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Initiating coverage

Financial Services

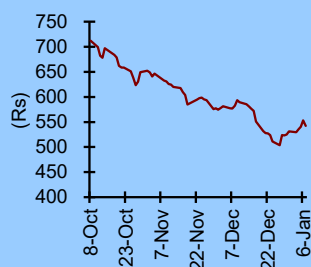
Target price: Rs728

Shareholding pattern

	Sep '21
Promoters	86.5
Institutional investors	6.4
MFs and others	2.9
Banks / FIs	0.4
Insurance	0.0
FIs	3.1
Others	7.1

Source: BSE

Price chart



Well-entrenched asset management franchise;
play on financialisation

Rs543

Aditya Birla Sun Life AMC (ABSLAMC) remains one of the top asset managers of India with a well-entrenched franchise as evident from its ~Rs3trn AUM, >67,000 distributors and presence in 280+ locations across India. The overall AUM/equity AUM share of 7.8%/6.6% and retail AUM share of 6.8% (based on Nov'21 AMFI data) underpin the strong track record of the company. The business strength is complimented by Rs117bn worth of alternate assets (Sep'21) and diversified distribution across 100+ banks, 240+ national distributors and 70+ digital fintech partnerships. Retail folios have clocked 17.4% CAGR between Sep'16 and Sep'21. We initiate coverage with BUY rating and a target price of Rs728 based on 30x FY23/24E core EPS (excluding impact of other income) of Rs19.2/22 and cash of Rs80/92 per share. We ascribe 25:75 weightages to FY23/24 estimates.

- **We expect 14.5% core earnings CAGR over FY21-24E with an average RoE of 32.6%.** This trajectory will be driven by 16% MF AAUM CAGR and 4bps decline in yield between FY21-24E. The operating cost is expected to increase at a 9% CAGR. As a result, EBITDA is estimated to clock 14% CAGR to reach Rs8.9bn in FY24E.
- **Market share and fund performance close to an inflection point.** In terms of overall market share, ABSLAMC lost 95bps in FY20 while market share loss in FY21 / FY22-TD (over FY21) is 68bps / 66bps. In terms of equity AUM, the market share dropped by 107bps in FY20, while FY21 / FY22-TD has witnessed a drop of 51bps / 55bps. Debt AUM has shown a steady performance, given that the fall in the market share in FY21 / FY22TD is only 42.5 / 7bps compared to 50bps in FY20. On a one-year basis, ABSLAMC's liquid and debt schemes representing major part of its segmental AUM has outperformed its peers (refer page 12 for further details).
- **Can yield cuts pose a significant threat to the RoE profile?** Even with a 9bps cut in yield from FY22 to FY25, we expect 6% earnings CAGR and 27% RoE which will still be very attractive. However, equity AUM growth and cost control could likely provide enough levers to offset the impact of reducing yields.
- **Strategy** is to improve (1) customer outreach, advocacy, (2) portfolio performance and differentiation, (3) leveraging digital platforms, (4) sales productivity and efficiency and (5) building alternate asset class. ABSLAMC launched 4 index funds raising Rs7bn in H1FY22 and has 8 new passive products in the pipeline.
- **AMC space has seen correction in valuation multiples which presents an opportunity.** The theme of financialisation, stock nature and fixed cost nature of business bolster the investment thesis. The current reduction in trading multiples of 20-25% for most AMC players has been disparate with observable fundamental trends like increasing monthly flows, monthly SIPs and SIP folios.

Market Cap	Rs156bn/US\$2.1bn	Year to Mar	FY21	FY22E	FY23E	FY24E
Bloomberg	ABSLAMC IN	Revenue (Rs mn)	10,679	12,690	13,511	15,006
Shares Outstanding (mn)	288.0	EBITDA (Rs mn)	6,009	7,401	7,847	8,916
52-week Range (Rs)	712/504	Net Income (Rs mn)	5,262	6,367	6,583	7,533
Free Float (%)	13.5	Core PAT	4,219	5,208	5,536	6,329
FII (%)	3.1	EPS (Rs)	18.3	22.1	22.9	26.2
Daily Volume (US\$'000)	NA	P/E (x)	29.7	24.6	23.7	20.8
Absolute Return 3m (%)	NA	Core EPS (Rs)	14.7	18.1	19.2	22.0
Absolute Return 12m (%)	NA	Core PE (Rs)	33.0	26.2	24.1	20.5
Sensex Return 3m (%)	0.3	Dividend Yield	1.9%	2.2%	2.3%	2.7%
Sensex Return 12m (%)	25.5	RoE (%)	34.8	34.3	30.6	30.5

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AMC industry: Play on financialisation theme

Post the implementation of key policies and reforms like demonetisation, GST and RERA, coupled with the low interest rate regime, retail investors appear to have diverted focus from traditional investment vehicles (real estate, FDs and bullion) to financial assets like shares, mutual funds and insurance.

Mutual funds savings as a percentage of household savings (gross) have increased dramatically from ~1% in FY13 to 5% in Q2FY21.

Table 1: Gross savings as % of GDP has remained flat in FY20 while gross financial savings as % of gross savings has seen an improvement in FY20

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
GDP (Rs bn)	99,386	1,12,405	1,24,845	1,37,695	1,53,413	1,71,016	1,89,797	2,03,398
Gross savings in the country (household + corporate+ others)	33,692	36,082	40,200	42,823	46,484	52,160	57,129	63,822
Corporate and others	11,339	13,229	15,809	18,074	20,255	22,778	20,664	23,914
Household (net)	22,353	22,853	24,391	24,749	26,229	29,382	36,465	39,908
Within Household savings (net)	22,353	22,853	24,391	24,749	26,230	29,382	35,723	39,908
Savings in physical assets	14,650	14,164	15,131	13,176	16,069	17,679	21,808	23,272
Savings in the form of gold and silver	367	368	456	465	463	413	358	431
Savings in financial instruments (net) (A-B)	7,336	8,321	8,804	11,108	9,698	11,290	13,557	16,205
of which gross financial savings (A)	10,640	11,908	12,572	14,962	14,384	18,696	21,341	22,846
of which Financial liabilities (B)	3,304	3,587	3,768	3,854	4,686	7,406	7,784	6,641
Gross savings % of GDP	34%	32%	32%	31%	30%	31%	30%	31%
Gross financial savings % of gross savings	32%	33%	31%	35%	31%	36%	37%	36%

Source: For FY13 - FY18 - National Account Statistics 2019, MOSPI, RBI

Table 2: Break-up of gross household savings

(Rs bn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Q2FY21
Gross financial household savings	10,640	11,908	12,572	14,962	14,384	18,696	21,341	22,846	14,850
Currency	1115	995	1333	2005	-3165	4708	2,779	2,848	2,241
Deposits	6062	6670	6124	6445	9680	5353	8,101	7,322	4,931
Shares and debentures	170	189	204	284	443	630	224	814	290
Mutual funds	82	150	145	189	208	239	576	407	781
Insurance funds	1799	2045	2993	2642	3543	3504	3,575	3,458	2,657
Provident and pension funds	1565	1778	1909	2907	3252	3679	3,993	4,475	2,411
Small saving schemes							2,050	2,644	1,518
Others	71	231	10	679	631	822	42.09	877.63	20
% mix	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Q2FY21
Currency	10.5%	8.4%	10.6%	13.4%	-22.0%	25.2%	13.0%	12.5%	15.1%
Deposits	57.0%	56.0%	48.7%	43.1%	67.3%	28.6%	38.0%	32.0%	33.2%
Shares and debentures	1.6%	1.6%	1.6%	1.9%	3.1%	3.4%	1.0%	3.6%	2.0%
Mutual funds	0.8%	1.3%	1.2%	1.3%	1.4%	1.3%	2.7%	1.8%	5.3%
Insurance funds	16.9%	17.2%	23.8%	17.7%	24.6%	18.7%	16.8%	15.1%	17.9%
Provident and pension funds	14.7%	14.9%	15.2%	19.4%	22.6%	19.7%	18.7%	19.6%	16.2%
Small saving schemes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.6%	11.6%	10.2%
Others	0.7%	1.9%	0.1%	4.5%	4.4%	4.4%	0.2%	3.8%	0.1%

Source: For FY13 - FY18 - National Account Statistics 2019, MOSPI, RBI

MF AUM has grown at a strong pace of 20% in past 10 years.

Table 3: QAAUM growth of top 10 AMCs has outpaced industry's QAAUM growth

	QAAUM Mar'12	QAUM Sep'21	CAGR*
SBI Mutual Fund	42	578	32%
ICICI Prudential Mutual Fund	69	447	22%
HDFC Mutual Fund	90	439	18%
Aditya Birla Sun Life Mutual Fund	61	300	18%
Kotak Mahindra Mutual Fund	26	269	28%
Nippon India Mutual Fund	78	265	14%
Axis Mutual Fund	9	238	41%
UTI Mutual Fund	59	209	14%
IDFC Mutual Fund	25	126	18%
DSP Mutual Fund	29	107	15%
Total (top 10)	488	2,980	21%
Total Industry AUM	664	3,621	20%

