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Capital Market

Indian Capital Market: A golden era!

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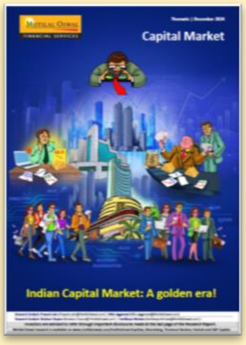
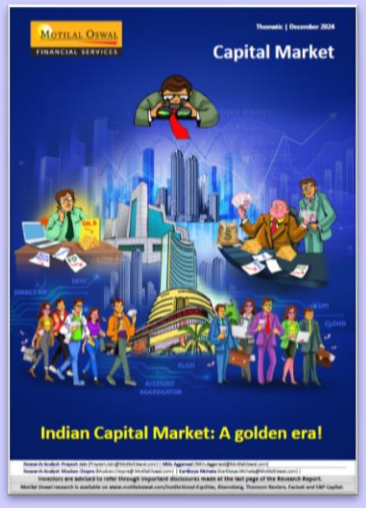


We believe the remarkable growth of the Indian Capital market in the past five years marks the beginning of a sustained, multi-year structural uptrend, fueled by favorable demographic trends as more individuals enter the workforce, contributing to the expansion of the middle class. Digital enablers such as E-KYC, UPI, and Account Aggregation have played a key role in facilitating this growth. Regulatory reforms have further strengthened the ecosystem, enhancing transparency and security for investors. Consequently, we believe AMCs, exchanges, brokers, wealth managers, and other intermediaries are well-positioned to capitalize on these emerging trends.

Companies covered in the report

Capital Market



Indian Capital Market: A golden era!

Strong growth visibility with high RoE and superior cash generation

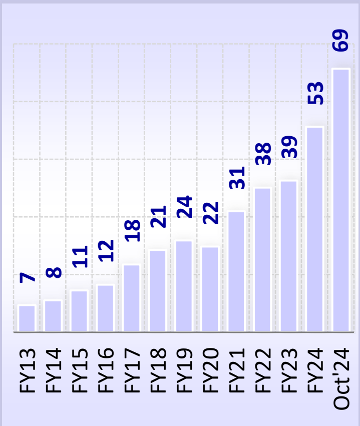
- **Stellar growth in the last five years…:** The Indian capital market has experienced remarkable growth over the past five years from all perspectives. Demat accounts surged 4.4x (179m), NSE active accounts surged 4.9x (49m), Unique MF investors jumped 2.4x (50m), and Monthly SIPs climbed 3.2x (INR253b) from FY20 till Oct'24.
- **…albeit, penetration is low:** Demat penetration at 12% vs. 62% for USA, turnover velocity ~70% vs. ~115% for NASDAQ, and MF AUM-to-GDP ratio 17% vs. the global average of 65%.
- **Opportunities aplenty…:** Over the next decade, **the demographic dividend will accelerate**, with over 100m people joining the workforce and about 100m households entering the middle-income class. The HNI and UHNI segments are also clocking 12% CAGR and are likely to sustain this momentum.
- **…in Digital India:** The capital market ecosystem has benefited from UPI, while electronic Know Your Customer (E-KYC) processes have revolutionized the brokerage and mutual fund industries through the emergence of discount brokers, facilitating direct investment in mutual funds. This evolution is expected to continue driving substantial changes in customer behavior and further stimulating growth.
- **Account aggregation – at an inflection point:** We expect account aggregation (AA) to transform the personal finance industry, akin to payment industry transformation with UPI. The use cases of AA will drive digitization in wealth management, broking, and other segments and will enhance 'right customer, right product' delivery.
- **Regulatory changes strengthening ecosystem:** Regulations have been tightened across ecosystem over the years to enhance customer safety and transparency. In spite of margin norms, TER regulations, and altered commission structures, business growth has been stellar, reflecting increased customer confidence and trust. Recently announced F&O regulations could hurt volumes intermittently, but we expect the growth trajectory to pick up once the base is reset.
- **Industry on a strong footing:** We believe the entire ecosystem of capital market – AMCs, Brokers, Exchanges, Intermediaries, and Wealth Managers – will see sustained growth in revenue (17-45% CAGR over FY24-27). Fixed cost nature will drive operating leverage for all segments, resulting in superior profit growth (12-75% CAGR over FY24-27). High cash generation, healthy dividend payouts, and superior RoEs bolster our view in the entire capital market space.
- **Our preferred picks:** Among **AMCs**, we prefer **HDFC AMC and Nippon AMC**, while **Angel One** continues to be our top pick in the **Broking** space. Among **Exchanges**, we like **BSE**. Among **Wealth Managers**, we like **Nuvama and 360 One WAM.** Among **Intermediaries**, we prefer **CAMS. We have Buy on UTI AMC & ABSL AMC and neutral rating on MCX, Anand Rathi, KFin, Prudent and CDSL.**

Valuation snapshot

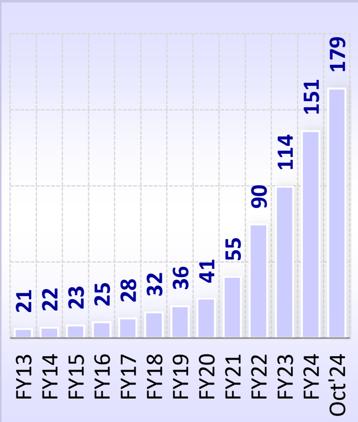
	Reco	Target INR	Upside %
HDFC AMC	Buy	5,200	19
Nippon AMC	Buy	900	25
ABSL AMC	Buy	1,100	30
UTI AMC	Buy	1,600	21
Angel One	Buy	4,200	28
BSE	Buy	6,500	20
MCX	Neutral	7,600	10
360 ONE WAM	Buy	1,350	21
Nuvama	Buy	8,800	25
Anand Rathi	Neutral	4,500	5
Prudent	Neutral	3,200	8
CDSL	Neutral	2,000	6
CAMS	Buy	6,000	18
Kfin	Neutral	1,400	10

