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UTI Asset Management Company

- Surviving on funds from B30 cities and government mandated pension schemes

IPO View: lower valuation is fully justified given its track record

Advise: Prefer Nippon and HDFC AMC Vs UTI Amc

- UTI AMC's lower valuation is fully justified given its track record,
- over dependance on government-mandated retirement funds fetching low margins and lack of any attractive feature in an overcrowded industry,
- with reduced flexibility due to indirect government ownership
- Key Concerns More Vs Lower Valuations Surviving on funds from B30 cities and Government mandated pension schemes
- Retirement funds fetching low margins and lack of any attractive feature in an overcrowded industry
- Indirect control of government

UTI Asset Management Company is the second largest asset management company in India in terms of Total AUM (mutual fund, PMS and NPS) and the eighth largest asset management company in India in terms of mutual fund QAAUM end June 2020. The company also has the largest share of monthly average AUM attributable to B30 cities of the top ten Indian asset management companies by QAAUM end June 2020.

The company caters to a diverse group of individual and institutional investors through a wide variety of funds and services. The company offers a diverse portfolio of domestic funds, including equity, hybrid, income, liquid and money market funds, as well as portfolio management services to institutional clients and high net worth individuals (HNIs), retirement solutions, and offshore and alternative investment funds.

The company's Domestic Mutual Fund QAAUM was Rs 133630 crore end June 2020, while Other AUM was Rs 849390 crore (of which PMS represented Rs 697050 crore). With 10.9 million Live Folios end March 2020, client base accounts for 12.2% of the approximately 89.7 million folios managed by the Indian mutual fund industry. The domestic mutual fund portfolio of the company includes 43 open-ended mutual fund schemes covering the vast majority of SEBI -approved scheme categories, including 20 equity schemes (including two index funds and five ETFs), nine hybrid schemes, ten income schemes and four liquid and money market schemes (including the UTI Overnight Fund and the UTI Floater Fund).

The company 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 is a professionally managed company led by Board of Directors and a dedicated and experienced management team. For purposes of the SEBI Mutual Fund Regulations, the four sponsors are the State Bank of India (SBI), Life Insurance Corporation of India (LIC), Punjab National Bank (PNB) and Bank of Baroda (BOB) (collectively, the Sponsors), each of which has the Government of India as a majority shareholder. T. Rothe company Price Group, Inc., a global asset management company, is other major shareholder (through its subsidiary T. Rothe company Price International (TRP)).

The Company was incorporated on 14 November 2002 and appointed by UTI Trustee to manage the funds of UTI Mutual Fund. The Company was converted into a public limited company on 14 November 2007. In January 2010, T. Rothe company Price Group Inc., through its wholly owned subsidiary, TRP, acquired a 26.0% stake in the Company.

Imtaiyazur Rahman is the Whole-time Director and Chief Executive Officer of the Company with over 30 years of experience in management, business leadership and forming strategic alliance. He is associated with Company since 2003. He was appointed as the Whole-time Director with effect from 23 August 2019. Further, he has been appointed as the Chief Executive Officer for a period of two years with effect from 13 June 2020. He has also served as the Acting Chief Executive Officer of the Company with effect from 14 August 2018 to 12 June 2020.

The company has a national footprint and offers schemes through a diverse range of distribution channels which includes 163 UTI Financial Centres (UFCs), 257 Business Development Associates (BDAs) and Chief Agents (CAs) (40 of whom operate Official Points of Acceptance (OPAs)) and 43 other OPAs, most of which are in each case located in B30 cities. IFAs channel includes approximately 53,000 Independent Financial Advisors (IFAs) end June 2020. The distribution channels are supported by 459 relationship managers (RMs), who interact with clients and distributors and help generate new business and maintain existing relationships. Investors are also able to directly invest in mutual funds through mobile applications for customers. The company also has offices in London, Dubai, Guernsey and Singapore, through which the company market its offshore and domestic mutual funds to offshore investors who seek to invest in India.

