

Aditya Birla Sun Life AMC

Citius, Altius, Fortius

With an extremely strong and diversified distribution network, Aditya Birla Sun Life AMC (ABSLAMC) emerges as a formidable force in our proprietary AMC Franchise Scorecard. ABSLAMC manages India's fourth-largest mutual fund and among the most profitable AMC franchises (OP at 23bps of AAUM in FY21). With its share of higher-yielding equity in the AAUM poised to rise 683bps to 41.8% over FY21-24E and the resulting operating leverage (OP as bps of AAUM to improve from 23.3bps to 25.9bps), ABSLAMC's profitability trajectory is slated to become incrementally stronger (FY21-24E NOPLAT CAGR at 16.4%). We initiate with a BUY and a target price of INR720/share (29x Sep-23E NOPLAT + Sep'22 cash and investments), 11% discount to NAM.

- Formidable distribution network:** ABSLAMC is firmly entrenched as a well-penetrated retail franchise (B-30 as % of AAUM at 16%) on the back of a formidable IFA channel, with an AAUM market share of ~7.7% and market leadership in the fixed income segment (market share of >10%).
- Wind beneath the sails - built for speed:** Having emerged largely unscathed and incident-free from the corporate default episodes during FY18-20, ABSLAMC has demonstrated a relatively pristine investment portfolio despite a waning outperformance score over the past year. With employee costs at sub-10bps of average AUMs (amongst the lowest in the industry), ABSLAMC runs an extremely lean, well-diversified, and scalable franchise that is built for speed, reflecting in the acceleration seen in key operating vectors (individual and retail AUM, B-30 AUM, and NOPLAT), which is likely to sustain further. We believe its leadership in B-30 markets and focus on cross-sell to existing customers will help it gain market share.
- Operating leverage potential to marginally reflate RoEs:** With the share of higher-yielding equity in the AAUM mix likely to rise to 41.8% by FY24E (FY21: 35%), we expect a three-year revenue CAGR of 12%. With strong growth in AAUM (FY21-24E CAGR of ~12.6%), we expect economies of scale to kick in as operating expenses ease marginally (by ~2.5bps as % of AAUM) over FY21-24E. This is expected to result in an operating profit CAGR of 16.8% between FY21E and FY24E.
- Valuation:** We initiate coverage with BUY rating and a target price of INR720/share (29x Sep-23E NOPLAT + Sep-22 cash and investments).
- Key risks:** Key industry risks are (1) macro slowdown, (2) sustained equity bear market, (3) disproportionate growth in passives, and (4) increased competition from new players foraying into AMC business (MF distributors, FinTechs, etc.). Company-specific risks include negative AUM performance surprises and higher-than-expected moderation in equity yields.

Financial Summary

(INR mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenues	11,597	10,679	12,929	14,163	15,138
Operating profit	5,856	5,580	7,599	8,349	8,899
NOPLAT	4,382	4,220	5,684	6,245	6,657
APAT	4,944	5,263	6,508	7,063	7,619
EV/NOPLAT (x)	32.1	33.1	24.3	21.7	20.0
P/E (x)	30.9	29.0	23.5	21.6	20.0
RoE (%)	38.9	37.6	40.4	37.8	28.1

Source: Company, HSIE Research

BUY

CMP (as on 4 Feb 2022)	INR 530
Target Price	INR 720
NIFTY	17,516

KEY CHANGES	OLD	NEW
Rating	-	BUY
Price Target	NA	INR 720
EPS %	FY22E	FY23E
	Nil	Nil

KEY STOCK DATA

Bloomberg code	ABSLAMC IN
No. of Shares (mn)	288
MCap (INR bn) / (\$ mn)	152/2,045
6m avg traded value (INR mn)	-
52 Week high / low	INR 723/499

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(18.3)	-	-
Relative (%)	(15.9)	-	-

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	NA	86.5
FIs & Local MFs	NA	5.0
FPIs	NA	1.5
Public & Others	NA	7.0
Pledged Shares	Nil	Nil

Source : BSE

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Benchmarking the asset management business

Revisiting the AMC Franchise Scorecard (AMC-FS)

We revisit our proprietary Asset Management Company Franchise Scorecard (AMC-FS), which uses a combination of metrics that encompass distribution, granularity, equity performance, growth, and financial performance.

Exhibit 1: AMC Franchise Scorecard (AMC-FS)

Recent equity outperformance has waned compared to peers

Retail AUM growth is one of the fastest amongst major players

Healthy share of B-30 AUM in mix demonstrates granularity

Operating margins are better than NAM and UTIAM, showcasing a lean and highly profitable franchise

	ABSLAMC	HDFCAMC	NAMC	UTIAM	SBIAMC	IPRUAMC
PILLAR I: Equity performance						
Outperforming AUM as a % of rated AUM (Dec-21)	○	○	◐	◑	●	◐
Outperforming AUM as a % of rated AUM (Oct-20)	◐	○	◐	◐	●	●
Outperforming AUM as a % of rated AUM (Mar-20)	○	○	○	◐	●	●
Equity m. Share*	◐	●	◐	◐	●	●
Share of equity in AUM*	●	●	●	●	◐	●
PILLAR II: Granularity						
Retail AUM share in mix*	◐	◐	●	●	◐	◐
Individual AUM share in mix*	◐	●	◐	◐	◐	●
Retail AUM M. Share*	◐	●	◐	◐	●	◐
Individual AUM M. Share*	◐	●	◐	○	●	●
Individual AUM CAGR FY15-8MFY22	◐	◐	○	○	●	◐
Retail AUM CAGR FY15-8MFY22	●	◐	◐	○	●	◐
PILLAR III: Distribution						
B-30 market share*	○	◐	○	○	●	◐
B-30 mix within AUM*	◐	◐	◐	●	●	◐
B-30 AUM CAGR FY15-8MFY22	◐	◐	○	○	●	◐
PILLAR IV: Financial Strength						
OP margin	◐	●	◐	◐	◐	●
RoE	◐	◐	◐	○	◐	●
OP as bps of AAUM	◐	●	◐	◐	◐	●
6Y CAGR FY15-FY21						
Revenue	◐	◐	○	◐	●	●
NOPLAT	◐	◐	○	○	●	●
PAT	●	◐	◐	◐	●	●

