UTI Asset Management Company

ICICI direct Research

Price Band ₹ 552-554

NOT RATED

September 28, 2020

UTI AMC, a predecessor of Unit Trust of India, is the second largest asset management company (AMC) in terms of total AUM and eighth largest AMC in terms of mutual fund quarterly average AUM (QAAUM) as on June 30, 2020. As on June 2020, total QAAUM for domestic mutual funds was at ₹ 1,33,630 crore while other AUM was at ₹ 8,49,390 crore.

UTI AMC manages mutual funds of UTI Mutual Fund and provides portfolio management services to institutional clients and HNIs. Furthermore, it also manages retirement funds, offshore funds and alternative investment funds. The company has been active in the AMC industry for over 55 years with its sponsors including State Bank of India, Life Insurance Corporation of India, Punjab National Bank, Bank of Baroda and T Rowe Price.

UTI AMC provides discretionary PMS to Employees Provident Fund Organization (EPFO), Postal Life Insurance (PLI), National Skill Development Fund (NSDF) and advisory PMS to various offshore and domestic accounts. As on June 30, 2020, AUM for PMS business was at ₹ 6,97,050 crore.

Strong brand, comprehensive distribution network

UTI's brand is recognised nationwide for its strength and more than 55 years of heritage as a leading and pioneering, participant in the mutual fund industry. UTI has a comprehensive multi-channel distribution network with both in-house capabilities and external distribution channels. The company's distribution channel comprises ~53000 IFAs, internal sales teams and distributor's arrangements with domestic, foreign banks and other distributors. As of June 30, 2020, direct distribution, IFAs accounted for ~58.7%, 29.8% of domestic mutual fund QAAUM, respectively.

Stable investment performance, AUM growth

UTI has a long history of delivering consistent and stable returns through cycles, driving AUM growth. Schemes representing ~92.3% of closing AUM invested in UTI's six core equity strategies have outperformed their respective benchmark indices (by an average of 1.3% per annum) for an average return of 9.6% per annum in 10-year period ended June 30, 2020.

Key risks and concerns

- Concentration risk of investment portfolio
- Underperformance of investment portfolio may impact AUM
- Decline in sponsors' shareholding to impact business

Priced at P/AAUM of 5.3% Q1FY21 at upper band

Post issue market capitalisation at the upper band will be ₹ 7000 crore. At ₹ 554, the stock is available at P/AAUM of ~5.3% Q1FY21 AAUM and at ~17.4x P/E at Q1FY21 PAT (annualised basis).

Key Financial Summary

(₹ crore)	FY17	FY18	FY19	FY20	Q1FY21	CAGR (FY17-20)
Revenue	1034.9	1150.1	1050.5	855.0	261.8	-6%
Total Income	1048.3	1162.7	1080.9	891.0	271.1	-5%
PAT	395.2	405.1	347.9	276.4	101.1	-11%
EPS (₹)	31.2	32.0	27.4	21.8	8.0	
BV (₹)	168.1	192.3	208.3	218.7	224.5	
RoA (%)	15.8	13.9	11.5	8.8	3.1	
RoE (%)	18.5	16.6	13.2	10.0	3.6	
P/E (x)*	17.8	17.3	20.2	25.4	17.4	
P/BV (x)	3.3	2.9	2.7	2.5	2.5	
P/QAAUM (%)		4.5%	4.4%	4.6%	5.3%	

Source: ICICI Direct Research, RHP

UTI Mutual Fund

Particulars

Issue Details	
Issue Opens	29th September 2020
Issue Closes	1st October 2020
Issue Size	₹2152-2160 crore
Fresh Issue	0
Price Bank	₹552-554
No. of shares on offer (in crore)	3.8 crore
QIB (%)	50
Retail (%)	35
Minimum lot size (no of shares)	27
200000 equity shares reserved for employees	

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoter Group		
Public/Others	100.00	100.00

Objects of issue

Objects of the Issue	
The objects of the offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges.	₹ 2152-2160 crore

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Yash Batra
yash.batra@icicisecurities.com

Company background

UTI AMC, a predecessor of Unit Trust of India, is the second largest asset management company (AMC) in terms of total AUM and the eighth largest AMC in terms of mutual fund quarterly average AUM (QAAUM) as on June 30, 2020. As on June 2020, the company's total QAAUM for domestic mutual funds was at ₹ 133630 crore while other AUM was at ₹ 849390 crore.

UTI AMC manages mutual funds of UTI Mutual Fund and provides portfolio management services to institutional clients and high net worth individuals. Furthermore, it also manages retirement funds, offshore funds and alternative investment funds. The company has been active in the AMC industry for over 55 years with its sponsors including State Bank of India, Life Insurance Corporation of India, Punjab National Bank, Bank of Baroda and T Rowe Price.

In terms of mutual fund business, the company manages 153 mutual fund schemes comprising equity, hybrid, income, liquid and money market funds with a QAAUM of ~₹ 1. 3 lakh crore as on June 2020. Majority of its mutual fund business clients include domestic individual investors (43.8% of total closing AUM) followed by corporate and other institutional investors (45.4% of total closing AUM) and non-resident Indians (NRIs), trusts, banks and other financial institutions (10.8% of total closing AUM).

Exhibit 1: UTI's domestic mutual fund QAAUM break-up

(in ₹crore)	FY18		FY19		FY20		Q1FY21	
Category of Fund	**QAAUM**	**% of Total**	**QAAUM**	**% of Total**	**QAAUM**	**% of Total**	**QAAUM**	**% of Total**
Active	36670	23.7%	37260	23.3%	38190	25.2%	33270	24.9%
Passive	9210	5.9%	16740	10.5%	25220	16.7%	24450	18.3%
Total Equity	45880	29.6%	54000	33.8%	63410	41.9%	57720	43.2%
Hybrid	21910	14.1%	21930	13.7%	20960	13.8%	18790	14.1%
Income	48750	31.5%	39190	24.5%	21350	14.1%	19330	14.5%
Liquid / Money Market	38400	24.8%	44580	27.9%	45790	30.2%	37790	28.2%
Total	154940	100.0%	159690	100.0%	151510	100.0%	133630	100.0%

Source: RHP, ICICI Direct Research

With respect to the portfolio management services (PMS) business, the company provides portfolio management services to institutional clients and HNIs. Apart from this, UTI also provides discretionary PMS to the Employees Provident Fund Organization (EPFO), Postal Life Insurance (PLI), the National Skill Development Fund (NSDF) and advisory PMS to various offshore and domestic accounts. As on June 30, 2020, AUM for the PMS business was at ₹ 697050 crore, with ~84.9% of the PMS business being contributed by the Central Board of Trustees EPF.

UTI AMC also manages retirement funds, alternative investment funds and offshore funds including Shinsei UTI India Fund (a co-branded fund with Shinsei Bank of Japan). These other businesses had an aggregate closing AUM of ₹ 152340 crore as on June 30, 2020.

