

India

**Overweight** (no change)

# Financial Services - AMCs

## Election month propels equity fund inflow

- Mutual funds' AUM inched up to yet another all-time high of Rs58.9tr due to strong equity fund inflow and debt fund inflow normalizing after volatility in Mar-Apr 2024.
- Sectoral and thematic funds continued to attract the highest inflows led by HDFC AMC's launch of a manufacturing fund.
- Added ABSL AMC (ADD, TP of Rs700) to our top picks because of its turnaround story followed by UTI AMC & NAM India due to the favourable risk-reward ratio.

### Strongest-ever equity MF flows aided by election-related momentum

As per the data released by AMFI (Association of Mutual Funds of India) for May 2024, equity funds witnessed a net inflow of Rs347bn, up 83% mom, due to sharp inflows in sectoral funds and a healthy resurgence of small-cap & mid-cap funds. Sectoral funds dominated inflows with Rs192.1bn of net inflow (~55% of equity funds' net inflow) buoyed by the launch of HDFC Manufacturing Fund, which mobilized Rs95.6bn, with the issue commencing on 26 Apr 2024 and concluding on 10 May 2024. The other segments to lead in equity inflows were flexi-cap fund with a net inflow of Rs31.5bn (~9% of equity funds' net inflow) and healthy inflows in small-cap and mid-cap funds with a cumulative net inflow at Rs 53.3bn (~15% of equity funds' net inflow). The volatile debt fund segment saw some normalization in monthly net inflow at Rs~422.9bn in May 2024. We continue to expect volatility in debt funds amid the monetary policy stance of the Reserve Bank of India, but we believe the worst is behind for debt funds.

### Industry monthly inflow inching up to another all-time high of Rs 1.1tr

Overall industry assets under management or AUM witnessed a net inflow of Rs ~1.1tr, which brings the overall AUM to Rs58.9tr, yet another all-time high, on the back of strong equity funds-linked inflow. Equity funds' AUM of the industry grew by ~53% yoy/~3% mom to a new all-time high of Rs25.4tr. We expect the near-term volatility to continue, but we remain optimistic over the mid- to long-term horizon.

### SIP inflow remains healthy aided by discipline among retail investors

Systematic investment plan or SIP inflow remained strong at Rs209.0bn, up ~42% yoy and ~2.6% mom, indicating strong inflow from the retail segment. Exchange traded funds (ETFs) also regained momentum in an election month, after some softening in Apr 2024, with the overall inflow at Rs156bn (+36% mom). Overall ETFs' AUM grew by ~33% yoy & 2% mom to Rs9.8tr.

### Outlook & valuation

We appreciate the overall healthy scheme-wise delivery by the industry, which in turn, resulted in a surge in equity funds' AUM. There may be some short-term pressure on yields amid flattish market movement, but we expect the overall yields to remain healthy in the mid-term. We have added ABSL AMC to our top picks in the sector with a target price of Rs700 or ~18x FY26F EPS amid the AMC's ability to improve the revenue yield by superior equity fund inflow aided by scheme-level outperformance translating to improving market share. We also like UTI AMC (ADD, TP Rs1,100) and NAM India (ADD, TP of Rs660) due to the favourable risk-reward ratio. The undercurrent of likely acquisition of UTI AMC makes it attractive. We have a HOLD rating on HDFC AMC with a target price of Rs3,800, corresponding to a P/E of 30x FY26F EPS, due to the unfavourable risk-reward ratio.