Prices as on 6th December 2024

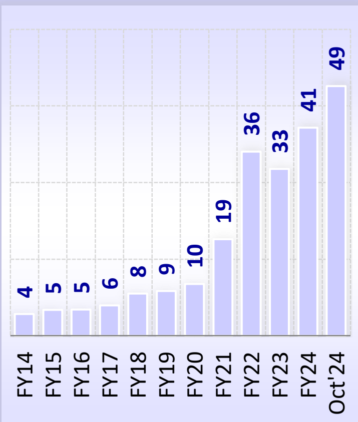
MF AUM (INRt)



Demat accounts (m)



NSE Active clients (m)



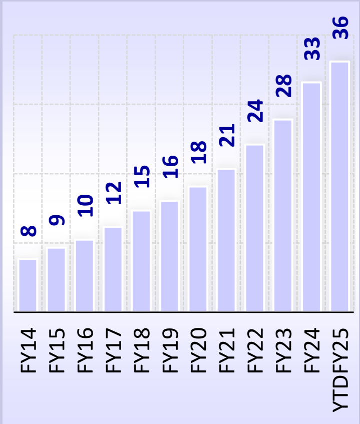
AMCs – SIPs the bedrock for sustained long-term growth

- The MF industry's AUM has clocked a 21% CAGR to reach INR69t in Oct'24, driven by an equity AUM CAGR of 29% (INR40t in Oct'24) over the past five years. This has been propelled by a 3.2x jump in SIP flows to INR253b in Oct'24.
- Nevertheless, the unique investor count is just at 50m, indicative of a stark underpenetration (3% of the population).
- Systematic Investment Plan (SIP) is turning out to be a household name due to MFs. The 'Mutual Funds Sahi Hai' campaign, ticket sizes as low as INR100 for SIPs, seamless execution via the digital route, and tighter commission regulations, will continue to drive growth in the AMC sector. Monthly SIP run-rate touched an all-time high of INR253b in Oct'24 (vs. INR78b in Oct'20).
- New product avenues (AIFs, PMS, and new asset class of INR1-5m), expansion of reach to lower-tier cities, and widening international presence through offshore funds and passives will provide additional growth triggers.
- AUM growth for the AMCs will be a factor of flows and MTM, which will depend on consistent fund performance. For the industry, we expect 15-18% AUM CAGR. Yields, however, could decline with the telescopic structure of TERs, but alterations to commission structures can protect them.
- Scale benefits will improve profitability, leading to core earnings growth tracking AUM growth. Strong cash flow generation, high dividend payouts (50-90%) and superior RoEs (25%+) call for premium valuations in the space.
- **We initiate coverage on the sector with a BUY rating on HDFC AMC, Nippon AMC, ABSL AMC, and UTI AMC.**

Exchanges and Brokers – regulations resetting the base

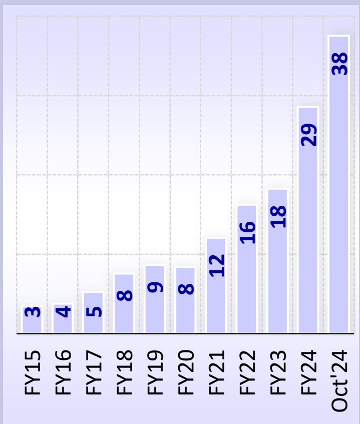
- The demat account penetration in India is at 12% vs. 62% for the US. Discount brokers, through their digital offerings, are changing the paradigm, enabling rising awareness and adoption of equity in lower-tier towns and cities.
- The growth in volumes has been exponential, with ADTO for all segments (Equity F&O, Cash, and Commodities) growing multifold over the past five years. The Options segment has been the biggest driver for this growth. With SEBI bringing in measures to constrain the options segment, we expect an intermittent hit to volumes before the base is reset for the future growth trajectory.
- In the new regulatory environment, discount brokers will have to evolve their pricing models to protect profitability, while exchanges will have to bring in product innovation to arrest the volume decline.
- Due to the widening of the primary market with a higher number of listings along with increased free float, we believe turnover velocity for the exchanges will continue to trend higher. This would aid volume growth for brokers as well.
- For brokers, the lifetime value of the customer continues to be the strategy to reduce cyclicality. As a result, there is an increased focus on the distribution of new products (loans, fixed income, mutual funds, and insurance).
- Given the duopoly in equity exchanges and almost a monopoly in commodity exchanges, exchanges command premium valuations (35-40x 1-year fwd). However, brokers having a relatively higher cyclicality trade at relatively lower multiples (15-18x 1-year fwd).
- **We have revised our recommendation to BUY on BSE and Neutral on MCX. We reiterate BUY on Angel One. We have also covered NSE in this report.**

PMS AUM (INRt)



AIF investments raised (INRb)

Equity MF AUM (INRt)



Wealth Managers – multiple growth levers in place

- With robust economic growth, the number of HNIs and UHNIs has been growing in India (at 12% CAGR), and their wealth is growing at a faster pace, aided by buoyant equity markets. However, the penetration of organized wealth management continues to be very low (at 15% vs. 75% in the developed world).
- Inter-generational wealth transfer is a key trend that will drive the adoption of organized wealth management, as the new generation prefers newer investment avenues – AIFs, PMS, REITs/INVITs, and international investing – over traditional assets such as fixed deposits, gold, and physical real estate.
- Expansion into lower-tier cities and widening the customer cohorts to include mass affluent by organized wealth managers will be the next trigger for growth.
- Investments in technology to garner growth in the phygital model, coupled with increased adoption of the AA framework, will be vital.
- Companies have invested in adding RMs over the past couple of years and are set to see scale benefits arising in the near to medium term, leading to RoE improvements.
- With capabilities to serve the customer across asset classes, AUMs and client stickiness are relatively high amongst wealth managers. Further, healthy RoEs (25%+) and strong cash generation leads to premium valuations in the space.
- **We initiate coverage on Nuvama Wealth with a BUY rating, while we assign a Neutral rating to Prudent and Anand Rathi. We reiterate our BUY rating on 360 One WAM.**

