

UTI AMC

Recommendation: **SUBSCRIBE**



BFSI

The second largest AMC in India by Total AUM, the eighth largest AMC in India by mutual fund QAAUM and the largest share of monthly average AUM in B30 cities among the top 10 AMCs in India- well UTI needs no introduction. Income and liquid and money market funds accounted for 42.7% of their total Domestic Mutual Fund QAAUM. PMS business had AUM of INR 6,970.5 billion, 84.9 % of which was attributable to the mandate to manage part of the corpus of the EPFO. As of June 30, 2020, 50.8% of their Domestic Mutual Fund Closing AUM was invested in equity shares, 0.4% was invested in gold and 48.7% was invested in fixed income securities.

Issue Snapshot

Issue Open:	29-Sep-20
Issue Close:	01-Oct-20
Price Band	INR 552 - 554
Issue Size	INR 21599 mn
Market Cap	INR 69989 - 70242 mn

Particulars

Fresh Issue	INR 0 mn
OFS Issue	INR 390 mn
QIBs	50% of Net Issue
Non-institutional	15% of Net Issue
Retail	35% of Net Issue

Capital Structure

Pre Issue Equity	INR 1268 mn
Post Issue Equity	INR 1268 mn
Bid Lot	27
Minimum Bid Amount @ 552	INR 14904
Minimum Bid Amount @ 554	INR 14958

Shareholding Pattern (%)	Pre Issue (%)	Post issue (%)
Promoters	0.0%	0.0%
Public	100.0%	100.0%

Particulars

Face value	INR 10
Book Value (31st Mar 2020)	217.88
EPS, Diluted (31st Mar 2020)	2
	1.53

Objects of the issue

Not Applicable

Investment Rationale

Strong Brand Value

The brand is recognised nationwide for the contributions of more than 55 years of heritage as a leading and pioneering, participant in the mutual fund industry. The UTI brand was also amongst the top five preferred industry brands in the Nielsen Mutual Fund Studies for December 2015 to January 2016 and September 2017. With 10.9 million Live Folios as March 31, 2020, increasing from 10.7 million as of March 31, 2018, the client base accounts for 12.2% of the approximately 89.7 million folios in the MF industry.

National Footprint- B30 focus

The distribution network includes 163 UTI Financial Centres, 257 Business Development Associates and Chief Agents, 40 of whom operate Official Points of Acceptance and 43 other OPAs, most of which are in each case located in B30 cities - managing 153 domestic mutual fund schemes, comprising equity, hybrid, income, liquid and money market funds. Intermediated investments accounted for approximately 78.0% of AUM attributable to B30 cities as of June 30, 2020, as compared to 49.0% of AUM attributable to T30 cities.

The PMS Business- improving ranks

UTI provides Discretionary PMS to the EPFO, the Coal Mines Provident Fund Organisation, the Employees' State Insurance Corporation, the National Skill Development Fund and to HNIs, Non-Discretionary PMS to Postal Life Insurance and Advisory PMS to various offshore and domestic accounts. UTI is approved to manage 55.0% of the total corpus of the Central Board of Trustees, EPF, accounting for INR 5,916.6 billion, or 84.9% of the PMS AUM. The AUM for PMS business increased from INR 1,158.5 billion as of March 31, 2018 to INR 6,890.6 billion as of March 31, 2020 driven by the above, representing a CAGR of 143.9% and to INR 6,970.5 billion as of June 30, 2020.

Established position in retirement solutions

UTI is one of the three asset managers originally appointed by the PFRDA in September 2007 to manage the pension funds for Central and State Government employees (hired since January 2004 and excluding the armed forces) under the NPS. They set up a subsidiary on December 14, 2007, UTI RSL, to manage such pension funds. On March 13, 2009, UTI RSL was also appointed to manage NPS contributions from citizens other than government employees who joined the NPS on a voluntary basis. As of June 30, 2020, UTI RSL manages 12 schemes, two of which are Government-sector schemes, with an aggregate closing AUM of INR 1,293.1 billion as of June 30, 2020.

Outlook and Valuation

We believe that the MF business- due to SIP's and PF and retirement solutions business are more or less annuity based - thereby providing stability to inflows or AUM accretion unless the AMC fails to renew some of the major client's business and/or acquire new business. At the IPO price of INR 554 the p/e works out to ~26x on FY20 earnings, which seems adept seeing the slow to negligible ramp-up in the profitable MF business, which the other AMC's have been able to capitalise on. Considering the scope of opportunity in B30 cities and within T30, beyond the state of Maharashtra the scope of the opportunity seems humungous, further the scaling up of the PMS and retirement solution business could also boost earnings going forward. With the worst behind them as the management learns from its recent hiccups and past experiences, we recommend to subscribe to the issue as a good long-term investment.

