

## Aditya Birla Sun Life AMC

### Improving operating metrics; equity growth a key

We are optimistic about the AMC space – being a fee-based and capital light business, revenues and profitability are slated to see a CAGR of 13-15% over FY21-26, led by economic growth, growing investor base, and higher disposable income levels, which should aid greater retail participation. Aditya Birla Sun Life AMC (ABSL AMC) is the 4<sup>th</sup> largest AMC in terms of MF AUM, with asset size of Rs2.82tn as at June 2021. It commands a market share of 8.4% (overall AUM) / 7.4% (equity AUM), up 20bp QoQ in Q1FY22. Over FY18-21, RoE profile was attractive at 30%+, while operating yields improved consistently over FY17-20 from 18bp to 26bp. Equity share has been lower than peers at 38%, which has been offset by negligible ETF contribution (merely 0.4%). Equity share could trend higher, as outlook is positive. Performance on debt AuM has been better to peers as contraction in debt AuM was lower. OFS amounting to Rs27-28bn for 38.9mn shares (13.5% stake) with a price band of Rs695-712 implies a market cap of Rs200-205bn. Valuations are attractive with P/E at 39.8x FY21 EPS, implying a 23% discount to HDFC AMC. We recommend SUBSCRIBE.

#### 4<sup>th</sup> largest MF player; better debt performance compared to listed peers

ABSL AMC is the 4<sup>th</sup> largest AMC in terms of MF AUM, with asset size as at June 2021 being Rs2.82tn basis closing AUM. It commands a market share of 8.4% in the MF space. MF AUM mix as at June 2021 for Equity/Debt/Liquid stands at 37.6%/38.6%/23.4%, while ETF contribution is negligible. Equity share is lower compared to listed peers, which is offset by negligible ETF contribution, which is a positive. Over FY17-21, equity share has remained in the 37-39% range, barring FY20 that saw a sharp equity market correction. The company has performed better on debt AUM compared to listed peers. Over FY18-20, when the credit crises resulted in debt redemptions and write-offs across mutual funds, ABSL AMC saw a lower correction (18%) in its debt AUM. Total investor folios (including domestic FoFs) more than doubled from 2.9mn to 7.1mn over FY16-21, representing a CAGR of 19.3%, which was greater than the industry increase of 15.5% over the same period.

#### Improving operating performance over FY17-20

SIP numbers more than tripled from 0.86mn to 2.8mn over FY16-21. Hence, SIP AUM grew from Rs85.2bn (25.7% of equity AUM) in FY16 to Rs456.9bn (41.7% of equity AUM) as at June 2021. In terms of distribution, the mix of total AUM as at June 2021 is 30.2% via MFDs, 23% via Banks and National Distributors (BND), and 46.8% via direct route. On the equity side, the mix is 50.6% MFDs, 30.5% BND, while direct is 18.9%. It has 15.8% of its overall AUM in B30 cities – the sixth highest concentration in B30 markets among the top 10 AMCs. Evaluating the operating performance over FY17-20 (since FY21 was an outlier for the entire AMC space) suggests that ABSL AMC performed better (second to HDFC AMC) than other peers, as yield contraction was the lowest at 9bp for ABSL AMC while opex reduction was 17bp. Hence, operating yields saw a consistent improvement by 8bp to 0.26%.

#### Valuation and risks

A price band of Rs695-712 implies an attractive valuation of ~40x FY21 EPS, given core RoAuM/RoE of 18bp/27%. Listed peers HDFC AMC/NAM quote at 50x/40x FY21 EPS, with core RoE at 29%/21%. On ROAAuM basis, HDFC AMC/NAM are at 30bp/21bp. Given the growth prospects of the AMC space and superior operating performance of ABSL AMC, its discount to HDFC AMC should narrow. We recommend SUBSCRIBE.

#### Financial and valuation summary

YE Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21
Revenue	13432	15187	14685	15934	19974
Expenses	6523	7798	7430	5626	4926
Operating Profit	2861	4362	5622	5771	5481
PAT	2211	3415	4489	4859	5158
MF AuM (Rs bn)	1869	2300	2385	2023	2592
ROAAUM (calc.) (%)	0.14	0.16	0.19	0.22	0.22
Core ROAAUM (calc.) (%)	0.12	0.14	0.17	0.20	0.18
RoE (%)	23.2	30.3	36.8	37.2	33.6
Core RoE (%)	19.8	25.7	31.9	33.0	26.9
EPS	7.7	11.9	15.6	16.9	17.9
P / E					39.8

Source: Company, Centrum Research estimates

Please see Appendix for analyst certifications and all other important disclosures.