Intermediaries – deepening the moat

- RTAs and depositories will be the strong beneficiaries of the expected strong traction in broking, MFs, exchanges, and wealth managers. With both sub-segments having duopolies and strong entry barriers, the risk of intensifying competition is almost negligible.
- Digitization has been the backbone of these intermediaries, and having invested in technology ahead of time will continue to aid deeper financial penetration in the country.
- These companies are leveraging their existing skill sets and technology to diversify their offerings across new avenues. RTAs are expanding their expertise in the MF business to AIFs, PMS, insurance, and lending businesses.
- While the MF business prospects are linked to MF industry AUM growth, we envisage growth in the non-MF businesses for RTAs to be relatively much stronger as incremental adoption gathers momentum.
- Having invested in the non-MF segments over the past few years, the profitability of these segments is likely to improve significantly in the next couple of years, driving a relatively strong earnings growth (20%+ CAGR over FY24-27). RoEs are likely to be above 30%. This segment commands the highest premium valuations among capital market plays, led by lower cyclicality and a strong financial matrix.
- **We initiate coverage on KFin Technologies and CDSL with a Neutral rating. We reiterate our BUY rating on CAMS.**

Recommendations & Valuation summary

HDFC AMC — BUY
CMP 4365 — Target 5200 (+19%)

- Strong fund performance for three years leading to 150bp market share gains in equity segment in two years
- HDFC Bank channel to pick up further momentum as branch network expands deeper and incremental resources are deployed
- Expect FY24-27 AUM/revenue/core PAT CAGR of 23%/21%/23%
- Trades at FY26E P/E of 32x

Nippon AMC — BUY
CMP 718 — Target 900 (+25%)

- Equity market share improvement of 50bp in two years led by sustained robust fund performance and SIP activations
- Leader in non-EPFO passives and strong growth from offshore assets will be the next growth triggers
- Expect FY24-27 AUM/revenue/core PAT CAGR of 28%/23%/28%
- Trades at FY26E P/E of 27x

ABSL AMC — BUY
CMP 848 — Target 1100 (+30%)

- Recent pick up in fund performance should translate into market share gains in the medium term; strong focus is also on deepening distribution
- Aims to increase offerings in the alternate space; with teams in place, scale is expected in the near term
- Expect a CAGR of 18%/17%/20% in AUM/revenue/core PAT over FY24-27
- Trades at FY26E P/E of 22x

UTI AMC — BUY
CMP 1322 — Target 1600 (+21%)

- Efforts in terms of fund performance, new product launches, and scaling up of SIPs through digital partnerships will aid equity AUM growth
- New geographies & products to drive UTI International growth; UTI RSL to gain from pension demand growth
- Expect FY24-27 AUM/revenue/core PAT CAGR of 20%/18%/29%
- Trades at FY26E P/E of 17x

Angel One — BUY
CMP 3292 — Target 4200 (+28%)

- INR15b fundraise, new features on app, and a new investment tool to drive near-term broking business
- Investments in AMC, wealth management, and the AP channel will increase share of non-broking revenue to 30% in four years
- Expect FY24-27 revenue/PAT CAGR of 24%/25%
- Trades at FY26E P/E of 17x

BSE — BUY
CMP 5396 — Target 6500 (+20%)

- Sensex/Bankex have gained market share in the options segment, with an overall notional/premium T/O market share of 25%+/10%
- Co-location services, Star MF, and new products such as power futures and gold can be long-term drivers
- Expect FY24-27 revenue/EBITDA/PAT CAGR of 45%/74%/74%
- Trades at FY26E P/E of 42x

MCX — Neutral
CMP 6918 — Target 7600 (+10%)

- Retail participation is low on MCX, with only 19m UCCs vs. 49m on NSE. FPI participation to rise with the launch of DMA
- New products, serial contracts, mini contracts to increase volumes in the medium term
- Expect FY24-27 revenue/EBITDA/PAT CAGR of 39%/ 168%/130%
- Trades at FY26E P/E of 42x

360 ONE WAM — BUY
CMP 1120 — Target 1350 (+21%)

- Fortifying its leadership in the UHNI segment through geographical expansion; AMC is well poised for sustained growth in alternate space
- Investments in the HNI segment and global WM space to fructify over the medium term
- Expect FY24-27 ARR AUM/revenue/ PAT CAGR of 24%/ 20%/23%
- Trades at FY26E P/E of 34x

Nuvama Wealth — BUY
CMP 7025 — Target 8800 (+25%)

- Having added RM force in both UHNI and HNI segments, scale benefits would emerge over the near term
- AMC to grow multi-fold in three years; custody business a proxy for growing FPI participation in Indian F&O market
- Expect FY24-27 AUM/revenue/PAT CAGR of 23%/24%/29%
- Trades at FY26E P/E of 22x

Prudent Corp — Neutral
CMP 2962 — Target 3200 (+8%)

- The second-largest MF distributor in the country and only 50% of existing customer have SIPs leaving large headroom for future growth
- Insurance adoption with distributors and scale up of other products to drive sustainable growth
- Expect FY24-27 revenue/EBITDA/PAT CAGR of 25%/35%/38%
- Trades at FY26E P/E of 44x

Anand Rathi Wealth — Neutral
CMP 4302 — Target 4500 (+5%)

- The fourth-largest MF distributor and among the largest MLD distributors in the country; reported 13% CAGR in RM count in the past three years
- Private Wealth Management, Digital Wealth, and Omni Financial Advisor are the three channels for growth
- Expect FY24-27 AUM/revenue/PAT CAGR of 28%/28%/ 31%
- Trades at FY26E P/E of 42x

CDSL — Neutral
CMP 1884 — Target 2000 (+6%)

- Largest depository in the country, with 79% market share in demat accounts. Annual issuer charges bring in annuity stream of revenues
- KYC, insurance repository, CAS, e-voting, corporate actions will see an uptick from rising equity participation
- Expect FY24-27 revenue/EBITDA/PAT CAGR of 31%/35%/ 33%
- Trades at FY26E P/E of 50x

CAMS **BUY**
CMP 5072 **Target 6000 (+18%)**

- Largest MF RTA with ~68% AUM market share in a duopoly market, 10 out of top 15 AMCs are customers of CAMS, a perfect proxy for MF growth
- CamsPay, AIF/PMS RTA, and Insurance Repository will drive non-MF share to 20%+ in two years from 13% currently
- Expect FY24-27 revenue/EBITDA/PAT CAGR of 20%/24%/26%
- Trades at FY26E P/E of 42x

