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Q4FY21 results review
and earnings revision

Financial Services

Target price Rs862

Earnings revision

(%)	FY22E	FY23E
Revenue	↑ 16.0	↑ 22
PAT	↑ 19.0	↑ 18.6
Core PAT	↑ 37.0	↑ 33

Target price revision

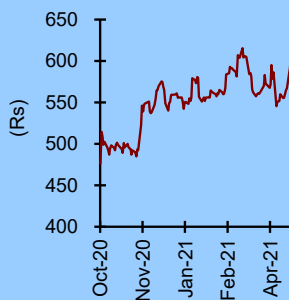
Rs862 from Rs700

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	0.0	0.0	0.0
Institutional investors	68.2	89.1	91.0
MFs and others	7.9	13.7	15.9
Banks / FIs	35.2	35.3	35.2
Insurance	10.0	10.0	10.0
FIs	15.1	30.1	29.9
Others	31.8	10.9	9.0

Source: BSE

Price chart



UTI Asset Management Company

BUY

Maintain

Rs626

Business tailwinds gather momentum...

UTI Asset Management Company (UTI) is exhibiting multiple positive business indicators such as gains in market share in equity segment as well as flows, SIP as well as folio additions. Cost reduction program undertaken by the company and hike in pension fund management charges are strong earnings drivers ahead. These growth levers, along with attractive valuations, make us constructive on UTI. Maintain BUY with a revised target price of Rs862 (earlier: Rs700), based on 25x core EPS of Rs23.8 and cash of Rs268/share. Our revised earnings estimates take into account the additional revenues to be generated from the pension business (Rs657mn / Rs755mn in FY22E / FY23E) and cost-control initiatives.

- ▶ **Q4FY21 reported earnings in line with estimates.** Core PAT in Q4FY21 came in at Rs831mn (Rs2.2bn/Rs2.2bn/Rs1.9bn/Rs1.7bn in FY18/FY19/FY20/FY21). Q4FY21 QAAUM stood at Rs1.83trn, up 21% YoY and 11% QoQ. This resulted in revenue growth of 29% as revenue yields improved 3.4bps YoY to 51.5bps. Employee costs declined 33% YoY and 36% QoQ to Rs743mn aided by lower ESOP cost in the current quarter (Rs30mn in Q4FY21 vs Rs105mn in Q4FY20), write-back of excess provision towards variable pay made in Q4FY20 (Rs145mn), and absence of non-managerial variable pay (Rs125mn in Q4FY20) led to total savings of Rs350mn YoY. Other expenses rose 51% on account of CSR spends and digital initiatives. Operating margins (% of QAAUM) came in at 23bps vs 9.3bps in Q4FY20 and 13.4bps in Q3FY21.
- ▶ **Outperformance on several counts** including: 1) gain in equity market share (based on QAAUM reported by AMFI) from 4.4% in Q4FY20 to 4.7% in Q4FY21; 2) sequential gain in debt market share from 3.77% in Q3FY21 to 4% in Q4FY21 (although on YoY basis it is still lower by 39bps) (based on QAAUM reported by AMFI); 3) increase in SIP market share (based on gross SIP flows reported the company and industry SIP flows reported by AMFI) from 2.9% in Q1FY21 to 3.2% in Q2FY21, 3.5% in Q3FY21 and 3.6% in Q4FY21 (SIP AUM rose 75.4% YoY to Rs137bn as at Mar'21); 4) overall equity/total inflow of Rs(-)7.5bn/126bn for UTI compared to Rs(-)627/2,148bn for industry in FY21; and 5) total live folios stood at 11mn including 0.5mn added in FY21; there is also a substantial jump in digital platform mix in total sales from 23% in FY20 to 52% in Q4FY21.
- ▶ **Cost reduction remains an earnings trigger.** The frontloading effect of ESOP and retirement of senior personnel remain available avenues for reduction in employee costs. We expect employee costs to remain at Rs3.8bn/3.9bn and other expenses in the range of Rs1.9bn/2.5bn in FY22E/FY23E. As a percentage of operating revenues, we expect total opex ratio to shrink from 68% in FY21 to 62% / 61% in FY22E / FY23E.
- ▶ **Increase in pension fund management can bring additional Rs657bn/755bn revenues in FY22E/FY23E.** We expect an effective yield of 0.05% for UTI's retirement solutions AUM on its expected AUM of Rs1.7trn and Rs1.9trn, which we expect will result in revenues of Rs839mn and Rs954mn vs Rs150mn in FY21.
- ▶ **Maintain BUY** with a revised target price of Rs862 (earlier: Rs700), based on 25x core EPS of Rs23.8 and cash of Rs268/share. Expect revenues, operating profit and core PAT to grow 14.1%, 13.3% and 16.8% respectively between FY21-FY23E.