Source: AMFI; *Note: CAGR is based on QAAUM as on Mar'12 and Sep'21

Table 4: AUM growth trend and change in mix

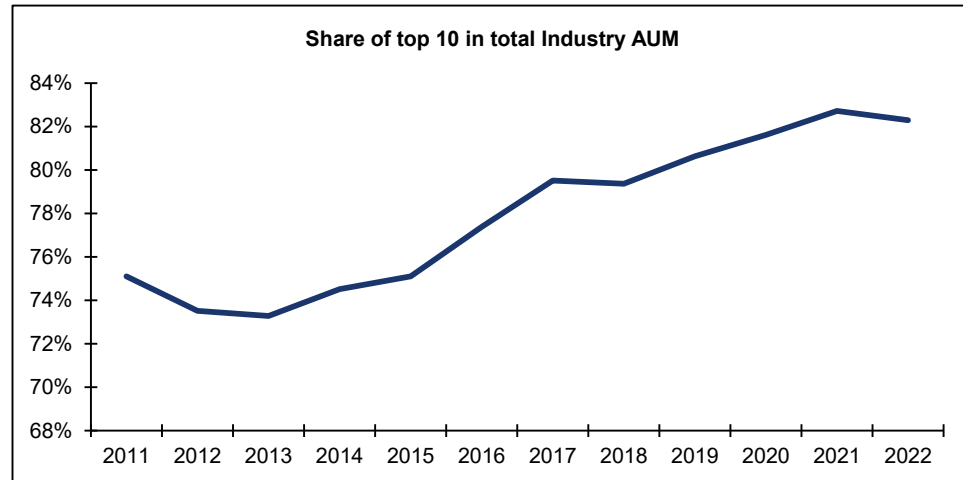
Industry	AUM (Rs bn)			AUM mix		
	31-Mar-14	30-Nov-21	CAGR	Mar-14	Nov-21	chg. in mix (bps)
Equity	1,978	18,454	34%	22%	48%	25.9
Debt	4,662	10,342	11%	52%	27%	-25.1
Liquid	2,181	5,934	14%	24%	15%	-8.9
Passive	142	3,724	53%	2%	10%	8.1
Total	8,964	38,454	21%	100%	100%	
HDFC AMC						
Equity	393	2,124	25%	35%	47%	12.5
Debt	541	1,450	14%	48%	32%	-15.5
Liquid	193	875	22%	17%	19%	2.4
Passive	8	55	30%	1%	1%	0.6
Total	1,134	4,503	20%	100%	100%	
NAM						
Equity	244	1,210	23%	24%	43%	19.0
Debt	525	762	5%	51%	27%	-24.0
Liquid	242	352	5%	23%	12%	-11.0
Passive	23	517	50%	2%	18%	16.0
Total	1,034	2,840	14%	100%	100%	
UTI						
Equity	210	907	21%	29%	40%	11.1
Debt	344	391	2%	47%	17%	-29.9
Liquid	169	442	13%	23%	19%	-3.6
Passive	6	528	nm	1%	23%	22.5
Total	729	2,269	16%	100%	100%	
Birla						
Equity	119	1,223	35%	14%	41%	27.0
Debt	548	1,193	11%	64%	40%	-23.8
Liquid	193	563	15%	22%	19%	-3.6
Passive	1	15	39%	0%	1%	0.4
Total	861	2,994	18%	100%	100%	
SBI						
Equity	145	2,108	42%	21%	33%	11.9
Debt	295	1,211	20%	43%	19%	-24.4
Liquid	226	1,068	22%	33%	17%	-16.4
Passive	13	1,949	nm	2%	31%	28.9
Total	678	6,336	34%	100%	100%	
ICICI Prudential						
Equity	222	2,290	36%	21%	49%	27.7
Debt	594	1,522	13%	56%	32%	-23.7
Liquid	240	642	14%	23%	14%	-9.0
Others	3	254	nm	0%	5%	5.1
Total	1,059	4,709	21%	100%	100%	
Axis Bank						
Equity	30	1,522	67%	19%	60%	41.4
Debt	81	577	29%	51%	23%	-27.8
Liquid	46	395	32%	29%	16%	-13.1
Passive	4	47	39%	2%	2%	-0.4
Total	160	2,540	43%	100%	100%	

Source: AMFI

AMCs have a significant first-mover advantage

AMCs have seen first-mover advantage from the fact that the share of top 10 AMCs has been dominant in the past 10 years and improving consistently.

Chart 1: Share* of top 10 AMCs has been improving consistently



Source: AMFI.

*Note: basis Q4AAUM of each financial year

Annuity kind of business model enables high RoEs

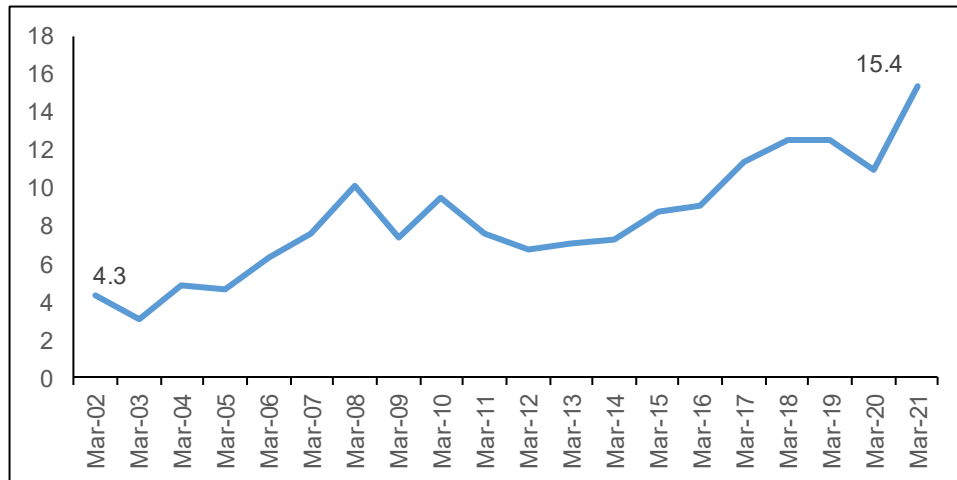
Asset management companies earn investment management fees (% of AUM) in the range of 40-50bps and spend approximately 20-30bps (depending on the scale of fund). The business does not involve large capex and generates positive free cash flow each year. Major part of the balance sheet is in the form of cash, which is invested largely in debt funds, which earns them a return of 6-7% annually. Due to stable nature of revenues, top AMCs largely remain profitable and generate higher returns on capital. In FY21, the top AMCs HDFC AMC / NAM / UTI / Birla generated RoE of 30% / 24% / 16%* / 35%.

*UTI had lower RoE due to sharp drop in other income.

Penetration levels below global averages

Although mutual fund AUM as a percentage of GDP has grown from 4.3% in FY02 to approximately 15% in FY21, penetration levels remain well below those in other developed and fast-growing peers.

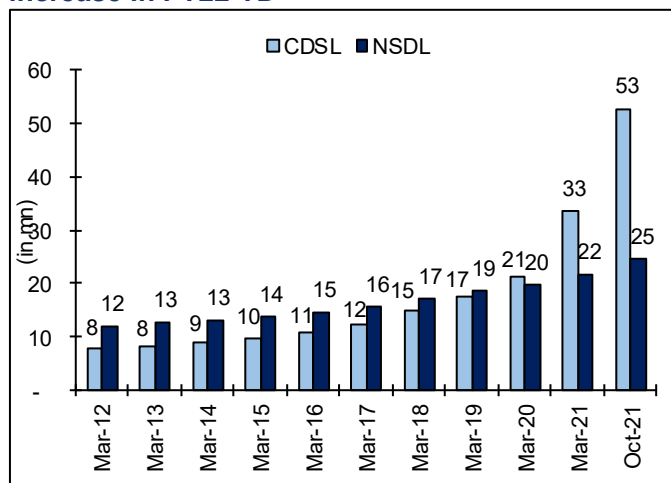
Chart 2: India's historical mutual fund QAAUM as % of GDP



Source: AMFI, IMF, RBI, CRISIL Research

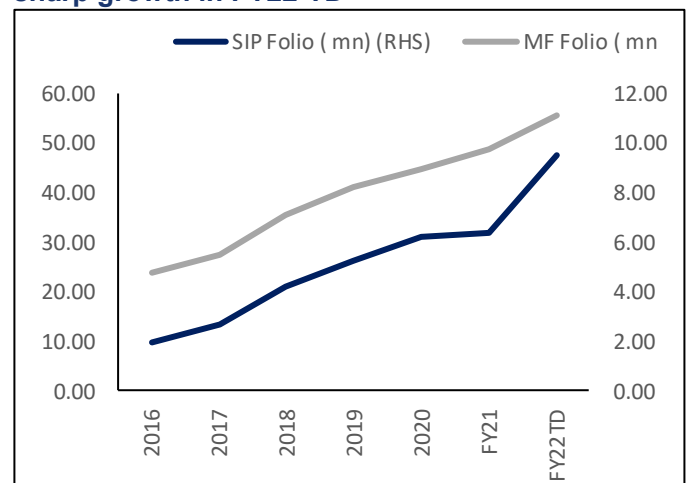
Financialisation can be established by multiple trends

Chart 3: Demat accounts have seen a sharp increase in FY22-TD



Source: CDSL, NSDL

Chart 4: MF folios and SIP folios have also seen sharp growth in FY22-TD



Source: AMFI

Company overview

ABSL AMC is one of the leading providers of asset management services in India and manages investment portfolios of the Aditya Birla Sun Life Mutual Fund. It has maintained its position as the largest non-bank affiliated AMC in India by QAAUM since March 31, 2018 and ranks among the four largest AMCs in India by QAAUM since September 30, 2011.

It caters to a wide range of customers from individuals to institutions through the provision of a variety of tailored-investment solutions that focus on goals such as regular income, wealth creation, tax savings and savings solutions.

ABSLAMC offers a wide bouquet of schemes with category leading position in ELSS fund (2nd largest) and ultra-short duration fund (1st largest) as Sep'21. Some of the vintage schemes of ABSLAMC include ABSL Flexi Cap Fund (>23 years old) and ABSL Frontline Equity Fund (>19 years old).

As of Sep'21, it has presence in >280 locations in India with total AUM >Rs3trn, 7.3mn investor folios, >67k MF distributors, 100+banks and 240+ national distributors and 1,302 employees. ABSLAMC also has strategic partnerships with 70+ digital fintechs.

Market share losses since FY18 can turnaround with performance

Table 5: Market share across AUM segments (based on closing AUM)

Market share (%)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	Nov-21
Equity	7.2	7.7	8.7	9.2	8.8	7.7	7.2	6.6
Debt	12.7	12.9	13.4	13.5	12.5	12.0	11.6	11.5
Liquid	9.8	8.7	9.4	11.0	11.6	10.2	10.2	9.5
Passive	0.7	0.6	0.6	0.3	0.3	0.3	0.3	0.4
Total	10.1	10.1	10.7	10.8	10.1	9.1	8.4	7.8

Source: AMFI

Table 6: Change in market share (bps) (based on closing AUM)

Chg in Market share (bps)	FY16	FY17	FY18	FY19	FY20	FY21	Nov-21
Equity	53.0	102.6	46.0	-41.3	-106.6	-50.6	-55.5
Debt	20.7	48.0	13.3	-101.2	-50.4	-42.5	-6.6
Liquid	-108.7	74.3	159.2	56.5	-136.4	-0.5	-74.2
Passive	-7.0	2.7	-31.3	-3.9	0.7	1.3	13.8
Total	-5.2	56.7	14.5	-71.8	-95.4	-68.0	-65.9

Source: AMFI

Stabilisation of debt market share has been a positive

Market share movement in terms of AUM and other operating parameters for key AMCs

Despite seeing a fall in overall market share in past few years, ABSLAMC is still the 4th largest AMC as per Q2FY22 QAAUM. Overall market share AAUM has declined from 9.65% in FY20 to 8.2% in FY22-TD. ABSLAMC has been able to maintain its debt AUM at 12% while equity AAUM has declined from 8.2% to 7% between FY20 and FY22-TD.

