

# RETAIL EQUITY RESEARCH

## UTI Asset Management Company Limited.

AMC

Sensex: 37,389

Nifty: 11,050

**SUBSCRIBE**

**Price Range Rs. 552 - Rs. 554**

### IPO price justifies competition pressure...

UTI Asset Management Company Ltd (UTI) is a professionally managed company catering to diverse group of individuals and institutional investors, banks, trusts and NRIs through a wide variety of fund management services. The company manages the domestic mutual funds of UTI mutual fund, provide Portfolio Management Services (PMS) to institutional clients and high networth individuals (HNIs) and manages retirement funds like National Pension Scheme (NPS). The AMC also manages offshore funds and alternative investment funds.

- UTI AMC and its predecessor (Unit Trust of India) have been active in the asset management industry for more than 55 years, having established the first mutual fund in India.
- UTI is the 2<sup>nd</sup> largest AMC in India with Total AUM of Rs.9,706bn and 8<sup>th</sup> largest AMC in India in terms of mutual fund business with Quarterly Average AUM (QAAUM) of Rs.1,336bn.
- As of June 2020, UTI had the largest share of monthly average AUM attributable to B30 cities by QAAUM, according to CRISIL.
- Company enjoys 2<sup>nd</sup> highest market share in PMS and NPS business with AUM of Rs.6,970.5bn and Rs.1,356bn, respectively.
- UTI has strong distribution network with presence in 697 of 722 districts in India.
- Mutual fund business has been showing decline in market share over the past few years, from 8.2% in FY14 to 5.4% in Q1FY21.
- Company's FY20 ROE stands at 10.3% which is much lower than its peers (HDFC AMC-35.5% and Nippon Life-16.2%). However, at the upper price band of Rs.554, UTI AMC is available at P/E of 25x FY20, which is cheaper compared to its peers (HDFC AMC-36x, Nippon Life - 38x). Based on the upper price band, the Market cap to MF AUM for UTI stands at 5.3% compared to HDFC AMC-12.6% and Nippon Life- 8.6%. Additionally, they have huge business of PMS & NPS, which accounted for 41% of Q1FY21 revenue. We believe that the IPO price is after factoring lower ROE, high competition and uncertainties from pandemic. Accordingly, we recommend Subscribe rating on a short to medium-term basis, expecting listing gain.

### Purpose of IPO

At the upper price band, total issue size stands at Rs. 2,159.8cr. The issue consists of only offer for sale (OFS) from SBI, LIC, BoB, PNB and T. Rowe Price International Ltd (TRP) and the company will not receive any proceeds from this offer. The prime purpose of the issue is to achieve the benefits of listing shares on stock exchanges.

### Key Risks

- High competition from private AMCs.
- Decline in market share consistently.

### Peer Valuation

Issue Details			
Date of opening		29 <sup>th</sup> Sep , 2020	
Date of closing		01 <sup>st</sup> Oct , 2020	
Total no. of shares offered (cr)		3.89	
Post issue no. of shares (cr)		12.7	
Price band		Rs. 552- 554	
Face value		Rs. 10	
Bid lot		27 shares	
Minimum application for retail (upper price band for 1 lot)		Rs. 14,958	
Maximum application for retail (upper price band for 13 lot)		Rs. 1,94,454	
Listing		BSE & NSE	
Lead manager		Kotak Investment Banking, HDFC Bank Ltd, ICICI Securities, Nomura Fin. Advisory & Security	
Registrars		Link Intime India Pvt Ltd.	
Issue size (upper price)		Rs.cr	
Fresh issue		0.0	
OFS		2159.8	
Total issue		2,159.8	
Shareholding (%)	Pre issue	Post issue	
Selling shareholders	99	68	
Others	1.0	32	
Total	100	100	
Issue structure	Allocation %	Size	Rs.cr
Employee reservation	-	11.1	
Retail	35	752.1	
Non -Institutional	15	322.3	
QIB	50	1,074.4	
Total	100	2,159.8	
Y.E March (Rs.cr)	FY19	FY20	Q1FY21
Sales	1,051	855	262
Growth (%)	-8.7	-18.6	-
EBITDA	498	349	125
Margin%	47.4	40.9	47.6
PAT Adj	348	276	101
Growth (%)	-14.1	-20.5	-
EPS	27	22	32*
P/E (x)	20.2	25.4	17.4*
EV/EBITDA	27.9	19.3	14.1*
RoE (%)	14.0	10.3	14.7*