Market Cap	Rs79bn/US\$1bn	Year to Mar	FY20	FY21E	FY22E	FY23E
Reuters / Bloomberg	UTAI.BO/UTIAM IN	Revenue (Rs mn)	7,879	8,066	9,297	10,500
Shares Outstanding (mn)	126.8	EBITDA(Rs mn)	2,822	2,548	3,500	4,108
52-week Range (Rs)	626/476	Net Income (Rs mn)	2,715	4,943	4,287	4,779
Free Float (%)	100.0	Core PAT	1,893	1,729	2,541	3,014
FII (%)	29.9	EPS (Rs)	21.4	39.0	33.8	37.7
Daily Volume (US\$'000)	2,895	P/E (x)	29.2	16.1	18.5	16.6
Absolute Return 3m (%)	12.5	Core EPS (Rs)	14.9	13.6	20.0	23.8
Absolute Return 12m (%)	NA	Core PE (Rs)	41.9	45.9	31.2	26.3
Sensex Return 3m (%)	7.7	Dividend Yield	1.1%	3.4%	2.7%	3.0%
Sensex Return 12m (%)	53.8	RoE (%)	10.1	16.5	12.9	13.4

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Table 1: Q4FY21 result review

(Rs mn)	Q4FY21	Q4FY20	YoY growth	Q3FY21	QoQ growth
AUM (Rs trn)	1.83	1.52	21%	1.65	11%
Operating revenue	2,356	1,825	29%	2,118	11%
Other Income	574	-365	nm	1,364	-58%
Total Income	2,930	1,460	101%	3,482	-16%
Operating expenses					
Employee benefit expenses	743	1,103	-33%	1,161	-36%
Other expenses	557	369	51%	403	38%
Total	1,301	1,471	-12%	1,563	-17%
Core EBITDA	1,056	354	198%	555	90%
	45%	19%		26%	
Depreciation	90	101	-10%	95	-5%
Finance cost	23	38	-39%	23	1%
Profit before tax	1,516	-150	nm	1,801	-16%
Tax	180	126	43%	399	-55%
PAT	1,336	-276	nm	1,402	-5%
Core PAT	831	397	109%	340	144%

Source: Company data, I-Sec research

Table 2: Segmental market share

(Rs bn)	Q4FY21	Q4FY20	YoY growth	Q3FY21	QoQ growth
QAUM breakup					
Equity	636	492	29%	555	15%
Debt	404	352	15%	366	10%
Liquid	404	444	-9%	417	-3%
Others	384	229	68%	315	22%
Total	1,828	1,517	20%	1,652	11%
Market share					
Equity	4.7%	4.4%	25.7	4.7%	-2.0
Debt	4.0%	4.4%	-39.3	3.8%	23.0
Liquid	7.5%	7.4%	7.8	7.4%	7.7
Others	13.1%	12.7%	45.2	13.0%	12.8
Total	5.7%	5.6%	8.1	5.6%	11.9