In terms of individual assets, the market share has declined from 7.4% as on Mar'21 to 6.8% in Nov'21.

Chart 5: ABSLAMC has seen market share erosion based on AAUM in FY22-TD...

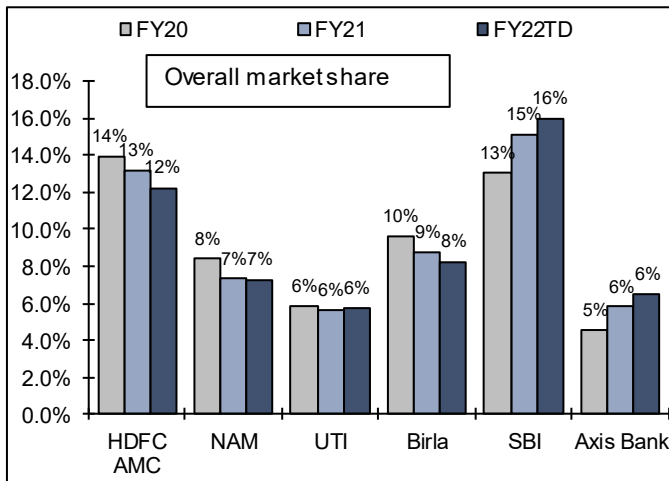


Chart 6: ...which is due to decline in equity market share

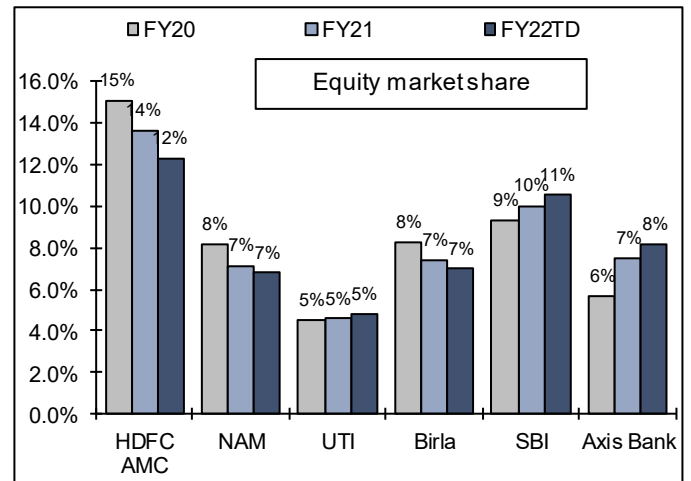


Chart 7: Liquid market share has also seen a decline

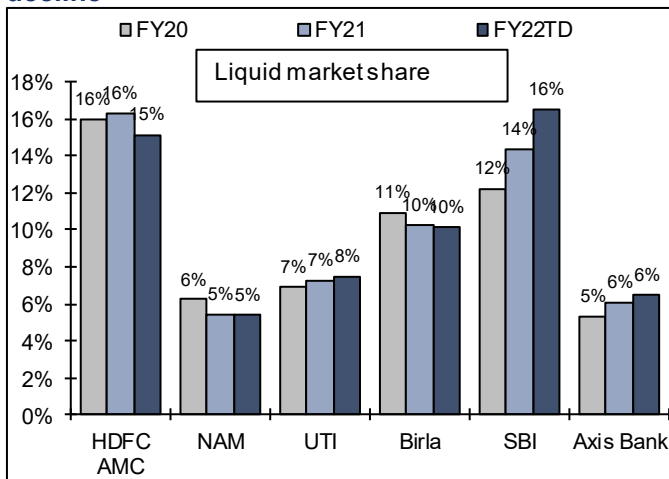
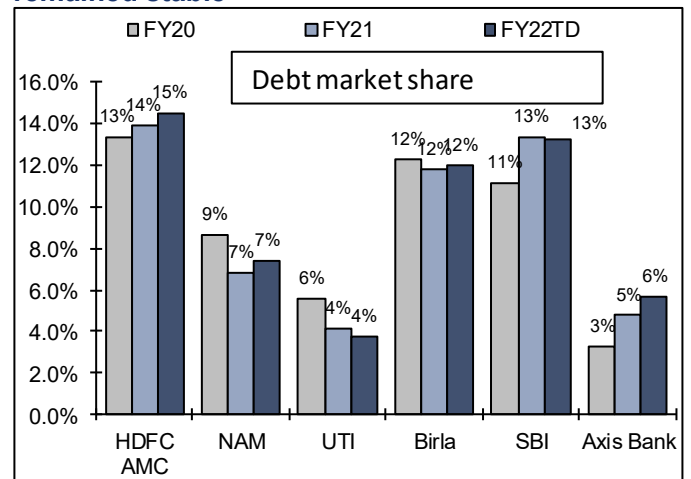


Chart 8: ABSLAMC's debt market share has remained stable



Source: AMFI

Table 7: Individual AUM market share

	Rsbm (%) Mar-16		Rsbm (%) Mar-21		Rsbm (%) Jun'21		Rsbm (%) Nov'21	
SBI AMC	384	6.20%	2,126	12.30%	2,211	12.10%	2,634	12.5%
HDFC AMC	944	15.30%	2,361	13.70%	2,474	13.50%	2,660	12.6%
ICICI Prudential AMC	918	14.90%	2,211	12.80%	2,330	12.70%	2,674	12.7%
Aditya Birla Sun Life AMC	546	8.90%	1,270	7.40%	1,334	7.30%	1,440	6.8%
Kotak Mahindra AMC	186	3.00%	1,071	6.20%	1,165	6.40%	1,377	6.5%
Nippon India AMC	658	10.70%	1,151	6.70%	1,237	6.70%	1,398	6.6%
Axis AMC	209	3.40%	1,259	7.30%	1,398	7.60%	1,660	7.9%
UTI AMC	511	8.30%	846	4.90%	898	4.90%	1,047	5.0%
IDFC AMC	195	3.20%	574	3.30%	592	3.20%	606	2.9%
DSP AMC	212	3.40%	655	3.80%	716	3.90%	782	3.7%
Industry total	6,158		17,270		18,336		21,096	

Source: AMFI

Table 8: Institutional AUM market share

	Rsbm (%) Mar-16		Rsbm (%) Mar-21		Rsbm (%) Jun'21		Rsbm (%) Nov'21	
SBI AMC	717	9.7%	2,934	19.7%	3,166	20.1%	3,702	21.3%
HDFC AMC	833	11.3%	1,737	11.7%	1,795	11.4%	1,844	10.6%
ICICI Prudential AMC	871	11.8%	1,867	12.5%	1,902	12.1%	2,034	11.7%
Aditya Birla Sun Life AMC	821	11.1%	1,440	9.7%	1,503	9.5%	1,555	9.0%
Kotak Mahindra AMC	411	5.6%	1,262	8.5%	1,369	8.7%	1,490	8.6%
Nippon India AMC	942	12.7%	1,152	7.7%	1,244	7.9%	1,443	8.3%
Axis AMC	178	2.4%	713	4.8%	788	5.0%	880	5.1%
UTI AMC	541	7.3%	1,007	6.8%	1,038	6.6%	1,222	7.0%
IDFC AMC	319	4.3%	640	4.3%	671	4.3%	655	3.8%
DSP AMC	172	2.3%	323	2.2%	332	2.1%	337	1.9%
Industry total	7,394		14,902		15,768		17,357	

Source: AMFI

ABSLAMC managed the great Indian debt crisis well

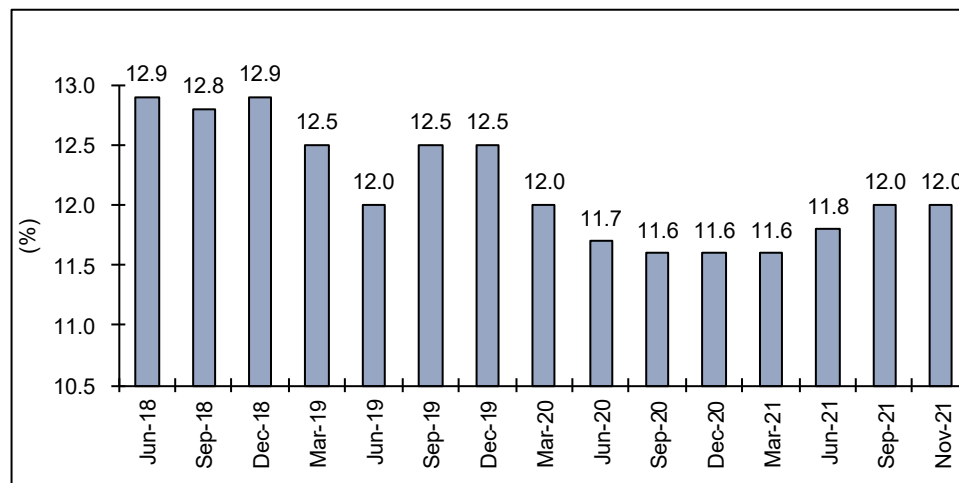
Table 9: Major credit events which hit the Indian markets in FY19/20

Month	Major credit events
Sep-18	Default by IL&FS Group
Oct-18	Sale of DHFL bond at higher yield and subsequent default by DHFL in June 19
Jan-19	Default by IL&FS Road annuity SPVs
Jan-19	Sharp correction in Zee Group Entities share prices leading to stress on LAS transactions
Feb-19	Default by Anil Ambani Group companies
Jun-19	Default by Cox & Kings
Jun-19	Default by Sintex Group
Jun-19	Rise in the yields of other HFCs post default by DHFL
Jul-19	Promoter of CCD commits suicide due to financial stress in CCD
Sep-19	Default by Altico Capital
Nov-19	Default by Simplex Group
Jan-20	Franklin Templeton writes down and side pockets its exposure in Vodafone Idea to Zero
Feb-20	Write Down of YES Bank AT1
Apr-20	Wind-up of 6 schemes of Franklin Templeton announced. Increase in credit spreads due to redemption pressures

Source: HDFC AMC annual report

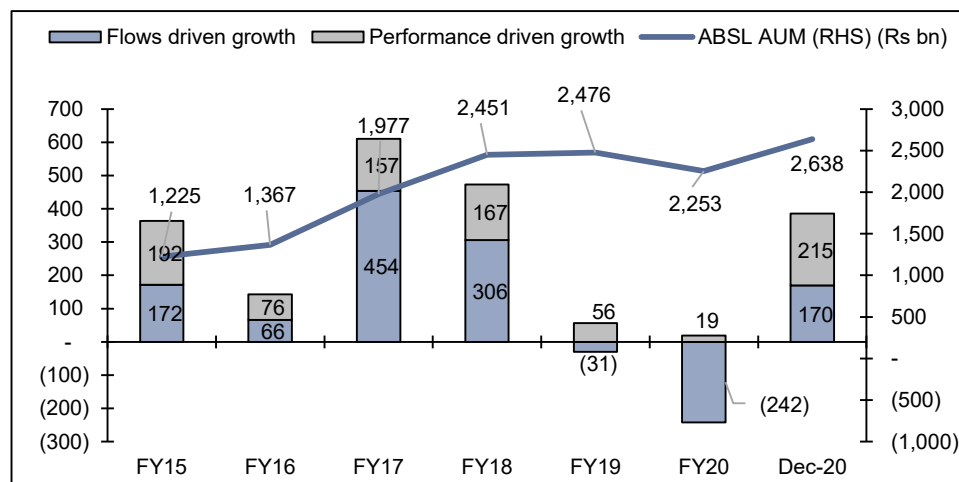
ABSLAMC saw some minor market share loss at the time of rising debt crisis; however, Sep'21 and Nov'21 have seen a trend reversal.

