

India

**Overweight** (no change)**Highlighted Companies****HDFC AMC****ADD, TP Rs1950, Rs1730 close**

We upgrade HDFC AMC's rating to ADD (from HOLD) due to likely low impact.

**Nippon Life India Asset Management Ltd****ADD, TP Rs250, Rs216 close**

NAM India is relatively more vulnerable with a higher impact on its profitability.

**UTI AMC****ADD, TP Rs750, Rs649 close**

UTI AMC is relatively better placed due to its well-managed TER for various schemes.

**Summary Valuation Metrics**

P/E (x)	Mar22-A	Mar23-F	Mar24-F
HDFC AMC	26.47	25.77	27.45
Nippon Life India Asset Management Ltd	15.24	18.3	14.81
UTI AMC	15.42	18.51	19.25
P/BV (x)	Mar22-A	Mar23-F	Mar24-F
HDFC AMC	6.67	6.19	5.79
Nippon Life India Asset Management Ltd	2.26	2.14	2.05
UTI AMC	2.28	2.17	2.11
Dividend Yield	Mar22-A	Mar23-F	Mar24-F
HDFC AMC	2.43%	2.72%	2.54%
Nippon Life India Asset Management Ltd	3.27%	3.12%	4.67%
UTI AMC	3.23%	3.08%	3.85%

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**Financial Services - Others****Quantifying the impact of change in TER**

- Our scenario analysis on the probable TER cap & pass-on ability of AMCs suggests a fall in FY24F PAT by ~22-24% for all AMCs under our base case.
- We believe that in our coverage universe HDFC AMC & UTI AMC are favourably placed because of better-managed scheme-wise TER.
- We cut FY24F earnings by ~14-24% and FY25F earnings by ~13-24% for our coverage universe. We upgrade HDFC AMC to ADD with a new TP of Rs1,950.

**Uncertainty over SEBI regulations weighs on sector**

After SEBI's discussion paper was published in Dec 2022, asset management company or AMC stocks remained under pressure. There is market talk about the reduction in the total expense ratio (TER) for large funds, cap on NFO TER, bringing Goods and Services Tax or GST under TER, etc. We believe that SEBI is trying to identify and rectify all possible loopholes in the current distribution structure, thereby benefiting the sector in the long run.

**Three scenarios with different TER caps & passing it on to channels**

We have analyzed scheme-wise TER data for all four listed AMCs, which varies based on the distribution pattern (direct or through distributor) and geographies (B-30/T-30 cities, etc). We observe that debt and liquid schemes in general are managed at a lower TER compared to the allocated TER cap whereas equity schemes have variations. We have created three different TER scenarios capped at 1.75%, 1.5% and 1.25%, respectively. We have also added GST and brokerage within the TER cap allocated. These provide the probable impact on AMCs' revenue. We further assumed three scenarios at 25%, 50% and 75% over AMCs' ability to pass on the loss in revenue (due to the change in TER) to distributors. In a worst-case scenario (~1.25% cap on TER and 25% passed on to distributors), AMCs' profits for FY24F will decline by 58-60% (except for HDFC AMC) whereas in case of a best-case scenario (~1.75% cap on TER and 75% passed on to distributors), AMCs' profits for FY24F will decline by 6-10%. We are building a base-case scenario with a TER cap at ~1.5% and pass-on of ~50% which impacts overall FY24F earnings by ~22-24% (except for HDFC AMC).

**HDFC AMC is better placed; NAM India is relatively vulnerable**

HDFC AMC followed by UTI AMC are relatively superiorly placed due to their well-managed TER for various schemes which allows a relatively lower hit on profitability in various scenarios. NAM India and ABSL AMC are relatively most vulnerable with a higher impact on profitability due to the change in TER. Both these AMCs are currently functioning with larger schemes operated at an elevated TER.

