

India

ADD (no change)

Consensus ratings*: Buy 14 Hold 0 Sell 1	
Current price:	Rs657
Target price: ▲	Rs800
Previous target:	Rs750
Up/downside:	21.8%
InCred Research / Consensus:	-9.9%
Reuters:	UTIA.NS
Bloomberg:	UTIAM IN
Market cap:	US\$1,020m Rs83,466m
Average daily turnover:	US\$3.1m Rs251.2m
Current shares o/s:	0.0m
Free float:	46.0%
*Source: Bloomberg	

Key changes in this note

- ▶ UTI AMC continued to lose market share sequentially in equity AUM to ~4.63% against ~4.82% as of Dec 2022-end & ~4.99% as of Sep 2022-end.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.5	(11.0)	(21.2)
Relative (%)	(0.7)	(12.9)	(25.3)

Major shareholders	% held
T ROWE PRICE	23.0
PNB	15.0
SBI	10.0

Analyst(s)



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UTI AMC

Market share loss amid regulatory overhang

- UTI AMC reported 4QFY23 PAT of Rs857m, lower than our estimate of Rs1.1bn, due to weak AUM growth and elevated operating expenses.
- UTI AMC continued losing market share sequentially in equity AUM to ~4.63% against ~4.82% as of Dec 2022-end & ~4.99% as of Sep 2022-end.
- UTI AMC is better placed on TER change, but the uncertainty over regulatory changes to weigh on the sector. Retain ADD rating with a higher TP of Rs800.

Profitability impacted by weak AUM growth and elevated expenses

UTI AMC reported 4QFY23 PAT of Rs857m, lower than our estimate of Rs1.1bn, due to weak AUM growth & elevated operating expenses. Revenue yield continues to remain under pressure (~51bp annualized) amid volatile competition. UTI AMC reported operating expenses of Rs1.91bn, flat sequentially. We expect a volatile trend in profits amid probable change in TER norms, but we are optimistic on the AMC's ability to rationalize costs.

Market share trend disappoints across portfolios

UTI AMC reported a dip in its overall market share qoq to ~5.89% vs. 5.98% last quarter as mutual fund QAAUM fell sequentially by ~1% to Rs2.38tr. Equity AUM also witnessed a sequential fall of ~4.3% with a loss in market share to ~4.63% vs. ~4.82% last quarter. With rising interest rates, debt AUM continued to decline by ~19.4% yoy (flat sequentially). ETFs' growth remained encouraging at ~32.7% yoy but remained flat sequentially.

UTI MF remains relatively better off to probable change in TER norms

Our scenario analysis on a probable TER cut and the AMC's ability to pass on the same to distributors/brokers has indicated that profitability of UTI MF remaining relatively better compared to peers like NAM India and ABSL AMC. 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 FY24F earnings. Post correction in stock price for the past four months, we believe the worst is already priced in but the uncertainty over regulatory changes to weigh on the sector.

Privatization on the cards – probability of stake buyout from PSBs

Post-IPO, T Rowe Price International (a global investment management firm) is the largest shareholder with ~23% stake in UTI AMC. T Rowe Price also owns a major stake in UTI Trustee Company. Considering improving efficiencies of UTI AMC, T Rowe Price (already being an investment manager) can opt to buy out majority stake from public sector banks or PSBs (the easiest route) and can become the promoter.

Outlook and valuation

UTI AMC is better placed on TER change, but the uncertainty over regulatory changes to weigh on the sector. We retain ADD rating on the stock with a higher target price of Rs800 (Rs750 earlier), or ~19x FY25F EPS. Key downside risks: Regulatory change impacting earnings, and lower growth.

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)	13,189	12,669	12,597	14,994	17,726
Operating Revenue (Rsm)	13,271	12,901	12,875	15,323	18,108
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	5,341	4,374	4,344	5,471	6,536
Core EPS (Rs)	42.12	34.49	34.26	43.15	51.54
Core EPS Growth	8%	(18%)	(1%)	26%	19%
FD Core P/E (x)	15.60	19.06	19.19	15.23	12.75
DPS (Rs)	21.00	22.00	25.00	35.00	45.00
Dividend Yield	3.19%	3.35%	3.80%	5.32%	6.85%
BVPS (Rs)	284.4	297.1	306.5	314.9	321.6
P/BV (x)	2.31	2.21	2.14	2.09	2.04
ROE	15.6%	11.9%	11.4%	13.9%	16.2%
% 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	3,012	2,931	4,358	2,952	3,007	-0.2%	1.9%
Other income	38	129	41	-18	80		
Total revenue (Rs m)	3,050	3,060	4,399	2,934	3,087	1.2%	5.2%
Total expenditure	2,076	1,995	1,774	1,910	1,913	-7.9%	0.1%
<i>Cost to Income (%)</i>	<i>68.1%</i>	<i>65.2%</i>	<i>40.3%</i>	<i>65.1%</i>	<i>62.0%</i>		
Profit before tax	973	1,065	2,626	1,024	1,174	20.6%	14.7%
Tax	434	121	597	424	317	-26.9%	-25.1%
<i>Tax rate (%)</i>	<i>22.9%</i>	<i>22.9%</i>	<i>22.9%</i>	<i>22.9%</i>	<i>22.9%</i>		
Profit after tax	539	944	2,028	600	857	59.0%	42.8%
QAAUM (Rs tr)	2.24	2.24	2.34	2.41	2.39	6.7%	-0.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised estimates

