

India

**ADD** (no change)

Consensus ratings*:	Buy 6	Hold 4	Sell 2
Current price:	Rs482		
Target price:	Rs550 ▲		
Previous target:	Rs520		
Up/downside:	14.1%		
InCred Research / Consensus:	12.0%		
Reuters:			
Bloomberg:	ABSLAMC IN		
Market cap:	US\$1,670m Rs138,830m		
Average daily turnover:	US\$0.6m Rs53.7m		
Current shares o/s:	288.0m		
Free float:	46.0%		

\*Source: Bloomberg

**Key changes in this note**

- ABSL AMC lost overall market share sequentially from ~7.4% to ~7.1% while its equity AUM share dipped to ~5% from ~5.2% last quarter.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	2.7	8.2	14.8
Relative (%)	4.3	(2.9)	(3.9)

<b>Major shareholders</b>	% held
Aditya Birla Capital	50.0
SnI life	37.0
Public	13.0

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# Aditya Birla Sunlife AMC

## Healthy profits despite market share loss

- Aditya Birla Sunlife AMC posted a healthy 3QFY24 PAT of Rs2.1bn, backed by steady revenue yields and superior treasury income.
- ABSL AMC lost overall market share sequentially from ~7.4% to ~7.1% whereas its equity AUM share dipped to ~5% from ~5.2% last quarter.
- We like ABSL AMC for its diversified product portfolio, superior return ratios and a favourable risk-reward ratio. Retain ADD rating with a new TP of Rs550.

### AUM flat sequentially; market share loss is an area of concern

Aditya Birla Sunlife AMC or ABSL AMC posted 3QFY24 QAAUM growth of +10.8% yoy/+0.4% qoq to Rs3.25tr, despite the recent rally in capital markets, with debt and liquid schemes witnessing a sharp decline amid expectation of a rate cut. However, the continuous loss of market share remains a cause of concern. ABSL AMC lost overall market share qoq to ~7.1% in Dec 2023 against ~7.7% in 2QFY24. A similar trend was also visible in equity assets under management or AUM market share, which dipped to ~5% from ~5.2% last quarter. Management remains firm over its consistent efforts towards outperformance as well as improving the market share of ABSL AMC.

### 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). Systematic investment plan or SIP inflow remained stagnant sequentially, with a monthly inflow of Rs10.1bn and live outstanding SIP folios at 3.24m as of end-Dec 2023. We are confident of the measures achieving success and expect a surge in equity AUM (including that of exchange traded funds or ETFs) in the coming quarters.

### Steady revenue yields support overall profitability

With a sequential rise in equity AUM, the company managed to hold its overall revenue yield at ~41bp on a sequential basis. This, coupled with well-managed operating expenses, resulted in decent profitability, despite lower treasury income during the quarter. We expect the overall revenue yield to remain under pressure due to intense competition but if the company manages its market share loss, then the trend of healthy profitability can be maintained in the coming quarters.