Note: Full circle denotes the best AMC for every parameter; * represents Nov-21 data; Pillar IV represents data until FY20 for SBIAMC and IPRUAMC

Source: Companies, NAV India, Value Research, HSIE Research

AMC-FS parameters definition

Pillar I: Equity performance

- **Outperforming AUM as a % of rated AUM:** Indicates the share of outperforming AUM (4-star and plus) as a % of rated AUM. Rated AUM denotes the share of AUM rated by Value Research within total AUM.
- **Equity market share:** Denotes share of each franchise's equity AUM within the overall industry equity AUM.
- **Share of equity in AUM:** Captures the average share of equity AUM within total AUM for each franchise.

Pillar II: Granularity

- **Retail AUM share in mix:** Captures the share of retail AUM within total AUM for each franchise. Retail AUM is defined as <INR 0.2mn/transaction.
- **Individual AUM share in mix:** Captures the share of individual (retail + HNI) AUM within total AUM for each franchise.
- **Retail AUM market share:** Denotes the share of each franchise's retail AUM within the overall industry retail AUM.
- **Individual AUM market share:** Denotes the share of each franchise's individual AUM within the overall industry individual AUM.
- **Retail AUM CAGR (FY15-8MFY22):** Captures the compounded annual growth in retail AUM over the past ~six years for each franchise.
- **Individual AUM CAGR (FY15-8MFY22):** Captures the compounded annual growth in individual AUM over the past ~six years for each franchise.

Pillar III: Distribution

- **B-30 market-share:** Denotes the share of each franchise's B-30 AUM within overall industry B-30 AUM.
- **B-30 mix in AUM:** Indicates the share of B-30 AUM within total AUM for each franchise.
- **B-30 AUM CAGR (FY15-8MFY22):** Captures the compounded annual growth in B-30 AUM over the past ~six years for each franchise.

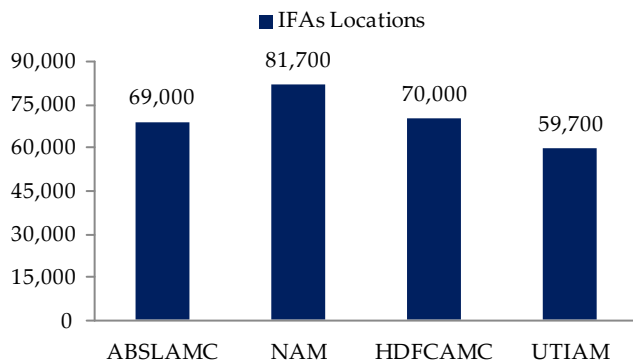
Pillar IV: Financial strength

- **Operating profit (OP) margin:** Captures profitability in terms of operating profit (PBT-other income) as a % of revenue.
- **Return on equity (RoE):** Captures financial performance by analysing adjusted profit after tax in relation to the shareholder equity.
- **OP as bps of average AUM:** Captures operating profitability by analysing operating profits with average AUM.
- **Revenue CAGR (FY15-FY21):** Captures the compounded annual growth in revenue over the past ~six years for each franchise.
- **NOPLAT CAGR (FY15-FY21):** Captures the compounded annual growth in NOPLAT (PBT less other income adjusted for tax) over the past ~six years for each franchise.
- **PAT CAGR (FY15-FY21):** Captures the compounded annual growth in APAT over the past ~six years for each franchise.

Formidable distribution network

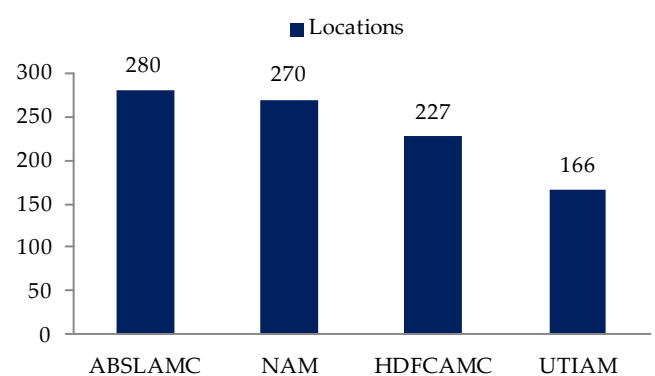
- ABSLAMC is firmly entrenched as a well-penetrated retail franchise (B-30 as % of AAUM at 16%) on the back of a formidable IFA channel, with an AAUM market share of ~7.7% (Nov-21) and market leadership in the fixed income segment (market share of >10%). With a network of ~69k IFAs, ABSLAMC boasts of one of the strongest IFA network amongst its peers.
- Given the fact that ABSLAMC doesn't have an associate banca partner, the company has focused on growth through the highly profitable IFA channel. It strategises on capturing market where it has a lower market share by empanelling IFAs in those regions and opening branches. Given a strong and diversified network as well as the emerging trends in financialisation of savings, ABSLAMC is well-capitalised to capture the underpenetrated market.

