

UTI Asset Management Company Ltd.

Riding the Equity Growth Wave; Initiate with BUY

UTI Asset Management Company Ltd (UTI AMC), along with its group companies, is present across various business segments like Mutual Funds, Alternate Investment Funds, Pension Business and Portfolio Management Services. Considering the future growth visibility, we assign BUY rating with target price of Rs.1,489 per share.

Investment Rationale

Leadership Position in India's Asset Management Companies

- UTI AMC ranks 4th among top-rated schemes by Value Research and 2nd among listed firms, highlighting its strong position in India's mutual fund industry.
- It is also the 7th largest AMC by Monthly Average Assets Under Management (MAAUM).
- Further, UTI AMC's Portfolio Turnover Ratio is superior to that of the industry.

Robust Distribution Network and Increasing Footprint in B30 cities

- UTI AMC's extensive distribution network spans 97% of India's districts, enabling significant market penetration, particularly in B30 cities, where its AUM growth rate of 21% outpaces the industry average of 19%.
- This strong presence in underpenetrated markets offers a competitive edge, with revenue growth driven by increased market access.
- UTI AMC's strategic investment in B30 cities positions it to enhance brand awareness and capitalize on the untapped growth potential in these regions.

AUM Growth and Lower Staff Cost to Drive Operating Leverage

- UTI AMC has grown significantly, with revenue rising at a 3-yr CAGR of 14.1% from Rs. 11.68 bn. in FY21 to Rs. 17.37 bn. in FY24, while reducing employee expenses from 33% to 25% of revenue in the same period.
- UTI AMC's focus on cost control and operational efficiency is expected to drive higher profit margins and strengthen its competitive position in the industry.

Growing Preference for Equity as an Asset Class in Indian Households

- Indian households are increasingly shifting from traditional assets like gold and real estate to equities, with over 20% now actively investing in financial markets.
- The surge in retail investments, driven by mutual funds and SIPs, is reflected in UTI AMC's growth, as monthly SIP inflows rose from Rs. 2.25 bn. in September 2020 to Rs. 7.10 bn. in June 2024. This trend highlights the growing confidence in the equity market for wealth creation.

Key Risks

- Market Risk
- Regulatory Risk

Valuation:

UTI AMC is currently trading at P/E of 14.3x on FY26 basis. We value the stock based on P/E methodology and assign multiple of 16.5x (2-year forward) on FY26E PAT of Rs.11,506 mn. to arrive at a target price of Rs.1,489 per share, which is potential upside of 15.2% from current market price and recommend "BUY" on the stock.



East India Securities Ltd
Excellent | Investment | Solutions

Rating: **BUY** Upside/(Downside): **15.2%**
Current Price: **1,293** Target Price: **1,489**

Market Data

Bloomberg:	UTIAM:IN
52-week H/L (Rs):	1,401/805
Mcap (Rs. bn/USD bn):	164.9/ 2.0
Shares outstanding (mn):	127.4
Free float (%)	100
Daily vol. (3mth Avg in mn)	406
Face Value (Rs)	10
Group	BSE 500

Source: Bloomberg, EISEC Research

Shareholding pattern

	Sep-24	Jun-24	Mar-24	Dec-23
Promoter	-	-	-	-
FIIs	7.2	6.2	5.9	5.5
DIIIs	60.1	60.6	60.9	61.1
Public/others	32.7	33.2	33.2	33.5

Source: BSE

Price Performance (%)*

YE Mar (R)	1M	3M	6M	12M
BSE 500	-0.94	-1.19	16.58	35.83
UTI AMC	8.01	16.49	40.21	61.70

As on 29 Nov 2024 Source: Ace Equity, EISEC Research

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Y/E Mar (mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	EPS	RoCE (%)	ROE	P/E(x)	EV/EBITDA (x)
FY22	13,191	12.88%	6,980	52.91%	5,343	5.71%	42.1	15.3%	14.8%	30.9	19.1
FY23	12,669	-3.96%	6118	48.29%	4,374	-18.1%	34.4	11.79%	11.31%	37.7	21.3
FY24	17,370	37.11%	10,334	59.49%	7,657	75.07%	60.2	18.19%	17.45%	21.5	11.5
FY25E	20,694	19.14%	13,273	64.14%	10,199	33.20%	80.0	18.63%	18.86%	16.2	8.2
FY26E	22,973	11.01%	14,840	64.60%	11,506	12.81%	90.3	17.56%	17.54%	14.3	6.5

Source: Company, EISEC Research Estimates

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Background and History

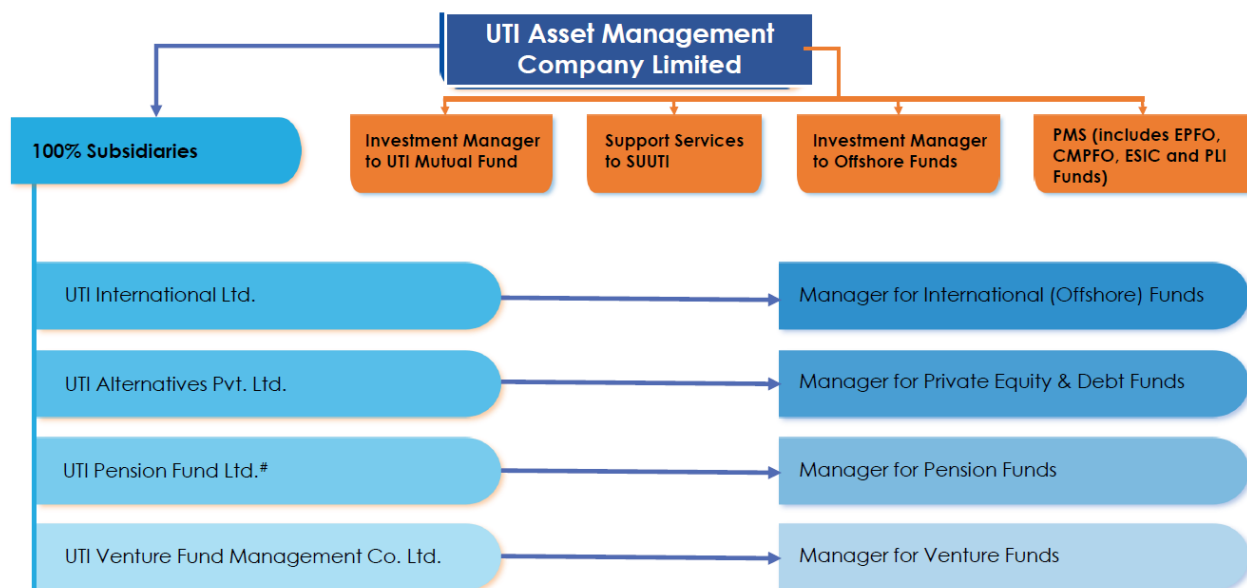
Background & History

Year	Event
2002	UTI AMC was officially incorporated.
2003	UTI AMC received registration from Securities Exchange Board of India (SEBI) under the SEBI Mutual Fund Regulations. The company was granted approval to operate as the asset management company for UTI AMC.
2004	UTI AMC took over the schemes and assets under management (AUM) of IL&FS Mutual Fund. The Axel Portfolio Management Services was introduced.
2006	UTI International Singapore Private Limited (UTI International) was formed as a joint venture.
2007	UTI Retirement Solutions Limited (UTI RSL), a subsidiary sponsored by UTI AMC, was incorporated. It was appointed by PFRDA as one of the pension fund managers.
2009	The company was chosen as one of the two fund managers for the Postal Life Insurance corpus. UTI AMC's investor folios surpassed Rs. 10 mn.
2010	UTI AMC launched its investor education initiative, "Swatantra." Additionally, TRP became a shareholder in the company.
2011	UTI Capital Private Limited was established.
2017	The company introduced the UTI Structured Debt Opportunities Fund under its AIF category, along with the launch of the digi-invest campaign.
2018	On September 5, 2018, UTI AMC recorded its highest closing AUM, amounting to Rs. 1.77 tn.
2019	UTI AMC was appointed as one of two fund managers for the EPFO corpus. UTI Retirement Solutions Ltd.'s AUM surpassed Rs. 1 tn. UTI AMC, along with its subsidiaries, had the largest AUM among all SEBI-licensed AMCs and their subsidiaries in India as of September 30, 2019, amounting to Rs 7.67 tn.
2020	The company was appointed as the portfolio manager for the ESIC fund, the CMPFO corpus, and also selected to manage the Post Office Life Insurance Fund and Rural Post Office Life Insurance Fund.
2022	Launched India's first instant commission pay out facility for distribution partners under the aegis 'UTI Insta Pay'. UTI RSL's AUM crossed Rs. 2 tn.
2023	UTI AMC has completed 20 years and is entered in its 60 th year since establishment.
2024	UTI Pension Fund crossed AUM of Rs. 3 tn. and received a Point of Presence License from Pension Fund Regulatory and Development Authority. UTI International opened offices in US and Europe.