### SUBSCRIBE

#### Issue Details

Price Band	Rs695-712
Issue Opens	29 Sept 2021
Issue Closes	01 Oct 2021
Issue Size	38.9mn Shares
Issue Size	Rs27-28bn
No. of Shares Pre-issue	288mn
No. of Shares Post Issue	288mn
Post issue market cap	Rs200-205bn

Source: Bloomberg

#### Issue Structure

Reserved portion	5.00%
QIBs	47.50%
Non-Institutional Category	14.25%
Retail	33.25%

Source: RHP

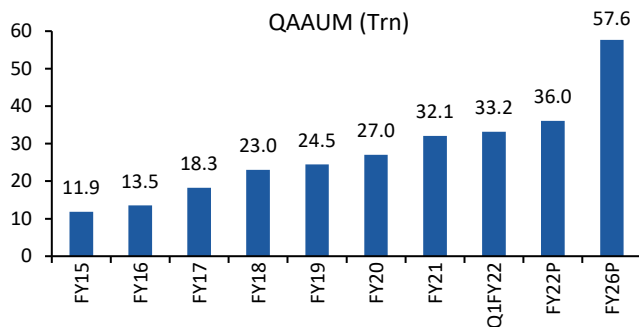


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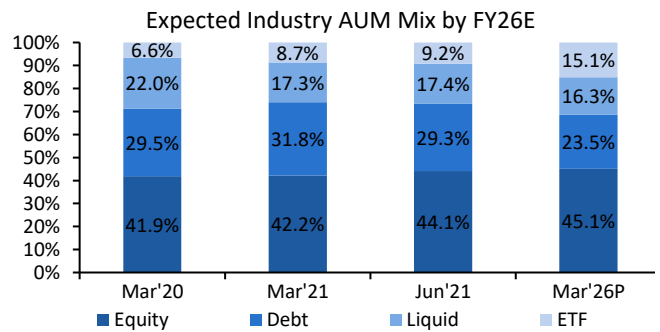
## Industry Section

**Exhibit 1: Industry AUM could reach Rs57.6tn by FY26**



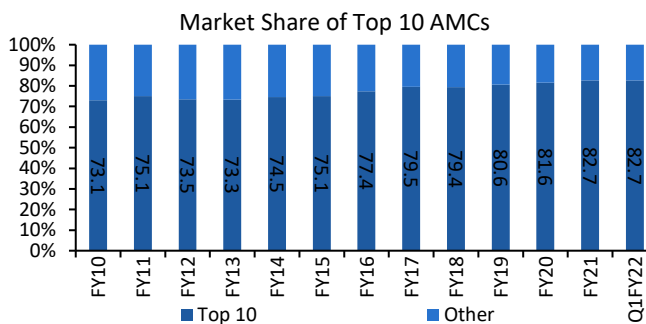
Source: Company, Centrum Research

**Exhibit 2: Industry equity share expected at 45% by FY26**



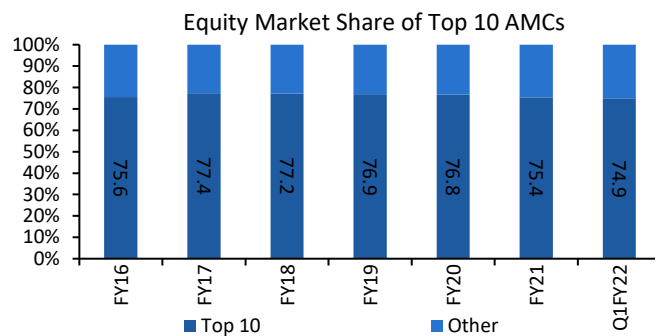
Source: Company, Centrum Research

**Exhibit 3: Top 10 AMCs improve market share to 82.7%**



Source: Company, Centrum Research

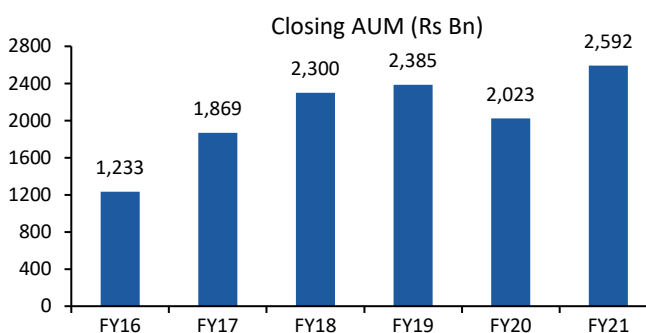
**Exhibit 4: Top 10 AMCs largely sustain equity market share**