### Outlook and valuation

We believe the market regulator's new TER (Total Expense Ratio) norms will be applicable only from FY25F. We like ABSL AMC considering its diversified product portfolio, superior return ratios and a favourable risk-reward ratio. However, sustainability of market share along with stable revenue yields are mandatory for better returns. We maintain our ADD rating on the stock with a revised target price of Rs550, or ~19x FY25F EPS, from Rs520 earlier. 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	13,199	16,009	17,006
Operating Revenue (Rsm)	11,779	13,790	13,199	16,009	17,006
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	5,157	6,604	5,793	7,845	8,229
Core EPS (Rs)	17.91	22.93	20.11	27.24	28.57
Core EPS Growth	6%	28%	(12%)	35%	5%
FD Core P/E (x)	26.91	21.02	23.96	17.69	16.87
DPS (Rs)	7.29	8.05	10.25	20.00	21.00
Dividend Yield	1.51%	1.67%	2.13%	4.15%	4.36%
BVPS (Rs)	59.2	76.4	87.4	94.6	94.6
P/BV (x)	8.14	6.31	5.51	5.09	5.09
ROE	34.1%	33.8%	24.6%	29.9%	30.2%
% 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	2QFY24	3QFY24	YoY (%)	QoQ (%)
<b>Revenue from operations</b>	<b>2,990</b>	<b>3,056</b>	<b>3,087</b>	<b>2,919</b>	<b>3,057</b>	<b>3,292</b>	<b>3,358</b>	<b>8.8%</b>	<b>2.0%</b>
Other income	-308	764	489	319	775	554	791	61.8%	42.9%
<b>Total revenue (Rs m)</b>	<b>2,682</b>	<b>3,820</b>	<b>3,576</b>	<b>3,238</b>	<b>3,831</b>	<b>3,845</b>	<b>4,149</b>	<b>16.0%</b>	<b>7.9%</b>
Total expenditure	1,287	1,343	1,362	1,440	1,448	1,494	1,522	11.7%	1.9%
<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>	<i>38.8%</i>	<i>36.7%</i>		
<b>Profit before tax</b>	<b>1,395</b>	<b>2,477</b>	<b>2,214</b>	<b>1,798</b>	<b>2,383</b>	<b>2,352</b>	<b>2,627</b>	<b>18.7%</b>	<b>11.7%</b>
Tax	380	577	564	454	557	587	542	-3.9%	-7.7%
<i>Tax rate (%)</i>	<i>27.2%</i>	<i>23.3%</i>	<i>25.5%</i>	<i>25.2%</i>	<i>23.4%</i>	<i>25.0%</i>	<i>20.6%</i>		
<b>Profit after tax</b>	<b>1,015</b>	<b>1,900</b>	<b>1,650</b>	<b>1,344</b>	<b>1,826</b>	<b>1,765</b>	<b>2,085</b>	<b>26.4%</b>	<b>18.2%</b>
<b>QAAUM (Rs tr)</b>	<b>2.93</b>	<b>2.94</b>	<b>2.93</b>	<b>2.86</b>	<b>3.09</b>	<b>3.24</b>	<b>3.25</b>	<b>10.8%</b>	<b>0.4%</b>

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	12,921.9	13,229.6	2.4%	12,325.9	14,086.8	14.3%	14,252.3	15,398.5	8.0%
PAT	7,245.9	7,845.1	8.3%	6,564.2	8,228.8	25.4%	7,711.4	8,927.4	15.8%
EPS (Rs)	25.1	27.2	8.3%	22.7	28.5	25.4%	26.7	30.9	15.8%
Dividend payout (%)	75.0	75.0	0.0%	75.0	75.0	0.0%	75.0	75.0	0.0%
QAAUM (Rs tr)	3.3	3.3	0.0%	3.8	3.8	0.0%	4.3	4.4	1.8%

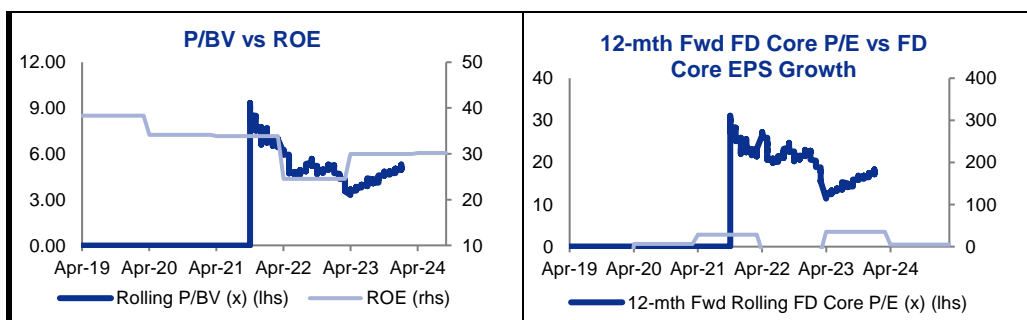
SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 3QFY24 conference-call highlights