Exhibit 2: UTI AMC's other AUM break-up

	FY17		FY18		FY19		FY20		Q1FY21	
Category	**AUM**	**% of Total**	**AUM**	**% of Total**	**AUM**	**% of Total**	**AUM**	**% of Total**	**AUM**	**% of Total**
PMS	99,220	57.1%	1,15,850	56.6%	1,33,270	55.6%	6,89,000	83.2%	6,97,050	82.1%
Retirement Solutions	52,040	30.0%	69,480	33.9%	93,710	39.1%	1,22,200	14.7%	1,35,590	15.9%
Offshore Funds	21,750	12.5%	18,790	9.2%	11,880	5.0%	15,770	1.9%	15,690	1.8%
AIF	650	0.4%	700	0.3%	830	0.3%	1,050	0.1%	1,060	0.1%
Total	1,73,660	**100.0%**	2,04,820	**100.0%**	2,39,690	**100.0%**	8,28,080	**100.0%**	8,49,390	**100.0%**

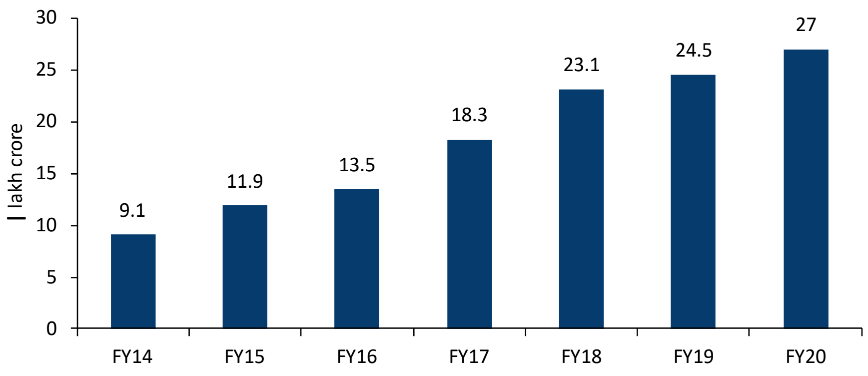
Source: RHP, ICICI Direct Research

Industry Overview

Long-Term AUM growth

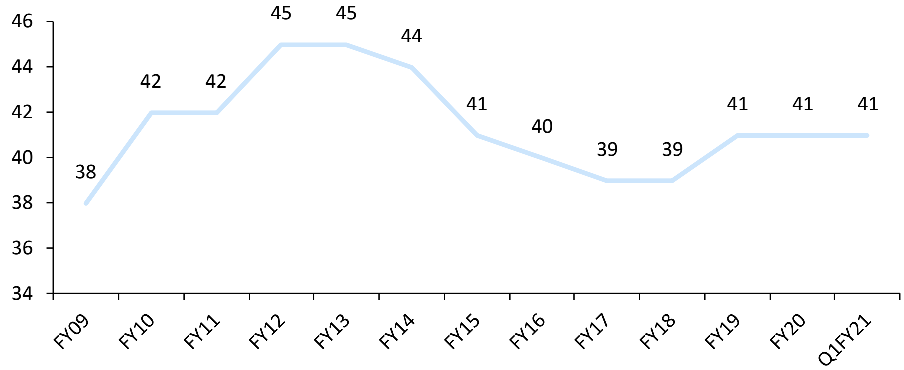
Aggregate AUM of the Indian mutual fund industry has grown at a healthy pace over the past ten years. Average AUM grew at a CAGR of ~13% from ₹ 7.6 trillion as of March 31, 2010 to ₹ 27 trillion as of March 31, 2020.

Exhibit 3: Indian MF industry AAUM growth trend



Source: RHP, ICICI Direct Research

Exhibit 4: Number of fund houses



Source: RHP, ICICI Direct Research

Equity markets and retail participation

Average AUM of equity-oriented funds grew at a CAGR of ~20.5%, from ₹ 3.7 trillion as of March 31, 2015 to ₹ 9.7 trillion as of June 30, 2020 while average AUM of debt-oriented funds grew at a CAGR of ~4.9%, from ₹ 5.3 trillion as of March 31, 2015 to ₹ 6.8 trillion as of June 30, 2020. The IL&FS default, ensuing NBFC crisis subsequently exacerbated by the Covid-19 global pandemic had a negative impact on investor confidence in debt markets and resulted in a considerable drop in demand for mutual fund debt products, a trend Crisil expects to continue in the wake of the Covid-19 pandemic. AUM of multi-cap, large cap, large and midcap, midcap, value/contra and ELSS funds together accounted for 78.6% of industry's open-ended equity scheme closing AUM as on June 30, 2020.

The share of debt funds declined from 45% in the last quarter of FY15 to 28% in Q1FY21. The initial decline was primarily driven by the IL&FS default, ensuing NBFC crisis and subsequently exacerbated by the Covid-19 pandemic. This negatively impacted investor confidence in debt markets, resulting in a considerable drop in demand for mutual fund debt products. The share of equity funds increased from 31% in Q4FY15 to ~40% in Q1FY21, due to steady inflows and strong growth of the equity markets in previous years across the industry.

Exhibit 5: Share of savings in shares, mutual funds, deposits increases post demonetisation

(₹billion)	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Gross financial household savings	10,640	11,908	12,572	14,962	16,147	20,610	19,957
Currency	1,115	995	1,333	2,005	-3,329	4,837	2,814
Deposits	6,062	6,670	6,124	6,445	9,778	5,309	7,825
Shares and debentures	170 (1.6%)	189 (1.6%)	204 (1.6%)	284 (1.9%)	1,745 (10.8%)	1,773 (8.6%)	778 (3.9%)
Mutual funds	82 (0.8%)	150 (1.3%)	145 (1.2%)	189 (1.3%)	1,510 (9.4%)	1,382 (6.7%)	576 (2.9%)
Insurance funds	1,799	2,045	2,993	2,642	3,543	3,440	2,585
Provident and pension funds	1,565	1,778	1,909	2,907	3,255	3,694	3,963
Others	-71	231	10	679	1,155	1,557	1,992

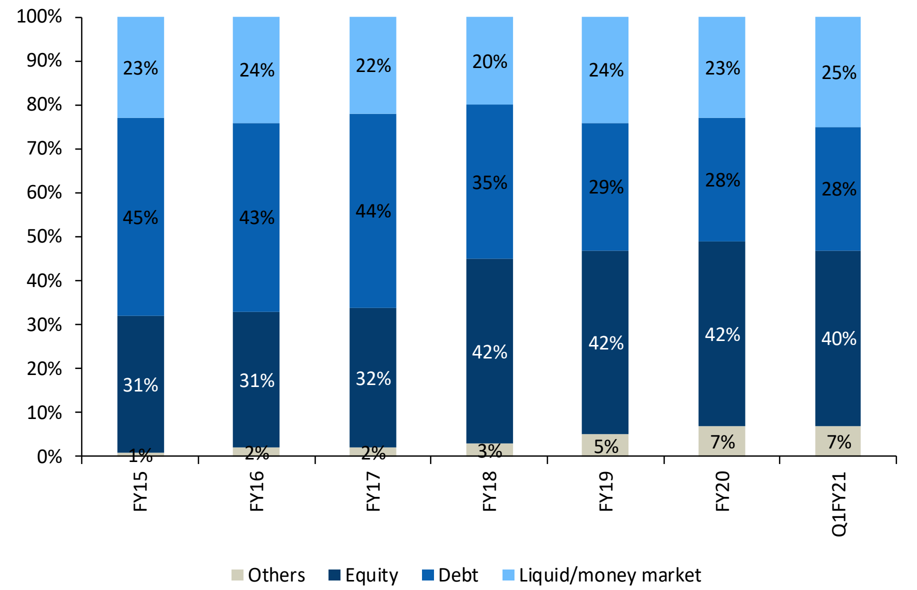
Source: RHP, ICICI Direct Research

Exhibit 6: Growth trend of various mutual fund segments (AUM in ₹ billion)