KFin Technologies **Neutral**
CMP 1272 **Target 1400 (+10%)**

- Second-largest MF RTA with ~32% AUM market share in a duopoly market, 25 out of 47 AMCs are customers of KFin
- International RTA, Issuer Services, AIF/PMS RTA, & Insurance Repository will drive non-MF segment revenue, scale benefits to buoy margins
- Expect FY24-27 revenue/EBITDA/PAT CAGR of 23%/29%/32%
- Trades at FY26E P/E of 47x

NSE – A Capital Market Behemoth

- Best proxy for Indian capital markets with leadership in cash/F&O volumes
- New product launches in debt, power, commodities, currency, and in Gift City. Along with data dissemination, index licensing and colocation are additional drivers
- Contribution to SGF to restrict profit growth; FY24-27 revenue/EBITDA/PAT CAGR at 15%/22%/22%

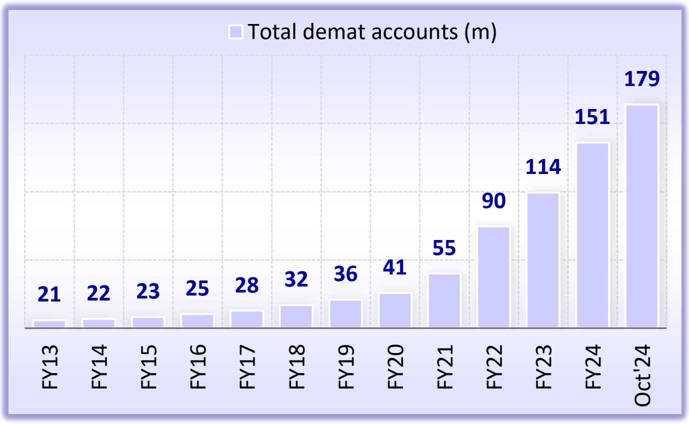
Valuation summary

	Mcap (USDb)	CMP (INR)	Reco	Target (INR)	Upside (%)	FY24-27E CAGR (%)			RoE (%)	EPS (INR)			P/E (x)		
						Revenue	EBITDA	PAT	FY26E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
AMCs															
HDFC AMC	11.0	4,365	BUY	5,200	19	21	23	23	36	119	136	155	36.7	32.0	28.1
Nippon AMC	5.2	718	BUY	900	25	23	29	21	41	23	27	31	31.7	27.0	23.0
ABSL AMC	2.9	848	BUY	1,100	30	17	20	18	29	34	38	44	24.6	22.2	19.2
UTI AMC	2.0	1,322	BUY	1,600	21	18	29	12	18	80	78	88	16.6	17.0	15.0
Exchanges & Brokers															
Angel One	3.5	3,292	BUY	4,200	28	24	24	25	25	169	190	264	19.5	17.3	12.5
BSE	8.6	5,396	BUY	6,500	20	45	74	74	41	99	129	158	54.4	41.8	34.1
MCX	4.2	6,918	Neutral	7,600	10	39	168	130	53	124	167	199	56.0	41.5	34.8
NSE						15	22	22	39	42	50	60			
Wealth Managers & Distributors															
360 One WAM	5.1	1,120	BUY	1,350	21	20	28	23	20	25	33	38	44.4	33.7	29.1
Nuvama	2.9	7,025	BUY	8,800	25	24	30	29	32	272	315	363	25.8	22.3	19.3
Anand Rathi	2.1	4,302	Neutral	4,500	5	28	31	31	48	75	102	122	57.1	42.1	35.1
Prudent	1.5	2,962	Neutral	3,200	8	25	35	38	35	49	67	87	59.9	44.1	33.9
Intermediaries															
CDSL	4.7	1,884	Neutral	2,000	6	31	35	33	40	31	38	47	61.5	49.8	40.0
CAMS	2.9	5,072	BUY	6,000	18	20	24	26	49	99	120	144	51.1	42.4	35.2
Kfin	2.6	1,272	Neutral	1,400	10	23	29	32	34	21	27	34	60.9	47.4	37.7

Source: MOFSL

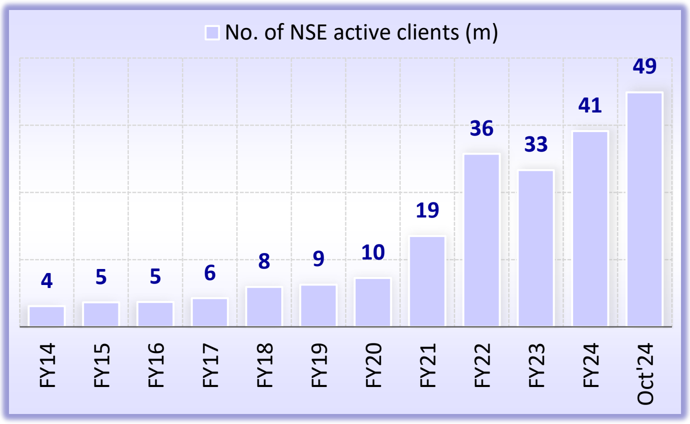
Capital Markets: Growing notably in the past five years…

Demat account base has jumped ~9x over the past decade and ~4x during the past five years



Source: CDSL, NSDL, MOFSL

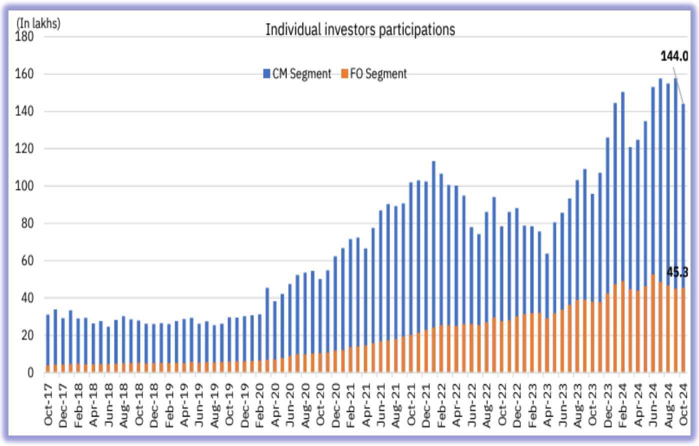
NSE active client base has surged 10x over FY14-24 and 2.5x over the past five years