Source: Company, Centrum Research

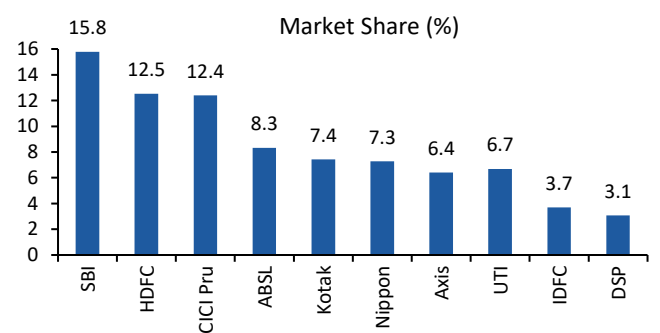
## Company Section

**Exhibit 5: ABSL's closing AUM doubled over FY16-21**

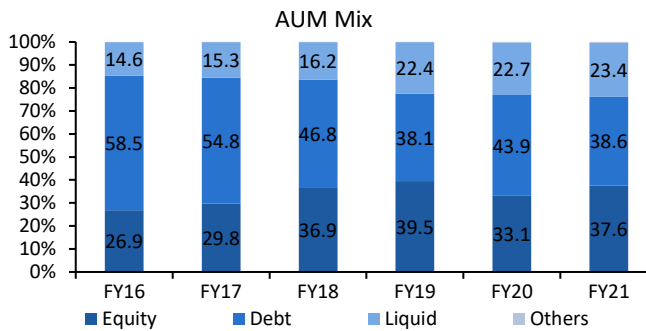


Source: Company, Centrum Research

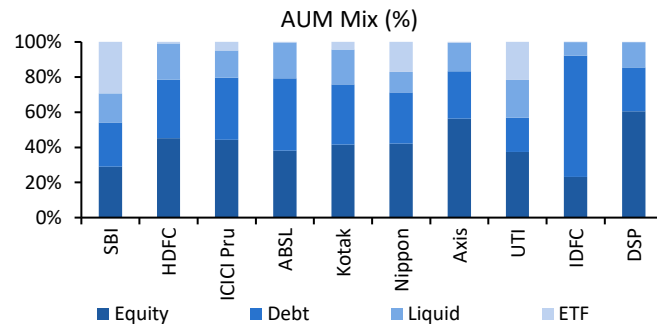
**Exhibit 6: Overall market share at 8.3% as at June 2021**