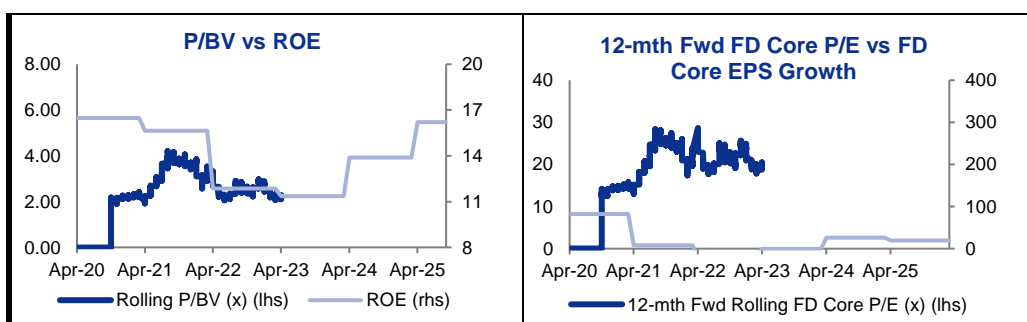
Y/e Mar (Rs m)	FY24F			FY25F			FY26F
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Revenue from operations	12,809.8	12,875.3	0.5%	15,450.9	15,323.0	-0.8%	18,107.8
PAT	4,278.3	4,344.2	1.5%	5,650.7	5,471.3	-3.2%	6,535.9
EPS (Rs)	33.7	34.3	1.5%	44.6	43.1	-3.2%	51.5
Dividend payout (%)	70.0	70.0	0.0%	80.0	80.0	0.0%	90.0
QAAUM (Rs tr)	2.7	2.7	0.1%	3.1	3.2	1.8%	3.7

SOURCE: INCRED RESEARCH

Conference-call takeaways

- UTI AMC will open 29 branches at new locations in FY24F. These branches will be of a smaller size of 500-600sq ft.
- UTI AMC will rationalize its existing large branches by shifting from larger rental offices to smaller branches, as because of digitalization these branches are no longer required.
- 80% of the AUM book is now new. Thus, the yield from now on to be largely stable. However, sharp redemptions in the remaining part of the old book can cause some yield pressure.
- UTI AMC shares 50% of its revenue with distributors while some of its peers share a higher revenue with distributors.
- UTI AMC has filed papers with the regulator for real estate and AIF funds, which will be launched soon.
- Management believes the outperformance in schemes will now drive growth.
- UTI AMC will give increment to its employees in single digit, which will be offset by employees retiring who will not be replaced, leading to stable employee cost next year.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income					
Total Non-Interest Income	13,189	12,669	12,597	14,994	17,726
Operating Revenue	13,271	12,901	12,875	15,323	18,108
Total Non-Interest Expenses	(6,303)				
Pre-provision Operating Profit	6,600	5,856	5,823	7,326	8,746
Total Provision Charges					
Operating Profit After Provisions	6,600	5,856	5,823	7,326	8,746
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	6,600	5,856	5,823	7,326	8,746
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	6,600	5,856	5,823	7,326	8,746
Exceptional Items					
Pre-tax Profit	6,600	5,856	5,823	7,326	8,746
Taxation	(1,256)	(1,459)	(1,456)	(1,832)	(2,186)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	5,344	4,397	4,367	5,495	6,559
Minority Interests	(3)	(23)	(23)	(23)	(23)
Prof. & Special Div					
FX And Other Adj.					
Net Profit	5,341	4,374	4,344	5,471	6,536
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	7.9%	9.9%	9.4%	8.1%	6.3%
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	2,701	2,765	2,832	2,902	2,975
Total Non-Interest Earning Assets	6,108	6,241	6,377	6,518	6,663
Cash And Marketable Securities	3,983	4,126	3,789	3,236	2,402
Long-term Investments	29,782	31,271	32,834	34,476	36,200
Total Assets	39,873	41,638	43,000	44,230	45,265
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities					
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	3,697	3,854	4,019	4,192	4,374
Total Liabilities	3,697	3,854	4,019	4,192	4,374
Shareholders Equity	36,062	37,670	38,867	39,924	40,777
Minority Interests	114	114	114	114	114
Total Equity	36,177	37,784	38,981	40,038	40,891

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth					
Operating Profit Growth	9.1%	85.1%	(0.2%)	19.0%	18.2%
Pretax Profit Growth	9%	(11%)	(1%)	26%	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	19.0%	24.9%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	49.9%	63.8%	73.0%	81.1%	87.3%
Return On Average Assets	13.96%	10.73%	10.27%	12.54%	14.61%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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