

India

ADD (no change)

Consensus ratings*: Buy 7 Hold 4 Sell 0

Current price:	Rs338
Target price:	Rs390
Previous target:	Rs340
Up/downside:	15.4%
InCred Research / Consensus:	-12.4%

Reuters:	
Bloomberg:	ABSLAMC IN
Market cap:	US\$1,341m
	Rs97,387m
Average daily turnover:	US\$0.6m
	Rs41.5m
Current shares o/s:	288.0m
Free float:	46.0%

*Source: Bloomberg

Key changes in this note

► Our scheme-wise analysis indicates ABSL AMC is vulnerable to the proposed TER change. However, the worst is priced in with the risk-reward remaining favourable.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.3	(20.9)	(36.1)
Relative (%)	5.6	(22.7)	(40.3)

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

Aditya Birla Sunlife AMC

Weak 4Q; regulatory overhang remains

- ABSL AMC posted a lower-than-estimated 4QFY23 PAT of Rs1,344.8m (-18.5% qoq) amid falling yields and elevated operating expenses.
- Our scheme-wise analysis shows ABSL AMC is vulnerable to the proposed TER change, but the worst is priced in with risk-reward remaining favourable.
- We like ABSL AMC for its diversifying product portfolio, superior return ratios and favourable risk-reward. Retain ADD rating with a higher TP of Rs390.

Weak growth momentum in AUM amid higher debt fund outflow

Aditya Birla Sunlife (ABSL) AMC reported QAAUM decline of 6.9% yoy/2.3% qoq to Rs2.8tr in 4QFY23 led by 4.3% yoy/3.6% qoq fall in equity funds. Debt funds declined by ~14.1% yoy but grew by 1% qoq. We expect debt fund outflow volatility to continue till monetary tightening stabilizes. Alternate fund assets under management (AUM) of the AMC 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.

Focus on granularity of inflow; SIP inflow trend steady

ABSL AMC is investing in digital infrastructure to smoothen the customer onboarding process and deepen penetration in B-30 cities (beyond Top-30 cities). Even on the SIP inflow front, total AUM touched Rs530bn with a monthly inflow of Rs10bn and live outstanding SIP folios at 3.29m as at end-Mar 2023. 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

Aditya Birla Sunlife AMC posted a lower-than-estimated PAT of Rs1,344.8m (-18.5% qoq) amid declining yields and elevated operating expenses. 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.

NAM India most vulnerable to probable change in TER norms

Our scenario analysis on a probable TER (total expense ratio) cut and AMCs' ability to pass on the same to distributors/brokers has indicated that profitability of ABSL AMC remains vulnerable to any such TER cut. Our base-case assumption is a TER cap of 1.5% and pass-on to distributors of 50%, which resulted in a sharp cut in our FY24F earnings. However, we believe the worst has already been priced in.

Outlook and valuation

We like ABSL AMC considering its diversified product portfolio, superior return ratios and favourable risk-reward ratio. We introduce our FY26F estimates. We retain our ADD rating on the stock with a higher target price of Rs390 (Rs340 earlier) or ~21.5x FY25F EPS. Key downside risks: Low traction in new funds, branding risk and industry-related risks.

Analyst(s)



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Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Non-Interest Income (Rsm)	13,790	13,199	9,945	11,442	13,171
Operating Revenue (Rsm)	13,790	13,199	9,945	11,442	13,171
Net Profit (Rsm)	6,604	5,793	4,642	5,233	5,909
Core EPS (Rs)	22.93	20.11	16.12	18.17	20.52
Core EPS Growth	28%	(12%)	(20%)	13%	13%
FD Core P/E (x)	14.75	16.81	20.98	18.61	16.48
DPS (Rs)	8.05	10.25	12.00	14.00	15.00
Dividend Yield	2.38%	3.03%	3.55%	4.14%	4.44%
BVPS (Rs)	76.4	87.4	91.5	91.5	91.5
P/BV (x)	4.43	3.87	3.70	3.70	3.70
ROE	33.8%	24.6%	18.0%	19.9%	22.4%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs m	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
Revenue from operations	3,171	2,990	3,056	3,087	2,919	-8.0%	-5.5%
Other income	235	-308	764	489	319	35.6%	-34.7%
Total revenue (Rs m)	3,406	2,682	3,820	3,576	3,238	-5.0%	-9.5%
Total expenditure	1,343	1,287	1,343	1,362	1,440	7.2%	5.7%
<i>Cost-to-income (%)</i>	<i>39.4%</i>	<i>48.0%</i>	<i>35.1%</i>	<i>38.1%</i>	<i>44.5%</i>		
Profit before tax	2,064	1,395	2,477	2,214	1,798	-12.9%	-18.8%
Tax	508	380	577	564	454	-10.7%	-19.5%
<i>Tax rate (%)</i>	<i>24.6%</i>	<i>27.2%</i>	<i>23.3%</i>	<i>25.5%</i>	<i>25.2%</i>		
Profit after tax	1,556	1,015	1,900	1,650	1,344	-13.6%	-18.5%
QAAUM (Rs tr)	3.07	2.93	2.94	2.93	2.86	-6.9%	-2.3%