Source: NSE, MOFSL

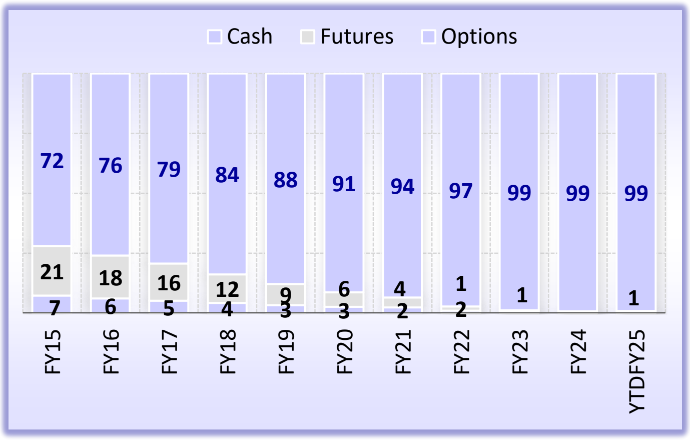
NSE active clients are individuals who have initiated at least one trade within the preceding 12 months

Only ~29% of NSE active clients traded in the cash segment, while a meager 9% traded in the F&O segment in Oct'24



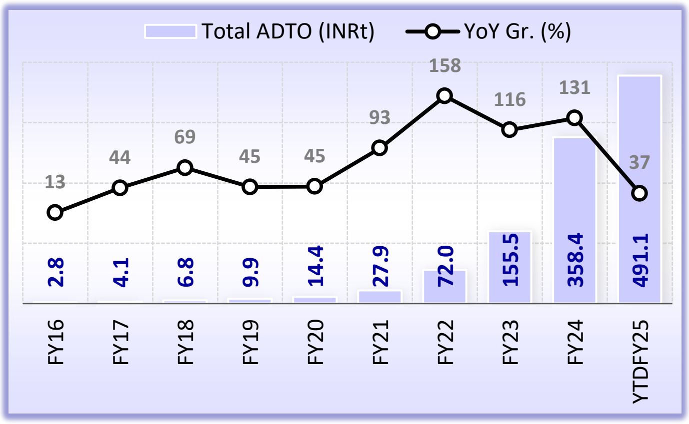
Source: NSE, MOFSL

Share of Options in total turnover on NSE has surged to 99% from 72% over the past decade, reflecting the improved affinity towards Options (%)



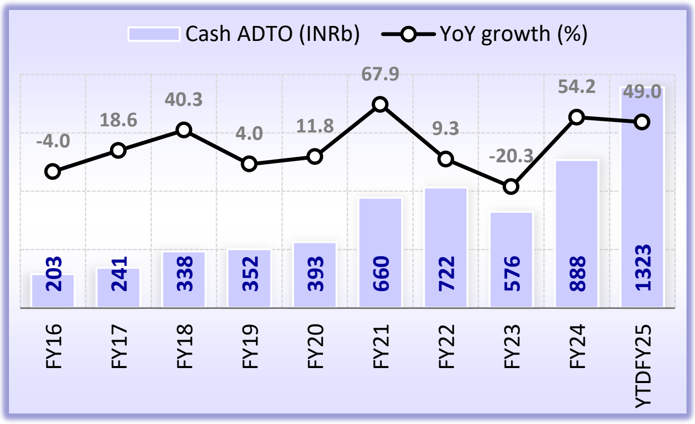
Source: NSE, MOFSL

The surge in client additions has led to a more-than-commensurate jump in overall volumes post-FY20…



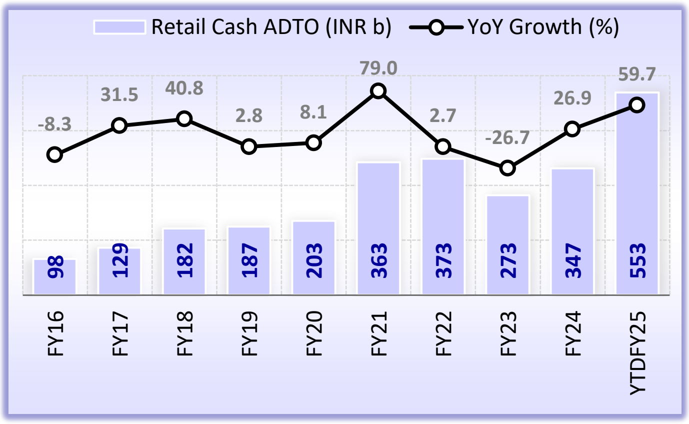
Source: NSE, BSE, MOFSL

…while cash volumes have seen relatively healthy growth momentum in spite of stricter margin norms