Business Segments

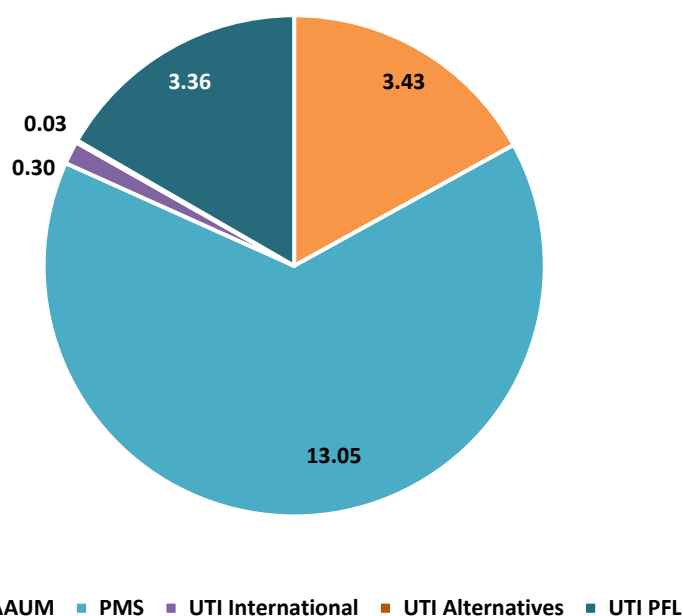
- UTI AMC is primarily engaged in the mutual fund business and through its subsidiaries it is present in alternative investments, pension fund management, venture capital and international fund management businesses.
- UTI AMC is one of India's leading asset management companies, offering a diverse range of mutual fund schemes and investment solutions.
- A brief corporate structure of the group is provided as follows.

Fig 1: Corporate Structure



Source: Company, EISEC Research

Fig 2: Business Segmentwise AUM (Rs. Tn.) as on September 30, 2024

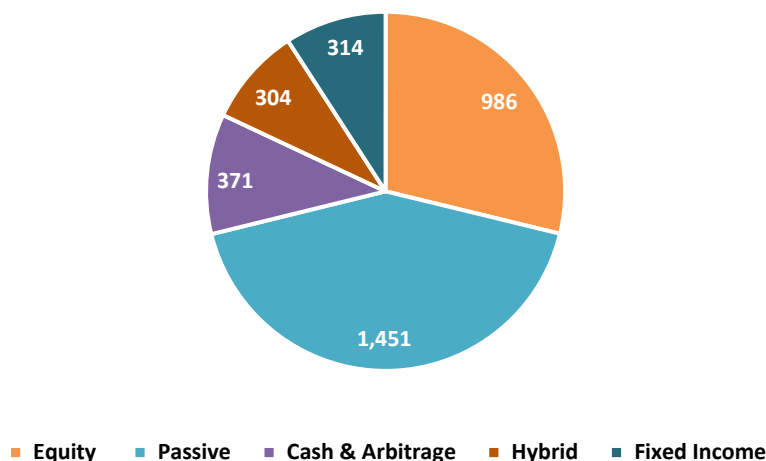


Source: Company, EISEC Research

1. UTI AMC

- UTI AMC is primarily engaged in *inter alia* Mutual Fund (MF), Portfolio Management Scheme (PMS), Offshore Funds asset management business.
- UTI AMC was the pioneer to introduce mutual funds in India and is registered with SEBI under the SEBI (Mutual Funds) Regulations, 1996.
- It is one of India's largest mutual fund asset managers with Quarterly Average AUM (QAAUM) of Rs. 3.42 tn.

Fig 3: MF QAAUM Composition (Rs. Bn.) as on September 30, 2024

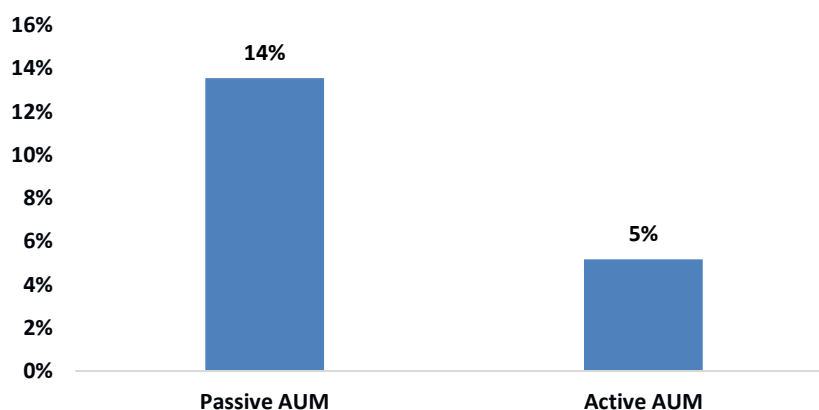


Source: Company, EISEC Research

- Cash & Arbitrage includes low-risk investments in cash equivalents and opportunities that exploit price differences across markets for profit, such as arbitrage.*
- Fixed Income consists of investments like bonds that provide regular interest payments and return of principal at maturity, offering more stable, lower-risk returns.*
- Equity refers to investment in shares of companies.*
- Hybrid combines equity and fixed income investments, aiming to balance growth potential with income generation and reduced volatility.*

- Its AUM based market share across Active and Passive funds is as follows:

Fig 4: MF QAAUM Composition (Rs. Bn.) as on September 30, 2024

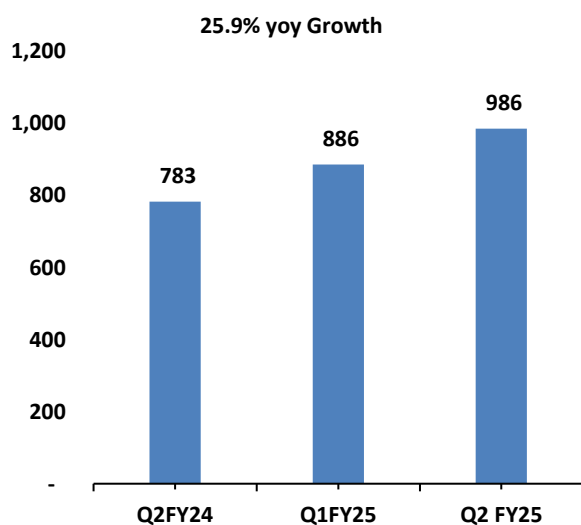


Source: Company, EISEC Research

- Passive includes Index and Exchange Traded Funds (ETFs).*
- Active includes all schemes other than Passive*

- UTI AMC has demonstrated a steady upward trajectory growth in QAAUM across categories, reflecting strong and consistent progress.

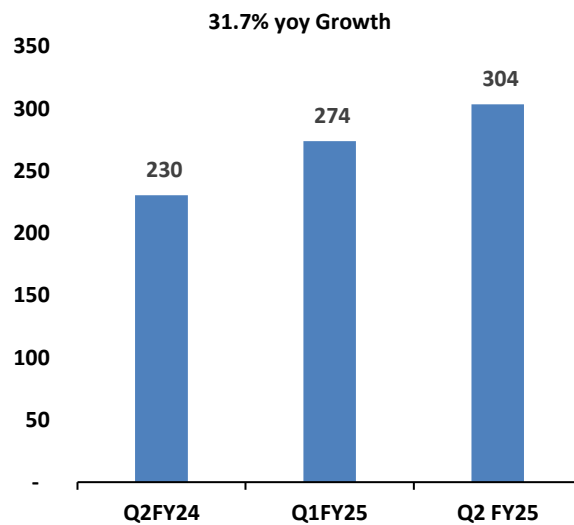
Fig 5: Equity QAAUM Growth (Rs. Bn.)



As on September 30, 2024

Source: Company, EISEC Research

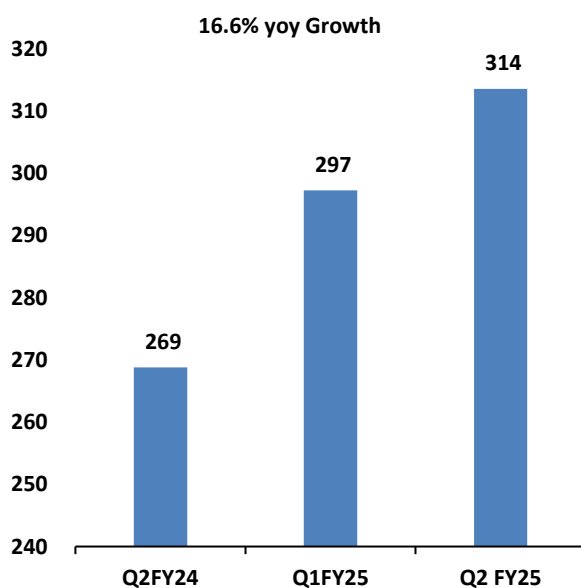
Fig 6: Hybrid QAAUM Growth (Rs. Bn.)



