

**Business performance affected by fluctuation in AUM and higher cost metrics**

**Rating: Neutral**

**Issue Offer**

**OFS of 38,987,081 shares by SBI, LIC, BOB, PNB and TRP taking the total issue size at Rs 2,160 cr**

**Issue Summary**

Price Band (Rs)	552-554
Face Value (Rs)	10
Implied Market Cap (Rs Cr)	7,024
Market Lot	27
Issue Opens on	Sept 29, 2020
Issue Close on	Oct 01, 2020
No. of share pre-issue	12,67,87,254
No. of share post-issue	12,67,87,254
Listing	NSE & BSE

**Issue Break-up (%)**

QIB Portion	50
NIB Portion	15
Retail Portion	35

**Book Running Lead Managers**

Kotak Mahindra Capital  
Axis Capital Ltd  
Citigroup Global Markets India Pvt Ltd  
DSP Merrill Lynch Ltd  
ICICI Securities Ltd  
JM Financial Ltd  
SBI Capital Markets Ltd

**Registrar**

KFin Technologies Pvt Ltd

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters	Nil	Nil
Public & Others	100%	100%

**Objects of the offer**

Achieve the benefits of listing the Equity Shares

UTI Asset Management Company is India's 2<sup>nd</sup> largest AMC in terms of total AUM and 8<sup>th</sup> largest in terms of Mutual Fund AUM with 5.4% market share. Total AUM of the Company stood at Rs 9,830 bn with an Equity AUM of Rs 1,336 bn. The issue size is Rs 2160 cr, which is entirely an offer for sale (OFS). SBI, LIC, PNB, BoB and T. Rowe Price (TRP) would be selling 3.89 cr shares collectively. As per SEBI mutual fund regulations, SBI, BOB, PNB and LIC are the four sponsors of the company. TRP is other major shareholder.

The company has 10.9 mn folios which accounts for 12.2% of the 89.7 mn folios that are managed by MF industry. In terms of folios, UTI AMC is ahead of HDFC AMC which only has 9.4 mn folios as of Mar'20, signifying the enormous reach of the Company. As of Jun'20, UTI AMC manages 153 domestic mutual fund schemes, comprising equity, hybrid, income, liquid and money market funds.

**Key Highlights:**

**Favourable industry dynamics to support growth:** Indian MF Industry is low penetrated and it is expected to grow due to supportive industry dynamics, long-term structural drivers, including the increasing financialisation of household savings (particularly in B30 cities) and favourable demographics. Company's size and diverse client base, coupled with strong product portfolio, extensive distribution network and widely recognized brand, position them to capitalise on future growth in Mutual Fund Industry.

**Strong distribution network:** UTI AMC has a diverse range of distribution channel which includes 51,000 Independent financial advisors (IFAs) and has a presence in 697 districts out of the total 722 districts in India. The key channel for sourcing of equity and hybrid funds is IFAs, which formed 60% of average AUM for these products as of 1QFY21. As of June 30, 2020, its distribution network includes 163 UTI Financial Centers, 257 Business Development Associates (BDAs) and Chief Agents (Cas) and 43 other Official Points of Acceptance (OPAs), most of which are in each case located in B30 cities.

**One of the highest share in B30 market:** UTI AMC has one of the highest share in B30 market with roughly ~24% of its overall AUM contributed by B30 geographies. Higher presence of AMCs in B30 regions allows AMCs to leverage their position, allowance to charge incremental expenses of 30 bps, and the room for growth is much higher due to lower industry penetration as compared to the near saturated T30 cities.

**Long record of fund performance:** With an AUM of Rs 1.3tn, UTI AMC's top six equity-oriented schemes contribute ~25% of the equity AAUM and have delivered a compounded annual yield of 7-10% over the last ten years. While there has been near-term underperformance, strong outperformance in some key funds over a longer period works in the company's favour.

**Financial Performance:** Over the past few years, Company has reported low growth in revenue and profit. During the period of FY18-20, UTI AMC has reported revenue CAGR of -12% and PAT CAGR of -17% mainly due to higher cost with stagnant equity AUM.