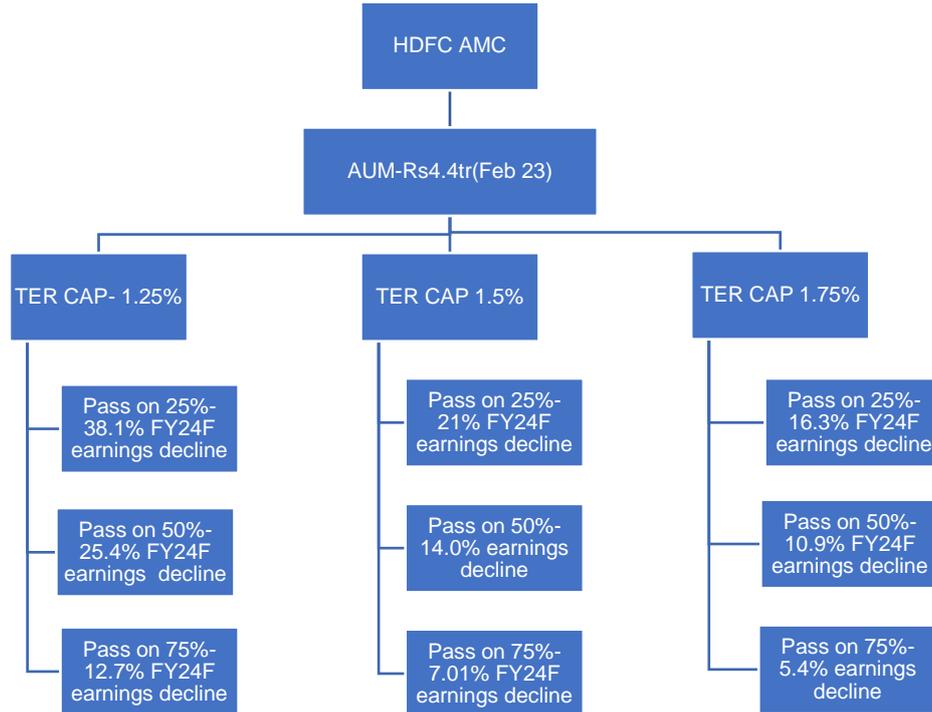
**Adjusting our earnings based on TER impact, we upgrade HDFC AMC**

Though we expect the regulatory overhang to weigh on AMC stock prices for some time, the probable earnings impact, based on our scenario analysis, is already factored in. We cut our revenue and profit estimates assuming a base-case scenario of ~1.5% TER cap and ~50% pass-on to distributors. Accordingly, we cut our FY24F earnings estimates for all AMCs by ~14-24% and FY25F earnings estimates by ~13-24%. We upgrade HDFC AMC's rating to ADD (from HOLD earlier) with a revised target price (TP) of Rs1,950 (Rs2,200 earlier) corresponding to a P/E of 27x FY24F EPS. We retain ADD rating on UTI AMC with a revised TP of Rs750 (Rs900 earlier) or 16.8x FY25F EPS, NAM India AMC with a revised TP of Rs250 or a P/E of 23.5x FY25F EPS, (Rs350 earlier) and ABSL AMC with a revised TP of Rs390 (Rs560 earlier) or a P/E of 18.5x FY25F EPS.

**TER based on product profile to cause lower adversity**

During recent media interactions, Securities and Exchange Board of India or SEBI's management hinted at TER cap differentiation based on individual products like debt, equity and liquid funds, exchange traded funds or ETFs, etc. In such a scenario, the overall impact on profitability would be lower, compared to ad hoc TER restrictions, as only equity schemes are operated at elevated TERs.

Figure 1: HDFC AMC sensitivity analysis as per TER cap and pass-on to distributors



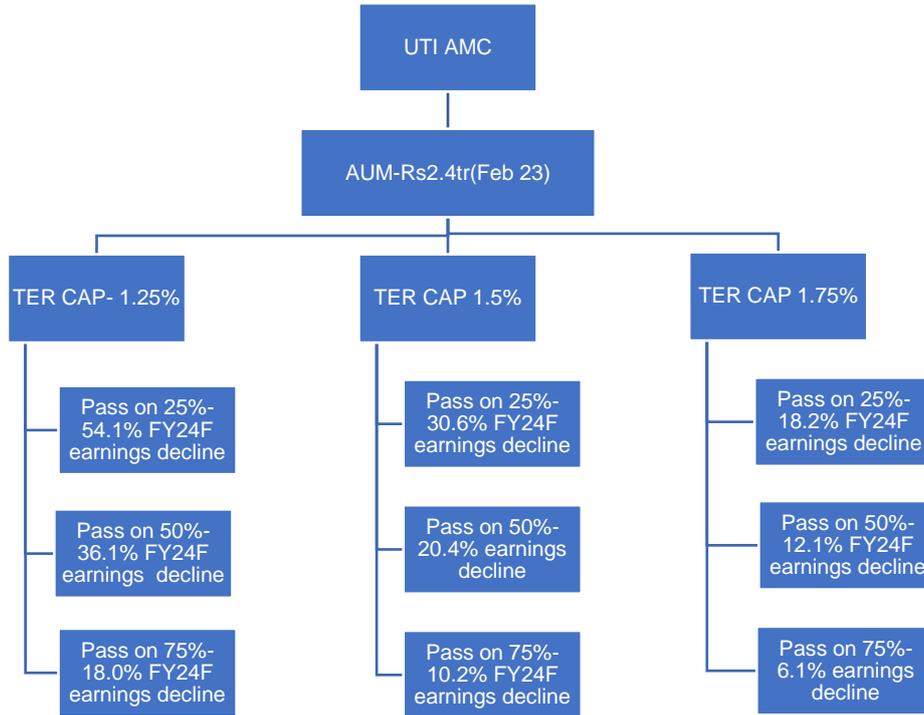
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: HDFC AMC Estimate revisions