- ABSL AMC aims to make structural changes in its alternate assets vertical to build on the momentum it has achieved so far in the portfolio management scheme or PMS and alternate investment fund or AIF businesses. It will offer a credit opportunities fund to cater to the growing needs of high networth individuals or HNIs. This will have an incremental cost, but the revenue will start coming at a later stage.
- In the PMS space, there will be new launches once the new team members are on board.
- The growth in expenses to be mainly at inflation plus additional cost, with the additional costs being due to hiring activity. Any growth on the alternate assets side may lead to a rise in fees and commissions but it will be obviously compensated by top-line growth on the income side.
- The blend yield for equity AUM is in the range of 69-70bp, for debt AUM it is in the range of 24-25bp, and for liquid funds' AUM it is flattish around 13bp. The yield may drop for another three years, in our view.
- Equity in treasure portfolio stands at 13%, which includes seed capital for equity funds and AIFs.
- Sales growth was slow in Dec 2023, lower than that of the industry but there was some pick-up in Jan 2024, with an overall AUM inflow of around Rs3.3bn. SIP AUM in Dec 2023 stood at Rs66.74bn.
- The redemption pressure on some schemes is declining, barring real estate schemes, where there is redemption. The industry has also seen some outflow in this category.
- The redemption in real estate schemes for the company was at the higher end as compared to the industry level, given the fact that performers are not fully up to the mark from an overall perspective due to internal factors, but broader sales are generally in the range of about 5.5% to 6%. This is something the management has to work on to improve the numbers. As guided by the management, overall productivity has increased, which is reflected in Jan 2024 numbers.
- In the directly serving customer line, the company is offering products across PMS which are currently showing a pick-up in volume. As that size in the PMS segment starts growing continuously, it will lead to better margin protection.
- The overall margin remains the same between the distribution-driven channels and direct channels, as the expenses are calculated only after the distribution expenses are calculated.

- The traditional channel engagement remains the core contributor to the business, which is banking channel, ND channel, and MFD channel.
- The channel and virtual arm combination will have separate targets for both to ensure higher contribution from channel partners.
- As much as 80% of AUM comes from 20% of the investors and the company is focusing on them to bring in business.
- A Quant fund is in the pipeline. Once a team is on board, the product will be launched.
- The company plans to conduct 'Investment Wise' an all-in-one event, with the distributor community in Mumbai. After that, there will be launch of products in Mar-Apr 2024F.
- In the mid- to small-cap fund segment, a team-building process is in the pipeline. In small-cap funds, the market share is 5% and considering the huge inflow into the market, the company is lagging.
- On the channel side, MFD contributes the most at 51%, followed by NDs at around 14% and banks at 12%. Direct sales account for 16%.

**BY THE NUMBERS**



**Profit & Loss**

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income					
<b>Total Non-Interest Income</b>	<b>11,779</b>	<b>13,790</b>	<b>13,199</b>	<b>16,009</b>	<b>17,006</b>
Operating Revenue	11,779	13,790	13,199	16,009	17,006
<b>Total Non-Interest Expenses</b>	<b>(4,562)</b>	<b>(4,622)</b>	<b>(5,099)</b>	<b>(5,544)</b>	<b>(6,028)</b>
Pre-provision Operating Profit	6,853	8,823	7,767	10,123	10,618
<b>Total Provision Charges</b>					
Operating Profit After Provisions	6,853	8,823	7,767	10,123	10,618
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	6,853	8,823	7,767	10,123	10,618
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	6,853	8,823	7,767	10,123	10,618
<b>Exceptional Items</b>					
Pre-tax Profit	6,853	8,823	7,767	10,123	10,618
Taxation	(1,696)	(2,219)	(1,975)	(2,278)	(2,389)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	5,157	6,604	5,793	7,845	8,229
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	5,157	6,604	5,793	7,845	8,229
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%	1.8%	4.2%	5.2%
<b>Avg Liquid Assets/Avg IEAs</b>					
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
<b>Total Gross Loans</b>					
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets					
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets					
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>19,280</b>	<b>23,951</b>	<b>27,325</b>	<b>28,473</b>	<b>29,690</b>
<b>Total Non-Interest Earning Assets</b>	<b>19,280</b>	<b>23,951</b>	<b>27,325</b>	<b>28,473</b>	<b>29,690</b>
Cash And Marketable Securities	565	392	556	1,888	1,287
<b>Long-term Investments</b>					
Total Assets	19,846	24,343	27,881	30,361	30,977
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	1,433	1,468	1,468	1,615	1,857
Total Interest-Bearing Liabilities	1,433	1,468	1,468	1,615	1,857
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,366	869	1,243	1,492	1,865
Total Liabilities	2,799	2,337	2,711	3,106	3,722
Shareholders Equity	17,046	22,006	25,170	27,255	27,255
<b>Minority Interests</b>					
Total Equity	17,046	22,006	25,170	27,255	27,255

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Income Growth					
Operating Profit Growth	4.9%	27.1%	(11.7%)	29.2%	4.9%
Pretax Profit Growth	5%	29%	(12%)	30%	5%
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%	25.4%	22.5%	22.5%
Net Dividend Payout Ratio					
Return On Average Assets	29.00%	29.89%	22.18%	26.94%	26.83%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
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