As on September 30, 2024

Source: Company, EISEC Research

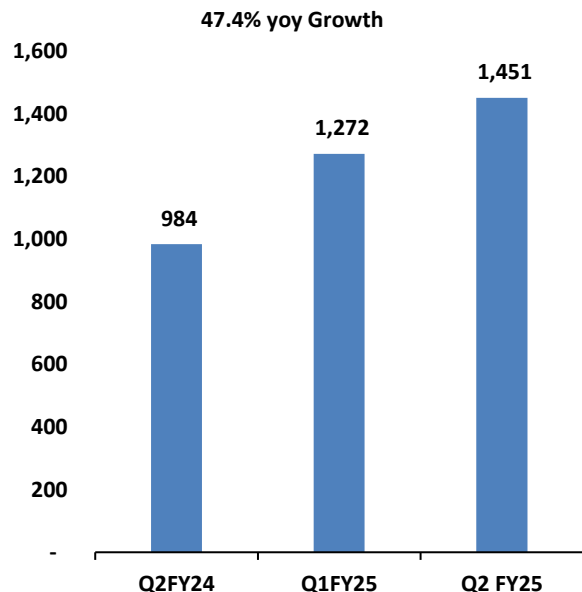
Fig 7: Income QAAUM Growth (Rs. Bn.)



As on September 30, 2024

Source: Company, EISEC Research

Fig 8: Index & ETF QAAUM Growth (Rs. Bn.)



As on September 30, 2024

Source: Company, EISEC Research

2. UTI Alternatives Pvt. Ltd.

- UTI Alternatives Pvt. Ltd. (UAPL) is a multi-asset class alternative investment management platform of UTI AMC.
- UAPL manages private market investment strategies across various segments in India - Credit, Real Estate, Distress Assets and Equity.
- UTI AMC manages 5 active private debt funds (UTI SDOF I, II & III), multi strategy fund (UTI MOF I), real estate strategy fund (UTI REOF I).
- AUM of UPAL as of Sept 2024, was at Rs. 28.56 bn.
- SEBI has approved for two more Funds i.e., UTI Credit Opportunities Fund I and UTI Asset Reconstruction Opportunities Fund I – which is yet to launch.

3. UTI Pension Fund Ltd.

- UTI Pension Fund Ltd. (UPFL), a 100% subsidiary of UTI AMC, is licensed by Pension Fund Regulatory and Development Authority (PFRDA) to manage pension funds and oversees both government and non-government NPS corpus.
- As of September 30, 2024, UPFL has achieved significant AUM growth of 24.6% yoy to Rs. 3.35 tn.
- UPFL manages ~25% of the NPS industry's total AUM.

4. UTI Venture Fund Management Co. Ltd.

- As the investment arm of UTI AMC, UTI Venture Fund Management Co. Ltd. is recognised as among the oldest Private Equity institutions in India.
- Its primary focus is managing venture capital and private equity funds for institutional clients and HNIs.
- With investments in early-stage and growth-stage companies in sectors such as healthcare, education, energy, technology, and consumer goods, its wide range of offerings includes financial planning and investment advisory services.

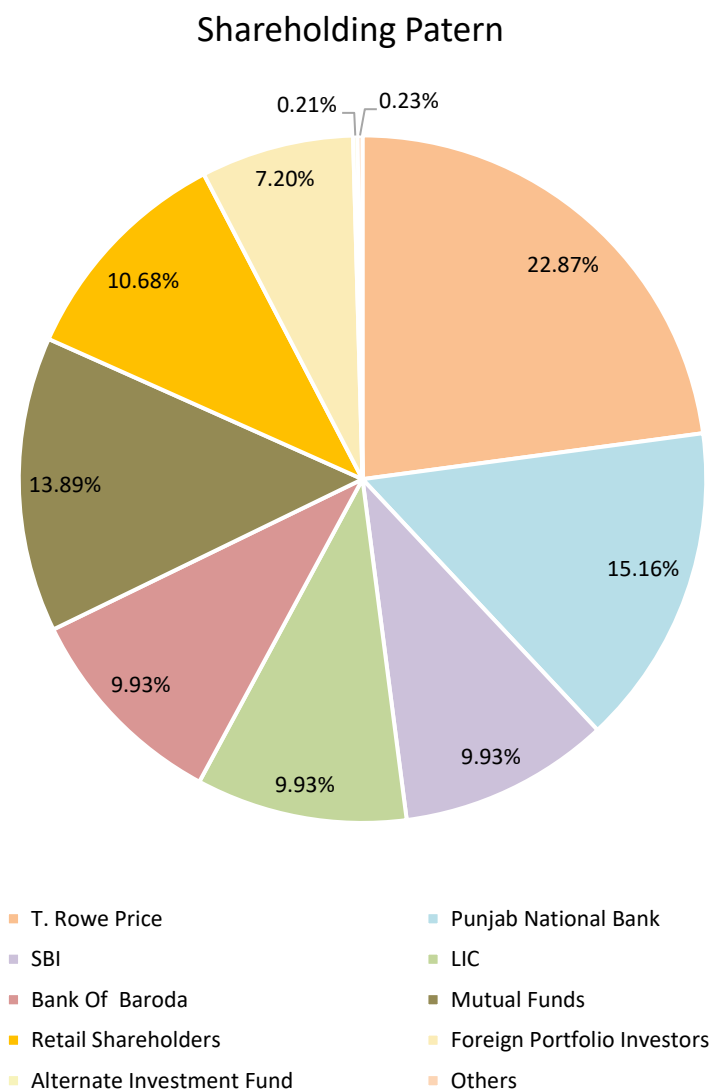
5. UTI International Ltd.

- UTI International Ltd. focuses on the group's international business and operations primarily for customers looking for investment opportunities in Indian Equity, Debt and Hybrid markets.
- It manages assets worth Rs. 298.14 bn. as of September 2024, with operations in Singapore, Dubai, London, and Paris, serving clients across 38+ countries, primarily institutions.
- The firm has secured regulatory approvals to expand in Europe and USA and manages notable funds like the Indian Equity Fund (USD 1.086 bn.) and the J Safra Sarasin Responsible India Fund, Europe's first ESG-compliant India fund.

About UTI AMC

- Established in 1964 as 'Unit Trust of India', UTI AMC has played a pivotal role in shaping the mutual fund industry in India.
- It provides products across various asset classes, including equity, debt, hybrid, and alternative investments, catering to individual and institutional investors.
- It is also known for its extensive distribution network and strong investor base, with a focus on transparency, governance, and consistent performance.
- T. Rowe Price International, a global investment management firm, has the largest shareholding in UTI AMC.

Fig 9: Shareholding Pattern as of September 30, 2024



Source: Company, EISEC Research

Board of Directors

- UTI AMC has a professionally managed board of directors.

Fig 10: Board of Directors

Name	Designation	Profile
Mr. Dinesh Kumar Mehrotra	Non-Executive Chairman	He has previously served as the Chairman and Managing Director of LIC. He holds a B. Sc. (Honours) degree from the University of Patna.
Mr. Imtaiyazur Rahman	Managing Director & Chief Executive Officer	He has over three decades of expertise in management, business leadership, and strategic alliances. He holds multiple professional certifications and has been recognized with an honorary doctorate for his contributions.
Mr. Flemming Madsen	Non-Executive Nominee Director	He has over three decades of experience in the financial industry, including capital markets, investment banking, and asset management. He was the Head of Global Financial Intermediaries at T. Rowe Price, where he worked for 23 years and held senior positions, including Vice President of T. Rowe Price Group and International Limited.
Mr. Narasimhan Seshadri	Non-Executive Independent Director	He has four decades of experience in the banking sector, having held senior positions at Canara Bank and Bank of India, where he served as Whole-Time Executive Director. He holds multiple degrees, including a Master's in Commerce, Divya Prabandam, and an MBA in Banking and Finance, and is a Certified Associate of the Indian Institute of Bankers.
Mr. Deepak Kumar Chatterjee	Non-Executive Independent Director	He has an extensive leadership experience, having served as the Managing Director & CEO of SBI Funds Management and Executive Vice President at SBI Capital Markets. He holds a B.Sc. in Physics, an M.Sc. in Agricultural Physics, and an MBA from the University of Delhi, and is a Certified Associate of the Indian Institute of Bankers.
Mr. Rajeev Kakar	Non-Executive Independent Director	He has an extensive experience in global banking, serving on the boards of Eurobank Ergasias, Gulf International Bank, and Commercial International Bank. He has held senior roles at Citibank and Fullerton Financial Holdings, and was the founder and CEO of Dunia Finance in the UAE. He holds a B.Tech. from IIT Delhi and a PGDM from IIM Ahmedabad.
Ms. Dipali Sheth	Non-Executive Independent Director	She has an extensive experience in human resources, having served as the Country Head of HR at RBS Business Services and Head of HR South Asia at Standard Chartered Bank. She holds a B.A. in Economics from the University of Delhi and is an accredited coach from ICF and Gallup, USA.
Ms. Jayashree Vaidhyanathan	Non-Executive Independent Director	He is the co-founder and CEO of BCT Digital, and serves as an Independent Director. With experience in leadership roles at Scope International, Accenture, and as an Independent Director at Altran and Mahindra Sanyo Steel, she holds a B.E. in Computer Science and an MBA from Cornell University, along with a CFA certification.
Mr. Kiran Kumar Tarania	Non-Executive Nominee Director	He is the General Manager of the Treasury Division at Punjab National Bank and serves as a Non-Executive Nominee Director. With over 34 years of experience in the banking industry, he specializes in treasury management, risk management, corporate credit, and general banking. He holds a B. Com. (Honours), a Masters of Management Studies, and is a Certified Associate of the Indian Institute of Bankers.
Mr. Srivatsa Desikamani	Non-Executive Nominee Director	He is the Head of Strategy and Corporate Development at T. Rowe Price and serves as a Non-Executive Nominee Director. With over 15 years of experience in asset management and finance, he has held leadership roles at Janus Henderson Group and McKinsey & Co., driving key mergers and acquisitions. He holds degrees in engineering, computer science, and an MBA from Dartmouth's Tuck School of Business.