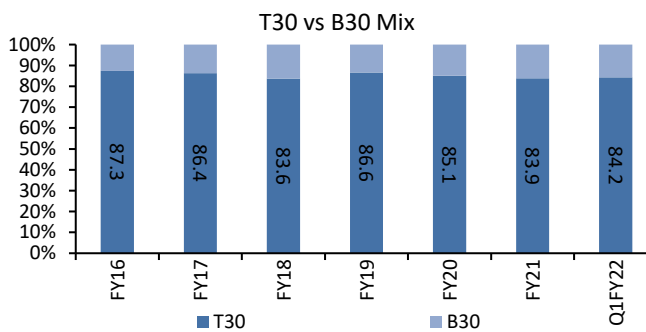
Source: Company, Centrum Research

**Exhibit 7: Equity share in AUM mix at 37.6%**

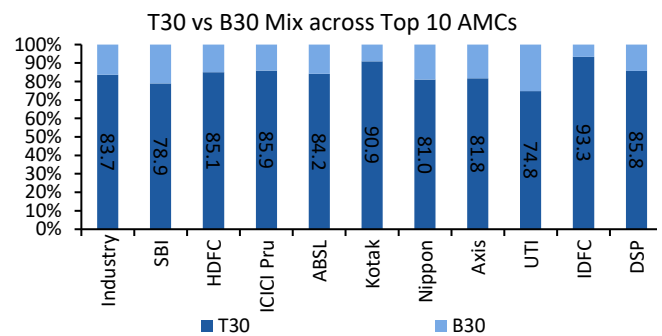
Source: Company, Centrum Research

**Exhibit 8: Second highest debt share in AUM mix**

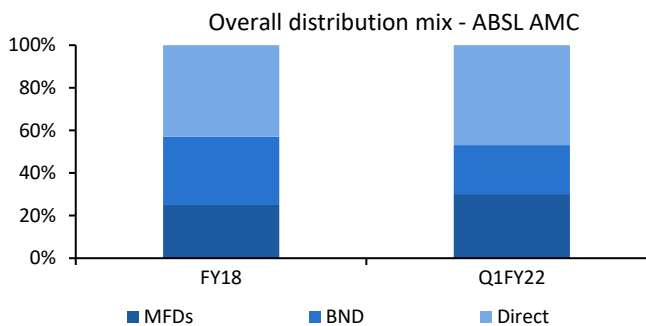
Source: Company, Centrum Research

**Exhibit 9: B30 share improved to 15.8% from 12.7%**

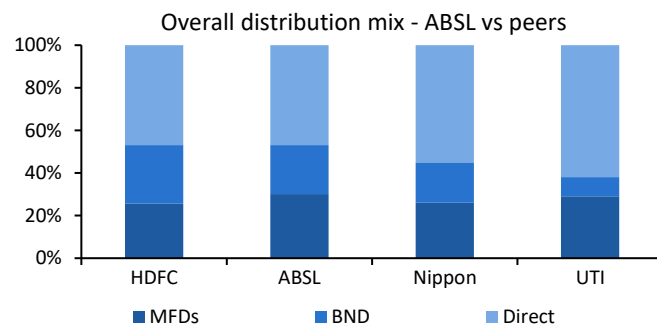
Source: Company, Centrum Research

**Exhibit 10: B30 share slightly lower than industry average**

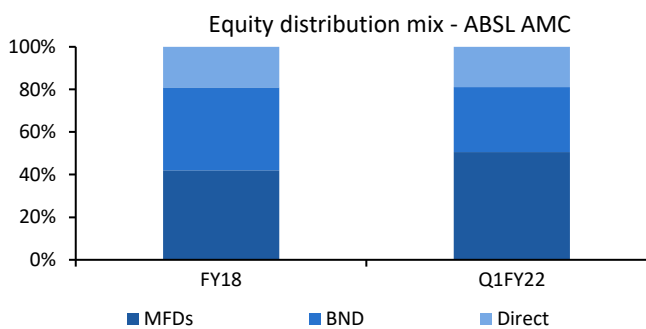
Source: Company, Centrum Research

**Exhibit 11: Direct channel continues to dominate with 47%**

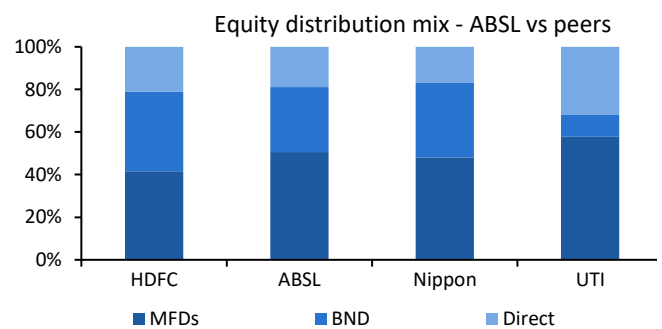
Source: Company, Centrum Research

**Exhibit 12: Highest MFDs share among listed peers**

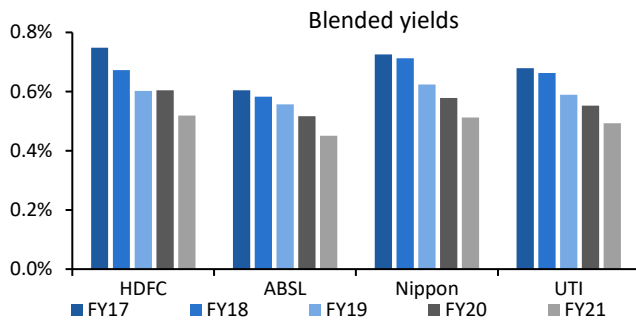
Source: Company, Centrum Research

**Exhibit 13: 50.6% of equity sourcing is through MFDs**

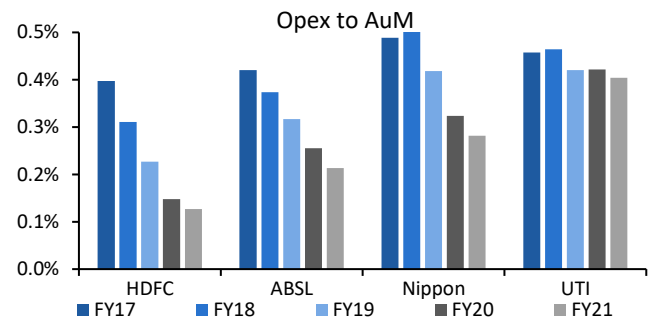
Source: Company, Centrum Research

**Exhibit 14: Higher MFDs share among listed peers**

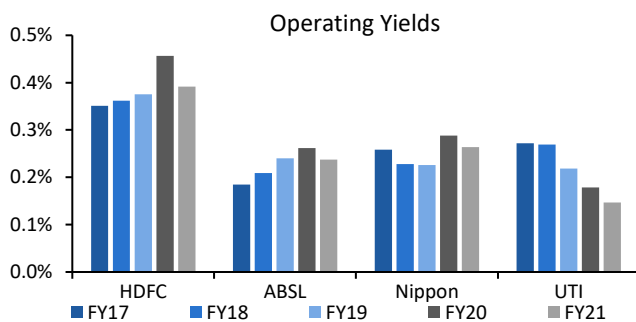
Source: Company, Centrum Research

**Exhibit 15: Revenue yields are slightly lower than peers**

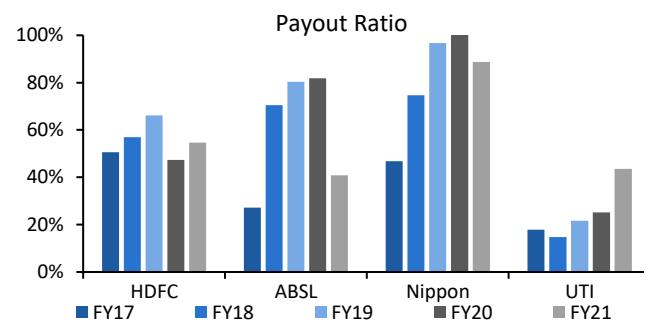
Source: Company, Centrum Research

**Exhibit 16: Better opex profile compared to peers**

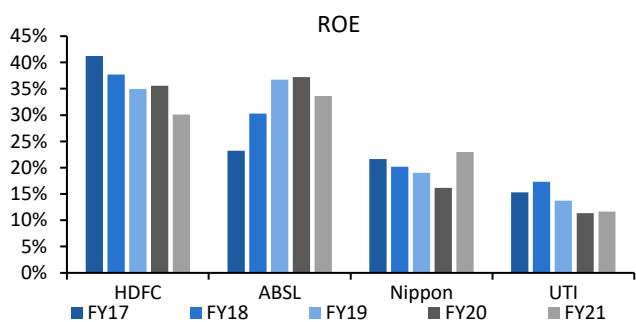
Source: Company, Centrum Research

**Exhibit 17: Operating yields comparable to NAM**

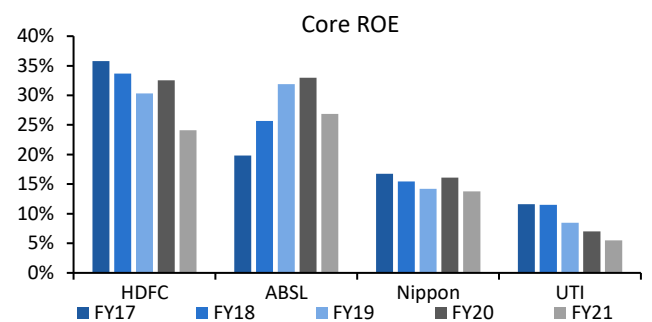
Source: Company, Centrum Research

**Exhibit 18: Average payout is healthy at 60%**

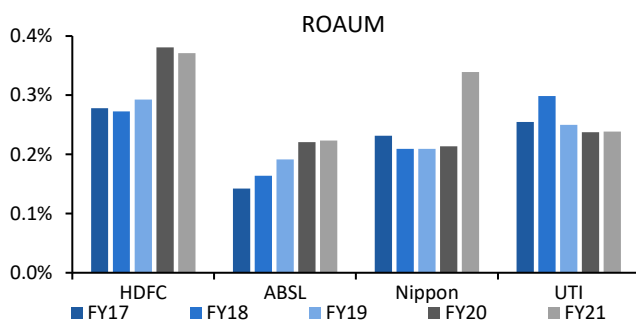
Source: Company, Centrum Research

**Exhibit 19: Highest RoE among listed peers**

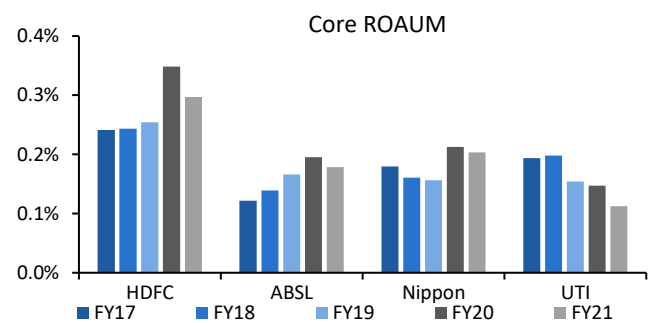
Source: Company, Centrum Research