\*Annualized

Company	MCap (Rs cr)	Revenue (Rs cr)	EBITDA margin (%)	EPS	RoE (%)	P/E	Mcaps to MF AUM(%)
UTI AMC	7,024	855	40.9	22	10.3	25	5.3
HDFC AMC	44,941	2,263	73.0	59	35.5	36	12.6
Nippon Life India	15,575	1,415	50.0	6.7	16.2	38	8.6

Source: Geojit Research, Bloomberg; Valuations of UTI AMC are based on upper end of the price band, Financials as per FY20

## Company Description

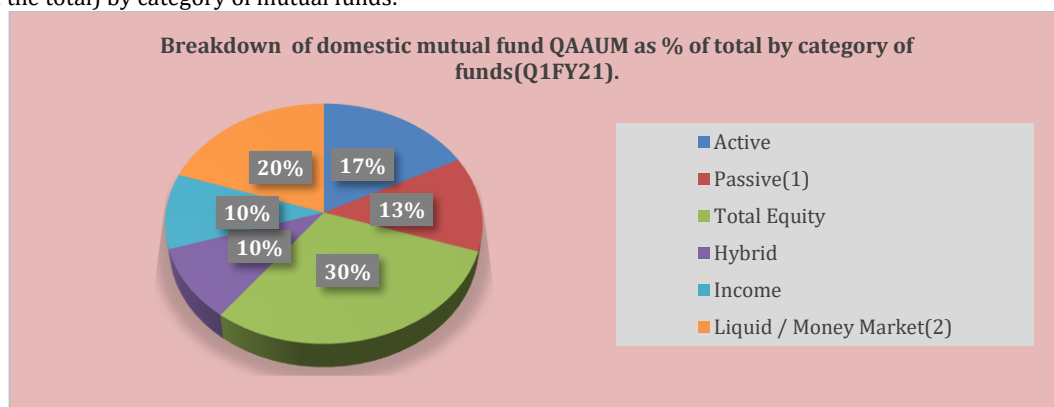
**UTI Asset Management Company Ltd**, and its predecessor (Unit Trust of India) have been active in the asset management industry for more than 55 years, having established the first mutual fund in India. The company manages the domestic mutual funds of UTI mutual fund, provide portfolio management services (PMS) to institutional clients and high networth individuals (HNIs), and manage retirement funds, offshore funds and alternative investment funds. UTI is the 2<sup>nd</sup> largest Asset Management Company in India in terms of Total AUM and 8<sup>th</sup> largest AMC in India in terms of mutual fund QAAUM (Quarterly Average Assets Under Management) as of June 2020 according to CRISIL. As of June 2020, UTI had the largest share of monthly average AUM attributable to B30 cities of the top ten Indian AMCs by QAAUM according to CRISIL. The four sponsors of UTI are State bank of India (SBI), Life Insurance Corporation of India (LIC), Punjab National Bank (PNB) and Bank of Baroda (BoB) each of which has the Government of India as a majority shareholder. T. Rowe Price Group, Inc., a global asset management company, is other major shareholder (through its subsidiary T. Rowe Price International Ltd. (TRP)).

## Income generation through management fees

Management fees is the main source of income. Management fees is calculated as a percentage of AUM and vary based on the value and composition of AUM. The management fees cover fund management and support services such as fund accounting and certain other administrative functions, and include fees for providing support services to SUUTI (Specified Undertaking of the Unit Trust of India). UTI's revenue from operations also includes revenue earned from advisory, investor service and performance fees generated by offshore and alternative investment fund businesses.