The clients include domestic individual investors which represented 43.8% of the total, corporate and other institutional investors 45.4%, banks and other financial institutions 3.5%, Trusts 5.7% and non -resident Indians (NRIs) 1.7%. The company manages 153 domestic mutual fund schemes, comprising equity, hybrid, income, liquid and money market funds end June 2020. Its domestic Mutual Fund QAAUM was Rs 133630 crore end June 2020, ranking eighth largest MF accounting for 5.4% of the total QAAUM of mutual funds industry end June 2020

The domestic equity mutual fund management team includes 19 members, with an average of more than 11 years of experience with the company, while domestic fixed income mutual fund management team is composed of 13 members, with an average of over 12 years of experience. Many of equity mutual funds have demonstrated strong performance through economic cycles.

The company has a rigorous internal control structure with emphasis on risk management, internal audit systems and regulatory compliance.

PMS business provides portfolio management services to institutional clients and HNIs. The company provides Discretionary PMS to the Employees' Provident Fund Organization (EPFO), the Coal Mines Provident Fund Organisation (CMPFO), the Employees' State Insurance Corporation (ESIC), National Skill Development Fund (NSDF) and to HNIs, Non- Discretionary PMS to Postal Life Insurance (PLI), and Advisory PMS to various offshore and domestic accounts. The company is approved to manage 55.0% of the total corpus on 31 October 2019 of the Central Board of Trustees, EPF (CBT, EPF), accounting for Rs 591660 crore, or 84.9% of PMS AUM end June 2020. AUM for PMS business increased from Rs 115850 crore end March 2018 to Rs 689060 crore end March 31, 2020, representing a CAGR of 143.9%, and to Rs 697050 crore end June 2020.

The company also manages retirement funds (in retirement solutions business, which manages the National Pension System (NPS) funds), offshore funds (including the Shinsei UTI India Fund, a co-branded fund with Shinsei Bank of Japan) and alternative investment funds. These other businesses (excluding domestic mutual funds and PMS business) had an aggregate 148 closing AUM of Rs 152340 crore of 30 June 2020.

Equity and hybrid funds (excluding passive funds) as a percentage of Domestic Mutual Fund QAAUM were 24.9% and 14.1%, respectively, of Domestic Mutual Fund QAAUM as of June 30, 2020.

The company has four direct subsidiaries, being UTI Retirement Solutions (UTI RSL) (100% shareholding), UTI International (which, in turn, has two subsidiaries, UTI Investment Management Co. (Mauritius) and UTI International (Singapore)) (100%), UTI Capital (100%) and UTI Venture Funds Management Company (UTI VF) (100%).

The Offer and the Objects

The initial public offer comprises offer for sale of 3,89,87,081 equity shares, aggregating to Rs 2152.09 crore at the lower price of Rs 552 and Rs 5159.88 crore at the upper price band of Rs 554. Three sponsors SBI, LIC and BOB have offered to sale 8.25% stake each in the company, while another sponsor PNB and major shareholder TRP has offered 3.0% stake each for sale. Proceeds from the offer for sale will not be received by the company.

The issue, through the book-building process, will open on 29 September 2020 and will close on 1 October 2020.

The company expects that listing of the Equity Shares will enhance visibility and brand image and provide liquidity to Shareholders and will also provide a public market for the Equity Shares in India.

Strengths

Well-positioned to capitalize on medium-to-long-term favorable industry dynamics, including the under-penetration of mutual fund products, increasing financialization of household savings, increasing market penetration of mutual fund products, particularly in B30 cities, and favorable demographics and urbanization trends.

The large size of the company enables it to benefit from economies of scale, particularly in the areas of fund management, marketing and distribution. The diverse portfolio of funds and services enables the company to operate through market cycles, cater to all the requirements of customers, reduce concentration risks for business and leverage core competencies at scale.

