

12<sup>th</sup> May 2023

CMP – ₹655/-

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### Q4FY22 Summary

Increase in Interest rates and new regulations continues to cause strong redemption pressure on high yield Equity Funds and Fixed Income funds reducing the MF AUM further on a Q-o-Q basis

MF inflows were concentrated towards passive, lower yield Index and ETF funds resulting in weaker topline performance for Q4FY23 and FY23.

FY23 EBITDA margin contracted 400bps given the lower yields and higher op-ex owing to the expansion of the branch and distributor network for its MF and RSL businesses, digital initiatives and higher employee expenses

Endeavour to rationalize employee cost continues to bear limited fruit as any potential savings are offset by higher-than-estimated recruitment costs, which are expected to rise further.

### Important Statistics

<b>M.Cap (₹bn)</b>	₹83.17
<b>52 Week H/L (₹)</b>	908.00/595.00
<b>NSE Code</b>	UTIAMC
<b>BSE Code</b>	543238

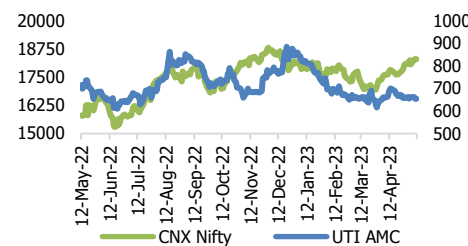
Shareholding pattern (%)	Mar'23
Promoter Holding	0
FII	6.06
DII	60.26
Public	33.68

### Overview

With normalization setting in, FY23 commenced with RBI increasing benchmark interest rates to normalize the post-covid inflation and growth rates. Consequently, domestic equities witnessed demand contraction as investors began shifting to safe-haven securities. Benchmark equity indices were significantly better off, given the relatively lower level of risk and higher industry penetration enjoyed by their constituent companies.

These industry wide phenomena have been a double whammy for many AMCs as high-yield actively managed funds witnessed strong outflows, while inflows were concentrated on lower-yielding Index funds and ETFs.

### Relative Performance



Source: Company, Way2Wealth

₹ Cr	FY23				FY22			
	UTI AMC	HDFC AMC	Nippon AMC	ABSL AMC	UTI AMC	HDFC AMC	Nippon AMC	ABSL AMC
<b>AUM</b>	<b>2,38,791</b>	<b>4,49,800</b>	<b>2,93,200</b>	<b>2,75,200</b>	<b>2,23,842</b>	<b>4,32,100</b>	<b>2,83,300</b>	<b>2,95,800</b>
<b>Revenue</b>	<b>1,168</b>	<b>2,167</b>	<b>1,350</b>	<b>1,227</b>	<b>1,195</b>	<b>2,115</b>	<b>1,307</b>	<b>1,293</b>
<b>(-) Op. Expenses</b>	<b>655</b>	<b>549</b>	<b>555</b>	<b>522</b>	<b>621</b>	<b>515</b>	<b>516</b>	<b>473</b>
Employee Expense	415	313	300	277	407	312	290	253
<b>EBITDA</b>	<b>513</b>	<b>1,618</b>	<b>795</b>	<b>705</b>	<b>574</b>	<b>1,600</b>	<b>791</b>	<b>820</b>
% Margin	44%	75%	59%	57%	48%	76%	61%	63%
<b>EBIT</b>	<b>473</b>	<b>1,565</b>	<b>765</b>	<b>671</b>	<b>537</b>	<b>1,546</b>	<b>764</b>	<b>784</b>
<b>PBT</b>	<b>586</b>	<b>1,871</b>	<b>928</b>	<b>794</b>	<b>660</b>	<b>1,855</b>	<b>989</b>	<b>895</b>
<b>PAT</b>	<b>440</b>	<b>1,424</b>	<b>723</b>	<b>596</b>	<b>534</b>	<b>1,393</b>	<b>743</b>	<b>673</b>
% margin	38%	66%	54%	49%	45%	66%	57%	52%
EPS	35	67	12	21	13	65	12	23
ROE	11%	23%	21%	24%	15%	25%	21%	32%
ROCE	12%	26%	22%	27%	15%	28%	22%	38%
Net Worth	3,868	6,108	3,515	2,517	3,606	5,530	3,478	2,070
CMP (₹)	660	1,810	234	355	778	2,000	305	514
Market Cap	8,379	38,639	14,601	10,221	9,877	42,633	18,680	14,803
P/E	19	27	20	17	18	31	25	22
P/S	7	18	11	8	8	20	14	11
Price / AUM (%)	4%	9%	5%	4%	4%	10%	7%	5%
P/B	2.2	6.3	4.2	4.1	2.7	7.7	5.4	7.1
Revenue	49	48	46	45	53	49	46	44
(-) Cost	27	12	19	19	28	12	18	16
EBITDA	21	36	27	26	26	37	28	28