## Strong brand recognition and diverse portfolio of funds and services...

Company offers a diverse portfolio of domestic funds, including equity, hybrid, income, liquid and money market funds, as well as portfolio management services, retirement solutions, and offshore and alternative investment funds. UTI's total QAAUM for domestic mutual fund was at Rs1,336.3bn while other AUM was at Rs. 8,493.4bn (of which PMS represented Rs.6970.5bn), the management fees in respect of Domestic Mutual Fund QAAUM accounted for 58.7% of the total income for the three-month period ended on June 30, 2020. UTI manages 153 domestic mutual fund schemes as of June 30, 2020. The Domestic Mutual Fund QAAUM accounted for approximately 5.4%, or the eighth largest of the total QAAUM invested in all mutual funds in India as of June 30, 2020, according to CRISIL. Set forth below is the breakup of Domestic Mutual Fund QAAUM (as a percentage of the total) by category of mutual funds:



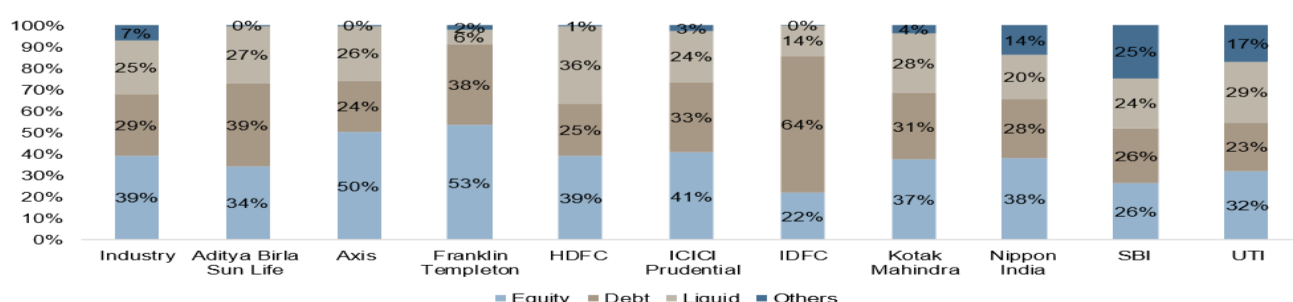
(1) Includes the UTI Gold Exchange Traded Fund, which had QAAUM of ₹4.8 billion as of June 30, 2020.

(2) Includes the UTI Overnight Fund and the UTI Floater Fund, which had QAAUM of ₹48.9 billion and ₹13.9 billion, respectively, as of June 30, 2020.

Source: RHP, Geojit Research

Company's national footprint with a presence in many metropolitan and rural areas, and particular strength in B30 cities, has allowed them to leverage the UTI name and establish UTI as a brand which is recognised across the country. UTI brand was amongst the top five preferred industry brands in the Nielsen Mutual Fund Studies for December 2015 to January 2016 and September 2017.

