

India

ADD (no change)

Consensus ratings*: Buy 8 Hold 4 Sell 0

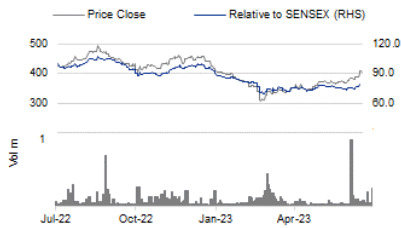
Current price:	Rs407
Target price:	Rs470
Previous target:	Rs390
Up/downside:	15.5%
InCred Research / Consensus:	19.6%

Reuters:	
Bloomberg:	ABSLAMC IN
Market cap:	US\$1,614m
	Rs117,217m
Average daily turnover:	US\$0.5m
	Rs36.2m
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 due to the proposed TER change. However, the worst is priced in and the risk-reward ratio remains favourable.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.5	20.7	(4.4)
Relative (%)	6.5	11.3	(18.0)

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

Brokers Poll 2023

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InCred Research

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Aditya Birla Sunlife AMC

1Q performance - mixed bag

- Aditya Birla Sunlife (ABSL AMC) posted a better-than-estimated 1Q PAT of Rs1,826m (+35.8% qoq) amid market outperformance & steady revenue yield.
- Our scheme-wise analysis indicates ABSL is vulnerable due to the proposed TER change. But the worst is priced in, and the risk-reward ratio is favourable.
- We like ABSL AMC for its diversified product portfolio, superior return ratios & favourable risk-reward ratio. Retain ADD with a Rs470 TP or ~23x FY25F EPS.

Weak growth in AUM with consistent loss of equity market share

ABSL AMC reported QAAUM growth of ~5.4%yoy/7.8%qoq to Rs3.08tr, led by a spike in capital markets as well as the return of momentum in debt fund inflow. Equity funds grew by ~1.5%yoy/-2.4% qoq whereas debt funds witnessed inflows after several quarters, growing by ~11% yoy/~6.7% qoq. On the market share front, although ABSL AMC managed to hold its overall market share qoq at ~7.7%, loss of equity market share to ~5.4% from ~5.6% last quarter is an area of concern. Management is firm over the company's consistent efforts towards outperformance and improving the market share.

Focus on granularity of inflow; SIP 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). SIP inflow remained stagnant sequentially, with the monthly inflow at Rs9.87bn and live outstanding SIP folios at 3.26m as of end-Jun 2023. We are confident of the measures achieving success and expect a surge in equity AUM (incl. ETFs) in the coming quarters.

Profitability surges due to investment income

Aditya Birla Sunlife AMC posted a better-than-estimated PAT of Rs1,826m (+35.8% qoq) amid Indian capital markets outperforming during the last quarter. The surge in investment income resulted in a spurt in revenue which, in turn, boosted profitability.

Factor in ~7bp decline in revenue yield and ~5bp in PAT yield

Our scheme-wise analysis for Aditya Birla Sunlife Asset Management Company (ABSL AMC) indicates that the company is operating at an equity TER (total expense ratio) of ~170bp against the new SEBI norm of ~178bp. Our base calculation suggests an additional charge of ~28-30bp for all relevant expenses including additional charges like GST etc., which may have ~13-14bp impact on overall revenue yield, as the equity portfolio constitutes ~40% of the assets under management or AUM as of end-Mar 2023.

Outlook and valuation

We like ABSL AMC considering its diversified product portfolio, superior return ratios and favourable risk reward. However, sustainability of market share along with stable revenue yields are mandatory for better returns. We retain our ADD rating on it with a higher target price of Rs470 or ~23x FY25F EPS. Key downside risks: Low traction in new funds, branding risk 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)	13,790	13,199	12,341	14,068	16,090
Operating Revenue (Rsm)	13,790	13,199	12,341	14,068	16,090
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	6,604	5,793	4,915	5,881	7,000
Core EPS (Rs)	22.93	20.11	17.07	20.42	24.30
Core EPS Growth	28%	(12%)	(15%)	20%	19%
FD Core P/E (x)	17.75	20.23	23.84	19.93	16.74
DPS (Rs)	8.05	10.25	13.00	15.00	18.00
Dividend Yield	1.98%	2.52%	3.19%	3.69%	4.42%
BVPS (Rs)	76.4	87.4	91.5	91.5	91.5
P/BV (x)	5.33	4.66	4.45	4.45	4.45
ROE	33.8%	24.6%	19.1%	22.3%	26.6%