**Exhibit 20: Core RoE superior to listed peers**

Source: Company, Centrum Research

**Exhibit 21: RoAUM lower than peers due to other income**

Source: Company, Centrum Research

**Exhibit 22: Consistent improvement in RoAUM**

Source: Company, Centrum Research

**Exhibit 23: Comparison with listed AMCs**

Particulars	HDFC AMC					Nippon Life					Birla AMC					UTI AMC				
	FY17	FY18	FY19	FY20	FY21	FY17	FY18	FY19	FY20	FY21	FY17	FY18	FY19	FY20	FY21	FY17	FY18	FY19	FY20	FY21
<b>Du-Pont (%)</b>																				
<b>Revenue</b>	<b>0.75</b>	<b>0.67</b>	<b>0.60</b>	<b>0.60</b>	<b>0.52</b>	<b>0.75</b>	<b>0.74</b>	<b>0.65</b>	<b>0.61</b>	<b>0.55</b>	<b>0.60</b>	<b>0.58</b>	<b>0.56</b>	<b>0.52</b>	<b>0.45</b>	<b>0.77</b>	<b>0.73</b>	<b>0.64</b>	<b>0.61</b>	<b>0.55</b>
<b>Expenses</b>	<b>0.40</b>	<b>0.31</b>	<b>0.23</b>	<b>0.15</b>	<b>0.13</b>	<b>0.49</b>	<b>0.51</b>	<b>0.42</b>	<b>0.32</b>	<b>0.28</b>	<b>0.42</b>	<b>0.37</b>	<b>0.32</b>	<b>0.26</b>	<b>0.21</b>	<b>0.46</b>	<b>0.46</b>	<b>0.42</b>	<b>0.42</b>	<b>0.40</b>
Employee	0.08	0.07	0.06	0.06	0.06	0.11	0.12	0.13	0.15	0.14	0.12	0.11	0.11	0.10	0.10	0.26	0.24	0.22	0.26	0.26
Others	0.32	0.24	0.15	0.08	0.06	0.38	0.39	0.29	0.17	0.14	0.30	0.27	0.21	0.15	0.12	0.20	0.22	0.20	0.16	0.14
<b>Operating Inc.</b>	<b>0.35</b>	<b>0.36</b>	<b>0.38</b>	<b>0.46</b>	<b>0.39</b>	<b>0.26</b>	<b>0.23</b>	<b>0.23</b>	<b>0.29</b>	<b>0.27</b>	<b>0.18</b>	<b>0.21</b>	<b>0.24</b>	<b>0.26</b>	<b>0.24</b>	<b>0.31</b>	<b>0.27</b>	<b>0.22</b>	<b>0.18</b>	<b>0.14</b>
Other Income	0.05	0.04	0.06	0.04	0.10	0.07	0.07	0.08	0.00	0.19	0.03	0.04	0.04	0.03	0.06	0.08	0.14	0.14	0.08	0.27
PBT	0.40	0.41	0.43	0.50	0.49	0.33	0.31	0.31	0.29	0.46	0.22	0.25	0.28	0.30	0.30	0.39	0.41	0.36	0.26	0.41
Tax	0.13	0.13	0.14	0.12	0.12	0.10	0.09	0.09	0.07	0.10	0.07	0.08	0.09	0.08	0.07	0.10	0.11	0.10	0.05	0.07