Exhibit 2: Robust IFA network amongst listed peers



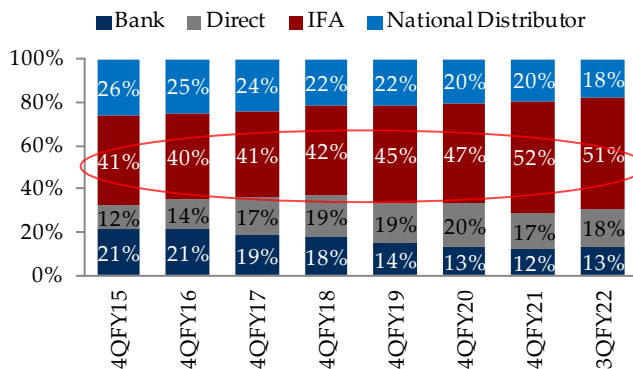
Source: Companies, HSIE Research

Exhibit 3: Highest branch network vs. listed peers



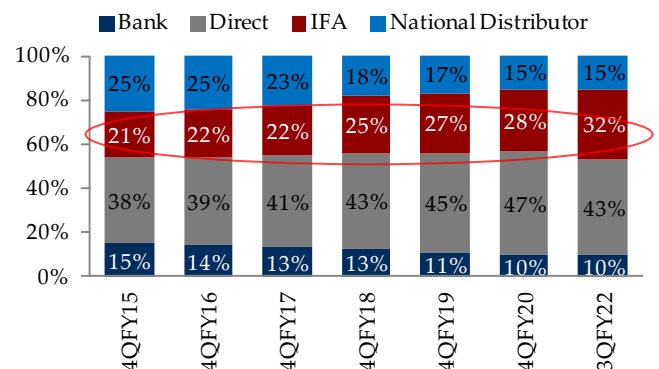
Source: Companies, HSIE Research

Exhibit 4: Higher share of equity AUM coming from IFAs



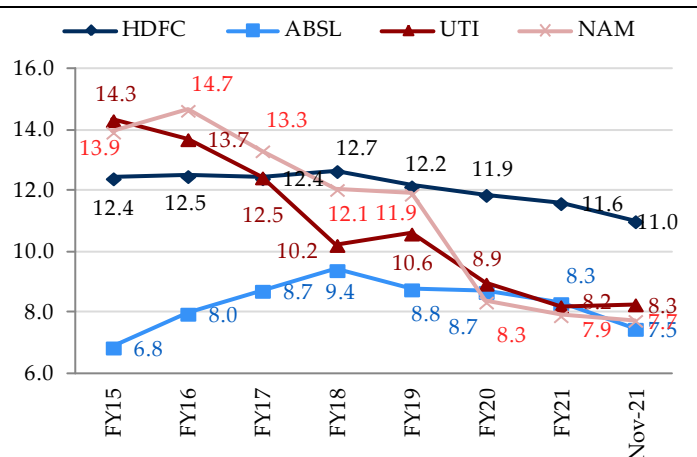
Source: Company, HSIE Research

Exhibit 5: Higher share of total AUM coming from IFAs



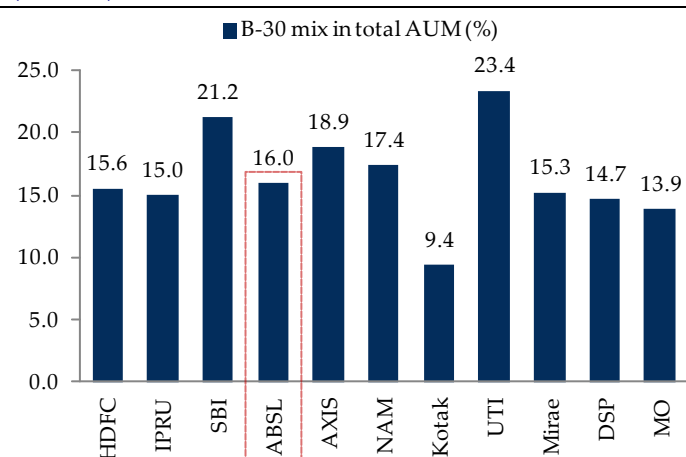
Source: Company, HSIE Research

Exhibit 6: Market-share in B-30 cities vs. listed peers



Source: Companies, HSIE Research

Exhibit 7: Higher share of B-30 AUM vs. HDFCMF (Nov-21)