The company has a comprehensive multi-channel distribution network with both in-house capabilities and external distribution channels providing access to investors located in 697 districts (out of 722 districts in total), including remote areas, and reinforces its strong presence in small and medium towns, cities and villages.

The company has developed strengths in managing retirement funds for beneficiaries right across the socioeconomic spectrum.

In PMS business, the company is one of two fund managers appointed to manage the EPFO corpus and have also been appointed as a fund manager for CMPFO, ESIC and NSDF. These appointments have resulted in strong growth in PMS AUM, which totaled Rs 115850 crore end March 2018 billion, Rs 133270 crore end March 2019 and rising sharply to Rs 689060 crore end March 2020 and Rs 697050 crore end June 2020, largely due to new mandates from EPFO, ESIC and CMPFO.

The company 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 NPS funds AUM of the company has increased from Rs 69480 crore end March 2018, Rs 93710 crore end March 2019 and Rs 122200 crore end March 2020, representing a CAGR of 32.6% and further moved up to Rs 135590 crore end June 2020, primarily due to a steady increase in the number of individuals enrolled in both Government and non-Government NPS schemes during the relevant periods.

B30 cities contribute a significant percentage of AUM for domestic active equity and hybrid funds, at 45.7% and 50.7%, respectively, as of June 30, 2020. Size and broad distribution network, particularly in B30 cities, provides it with economies of scale, particularly in distribution, marketing, and back-office activities.

Weaknesses

With some of its funds underperforming as compared to their respective benchmarks and competing schemes, and competition in the mutual fund industry increasing, its market share has fallen from 8.2% to 5.4% from March 2014 to June 2020.

The company's consolidated revenues have declined from Rs 1150 crore in FY18 to Rs 854 crore in FY20. Net profit during the period has declined from Rs 364.21 crore to Rs 273.03 crore. As of March 31, 2018, 2019 and 2020, its Domestic Mutual Fund QAAUM was ₹1.5 trillion, ₹1.6 trillion and ₹1.5 trillion, respectively. As of June 30, 2020, its Domestic Mutual Fund QAAUM was ₹1.3 trillion.

It has received multiple complaints from various employees' associations regarding inadequate disclosures in the DRHP besides many pending litigations with staff; labor unrest could harm it by impairing its ability to attract and retain clients and subject it to significant legal liability and reputational harm.

Many of its large competitors (especially large private and PSU bank's AMC's) offer a wide range of financial services to their clients under one-roof and have extensive in-house distribution network, which places UTI AMC at a relative disadvantage in procuring clients.

The asset management fees for Government mandates such as the ones from the EPFO, PLI and the National Skill Development Fund are generally low.

Three of the Sponsors operate and control asset management companies, some of which targets similar types of clients and provides similar schemes and services.

Mutual fund investors are increasingly becoming aware of lack of performance of many mutual fund schemes and likely to become more demanding and discerning. The company's track record in this respect is not exciting.

Key highlights of comparison with its listed peers

The company has a relatively high share of B-30 centers in AUM at 24% compared with 15% for the industry. Among the peers, market share in B-30 AUM stands at 17% for Nippon Life India and 13% for HDFC AMC. However, growth from B-30 centers has only helped it to survive rather than grow. Going by the track record, this need not be a growth driving factor for the company.

The company has widespread distribution network with presence at 463 locations compared with 290 locations for Nippon Life India AMC and 221 locations for HDFC AMC.

The company has a higher base of investors folios at 10.8 million end June 2020 compared with 9.1 million for Nippon Life India AMC and 9.4 million for HDFC AMC.

In terms of returns, the ROE for UTI AMC is lower at 9.9% for FY2020 compared with 16.0% for Nippon Life India AMC and 31.3% for HDFC AMC. The share of high margin equity funds in AUM is relatively lower for the company at 32% compared with 38% for Nippon Life India AMC and 39% for HDFC AMC.