Y/e Mar (Rs m)	FY23F			FY24F			FY25F		
Revenue from operations	24,730	25,415	2.8%	28,031	22,264	-20.6%	31,522	24,967	-20.8%
PAT	13,836	14,311	3.4%	15,772	13,437	-14.8%	17,720	15,451	-12.8%
EPS (Rs)	64.9	67	3.4%	74.0	63	-14.9%	83.0	72	-12.7%
QAAUM (Rs tn)	4.6	4.5	-1.0%	5.1	5.1	-0.4%	5.8	5.8	-0.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: UTI AMC sensitivity analysis as per TER cap and pass-on of loss to distributors



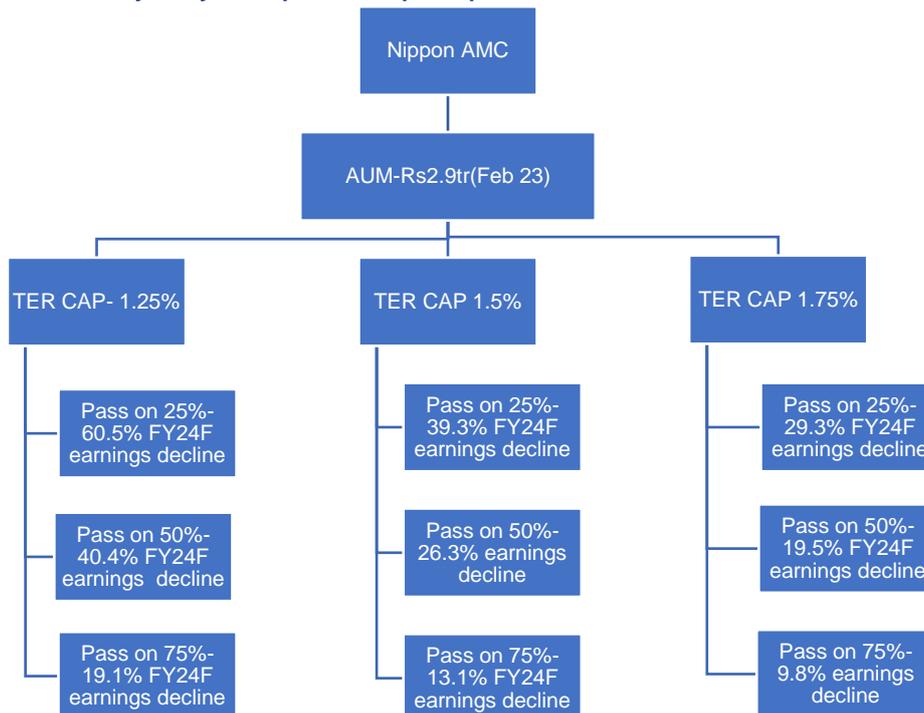
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: UTI AMC estimate revision

Y/e Mar (Rs m)	FY23F			FY24F			FY25F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Revenue from operations	14,603	13,400	-8.2%	15,564	12,810	-17.7%	18,187	15,451	-15.0%
PAT	5,104	4,449	-12.8%	5,495	4,278	-22.1%	6,873	5,651	-17.8%
EPS (Rs)	40.3	35.1	-12.8%	43.3	33.7	-22.1%	55	44.6	-19.0%
Dividend payout (%)	50	60	20.0%	70	70	0.0%	60	80	33.3%
QAAUM (Rs tn)	2.6	2.4	-6.5%	2.7	2.7	0.0%	3.1	3.1	0.0%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: NAM India AMC sensitivity analysis as per TER cap and pass-on of loss to distributors