Chart 9: ABSL debt market share trend (QAUM)



Source: AMFI

Chart 10: Break up of AUM growth between performance and flows



Source: SEBI, AMFI

Operational highlights: Scale, distribution and SIP

Table 10: Comparison analysis of scale of operations

	NAM	HDFC AMC	UTI AMC	ABSLAMC
Unique clients (mn)	6.20	5.4	NA	NA
Employees	1,000	1,203.0	1,426	1,302
Live accounts (mn)	10.00	9.2	11	7.3
Distributors	78,400	70,000	59,700	67,000
Branches	290	227	166	280

Source: Company presentations, all data as on Sep'21

Table 11: Q2FY22 distribution channel comparison

	UTI	HDFC	NAM	ABSLAMC
Direct	61	45	54	46
MFD	29	26	26.2	30
Bank and Distributors	10	9.5	10	9
National distributors	na	19.2	9.7	15

Source: Company data, I-Sec research

Table 12: ABSLAMC's SIP AUM market share is higher than its AUM market share

	Sept		December		FY			
	2021	2020	2020	2019	2021	2020	2019	2018
Number of live outstanding SIPs (in millions)	2.99	2.83	2.73	2.95	2.75	2.92	2.92	2.44
SIP AUM (₹ in billions)	502	350	405.6	343.32	418.41	252.5	305.11	214.05
As a percentage of total equity-oriented mutual fund AUM (%)	42.6%	43.2%	43.19%	36.87%	42.68%	38.41%	32.44%	25.25%
Gross SIP inflows for the month (₹ in millions)	8670	8120	7,575	8,849		8,555	9,412	8,442
Average SIP transaction size (₹)	2,900	2,869	2,775	3,000		2,930	3,223	3,460
SIP AUM market share	9%	10%	10%	11%	9.80%	11%	12%	10%
Flows market share (based on gross flows given by the company and flows reported by AMFI)	8.4%	10.4%	9.00%	10.40%		9.90%	11.70%	11.90%

Source: AMFI

Analysing performance trends of key schemes of ABSLAMC

For the purpose of analysis, we have considered top funds from equity, debt and liquid AUM representing 85% of overall AUM.

ABSLAMC has an AUM mix of ~20/40/40 in liquid / debt / equity.

Debt AUM performance has been stable.

Equity performance has been on the lower side with respect to 3-year and 5-year period while its one-year performance has been spread out.

Methodology applied to analyse the returns of ABSLAMC:

- We took fund returns from AMFI
- Compared the returns with peer funds to arrive at a rank.
- Ranks calculated above are classified under quintiles based on the number of peers available in the group.

Table 13: Comparison analysis of scale of operations

	1 YR			3 YR			5 YR		
	Liquid	Debt	Equity	Liquid	Debt	Equity	Liquid	Debt	Equity
1	27%	0%	0%	100%	43%	0%	100%	63%	0%
2	73%	43%	13%	0%	37%	28%	0%	0%	16%
3	0%	37%	30%	0%	0%	0%	0%	37%	29%
4	0%	0%	38%	0%	20%	48%	0%	0%	55%
5	0%	20%	19%	0%	0%	24%	0%	0%	0%

Source: AMFI, performance is based on NAV as on 24th December, 2021. Above percentages are based on AUM representing 85% of total AUM.

Table 14: Returns snapshot

	AUM (Nov'21)	% of total AUM	Peers	Quintile		
				1YR	3YR	5YR
Liquid						
Aditya Birla Sun Life Overnight Fund	11,228	4%	30	2	1	1
Aditya Birla Sun Life Money Manager Fund	15,338	5%	20	1	1	1
Aditya Birla Sun Life Liquid Fund	29,777	10%	39	2	1	1
Debt						
Aditya Birla Sun Life Corporate Bond Fund	20,320	7%	18	3	2	1
Aditya Birla Sun Life Floating Rate Fund	20,012	7%	7	5	4	3
Aditya Birla Sun Life Banking & PSU Debt Fund	17,730	6%	19	3	2	3
Aditya Birla Sun Life Low Duration Fund	17,167	6%	25	2	1	1
Aditya Birla Sun Life Savings Fund	16,875	6%	29	2	1	1
Aditya Birla Sun Life Short Term Fund	10,190	3%	26	2	1	1
Equity						
Aditya Birla Sun Life Frontline Equity Fund	22,539	8%	31	3	4	4
Aditya Birla Sun Life Flexi Cap Fund	16,174	5%	25	4	4	3
Aditya Birla Sun Life Tax Relief '96	14,862	5%	38	5	5	4
Aditya Birla Sun Life Arbitrage Fund	9,057	3%	26	2	2	2
Aditya Birla Sun Life Equity Hybrid '95 Fund	8,024	3%	34	4	5	4
Aditya Birla Sun Life Balanced Advantage Fund	6,293	2%	22	3	2	2
Aditya Birla Sun Life Equity Advantage Fund	6,245	2%	28	4	2	3
Aditya Birla Sun Life Midcap Fund	3,468	1%	26	2	4	4
Aditya Birla Sun Life Small Cap Fund	2,984	1%	23	5	4	4
Aditya Birla Sun Life Focused Equity Fund	5,413	2%	23	4	2	3
	2,53,697	85%				

Source: Company data, I-Sec research

Fund manager concentration

Debt is more concentrated while equity is diversified.

Table 15: Fund manager concentration

Fund manager details	Sum of AUM	Fund manager concentration
Debt and Liquid	1,74,321	
Mr. Bhupesh Bameta	3,211	2%
Mr. Kaustubh Gupta	1,57,540	90%
Mr. Lovelish Solanki	8,936	5%
Mr. Mohit Sharma	1,574	1%
Ms. Sunaina DaCunha	3,060	2%
Equity	1,08,103	
Mr. Ajay Garg	19,001	18%
Mr. Anil Shah	3,432	3%
Mr. Anil Shah	16,384	15%
Mr. Chanchal Khandelwal	2,558	2%
Mr. Dhaval Gala	2,238	2%
Mr. Kunal Sangoi	5,732	5%
Mr. Mahesh Patil	26,035	24%
Mr. Mahesh Patil	5,446	5%
Mr. Milind Bafna	4,444	4%
Mr. Mohit Sharma	5,825	5%
Mr. Satyabrata Mohanty	17,008	16%
Grand Total	2,82,424	

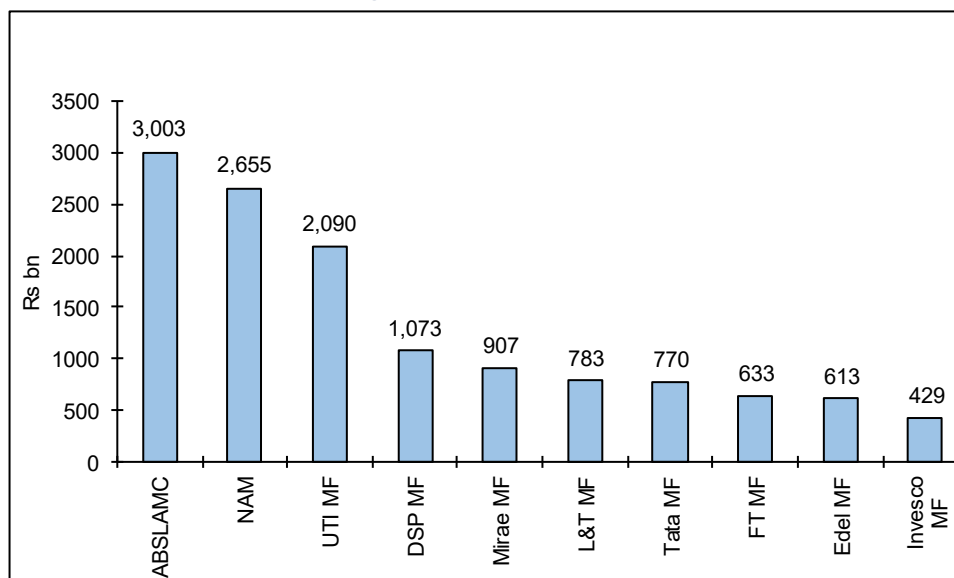
Source: Company Factsheet

Business strengths

Largest non-bank affiliated asset manager in India

ABSLAMC has been amongst the leaders in the Indian mutual fund industry as demonstrated by its leading position across a number of key indicators. It has maintained its position as the largest non-bank affiliated AMC in India by QAAUM since March 31, 2018 as well as among the four largest AMCs in India by QAAUM since September 30, 2011, according to CRISIL. Its total QAAUM grew at a CAGR of 15% from Rs1.3trn in FY16 to Rs2.9trn in H1FY22 and has surpassed Rs3trn mark in Sep'21.

Chart 11: ABSLAMC has highest AUM compared to other non-bank AMCs



Source: AMFI

Well-recognised and trusted brand with experienced promoters

ABSLAMC benefited from the strong record of accomplishment, reputation and experience of its promoters, ABCL (an Aditya Birla group company) and Sun Life AMC, and its respective affiliates, which have enabled it to build a brand that its customers trust and has a strong recall.

Table 16: ABSLAMC's Board of Directors

Name	Designation
Kumar Mangalam Birla	Non-Executive Chairman
Ajay Srinivasan	Non - Executive Director
Sandeep Asthana	Non-Executive Director
A Balasubramanian	Managing Director & Chief Executive Officer
Colm Freyne	Non-Executive Director
Bobby Parikh	Independent Director
Bharat Patel	Independent Director
Alka Bharucha	Independent Director
Harish Engineer	Independent Director
Navin Puri	Independent Director

Source: Company

Rapidly growing individual investor customer base driven by strong systematic flows and B-30 penetration

ABSLAMC's individual investor MAAUM grew at a CAGR of 19% from Rs546bn as of FY16 to Rs1.4trn in Nov'21.