Investment Rationale

Strong Brand Value

The brand is recognised nationwide for the contributions of more than 55 years of heritage as a leading and pioneering, participant in the mutual fund industry. The UTI brand was also amongst the top five preferred industry brands in the Nielsen Mutual Fund Studies for December 2015 to January 2016 and September 2017. With 10.9 million Live Folios as March 31, 2020, increasing from 10.7 million as of March 31, 2018, the client base accounts for 12.2% of the approximately 89.7 million folios in the MF industry. Many of the open-ended funds were the first in their category in India or have been established for more than ten years (including five with over 25 years of track record), including India's first equity-oriented fund - the UTI Mastershare Unit Scheme and first tax saving cum insurance fund - the UTI ULIP.

National Footprint- B30 focus

The distribution network includes 163 UTI Financial Centres, 257 Business Development Associates and Chief Agents, 40 of whom operate Official Points of Acceptance and 43 other OPAs, most of which are in each case located in B30 cities - managing 153 domestic mutual fund schemes, comprising equity, hybrid, income, liquid and money market funds. UTI has the highest proportion of monthly average AUM as of June 30, 2020 attributable to B30 cities of the top ten asset management companies in India, intermediated investments accounted for approximately 78.0% of AUM attributable to B30 cities as of June 30, 2020, as compared to 49.0% of AUM attributable to T30 cities. Sales through their and third-party digital platforms accounted for 6.5%, 15.9%, 22.9%, 18.9% and 41.3% of equity and hybrid mutual fund gross sales in the fiscal years ended March 31, 2018, 2019 and 2020, and the three-month periods ended June 30, 2019 and 2020, respectively. As of June 30, 2020 and 2019, there were 1.2 million and 1.1 million SIP Live Folios, respectively, compared to 1.2 million, 1.1 million and 0.9 million as of March 31, 2020, 2019 and 2018.

The PMS Business- improving ranks

UTI provides Discretionary PMS to the EPFO, the Coal Mines Provident Fund Organisation, the Employees' State Insurance Corporation, the National Skill Development Fund and to HNIs, Non- Discretionary PMS to Postal Life Insurance and Advisory PMS to various offshore and domestic accounts. UTI is approved to manage 55.0% of the total corpus of the Central Board of Trustees, EPF, accounting for INR 5,916.6 billion, or 84.9% of the PMS AUM as of June 30, 2020. The AUM for PMS business increased from INR 1,158.5 billion as of March 31, 2018 to INR 6,890.6

billion as of March 31, 2020 driven by the above, representing a CAGR of 143.9%, and to INR 6,970.5 billion as of June 30, 2020. Total income for PMS was INR 40.6 million and INR 32.1 million, representing 1.5% and 1.3% of total consolidated income, for the three-month periods ended June 30, 2020 and 2019, and INR 147.3 million, INR 110.1 million and INR 95.2 million, representing 1.7%, 1.0% and 0.8% of our total consolidated income, for the fiscal years ended March 31, 2020, 2019 and 2018, respectively.

Established position in retirement solutions

UTI is one of the three asset managers originally appointed by the Pension Fund Regulatory and Development Authority ("PFRDA") in September 2007 to manage the pension funds for Central and State Government employees (hired since January 2004 and excluding the armed forces) under the NPS. They set up a subsidiary on December 14, 2007, UTI RSL, to manage such pension funds. On March 13, 2009, UTI RSL was also appointed to manage NPS contributions from citizens other than government employees who joined the NPS on a voluntary basis. As of June 30, 2020, UTI RSL manages 12 schemes, two of which are Government-sector schemes, with an aggregate closing AUM of INR 1,293.1 billion as of June 30, 2020, while the remaining ten are non-Government sector schemes, with an aggregate closing AUM of INR 62.8 billion as of June 30, 2020. UTI RSL's total AUM has been growing steadily over the past years, from INR 694.8 billion as of March 31, 2018 to INR 1,222.0 billion as of March 31, 2020, representing a CAGR of 32.6%; as of June 30, 2020, our RSL AUM had increased to INR 1,355.9 billion. They manage retirement funds, offshore funds (including the Shinsei UTI India Fund, a co-branded fund with Shinsei Bank of Japan) and alternative investment funds. This business had an aggregate closing AUM of INR 1523.4 billion as of June 30, 2020.