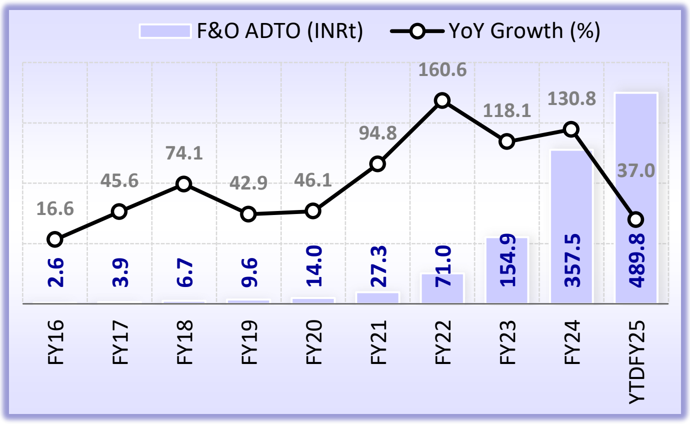
Source: NSE, BSE, MOFSL

Retail cash ADTO witnessed healthy growth…



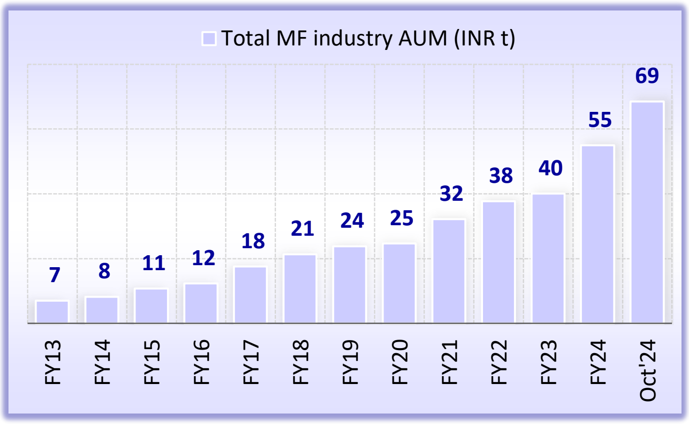
Source: NSE, BSE, MOFSL

…well aided by a surge in F&O ADTO in the last four years



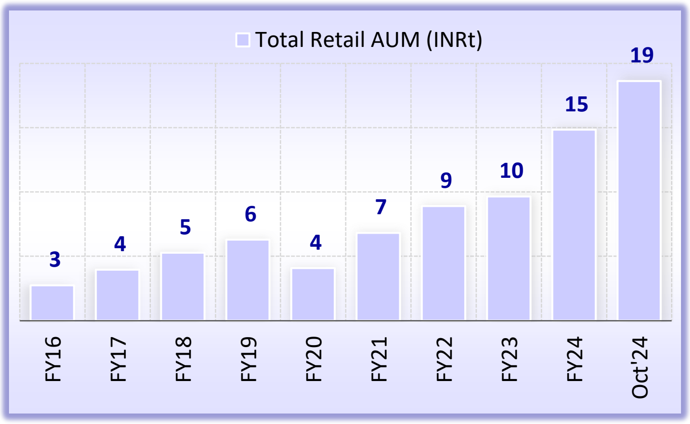
Source: NSE, BSE, MOFSL

MF industry's AUM has almost tripled since FY20…



Source: AMFI, MOFSL

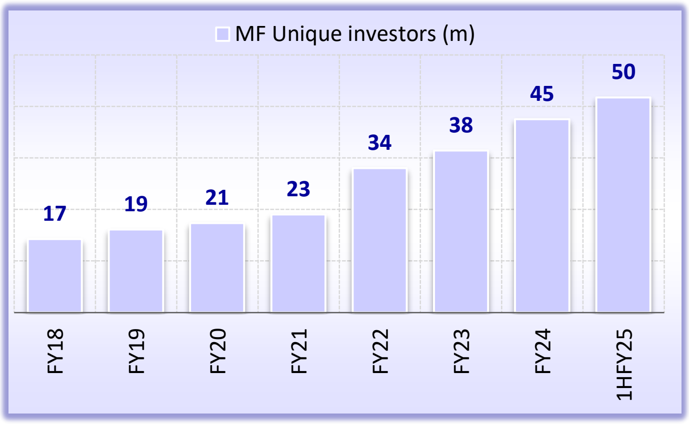
…with retail MF AUM clocking a faster CAGR of ~18% vs. the overall industry's MF AUM CAGR of ~17% in the last five years



Source: AMFI, MOFSL

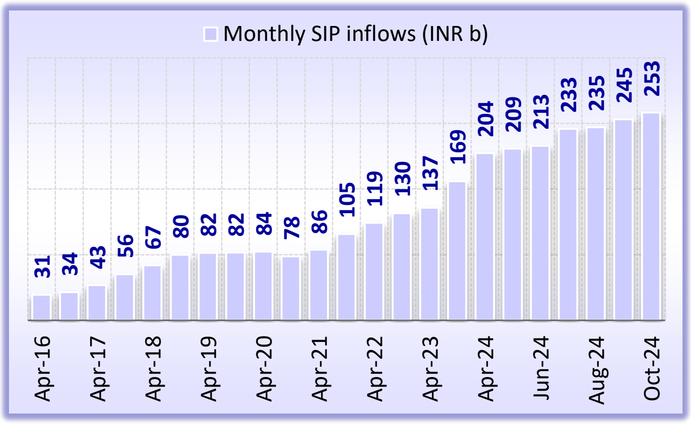
Retail investors are defined as individuals investing less than INR0.5m

MF unique investors are on an uptrend…



Source: AMFI, MOFSL

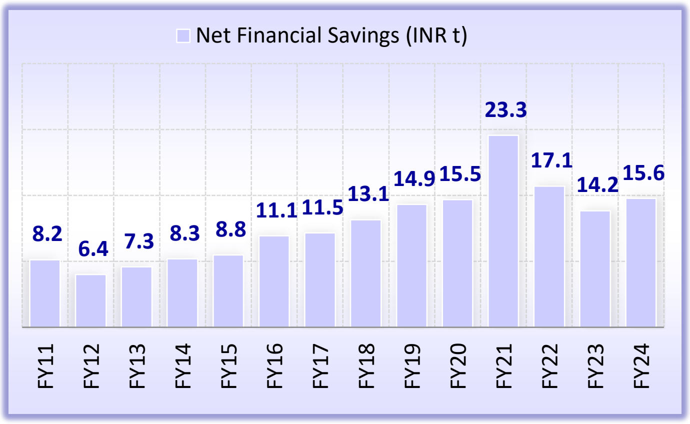
…leading to an all-time high monthly SIP inflows (INR b)



Source: AMFI, MOFSL

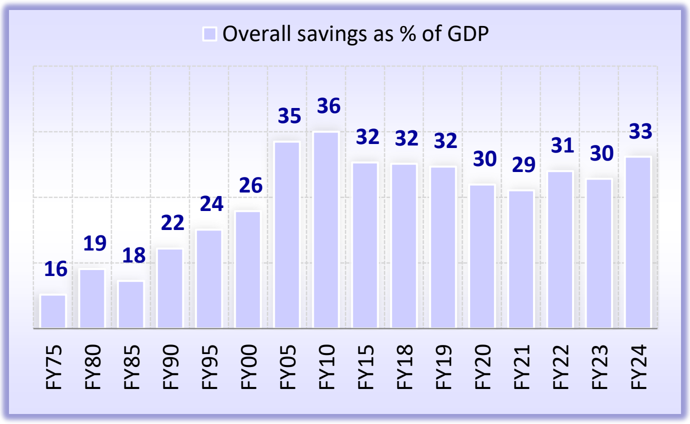
...but still scratching the surface in terms of penetration