% Change In Core EPS Estimates
 InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Revenue from operations	2,990	3,056	3,087	2,919	3,057	2.2%	4.7%
Other income	-308	764	489	319	775	-351.5%	142.8%
Total revenue (Rs m)	2,682	3,820	3,576	3,238	3,831	42.8%	18.3%
Total expenditure	1,287	1,343	1,362	1,440	1,448	12.5%	0.6%
<i>Cost to Income (%)</i>	<i>48.0%</i>	<i>35.1%</i>	<i>38.1%</i>	<i>44.5%</i>	<i>37.8%</i>		
Profit before tax	1,395	2,477	2,214	1,798	2,383	70.8%	32.5%
Tax	380	577	564	454	557	46.8%	22.8%
<i>Tax rate (%)</i>	<i>27.2%</i>	<i>23.3%</i>	<i>25.5%</i>	<i>25.2%</i>	<i>23.4%</i>		
Profit after tax	1,015	1,900	1,650	1,344	1,826	79.8%	35.8%
QAAUM (Rs tr)	2.93	2.94	2.93	2.86	3.09	5.4%	7.8%

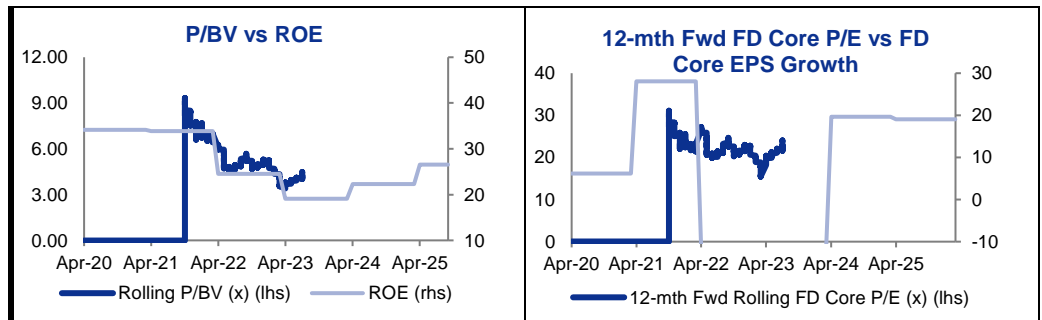
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/e Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Revenue from operations	9,944.5	10,067.1	1.2%	11,442.0	11,679.8	2.1%	13,171.2	13,582.1	3.1%
PAT	4,641.8	4,915.2	5.9%	5,232.5	5,880.7	12.4%	5,909.3	6,999.8	18.5%
EPS (Rs)	16.1	17.0	5.7%	18.1	20.4	12.5%	20.5	24.2	18.2%
Dividend payout (%)	75.0	75.0	0.0%	75.0	75.0	0.0%	75.0	75.0	0.0%
QAAUM (Rs tr)	3.1	3.1	1.6%	3.5	3.5	0.7%	4.0	4.0	0.5%

SOURCE: COMPANY REPORTS, 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	12,341	14,068	16,090
Operating Revenue	13,790	13,199	12,341	14,068	16,090
Total Non-Interest Expenses	(4,622)	(5,099)	(5,445)	(5,867)	(6,379)
Pre-provision Operating Profit	8,823	7,767	6,554	7,841	9,333
Total Provision Charges					
Operating Profit After Provisions	8,823	7,767	6,554	7,841	9,333
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	8,823	7,767	6,554	7,841	9,333
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	8,823	7,767	6,554	7,841	9,333
Exceptional Items					
Pre-tax Profit	8,823	7,767	6,554	7,841	9,333
Taxation	(2,219)	(1,975)	(1,638)	(1,960)	(2,333)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	6,604	5,793	4,915	5,881	7,000
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	6,604	5,793	4,915	5,881	7,000
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	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	974	373	218
Long-term Investments					
Total Assets	24,343	27,881	29,448	30,063	30,901
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	26,341	26,341	26,341
Minority Interests					
Total Equity	22,006	25,170	26,341	26,341	26,341

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth					
Operating Profit Growth	27.1%	(11.7%)	(14.9%)	18.9%	18.4%
Pretax Profit Growth	29%	(12%)	(16%)	20%	19%
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%	17.15%	19.76%	22.96%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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