## Top 10 AMCs AUM by Segment

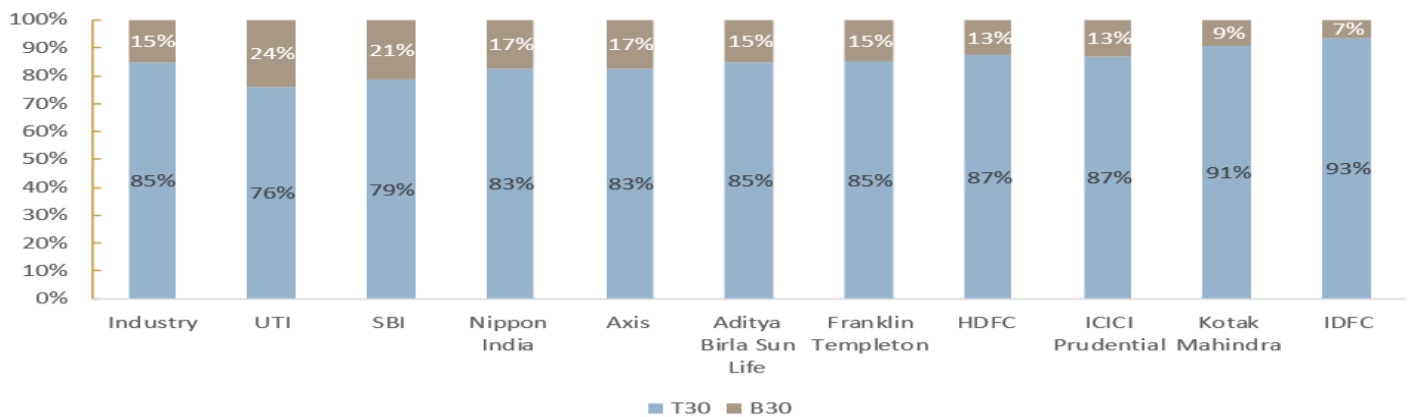


Note: Data are as of June 30, 2020 and based on monthly average AUM. Equity includes equity and balanced schemes, others include gold ETFs, other ETFs and fund of funds overseas. Short name for AMCs used. Refer to annexure for full names. Source: AMFI, CRISIL. Source: RHP, Geojit Research

### Well positioned to capitalise on future growth in mutual fund industry...

Even though market share of MF business shows decline over past years, strong presence and brand value should help company to regain its lost market share in long run. Company has the highest proportion of their monthly average AUM (as of June 30, 2020) attributable to B30 cities as of June 30, 2020. CRISIL notes that there is a particularly low penetration of mutual fund products in B30 cities. As of March 31, 2020, the Indian mutual fund industry's AUM attributable to B30 cities was only 12.6% of total industry AUM. However, the share of industry AUM accounted for by B30 cities has increased in every financial year or period since 2015 (when it accounted for 8.3% of total industry AUM), individual investors (having preference to equity funds) have been a large driver for this shift with individuals in B30 cities increasing their share of total industry AUM from approx. 7% as of FY15 to approx. 10% as of FY20. Company's size and diverse client base, coupled with strong product portfolio, particularly in B30 cities, extensive distribution network and widely recognized brand, position them to capitalise on future growth in the Indian mutual fund industry.

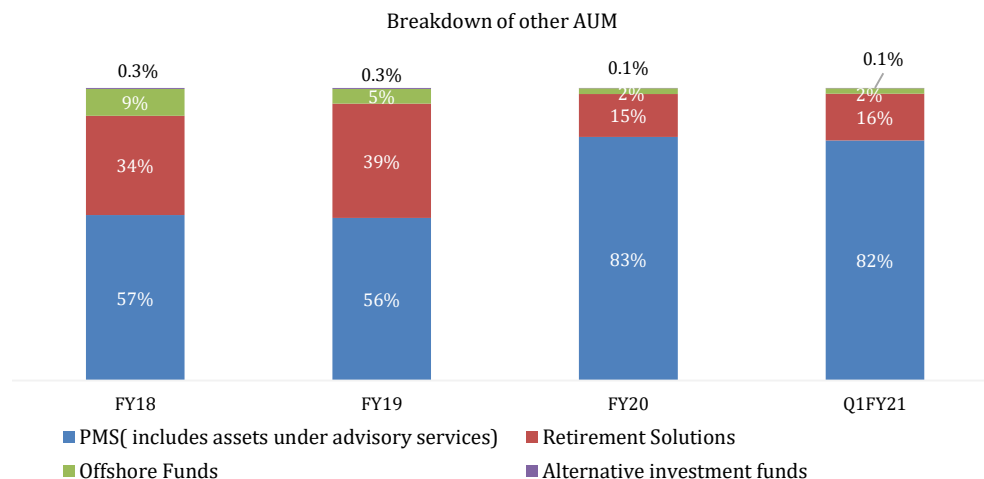
#### Share of B30 Markets in Top 10 AMCs AUM



Note: Data are as of June 30, 2020. Based on monthly average AUM; short name for AMCs used. Refer to annexure for full names. AMCs are arranged in order of percentage share of B30 AUM. Source: AMFI, CRISIL

