

Company Background and Business Model

Important Statistics

UTI AMC is amongst the top 10 asset management companies in India in terms of Mutual Fund AUM – at ₹1,65,359Cr.

Top 10 Mutual Fund Houses

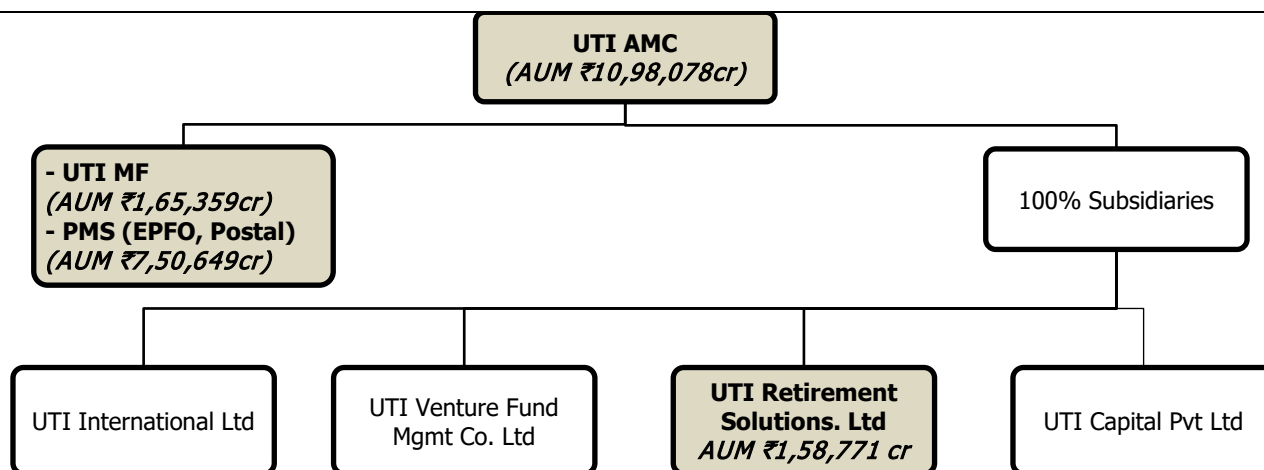
Fund House	Avg. AUM on Dec' 20 (₹ Cr)	% of Market Share
SBI MF	4,56,498	15%
HDFC MF	3,89,467	13%
ICICI Prudential MF	3,79,992	13%
AB Sun Life MF	2,55,459	9%
Kotak Mahindra MF	2,16,228	7%
Nippon India MF	2,13,034	7%
Axis MF	1,77,474	6%
UTI MF	1,65,359	6%
IDFC MF	1,21,102	4%
DSP MF	89,487	3%

M.Cap (₹ crs)	₹7,695.99
52 Week H/L (₹)	₹610/₹471.10
NSE Code	UTIAMC
BSE Code	543238

With 55+ years, UTI is credited with establishing the very first mutual fund in the country and is considered one of the oldest active asset management companies in India. This longstanding history has allowed it to develop a large sales and distribution channel with 163 UTI AMC Branches, 257 Business Development Associates and Chief Agents, 83 Official Points of Acceptances and 53,000 Independent Financial Advisors (IFAs) across the country.

Key Business Segments

In addition to the Mutual Fund business, UTI AMC provides a wide variety of financial services to a diverse group of individual and institutional investors, including portfolio management services (PMS) to institutional clients, high net worth individuals (HNIs) and government agencies such as EPFO and the Postal Services, management of retirement funds as part of the National Pension Scheme (UTI Retirement Solutions), management of offshore funds (UTI International) and alternative investment funds (UTI Capital & Venture Fund).