**Valuation and View:**

**At upper price band of Rs 554, the Company is being valued at Rs 7024 cr. At 25.7x FY20 PE, the IPO is fairly lower priced than its peer. HDFC AMC and NAM-India are commanding valuation of 35-38x FY20 PE. Valuation gap between UTI AMC and other listed players is primarily due to UTI's weak return ratios, higher cost metrics, lower profit growth and stagnant equity AUM. However, any improvement in cost parameters as stated by management and growth in AUM will augur well for the company. We have a 'Neutral' rating to this issue.**

**Key Risks:** Volatility in capital market, any change in regulation by SEBI will be the key risk to the company.

**Segment of Operations:** UTI AMC has presence in the entire gamut of asset management segments including Mutual funds, PMS funds, Retirement Solutions, Offshore Funds and Alternative Investment Funds. Non-mutual fund AUM at Rs 8.49 tn as of 1QFY21 is much larger than mutual fund AUM at Rs 1.34 tn but non-mutual fund segment is less profitable. From the non-mutual AUM, 82% AUM contribution is from PMS funds, which is primarily due to the mandate from the EPFO, which led to a jump in PMS funds AUM from Rs 1.33 tn in FY19 to Rs 6.97 tn in June 2020.

**Mutual Fund segment wise yield (fee to AUM)** - Equity and hybrid funds: ~100 bps, Fixed income funds: ~28 bps, ETFs: ~5-6 bps, Liquid funds: ~9-10 bps. Weighted average yield for mutual fund business: ~45-46 bps.

**Non-mutual fund segment-wise yield:** PMS business – 1-1.25 bps.

**AUM Break-up**

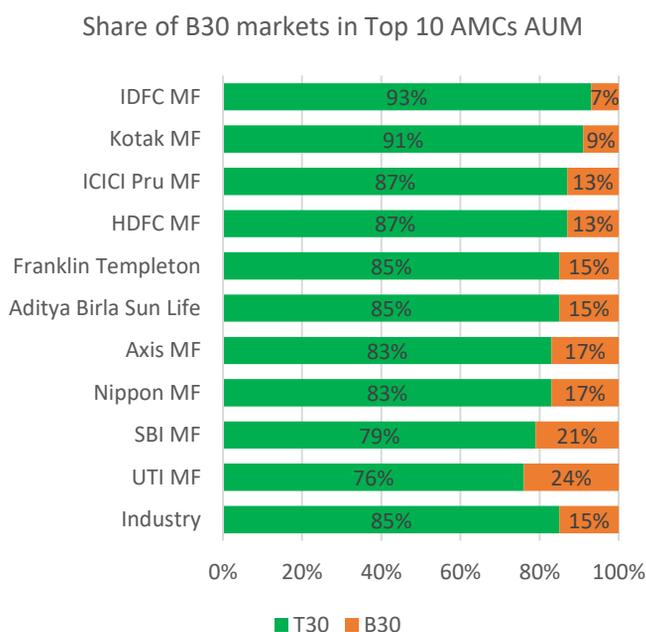
Category of Fund (in bn)	2018	2019	2020	Jun-20
<b>Mutal Fund AUM</b>				
Active	366.7	372.6	381.9	332.7
Passive	92.1	167.4	252.2	244.5
<b>Total Equity</b>	<b>458.8</b>	<b>540.0</b>	<b>634.1</b>	<b>577.2</b>
Hybrid	219.1	219.3	209.6	187.9
Income	487.5	391.9	213.5	193.3
Liquid/ Money market	384.0	445.8	457.9	377.9
<b>Total mutual fund AUM</b>	<b>1549.4</b>	<b>1597.0</b>	<b>1515.1</b>	<b>1336.3</b>
<b>Non-Mutal Fund AUM</b>				
PMS	1158.5	1332.7	6890.6	6970.5
Retirement Solutions	694.8	937.1	1222.0	1355.9
Offshore Funds	187.9	118.7	157.7	156.9
AIF	7.0	8.3	10.5	10.6
<b>Total non-mutal fund AUM</b>	<b>2048.2</b>	<b>2396.8</b>	<b>8280.8</b>	<b>8493.9</b>
<b>Aggregate AUM</b>	<b>3597.6</b>	<b>3993.8</b>	<b>9795.9</b>	<b>9830.2</b>

**SIP Channel growth:** From the period of Jun'17 to Jun'20, the monthly SIP investment has grown from Rs 62 bn to Rs 79 bn. Over Jun'17 to Jun'20, the number of SIP folios has grown from 0.8 mn to 1.2 mn, indicating participation from lower income households.