### Significant growth in PMS Business...

UTI launched PMS business in May 2004 and, since then, it has become an increasingly important part of business and has had a positive track record in terms of performance and diversification opportunities. As of June 30, 2020, the total AUM of PMS business was Rs.6,970.5bn, representing 82.1% of Other AUM, as compared to Rs.4,849.8bn for the three-month period ended on June 30, 2019. PMS AUM for FY20, FY19 and FY18 are Rs.6,890.6bn, Rs.1,332.7bn and Rs.1,158.5bn respectively, which represented 80.5%, 83.2%, 55.6%, and 56.6%, respectively, of other AUM. This significant growth in the AUM of PMS business during the financial year ending March 31, 2020 is largely due to the enlarged mandate obtained from EPFO and the new mandates from CMPFO and ESIC.



Source: RHP, Geojit Research

### Established position in Retirement Solutions....

According to CRISIL, UTI manages the largest income tax-notified fund in the retirement fund category in India (the UTI Retirement Benefit Pension Fund), which had QAAUM of Rs.26.0bn as of June 30, 2020. Through PMS business, UTI is one of the two fund managers appointed to manage the EPFO corpus and have also been appointed as a fund manager for CMPFO, ESIC and NSDF. As of June 30, 2020 UTI has the second highest market share by AUM of PMS services in India (at 44.7%), and the second highest market share by AUM of NPS funds (at 29.2%). The continuous track record in developing retirement solutions enhances UTI's brand value and provides additional cross-selling opportunities to grow AUM, particularly in domestic mutual funds business. Further, the company plans to grow offshore business by focusing on distribution partnerships including co-branded and white-labelled funds, expanding in-house distribution and client coverage capabilities, and making further in-market hires overseas, and strengthening relationships with wealth platforms and local banks.

## Multiple distribution channels with wide reach and broad & stable client base...

UTI has a national footprint and offer their schemes through a diverse range of distribution channels. Company's wide-spread distribution network in India gives them access to investors located in 697 districts (out of 722 districts in total), including remote areas, and reinforces their strong presence in small and medium towns, cities and villages. The offshore funds are also distributed through their foreign offices in London, Guernsey, Dubai and Singapore.

Category	Total	Location	
		T30 Cities	B30 Cities
UFCs <sup>(1)</sup>	163	58	105
OPAs <sup>(2)</sup>	43	6	37
BDAs and CAs <sup>(3)</sup>	257	2	255
<b>Total</b>	<b>463</b>	<b>66</b>	<b>397</b>

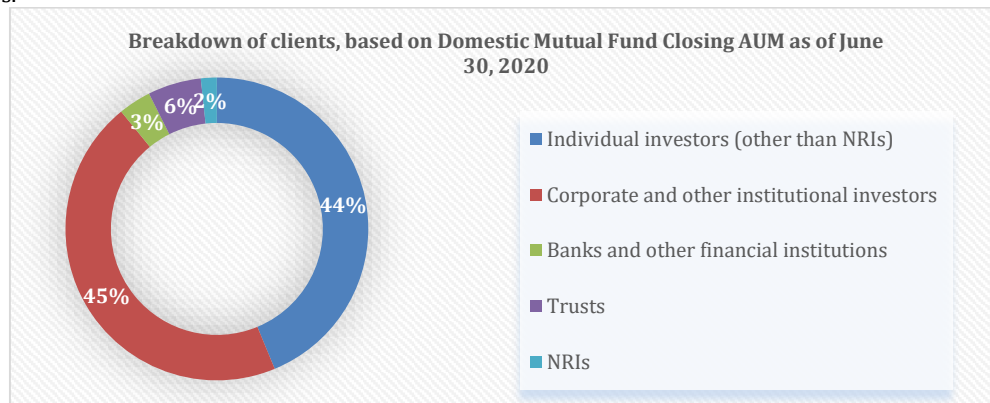
(1) UFCs are branch offices at which, among other things, our employees service investors and distributors and conduct sales and marketing activities.

(2) OPAs are authorised points of service at which scheme investors can conduct transactions relating to their investments. An additional 40 OPAs are operated by BDAs in the locations in which they are based.