Segment	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Q1FY21	CAGR FY15-Q1FY21
Equity	1,970	3,652	4,183	5,927	9,582	10,210	11,348	9,740	20.5%
Debt	4,498	5,292	5,871	7,982	8,134	7,152	7,449	6,797	4.9%
Liquid/Money Market	2,447	2,774	3,269	3,940	4,562	5,916	6,327	6,272	16.8%
Others	136	169	212	446	773	1,206	1,913	1,818	57.2%
Total	9,051	11,887	13,534	18,296	23,052	24,484	27,037	24,628	14.9%

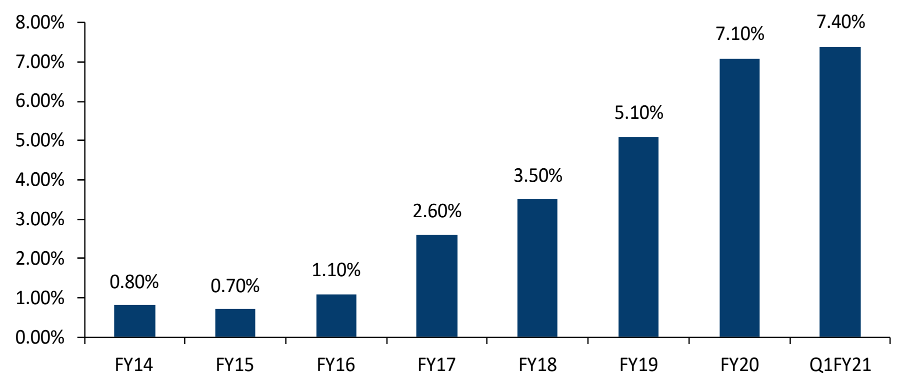
Source: RHP, ICICI Direct Research

Exhibit 7: Trends in share of various mutual fund segments



Source: RHP, ICICI Direct Research

Exhibit 8: Share of passive funds in AUM (% of AUM)

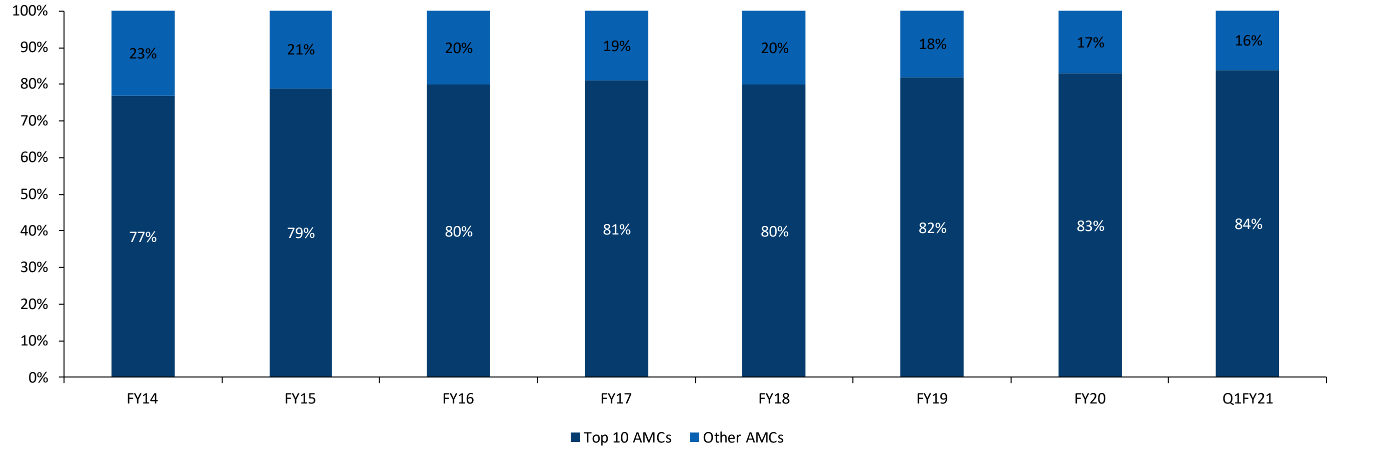


Source: RHPI, ICICI Direct Research

Market share analysis – Domestic mutual fund AUM

As of June 30, 2020, the 10 largest AMCs by AUM collectively accounted for ~84% of Indian mutual fund industry's assets. Top 10 AMC's aggregate AAUM grew at a CAGR of ~20% from ₹ 6.9 trillion as of March 31, 2014 to ₹ 21.8 trillion as of June 30,, 2020. The share of equity funds in the portfolio of Top 10 AMCs increased from ~24% as of March 3, 2014 to ~36% as of June 30, 2020, on the back of rising retail participation and targeted approach by top funds. The share of debt funds in the portfolio of top 10 AMCs dropped from 53% as of March 31, 2014 to ~31% as of June 30, 2020. Liquid funds have been stable over this period and have seen an increase in their average AUM share from 22% as of March 31, 2020 to 26% as of June 30, 2020. Higher fear and uncertainty in market due to spread of Covid-19 pandemic has led investors to withdraw money from debt funds and invest in liquid funds, leading to an increase in market share of the latter.

Exhibit 9: Top 10 AMCs market share at ~84% as on Q1FY21



Source: RHP, ICICI Direct Research

B30 markets

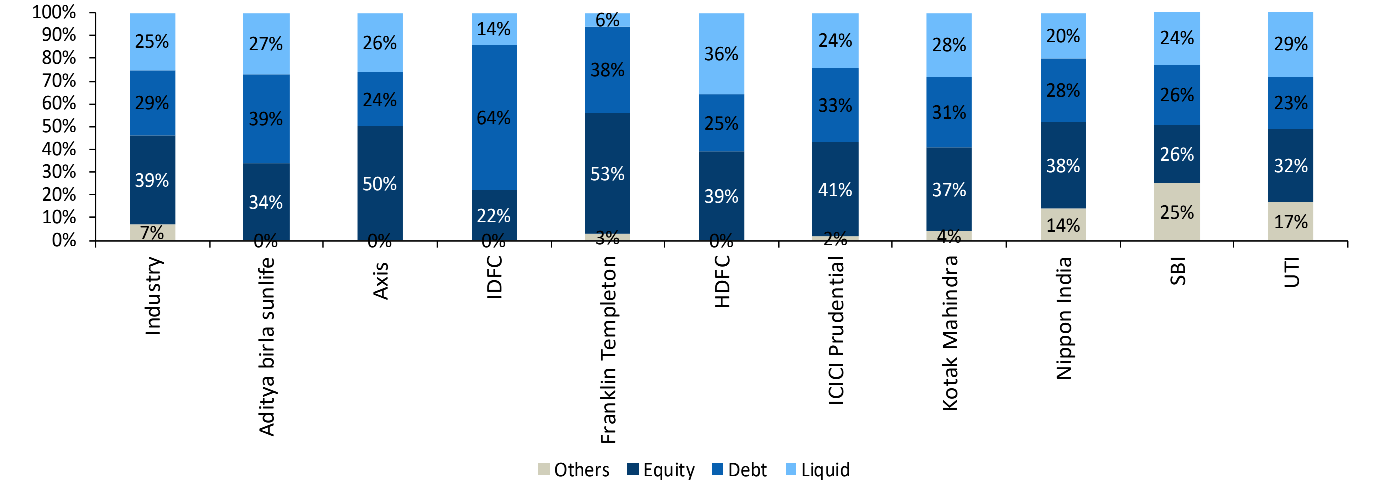
Total ~₹ 340 billion or ~24% of overall AUM is contributed from B30 geographies. UTI AMC has the highest concentration in B30 markets among the top 10 AMCs. SBI AMC is the only other player with a concentration of over ~20% in B30 markets. A higher presence of AMCs in B30 regions should allow AMCs to leverage their established position and the potential infrastructural capabilities in which they have invested in these markets. The ability to charge an additional 30 bps in B30 locations lowers pressure on scheme margins in these geographies.