Valuation

Revenue from operations increased by 11.6% from Rs 234.5 crore in the three-month period ended June 30, 2019 to Rs 261.7 crore in the three-month period ended June 30, 2020, primarily reflecting increased net gains on fair value changes (mainly due to a partial recovery of financial markets after their initial deterioration following the outbreak of the COVID-19 pandemic). On the other hand, revenue from sale of services decreased by 21.6% to Rs 159.8 crore in the three-month period ended June 30, 2020. So, one should not get enthused by the company's June 20 quarter show and should not attempt to annualize it.

The EPS for FY2020 works out to Rs 21.5. The scrip is offered at P/E multiple of 25.7 times FY2020 EPS at the upper price band.

The book value of the company is Rs 223.6. The scrip is offered at a P/BV multiple of 2.5 times at the upper price band.

While UTI AMC is the eighth largest, HDFC AMC is the second largest mutual fund in India with average AUM of Rs 356200 crore end June 2020 and Reliance Nippon Life AMC is the fifth largest mutual fund with average AUM of Rs 180100 crore.

HDFC AMC is trading at P/E multiple of 33.0 times FY2020 EPS and a P/BV multiple of 10.4 times. Nippon Life India Asset Management Company is trading at PE multiple of 37.5 times and P/BV multiple of 5.7 times.

UTI AMC is valued at Rs 7024 crore at upper price band and is offered at 5.3% of M-cap/Average AUM, compared with Nippon Life India AMC trading at 8.6% of M-cap/AAUM and HDFC AMC at 12.6% of M-cap/AAUM.

UTI AMC's lower valuation is fully justified given its track record, over dependence on government mandated and retirement funds fetching low margins and lack of any attractive feature in an overcrowded industry. Indirect control of government (with attendant bureaucratic and labor-related hassles, slow decision-making and reduced flexibility) in a competitive and performance-oriented industry is also a negative factor

UTI Asset Management Company: Issue highlights	
For Offer for Sale Offer size (in Rs crore)	
- On lower price band	2152.09
- On upper price band	2159.88
Offer size (in no shares)	3,89,87,081
Price band (Rs)	552-554
Minimum Bid Lot (in no. of shares)	27
Post issue capital (Rs crore)	
- On lower price band	126.79
- On upper price band	126.79
Post-issue promoter & Group shareholding (%)	-
Issue open date	29/09/2020
Issue closed date	01/10/2020
Listing	BSE, NSE
Rating	40/100

UTI Asset Management Company: Consolidated Financials					
	1803 (12)	1903 (12)	2003 (12)	1906 (3)	2006 (3)
Revenues	1150.05	1050.51	854.97	234.51	261.79
OPM %	49.4	47.4	40.9	46.1	47.6
OP	568.69	498.20	349.27	108.01	124.70
Other Income	12.70	30.39	35.99	8.75	9.28
PBIDT	581.39	528.59	385.26	116.77	133.97
Interest	8.71	8.19	8.48	2.05	2.29
PBDT	572.68	520.39	376.79	114.71	131.68
Depreciation	27.25	29.15	31.34	8.27	8.46
PBT	545.43	491.25	345.45	106.44	123.22
Tax	140.34	143.32	68.96	35.46	22.15
PAT	405.09	347.93	276.49	70.98	101.08
MI and share of associates	40.89	-4.90	3.46	-0.56	0.52
PAT	364.21	352.83	273.03	71.53	100.55
EPS (Rs)*	28.7	27.8	21.5	#	#

UTI Asset Management Company: Domestic Mutual Fund QAAUM by category of mutual funds