(3) BDAs and CAs are individuals engaged by us on an exclusive basis to develop, maintain and service our distributor and investor relationships in their assigned districts.

Source: RHP, Geojit Research

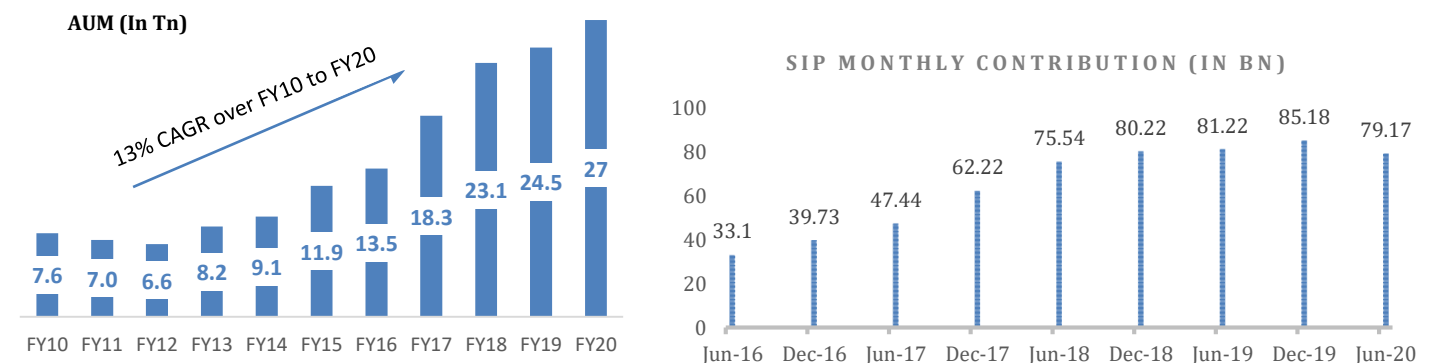
UTI's clients include domestic individual investors, corporate and other institutional investors, banks and other financial institutions, Trusts and non -resident Indians (NRIs) represented the remainder of the Domestic Mutual Fund Closing AUM. With 10.9 million live folios as of March 31, 2020, their client base accounts for 12.2% of the approximately 89.7 million folios managed by the Indian mutual fund industry, according to CRISIL. UTI's established presence in B30 cities has enabled them to attract new clients and position to capitalise on future growth in those underpenetrated cities.



Source: RHP, Geojit Research

## Industry Overview

In recent years, mutual fund business in India have seen robust growth, driven by a growing investor base due to increasing penetration across geographies, strong growth of the capital markets, technological progress, and regulatory efforts aimed at making mutual fund products more transparent and investor friendly. Although mutual fund AUM as a percentage of GDP has grown from 4.3% as of FY02 to approximately 11% as of FY20, penetration levels remain well below the world average of 63%.



Source: RHP, Geojit Research

Average AUM of equity-oriented funds grew at a CAGR of approximately 20.5%, from Rs.3.7tn as of March 31, 2015 to Rs.9.7tn as of June 30, 2020, while average AUM of debt-oriented funds grew at a CAGR of approximately 4.9%, from ₹5.3tn as of March 31, 2015 to Rs.6.8tn as of June 30, 2020, primarily driven by the IL&FS default and the ensuing NBFC crisis and subsequently exacerbated by the COVID-19 global pandemic. Aggregate amount invested in SIPs has shown a robust growth due to low contribution minimums increasing accessibility to lower

income households. SIP AUM growth slowed during the COVID-19 pandemic as lower discretionary spending and expenditures of personal emergency funds resulted in a decline in household liquidity available for SIP contributions. As of March 31, 2019, the AUM of PMS asset managers stood at approximately ₹16.1 trillion, reflecting a CAGR of 16% over the last five years. As of February 29, 2020, the AUM of PMS asset managers has grown by approximately 15% over March 31, 2019 to reach approximately ₹18.5tn.

