

India

ADD (no change)

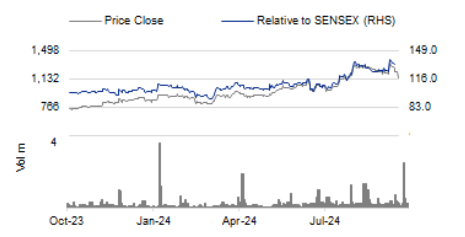
Consensus ratings*: Buy 8 Hold 4 Sell 4

Current price:	Rs1,148
Target price: ▲	Rs1,450
Previous target:	Rs1,200
Up/downside:	26.3%
InCred Research / Consensus:	25.9%
Reuters:	UTIA.NS
Bloomberg:	UTIAM IN
Market cap:	US\$1,740m Rs146,319m
Average daily turnover:	US\$4.2m Rs353.5m
Current shares o/s:	0.0m
Free float:	46.0%

*Source: Bloomberg

Key changes in this note

➤ The company reported market share gains in hybrid & ETF products on a sequential basis, despite the consistent overall losses in other products including equity funds.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(9.6)	11.7	54.5
Relative (%)	(2.6)	14.4	24.1

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

Research Analyst(s)



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UTI AMC

Green shoots of market share gains visible

- UTI AMC posted a superior 2Q PAT of Rs2.63bn (+43.9% yoy), led by moderation in the expense ratio to ~25bp & no negative surprise on tax outgo.
- The company reported market share gains in hybrid & ETF products on a qoq basis, despite the consistent overall losses in other products incl. equity funds.
- We appreciate the market share gains along with improving operating efficiency & favourable risk-reward ratio. Retain ADD with a new Rs1,450 TP.

Healthy profitability led by steady revenue yield, lower expenses

UTI AMC reported a superior 2QFY25 PAT of Rs2.63bn (+43.9% yoy), led by steady revenue yield and moderation in the expense ratio to ~25bp. The one-off tax outgo was also lower than expected, which led to PAT outperformance. Management has been trying to moderate the operating expenses, which was visible during the quarter, but sustainability of the same is a key monitorable.

Market share trend improving selectively; prefer to remain optimistic

UTI AMC reported a decline in its overall market share sequentially to ~5.17% from ~5.27% in Jun 2024, with its mutual fund QAAUM at Rs3.42tr (+28.4% yoy) as of Sep 2024-end. The overall equity AUM of the company grew by ~26% yoy, resulting in a loss in equity fund market share to ~3.32% vs. ~3.45% last quarter. However, hybrid funds rose by ~31.8% yoy, with a sequential rise in their market share to ~4.20% from ~4.17% last quarter. Similarly, market share in ETFs improved to ~13.5% from ~13.3% in Jun 2024. Though the quantum of market share gain has been limited, we prefer to remain optimistic.

Privatization on the cards – chances of stake acquisition from banks

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. With the rising importance of financial savings among Indian households, along with under-penetration and concentrated business model of mutual funds, the outlook for AMCs in India remains buoyant. Considering the improving efficiency of UTI AMC, T Rowe Price (already being an investment manager) could opt to buy a majority stake from public sector banks (the easiest route) and can become the promoter.

Outlook and valuation

We like UTI AMC considering its improving scheme performance leading to steady inflow and healthy AUM, rationalization of operating expenses to strengthen operating performance and a favourable risk reward ratio. We maintain our ADD rating on the stock with a higher target price of Rs1,450 (Rs1,200 earlier), corresponding to ~15.3x FY26F EPS. Key downside risks: Lower growth and weak yields impacting profitability.

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	17,370	22,169	26,397
Operating Revenue (Rsm)	13,271	12,901	17,439	22,378	26,639
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	5,341	4,374	7,649	10,155	12,056
Core EPS (Rs)	42.12	34.46	60.26	80.00	94.97
Core EPS Growth	8%	(18%)	75%	33%	19%
FD Core P/E (x)	27.24	33.30	19.04	14.34	12.08
DPS (Rs)	21.00	22.00	22.00	40.00	45.00
Dividend Yield	1.83%	1.92%	1.92%	3.49%	3.92%
BVPS (Rs)	284.4	304.8	345.7	391.4	447.1
P/BV (x)	4.03	3.76	3.32	2.93	2.57
ROE	15.6%	11.7%	18.5%	21.7%	22.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs mn	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)
Revenue from operations	4,678	4,041	4,491	4,161	5,292	5,384	33.2%	1.7%
Other income	8	15	12	42	45	17		
Total revenue (Rs m)	4,686	4,056	4,502	4,203	5,337	5,401	33.2%	1.2%
Total expenditure	1,802	1,858	1,895	2,024	1,924	2,044	10.0%	6.2%
<i>Cost-to-income (%)</i>	<i>38.4%</i>	<i>45.8%</i>	<i>42.1%</i>	<i>48.1%</i>	<i>36.1%</i>	<i>37.8%</i>		
Profit before tax	2,884	2,198	2,607	2,180	3,413	3,357	52.7%	-1.7%
Tax	540	370	573	365	670	726	96.4%	8.3%
<i>Tax rate (%)</i>	<i>18.7%</i>	<i>16.8%</i>	<i>22.0%</i>	<i>16.8%</i>	<i>19.6%</i>	<i>21.6%</i>		
Profit after tax	2,344	1,828	2,034	1,814	2,743	2,631	43.9%	-4.1%
QAAUM (Rs tr)	2.48	2.67	2.73	2.91	3.11	3.43	28.4%	10.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