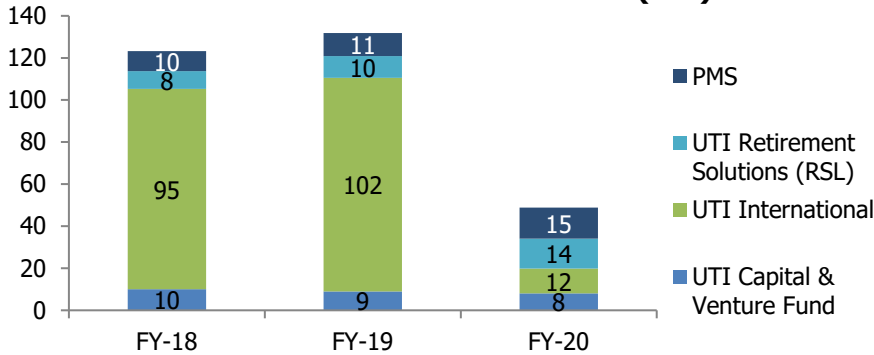
AUM as on December 2020

4th March 2021

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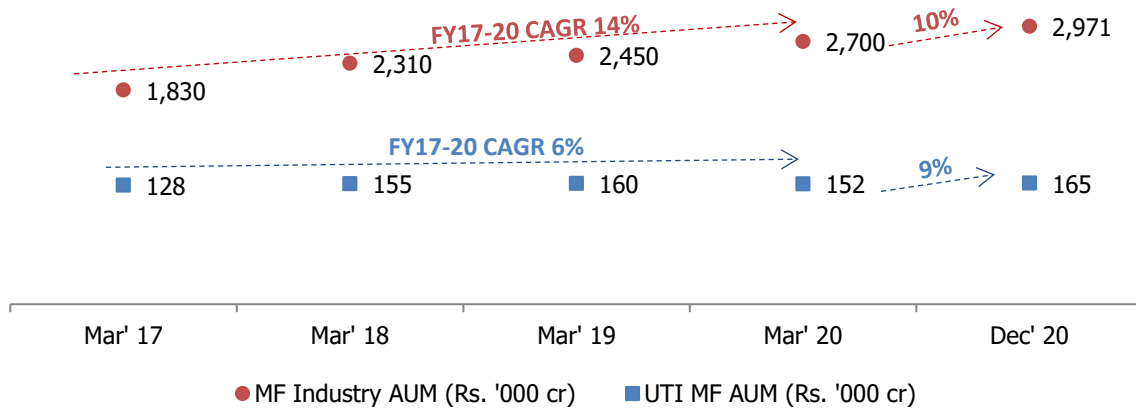
View – Buy

Revenue from Non MF Business (₹ cr)



Investment Arguments

MF AUM catching up with Industry growth



The last 5 years were tumultuous for UTI MF's AUM, which showed a muted CAGR of 6% vs the industry's average of 14%.

A large part of the inflows for UTI MF comes from Independent Financial Advisors (IFAs), who continuously advise their clients on suitable funds in the market.

In 2015, with UTI Mutual Fund's Head of Equities moving out, IFAs, upon not seeing any immediate replacement, began advising their clients to redeem UTI MF's units and/or to switch to another fund-house's schemes.

In 2017, UTI announced the appointment of Mr. Vetri Subramaniam of Invesco AMC to fill the void of Head of Equities.

In 2018, the Fixed Income portfolio took a hit from its large exposures to IL&FS, DHFL and ADAG, all of which had defaulted on their Bond payments. This continued all the way till as recently as FY-21, which is when UTI MF exited the exposures completely. In FY-21 YTD alone, the firm saw ~1 lakh folio redemptions along with a ₹1,100cr reduction in its MF AUM.

With these issues ironed out, we find that UTI's Mutual Fund AUM in FY-21 YTD has grown at par with the industry and believe that this upward trajectory is likely to continue.

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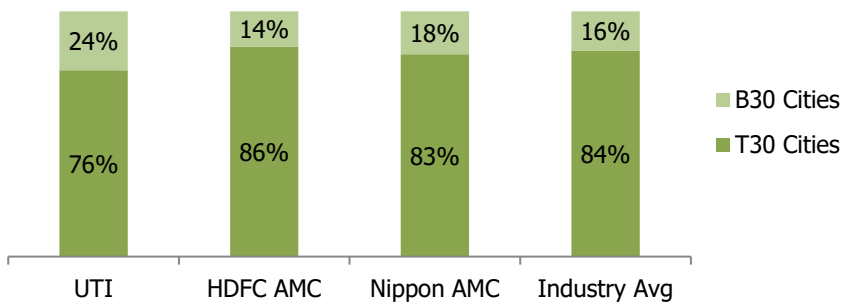
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Growing Sales & Distribution Network

The reliance on the IFA network had done its damage in 2015. Post his appointment in 2017, one of the key pieces of action taken by Mr. Subramaniam was to increase the distributor base to include a significantly greater number of banks and financial institutions.

The strong bull rally being witnessed in the Equities market is likely to entice many first-time retail investors who, after the lockdown and the pandemic, will be looking at ways to generate supplemental wealth. The company's large distribution network will ensure strong brand visibility among potential investors.

UTI's significantly greater-than-industry-average distribution strength in the B30 cities will amplify this effect, generating strong visibility in the large retail investor base that will be looking to invest in the Securities market via the SIP / Mutual Fund route. This is further validated by UTI's Small Cap NFO which was launched in Q3-21 and garnered over ₹920Cr from ~88,000 investors.

Geographical Spread of AUM

Source: Company, Way2Wealth Research

Better Op-Ex Management to drive overall profitability

In a bid to reduce operating expenses, UTI is undertaking various initiatives.