Exhibit 10: Share of B-30 in top 10 AMCs AUM

Fund name	T-30	B-30
IDFC	93.0%	7.0%
Kotak Mahindra Mutual Fund	91.0%	9.0%
HDFC Mutual Fund	87.0%	13.0%
ICICI Prudential Mutual Fund	87.0%	13.0%
Aditya Birla Sun Life Mutual Fund	85.0%	15.0%
Franklin Templeton Mutual Fund	85.0%	15.0%
Nippon India Mutual Fund	83.0%	17.0%
Axis Mutual Fund	83.0%	17.0%
SBI Mutual Fund	79.0%	21.0%
UTI Mutual Fund	**76.0%**	**24.0%**
Industry	**85.0%**	**15.0%**

Source: RHP, ICICI Direct Research

Exhibit 11: Top 10 AMCs AUM by segment



Source: RHP, ICICI Direct Research

Declining trend of TER charged

In 2018, Sebi issued revised terms & definitions and permitted additional TER of up to 30 bps for inflows from beyond top 30 cities instead of beyond top 15 cities. Accordingly, it changed the key geographical classifications from T15 cities and B15 cities to T30 cities and B30 cities, respectively. In case of mutual fund schemes, including close-ended schemes, where exit load is not levied, Sebi had, in 2012, directed that AMCs would not be eligible to charge expenses to the scheme of up to 0.20% of the daily net assets, which was reduced to 0.05% in 2018. The new effective TER rates for equity funds declined from 2.25% to 1.05%.

Exhibit 12: Slab wise latest TER

AUM bracket	TER equity-oriented schemes	TER limit for non equity-oriented schemes
On the first ₹5 billion of daily net assets	2.25%	2.00%
On the next ₹2.5 billion of daily net assets	2.00%	1.75%
On the next ₹12.5 billion of daily net assets	1.75%	1.50%
On the next ₹30 billion of daily net assets	1.60%	1.35%
On the next ₹50 billion of daily net assets	1.50%	1.25%
On the next ₹400 billion of daily net assets	TER reduction of 0.05% for every increase of ₹ 5000 crores of daily net assets	
On balance of assets	1.05%	0.80%

Source: RHP, ICICI Direct Research

Investor profile in mutual fund industry

Historically, majority of the industry's assets were held by institutional investors, mainly corporates. However, the share of institutional investments (corporates, banks/financial institutions and foreign institutional investors) has gradually declined from 54% as of March 31, 2015 to 49% as of June 30, 2020. Institutional investor AUM grew at a CAGR of 13.9% from March 31, 2015 to June 30, 2020. Retail AUM witnessed a faster 17.8% CAGR over the same period due to increased participation, especially in equity funds. Between March 31, 2015 and March 31, 2020, the industry grew by 4.8 crore folios to ~8.97 crore folios, driven almost entirely by individual investors (retail and high net worth individuals or HNIs). These represented an ~17% CAGR in accounts over the period and an increase in average ticket size from ~₹ 135,000 as of March 31, 2015 to ~₹ 168,000 as of March 31,

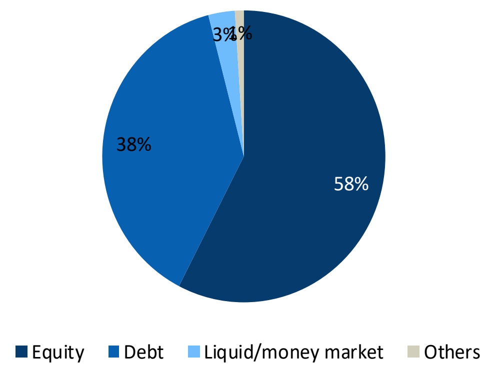
2019. Following the outbreak of the Covid-19 pandemic, average ticket size of individual folios has declined to ₹ 134,500 as of March 31, 2020.

Exhibit 13: Regular vs. direct split of individual and institutional AUM

	FY15				Q1FY21			
	Regular	Direct	Total	% share in Total AUM	Regular	Direct	Total	% share in Total AUM
Individual investors	489300.0	68800	558100.0	46.2%	1059100	258500	1317600.0	51.5%
Institutional investors	309400.0	340100	649500.0	53.8%	327400	961900	1289300.0	49.5%
Total	798800.0	409000		100%	1472600	1220400		100%

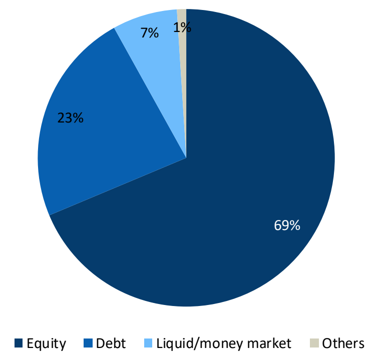
Source: RHP, ICICI Direct Research

Exhibit 14: Individual Investors segment wise exposure (FY15)



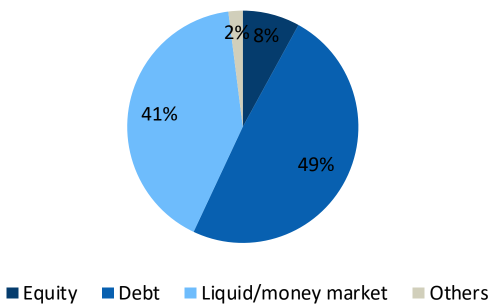
Source: RHP, ICICI Direct Research

Exhibit 15: Individual investors segment exposure (Q1FY21)