UTI International Limited

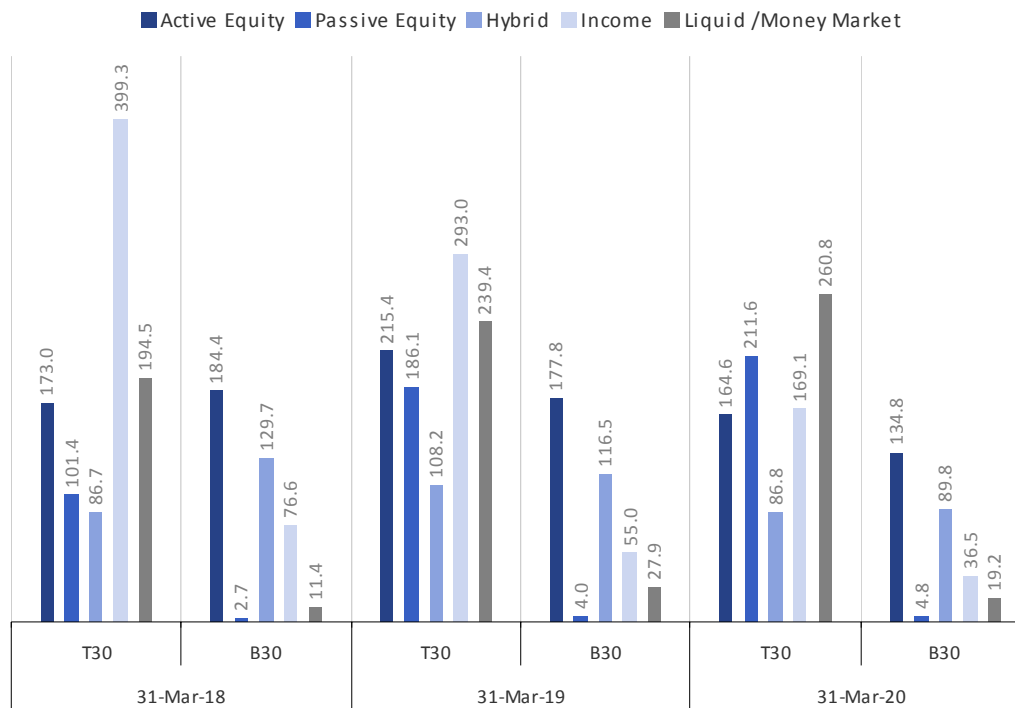
They market overseas funds through the wholly owned subsidiary, UTI International Limited, a Guernsey-registered company. UTI International has offices in London, Dubai, Guernsey and Singapore and two subsidiaries, UTI Investment Management Company Mauritius Limited and UTI International (Singapore) Private Limited. UTI plans to further expand the international activities by expanding presence and distribution capabilities in Europe and the Americas. The overseas funds have a very limited number of investors. Total consolidated income for UTI International increased to INR 517.1 million from INR 207.2 million, representing 19.1% and 8.5% of the total consolidated income, for the three-month periods ended June 30, 2020 and 2019, primarily as a result of fair value gains on investments.