	QAAUM (Rs crore)					% of Total				
	Mar-18	Mar-19	Jun-19	Mar-20	Jun-20	Mar-18	Mar-19	Jun-19	Mar-20	Jun-20
Active	36670	37260	38750	38190	33270	23.7%	23.3%	24.6%	25.2%	24.9%
Passive	9210	16740	19800	25220	24450	5.9%	10.5%	12.5%	16.7%	18.3%
Total Equity	45880	54000	58550	63410	57720	29.6%	33.8%	37.1%	41.9%	43.2%
Hybrid	21910	21930	22150	20960	18790	14.1%	13.7%	14.0%	13.8%	14.1%
Income	48750	39190	31830	21350	19330	31.5%	24.5%	20.2%	14.1%	14.5%
Liquid / Money Market	38400	44580	45330	45790	37790	24.8%	27.9%	28.7%	30.2%	28.2%
Total	154940	159690	157870	151510	133630	100.0%	100.0%	100.0%	100.0%	100.0%

UTI Asset Management Company: Other AUM by category of business

	AUM (Rs crore)					% of Total				
	Mar-18	Mar-19	Jun-19	Mar-20	Jun-20	Mar-18	Mar-19	Jun-19	Mar-20	Jun-20
PMS	115850	133270	484980	689060	697050	56.6%	55.6%	80.4%	83.2%	82.1%
Retirement Solutions	69480	93710	102090	122200	135590	33.9%	39.1%	16.9%	14.7%	15.9%
Offshore Funds	18790	11870	14720	15770	15690	9.2%	5.0%	2.4%	1.9%	1.8%
Alternative Investment Funds	700	830	970	1050	1060	0.3%	0.4%	0.2%	0.1%	0.1%
Total	204820	239690	602760	828080	849390	100.0%	100.0%	100.0%	100.0%	100.0%

UTI Asset Management Company: Number of employees by function					
	Mar-18	Mar-19	Jun-19	Mar-20	Jun-20
Officers					
BND Channel	42	43	55	47	45
IFAs Channel	479	515	584	587	585
Institutional and PSU Channel	31	32	32	30	28
Total Sales Team	552	590	671	664	658
Investment(1)	40	42	44	46	47
Support	227	224	234	245	246
Subsidiaries' Employees(2)	38	36	38	34	32
Total Officers	857	892	987	989	983
Non-Officers	418	414	412	406	403
Total	1275	1306	1399	1395	1386

AMC wise Total AUM considering mutual funds, PMS and NPS assets (Rs billion)				
	Mutual Fund QAAUM	PMS Closing AUM	NPS Closing AUM	Total AUM
SBI Mutual Fund	3644	7250	1786	12679
UTI Mutual Fund	1336	7014	1356	9706
HDFC Mutual Fund**	3562	12	100	3673
ICICI Prudential Mutual Fund	3263	27	51	3340
Nippon India Mutual Fund	1801	768	-	2568
Aditya Birla Sun Life Mutual Fund	2146	17	2	2165
Kotak Mahindra Mutual Fund	1673	18	11	1703
LIC Mutual Fund	150	36	1341	1527
Axis Mutual Fund	1343	11	-	1355
IDFC Mutual Fund	1018	1	-	1018
Franklin Templeton Mutual Fund	798	111	-	910
DSP Mutual Fund	735	-	-	735
L&T Mutual Fund	584	-	-	584
Tata Mutual Fund	482	2	-	484

Mirae Asset Mutual Fund	410	-	-	410
Invesco Mutual Fund	231	129	-	360
Motilal Oswal Mutual Fund	172	131	-	304
Sundaram Mutual Fund	258	21	-	279
Edelweiss Mutual Fund	236	23	-	259
Canara Robeco Mutual Fund	173	-	-	173
HSBC Mutual Fund	87	68	-	155
BNP Paribas Mutual Fund	64	26	-	90
Baroda Mutual Fund	73	-	-	73
IIFL Mutual Fund	15	50	-	65
Principal Mutual Fund	55	-	-	55
Mahindra Manulife Mutual Fund	47	-	-	47
JM Financial Mutual Fund	40	-	-	40
PGIM India Mutual Fund	37	2	-	39
IDBI Mutual Fund	38	-	-	38
Union Mutual Fund	36	-	-	36
PPFAS Mutual Fund	36	-	-	36
BOI AXA Mutual Fund	19	-	-	19
Quantum Mutual Fund	12	-	-	12
Indiabulls Mutual Fund	9.70	1	-	11
Essel Mutual Fund	6.39	-	-	6
ITI Mutual Fund	5.81	-	-	6
Taurus Mutual Fund	3.58	-	-	4
Quant Mutual Fund	2.39	-	-	2
Shriram Mutual Fund	1.65	-	-	2
YES Mutual Fund	0.57	-	-	1
Sahara Mutual Fund	0	-	-	0

Note: 1. Quarterly average AUM for the quarter ended 30 June 2020 .