Source: Company, EISEC Research

Key Management Personnel

Fig 11: Key Management Personnel

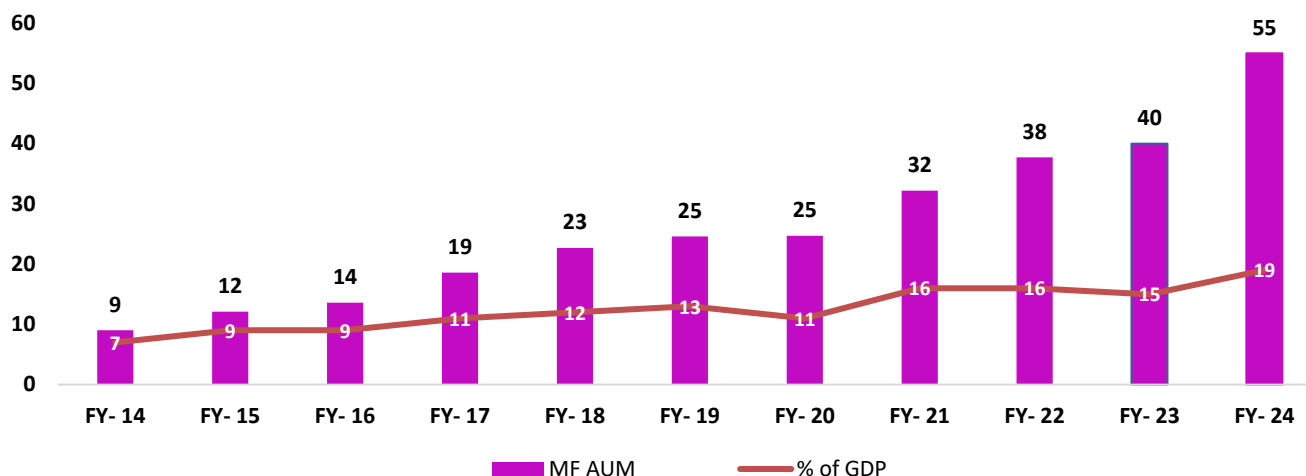


Source: Company, EISEC Research

Industry Overview

MF AUM-GDP Ratio has been Increasing

Fig 12: MF AUM (Rs. tn.) and as % of GDP

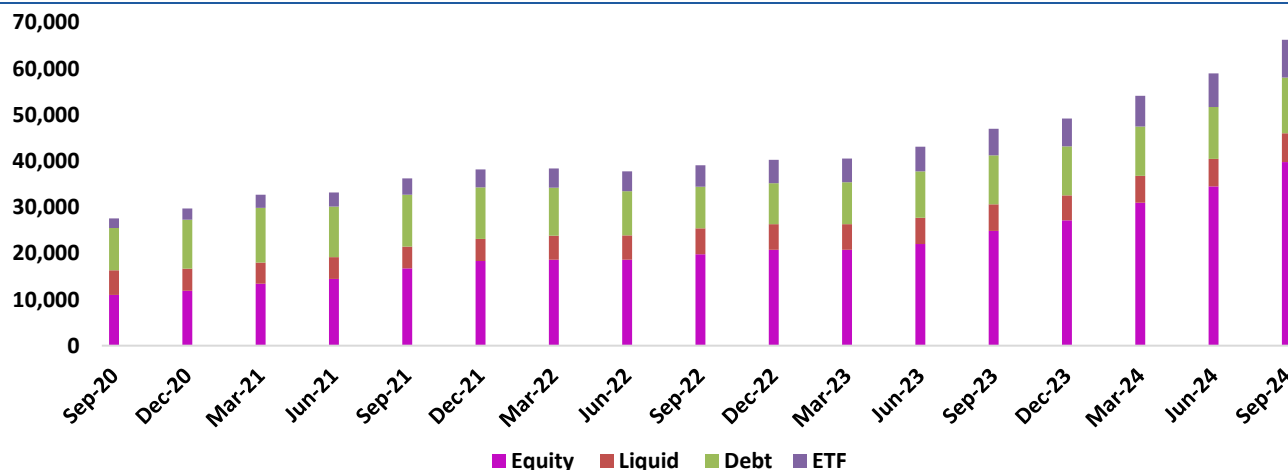


Source: RBI, SEBI, EISEC Research

- India's MF industry's AUM has grown at a CAGR of 19.8% over FYs 2014-24, with its share in the Gross Domestic Product (GDP) increasing by ~8%.
- This robust growth reflects the increasing significance of the asset management industry in the country.

Increasing Preference for Equity MFs in India

Fig 13: Industry QAAUM (Rs. bn.)



Source: AMFI, EISEC Research

- The industry's QAAUM has grown at CAGR of ~24.5% over the 4-year period, of which the share of Equity based investments grew at a CAGR of ~37.9%.

Rising Popularity of MFs amongst Individual Investors

Fig 14: Monthly Average Asset Under Management (MAAUM) in Rs. bn.

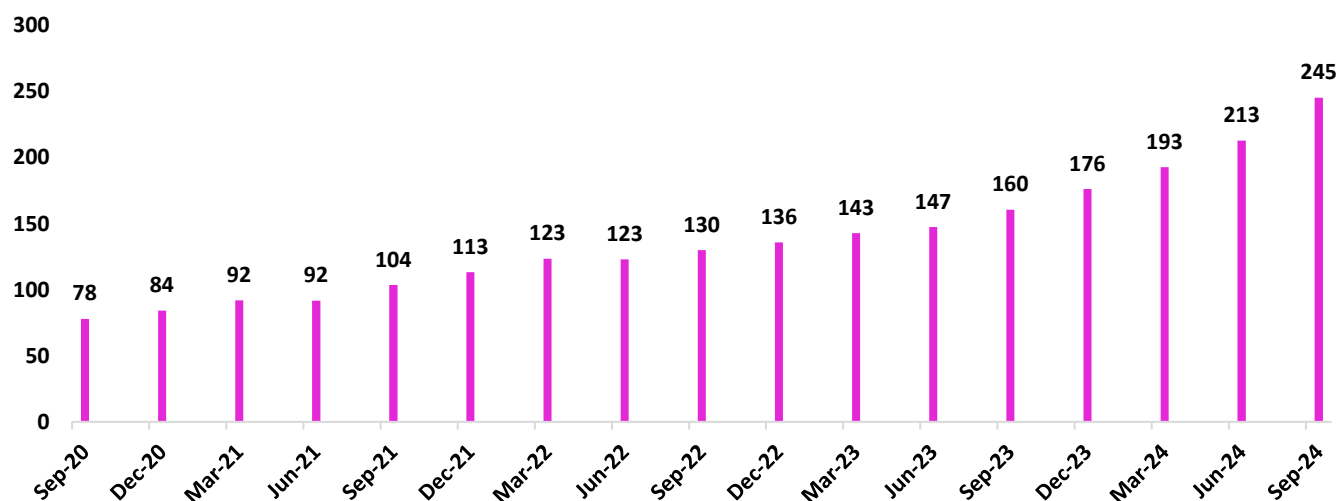


Source: AMFI, EISEC Research. Institutional includes: Mutual Funds, Pension Funds, Insurance Companies, etc.

- The MAAUM of individual investors has grown at CAGR of 30.7% whereas that of institutional investors has grown at CAGR of 18.1% over the 4-year period.
- The share of individual investors in MAAUM saw a significant growth from 52% to 62% over the 4-year period.