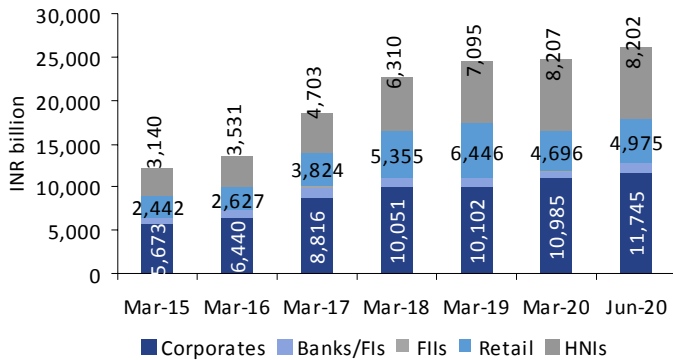
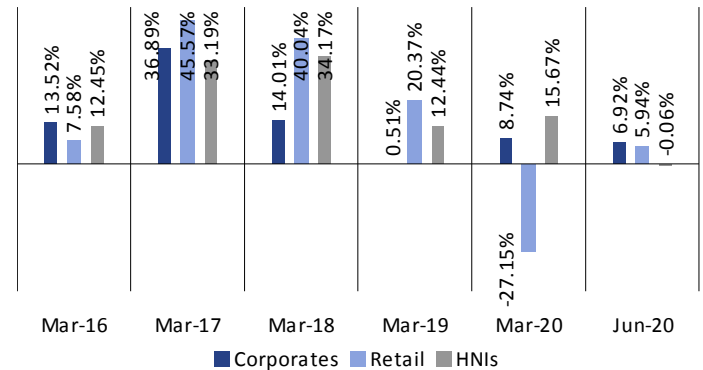
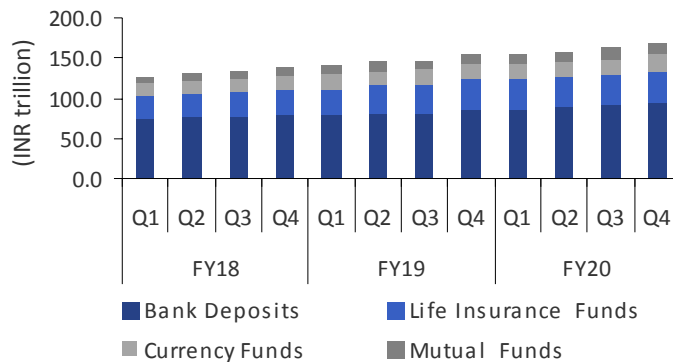
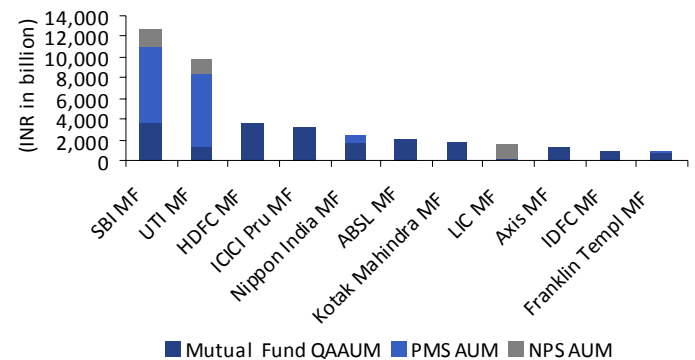
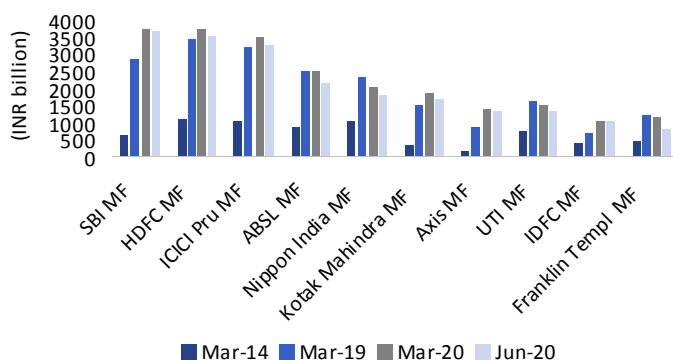
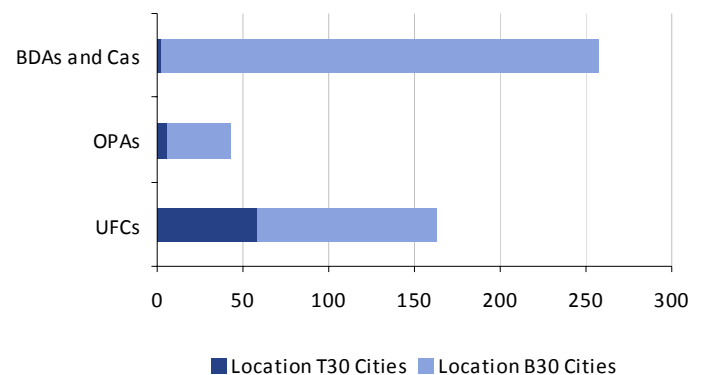
Outlook and Valuation

UTI AMC is the oldest MF name in India that has been in existence before the arrival of MF's started in India ~1996. While the AMC lost to the new comers in mutual fund AUM race over the last decade, the recent ramp-up in the PMS business aided by bagging some big ticket EPFO accounts has been impressive. We believe that the MF business- due to SIP's and PF and retirement solutions business are more or less annuity based - thereby providing stability to inflows or AUM accretion unless the AMC fails to renew some of the major client's business and/or acquire new business. The MF business has taken a hit primarily due to loss of AUM in debt funds- leaving little scope for further deterioration. The shift to passive funds and direct fund in T30 cities has been very visible and if the same trend replicates in the B30 cities

average earnings of AMC's might still be neutral as no commissions for direct plans negate the effect of lower fees form passive funds. At the IPO price the of INR 554 the p/e workouts to ~26x on FY20 earnings, which seems adept seeing the slow to negligible ramp-up in the profitable MF business, which the other AMC's have been able to capitalise on. Considering the scope of opportunity in B30 cities and within T30, specially beyond the state of Maharashtra and its 3-4 regions, the scope of the opportunity seems humungous, further the scaling up of the PMS and retirement solution business could also boost earnings going forward. With the worst behind them as the management learns from its recent hiccups and past experiences, we recommend to subscribe to the issue as a good long-term investment.