Source: AMFI, I-Sec research

Financial summary

Table 3: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21E	FY22E	FY23E
AAUM (UTI AMC)	15,91,150	15,15,126	15,92,473	19,74,564	22,83,440
UTI International	1,18,748	1,57,654	2,12,932	2,89,440	3,32,856
Revenue from operations	8,906	7,879	8,066	9,297	10,500
Other income	1,905	1,021	3,921	2,170	2,200
Total income	10,811	8,900	11,986	11,467	12,700
Operating expenses					
Employee expense	3,067	3,399	3,795	3,850	3,900
Other expenses	2,617	1,658	1,723	1,947	2,492
Total Opex	5,683	5,057	5,518	5,797	6,392
			68%	62%	61%
EBITDA (incl other income)	5,128	3,843	6,469	5,670	6,308
EBITDA (ex other income)	3,223	2,822	2,548	3,500	4,108
Depreciation and amortisation expenses	162	336	358	341	353
PBT	4,966	3,413	6,030	5,329	5,956
Core PBT (ex other income)	3,061	2,393	2,110	3,159	3,756
Tax	1,447	664	1,087	1,042	1,177
PAT	3,568	2,715	4,943	4,287	4,779
Core PAT	2,218	1,893	1,729	2,541	3,014

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	1,268	1,268	1,268	1,268	1,268
Reserves and Surplus	24,891	26,455	30,991	33,122	35,492
Net worth	26,158	27,723	32,259	34,390	36,760
Minority interest	372	108	111	111	111
Provisions	1,304	2,388	2,648	2,648	2,648
Other Liabilities	1,470	1,433	1,631	1,831	2,031
Total Liabilities	29,304	31,653	36,649	38,980	41,550
Assets					
Net block (incl CWIP)	2,574	3,630	3,545	3,365	3,112
Investments	23,968	24,857	29,631	31,642	33,966
of which cash and cash equivalents	1,242	1,193	2,060	2,163	2,271
Loans and advances	291	379	252	252	252
Other assets	2,470	2,787	3,221	3,721	4,221
Total Assets	29,304	31,653	36,649	38,980	41,550

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21E	FY22E	FY23E
Operating Cashflow ex WC	1,901	2,580	3,389	2,587	3,042
Working Capital Changes	-885	-861	150	-300	-300
Cashflow from operations	2,686	1,016	1,719	3,538	2,287
Capital Commitments ex asset sale	-65	-218	-200	-200	-100
Free Cashflow	2,720	3,224	3,039	2,687	3,242
Cashflow from Investing Activities	-452	-932	-2,113	-68	-226
Dividend paid including taxes	-764	-692	-888	-2,663	-2,155
Cashflow from Financing Activities	-813	-836	-968	-2,663	-2,155
Chg. in Cash & Bank balance	-250	-49	457	-444	361

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending Mar 31)

	FY19	FY20	FY21E	FY22E	FY23E
Per Share Data (in Rs.)					
EPS(Basic Recurring)	28	21	39.0	33.8	37.7
Core EPS	17	15	14	20	23.8
Dividend per share (DPS)	5	7	21	17	19
Book Value per share	206	219	254	271	290
Growth Ratios (%)					
MF AUM	5.3	-4.8	5.1	24.0	15.6
Total Revenue	-7.9	-11.5	2.4	15.3	12.9
EBITDA	-12.1	-25.1	68.3	-12.3	11.3
Recurring Net Income	-2.5	-23.9	82.1	-13.3	11.5
Core PAT	0.6	-14.7	-8.6	47.0	18.6
Valuation Ratios (x)					
P/E	22.2	29.2	16.1	18.5	16.6
P/BV	3.0	2.9	2.5	2.3	2.2
Core P/E	35.8	41.9	45.9	31.2	26.3
MCap to AUM	4.99	5.24	4.98	4.02	3.48
Operating ratios					
Investment management fees/total income	82.4	88.5	67.3	81.1	82.7
Operating expenses/total income	52.6	56.8	46.0	50.6	50.3
Employee expenses/operating expenses	54.0	67.2	68.8	66.4	61.0
Core PBT margin (of total income)	28.3	26.9	17.6	27.6	29.6
PAT margin (of total income)	33.0	30.5	41.2	37.4	37.6
Tax rate	29.1	19.4	18.0	19.6	19.8
Payout ratio	18%	33%	54%	50%	50%
% of MF AUM					
Revenue	56.0	52.0	50.6	47.1	46.0
Operating expenses	35.7	33.4	34.6	29.4	28.0
Operating margins	20.3	18.6	16.0	17.7	18.0
PAT	22.4	17.9	31.0	21.7	20.9
Return ratios					
RoE	14.3	10.1	16.5	12.9	13.4

Source: Company data, I-Sec research

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