<b>ROAAUM</b>	<b>0.28</b>	<b>0.27</b>	<b>0.29</b>	<b>0.38</b>	<b>0.37</b>	<b>0.23</b>	<b>0.21</b>	<b>0.21</b>	<b>0.21</b>	<b>0.35</b>	<b>0.14</b>	<b>0.16</b>	<b>0.19</b>	<b>0.22</b>	<b>0.22</b>	<b>0.29</b>	<b>0.30</b>	<b>0.25</b>	<b>0.21</b>	<b>0.34</b>
<b>Core ROAAUM</b>	<b>0.24</b>	<b>0.24</b>	<b>0.25</b>	<b>0.35</b>	<b>0.30</b>	<b>0.18</b>	<b>0.16</b>	<b>0.16</b>	<b>0.22</b>	<b>0.21</b>	<b>0.12</b>	<b>0.14</b>	<b>0.17</b>	<b>0.20</b>	<b>0.18</b>	<b>0.23</b>	<b>0.20</b>	<b>0.16</b>	<b>0.15</b>	<b>0.12</b>
ROE	41.2	37.7	35.0	35.6	30.1	21.5	20.5	19.5	16.1	23.9	23.2	30.3	36.8	37.2	33.6	16.9	17.4	13.9	10.1	16.4
Core ROE	43.6	40.4	35.9	38.2	28.8	23.5	21.9	21.1	23.9	21.2	19.8	25.7	31.9	33.0	26.9	17.0	14.8	11.5	9.9	8.5
<b>Cl. AuM (Rs bn)</b>	<b>2303</b>	<b>2917</b>	<b>3437</b>	<b>3190</b>	<b>3955</b>	<b>2036</b>	<b>2261</b>	<b>2278</b>	<b>1635</b>	<b>2218</b>	<b>1869</b>	<b>2300</b>	<b>2385</b>	<b>2022</b>	<b>2592</b>	<b>1281</b>	<b>1360</b>	<b>1423</b>	<b>1178</b>	<b>1768</b>
Equity	43%	51%	49%	40%	44%	30%	37%	42%	38%	42%	30%	37%	39%	33%	38%	30%	33%	35%	35%	38%
Debt	43%	36%	29%	27%	31%	49%	43%	33%	23%	19%	55%	47%	38%	44%	39%	45%	45%	34%	26%	20%
Liquid	13%	12%	22%	32%	23%	14%	15%	12%	23%	22%	15%	16%	22%	23%	23%	22%	15%	19%	20%	18%
Others	0%	0%	0%	1%	2%	7%	6%	13%	15%	17%	0%	0%	0%	0%	0%	3%	7%	12%	18%	24%
<b>Market share (%)</b>																				
Overall	13.1	13.7	14.4	14.3	12.6	11.6	10.6	9.6	7.3	7.1	10.7	10.8	10.0	9.1	8.2	7.3	6.4	6.0	5.3	5.6
Equity	15.9	16.2	15.7	14.6	12.8	9.7	9.1	8.8	7.2	6.9	8.9	9.2	8.8	7.7	7.2	6.2	4.9	4.6	5.5	5.5
Equity (Rs bn)	15.2	22.5	30.7	40.3	47.8	20.3	24.3	25.7	25.9	31.0	10.8	11.8	12.6	13.5	17.2	21.4	24.2	26.5	27.8	32.4
EPS					62.3					11.0					17.9					39.0
CMP					3137					439					712					1082
P/E					50.4					39.8					39.8					27.8