Source: Company, Way2Wealth

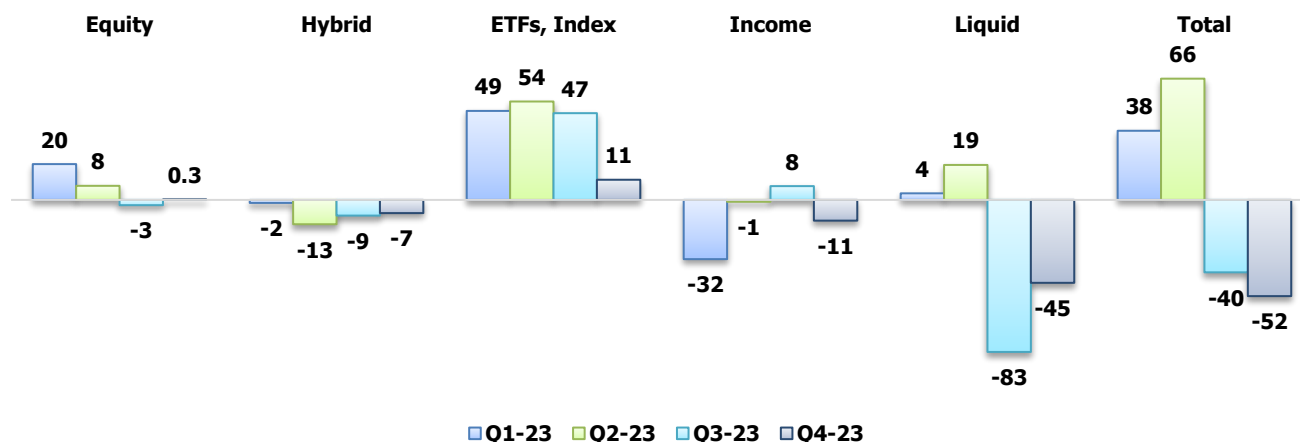
**UTI AMC, being no exception to these dynamics, continues to weather this storm that churns the AUMs of its various mutual funds.**

Revenue (Sale of Services)	FY23	FY22	Q423	Q323	Q223	Q123	Q422	Q322	Q222	Q122
Mutal Fund	872	870	206	216	225	225	228	216	220	206
PMS (EPFO)	26	27	6	7	7	6	7	7	7	6
SUUTI Support Fees	10	11	2	3	2	3	3	3	2	3
POP Fees	1	2	0	0	1	0	1	0	1	0
UTI International	129	127	31	33	33	32	36	36	29	26
UTI RSL (NPS)	101	91	26	26	25	24	23	23	23	22
UTI Capital, UTI Venture	6	5	2	2	1	1	1	1	1	2
Elimination	-14	-14	-3	-4	-3	-4	-4	-4	-3	-3

Source: Company, Way2Wealth

Funds such as the UTI Nifty Bank ETF Fund which witnessed a colossal increase in its AUM from ₹0.7bn to ₹25bn Y-o-y, the UTI Nifty200 Momentum 30 Index Fund AUM doubled from ₹11bn to ₹22bn and the UTI NIFTY 50 Index Fund AUM increased from ₹63bn to ₹100bn.

**UTI MF - Net Sales (Rs. bn)**

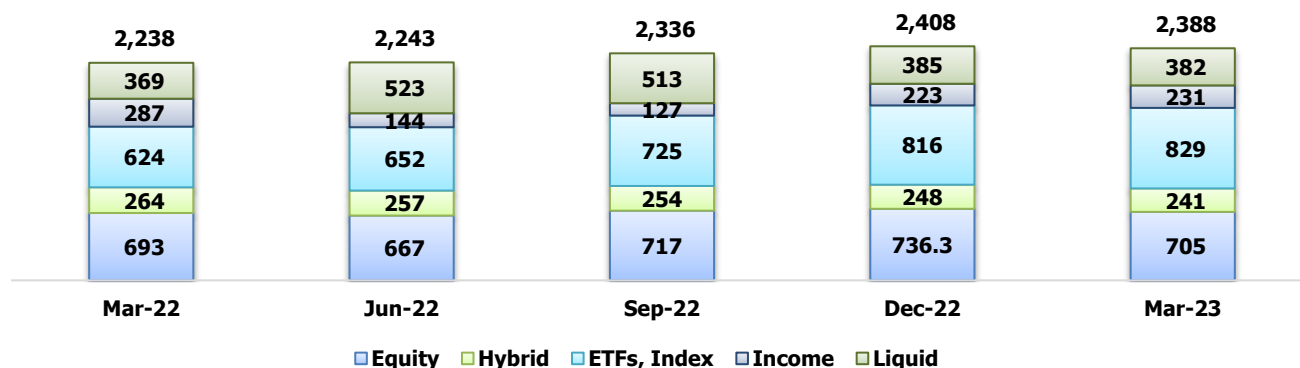


Source: Company, Way2Wealth

### AUM Churn

The Finance Bill of 2023, introduced new tax regulations, which henceforth disallows investors to accrue any LTCG benefits on gains from Debt mutual funds – funds with less than 35% holding in domestic equities. Instead, these gains will be taxed and treated as STCG, i.e taxed at the investor's slab rate. This has amplified the redemption pressure on AMCs as investors will look to deploying their investments in other equity securities or safe haven investments.