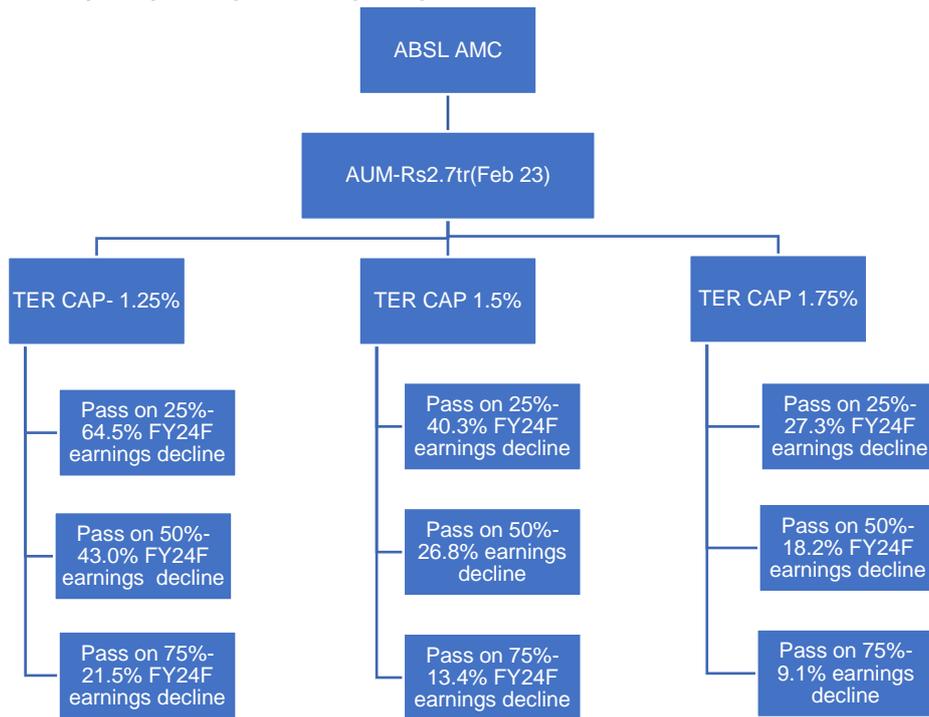
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: NAM India estimate revision

Y/e Mar (Rs m)	FY23F			FY24F			FY25F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Introduced	% change
Revenue from operations	13,647	13,473	-1.3%	15,179	9,527	-37.2%	17,682	11,236	-36.5%
Total Other Income	2,061	2,061	0.0%	2,164	2,164	0.0%	2,272	2,272	0.0%
PAT	7,575	7,402	-2.3%	8,026	5,940	-26.0%	8,808	6,722	-23.7%
EPS (Rs)	12.0	11.7	-2.3%	12.7	9.4	-25.8%	14	10.7	-23.9%
Dividend payout (%)	90	90	0.0%	90	90	0.0%	90	90	0.0%
QAAUM (Rs tn)	3.1	3.0	-2.4%	3.4	3.4	1.0%	4	3.9	-4.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 7: ABSL AMC sensitivity analysis as per TER cap and pass-on of loss to distributors



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: ABSL AMC estimate revision

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%	13,412	8,782	-34.5%	15,379	9,836	-36.0%
PAT	6,081	6,251	2.8%	6,841	5,232	-23.5%	7,683	6,088	-20.8%
EPS (Rs)	21.1	21.6	2.8%	23.7	18.1	-23.6%	27	21.1	-20.8%
Dividend payout (%)	55	55	0.0%	60	60	0.0%	65	65	0.0%
QAAUM (Rs tn)	3.0	3.0	0.4%	3.4	3.4	0.0%	3.8	3.8	0.0%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Valuation matrices of AMCs

AMC	Reco	TP	RoE		PAT Yield		P/E		% of AUM	
			FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
ABSL AMC	ADD	390	26.7%	20.3%	0.21%	0.16%	18	21	3.7%	3.3%
NAM India	ADD	250	22.1%	17.4%	0.25%	0.18%	21	27	5.2%	4.6%
UTI AMC	ADD	750	12.0%	11.1%	0.19%	0.17%	21	22	3.9%	3.5%
HDFC AMC	ADD	1,950	24.0%	21.1%	0.34%	0.29%	29	31	9.2%	8.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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