Trend in financial savings over the years



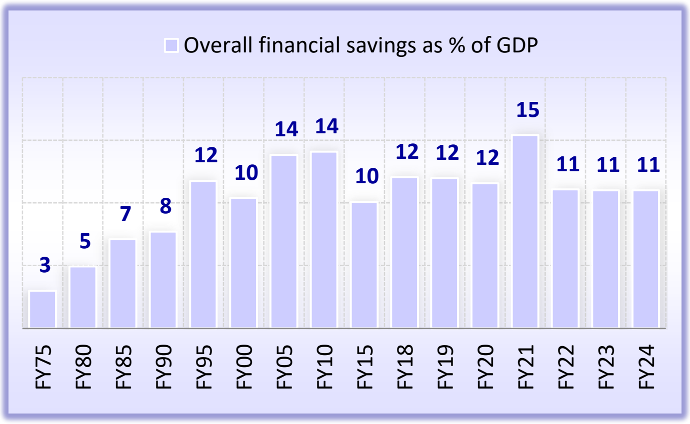
Source: MOFSL

Overall savings as a % of GDP



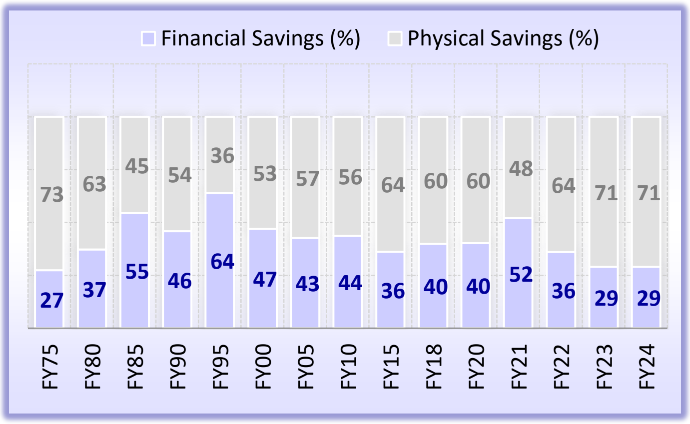
Source: MOFSL

Financial savings as a % of GDP



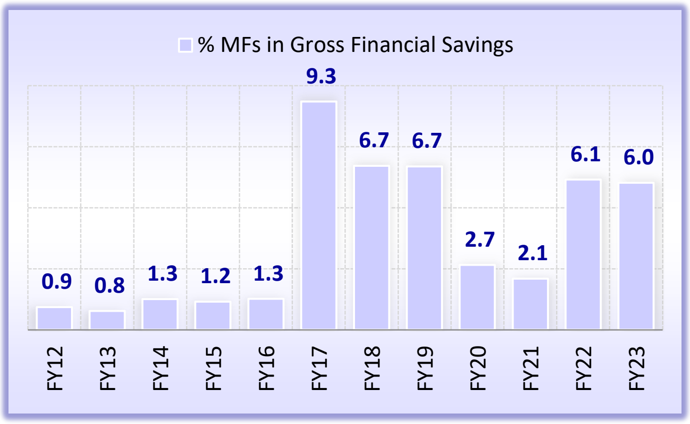
Source: MOFSL

Share of financial and physical savings



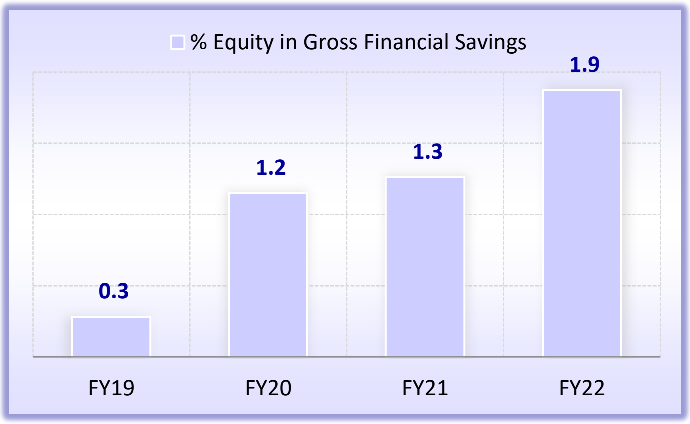
Source: MOFSL

% share of MFs in gross financial savings