Over the next 4 years, 250 personnel (18% of its total strength of 1,361 employees) will be retiring either naturally or via VRS. These will largely be seniors and mid managers, whose positions UTI will fill with management graduates. During this 4-year transition period, the firm expects to save a total of ₹85Cr in Employee Cost. Post the transition period, UTI expects to save ₹65Cr in employee cost every year.

The 4 year ESOP program, which started in FY-20, will see a significant cost reduction going ahead. The total outlay of the program is estimated at ₹~58Cr. Out of this, UTI had expensed ₹10.5Cr in FY-20, ₹25cr in 9-mo-21 and will expense another ₹5cr in Q4-21E (Total outlay for FY-21E is ₹30cr). This will come down significantly to ₹13cr in FY-22 and to ₹4cr in FY-23.

The Co-vid19 pandemic induced lockdown required companies like UTI AMC to switch to a work-from-home environment and digitize many of their processes. The significant reduction in rental and administration cost from this has led the company to review its practices and explore ways in which this work-from-home dynamic can be implemented for certain departments on a permanent basis thereby eliminating such costs.

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	UTI AMC	Nippon AMC	HDFC AMC
	FY-20	FY-20	FY-20
Mutual Fund AUM (₹ cr)	1,51,500	2,04,900	3,69,800
Employee Cost (₹ cr)	340	215	302
Cost as bps	22	15	6
No. of Employees	1,361	1,043	1,194
Revenue / Emp. (₹ mn)	6.3	11.5	16.8
Cost / Emp. (₹ mn)	2.5	2.9	1.8

Source: Company, Way2Wealth Research

NPS business to witness significant Topline growth

PFRDA’s draft proposal to increase Pension Fund fees for all the 7 Fund houses that manage the NPS Scheme will be a big boost for the AMC’s NPS management arm – UTI Retirement Solutions.

The proposal aims to increase the fee from a flat rate of 1bps of AUM to a slab wise rate wherein the percentage of fees charged will be based on the fund’s AUM.

Current Cap		
1 paisa per Rs. 100	No AUM Criteria	
New Cap	AUM Slab	
9 paisa per Rs. 100	0 – 10,000cr	
6 paisa per Rs. 100	10,000 – 50,000cr	
5 paisa per Rs. 100	50,000 – 1,50,000cr	AUM = Rs. 1,58,771cr
3 paisa per Rs. 100	Over 1,50,000cr	<- UTI Retirement Solutions stands here

The proposal will result in UTI Retirement Solution’s Revenue to grow to 3x. At the Current AUM level, this translates into an incremental ₹~32cr in annual revenue.

The NPS is a pension scheme open to every individual of the country. Individuals have the option to choose from 7 Fund Houses, approved by PFRDA, for the scheme. To encourage people, the government allows NPS contributions, up to ₹50,000, to be 100% tax deductible. This deduction can be availed every year and is over and above the ₹1.5 lakh tax deduction limit set under Section 80C.

As UTI Retirement Solutions is one of the key fund houses in the scheme, it enjoys significant AUM growth: ~30% growth in YTD FY-21 and ~32% CAGR from FY-18 to FY-20.

While there will be an initial burn cost as the regulator requires funds to improve their employee knowledge base and technological infrastructure in order to charge the higher fee, we believe that the AUM growth and the higher fee rate will be net bottom line positive in the long run.

Risk

➤ **Employee Cost Reduction to be done over a large time frame**

The long gestation period of 4 years in employee cost reduction will limit the value unlocking potential for the short and medium term causing a drag on profitability.

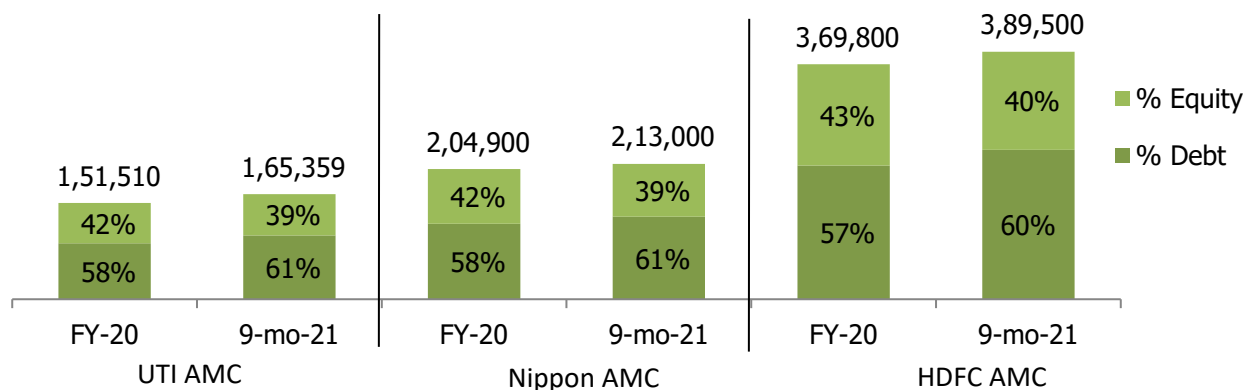
➤ **2 large litigations, with a total Contingent Liability of ₹~1,200cr, are yet to be resolved**