**SIP Inflows chart**

Period	Gross SIP inflows (in bn)	Avg transaction size (Rs)	Closing SIP AUM (in bn)	SIP Live Folios (in thousands)
Jun-17	5.2	2,651	61.7	821.1
Sep-17	5.9	2,785	66.1	867.3
Dec-17	6.2	2,817	74.8	898.8
Mar-18	6.5	2,800	73.6	943.7
Jun-18	6.7	2,779	77.0	980.6
Sep-18	7.0	2,796	78.5	1039.4
Dec-18	7.4	2,815	84.1	1073.7
Mar-19	7.3	2,758	90.2	1119.3
Jun-19	7.5	2,772	91.5	1121.2
Sep-19	7.5	2,753	95.0	1148.5
Dec-19	7.3	2,702	101.6	1161.2
Mar-20	7.3	2,699	78.6	1204.8
Jun-20	7.2	2,680	99.8	1204.3

**Highest share in B30 markets**



## Listed AMCs Peer Group Comparison

The below table shows the operational performance and key financial indicators of the three leading listed asset management company:

Particulars (in Cr, unless stated)	UTI AMC	HDFC AMC	NAM-India
<b>As on June 30, 2020</b>			
Total AUM (in bn.)	9706	3673	2568
Mutual fund AUM (in bn.)	1336	3562	1801
Mutual fund market share (%)	5.4	14.5	7.3
<b>As on FY20</b>			
Revenue from operations	855	2003	1203
PAT	277	1263	415
Total cost/QAAUM	0.41%	0.13%	0.31%
EBITDA margin	40.9%	78.5%	50.6%
PAT margin	32.4%	63.0%	34.5%
ROE (%)	10.0%	35.6%	16.0%
No of branches/ locations	463	221	290
No. of Folios (mn)	10.9	9.4	8.7
EPS	21.53	59.24	6.79
<b>Valuation</b>			
CMP (Rs.)	554^	2111	254.3
Market cap (in cr.)	7024	44,941	15,575
PE(x)	25.7	35.6	37.5
Market cap to AUM (%)	5.3	12.6	8.6

Source: RHP, Company Filings, Arianth Research

Note: All financials are as on FY20 unless as stated. ^ at upper price band.

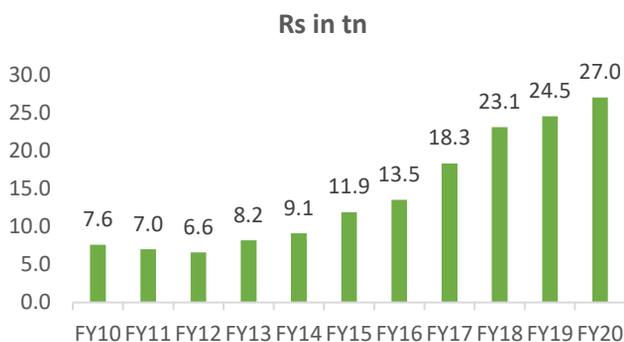
**In terms of financial performance, UTI AMC has weak return ratio, lower profitability and higher cost metrics than its peers. However, it remains attractive considering gradual improvement in cost parameters. In Analyst meeting, Management stated that company has adopted various cost control measures to bring in best-in-class operational efficiencies and focusing on digitalization.**

### Key Risks

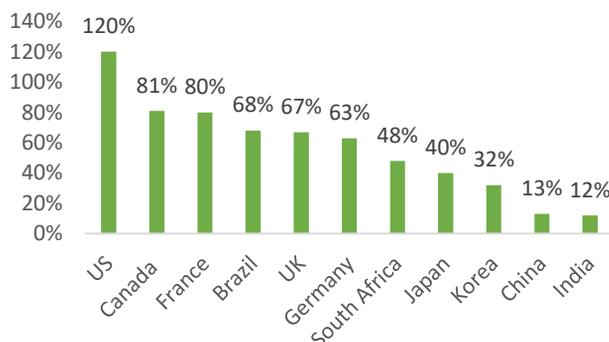
- The equity markets in India have been and may continue to be volatile, as a result of the ongoing COVID-19 pandemic. Hence, such volatility may contribute to fluctuations in the AUM. Any adverse impact on inflows/outflow in the AUM, may impact overall revenue and profitability of the company.
- The other risk that the company may face is the concentration of MFs. The company's top 6 active equity funds account for 73.5% of QAAUM for active equity funds while top 5 passive funds account for 98.7% of QAAUM. For top six hybrid funds constituted 94.3% of total QAAUM and top five income funds constituted 35.9% of total QAAUM. This shows that any adverse performance in any of these concentrated funds will affect the company's earnings and thus forms a risk for the company.
- Similarly, the PMS and offshore funds managed by the company consists of a few high ticket marquee clients like the EPFO, NSDF and many pension funds which forms client concentration risk for the company. If any of these big clients withdraw or choose to pursue other investment managers, it will lead to a substantial decrease in AUM in their respective categories.
- Another risk which is for the whole industry is the competitive pressure and total expense limits set by SEBI. This directly puts a cap on the profitability of the MF industry and cause to decrease marketing and other efforts on behalf of the funds.
- Company depends on third-party distribution channels and other intermediaries, and issues with these distribution channels and intermediaries, or failure to continue to expand the current third -party distribution channels and intermediaries, could adversely affect the business and financial performance.
- Decline in sponsors' shareholding to impact business.