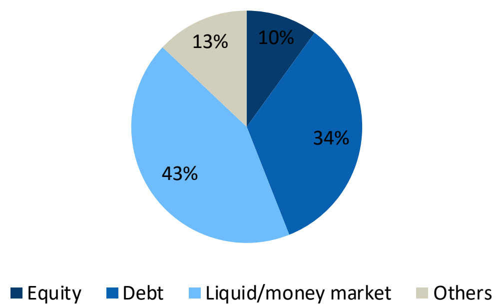
Source: RHPI, ICICI Direct Research

Exhibit 16: Institutional investors segment exposure -FY15



Source: RHP, ICICI Direct Research

Exhibit 17: Institutional investors segment exposure-Q1FY21



Source: RHP, ICICI Direct Research

Exhibit 18: Average transaction size of individual & institutional clients

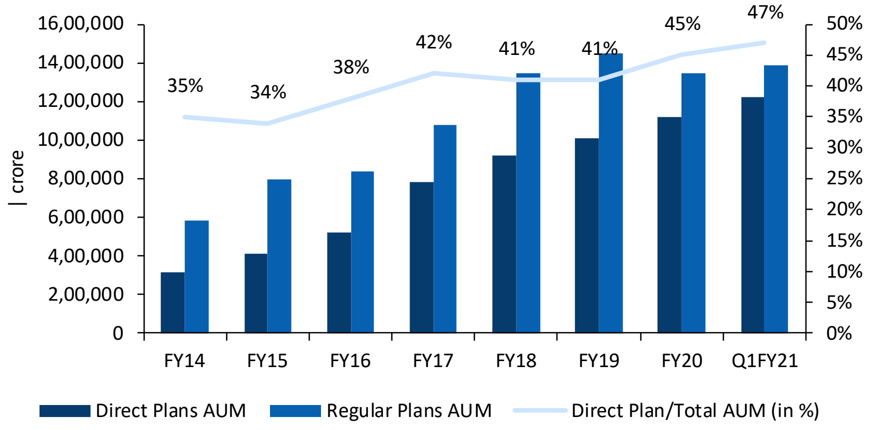
(₹in 000's)	FY17	FY18	FY19	FY20	Q1FY21
Individual	59.4	66.4	72.4	58.4	70.9
Institutional	20890	21350	21324.4	9299.1	22524.4

Source: RHP, ICICI Direct Research

Direct route gaining traction

In September 2012, Sebi mandated mutual fund houses offer their products through direct route alongside distributors, causing asset managers to begin offering direct plans in January 2013. As a result, AUM under direct plans grew at an annualised ~23% between March 31, 2015 and June 30, 2020. At ~₹ 12.2 trillion, AUM under direct plans represent 47% of average industry AUM as of June 30, 2020, up from 34% as of March 31, 2015. As of June 30, 2020, institutional investors accounted for ~79% of aggregate direct plan monthly average AUMs vs. ~21% for individual investors. The rising popularity of direct plans with individual investors is a result of various campaigns and investor education initiatives.

Exhibit 19: Direct plans gaining traction



Source: RHP, ICICI Direct Research

Exhibit 20: As on Q1FY21, UTI AMC's market share at ~5.4% with AAUM of ₹ 1.3 lakh crore

	FY14	% market share	FY20	% market share	Q1FY21	% market share
SBI Mutual Fund	65,500	7.2%	3,73,500	13.8%	3,64,400	14.8%
HDFC Mutual Fund	1,13,000	12.5%	3,69,800	13.7%	3,56,200	14.5%
ICICI Prudential Mutual Fund	1,06,800	11.8%	3,50,700	13.0%	3,26,300	13.2%
Aditya Birla Sun Life Mutual Fund	89,100	9.8%	2,47,500	9.2%	2,14,600	8.7%
Nippon India Mutual Fund	1,03,500	11.4%	2,04,900	7.6%	1,80,100	7.3%
Kotak Mahindra Mutual Fund	33,100	3.7%	1,86,100	6.9%	1,67,300	6.8%
Axis Mutual Fund	16,200	1.8%	1,38,400	5.1%	1,34,300	5.5%
UTI Mutual Fund	74,200	8.2%	1,51,500	5.6%	1,33,600	5.4%
IDFC Mutual Fund	41,300	4.6%	1,03,900	3.8%	1,01,800	4.1%
Franklin Templeton Mutual Fund	45,400	5.0%	1,16,300	4.3%	79,800	3.2%
Total (Top 10)	6,88,100	76.0%	22,42,700	83.0%	20,58,300	83.6%
Total	9,05,500	100.0%	27,03,700	100.0%	24,62,800	100.0%

Source: RHP, ICICI Direct Research

Systematic investment plans (SIP)

Between April 2016 and June 30, 2020, aggregate amount invested through SIPs has grown from ₹ 33.1 billion to ₹ 79.2 billion per month. As of FY20, mutual fund industry collected ~₹ 1 trillion through SIPs, an increase of 8% over ₹ 972 billion collected as of FY19. In Q1FY21, SIP contributions to mutual funds have already reached ~₹ 244 billion. As of June 30, 2020, aggregate SIP AUM was at ~₹ 3 trillion or ~11.8% of total industry AUM. However, SIP AUM growth slowed during the Covid-19 pandemic as lower discretionary spending and expenditures of personal emergency resulted in a decline in household liquidity available for SIP contributions.

Exhibit 21: Gross SIP inflows trend

Date	Gross SIP inflows (₹ crore)	Avg transaction size (₹)	Closing SIP AUM (₹crore)	SIP Live Folios (in ooo's)
June 30, 2017	520.0	2651.0	6170	821.1
September 30, 2017	590.0	2784.6	6610	867.3
December 31, 2017	620.0	2817.1	7480	898.8
March 31, 2018	650.0	2800.0	7360	943.7
June 30, 2018	670.0	2778.6	7700	980.6
September 30, 2018	700.0	2796.1	7850	1039.4
December 31, 2018	740.0	2814.7	8410	1073.7
March 31, 2019	730.0	2757.7	9020	1119.3
June 30, 2019	750.0	2772.4	9150	1121.2
September 30, 2019	750.0	2752.9	9500	1148.5
December 31, 2019	730.0	2702.4	10160	1161.2
March 31, 2020	730.0	2698.9	7860	1204.8
June 30, 2020	720.0	2680.4	9980	1204.3

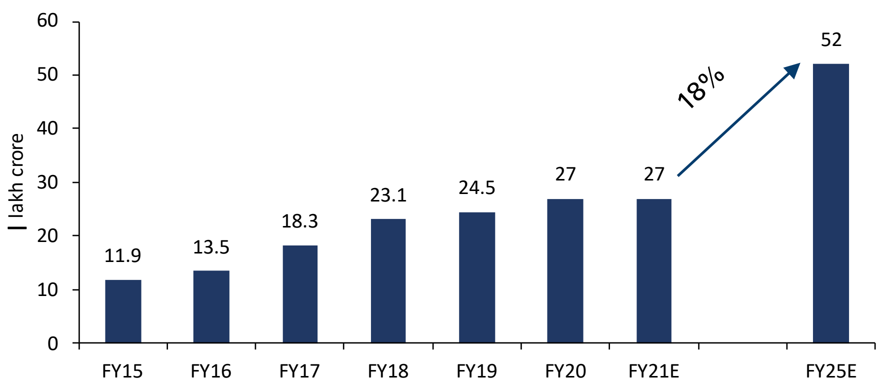
Source: RHPI, ICICI Direct Research

Outlook

Crisil expects mutual fund QAAUM growth to be near flat for FY21. After growing at a CAGR of ~18% between March 31, 2015 and March 31, 2020, from ₹ 11.9 trillion to ₹ 27.0 trillion, respectively, QAAUM as of March 31, 2021 is expected to stay at ~₹ 27.0 trillion, mainly due to the effects of the Covid-19 pandemic.