Source: Company, Centrum Broking.

## Annual financials

P&L					
YE March (Rs mn)	FY17	FY18	FY19	FY20	FY21
<b>Revenue from Operations</b>	<b>9,384</b>	<b>12,161</b>	<b>13,052</b>	<b>11,397</b>	<b>10,407</b>
Investment Management Fees	8,511	10,893	12,076	10,702	9,910
PMS and Advisory Fees	690	1,037	767	531	435
<b>Expenses</b>	<b>6,523</b>	<b>7,798</b>	<b>7,430</b>	<b>5,626</b>	<b>4,926</b>
Employees	1,817	2,219	2,615	2,295	2,247
Others	4,630	5,481	4,685	2,919	2,315
Depreciation	75	98	130	359	363
Fees	0	0	0	0	0
<b>Core Operating Income</b>	<b>2,861</b>	<b>4,362</b>	<b>5,622</b>	<b>5,771</b>	<b>5,481</b>
Other Income	487	784	858	751	1,373
Exceptional Item: Impairment of FI	0	0	0	52	0
<b>PBT</b>	<b>3,348</b>	<b>5,146</b>	<b>6,480</b>	<b>6,522</b>	<b>6,854</b>
Tax	1,137	1,732	1,991	1,663	1,696
<b>PAT</b>	<b>2,211</b>	<b>3,415</b>	<b>4,489</b>	<b>4,859</b>	<b>5,158</b>
<b>Dividend</b>	<b>1,889</b>	<b>2,894</b>	<b>3,895</b>	<b>4,300</b>	<b>4,125</b>
<b>Retained Earnings</b>	<b>602</b>	<b>2,405</b>	<b>3,606</b>	<b>3,978</b>	<b>2,106</b>

Growth ratios (%)					
YE March	FY17	FY18	FY19	FY20	FY21
Closing AuM	51.6	23.1	3.7	(15.2)	28.1
Revenue	26.5	29.6	7.3	-12.7	-8.7
EBE	13.7	22.1	17.8	-12.2	-2.1
PAT	5.5	54.4	31.5	8.3	6.2