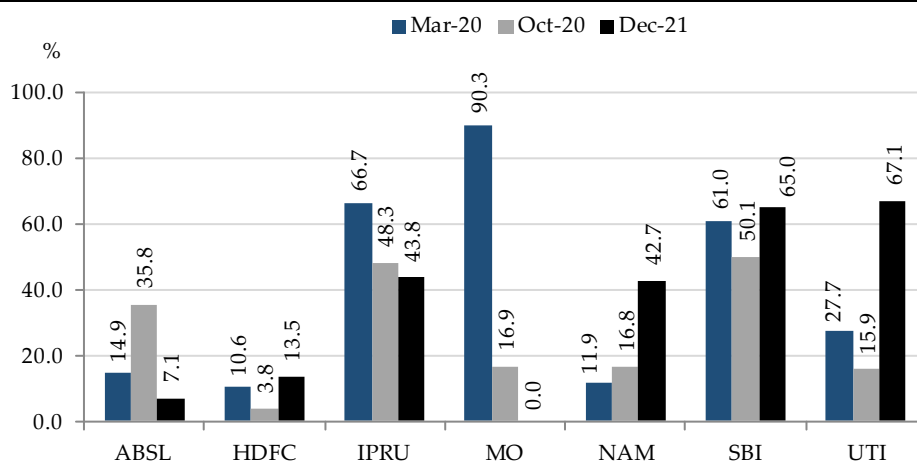


Source: Company, HSIE Research

Wind beneath the sails - built for speed

- Having emerged largely unscathed and incident-free from the corporate default episodes during FY18-20, ABSLAMC has demonstrated a relatively pristine investment portfolio despite a waning equity AUM outperformance score vs. peers in recent months; refer AMC-FS).
- We believe that ABSLAMC's encouraging equity outperformance, i.e. 36% of the rated equity AUM outperforming (4-star and above) in Oct-20, backed by a strong brand name, is expected to drive inflows and AUMs. Despite the fact that the outperformance has waned in recent months, we believe that the franchise has an extremely competent team to recover lost ground on outperformance.

Exhibit 8: Outperforming AUM as a % of rated AUM

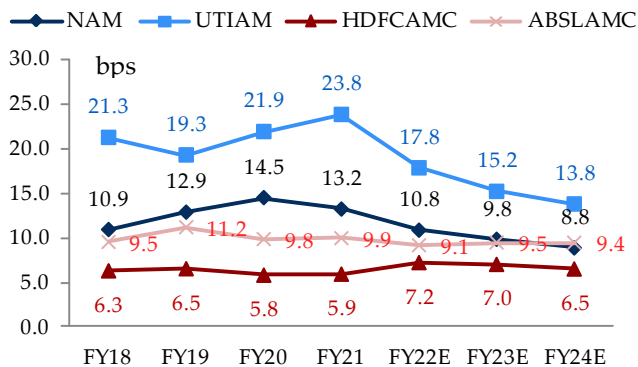


Source: NAV India, Value Research and HSIE Research

- With employee costs at sub-10bps of average AUMs (amongst the lowest in the industry), ABSLAMC runs an extremely lean, well-diversified, and scalable franchise that is built for sustained speed. This is reflected in the acceleration in key operating vectors (retail AUM, B-30 AUM and NOPLAT), which is likely to sustain in the coming years.
- ABSLAMC has relentlessly built a strong retail franchise by increasing stickier and more granular AUM (retail and individual). Thanks to a multi-fold increase in MF folios (18% CAGR over the past six years) and an increasing share of SIP in

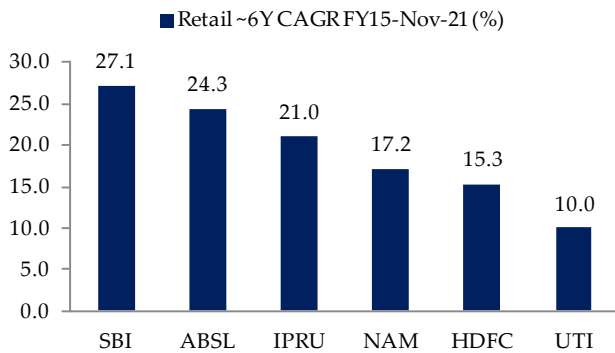
equities AUM, retail AUM has seen super-accelerated growth (second to SBIAMC). This calibrated approach has enabled ABSLAMC to deliver superior NOPLAT (PBT less other income less tax) growth among peers.