#### Top 10 AMC's in India:

(in billion)	MF QAAUM	PMS Closing AUM	NPS Closing AUM	Total AUM
SBI MF	3,644	7,250	1,786	12,679
UTI MF	1,336	7,014	1,356	9,706
HDFC MF	3,562	12	100	3,673
ICICI Pru MF	3,263	27	51	3,340
Nippon India MF	1,801	768	-	2,568
Aditya Birla Sun Life MF	2,146	17	2	2,165
Kotak Mahindra MF	1,673	18	11	1,703
LIC MF	150	36	1,341	1,527
Axis Bank MF	1,343	11	-	1,355
IDFC MF	1,018	1	-	1,018

Source: RHP, Geojit Research

### Promoter and promoter group

UTI AMC is a professionally managed company and does not have an identifiable promoter in terms of SEBI. The Board comprises of 11 Directors, including eight Independent Directors (of which three are women Directors), one Whole-time Director and two Non-Executive Directors.

#### Brief Biographies of Directors

- **Imtaiyazur Rahman** is the Whole-time Director and Chief Executive Officer of the company. He is associated with the company since 2003. He was appointed as the Whole-time Director of the company with effect from August 23, 2019. Further, he has been appointed as the Chief Executive Officer of the company for a period of two years with effect from June 13, 2020. He has also served as the Acting Chief Executive Officer of the company with effect from August 14, 2018 to June 12, 2020.
- **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 has also served as the executive director of international operations at LIC. He was appointed as an Independent Director of the company with effect from August 23, 2017.
- **Ashok Shah** is an Independent Director of our Company. He holds an M.A. degree in Economics from Kumaon University. Prior to joining the company, he was associated with LIC as the executive director. Presently, he is also the chairman and independent director of 3i Infotech Limited. He was appointed as an Independent Director of the Company with effect from August 22, 2019..
- **Deepak Kumar Chatterjee** is an Independent Director of the company. Prior to joining the company, he was associated with SBI Funds Management Private Limited as the managing director and chief executive officer and SBI Capital Markets Limited as a general manager. He was also associated with IIFCL Projects Limited as its chief executive officer and IIFCL Asset Management Company Limited as a director. He was appointed as an Independent Director of the company with effect from September 25, 2018.
- **Dipali H Sheth** is an Independent Director of the company. Prior to joining the company, she was associated with RBS Business Services Private Limited as a country head of human resources, Standard Chartered Bank, Procter & Gamble Distribution Company Limited and DCM Limited. She was appointed as an Independent Director of the company with effect from December 16, 2019.
- **Edward Cage Bernard** is a Non-Executive Director of the company pursuant to the terms of the Shareholders' Agreement. Prior to joining the company, he was associated with the TRP group as a vice chairman, T Rowe Price Group Inc as a director on the board. 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 pursuant to the terms of the Shareholders' Agreement with effect from August 22, 2019.
- **Flemming Madsen** is a Non-Executive Director of the company pursuant to the terms of the Shareholders' Agreement. 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. He has been associated with T. Rowe Price for 19 years. His experience in the financial industry includes capital markets transactions, investment banking, and asset management. He was appointed as a Non-Executive Director of the company pursuant to the terms of the Shareholders' Agreement with effect from January 20, 2010.

## Consolidated Financials

### Profit & Loss Account

Y.E March (Rscr)	FY19	FY20	Q1FY21
<b>Sales</b>	<b>1,051</b>	<b>855</b>	<b>262</b>
% change	-8.7	-18.6	-
<b>EBITDA</b>	<b>498</b>	<b>349</b>	<b>125</b>
% change	-12.4	-29.9	-
Depreciation	29.1	31.3	8.5
EBIT	469	318	166
Interest	8.2	8	2.3
Other Income	30	36	9.3
Exceptional Items	0	0	0
<b>PBT</b>	<b>491</b>	<b>345</b>	<b>123</b>
% change	-10	-29.7	-
Tax	143	69	22
Tax Rate (%)	29	20	18
<b>Reported PAT</b>	<b>348</b>	<b>276</b>	<b>101</b>
Adj	-	-	-
<b>Adj PAT</b>	<b>348</b>	<b>276</b>	<b>101</b>
% change	-14.1	-20.5	-
No. of shares (cr)	12.7	12.7	12.7
<b>Adj EPS (Rs)</b>	<b>27</b>	<b>22</b>	<b>32*</b>