Robust Growth in Systematic Investment Plans (SIP)

Fig 15: Mutual Fund Industry SIP Flows (Rs. bn.)

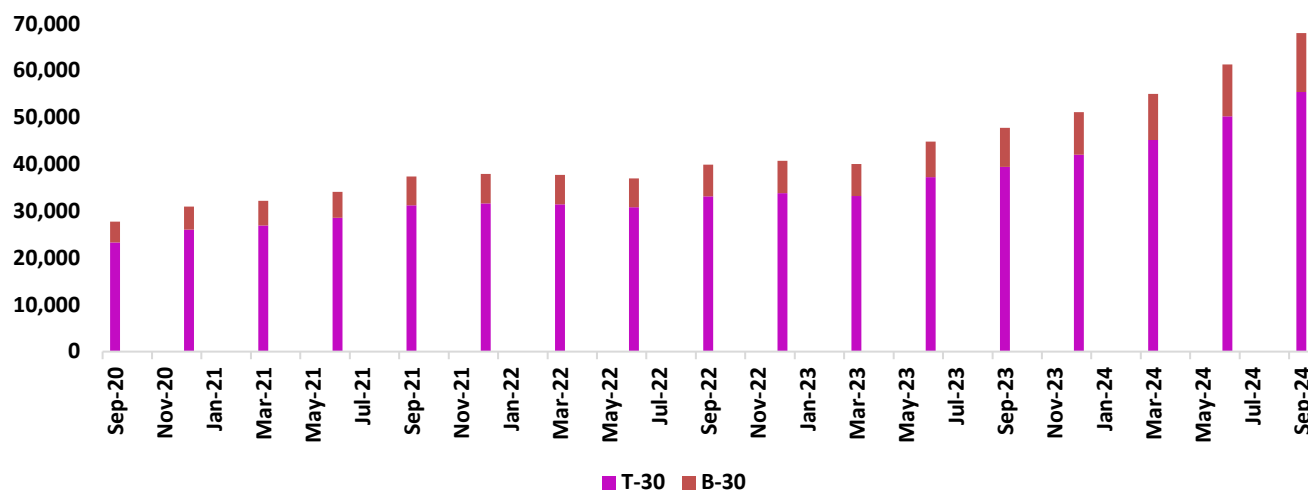


Source: AMFI, EISEC Research

- There's a consistent upward trend in quarterly SIP flows, which have grown at a CAGR of 33.1% over the past 4 years.
- This highlights the growing popularity of SIPs among investors.

Increasing Mutual Fund Awareness in B-30 Cities

Fig 16: Increasing Penetration in Smaller Towns and Semi-Urban Areas



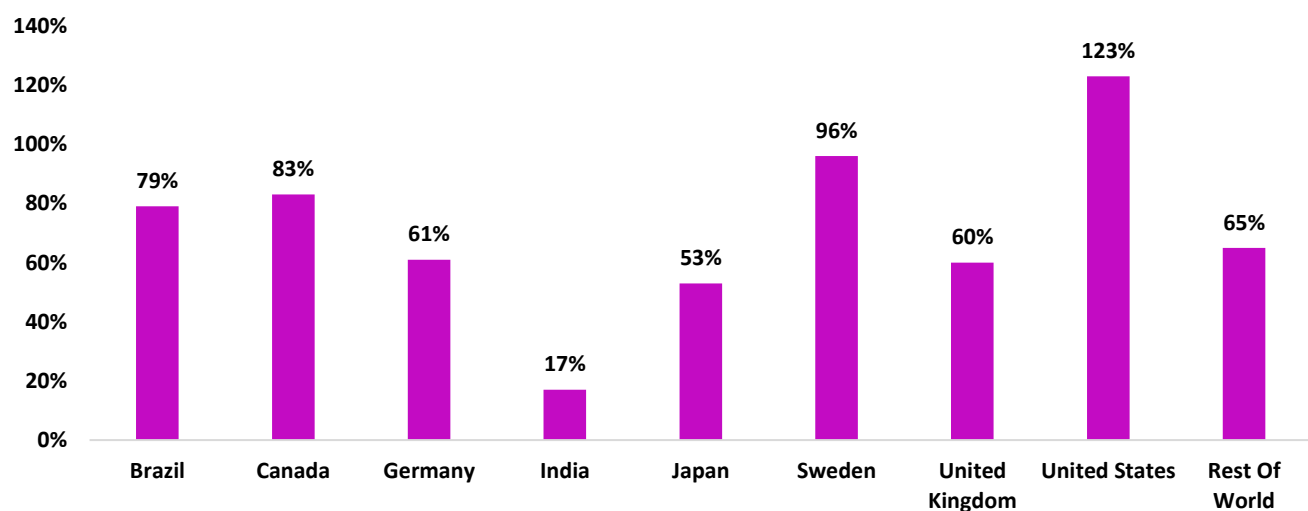
Source: AMFI, EISEC Research

- The mutual fund industry in India has shown remarkable CAGR, not only in the Top-30 (T-30) cities, (24.2%), but also in the Beyond-30 (B-30) cities (29.6%).
- This faster growth in B-30 cities reflects the rising awareness and adoption of mutual funds in smaller towns and semi-urban areas, showcasing the industry's expanding reach and increasing financial literacy among investors nationwide.

Under Penetration of MFs in India Vs Global Peers

- India's MF AUM as a percentage of GDP in 2023 was only ~17%, i.e., significantly lower than countries like the USA (123%), Sweden (96%), Canada (83%), Brazil (79%) and Rest of the World (65%).

Fig 17: MF AUM % of GDP in India Vs Other Countries in 2023

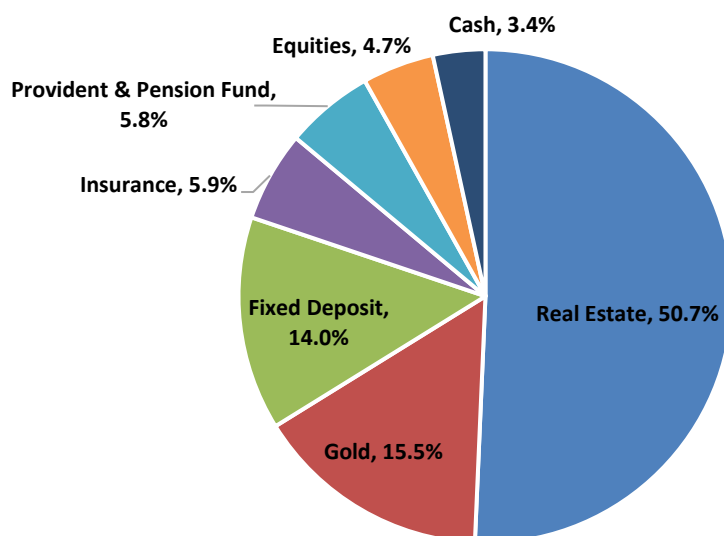


Source: World Bank, Intl, Investment, Funds Association, AMFI, Statista GDP and MF AUM data

- This graph highlights the under-penetration of mutual funds in India in comparison to the developed and other developing markets.

Low Share of Equity in Indian Household Financial Assets

Fig 18: Assets owned by Indian Households (%)



Source: RBI, EISEC Research

- Most of the Indian households prefer physical assets viz. real estate and gold for their investments over financial assets.
- Equity investments have less than 5% share in household assets.
- This low penetration suggests that there is a vast untapped market and high growth potential for equity markets in India.

Vast Untapped Opportunity for MF Industry

- As observed in the earlier sections, investments in MFs, in general, and equity MFs, in particular, are witnessing a substantial rise.
- This depicts the phenomenal potential for AMCs to increase the share of MFs in household financial assets.
- Factors like rising income levels, increasing financial literacy, and growing investor awareness can help bridge this gap.

Top 10 AMCs in India

- The AMC industry in India comprises 44 companies with Total AUM of Rs. 68.6 tn. and Equity AUM of Rs.43.0 tn. as of October 31, 2024.
- The following table depicts the Top 10 AMCs in India based on their Total AUM and Equity AUM as of October 31, 2024.

Fig 19: Top 10 AMCs in India

AMC	As on	Total AUM (Rs. Tn.)	Equity AUM (Rs. Tn.)
SBI Funds Management Ltd.	31-Oct-2024	11.1	7.8
ICICI Prudential Asset Management Company Ltd.	31-Oct-2024	9.0	5.2
HDFC Asset Management Company Ltd.	31-Oct-2024	7.8	4.6
Nippon Life India Asset Management Ltd.	31-Oct-2024	5.7	3.8
Kotak Mahindra Asset Management Company Ltd.	31-Oct-2024	4.8	2.8
Aditya Birla Sun Life AMC Ltd.	31-Oct-2024	3.8	1.7
UTI Asset Management Company Ltd.	31-Oct-2024	3.5	2.6
Axis Asset Management Company Ltd.	31-Oct-2024	3.2	1.9
Mirae Asset Investment Managers (India) Pvt. Ltd.	31-Oct-2024	1.9	1.6
DSP Investment Managers Pvt. Ltd.	31-Oct-2024	1.9	1.2

Source: AMFI, EISEC Research

- Among the top 10 AMCs, HDFC Asset Management Company Ltd., UTI Asset Management Company Ltd., Nippon Life India Asset Management Ltd. and Aditya Birla Sun Life AMC Ltd. are listed on stock exchanges.