Exhibit 9: Employee cost as bps of AUM vs. listed peers



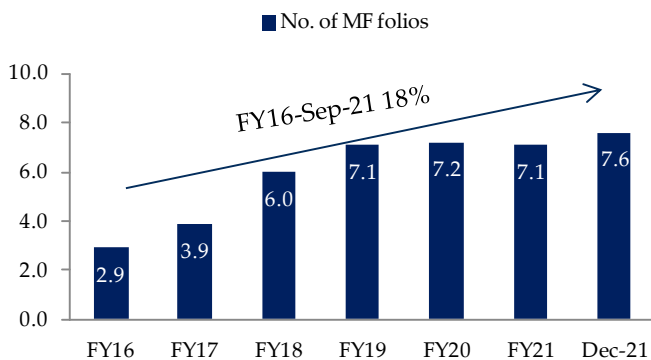
Source: Companies, HSIE Research

Exhibit 11: ABSLAMC's strong growth in retail AUM



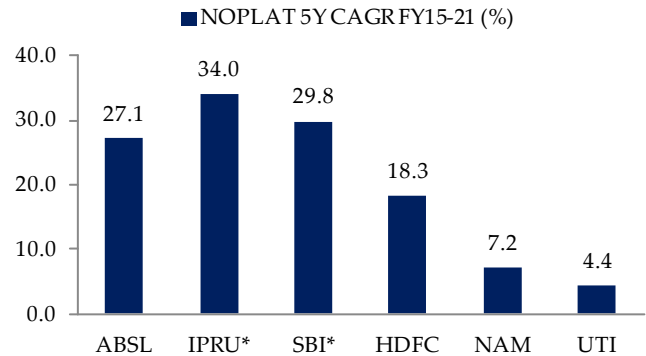
Source: NAV India, HSIE Research

Exhibit 13: Folios grew at an accelerated pace



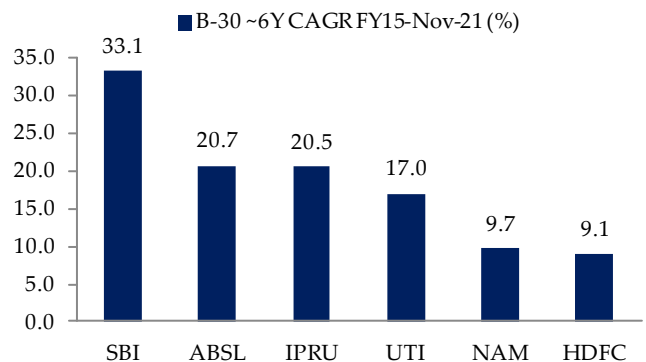
Source: Company, HSIE Research

Exhibit 10: NOPLAT grew the fastest for ABSLAMC



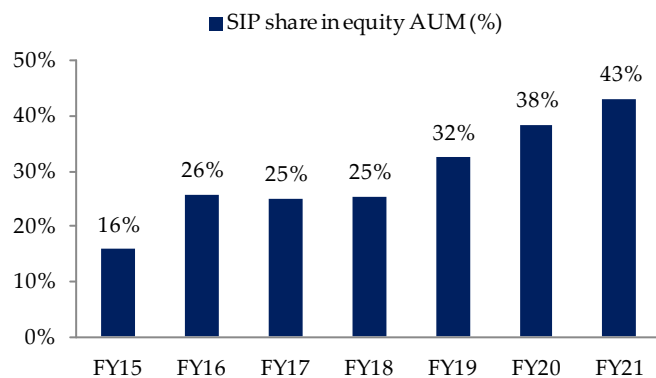
Source: Companies, HSIE Research, *SBI and IPRU represent FY15-20

Exhibit 12: ABSLAMC's strong growth in B-30 AUM



Source: NAV India, HSIE Research

Exhibit 14: Increasing contribution of SIP to equity AUM

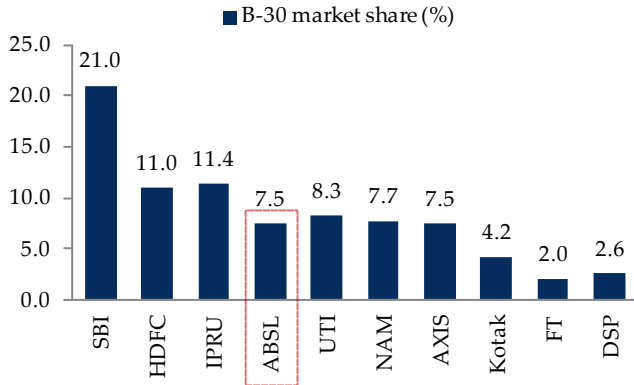


Source: Company, HSIE Research

- We believe the company's leadership in B-30 markets, new fund offerings in new segments, and focus on cross-sell to existing customers provide tailwinds to growth and market share gains.
- ABSLAMC has recently ramped up efforts to close gaps and regain market share, launching seven new NFOs in segments where the company had no prior presence. ABSLAMC is also continuously exploring opportunities in the passives market, where it does not yet have a significant presence (passives market share shy of 0.5%). With an active client base of 31mn and PPC (product per customer) at 1.57 in the AMC business as of 9MFY21, the company has a massive opportunity within the group in terms of cross-sell and up-sell (PPC >2). With

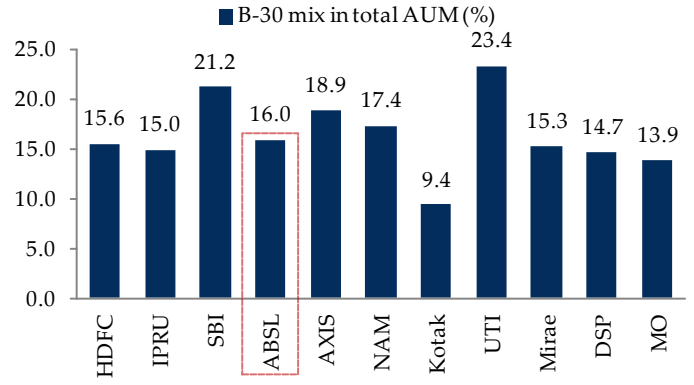
such a large client base, we believe that “cross-selling across businesses” will be a true value creator.

Exhibit 15: 4th largest in B-30 markets despite no associate banca partner



Source: NAV India and HSIE Research

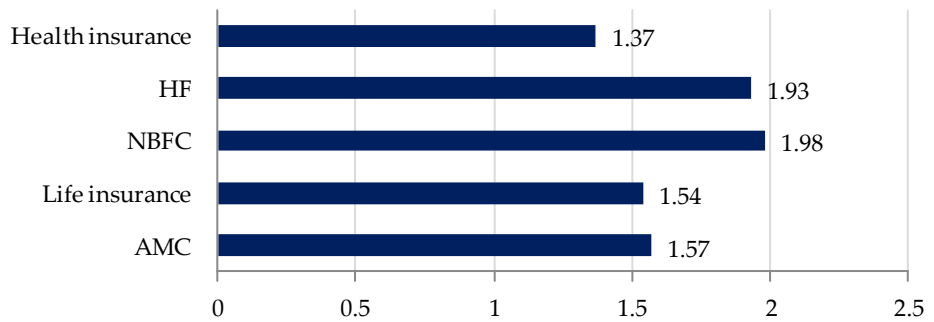
Exhibit 16: Higher share of B-30 AUM vs. HDFCFM (Nov-21)