However, Crisil expects QAAUM to grow at 18% CAGR between March 31, 2021 and March 31, 2025, to ~₹ 52 trillion as of March 31, 2025, driven by an improvement in overall economic growth, growing investor base, higher disposable income and investable household surplus, increases in aggregate household and financial savings, increases in geographical penetration as well as better awareness, ease of investing, digitalisation. Crisil expects equity AUM to decline ~3% YoY in FY21 as equity in flows, including SIPs, remain low in FY21 due to lower disposable income and lower savings among households as a result of the effects of the Covid-19 pandemic. However, Crisil expects net inflows in mutual funds to gradually increase in line with expectation of a broader economic recovery starting in FY21 with equity funds to be the engine of overall industry growth with ~22% CAGR between March 31, 2020 and March 31, 2025.

Exhibit 22: Industry AUM to growt at 18% CAGR in FY21-25E

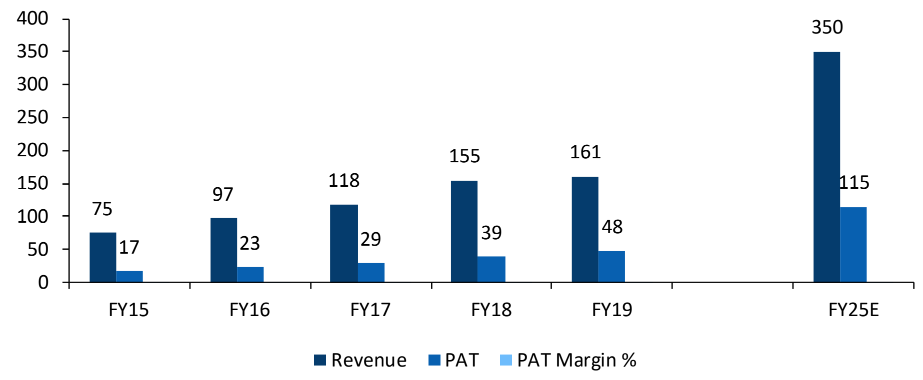


Source: RHP, ICICI Direct Research

Growth in revenue and earnings

Crisil expects industry revenues to grow at a CAGR of 13-15% from ₹ 161 billion in FY19 to ~₹ 340-360 by FY25, driven mainly by growth in AUM and incremental reallocation of AUM from fixed income to equity-oriented funds (which usually charge higher investment management fees on actively managed equity funds). Crisil expects industry profitability to improve and net profit to grow at 15-16% CAGR over the same period to ~₹ 110-120 billion by FY25, due to gradual declines in percentage of management fees as a result of higher competition and tighter TER regulations. Intensifying competition will also require increased marketing expenses but Crisil believes this will be partly offset by an improvement in employee efficiency and technological enhancements, which will eventually help increase profit margins. Both revenue and profit after tax will stay impacted due to the Covid-19 pandemic and will witness a decline in FY21, after which Crisil projects they will grow at a steady pace, in line with overall AUMs.

Exhibit 23: Projected industry revenue & profit trend



Source: RHP, ICICI Direct Research

Other Revenue Opportunities

Portfolio Management Services

In India, PMS is offered by AMCs, banks, brokerages and independent investment managers. PMS' are usually focused on customised discretionary, non-discretionary or advisory service offerings tailored to meet specific investment objectives through basic portfolio management services for stocks, cash, fixed income, debt, structured products and other individual securities. As of August 9, 2020, there were 354 portfolio managers (including AMCs) registered under Sebi. As of February 29, 2020, discretionary PMS dominated the space with ~82% share, followed by advisory (11%) and non-discretionary (7%) services. As of February 29, 2020, AUM of PMS asset managers has grown by ~15% over March 31, 2019 to reach ~₹ 18.5 trillion.

- **Alternative Investment Funds**

Since Sebi regulations came into effect in 2012, the number of AIFs registered in India have grown to 687 as of August 9, 2020. Funds raised by AIFs increased significantly from ₹ 410 billion as of March 31, 2017 to ₹ 1,717 billion as of December 31, 2019. The amount of investments made by AIFs rose from ₹ 351 billion to ₹ 1,421 billion over the same period.

- **Offshore Management/ Advisory Services**

The assets under custody of foreign portfolio investors, foreign institutional investors in India have increased from ₹ 15.9 trillion as of FY14 to ₹ 29.1 trillion as of June 30, 2019. As of June 30, 2019, equity and debt constituted 90% and 10% of assets, respectively.

- **National Pension System (NPS)**

AUM of the NPS grew to ₹ 4,647 billion as of June 30, 2020 from ₹ 809 billion as of March 31, 2015 at a CAGR of ~39%, driven by strong growth across all subscriber classes.

Peer Comparison

Exhibit 24: Comparison with peer companies

Name of Company	Total Income FY20	EPS (₹)	NAV (₹ per share)	P/E (x)	RoE (%)	Face Value (₹)
UTI AMC	891.0	21.5	217.88	25.7	9.88	10.0
HDFC Asset Management Company Limited	2143.4	59.2	189.34	189.3	31.33	5.0
Reliance Nippon Life Asset Management Limited	1193.2	6.7	42.36	42.4	16.03	10.0

Source: RHP, ICICI Direct Research

Investment Rationale

Pure-play independent asset manager with strong brand

UTI's brand is recognised nationwide for its strength and more than 55 years of heritage as a leading and pioneering, participant in the mutual fund industry. The company's national footprint, with a presence in many metropolitan and rural areas, and particular strength in B30 cities, has allowed it to establish and leverage the UTI brand. The company's pan-India presence and brand recognition generates and supports investor confidence to provide consistent quality services.

UTI AMC is the second largest asset management company in India in terms of total AUM and eighth largest asset management company in India in terms of domestic mutual fund QAAUM as on June 30, 2020. It 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 AIFs. **As of June 30, 2020, UTI's domestic mutual fund QAAUM were at ₹ 133630 crore, while other AUM were at ₹ 849390 crore (of which PMS represented ₹ 697050 crore).** UTI's domestic mutual fund portfolio included 43 open-ended schemes covering vast majority of Sebi-approved scheme categories, including 20 equity schemes (including two index funds and five ETFs), nine hybrid schemes, 10 income schemes and four liquid and money market schemes. UTI's diverse portfolio of funds & services enables it to operate through market cycles, cater to requirements of its customers and leverage core competencies.