### UTI MF - AUM (₹ bn)



Source: Company, Way2Wealth

### Increasing Op-ex Cost

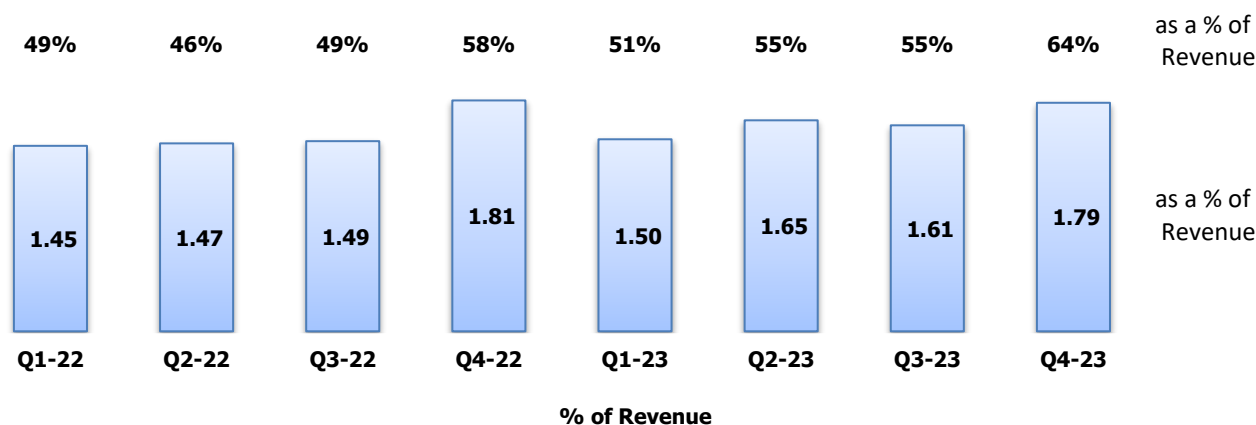
Op-ex grew 11% Q-o-Q to ₹1.8bn as UTI continues to enhance its presence in the sub-Tier 2 markets, with plans to open 29 new, small (500-600 sq ft), digitally enabled branches across India. Some of these new branches will also replace currently established, large, op-ex heavy branches.

UTI's plans to ramp up its Retirement Solutions (RSL) business, which is one of the pioneering Pension Fund managers for the NPS scheme, with a larger team and expanded presence across the country will drive up op-ex as well. AUM expansion will be the key driver here as it forms the basis of revenue and gross margins for RSL.

The long and thin demand tail along with the education drives required to generate awareness and demand for such financial products will elongate the branch breakeven timeline – currently estimated at 3.5 - 4 years post setup.

Given the muted MF yields and the limited benefits from the incremental op-ex in the foreseeable future, we estimate EBITDA margin contraction to continue.

### Operating Expenses



Source: Company, Way2Wealth

**Elevated Employee Expense**

UTI's intended benefit of trimming this year's staff cost by ~5% via replacing ~90+ high cost senior employees in FY-23 with lower costing freshers has been negated due to the higher-than-estimated costs of new recruits, which increased full year costs to ₹4.15bn. With 29 new branches to open soon and the ramp up of the RSL business, we expect these costs to rise further.

**View**

The stellar growth of the equity market witnessed during and post Co-vid began to taper as central banks around the world increased benchmark interest rates and investors started shifting their funds to safer havens. Consequently, topline growth in UTI was dismal as investors began shifting from high yield equity funds to passively managed, low yield Index funds and ETFs. Negligible benefits from the employee cost rationalization program coupled with the increasing op-ex, owing to the branch expansion endeavour, will continue to pinch margins in the near future. **We thus recommend investors to BOOK PROFITS.**

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**Financials**

(₹cr)