Source: Company, HSIE Research

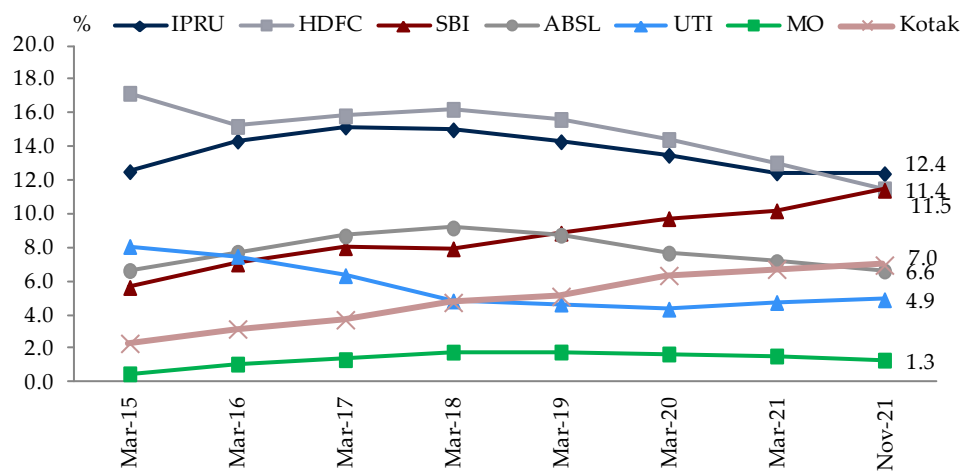
Exhibit 17: Up-sell opportunity

Product per customer



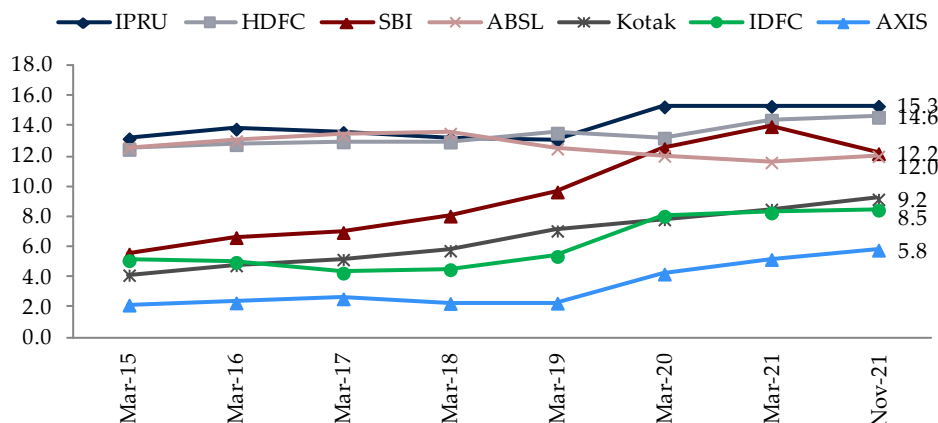
Source: Company, HSIE Research

Exhibit 18: Equity market share across major AMCs



Source: NAV India, Value Research and HSIE Research

Exhibit 19: Debt market share across major AMCs

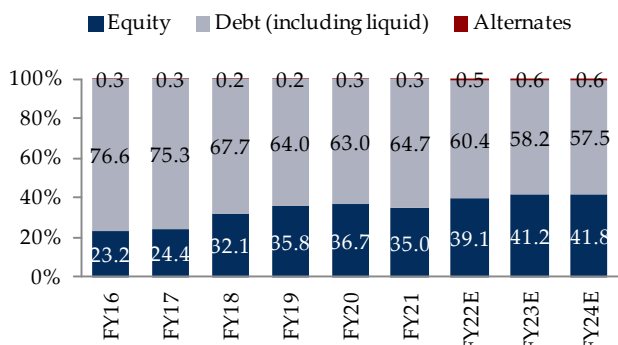


Source: NAV India, Value Research and HSIE Research

Operating leverage potential to marginally reflate RoEs

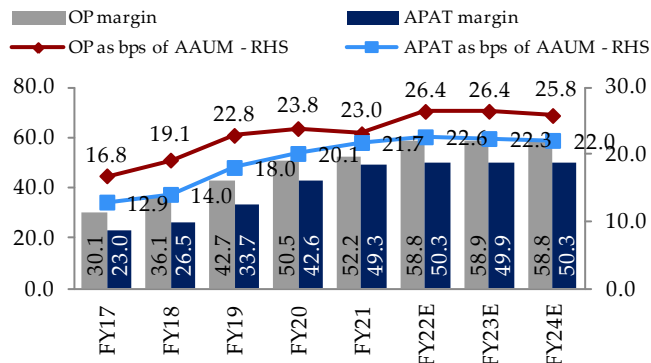
- With the share of higher-yielding equity in the MF AAUM mix likely to rise to 41.8% by FY24E (Nov-21: 40.8%), we expect three-year revenue CAGR of 12%. With strong growth in AAUM (FY21-24E CAGR of 12.6%), we expect economies of scale to kick in as operating expenses ease marginally (by ~2.5bps as % of MF AAUM) over FY21-24E. This is expected to drive operating profits/APAT CAGRs of 17/13% over FY21-24E.
- Since ABSLAMC follows an asset-light business model, it is expected to enjoy operating efficiencies as AUM further scales up. We believe that total operating expenses as bps of AAUM (19.3bps FY21) are still sub-par to HDFCAMC (11.6bps FY21) and there is significant headroom to improve. Driven by both strong growth in AUM and operating efficiencies, ABSLAMC enjoys one of the best RoEs in the industry at ~37.6% (FY21).