Exhibit 25: UTI's domestic mutual fund QAAUM break-up

(in ₹crore)	FY18		FY19		FY20		Q1FY21	
Category of Fund	QAAUM	% of Total	QAAUM	% of Total	QAAUM	% of Total	QAAUM	% of Total
Active	36670	23.7%	37260	23.3%	38190	25.2%	33270	24.9%
Passive	9210	5.9%	16740	10.5%	25220	16.7%	24450	18.3%
Total Equity	45880	29.6%	54000	33.8%	63410	41.9%	57720	43.2%
Hybrid	21910	14.1%	21930	13.7%	20960	13.8%	18790	14.1%
Income	48750	31.5%	39190	24.5%	21350	14.1%	19330	14.5%
Liquid / Money Market	38400	24.8%	44580	27.9%	45790	30.2%	37790	28.2%
Total	154940	100.0%	159690	100.0%	151510	100.0%	133630	100.0%

Source: RHP, ICICI Direct Research

UTI's independence and focus on the business of asset management distinguishes it from most its major competitors that are part of diversified financial services institutions with varied sales, trading, underwriting, research and lending activities. The company is able to form stronger and deeper relationships with a wide range of banks, distributors and other financial intermediaries as it does not have other business lines that may compete with such parties. Furthermore, UTI has also developed particular in-house skills in fund accounting, improving efficiency and cost-effectiveness. The company's size enables it to benefit from economies of scale, particularly in the areas of fund management, marketing and distribution.

Multiple distribution channels with widespread customer reach

UTI has a comprehensive multi-channel distribution network with both in-house capabilities and external distribution channels. It reaches its clients through a number of distribution channels, including IFAs, direct distribution, banks and distributors. The company's distribution channel comprises ~53000 IFAs, internal sales teams for institutional and PSU clients while banks and distributors channel comprise arrangements with various domestic and foreign banks and other distributors.

In terms of distribution, direct distribution accounted for ~58.7% of domestic mutual fund QAAUM while IFAs formed ~29.8% of the domestic mutual fund QAAUM as of June 2020. Sales through third-party digital platforms accounted for ~41.3% of UTI's equity and hybrid mutual fund gross sales during June 30, 2020.

Exhibit 26: Distribution channel for domestic QAAUM

Channel	FY17	FY18	FY19	FY20	Q1FY21
IFAs	29.1%	31.1%	31.6%	29.9%	29.8%
BND	16.5%	14.4%	13.9%	11.1%	11.4%
Direct	54.4%	54.5%	54.5%	59.0%	58.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total QAAUM (₹crore)	1,36,810	1,54,940	1,59,690	1,51,510	1,33,630

Source: RHP, ICICI Direct Research

Exhibit 27: Distribution channel for equity & hybrid funds

Channel	FY17	FY18	FY19	FY20	Q1FY21
IFAs	57.1%	61.0%	62.6%	60.1%	60.4%
BND	11.4%	9.5%	10.1%	10.3%	9.8%
Direct	31.5%	29.5%	27.3%	29.6%	29.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total QAAUM (₹crore)	48,650	58,580	59,190	59,160	52,060

Source: RHP, ICICI Direct Research

UTI's widespread distribution network in India gives access to its investors located in 697 districts including remote areas, and reinforces the company's strong presence in small and medium towns, cities and villages. UTI's established presence in B30 cities has enabled it to attract new clients and positions itself to capitalise on future growth in the underpenetrated cities. Apart from this, UTI's offshore funds are also distributed through its foreign offices in London, Guernsey, Dubai and Singapore.

Exhibit 28: Client wise distribution of AUM as on June 2020

Clients	Live Folios (in lakhs)	Closing AUM (₹ crore)	% of Domestic Mutual Fund Closing AUM
Individual investors (other than NRIs)	109	62910	43.8%
Corporate and other institutional investors	1	65110	45.4%
Banks and other financial institutions	0	4960	3.5%
Trusts	0	8140	5.7%
NRIs	1	2430	1.7%
Total	**111**	**143550**	**100%**

Source: RHPI, ICICI Direct Research

Also, UTI is actively exploring potential additional strategic partnership opportunities with different types of distributors, including banks, aggregators, and fintech platforms, to further enhance its distribution reach and capabilities. The company believes that a preferential tie-up with a bank would enable it to compete more effectively with many of its competitors that are part of diversified financial institutions and so benefit from referrals from their affiliates. UTI is also actively engaging with fintech & payments platforms and other digital intermediaries to capture AUM growth driven by increasing importance of digital distribution. As on June 30, 2020, UTI has entered into distribution arrangements with 11 such distributors.

Stable investment performance, AUM growth

As one of the pioneers in the Indian mutual fund industry, UTI has a long history of introducing and supporting products and solutions that deliver consistent and stable returns through cycles, driving AUM growth. Many of UTI's equity mutual funds have demonstrated strong performance through economic cycles. For example, schemes representing ~92.3% of closing AUM invested in UTI's six core equity strategies have outperformed their respective benchmark indices (by an average of 1.3% per annum) for an average return of 9.6% per annum in the 10-year period ended June 30, 2020. The company believes that the track record of product innovation and consistent and stable investment performance has contributed to its AUM growth. For example, during FY18-20, UTI's QAAUM of domestic equity mutual funds increased at a CAGR of 17.6%. However, it declined 9% in Q1FY21, due to continued impacts of the Covid-19 pandemic. During the same period, other AUM grew at a CAGR of 101.1%, primarily due to appointment to manage ₹ 328280 crore of additional assets from EPFO.

Established position in retirement solutions

UTI has developed particular strengths in managing retirement funds for beneficiaries right across the socio-economic spectrum. In respect of domestic mutual funds business, UTI manages the largest income tax-notified fund in retirement fund category in India (UTI Retirement Benefit Pension Fund), which had a QAAUM of ₹ 2600 crore as on June 30, 2020. Through the PMS business, UTI is one of two fund managers appointed to manage EPFO corpus and have also been appointed as a fund manager for CMPFO, ESIC and NSDF. These appointments have resulted in strong growth in of its PMS AUM, which were at ₹ 697050 crore as on June 2020. During the same period, AUM of the RSL business came in at ₹ 135590 crore primarily due to steady increase in the number of individuals enrolled in UTI's Government and non-Government NPS schemes. According to Crisil Research, UTI AMC had 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%). Continuous development of retirement solutions enhances UTI's brand value and provides additional cross-selling opportunities to grow AUM, particularly in domestic mutual funds business.

Continues to develop PMS, offshore, AIF businesses

UTI AMC seeks to increase AUM by accessing new markets, which, it believes, are strategically viable. The company intends to use its track record with institutional mandates to manage superannuation funds (such as EPFO and CMPFO) to pursue other opportunities in the PMS business. Such additional institutional pension fund mandates would not only drive AUM growth and profitability in PMS business but also would provide cross-selling opportunities. In turn, this would provide scale to passive funds.

In the offshore business, UTI aims to capture a disproportionate share of India directed investment flows, with a particular focus on growing its three UCITS funds and other products with maturities of more than one year. The company plans to grow its offshore business by focusing on distribution partnerships, including co-branded and white-labelled funds, expanding in-house distribution and client coverage capabilities, including through making further in-market hires overseas and strengthening relationships with wealth platforms and local banks. Apart from this, UTI also seeks to grow its alternative investment funds business, leveraging and augmenting the new team it hired at UTI Capital in 2017.

Revenue, earnings steady in FY17-20; revival seen in Q1FY21

Total revenue stayed steady in FY17-19, at ₹ 1081 crore in FY19, led by stable QAAUM. In FY20, total revenue fell 17.6% YoY to ₹ 891 crore, due to reduction in revenue from sale of services and lower gains on fair value changes. In Q1FY21, revenue increased 11.4% YoY to ₹ 271 crore, led by increased net gains on fair value changes, partly offset by decline in revenue from sale services. Expense as a percentage of revenue increased from 50% in FY17 to 61% in FY20, though declined to 55% in Q1FY21. PAT declined in FY20 to ₹ 276 crore, due to reductions in revenue from the sale of services and lower net gains on fair value changes, partly offset by a decrease in scheme expenses and management fees. PAT as percentage of revenue declined from 38% in FY17 to 31% in FY20, though in Q1FY21 has increased to 37%. Consequently, RoE declined from 18.5% in FY17 to 10% in FY20, which has increased to 3.6% (non-annualised) in Q1FY21.