Consistent with its market-leading position in individual investor MAAUM, total investor folios more than doubled from 2.93mn (representing a 6.14% market share of individual investor folios in India) as on FY16 to 7.13mn (representing a 7.1% market share of individual investor folios in India) as of Sep'21. ABSL AMC's total folios have grown at 25% CAGR between FY16-Sep'21 vs industry / HDFC / NAM /UTI folios growth of 17% / 14% / 11% / 1%, respectively.

According to CRISIL, a large part of industry growth is expected to come from B-30 cities, and AMCs with an existing large presence in B-30 cities will be well placed to attract customers in these locations due to their established position, infrastructure and distribution capabilities. ABSLAMC has strong 7% market share in B-30 AUM as of Nov'21.

Table 17: Individual AUM market share

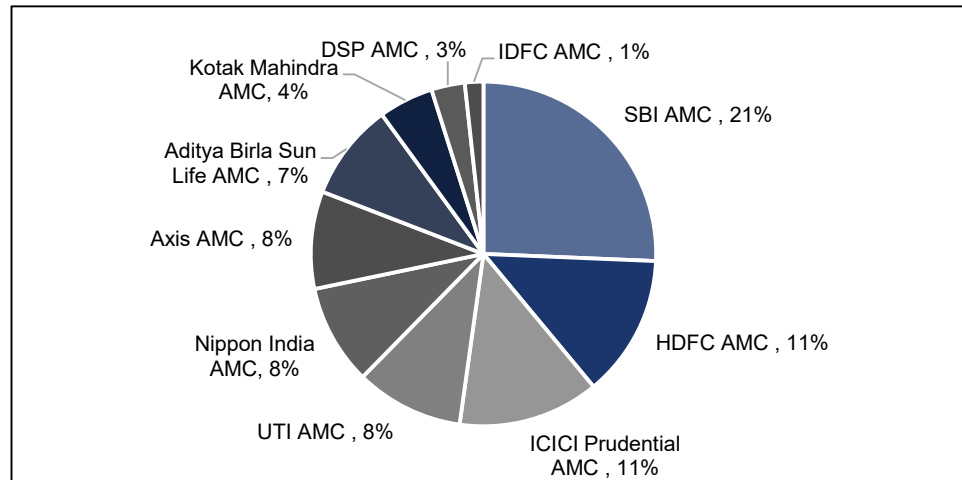
	Rsbn (%) Mar-16		Rsbn (%) Mar-21		Rsbn (%) Jun'21		Rsbn (%) Nov-21	
SBI AMC	384	6.20%	2,126	12.30%	2,211	12.10%	2,634	12.5%
HDFC AMC	944	15.30%	2,361	13.70%	2,474	13.50%	2,660	12.6%
ICICI Prudential AMC	918	14.90%	2,211	12.80%	2,330	12.70%	2,674	12.7%
Aditya Birla Sun Life AMC	546	8.90%	1,270	7.40%	1,334	7.30%	1,440	6.8%
Kotak Mahindra AMC	186	3.00%	1,071	6.20%	1,165	6.40%	1,377	6.5%
Nippon India AMC	658	10.70%	1,151	6.70%	1,237	6.70%	1,398	6.6%
Axis AMC	209	3.40%	1,259	7.30%	1,398	7.60%	1,660	7.9%
UTI AMC	511	8.30%	846	4.90%	898	4.90%	1,047	5.0%
IDFC AMC	195	3.20%	574	3.30%	592	3.20%	606	2.9%
DSP AMC	212	3.40%	655	3.80%	716	3.90%	782	3.7%
Industry total	6,158		17,270		18,336		21,096	

Source: AMFI

Table 18: ABSLAMC's folio growth has outpaced industry folio growth

Number of folios (mn)	FY16	FY20	FY21	Q1FY22	Q2FY22	CAGR (Mar'16 – Sep'21)	Market share			
							FY16	FY20	FY21	Q2FY22
HDFC AMC	5.61	9.43	9	9	9.2	14%	12%	11%	9.20%	8.3%
Aditya Birla Sun Life	2.93	7.19	7.07	7.18	7.3	25%	6.2%	8.1%	7.2%	6.6%
Nippon India AMC	5.91	8.9	10	11.4	13.3	11%	13%	10%	10.20%	12.0%
UTI AMC	10.52	10.92	11	11.1	11.4	1%	22%	12%	11.20%	10.3%
Industry	47	89	97.9	102.6	111	17%				

Source: AMFI, Company reports

Chart 12: B-30 market share as of Nov'21

Source: AMFI, Company reports

Pan-India, diversified distribution network

ABSLAMC has established a geographically diversified pan-India distribution presence that is not only extensive but multi-channelled, with a significant physical as well as digital presence.

As on Sep'21, ABSL AMC is present in > 280 locations (>80% are situated in B-30) which includes 194 branches and 90 EM representatives with a more diversified distribution channel mix compared to NAM and UTI.

Table 19: Q2FY22 distribution channel comparison

	UTI	HDFC	NAM	ABSLAMC
Direct	61	45	54	46
MFD	29	26	26.2	30
Bank and Distributors	10	9.5	10	9
National distributors	na	19.2	9.7	15

Source: Company data, I-Sec research

Company strategy

ABSLAMC believes its leading market and financial position provides it with a robust platform for growth and efficiencies of scale, and it has adopted a customer-centric strategy that it believes will allow the company to continue to grow its AUM, expand its market reach and customer base, and increase efficiency and productivity. The core aspects of this strategy include:

Expanding its geographical reach

The AMC is committed to growing its geographical reach by both expanding its distribution network and deepening its existing presence. It intends to continue to increase its footprint across India by focusing on growing its presence in B-30 cities and rural markets that remain underpenetrated and have less competition.

The company's multi-channel distribution strategy includes "Built, Operate and Transfer" where each potential location is evaluated meticulously.

It also uses the hub and spoke model to minimise its costs. Branches serve as hubs and nearby locations as spokes. If hubs are too distant from key areas, the company uses its EM representatives to increase brand image, AUM and services its investors. ABSLAMC's EM representatives are present across 90 locations.

The company also has relationship managers who act as the single point of contact for distribution service requirements at regional centres and are responsible for cross sell and upsell of funds expanding wallet share of large number of MFDs.

Focus on delivering sustained investment performance

ABSLAMC believes sustained investment performance and continued innovation through pockets of differentiation are central to the growth of its business. It assists its fund managers in continuing to generate superior risk-adjusted returns through disciplined and structured investment processes supported by clearly defined investment objectives, fundamental proprietary research and its "hands-on" approach to asset management.

Table 20: AUM profiling based on returns

	1 YR			3 YR			5 YR		
	Liquid	Debt	Equity	Liquid	Debt	Equity	Liquid	Debt	Equity
1	27%	0%	0%	100%	43%	0%	100%	63%	0%
2	73%	43%	13%	0%	37%	28%	0%	0%	16%
3	0%	37%	30%	0%	0%	0%	0%	37%	29%
4	0%	0%	38%	0%	20%	48%	0%	0%	55%
5	0%	20%	19%	0%	0%	24%	0%	0%	0%

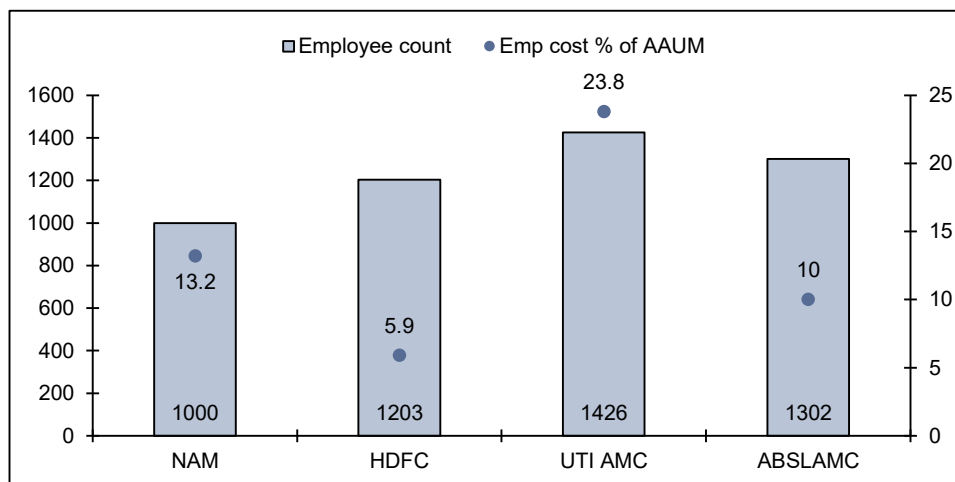
Source: Company data, I-Sec research

Strengthening employee value proposition

ABSLAMC intends to do so by continuing to attract and retain good quality talent.

As on Jun'21, ABSLAMC had 1,302 employees of which 1,002 were permanent.

Chart 13: ABSLAMC fares well compared to UTI and NAM



Source: Company data, I-Sec research

Leverage technology and digital platforms

The AMC plans to further develop its digital platforms and will continue investing in technology and digital marketing initiatives in order to improve customer acquisition rates and customer experience. It envisages using existing and new digital platforms and analytical tools to identify and capitalise on cross-selling and upselling opportunities, facilitate customer segmentation, improve its understanding of customer behaviour, develop and implement targeting and personalisation strategies, and improve customer service using predictive analytics.

Digital partners and fintechs include PhonePe, Groww, ETMONEY, VYMO, SOLUS, Adobe, Wipro, Mphasis, MYND and Avaamo.ai.

Table 21: How company has leveraged its digital capabilities in its ecosystem

Area of ecosystem	Role of digitalization
New Customer Acquisition	Digitalization has led to deeper and real-time integration for lead closures and has also helped in strengthening partnerships with fintechs.
Customer Engagement	Push notifications has increased engagement with prospective and existing customers. Intelligent rule engine offers multiple products to single investor on partner portal.
Data Analytics	This has increased propensity modelling and customer persona based tools for investor and partners.
Customer Advocacy	Video KYC has led to seamless digital onboarding.
Distributor Advocacy	Online empanelment of MFDs through single click, whatsapp-based servicing and digital self service solutions have helped distributors to carry their functions efficiently.
Digital Journey	This involves application performance and monitoring.

Source: Company data, I-Sec research.