Exhibit 20: Share of equity in mix to rise



Source: Company, HSIE Research

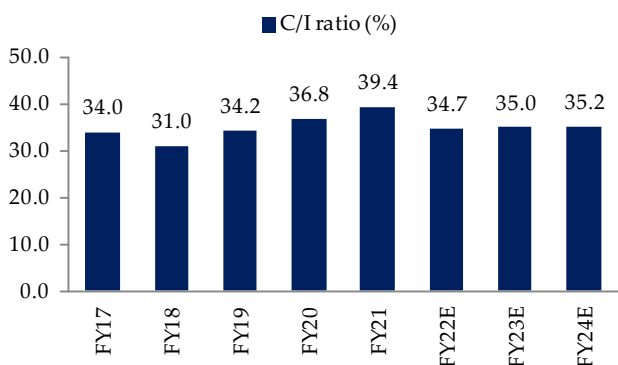
Exhibit 21: Margins set to improve



Note: Operating profits (OP) = PBT-OI.

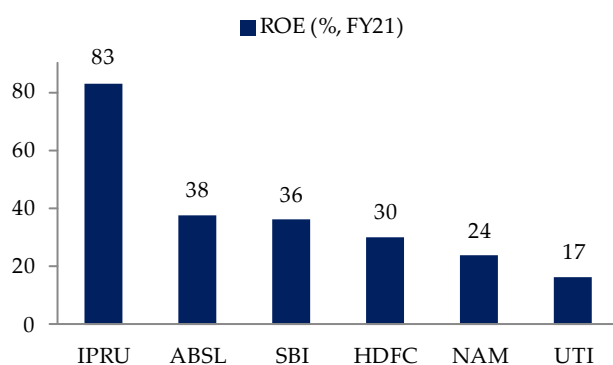
Source: Company, HSIE Research

Exhibit 22: Impressive C/I ratio trajectory



Source: Respective Company, HSIE Research

Exhibit 23: Generates best-in-class RoEs



Source: Company, HSIE Research, IPRU and SBI represent FY20

Q3FY22 review

- ABSLAMC had a tepid quarter, with core revenue flat sequentially at INR 3.3bn. Core revenue yields as a percentage of MF AAUM improved only 0.6bps to 44.8bps, despite the share of equity improving 2pps.
- The reversal of performance fees to the tune of INR 323mn (one-off in nature), resulted in lower operating expenses (-29% QoQ), but management has guided an annual staff cost run-rate in the range of INR300-320mn.
- Also, other income softly declined 53%QoQ on the back of higher yields in the FI portfolio and tepid equity markets, pushing APAT to INR1.86bn (+7.6% QoQ).
- The equity market share further dipped 21bps to 6.6% in Nov-21, implying increased competitive intensity (as a result of increased NFOs with low TERs and high distributor payouts).
- ABSLAMC continues to ramp up its IFA network, which has reached 69k (+2k in Q3) and has been a key driver of AUM growth.

Valuation

- We forecast total MF AAUM to exhibit a 12.6% CAGR over FY21-24E, with the share of active equity improving from 35% to 41.8% (+683bps).
- We expect equity yields to compress by ~9bps over FY21-24E (-4.4% CAGR) as pricing is expected to remain competitive in this segment. Blended MF yields are expected to remain flattish with -0.3% CAGR over FY21-24E.
- We expect operating profit/PAT to record FY21-24E CAGRs of 17/13%. The business delivered RoE/RoIC of 38/1,571% in FY21. We expect it to deliver RoE of 36-40% over FY21-24E.
- We value the company on a DCF basis, under the following key assumptions:
 - Long-term AAUM growth of 13.5% over FY24-31E
 - Long-term NOPLAT (as bps of AAUM): 20.4-21.2bps
 - Cost of equity: ~11.7%
- We value ABSLAMC at INR720/share (implying a multiple of 29x Sep-23E EV/NOPLAT plus cash and investments) and initiate on the stock with a BUY recommendation.

Exhibit 24: NOPLAT trend and estimates

Companies	NOPLAT CAGR (FY21-24E, %)	NOPLAT (INR bn)	Derived multiple (x)
ABSLAMC	16.4	6.5	29.3
NAM	23.7	7.0	33.1
UTIAM	31.8	4.3	27.9

Source: HSIE Research

Financials

Income Statement

(INR mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	9,685	12,161	13,268	11,597	10,679	12,929	14,163	15,138
Growth (%)	26.6%	25.6%	9.1%	-12.6%	-7.9%	21.1%	9.5%	6.9%
Employee benefits expenses	1,977	2,187	2,775	2,420	2,407	2,636	2,991	3,261
Operating expenses	4,719	5,481	4,698	2,901	2,263	2,282	2,389	2,534
EBITDA	2,989	4,493	5,794	6,276	6,010	8,012	8,782	9,344
EBITDA Margin (%)	30.9	36.9	43.7	54.1	56.3	62.0	62.0	61.7
EBIDTA Growth (%)	-4.2%	50.3%	29.0%	8.3%	-4.2%	33.3%	9.6%	6.4%
Depreciation	78	98	132	365	374	359	377	386
EBIT	2,911	4,394	5,663	5,911	5,635	7,652	8,405	8,958
Other Income (includes treasury)	460	449	805	751	1,379	1,101	1,094	1,286
Interest & Financial Charges	-	-	-	54	56	54	56	58
PBT	3,371	4,843	6,468	6,607	6,959	8,700	9,443	10,186
Tax	1,139	1,623	1,992	1,663	1,696	2,192	2,380	2,567
RPAT	2,232	3,220	4,475	4,944	5,263	6,508	7,063	7,619
APAT	2,232	3,220	4,475	4,944	5,263	6,508	7,063	7,619
APAT growth (%)	10.1%	44.3%	39.0%	10.5%	6.4%	23.7%	8.5%	7.9%
AEPS	7.8	11.2	15.5	17.2	18.3	22.6	24.5	26.5
EPS Growth (%)	10.1%	44.3%	39.0%	10.5%	6.4%	23.7%	8.5%	7.9%