Peer Comparison

- The asset management industry in India has seen substantial growth in recent years, driven by rising investor interest, increasing disposable incomes, and growing financial literacy.
- There is intense competition among various asset management companies as they seek a larger share of the AUM, aiming to attract investors with better returns, innovative products, and lower fees.
- Key players in this competitive landscape include public sector entities, private sector financial institutions and foreign firms.
- UTI AMC faces significant competition from top rivals like SBI AMC, ICICI AMC, HDFC AMC, Kotak AMC, Nippon AMC and Aditya Birla Sun Life AMC.
- There are 4 AMCs publicly listed on the stock exchange including UTI AMC.
- In Q2FY25, aggregate AUM of UTI AMC and its subsidiaries stood at an impressive Rs. 20.16 tn., reflecting strong growth and performance where as its Mutual Fund QAAUM stood at Rs. 3.42 tn. as of Q2FY25.
- This robust AUM figure underscores UTI's position as a major player in the Indian asset management industry, signaling its ability to attract and retain investors amidst stiff competition.

Fig 20: Peer Comparison

Company Name	AUM (tn.)			Equity AUM (tn.)			PAT (Rs. Bn.)			EBITDA Margin (%)			PAT Margin (%)		
	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
UTI AMC	2.24	2.38	2.90	0.69	0.69	0.84	6.6	5.9	9.9	52.9%	48.3%	59.5%	40.5%	34.5%	44.1%
HDFC AMC	4.07	4.36	6.07	2.09	2.45	3.97	13.9	14.2	19.4	90.7%	89.2%	98.2%	65.9%	65.7%	75.2%
Nippon AMC	2.83	2.93	4.31	1.19	1.30	2.12	7.4	7.2	11.1	78.0%	71.2%	84.5%	56.9%	53.6%	67.3%
Aditya Birla Sun Life AMC	2.93	2.81	3.14	1.16	1.20	1.40	6.7	6.0	7.8	72.3%	67.9%	77.5%	52.0%	48.6%	57.7%

Source: Company, EISEC research

Company Name	CAGR FY22-24				EPS			P/E			RoE (%)		
	Mcap Rs Bn.	Total AUM	Equity AUM	PAT	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
UTI AMC	164.85	13.8%	10.1%	22.3%	42.09	34.44	60.17	30.85	37.69	21.53	14.8%	11.3%	17.4%
HDFC AMC	900.40	22.1%	37.8%	18.1%	65.36	66.72	91.00	64.63	63.26	46.35	27.3%	23.7%	30.1%
Nippon AMC	435.17	23.4%	33.5%	22.0%	11.96	11.61	17.58	58.54	60.20	39.34	23.3%	21.4%	30.5%
Aditya Birla Sun Life AMC	255.35	3.4%	9.6%	7.7%	26.87	20.52	22.93	37.95	42.82	32.72	34.9%	26%	28.3%

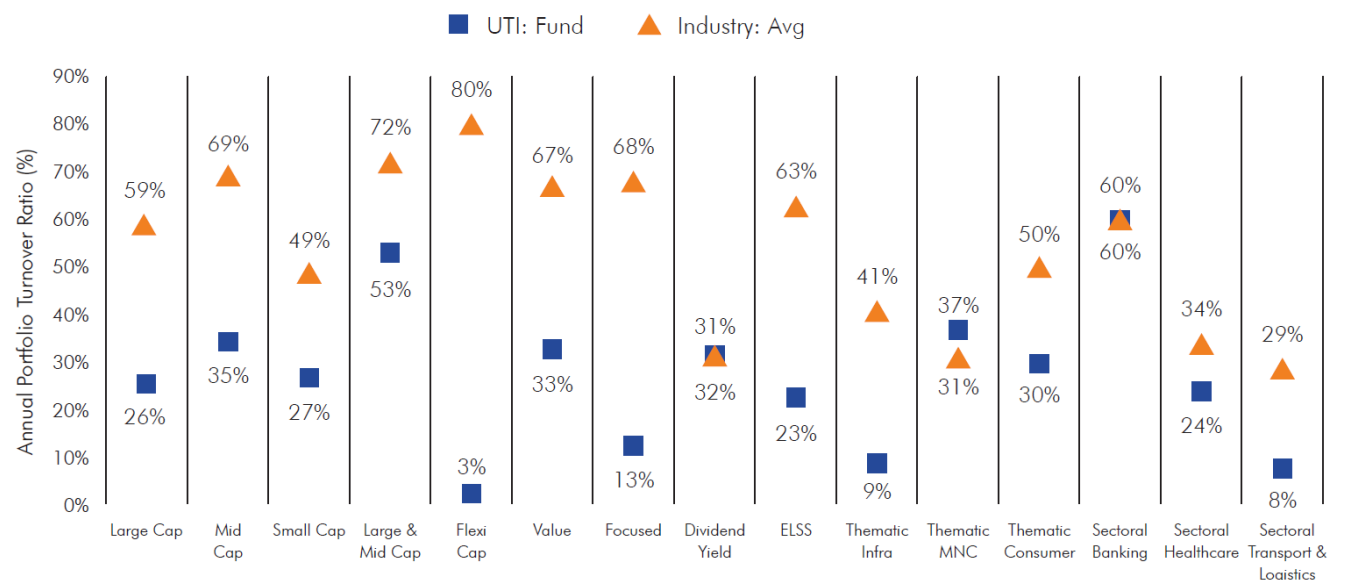
Source: Company, EISEC Research

Why Invest in UTI AMC?

1. Leadership Position amongst Asset Management Companies

- UTI AMC holds a significant position in the Indian mutual fund industry, ranking 4th (2nd amongst listed AMC's) out of the top 4-star & 5-star rated schemes by ValueResearchOnline, thus highlighting its popularity amongst MF investors.
- ValueResearchOnline Fund Rating is a quantitative measure that assesses a fund's risk-adjusted returns, combining its risk and return grades to indicate overall performance. The rating uses historical performance data relative to other funds in the same category.
- Each fund receives a risk score and a return score, and the final rating is derived by subtracting the risk score from the return score, with ratings distributed across five tiers viz. Top 10% (5-star), Next 22.5% (4-star), Middle 35% (3-star), Next 22.5% (2-star), and Bottom 10% (1-star).
- Out of more than 50 AMC's in India, UTI AMC ranks as the 7th largest AMC in terms of Monthly Average Assets Under Management (MAAUM), reflecting its solid foothold and growing influence in the highly competitive asset management space.
- This consistent performance showcases UTI AMC's robust market presence and its potential for future growth.
- Further, UTI AMC's Portfolio Turnover Ratio is superior to that of the industry as depicted in the figure below.

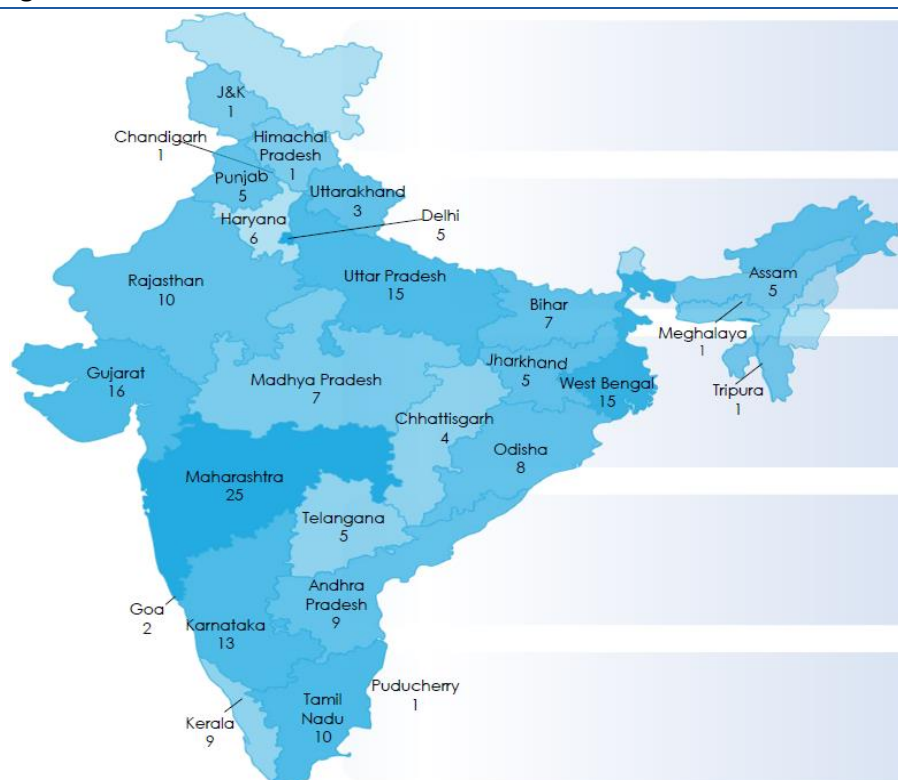
Fig 21: Annual Portfolio Turnover Ratio Vs Industry