- The 2 writ petitions have been filed by employee unions involving pensions for 1,200 former workers.
- As part of its VRS program in 2003, UTI offered VRS to all employees who were eligible and had completed a minimum of 10 years of service. However, when UTI and SUUTI separated, the staff welfare fund of ₹~500cr created to fund the pension of the retiring UTI employees went under the SUUTI umbrella.
- According to the employee unions, this has resulted in a limited pension payout and they have thus filed a petition for the same.
- The second write petition has also been filed by the same employee unions who are claiming the legality of the UTI AMC Pension Regulation, 2003 act and demand that pension be paid based on UTI Pension Regulation, 1994 Act.
- While both writ petitions are still sub judice, the net contingent liability assumed is ₹~1,200cr.

➤ **Competitor Profile**

In addition to the multiple privately held AMCs, UTI AMC competes with 2 large behemoths in the listed space – HDFC AMC and Nippon AMC.

Mutual Fund AUM



Source: Company, Way2Wealth Research

4th March 2021

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Consol.	FY20			9M21		
	UTI AMC	HDFC AMC	Nippon AMC	UTI AMC	HDFC AMC	Nippon AMC
₹ cr						
MF AUM	1,51,510	3,69,800	2,04,900	1,65,359	3,89,500	2,13,000
Revenue	864	2,003	1,203	614	1,350	760
(-) Op. Exp.	506	431	594	422	282	369
Employee Exp.	340	215	302	305	163	206
EBITDA	358	1,572	609	193	1,068	392
PBT	345	1,653	560	451	1,326	659
PAT	276	1,262	416	361	1,010	513
EPS	22	59	7	28	47	8
CMP (₹)	601	3,195	365	601	3,195	365
Market Cap.	7,620	68,023	22,355	7,620	68,023	22,355
P/E*	28	54	54	16	51	33
P/S*	9	34	19	9	38	22
Price/AUM (%)	5%	18%	11%	5%	17%	10%
(bps of AUM)						
Revenue*	57	54	59	50	46	48
(-) Op.Ex *	33	12	29	34	10	23
EBITDA *	24	43	30	16	37	25

Source: Company, Way2Wealth Research

*Annualized

Valuation

The stock currently trades at a trailing 9MFY-21 P/E of 16x, a significant discount compared to its peers HDFC AMC, which trades at a 9MFY-21 P/E of 51x, and Nippon AMC, which trades at a 9MFY-21 P/E of 45x, thus indicating that the price factors in concerns around the litigation, high employee expenses and muted AUM growth. With the management guiding for a strong turnaround in operational efficiency, reduction in employee costs and a stronger AUM growth in both, the Pension and the Mutual Fund business, we believe that the stock has significant upside. **We recommend investors to Buy the stock with a long term horizon of 12-15 months.**

4th March 2021

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View – Buy

Financials

(₹ Cr)

Particulars	Q1-21	Q2-21	Q3-21	9mo-21	9mo-20	FY-20
Revenue	171	217	226	614	657	864
Sale of services	160	199	212	571	605	788
(-) Op. Expenses	137	129	156	422	359	506
Employee Exp.	98	91	116	305	230	340
EBITDA	35	88	70	193	299	358
EBIT	27	79	60	166	275	328
Net Gain / (Loss) on Fair Value Chg.	90	59	116	265	61	(9)
PBT	125	147	180	451	356	345
PAT	102	119	140	360	303	276
EPS	8	9	11	28	24	22
Net Worth	2,846	3,006	3,006	3,006	N/A	2,783
RoE (%)	14%	16%	18%	16%	N/A	10%
CMP	601	601	601	601	601	601
Market Cap	7,620	7,620	7,620	7,620	7,620	7,620
P/E* (x)	19	16	14	16	19	28
P/S* (x)	11	9	8	9	9	9
P/B (x)	3	3	3	3	N/A	3

Source: Company, Way2Wealth Research

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Disclosure of Interest Statement UTI Asset Management Company Ltd. as on March 4th, 2021

Name of the Security	UTI Asset Management Company Ltd.
Name of the analyst	Harshil Gandhi
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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