,121	10,245
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	6,853	8,823	8,334	9,121	10,245
Exceptional Items					
Pre-tax Profit	6,853	8,823	8,334	9,121	10,245
Taxation	(1,696)	(2,219)	(2,084)	(2,280)	(2,561)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	5,157	6,604	6,251	6,841	7,683
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	5,157	6,604	6,251	6,841	7,683
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%	2.7%	4.7%	6.4%
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-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	26,346	28,704	28,617
Total Non-Interest Earning Assets	19,280	23,951	26,346	28,704	28,617
Cash And Marketable Securities	565	392	995	1,700	2,207
Long-term Investments					
Total Assets	19,846	24,343	27,341	30,404	30,824
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	1,433	1,468	1,541	1,695	1,949
Total Interest-Bearing Liabilities	1,433	1,468	1,541	1,695	1,949
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,366	869	1,000	1,100	1,265
Total Liabilities	2,799	2,337	2,541	2,795	3,214
Shareholders' Equity	17,046	22,006	24,801	27,610	27,610
Minority Interests					
Total Equity	17,046	22,006	24,801	27,610	27,610

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Income Growth					
Operating Profit Growth	4.9%	27.1%	(5.3%)	9.2%	12.0%
Pretax Profit Growth	5%	29%	(6%)	9%	12%
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%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Return On Average Assets	29.00%	29.89%	24.19%	23.69%	25.10%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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