Key risks and concerns

Underperformance of investment portfolio may impact AUM

Investment performance is one of the important factors for retaining existing customers and attracting new ones and, therefore for maintaining and growing AUM. The performance of UTI funds depends not only on its investment strategies but also on a number of factors including market, economic and other conditions. Furthermore, few of UTI's investment management contracts contain restrictions relating to investment policies, for example limiting exposure concentrations in respect of certain asset classes, issuers or industries that could restrict performance. Poor investment performance could have a negative effect on business and growth as it could lead to loss of clients, ability to attract funds and negative investment performance will directly impact income from management fees.

Concentration risk of investment portfolio to persist

A substantial portion of UTI's domestic mutual fund QAAUM is concentrated in a few schemes. As of June 30, 2020, UTI AMCs top six active equity funds constituted ~75.3% of total QAAUM of active equity funds while top five passive equity funds constituted ~98.7% of total QAAUM of passive equity funds. UTI AMC has only four liquid and money market funds. Underperformance by any of these funds may have a disproportionate adverse impact on AUM and thereby income. In addition, UTI has invested or co-invested in some funds and have uncalled commitments of ₹ 180 crore in respect of the proposed UTI Structured Debt Opportunities Fund II, managed by UTI Capital Pvt Ltd. Many of the investments held by these funds are illiquid and carry high credit risk. Market fluctuations could result in losses for the funds and impact the financial performance.

Dependence on UTI brand

UTI's business and prospects are dependent on the strength of its brand, reputation and sponsors. The company is exposed to the risk of litigation, misconduct, operational failure, negative publicity, press speculation or other problems, including in respect of its sponsors, which could harm UTI's brand and reputation. Furthermore, UTI AMC's brand and reputation could also be adversely affected if its schemes, products or services underperform certain benchmarks or do not perform as expected by investors.

Exposure to regulatory risk

Sebi prescribes the maximum Total Expense Ratios (TER) to be charged by a MF scheme. From time to time these TER limits may be reviewed and revised. For example, with effect from April 1, 2019, TERs for open-ended equity-oriented schemes were reduced from a range of 2.5-1.75% to 2.25-1.05%. As the mutual fund industry in India increases in size, there may be a greater likelihood that TER limits will be reduced further. Thus, any reductions in prescribed TER limits may impact UTI's income & profits and may cause decline in general marketing efforts which could adversely affect AUM and overall demand for the services.

Decline in sponsors' shareholding to impact business

The majority shareholding of each of UTI's sponsors is held by GOI which has helped the AMC to procure business from government controlled entities such as PLI, which handle large amounts of public funds. UTI may be unable to retain such clients or attract new ones when its sponsors cease to own at least 51% stake on aggregate level. Thus, a decline in sponsor's shareholding could impact business growth.

Financial Summary

Exhibit 29: Profit & Loss Statement (₹ crore)

Particulars	FY17	FY18	FY19	FY20	Q1FY21
Revenue from Operations	1034.9	1150.1	1050.5	855.0	261.8
Other Income	13.3	12.7	30.4	36.0	9.3
Total Income	**1048.3**	**1162.7**	**1080.9**	**891.0**	**271.1**
Expenses					
Fees & Commision Expense	0.6	1.8	2.1	2.9	0.7
Finance Cost	9.3	8.7	8.2	8.5	2.3
Employee Expenses	286.6	320.8	306.7	339.9	98.0
Other Expenses	231.2	286.1	272.7	194.3	46.8
Total Expenses	527.7	617.3	589.6	545.6	147.8
PBT	520.5	545.4	491.2	345.4	123.2
Tax	125.3	140.3	143.3	69.0	22.1
PAT	**395.2**	**405.1**	**347.9**	**276.4**	**101.1**

Source: RHP, ICICI Direct Research

Exhibit 30: Balance Sheet (₹ crore)

Particulars	FY17	FY18	FY19	FY20	Q1FY21
Assets					
Cash and cash equivalents	110.1	150.2	124.2	119.3	123.9
Receivables	58.8	54.9	63.7	55.4	51.3
Loans	37.5	35.7	28.2	37.4	36.4
Investments	1800.2	2178.8	2261.4	2355.8	2457.4
Non Financial Assets	416.4	407.4	408.0	432.8	443.1
Other Assets	80.2	92.2	127.9	154.3	151.3
Total	**2503.1**	**2919.3**	**3013.3**	**3154.9**	**3263.4**
Equity & Liabilities					
Equity	126.8	126.8	126.8	126.8	126.8
Reserves & Surplus	1899.2	2240.6	2477.6	2635.7	2708.1
Non-controlling interest	105.1	70.2	37.2	10.8	11.4
Networth	2131.1	2437.6	2641.6	2773.3	2846.4
Provisions	22.8	106.1	91.6	83.1	129.8
Deferred Tax Liabilities (Net)	63.7	43.8	36.3	44.5	49.9
Other liabilities	285.5	331.7	243.8	254.0	237.4
Total	**2503.1**	**2919.3**	**3013.3**	**3154.9**	**3263.4**

Source: RHP, ICICI Direct Research

Exhibit 31: Earnings summary as percentage of AUM Trend

	FY18	FY19	FY20	Q1FY21
Revenue/AUM	0.74%	0.66%	0.56%	0.78%
Other Income /AUM	0.01%	0.02%	0.02%	0.03%
Total Income/AUM	0.75%	0.68%	0.59%	0.81%
Expenses				
Fee & Commission/AUM	0.01%	0.01%	0.01%	0.01%
Finance Cost/AUM	0.21%	0.19%	0.22%	0.29%
Other Expenses/AUM	0.18%	0.17%	0.13%	0.14%
Total Expenses/ AUM	0.40%	0.37%	0.36%	0.44%
PBT/ AUM	0.35%	0.31%	0.23%	0.37%
Tax/AUM	0.09%	0.09%	0.05%	0.07%
PAT/AUM	0.26%	0.22%	0.18%	0.30%

Source: RHP, ICICI Direct Research

Exhibit 32: Key Ratios

	FY17	FY18	FY19	FY20	Q1FY21
No. of shares (crore)	12.68	12.68	12.68	12.68	12.68
BV (₹)	168.1	192.3	208.3	218.7	224.5
EPS (₹)	31.2	32.0	27.4	21.8	8.0
P/E (x)*	17.8	17.3	20.2	25.4	17.4
P/BV	3.3	2.9	2.7	2.5	2.5
P/QAAUM (%)		4.5%	4.4%	4.6%	5.3%
RoA (%)	15.8	13.9	11.5	8.8	3.1
RoE (%)	18.5	16.6	13.2	10.0	3.6

Source: RHP, ICICI Direct Research

** P/E for Q1FY21 is annualised*

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Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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