Source: Company, EISEC Research

2. Robust Distribution Network and Increasing Footprint in B30 cities

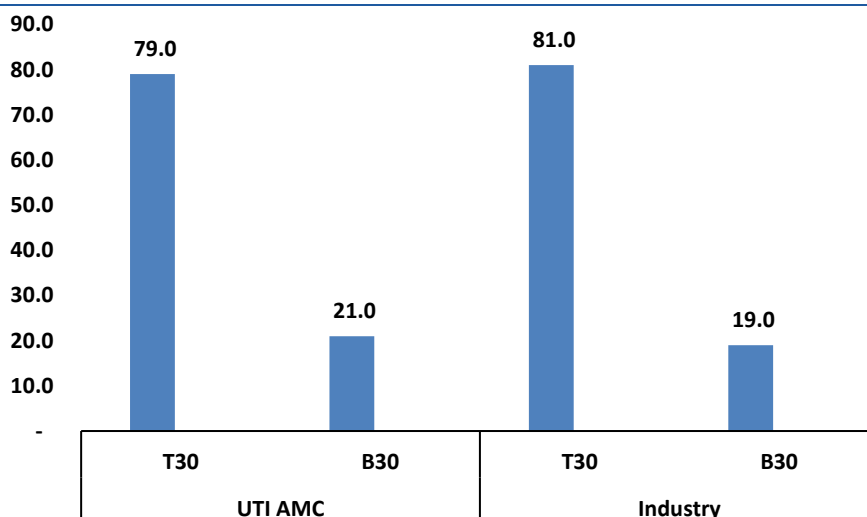
Fig 22: Distribution Network



Source: Company, EISEC Research

- UTI AMC's extensive distribution network spans more than 697 districts, covering 97% of the nation's total districts.
- It comprises a dedicated sales team along with district associates, mutual fund distributors, banks, national distributors, and fintech partners.
- Its strong brand presence and broad, long-standing client relationships provide a solid foundation for future growth.
- This robust network has allowed UTI AMC to significantly increase its penetration in B30 (beyond 30) cities, where its AUM growth rate has outpaced the industry.

Fig 23: Monthly AAUM Growth % in September 2024



Source: Company, EISEC Research

- As of September 2024, UTI AMC's monthly AAUM in B30 cities surged at an impressive 21%, i.e., 2% higher than the industry's growth rate of 19%.
- This notable outperformance highlights UTI AMC's strong and expanding foothold in these markets, underscoring its ability to outpace competitors and capitalize on the immense growth potential within B30 cities.
- Increasing penetration in B30 cities is expected to drive revenue growth in two significant ways: first, by accessing these largely underpenetrated markets, which presents a distinct competitive advantage, and second, by allowing UTI AMC to leverage the SEBI-prescribed ability to charge an additional 30 bps in expense ratios, or 15% of the scheme's average AUM, whichever is higher.
- By investing strategically in B30 cities, UTI AMC can enhance brand awareness and outreach among the local population, many of whom are unfamiliar with financial products. Given the vast and largely untapped potential in these markets, there is immense scope for growth and expansion.

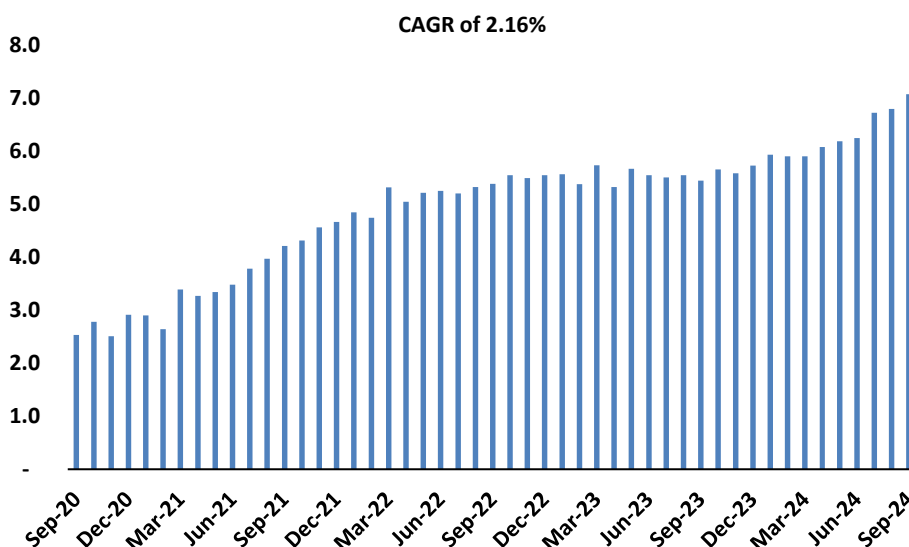
3. AUM growth and Lower Staff Cost to Drive Operating Leverage

- UTI AMC has shown remarkable growth in revenue, with income from operations steadily increasing at a CAGR of 14.1% from Rs. 11.68 bn. in FY21 to Rs. 17.37 bn. in FY24.
- What makes this achievement even more impressive is the significant reduction in employee expenses as a percentage of revenue, dropping from 33% in FY 21 to 25% in FY 24.
- This highlights UTI AMC's ability to achieve higher operating leverage by optimizing its workforce and controlling costs efficiently.
- This improvement can be attributed to the management's strategic focus on reducing employee strength, as they previously highlighted a plan where around 250 employees were expected to retire between FY21 and FY25, saving an estimated Rs. 840 mn. for UTI AMC.
- Looking ahead, UTI AMC's track record suggests that the management team is capable of scaling the business efficiently. The company has already demonstrated its ability to manage a large asset base of Rs. 3 tn. AUM with around 900-1,000 employees, maintaining a lean structure while continuing to deliver growth.
- This focus on cost control and operational efficiency will likely be a key driver of improved profit margins, solidifying UTI AMC's competitive position in the future.

4. Growing Preference for Equity as an Asset Class in Indian Households

- As Indian households shifted their focus from traditional assets like gold and real estate towards equities, the Economic Survey 2023-24 reveals that over 20% of Indian households are now actively investing in financial markets.
- From March 2020 to March 2024, the number of investors registered at the National Stock Exchange nearly tripled, underscoring a growing trust in the equity market.
- Retail investments in Indian capital markets have surged, with mutual funds becoming the preferred route for many. The Covid-19 pandemic and advancements in digital infrastructure played a significant role in this shift.

Fig 24: Growth in Gross SIP Amount (Rs. Bn.)



Source: Company, EISEC Research

- New investors, particularly younger ones, sought higher returns compared to traditional assets like gold, which offered lower returns.
- The mutual fund industry, particularly through Systematic Investment Plans (SIP), has seen remarkable growth. With 84 mn. SIP accounts, the annual SIP inflows doubled from Rs. 0.96 tn. in FY21 to Rs. 2 tn. in FY24, reflecting investors' long-term commitment to equities.
- The consistent growth in UTI AMC's SIP over these four years mirrors the larger trend of retail investors moving from physical to financial assets for wealth creation.
- UTI AMC's SIP have seen a consistent rise from September 2020 to September 2024, reflecting this shift in savings behavior.
- The monthly gross SIP inflow increased from Rs. 2.50 bn. in September 2020 to Rs. 7.10 bn. in September 2024 at a CAGR of 2.1%, highlighting the growing confidence of retail investors in mutual fund investments and UTI AMC.