## Story in charts

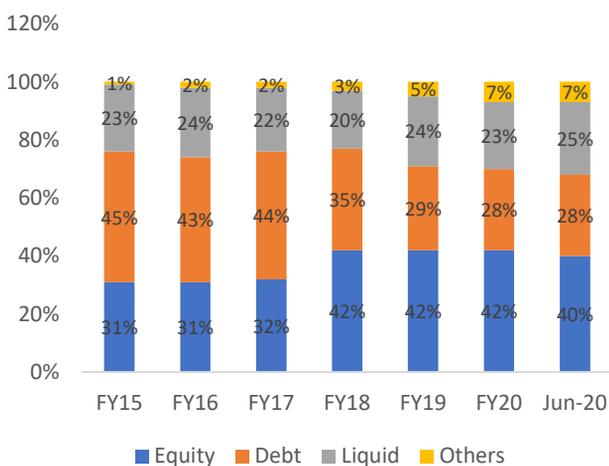
**Exhibit 1: Market size of Indian Mutual Fund Industry**



**Exhibit 2: AUM to GDP ratio across the country**



**Exhibit 3: Industry trend in share of Mutual Fund segment**



**Exhibit 4: Mutual Fund AUM (% of GDP)**



**Exhibit 5: Share of the top 10 AMCs in the total Mutual Fund Industry**

Fund houses	Total AAUM (FY15) (in bn)	Total AAUM market share	Total AAUM (Jun -20) (in bn)	Total AAUM market share
SBI MF	755	6.30%	3,649	14.70%
HDFC MF	1,620	13.60%	3,567	14.40%
ICICI Pru MF	1,486	12.40%	3,337	13.50%
Aditya Birla MF	1,200	10.00%	2,149	8.70%
Nippon India MF	1,382	11.60%	1,810	7.30%
Kotak Mahindra MF	417	3.50%	1,678	6.80%
Axis MF	267	2.20%	1,345	5.40%
UTI MF	928	7.80%	1,336	5.40%
IDFC MF	519	4.30%	1,019	4.10%
Franklin Templeton MF	715	6.00%	806	3.30%
Total (Top 10)	9,289	77.70%	20,696	83.60%
Total Industry	11,948	100.00%	24,767	100.00%

Source: RHP for all data. For AUM to GDP ratio chart AUM data as of Q4 of calendar year 2019 for all countries.

## Income Statement

Particulars (in Cr.)	FY18	FY19	FY20	Q1FY21
Revenue from Operations	1150	1051	855	262
Other Income	13	30	36	9
<b>Total Revenue</b>	<b>1163</b>	<b>1081</b>	<b>891</b>	<b>271</b>
<b>Expenses</b>				
- Fess and Commission	2	2	3	1
- Impairment	2	0	0	0
- Finance cost	9	8	8	2
- Employee benefit expense	321	307	340	98
- Depreciation	27	29	31	8
- Other expenses	257	244	163	38
<b>Total Expenses</b>	<b>617</b>	<b>590</b>	<b>546</b>	<b>148</b>
<b>EBITDA</b>	<b>569</b>	<b>498</b>	<b>349</b>	<b>125</b>
EBITDA Margin (%)	49.4	47.4	40.9	47.6
<b>PBT</b>	<b>545</b>	<b>491</b>	<b>345</b>	<b>123</b>
Tax	140	143	68	22
<b>PAT</b>	<b>405</b>	<b>348</b>	<b>277</b>	<b>101</b>
<b>PAT Margin (%)</b>	<b>35.2</b>	<b>33.1</b>	<b>32.4</b>	<b>38.6</b>

## Key Ratios

Particulars	FY18	FY19	FY20	Q1FY21
<b>Growth (%)</b>				
Revenue	-	-8.7	-18.6	11.6
EBITDA	-	-12.4	-29.9	15.4
Profit	-	-14.1	-20.4	42.4
<b>Margin (%)</b>				
EBITDA	49.4	47.4	40.9	47.6
PAT	35.2	33.1	32.4	38.6
<b>Profitability (%)</b>				
ROE*	16.6	13.2	10.0	14.2
ROA*	13.9	11.5	8.8	12.4
<b>Per Share data</b>				
EPS	28.7	27.8	21.5	7.9
BVPS	192.3	208.3	218.7	224.5
<b>Valuation</b>				
P/E (x)*	19.3	19.9	25.7	17.5
P/B (x)	2.9	2.7	2.5	2.5

Q1FY21 growth ratio comparison is with Q1FY20 performance.  
Q1FY21, ROE, ROA and PE is on annualized basis.