Product development

Key NFOs undertaken during FY22 were Aditya Birla Sun Life Multi-cap fund worth Rs19bn and Aditya Birla business cycle fund worth Rs22bn.

ABSLAMC believes product penetration is a key factor in increasing its customer base. It seeks to grow its AUM through need-based and customer-centric products that address the core needs of its diversified customer base. In addition to its existing comprehensive product development strategy, it is also focused on developing certain specific product categories including, in particular, its alternative investments and passive products.

ABSLAMC's passive strategy

ABSLAMC has emphasised on smart beta (alternate weighting) passive strategies through ETFs, FoFs and index funds. Passive AUM has grown from Rs16.9bn in Mar'21 to Rs29.6bn in Sep'21.

ABSLAMC launched 4 index funds and raised Rs7bn in FY22-TD. As on Sep'21, ABSLAMC had 8 schemes in the pipeline.

Apart from passive,

- Fund raising is underway for AIF category III fund (India Equity Opportunity Fund).
- Company is also increasing fund management capabilities for launching category I and II equity-oriented propositions.
- Company is also in the process to apply to IFSC Authority for rendering portfolio management and investment advisory services to India-dedicated offshore fund.
- As a part of real estate offerings, ABSLAMC has signed a term sheet with BentallgreenOak, the 5th largest global real estate advisory with US\$69bn AUM (as on 30th Jun'21) to jointly source and underwrite deals for real estate fund. The AMC has launched category II real estate fund AIF.

Analysing financial metrics vs peers

On financial indicators, AMBSL AMC is competitive with NAM and UTI AMC

Investment management fees: ABSLAMC earns lower revenues compared to other listed peers. This could be on account of lower equity mix.

Employee costs: ABSLAMC is highly competitive compared to NAM and UTI.

Total operating cost: In terms of total operating cost % of AUM, ABSLAMC remains competitive when compared to NAM and UTI.

Lower operating costs make operating margins of ABSLAMC enjoy higher profitability compared to NAM and UTI.

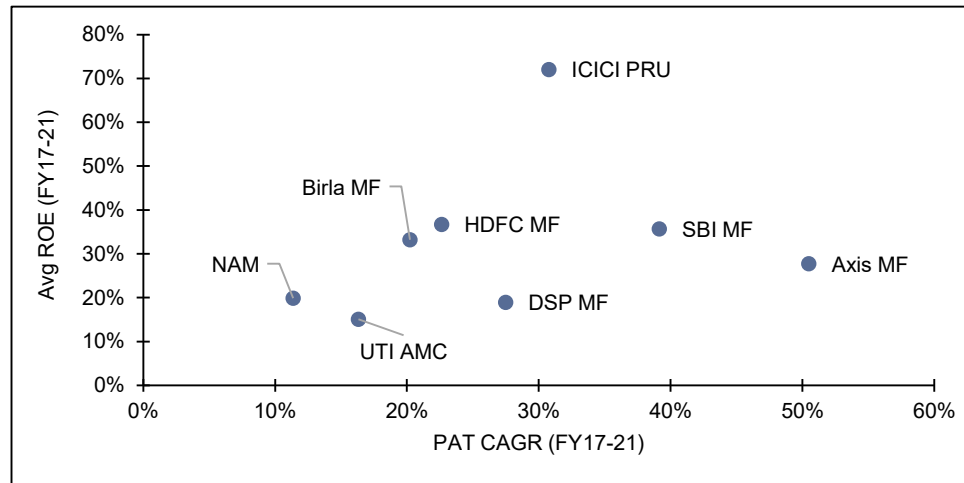
Also, in terms of PAT CAGR vs RoE, ABSLAMC fares well above NAM and UTI AMC.

Table 22: Analysis of financial performance of key AMCs (basis % AAUM)

for F21	% of AAUM						YoY change in yields					
	NAM	HDFC AMC	UTI AMC	ABSLAMC	SBI MF	Ipru MF	NAM	HDFC AMC	UTI AMC	ABSLAMC	SBI MF	Ipru MF
in bps												
Operating revenue	51.7	48.2	50.6	43.7	32.9	54.5	-6.0	-5.5	-0.1	-2.5	-4.1	-2.2
Total Opex	24.6	10.1	34.6	19.1	10.2	13.9	-3.9	-1.5	2.1	-2.0	-4.3	-1.4
of which employee costs	13.2	5.9	23.8	10.0	5.5	7.3	-1.3	0.1	1.9	0.4	-1.4	-0.5
Operating profit	27.1	38.1	16.0	24.5	22.7	40.5	-2.0	-4.1	-2.2	-0.4	0.2	-0.8
PAT	33.1	34.5	31.0	21.5	19.8	33.8	13.1	0.7	13.5	1.8	1.9	4.0
for F20												
in bps												
Operating revenue	57.7	53.7	50.8	46.1	37.0	56.6	-4.3	-5.6	-5.2	-7.3	-20.8	-5.3
Total Opex	28.5	11.6	32.6	21.2	14.5	15.3	-10.9	-9.2	-3.1	-8.0	-20.2	-14.7
of which employee costs	14.5	5.8	21.9	9.6	6.9	7.8	2.2	-0.6	2.6	-1.6	-1.3	-0.1
Operating profit	29.2	42.2	18.2	25.0	22.5	41.3	6.6	3.5	-2.1	0.6	-0.6	9.4
PAT	19.9	33.8	17.5	19.7	17.9	29.9	-0.5	4.9	-4.9	1.7	1.3	8.0
for F19												
in bps												
Operating revenue	61.9	59.4	56.0	53.5	57.8	62.0	-5.6	-3.9	-8.0	-0.9	-5.7	-2.0
Total Opex	39.3	20.7	35.7	29.2	34.7	30.0	-6.7	-7.8	-2.6	-4.4	-4.1	-3.2
of which employee costs	12.3	6.4	19.3	11.2	8.1	7.9	1.4	0.1	-2.0	0.9	-0.1	0.0
Operating profit	22.6	38.6	20.3	24.3	23.1	31.9	1.1	3.9	-5.4	3.5	-1.6	1.2
PAT	20.4	28.8	22.4	18.0	16.6	21.8	1.0	3.3	-1.8	0.0	-0.6	0.3
for F18												
in bps												
Operating revenue	67.5	63.3	64.0	54.4	63.5	63.9	-1.6	-5.2	-3.6	0.3	9.9	4.8
Total Opex	46.0	28.5	38.4	33.6	38.8	33.2	1.1	-7.4	-0.6	-3.6	7.0	5.7
of which employee costs	10.9	6.3	21.2	10.3	8.2	8.0	0.6	-1.0	-1.4	-0.2	-1.5	0.0
Operating profit	21.5	34.7	25.6	20.8	24.7	30.7	-2.7	2.2	-3.0	3.9	2.8	-0.9
PAT	19.4	25.6	24.2	18.0	17.2	21.6	-1.4	0.1	-7.4	5.3	0.9	-0.3

Source: Company data, I-Sec research.

Chart 14: ABSLAMC fares well compared to UTI and NAM and marginally below HDFC AMC in terms of PAT-RoE analysis



Source: Company

Below charts represent growth between FY17-21 on key parameters.

Chart 15: AUM growth of Birla MF has been higher than NAM and UTI MF

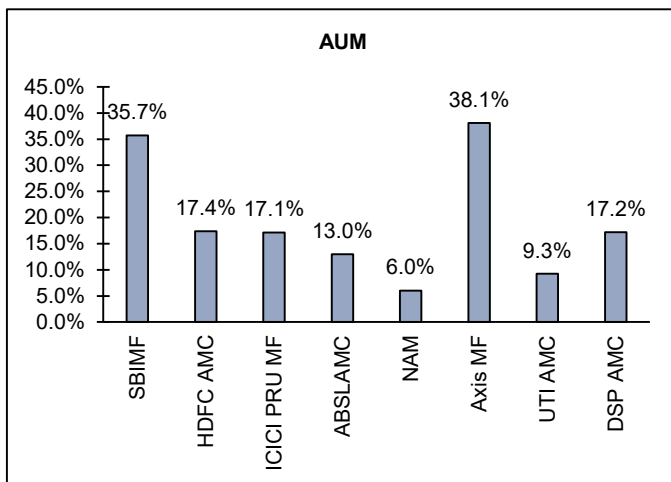


Chart 16: ABSLAMC's revenue growth has been better than its listed peers

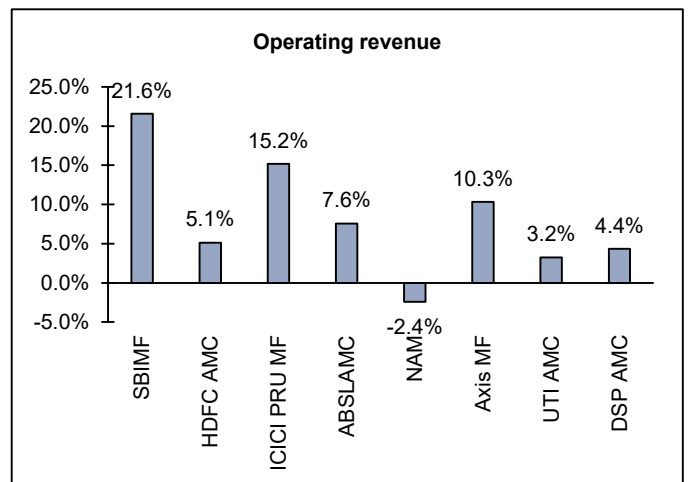


Chart 17: ABSLAMC’s employee costs have risen at lower pace compared to UTI and HDFC AMC

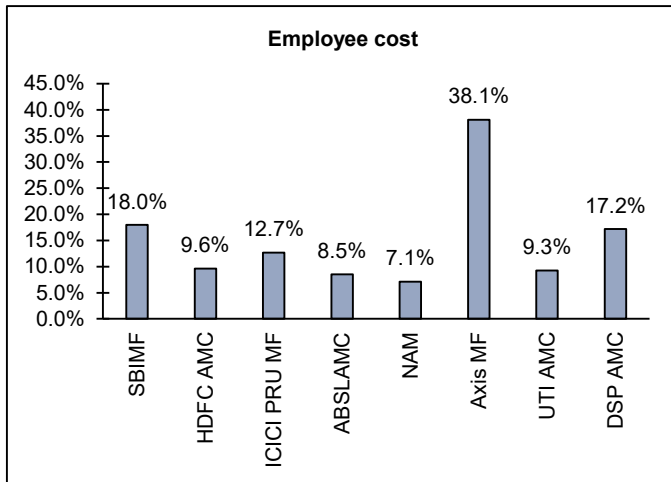


Chart 18: Total operating cost has declined for listed AMC’s while ABSLAMC has seen a marginal increase

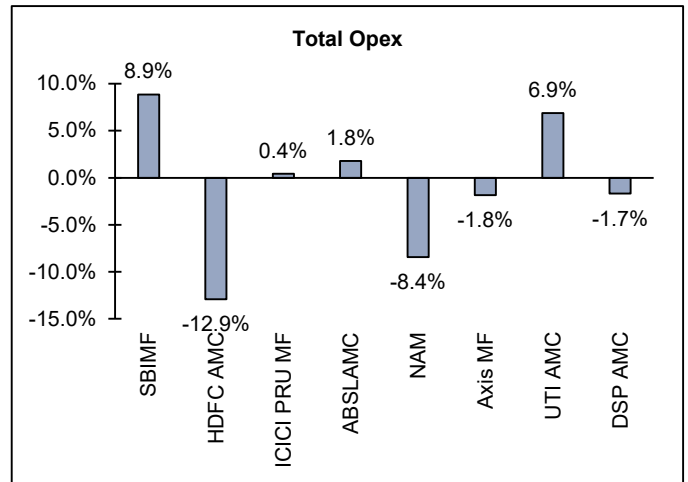


Chart 19: ABSLAMC’s operating profit growth has been healthy...