Valuation

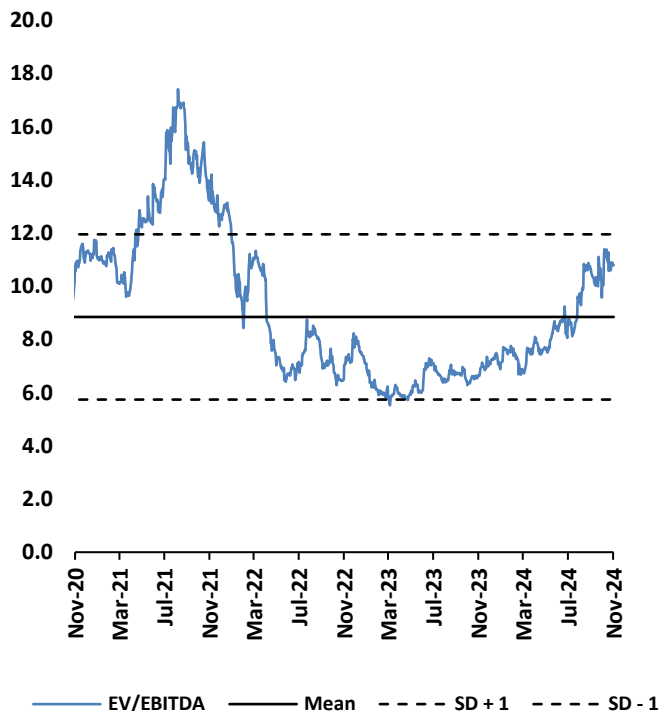
UTI AMC is currently trading at P/E of 14.3x on FY26 basis. We value the stock based on P/E methodology and assign multiple of 16.5x (2-year forward) on FY26E PAT of Rs.11,506 mn. to arrive at a target price of Rs.1,489 per share, which is potential upside of 15.2% from current market price and recommend “BUY” on the stock.

Fig 25: 2-year forward P/E chart



Source: AceEquity, EISEC Research

Fig 26: 2-year forward EV/EBITDA chart



Source: AceEquity, EISEC Research

Key Risks

Market Risk

- UTI AMC's equity funds including hybrid funds, have a significant exposure to the Indian equity markets.
- Consequently, any downturn in these markets or the specific segments where investment portfolios are focused will negatively affect the performance of domestic mutual funds and lead to a reduction in AUM.
- Additionally, if the recovery in the Indian equity markets is delayed, it may result in a corresponding delay in the recovery of UTI AMC's AUM and income, with the timing and pace of any recovery remaining uncertain.

Regulatory Risk

- UTI AMC is subject to SEBI's oversight, and any changes in SEBI regulations, such as revisions to policy frameworks, could significantly affect its business operations. For example, a reduction in SEBI-prescribed Total Expense Ratios (TERs) could substantially impact UTI AMC's profitability and operational strategy.
- Currently, SEBI mandates specific TERs for various types of mutual funds, covering expenses like management fees, distributor commissions, and operational costs.
- Such regulatory changes may compel UTI AMC to reassess its expense structure, potentially curtailing marketing and promotional efforts, which are vital for attracting new investors and maintaining AUM growth.
- In FY 2024, UTI AMC spent Rs. 224.4 mn. on general marketing to promote its brand. Reduced marketing budgets could diminish the visibility and demand for its funds.

Financials Consolidated

Income Statement	FY22	FY23	FY24	FY25E	FY26E
Y/E March (Rs mn)					
Revenues	13,191	12,669	17,370	20,694	22,973
% Growth	12.9%	-4.0%	37.1%	19.1%	11.0%
Mktg fees and commission	27	29	19	22	23
% of sales	0.2%	0.2%	0.1%	0.1%	0.1%
Personnel Costs	4,067	3,925	4,393	4,617	4,664
% of sales	30.8%	31.0%	25.3%	22.3%	20.3%
Other Expenses	2,117	2,597	2,624	2,782	3,446
% of sales	16.1%	20.5%	15.1%	13.4%	15.0%
EBITDA	6,980	6,118	10,334	13,273	14,840
EBITDA Margin (%)	52.9%	48.3%	59.5%	64.1%	64.6%
Depreciation & Amortization	368	399	423	421	394
EBIT	6,612	5,718	9,911	12,852	14,446
Finance cost	92	95	113	134	149
PBT From Operations	6,520	5,624	9,798	12,718	14,297
Other Income	82	232	70	85	85
Share from Associates	0	0	0	0	0
PBT	6,602	5,856	9,869	12,803	14,382
Tax-Total	1,256	1,459	1,848	2,604	2,876
Reported PAT	5,346	4,397	8,020	10,199	11,506
Minority Interest	-3	-23	-364	0	0
Adjusted PAT	5,343	4,374	7,657	10,199	11,506
PAT Margin	40.5%	34.5%	44.1%	49.3%	50.1%
% Growth	5.7%	-18.1%	75.1%	33.2%	12.8%

Source: Company, EISEC Research Estimates

Adjusted PAT = Report PAT + Minority Interest + Extraordinary Items

Key Ratios	FY22	FY23	FY24	FY25E	FY26E
YE March					
Growth Ratios (%)					
Net Sales	12.9%	-4.0%	37.1%	19.1%	11.0%
EBITDA	8.6%	-12.4%	68.9%	28.4%	11.8%
Adjusted Net Profit	5.7%	-18.1%	75.1%	33.2%	12.8%
Margin Ratio (%)					
EBITDA Margin	52.9%	48.3%	59.5%	64.1%	64.6%
PBT margins	50.0%	46.2%	56.8%	61.9%	62.6%
PAT Margin	40.5%	34.5%	44.1%	49.3%	50.1%
Return Ratios					
ROE	14.8%	11.3%	17.4%	18.9%	17.5%
ROCE	15.3%	11.8%	18.2%	18.6%	17.6%
ROIC	28.4%	90.3%	182.1%	240.1%	292.4%
Turnover Ratios (days)					
Gross Block Turnover (x)	3.0	2.7	3.8	4.9	5.5
Inventory	0	0	0	0	0
Debtors	41	30	20	20	20
Cash Conversion Cycle	41	30	20	20	20
Debt-equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)
Gross Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Current ratio	2.1	1.9	1.6	1.9	2.2
Interest coverage ratio	72.9	63.0	88.6	96.4	97.5
Per share (Rs.)					
Basic EPS (reported)	42.1	34.4	60.2	80.0	90.3
BV	285.2	304.6	344.8	424.2	514.5
CEPS	45.0	37.6	63.5	83.3	93.3
DPS	21.0	22.0	46.9	0.0	0.0
Dividend Payout (%)	50.0%	64.0%	78.0%	0.0%	0.0%
Valuation					
P/E	30.9	37.7	21.5	16.2	14.3
P/BV	4.6	4.3	3.8	3.0	2.5
EV/EBITDA	19.1	21.3	11.5	8.2	6.5
Dividend Yield (%)	1.6%	1.7%	3.6%	0.0%	0.0%

Source: Company, EISEC Research Estimates

Balance Sheet	FY22	FY23	FY24	FY25E	FY26E
YE March (Rs mn)					
Capital	1,270	1,270	1,273	1,275	1,275
Reserves & Surplus	34,932	37,409	42,609	52,808	64,314
Shareholders' Funds	36,202	38,678	43,882	54,083	65,589
Minority Interest	114	0	5,850	5,850	5,850
Other non financial liabilities	181	146	95	95	95
Deferred tax liabilities	286	152	407	407	407
Total Liabilities	36,783	38,977	50,235	60,436	71,942
Gross Block	4,450	4,854	4,181	4,212	4,212
Acc. Depreciation	1,044	1,303	1,405	1,826	2,219
Net Block	3,406	3,551	2,776	2,386	1,992
Capital WIP	66	65	31	0	0
Net Fixed Assets	3,471	3,616	2,807	2,386	1,992
Investments	29,944	32,479	44,283	53,783	64,883
Other Non-Current Assets	825	920	2,101	2,101	2,101
Total Non-Current Assets	34,240	37,016	49,191	58,270	68,976
Sundry Debtors	1,469	1,047	934	1,113	1,235
Cash & Bank Balances	1,734	2,095	1,509	2,566	3,241
Other Current Assets	2,387	1,592	1,777	1,777	1,777
Total Current Assets	5,590	4,734	4,220	5,456	6,253
Sundry Creditors	2,715	2,539	2,721	2,835	2,832
Provisions	333	234	455	455	455
Total Current Liabilities	3,048	2,773	3,175	3,289	3,287
Net Current Assets	2,542	1,961	1,044	2,166	2,966
Total Assets	36,783	38,977	50,235	60,436	71,942

Source: Company, EISEC Research Estimates

Cash Flow	FY22	FY23	FY24	FY25E	FY26E
YE March (Rs mn)					
Operating profit before WC changes	2,721	3,693	2,969	10,539	11,714
Net chg in working capital	649	261	283	65	125
Cash flow from operating activities (a)	3,370	3,954	3,251	10,604	11,839
Capital expenditure	0	0	0	0	0
Free Cash Flow	3,370	3,954	3,251	10,604	11,839
Cash flow from investing activities (b)	-598	-925	-1,458	-9,415	-11,015
Cash flow from financing activities (c)	-2,152	-2,668	-2,379	-132	-149
Net chg in cash (a+b+c)	620	360	-586	1,057	675

Source: Company, EISEC Research Estimates

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UTI AMC



Source: ACEEquity, EISEC Research

Analyst holding in stock: **NO**

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