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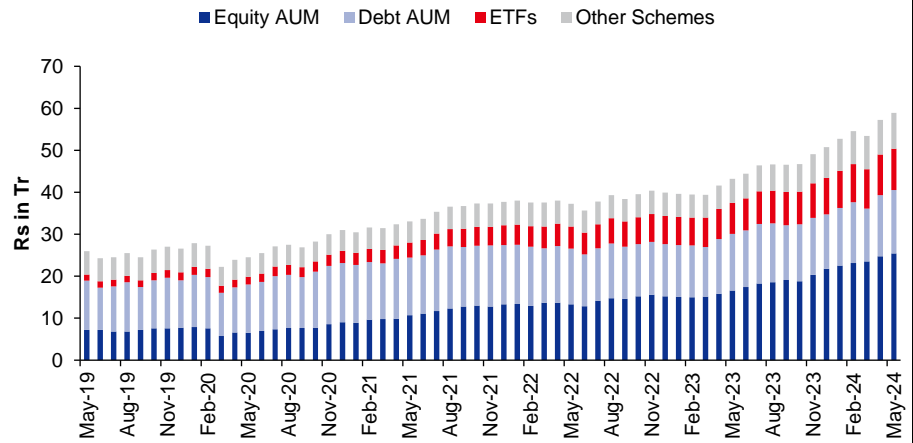
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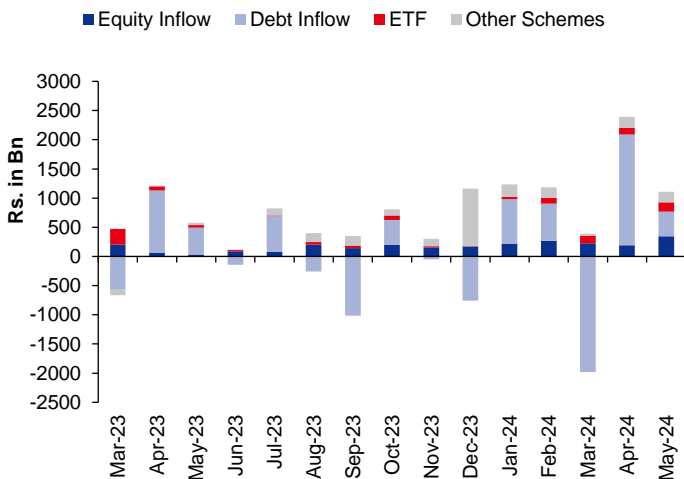
## Key Charts

Figure 1: Overall, AUM remains at all-time high level



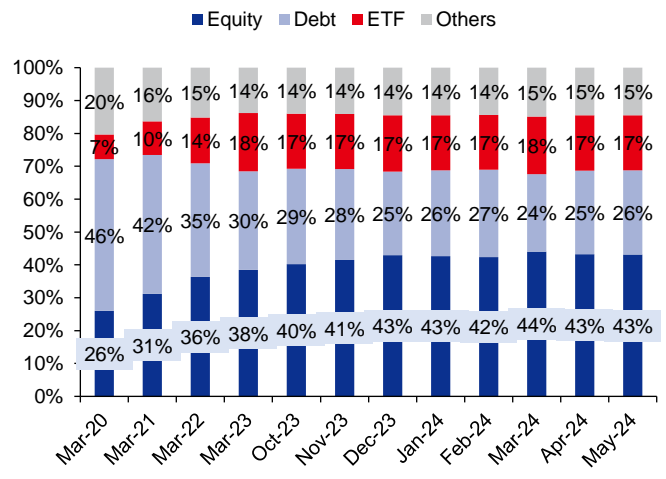
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Figure 2: Highest monthly net inflow in equity funds



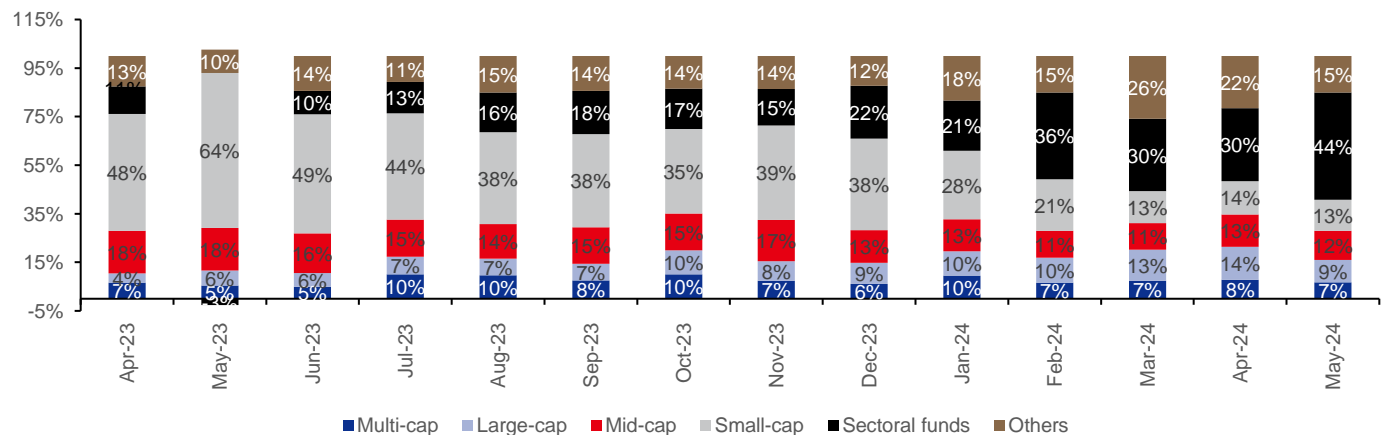
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Equity funds dominate in overall AUM



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Sectoral funds continue to dominate equity fund inflow (please write Multi-cap, Large-cap, Small-cap, Sectoral funds in the graph)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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