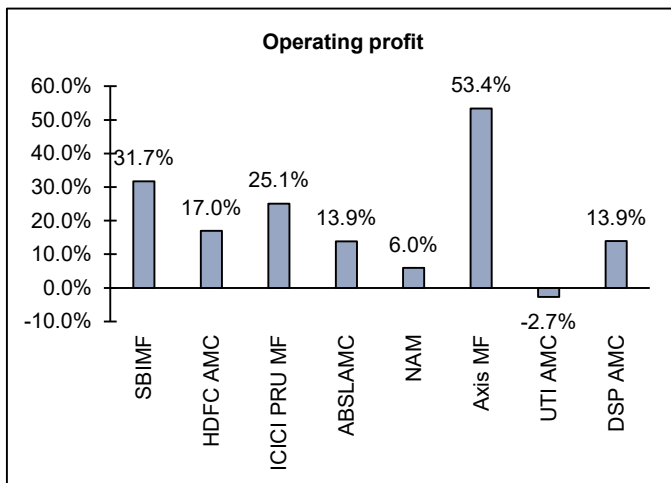
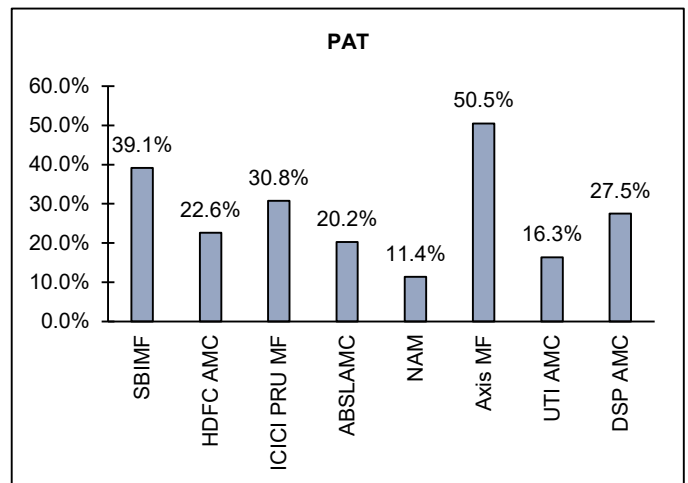


Chart 20: ..and so is PAT growth



Source: Company data, I-Sec research.

Source: Company data, I-Sec research.

Strong performance in Q2FY22

- ABSLAMC reported good set of number as AAUM grew 9% QoQ Q2FY22
- Revenue yields improved marginally, resulting in total revenue growth of 10% QoQ Q2FY22. Equity mix improved from 37% in Q1FY22 to 39% in Q2FY22.
- Despite increase in expenses (absolute terms) due to ESOP and IPO-related costs, total opex as a percentage of AAUM remained stable at 17.5bps.
- ESOP cost in H1FY22 was Rs245mn (vesting period varies from plan to plan, overall, it is four years).
- SIP registration grew 110% YoY in Q2FY22. This was due to #winwithSIP and multi SIP campaign launched during the year. SIP book stood at Rs8.7bn as on Sep'21 vs Rs8.1bn in Sep'20.
- The company has 8 new passive products in the pipeline. Cost of these funds in the initial period is 40-50bps and revenue is close to 20-25bps. Once it is able to manage a scale, these products can turn profitable.
- It on-boarded 28,000 clients through cross-sell strategy in H1FY22.
- Management indicated market share loss has been stabilised, and it expects to improve the same going forward due to an improvement in performance and an increase in SIP registrations.

Table 23: Q2FY22 result review

	Q2FY21	Q1FY22	Q2FY22	YoY	QoQ
AUM (Rs bn)					
Equity	821.9	1,027	1,162	41%	13%
Debt	974.1	1,152	1,231	26%	7%
Total AAUM	2,387	2,755	3,003	26%	9%
Revenue from operations (Rs mn)					
Fees and commission income	2,551	3,032	3,320	30%	10%
% of AAUM	42.76	44.02	44.22		
Expenses					
Fees and commission	138	62	46	-67%	-26%
% of AAUM	2.32	0.90	0.61		
Employee costs	586	690	758	29%	10%
% of AAUM	9.81	10.02	10.09		
Other exps	439	449	512.6	17%	14%
% of AAUM	7.35	6.52	6.83		
Total Operating costs	1,163	1,200	1,316	13%	10%
% of AAUM	19.49	17.43	17.53		
Operating profit	1,389	1,831	2,004	44%	9%
% of AAUM	23.27	26.59	26.69		
Other income	386	331	402	4%	22%
Depreciation	94	90	89	-6%	-1%
Finance cost	14	13	12	-16%	-11%
PBT	1,665	2,059	2,305	38%	12%
% of AAUM	27.91	29.90	30.70		
Tax	385	509	574	49%	13%
PAT	1,280	1,549	1,731	35%	12%
% of AAUM	21.45	22.50	23.05		
Core PAT	984	1,301	1,429	45%	10%
% of AAUM	16.49	18.88	19.03		

Source: Company

Management details

Table 24: KMP details

Name	Designation	Background
A Balasubramanian	Managing Director and Chief Executive Officer	He has been associated as an employee of the Company since 1994. He has completed advanced management programmes from the Indian Institute of Management, Bangalore and Harvard Business School. He also holds a bachelor's degree in science (mathematics) and a master's degree in business administration from GlobalNxt University.
Parag Joglekar	Chief Financial Officer	He has previously worked at Strategic Capital Corporation. He holds a bachelor's degree in commerce from the University of Bombay. He is a member of the Institute of Chartered Accountants of India and is a member of the Institute of Cost and Works Accountants of India.
Mahesh Patil	Chief Investment Officer	He has 31 years of experience and has previously worked at CMC Limited, Tata Economic Consultancy Services, Parag Parikh Financial Advisory Services Limited, Motilal Oswal Securities Limited and at Reliance Infocom Limited. He holds a bachelor's degree in engineering and a master's degree in management studies from the University of Bombay.

Source: Company data (based on Investor presentation of Q2FY22), I-Sec research.

Table 25: Board details

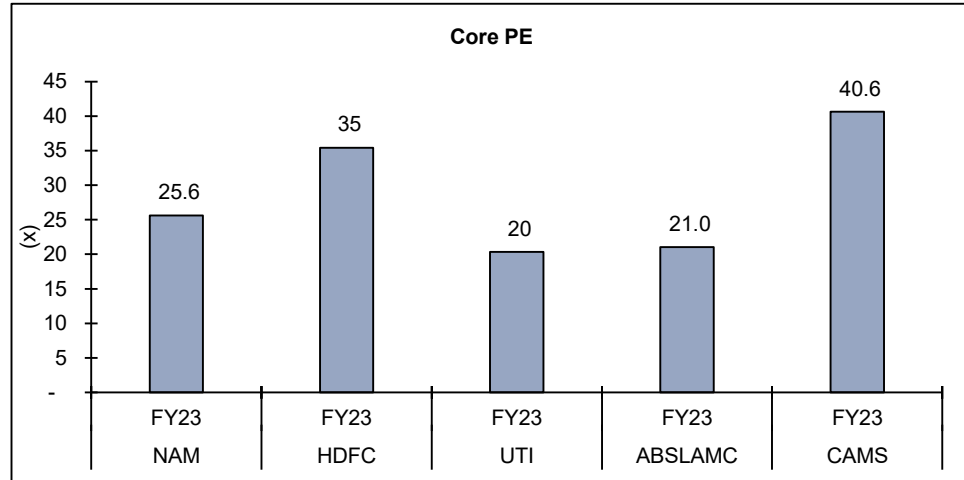
Name	Designation	Background
Kumar Mangalam Birla	Non-Executive Chairman	He holds a bachelor's degree in commerce from the University of Bombay and a master's degree in business administration from London Business School. He is also a qualified Chartered Accountant. He is also the chairman of the Aditya Birla group and the chairman on the Boards of all major group companies in India and globally, such as, Novelis, Aditya Birla Chemicals, Thai Rayon, Birla Carbon Thailand, Birla Carbon Egypt SAE and he chairs the Boards of Hindalco Industries Limited, Grasim Industries Limited, Vodafone Idea Limited, Aditya Birla Capital Limited, Century Textiles and Industries Limited, UltraTech Cement Limited and Aditya Birla Fashion and Retail Limited.
Ajay Srinivasan	Non - Executive Director	He is the Non-Executive Director of the company with effect from April 26, 2019. He is the Chief Executive Officer at ABCL. He has experience in leadership positions with financial institutions having operations in India and internationally. He is also the chairman of the CII National Committee on NBFCs. He holds a bachelor's degree in arts (honours) from the University of Delhi and a post graduate diploma in management from the Indian Institute of Management, Ahmedabad.
Sandeep Asthana	Non-Executive Director	He holds a bachelor's degree in chemical engineering from the Indian Institute of Technology, Bombay and a post-graduate diploma in management from the Indian Institute of Management, Lucknow. His experience covers leadership roles in Reinsurance Group of America (RGA Re), Unit Trust of India (UTI) and Zurich Risk Management Services (India) Private Limited. He is also on the Board of Aditya Birla Sun Life Insurance Company Limited and Aditya Birla Sun Life Pension Management Limited.
A Balasubramanian	Managing Director & Chief Executive Officer	He has been associated as an employee of the Company since 1994. He has completed advanced management programmes from the Indian Institute of Management, Bangalore and Harvard Business School. He also holds a bachelor's degree in science (mathematics) and a master's degree in business administration from GlobalNxt University.
Colm Freyne	Non-Executive Director	He holds a bachelor's degree in commerce from the University College Dublin. He is a chartered professional accountant in Canada and a chartered accountant in Ireland. He is the Executive Vice-President & Chief Risk Officer of Sun Life Financial Inc. and Sun Life Assurance Company of Canada. He joined Sun Life Financial Inc. in 2003 and has experience in the area of risk management.
Bobby Parikh	Independent Director	He holds a bachelor's degree in Commerce from the University of Mumbai and is a qualified Chartered Accountant from the Institute of Chartered Accountants of India. He is also on the Board of Aviva Life Insurance Company since November 17, 2009, Biocon Biologics Limited since August 1, 2019, Biocon Limited since July 27, 2018, Indostar Capital Finance Limited since August 1, 2011 and Infosys Limited since July 15, 2020.
Bharat Patel	Independent Director	He holds a master's degree in arts with a major in economics from the University of Notre Dame and another master's degree in business administration from the University of Michigan. He is also on the Board of Sasken Technologies Limited since July 16, 2009 and Sistema Smart Technologies Limited since July 13, 2011. He is also a Director on the Board of the Indian Society of Advertisers and Broadcast Audience Research Council.
Alka Bharucha	Independent Director	She has passed the examination of Articled Clerks held by the Bombay Incorporated Law Society and is a qualified Solicitor. She holds a Master of Law degree from the University of London. She is a Solicitor of the Supreme Court of England and is also an Advocate on Record of the Supreme Court of India. She is also on the Board of Birla Estates Private Limited, BirlaSoft Limited (formerly known as KPIT Technologies Limited), Hindalco Industries Limited and Honda Cars India Limited. She is also associated with Bharucha & Partners, Advocates and Solicitors as a partner.
Harish Engineer	Independent Director	He holds a bachelor's degree in science from the University of Mumbai and a diploma in Business Management from Bharati Vidya Bhavan. He is also on the Board of ARKA Fincap Limited since June 14, 2019 and HDFC Property Ventures Limited since July 20, 2015.
Navin Puri	Independent Director	He is a qualified Chartered Accountant from the Institute of Chartered Accountants of India. He has over 20 years of experience and has worked at HDFC Bank Limited. He is also on the Board of Aditya Birla Health Insurance Company Limited, Equitas Small Finance Bank limited and Ugro Capital limited.