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS								
Share Capital	180	180	180	180	180	180	180	180
Reserves	9,236	10,546	12,054	12,989	14,646	17,249	19,721	22,387
Minority Interest	-	-	-	-	-	-	-	-
Total Shareholders' Funds	9,416	10,726	12,234	13,169	14,826	17,429	19,901	22,567
Long-term Debt	-	-	-	621	646	672	698	726
Short-term Debt	-	-	-	-	-	-	-	-
Total Debt	-	-	-	621	646	672	698	726
Other Financial Liabilities & Provisions	515	8	-	-	-	-	-	-
Other Non Current Liabilities	14	20	-	-	-	-	-	-
Net Deferred Tax Liability	(265)	(55)	79	146	-	-	-	-
TOTAL SOURCES OF FUNDS	9,680	10,699	12,313	13,936	15,471	18,100	20,599	23,294
APPLICATION OF FUNDS								
Net Block	185	254	324	872	875	929	977	999
Loans & Deposits	716	1,102	159	4	4	4	4	5
Other Non Financial Assets	2,335	3,383	1,537	936	1,170	1,287	1,416	1,557
Total Non-current Assets	3,236	4,739	2,019	1,812	2,048	2,220	2,397	2,561
Current Investments	6,672	7,304	11,381	12,634	13,789	16,475	18,882	21,447
Debtors	568	398	257	395	293	319	349	373
Cash & Equivalents	259	110	385	469	561	631	684	752
Loans & Advances	909	943	127	127	140	154	169	186
Other Current Assets	90	67	170	274	280	285	291	297
Total Current Assets	8,498	8,822	12,319	13,899	15,062	17,864	20,375	23,055
Creditors	464	1,985	755	464	585	708	776	829
Other Current Liabilities	1,590	876	1,270	1,310	1,053	1,275	1,397	1,493
Total Current Liabilities	2,054	2,861	2,025	1,774	1,638	1,984	2,173	2,323
Net Current Assets	6,444	5,960	10,293	12,125	13,423	15,880	18,202	20,732
TOTAL APPLICATION OF FUNDS	9,680	10,699	12,313	13,936	15,471	18,100	20,599	23,294

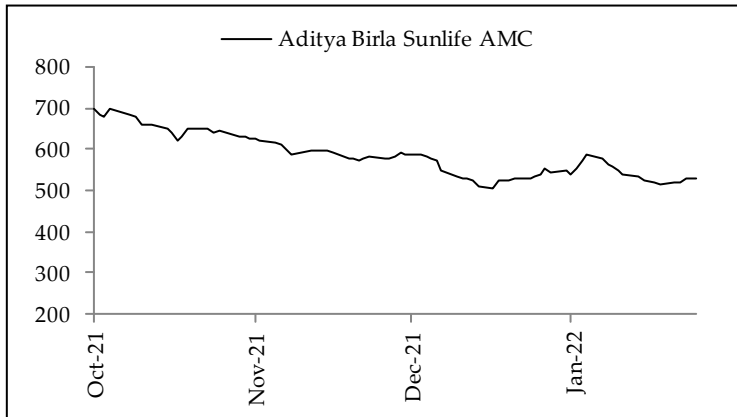
Source: Company, HSIE Research

Key Ratios

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Profitability (%)								
EBITDA Margin	30.9	36.9	43.7	54.1	56.3	62.0	62.0	61.7
EBIT Margin	30.1	36.1	42.7	50.5	52.2	58.8	58.9	58.8
APAT Margin	23.0	26.5	33.7	42.6	49.3	50.3	49.9	50.3
RoE	25.9	32.0	39.0	38.9	37.6	40.4	37.8	35.9
Core RoCE	369	7,401	1,972	1,656	1,571	1,432	1,912	1,905
RoCE	25.9	32.0	39.0	38.9	37.6	40.4	37.8	35.9
PER SHARE DATA								
AEPS (INR/sh)	8	11	16	17	18	23	25	26
CEPS (INR/sh)	8	12	16	18	20	24	26	28
DPS (INR/sh)	0	0	167	11	12	14	16	17
BV (INR/sh)	33	37	42	46	51	61	69	78
VALUATION								
P/E	68.4	47.4	34.1	30.9	29.0	23.5	21.6	20.0
P/BV	16.2	14.2	12.5	11.6	10.3	8.8	7.7	6.8
EV/NOPLAT	75.6	49.1	36.2	32.1	33.1	24.3	21.7	20.0
EV/EBIT	50.1	32.6	25.0	24.1	25.0	18.2	16.2	15.0

Source: Company, HSIE Research

1Yr Stock Movement



Rating Criteria

- BUY:** >+15% return potential
- ADD:** +5% to +15% return potential
- REDUCE:** -10% to +5% return potential
- SELL:** >10% Downside return potential

Disclosure:

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