### Balance Sheet

Y.E March (Rscr)	FY19	FY20	Q1FY21
Cash	124	119.3	123.9
Accounts Receivable	63.7	55.4	51.3
Inventories	0	0	0
Other Cur. Assets	84	106.7	112.9
Investments	2,400	2,520.7	2,619
Net Fixed Assets	336.4	340	343
CWIP	0.88	0.28	0.57
Intangible Assets	3.6	12.6	12.4
Other Assets	0	0	0
<b>Total Assets</b>	<b>3,013</b>	<b>3,155</b>	<b>3,263</b>
Current Liabilities	239	250	230
Provisions	92	83	130
Debt Funds	0	0	0
<b>Minority Interests</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Def. Tax</b>	<b>41</b>	<b>49</b>	<b>58</b>
<b>Equity Capital</b>	<b>127</b>	<b>127</b>	<b>127</b>
<b>Reserves &amp; Surplus</b>	<b>2,478</b>	<b>2,636</b>	<b>2,708</b>
<b>Non controlling Int.</b>	<b>37</b>	<b>11</b>	<b>11</b>
<b>Shareholder's Fund</b>	<b>2,604</b>	<b>2,762</b>	<b>2,835</b>
<b>Total Liabilities</b>	<b>3,013</b>	<b>3,155</b>	<b>3,263</b>
<b>BVPS (Rs)</b>	<b>205</b>	<b>217.5</b>	<b>223.2</b>

### Cash Flow

Y.E March (Rscr)	FY19	FY20	Q1FY21
PBT	491.2	345.4	123.2
Non-cash adj.	(118.6)	(34)	(100)
Changes in W.C	(249.9)	(117)	(8)
<b>C.F.O</b>	<b>122.7</b>	<b>194.8</b>	<b>15.1</b>
Capital exp.	(6.6)	(22)	(1)
Change in inv.	(56.5)	-	-
Sale of investment	16.5	(110)	(20.6)
Other invest.CF	21	26	6
<b>C.F - investing</b>	<b>(26)</b>	<b>(106)</b>	<b>(16)</b>
Issue of equity	0	0	0
Issue/repay debt	(11.4)	(6)	2
Dividends paid	(76)	(69)	-
Other finance.CF	(35.1)	(19)	3.5
<b>C.F - Financing</b>	<b>(123)</b>	<b>(93.9)</b>	<b>5.6</b>
Chg. in cash	(26.0)	(4.9)	4.55
Closing cash	124.2	119.3	123.8

\*Annualized

### Ratios

Y.E March	FY19	FY20	Q1FY21
<b>Profitab. &amp; Return</b>			
EBITDA margin (%)	47.4	40.9	47.6
EBIT margin (%)	44.7	37.2	44.4
Net profit mgn.(%)	33.1	32.3	38.6
ROE (%)	14.0	10.3	14.7*
ROCE (%)	14.2	10.6	15*
<b>W.C &amp; Liquidity</b>			
Receivables (days)	20.6	25.4	74.4
Inventory (days)	0	0	0
Payables (days)	3	1	2
Current ratio (x)	8.0	8.4	8.0
Quick ratio (x)	0.8	0.7	0.8
<b>Turnover &amp; Lev.</b>			
Net asset T.O (x)	3.1	2.5	0.8
Total asset T.O (x)	0.4	0.3	0.1
Int. covge. ratio (x)	57.3	37.5	50.7
Adj. debt/equity (x)	0	0	0
<b>Valuation ratios</b>			
EV/Sales (x)	6.7	8.2	6.7*
EV/EBITDA (x)	14.1	20.1	14.1*
P/E (x)	20.2	25.4	17.4*
P/BV (x)	2.7	2.5	0.6*



## General Disclosures and Disclaimers

### CERTIFICATION

We, Sheen. G and Rajeev T author(s) of this Report, hereby certify that all the views expressed in this research report reflect my personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

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Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

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