## Balance Sheet

Particulars (in Cr.)	FY18	FY19	FY20	Q1FY21
<b>Source of Funds</b>				
Share Capital	127	127	127	127
Reserves and Surplus	2311	2515	2646	2720
Net Worth	2438	2642	2773	2846
Other Liabilities	482	372	382	417
<b>Total Equity &amp; Liabilities</b>	<b>2919</b>	<b>3013</b>	<b>3155</b>	<b>3263</b>
<b>Application of Funds</b>				
Fixed assets	259	253	250	247
Investment	2179	2261	2356	2457
Other Assets	482	499	549	559
<b>Total Assets</b>	<b>2919</b>	<b>3013</b>	<b>3155</b>	<b>3263</b>

## Cash Flow Statement

Particulars (in Cr.)	FY18	FY19	FY20	Q1FY21
Cash from Op. Activities	269	123	195	15
Cash from Invest. Activities	-154	-26	-106	-16
Cash from Fin. Activities	-75	-123	-94	6
Cash and cash equivalents	150	124	119	124

## Management & KMP

Board of Directors	Description
<b>Dinesh Kumar Mehrotra</b>	Dinesh Kumar Mehrotra is the Non-Executive Chairman and Independent Director of the company. He has previously served as the chairman and the managing director of LIC. He was appointed as an Independent Director of the company with effect from August 23, 2017.
<b>Edward Cage Bernard</b>	Edward Cage Bernard is the Non-Executive Director of the company. Currently, he is also associated with T Rowe Price Group Inc. as a senior advisor. He was appointed as a Non-Executive Director of the company with effect from August 22, 2019.
<b>Flemming Madsen</b>	Flemming Madsen is the Non-Executive Director of the company. He is head of global financial intermediaries and an interim global head of product at T. Rowe Price. He is a vice president of T. Rowe Price Group, Inc., T. Rowe Price International Ltd and member of the Global Distribution Executive Committee and has been associated with T. Rowe Price for 19 years. He was appointed as a Non-Executive Director of the company with effect from January 20, 2010.
<b>Imtaiyazur Rahman</b>	Imtaiyazur Rahman is the Whole-time Director and the Acting Chief Executive Officer of the company. He has over 30 years of experience in management, business leadership and forming strategic alliance. He is associated with the company since 2003.
<b>Surojit Saha</b>	Surojit Saha is the Chief Financial Officer of the company. He joined Erstwhile UTI on December 5, 1990 and was subsequently transferred to the company with effect from January 15, 2003.
<b>Arvind Patkar</b>	Arvind Patkar is the Company Secretary of the company. He joined the company with effect from April 2, 2008.
<b>Vetri Subramaniam</b>	Vetri Subramaniam is the Group President and Head of Equity of the company. He joined the company with effect from January 23, 2017.

### Pre and post issue shareholding pattern

Sr No.	Name of the Shareholder	Pre- issue		Post-issue	
		No. of shares	%	No. of shares	%
1	T. Rowe Price International	3,29,64,686	26.00	2,91,61,069	23.00
2	SBI	2,31,25,000	18.24	1,26,65,051	9.99
3	LIC	2,31,25,000	18.24	1,26,65,051	9.99
4	BOB	2,31,25,000	18.24	1,26,65,051	9.99
5	PNB	2,31,25,000	18.24	1,93,21,383	15.24

## Arihant Research Desk

Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

### Head Office

#1011, Solitaire Corporate Park  
 Building No. 10, 1<sup>st</sup> Floor  
 Andheri Ghatkopar Link Road  
 Chakala, Andheri (E)  
 Mumbai – 400093  
 Tel: (91-22) 42254800  
 Fax: (91-22) 42254880

### Registered Office

Arihant House  
 E-5 Ratlam Kothi  
 Indore - 452003, (M.P.)  
 Tel: (91-731) 3016100  
 Fax: (91-731) 3016199

### Research Analyst Registration No.

### Contact

### Website

### Email Id

**INH000002764**

**SMS: 'Arihant' to 56677**

[www.arihantcapital.com](http://www.arihantcapital.com)

[instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
 1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
 Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
 Tel. 022-42254800  
 Fax. 022-42254880