UTI Domestic MF AUM in T30 and B30 cities (INR in billion)



Share of AUM by Investor Classification

Growth of AUM by Investor Classification

Gross Financial Assets

AUM-Segmentwise

AAUM

Distribution Reach


Financials

Income Statement

Y/E (INR mn)	FY18	FY19	FY20	3MFY21
Revenue	11501	10505	8550	2618
Fee & Comm Exp	18	21	29	7
Employee Cost	3208	3067	3399	980
Other expenses	2588	2436	1629	384
EBIDTA	5687	4982	3493	1247
EBIDTA Growth %	-	-12.4%	-29.9%	-
Interest	87	82	85	23
Depreciation	273	291	313	85
Other Income	127	304	360	93
PBT	5454	4912	3454	1232
Tax	1403	1433	690	221
PAT	4051	3479	2765	1011
Non-controlling Interests	409	(49)	35	5
APAT	3642	3528	2730	1006
Growth (%)	-	-3.1%	-22.6%	-
EPS (INR)	28.73	27.83	21.53	7.93

Key Ratios

Y/E	FY18	FY19	FY20	3MFY21
Per Share Data (INR)				
EPS	28.73	27.83	21.53	7.93
CEPS	34.10	29.74	24.28	8.64
DPS	5.00	5.00	7.00*	-
BVPS	186.73	205.41	217.88	223.60
Return Ratios (%)				
RoACE	22.21%	17.76%	11.46%	-
RoANW	15.38%	13.55%	9.88%	-
Profitability				
EBIDTAM	49.45%	47.42%	40.85%	47.63%
PBTM	47.43%	46.76%	40.40%	47.07%
PATM	35.22%	33.12%	32.34%	38.61%
Valuation Ratios (on issue Price)				
P/e (x)	-	-	25.73	17.47
P/Ceps (x)	-	-	22.82	16.03
P/Bv (x)	-	-	2.54	2.48
Dividend Yield %	-	-	1.26%	-

* Div proposed

Balance Sheet

Y/E (INR mn)	FY18	FY19	FY20	3MFY21
SOURCES OF FUNDS				
Equity Share Capital	1268	1268	1268	1268
Reserves	22406	24776	26357	27081
Total Shareholders Funds	23674	26044	27625	28349
Other Financial Liabilities	1544	1594	1756	1782
Trade & Other Payables	1609	714	662	332
Other Non Financial Liabilities	1663	1409	1398	2057
Total Liabilities	29193	30133	31549	32634
APPLICATION OF FUNDS				
Fixed Assets	3639	3485	3511	3542
Cash & Cash Equivalents	1502	1242	1193	1239
Trade & Other Receivables	549	637	554	513
Investments	21788	22614	23558	24574
Other Current Assets	379	559	693	765
Total Assets	29193	30133	31549	32634

Cash Flow

Y/E (INR mn)	FY18	FY19	FY20	3MFY21
EBT	5454	4912	3454	1232
Add: Depreciation	273	291	313	85
Add: Interest paid	87	82	85	23
Less: Income tax paid	(1612)	(1665)	(747)	(175)
Change in Working Capital	283	(834)	(424)	98
Other	(1727)	(1414)	(554)	(1077)
Cash Flow from operations (a)	2686	1227	1947	151
Change in Fixed Assets	(118)	(66)	(218)	(15)
Change in Investments	(2159)	217	(731)	(70)
Other	741	(358)	256	59
Cash Flow from Investing (b)	(1538)	(258)	(1059)	(162)
Change in Equity	0	0	0	0
Debt Raised/(Repaid)	2	51	134	76
Dividend paid	(507)	(634)	(634)	-
Inc/Dec in Non Controlling int.	(349)	(330)	(264)	7
Others Paid	108	(317)	(174)	(26)
Cash Flow from Financing (c)	(746)	(1229)	(938)	57
Net Change in Cash (a+b+c)	401	(260)	(49)	46
Opening Cash	1101	1502	1242	1193
Closing Cash	1502	1242	1193	1239

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