Source: Company data (based on Investor presentation of Q2FY22), I-Sec research.

Attractive valuations

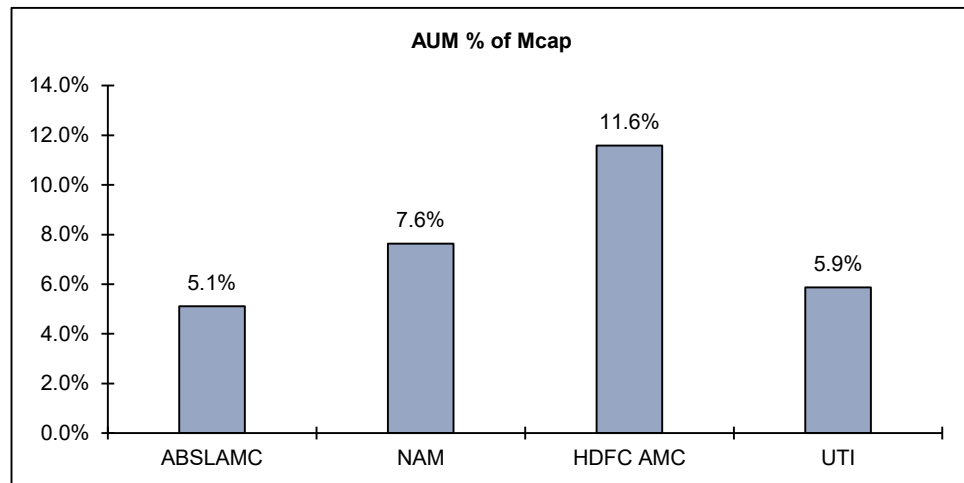
Basis FY23E, ABSLAMC is trading below other listed peers.

Chart 21: Core PE (FY23 basis) of listed AMCs based on estimates



Source: I-Sec Research

Chart 22: AUM % mcap of listed AMCs



Source: AMFI, I-Sec Research

Table 26: FMCG multiples are higher for a similar range of RoE-making companies

Company	PE (x)	FY23 ROE (%)
Hind. Unilever	50.69	22
ITC	15.34	26
Dabur India	46.31	24
Godrej Consumer	44.57	20
Britannia Inds.	42.65	51
Tata Consumer	48.64	8
Marico	41.94	41
P & G Hygiene	50.50	112
Jubilant Food.	67.10	34
Colgate-Palmoliv	33.95	94
Emami	29.14	38
Gillette India	43.10	41

Source: Bloomberg, I-Sec Research

Key risks

Lower AUM growth due to macroeconomic events like lower GDP growth and lower rate of savings etc.

Company specific events or prolonged period of underperformance could have a direct impact on earnings, and thus, profitability.

Other risks to revenue include decline in TER rates specified by the regulators and increase in passive flows which can lower revenue yields.

Financial summary

Table 27: Profit and loss statement

<i>(Rs mn)</i>	FY19	FY20	FY21	FY22E	FY23E	FY24E
AAUM (incl managed funds)	2,634	2,521	2,594	3,071	3,532	4,007
of which MF	2,463	2,364	2,480	2,946	3,391	3,850
Revenue from operations	13,268	11,597	10,679	12,690	13,511	15,006
Investment management fees	12,292	10,902	10,182	12,139	12,894	14,378
Portfolio management fees	976	694	497	551	617	628
Other income	805	751	1,379	1,550	1,400	1,610
Total income	14,073	12,348	12,058	14,240	14,911	16,616
Operating expenses						
Employee expense	2,775	2,420	2,407	2,860	3,089	3,336
Other expenses	4,458	2,901	2,263	2,428	2,575	2,755
Total Opex	7,233	5,321	4,670	5,288	5,664	6,091
EBITDA	6,035	6,276	6,009	7,401	7,847	8,916
Depreciation and amortization expenses	381	420	430	439	447	454
PBT	6,458	6,607	6,959	8,512	8,801	10,071
Core PBT (ex other income)	5,653	5,857	5,579	6,962	7,401	8,461
Tax	1,990	1,663	1,696	2,145	2,218	2,538
PAT	4,468	4,944	5,262	6,367	6,583	7,533
Core PAT	3,912	4,382	4,219	5,208	5,536	6,329

Source: I-Sec research

Table 28: Balance sheet

<i>(Rs mn)</i>	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	180	180	180	180	180	180
Reserves and Surplus	12,026	12,989	16,866	19,850	22,835	26,193
Networth	12,206	13,169	17,046	20,030	23,015	26,373
Trade payables	755	474	374	393	412	433
Provisions	503	705	945	964	984	1,003
Other Liabilities	1,520	1,371	1,480	1,329	1,232	1,174
Total Liabilities	14,985	15,720	19,846	22,716	25,642	28,983
Assets						
Net block (incl CWIP)	969	872	782	597	408	263
Investments	11,381	12,634	17,263	20,137	23,104	26,438
of which cash and cash equivalents	385	469	568	653	703	753
Other assets	2,250	1,745	1,233	1,329	1,428	1,528
Total Assets	14,985	15,720	19,846	22,716	25,642	28,983

Source: I-Sec research

Table 29: Cashflow statement

(Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Operating Cashflow ex WC	6,299	6,019	7,401	7,847	8,916	10,395
Working Capital Changes	374	614	-32	-32	-32	-31
Cashflow from operations	4,970	5,123	5,224	5,598	6,346	7,320
Capital Commitments ex asset sale	-150	-21	1,350	1,200	1,360	1,502
Free Cashflow	5,775	5,384	8,783	9,079	10,307	11,928
Cash flow from Investing Activities	-661	-3,398	-1,524	-1,767	-1,974	-3,403
Dividend paid including taxes	-3,978	-1,400	-3,383	-3,599	-4,175	-3,743
Cashflow from Financing Activities	-4,225	-1,625	-3,615	-3,780	-4,322	-3,867
Chg. in Cash & Bank balance	84	99	85	50	50	50

Source: I-Sec research

Table 30: Key ratios

	FY19	FY20	FY21	FY22E	FY23E	FY24E
Per share data (in Rs)						
EPS(Basic Recurring)	15.5	17.2	18.3	22.1	22.9	26.2
Core EPS	13.6	15.2	14.7	18.1	19.2	22.0
Dividend per share (DPS)	12.5	13.8	10.5	11.8	12.5	14.5
Book Value per share	45.7	59.2	69.6	79.9	91.6	110.0
Growth ratios (%)						
AUM	9.0	-4.3	2.9	18.4	15.0	13.5
Total Revenue	6.2	-12.6	-7.9	18.8	6.5	11.1
EBITDA	26.3	4.0	-4.3	23.2	6.0	13.6
Recurring Net Income	28.2	10.6	6.4	21.0	3.4	14.4
Core PAT	30.9	12.0	-3.7	23.4	6.3	14.3
Valuation ratios (x)						
P/E	35.0	31.6	29.7	24.6	23.7	20.8
P/BV	11.9	9.2	7.8	6.8	5.9	4.9
Core P/E	37.1	32.8	33.0	26.2	24.1	20.5
MCap to AUM	5.9	6.2	6.0	5.1	4.4	3.9
Operating ratios						
Investment management fees/total income	87.3	88.3	84.4	85.2	86.5	86.5
Operating expenses/total income	51.4	43.1	38.7	37.1	38.0	36.7
Employee expenses/operating expenses	38.4	45.5	51.5	54.1	54.5	54.8
Core PBT margin (of total income)	40.2	47.4	46.3	48.9	49.6	50.9
PAT margin (of total income)	31.8	40.0	43.6	44.7	44.1	45.3
Tax rate	30.8	25.2	24.4	25.2	25.2	25.2
Payout ratio	81%	80%	57%	53%	55%	55%
Return ratios - MF AUM (bps)						
Revenue	49.9	46.1	41.1	41.2	38.0	37.3
Operating expenses	29.4	22.5	18.8	18.0	16.7	15.8
Operating margins	20.5	23.6	22.2	23.3	21.3	21.5
PAT	17.0	19.6	20.3	20.7	18.6	18.8
Core PAT	14.9	17.4	16.3	17.0	15.7	15.8
RoE	36.6	39.0	34.8	34.3	30.6	30.5

Source: I-Sec research

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