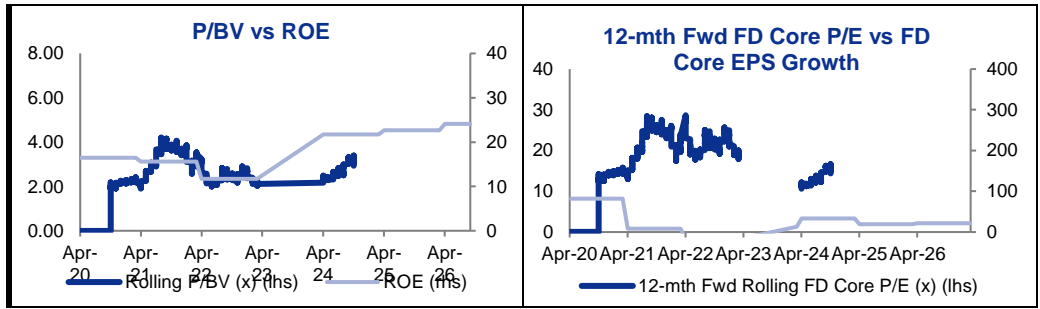
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Revenue from operations	21,407	22,378	4.5%	25,546	26,639	4.3%	30,051	31,832	5.9%
PAT	8,721	10,155	16.4%	10,727	12,056	12.4%	12,585	14,635	16.3%
EPS (Rs)	68.6	80.0	16.6%	84.4	95.0	12.5%	99	115.3	16.4%
Dividend payout (%)	50.0	50.0	0.0%	50.0	50.0	0.0%	50	50.0	0.0%
QAAUM (Rs tr)	3.6	3.7	2.8%	4.3	4.4	2.8%	5	5.3	2.8%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Earnings-call highlights

- Segmental yields of equity and hybrid funds stood at ~75bp, ETF and index funds at ~6-7bp, cash and arbitrage funds at ~10bp and income funds at ~20-21bp.
- The performance of equity schemes has improved, as in Mar 2024 there were six equity schemes in quartiles 1 and 2, moving to 11 schemes currently, out of 18 equity schemes.
- The efforts towards having a better distribution network across channels like banks, distributors and fintechs aided in improving the systematic investment plan or SIP inflow.
- The focus area for equity schemes is the quality style of investments for the portfolio. The value style of investments outperformed the quality style, which impacted UTI AMC's performance. The shift towards quality investments will aid in improving the inflow and market share.
- The hybrid category is a focus area for UTI AMC, which brings an inflow of ~Rs25bn.
- In the past few years, UTI AMC had hired management trainees and they are being groomed for higher roles. As a result, there was no fresh hiring on a standalone basis.
- The company's subsidiaries will go for new hiring as they plan their future, leading to 4-4.5% higher employee costs on an annual basis. Other expenses will also see a similar trend as business developments require the necessary infrastructure, leading to a 10-12% rise on a yearly basis.
- The yield on the products offered by the subsidiaries is healthy, and the volume as well as the yield are expected to improve going ahead.
- Rationalization of commission will be considered in 4QFY25F or 1QFY26F.
- Shorter-duration debt funds have seen a healthy inflow in the past few quarters but as the rising interest rate cycle sustains, the longer-duration debt funds will also witness a healthy inflow.

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	17,370	22,169	26,397
Operating Revenue	13,271	12,901	17,439	22,378	26,639
Total Non-Interest Expenses	(6,303)				
Pre-provision Operating Profit	6,600	5,856	9,861	13,775	16,284
Total Provision Charges					
Operating Profit After Provisions	6,600	5,856	9,861	13,775	16,284
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	6,600	5,856	9,861	13,775	16,284
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	6,600	5,856	9,861	13,775	16,284
Exceptional Items					
Pre-tax Profit	6,600	5,856	9,861	13,775	16,284
Taxation	(1,256)	(1,459)	(1,848)	(2,893)	(3,501)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	5,344	4,397	8,013	10,882	12,783
Minority Interests	(3)	(23)	(364)	(727)	(727)
Prof. & Special Div					
FX And Other Adj.					
Net Profit	5,341	4,374	7,649	10,155	12,056
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%	9.3%	7.1%	7.8%	10.6%
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	2,147	3,117	3,165	3,216
Total Non-Interest Earning Assets	6,108	5,699	5,896	5,999	6,106
Cash And Marketable Securities	3,983	3,572	3,200	5,539	7,875
Long-term Investments	29,782	32,479	44,283	47,826	52,609
Total Assets	39,873	41,751	53,379	59,364	66,590
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	3,071	3,678	3,827	3,983
Total Liabilities	3,697	3,071	3,678	3,827	3,983
Shareholders Equity	36,062	38,680	43,882	49,686	56,757
Minority Interests	114		5,850	5,850	5,850
Total Equity	36,177	38,680	49,732	55,537	62,607

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth					
Operating Profit Growth	9.1%	85.1%	35.2%	28.3%	19.0%
Pretax Profit Growth	9%	(11%)	68%	40%	18%
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%	18.7%	21.0%	21.5%
Net Dividend Payout Ratio	49.9%	63.8%	36.5%	50.0%	47.4%
Return On Average Assets	13.96%	10.72%	16.08%	18.02%	19.14%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.