Profitability Ratios (%)					
Yield on AUM	0.60	0.58	0.56	0.52	0.45
Yield on Investments	0.77	0.38	0.53	0.06	0.68
EBE / Core Revenue	19.37	18.25	20.0	20.1	21.6
Operating Income/ Core Revenue	30.5	35.9	43.1	50.6	52.7
Other Income / Core Revenue	5.2	6.4	6.6	6.6	13.2
Effective tax rate	34.0	33.6	30.7	25.5	24.7
PAT Margin	23.6	28.1	34.4	42.6	49.6
ROE	23.2	30.3	36.8	37.2	33.6
Core ROE	23.3	30.6	39.6	42.6	35.6
ROAAUM	0.14	0.16	0.19	0.22	0.22

DuPont analysis (%)					
<b>Revenue from Operations</b>	<b>0.60</b>	<b>0.58</b>	<b>0.56</b>	<b>0.52</b>	<b>0.45</b>
Investment Mgmt. Fees	0.55	0.52	0.52	0.49	0.43
PMS and Advisory Fees	0.04	0.05	0.03	0.02	0.02
<b>Expenses</b>	<b>0.42</b>	<b>0.37</b>	<b>0.32</b>	<b>0.26</b>	<b>0.21</b>
Employee	0.12	0.11	0.11	0.10	0.10
Others	0.30	0.26	0.20	0.13	0.10
Depreciation	0.00	0.00	0.01	0.02	0.02
Fees	0.00	0.00	0.00	0.00	0.00
<b>Core Operating Income</b>	<b>0.18</b>	<b>0.21</b>	<b>0.24</b>	<b>0.26</b>	<b>0.24</b>
Other Income	0.03	0.04	0.04	0.03	0.06
<b>PBT</b>	<b>0.22</b>	<b>0.25</b>	<b>0.28</b>	<b>0.30</b>	<b>0.30</b>
Tax	0.07	0.08	0.09	0.08	0.07
<b>PAT</b>	<b>0.14</b>	<b>0.16</b>	<b>0.19</b>	<b>0.22</b>	<b>0.22</b>

Source: Company, Centrum Broking

Balance sheet					
YE March (Rs mn)	FY17	FY18	FY19	FY20	FY21
Share Capital	180	180	180	180	180
Reserves and Surplus	10,569	11,615	12,452	13,281	17,052
<b>Net Worth</b>	<b>10,749</b>	<b>11,795</b>	<b>12,632</b>	<b>13,461</b>	<b>17,232</b>
Trade Payables	1,353	1,442	756	1,051	953
Employee Benefit	442	552	501	434	444
Others	888	1,397	796	989	1,346
<b>Total Liabilities and Equity</b>	<b>13,432</b>	<b>15,187</b>	<b>14,685</b>	<b>15,934</b>	<b>19,974</b>
Cash and Bank	142	113	52	96	103
Investment	10,879	12,150	12,123	13,324	17,953
Fixed Asset	187	254	321	850	771
Receivables	403	398	219	348	246
Others	1,822	2,273	1,969	1,316	902
<b>Total Assets</b>	<b>13,432</b>	<b>15,187</b>	<b>14,685</b>	<b>15,934</b>	<b>19,974</b>

Closing AuM (Rs bn)					
YE March	FY17	FY18	FY19	FY20	FY21
Closing AuM	1869	2300	2385	2023	2592
Equity	556	848	941	669	974
Debt	1023	1077	908	888	1000
Liquid	287	373	533	460	607
Others	3	2	3	6	10

Closing AUM Breakup (%)					
Overall AuM	100.0	100.0	100.0	100.0	100.0
Equity	29.8	36.9	39.5	33.1	37.6
Debt	54.8	46.8	38.1	43.9	38.6
Liquid	15.3	16.2	22.4	22.7	23.4
Others	0.2	0.1	0.1	0.3	0.4

AuM Growth (%)					
YE March	FY17	FY18	FY19	FY20	FY21
Overall	67.7	52.5	11.0	-28.9	45.5
Equity	42.0	5.3	-15.7	-2.2	12.7
Debt	59.8	30.1	42.9	-13.7	32.1
Liquid	154.1	-21.9	14.8	123.4	82.9
Others	67.7	52.5	11.0	-28.9	45.5

Valuations (per share)					
YE March	FY17	FY18	FY19	FY20	FY21
EPS	7.7	11.9	15.6	16.9	17.9
DPS	1.7	6.9	10.4	11.5	7.3
BVPS	37	41	44	47	60
Dividend Yield					1.0
P/E					39.8
P/B					11.9

Source: Company, Centrum Broking

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