2. NPS data is as of 30 June 2020.

*3. **PMS data for HDFC AMC is as of 31 May 2020.*

4. The table is arranged in order of total AUM.

5. Infrastructure Debt funds are excluded.

Source: AMFI, SEBI, NPS trust, CRISIL.

Top 10 players mutual fund AAUM

	AAUM (Rs crore)				Market share (%)			
	Mar-14	Mar-19	Mar-20	Jun-20	Mar-14	Mar-19	Mar-20	Jun-20
SBI Mutual Fund	65500	283800	373500	364400	7.2%	11.6%	13.8%	14.8%
HDFC Mutual Fund	113000	342300	369800	356200	12.5%	14.0%	13.7%	14.5%
ICICI Prudential Mutual Fund	106800	320800	350700	326300	11.8%	13.1%	13.0%	13.2%
Aditya Birla Sun Life Mutual Fund	89100	246500	247500	214600	9.8%	10.1%	9.2%	8.7%
Nippon India Mutual Fund	103500	233600	204900	180100	11.4%	9.5%	7.6%	7.3%
Kotak Mahindra Mutual Fund	33100	150100	186100	167300	3.7%	6.1%	6.9%	6.8%
Axis Mutual Fund	16200	89700	138400	134300	1.8%	3.7%	5.1%	5.5%
UTI Mutual Fund	74200	159700	151500	133600	8.2%	6.5%	5.6%	5.4%
IDFC Mutual Fund	41300	69400	103900	101800	4.6%	2.8%	3.8%	4.1%
Franklin Templeton Mutual Fund	45400	118900	116300	79800	5.0%	4.9%	4.3%	3.2%
Total (Top 10)	688100	2014800	2242700	2058300	76.0%	82.3%	83.0%	83.6%
Total	905500	2448400	2703700	2462800	100.0%	100.0%	100.0%	100.0%

Note: Ranking based on QAAUM as of March 2020.

Top 10 AMCs AUM by Segment (%)				
	Equity	Debt	Liquid	Others
SBI Mutual Fund	26	26	24	25
HDFC Mutual Fund	39	25	36	1
ICICI Prudential Mutual Fund	41	33	24	3
Aditya Birla Sun Life Mutual Fund	34	39	27	0
Nippon India Mutual Fund	38	28	20	14
Kotak Mahindra Mutual Fund	37	31	28	4
Axis Mutual Fund	50	24	26	0
UTI Mutual Fund	32	23	29	17
IDFC Mutual Fund	22	64	14	0
Franklin Templeton Mutual Fund	53	38	6	2
Total	39	29	25	7

Note: Data are as of 30 June 2020 and based on monthly average AUM. Equity includes equity and balanced schemes, others include gold ETFs, other ETFs and fund of funds overseas.

Share of B30 Markets in Top 10 AMCs AUM		
	T30	B30
SBI Mutual Fund	79	21
HDFC Mutual Fund	87	13
ICICI Prudential Mutual Fund	87	13
Aditya Birla Sun Life Mutual Fund	85	15
Nippon India Mutual Fund	83	17
Kotak Mahindra Mutual Fund	91	9
Axis Mutual Fund	83	17
UTI Mutual Fund	76	24
IDFC Mutual Fund	93	7
Franklin Templeton Mutual Fund	85	15
Total	85	15

Note: Data are as of 30 June 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.

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