

# UTI Asset Management Company | BUY

## Operating parameters justify a discount to peers

UTI AMC has benefited from the gains in equity markets in recent quarters, however, its equity AUM rose 18.7% in FY24, while the industry grew 53.4% - indicating that it has struggled to capitalise on the bull-run. Its share of growing SIP inflows reduced to 3.1% in 4Q24 from 4.3% in 1Q23, down 122bps. What provides comfort is that, despite below-industry growth in recent quarters, its 5 year- CAGR in equity AUM, at 16.9%, is comparable to listed peers (18.1%/17.4% for HDFC AMC/NAM). With large cash on its books (INR 38.3bn in 4Q24), it benefits from a gain in markets through "Other income", which should be strong in 1Q25 as well. In the medium-term, fortunes would be dependent on the key schemes' ability to beat the benchmark, and gradual recovery in inflow market share. Employee costs have remained sticky above INR 1bn per quarter, and we expect it to trend at 1.1bn per quarter over FY25/FY26. With AUM inching up in 4Q24/1Q25, we expect costs to reduce to 26/25bps of average AUM over FY25/FY26e, from 30bps in FY24. Along with improvement in costs, we highlight that scheme performance has improved in the last year – which can reduce market share loss. Due to weaker AUM growth and highest cost ratios, the stock trades at a substantial discount to peers. At CMP, the stock trades at 17.8/16.5x FY25/FY26e PAT. We value the company at 19x FY26E core PAT and add the investment book of INR 38.3bn to arrive at our Target Price of INR 1,100 – implying 17.3x on FY26e EPS. Downgrade to HOLD.

- Yields repricing awaited in FY25/FY26:** Due to uncertain performance of its top schemes, UTI AMC could not capitalise on the strong equity gains in last few quarters. Its SIP market share fell 122bps over 1Q23 levels, to 3.1% by 4Q24. Meanwhile, with telescopic pricing coming in with AUM appreciation, revenue yields dropped by 4bps to 47bps of average AUM in FY24. We believe that the impact of the AUM gains remains to be fully seen, and expect blended yields to reduce further to 44bps by FY26. However, we expect 16.5%/12.9% growth in revenues over FY25/FY26. Other income is a major component of its topline – which grew 2.5x in FY24 to INR 561.9bn. We see this as unsustainable and expect it to fall to INR 347.8bn by FY26.
- Expect cost intensity to improve over FY25/FY26:** Employee costs have remained sticky above INR 1bn per quarter, and we expect it to trend at 1.1bn quarterly over FY25/FY26. With AUM inching up in 4Q24/1Q25 with equity gains, we expect cost intensity to reduce to 26/25bps of average AUM over FY25/FY26e, from 30bps in FY24 – led entirely by an increase in the denominator.
- Valuation and view:** UTI AMC's equity AUM gains lagged the industry and headline indices in FY24, and the impact was felt in a loss of market share by 122bps to 3.1%. We do not expect an immediate uptick in inflow market share. On costs, we expect employee expenses to remain steady above INR 1bn per quarter and improvement in cost ratio to be driven solely by AUM gains (led by MTM amidst weakening flows). At CMP, the stock trades at 17.8/16.5x FY25/FY26e PAT. We value the company at 19x FY26E core PAT and add the investment book of INR 38.3bn to arrive at our Target Price of INR 1,100 – implying 17.3x on FY26e EPS. Downgrade to HOLD.



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### Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	BUY
Current Price Target (12M)	1,100
Upside/(Downside)	5.2%
Previous Price Target	1,100
Change	14.5%

### Key Data – UTIAM IN

Current Market Price	INR1,046
Market cap (bn)	INR133.1/US\$1.6
Free Float	55%
Shares in issue (mn)	126.8
Diluted share (mn)	
3-mon avg daily val (mn)	INR201.6/US\$2.4
52-week range	1,072/731
Sensex/Nifty	80,352/24,433
INR/US\$	83.5

### Price Performance

%	1M	6M	12M
Absolute	8.9	17.4	31.3
Relative*	3.7	4.7	6.8

\* To the BSE Sensex

### Financial Summary

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Mutual Fund AUM (INR bn)	2,202	2,231	2,846	3,282	3,725
YoY growth (%)	25%	1%	28%	15%	13%
% of equity MF AUM	43%	41%	38%	40%	41%
Operating Revenues (INR mn)	11,189	11,314	11,821	13,769	15,547
Total operating expenses (INR mn)	6,671	7,045	7,571	8,011	8,637
PAT (INR mn)	5,346	4,397	8,020	7,463	8,051
YoY growth (%)	8%	-18%	82%	-7%	8%
PAT / Avg. MF AUM (%)	0.27%	0.20%	0.32%	0.24%	0.23%
RoE (%)	15.6%	11.7%	19.4%	16.6%	17.2%
EPS (INR)	42.1	34.6	63.0	58.6	63.3
P/E (x)	24.9	30.3	16.6	17.8	16.5

Source: Company data, JM Financial. Note: Valuations as of 09/Jul/2024

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