Particulars	FY23	FY22	Y-o-Y	Q423	Q422	Y-o-Y	Q323	Q-o-Q
<b>AUM</b>	<b>2,38,791</b>	<b>2,23,842</b>	<b>7%</b>	<b>2,38,791</b>	<b>2,23,842</b>	<b>7%</b>	<b>2,40,841</b>	<b>-1%</b>
<b>Revenue</b>	<b>1,168</b>	<b>1,195</b>	-2%	<b>281</b>	<b>313</b>	-10%	<b>295</b>	-5%
Sale of services	1,131	1,119	1%	269	295	-9%	284	-5%
<b>(-) Op. Expenses</b>	<b>655</b>	<b>621</b>	5%	<b>179</b>	<b>181</b>	-1%	<b>161</b>	11%
Employee Expense	415	407	2%	106	115	-8%	104	2%
<b>EBITDA</b>	<b>513</b>	<b>574</b>	-11%	<b>102</b>	<b>133</b>	-23%	<b>134</b>	-24%
% Margin	44%	48%	-9%	36%	42%	-14%	45%	-20%
<b>EBIT</b>	<b>473</b>	<b>537</b>	-12%	<b>92</b>	<b>123</b>	-25%	<b>124</b>	-26%
(-) Interest exp	10	9	4%	2	2	8%	2	-2%
(+) Other Income	23	8	184%	8	4	109%	(2)	-554%
(+) Net Gain / (Loss) on FV chng	99	124	-20%	20	-27	-173%	-17	-217%
<b>PBT</b>	<b>586</b>	<b>660</b>	-11%	<b>117</b>	<b>98</b>	20%	<b>103</b>	14%
<b>PAT</b>	<b>440</b>	<b>534</b>	-18%	<b>86</b>	<b>54</b>	58%	<b>60</b>	42%
% margin	38%	45%	-16%	30%	17%	76%	20%	49%
EPS (₹/ share)	35	42	-18%	7	4	58%	5	42%
Net Worth	3,868	3,606		3,868	3,606		N/A	
RoE	11%	15%		9%	6%		N/A	
RoCE	12%	15%		10%	14%		N/A	
P/E	19	16		24	38		34	
P/S	7	7		7	7		7	
Price / AUM (%)	3%	4%		3%	4%		3%	
P/B	2.1	2.3		2.1	2.3		N/A	
(bps)								
Revenue	49	53		47	56		49	
(-) Cost	27	28		30	32		27	
EBITDA	21	26		17	24		22	

Source: Company, Way2Wealth Research

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### Quarterly

(₹cr)

₹ Cr	FY23	FY22	Q4FY23	Q3FY23	Q2FY23	Q1FY23	Q4FY22	Q3FY22	Q2FY22	Q1FY22
<b>AUM</b>	<b>2,38,791</b>	<b>2,23,842</b>	<b>2,38,791</b>	<b>2,40,841</b>	<b>2,33,595</b>	<b>2,24,279</b>	<b>2,23,842</b>	<b>2,24,671</b>	<b>2,08,971</b>	<b>1,87,210</b>
<b>Revenue</b>	<b>1,168</b>	<b>1,195</b>	<b>281</b>	<b>295</b>	<b>299</b>	<b>293</b>	<b>313</b>	<b>305</b>	<b>322</b>	<b>298</b>
Sale of services	1,131	1,119	269	284	291	287	295	282	280	261
<b>(-) Op. Expenses</b>	<b>655</b>	<b>621</b>	<b>179</b>	<b>161</b>	<b>165</b>	<b>150</b>	<b>181</b>	<b>149</b>	<b>147</b>	<b>145</b>
Employee Expense	415	407	106	104	103	101	115	97	100	94
<b>EBITDA</b>	<b>513</b>	<b>574</b>	<b>102</b>	<b>134</b>	<b>134</b>	<b>143</b>	<b>133</b>	<b>156</b>	<b>175</b>	<b>153</b>
% Margin	44%	48%	36%	45%	45%	49%	42%	51%	54%	51%
<b>EBIT</b>	<b>473</b>	<b>537</b>	<b>92</b>	<b>124</b>	<b>124</b>	<b>133</b>	<b>123</b>	<b>147</b>	<b>166</b>	<b>144</b>
<b>PBT</b>	<b>586</b>	<b>660</b>	<b>117</b>	<b>103</b>	<b>263</b>	<b>106</b>	<b>98</b>	<b>148</b>	<b>225</b>	<b>190</b>
<b>PAT</b>	<b>440</b>	<b>534</b>	<b>86</b>	<b>60</b>	<b>203</b>	<b>94</b>	<b>54</b>	<b>127</b>	<b>199</b>	<b>155</b>
% margin	38%	45%	30%	20%	68%	32%	17%	42%	62%	52%
EPS (₹ / share)	35	42	7	5	16	7	4	10	16	12
(bps)										
Revenue	49	53	47	49	51	52	56	54	62	64
(-) Cost	27	28	30	27	28	27	32	26	28	31
EBITDA	21	26	17	22	23	25	24	28	34	33

Source: Company, Way2Wealth Research

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Aarti	UTI Asset Management Company Ltd.
Name of the analyst	Ashwini Sonawane
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
Broking relationship with company covered	NIL
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