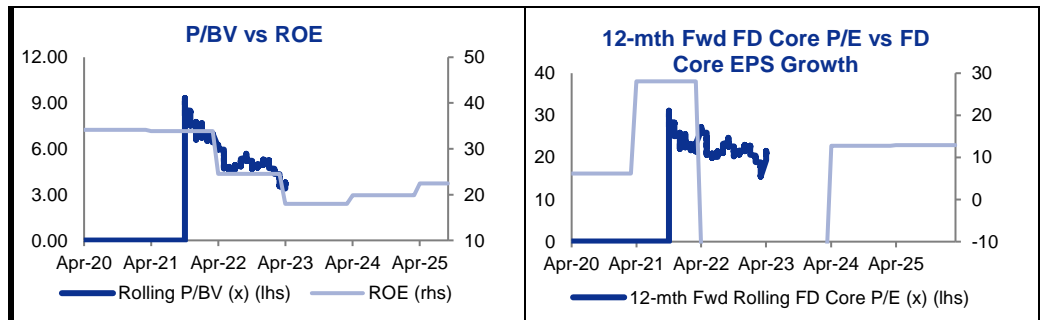
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Revision in estimates

Y/e Mar (Rs m)	FY24F			FY25F			FY25F Introduced
	Earlier	Revised	% change	Earlier	Revised	% change	
Revenue from operations	9,308.7	9,944.5	6.8%	11,606.0	11,442.1	-1.4%	13,171.2
PAT	5,407.1	4,641.8	-14.2%	6,332.7	5,232.5	-17.4%	5,909.3
EPS (Rs)	18.7	16.1	-14.2%	21.9	18.1	-17.4%	20.5
Dividend payout (%)	60.0	75.0	25.0%	65.0	75.0	15.4%	75.0
QAAUM (Rs tr)	3.4	3.1	-6.7%	3.8	3.5	-6.7%	4.0

SOURCE: INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income					
Total Non-Interest Income	13,790	13,199	9,945	11,442	13,171
Operating Revenue	13,790	13,199	9,945	11,442	13,171
Total Non-Interest Expenses	(4,622)	(5,099)	(3,413)	(4,105)	(4,914)
Pre-provision Operating Profit	8,823	7,767	6,189	6,977	7,879
Total Provision Charges					
Operating Profit After Provisions	8,823	7,767	6,189	6,977	7,879
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	8,823	7,767	6,189	6,977	7,879
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	8,823	7,767	6,189	6,977	7,879
Exceptional Items					
Pre-tax Profit	8,823	7,767	6,189	6,977	7,879
Taxation	(2,219)	(1,975)	(1,547)	(1,744)	(1,970)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	6,604	5,793	4,642	5,233	5,909
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	6,604	5,793	4,642	5,233	5,909
Recurring Net Profit					

Balance Sheet

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	2.2%	1.8%	2.7%	2.3%	1.0%
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	23,951	27,325	28,473	29,690	30,682
Total Non-Interest Earning Assets	23,951	27,325	28,473	29,690	30,682
Cash And Marketable Securities	392	556	989	387	233
Long-term Investments					
Total Assets	24,343	27,881	29,462	30,077	30,915
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	1,468	1,468	1,615	1,857	2,136
Total Interest-Bearing Liabilities	1,468	1,468	1,615	1,857	2,136
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	869	1,243	1,492	1,865	2,424
Total Liabilities	2,337	2,711	3,106	3,722	4,559
Shareholders Equity	22,006	25,170	26,356	26,356	26,356
Minority Interests					
Total Equity	22,006	25,170	26,356	26,356	26,356

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth					
Operating Profit Growth	27.1%	(11.7%)	(19.4%)	12.3%	12.5%
Pretax Profit Growth	29%	(12%)	(20%)	13%	13%
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	25.2%	25.4%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Return On Average Assets	29.89%	22.18%	16.19%	17.58%	19.38%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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