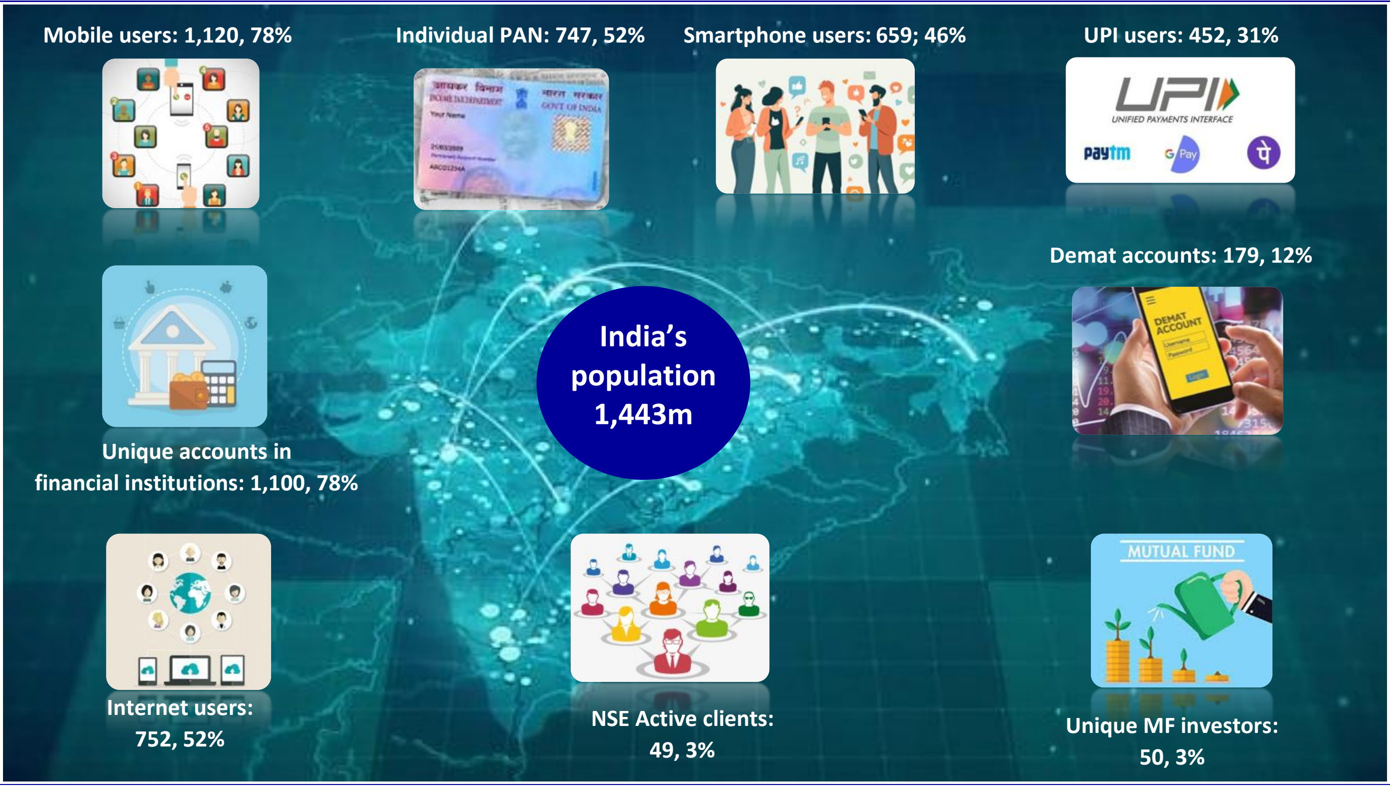
Source: MOFSL

% share of equities in gross financial savings



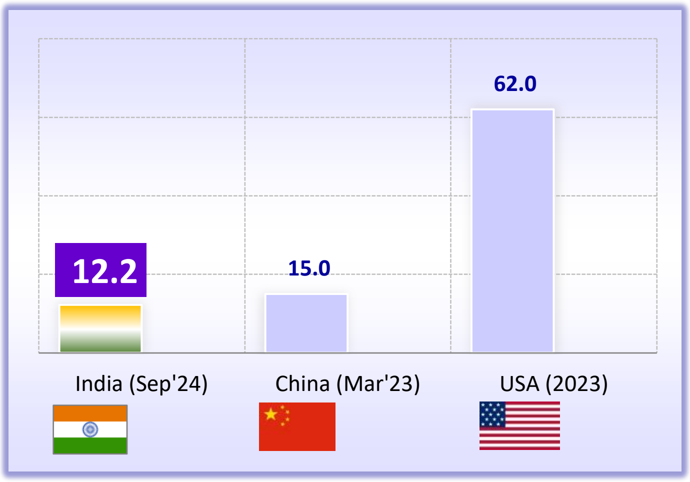
Source: MOFSL

Penetration (Count in m)



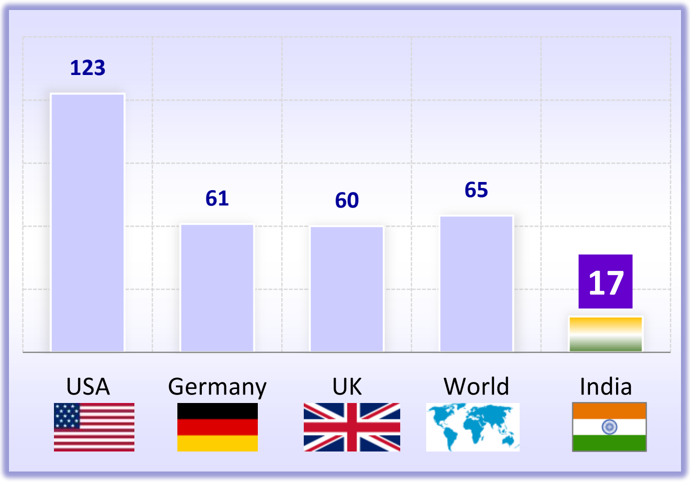
Source: MOFSL

Penetration of demat accounts (%)



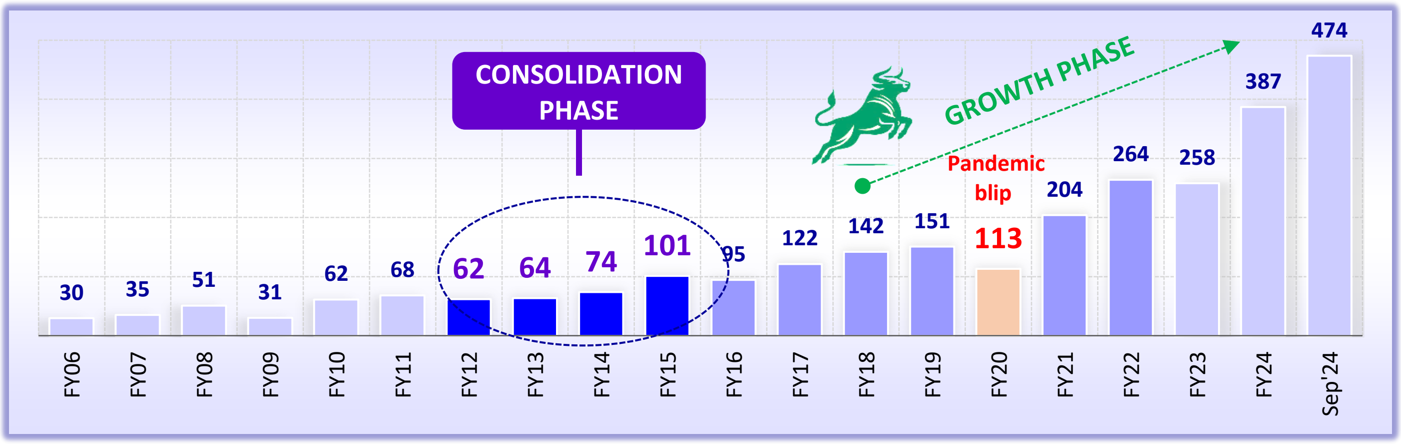
Source: Angel One, MOFSL

MF penetration in India vs. other countries in 2023 (%)



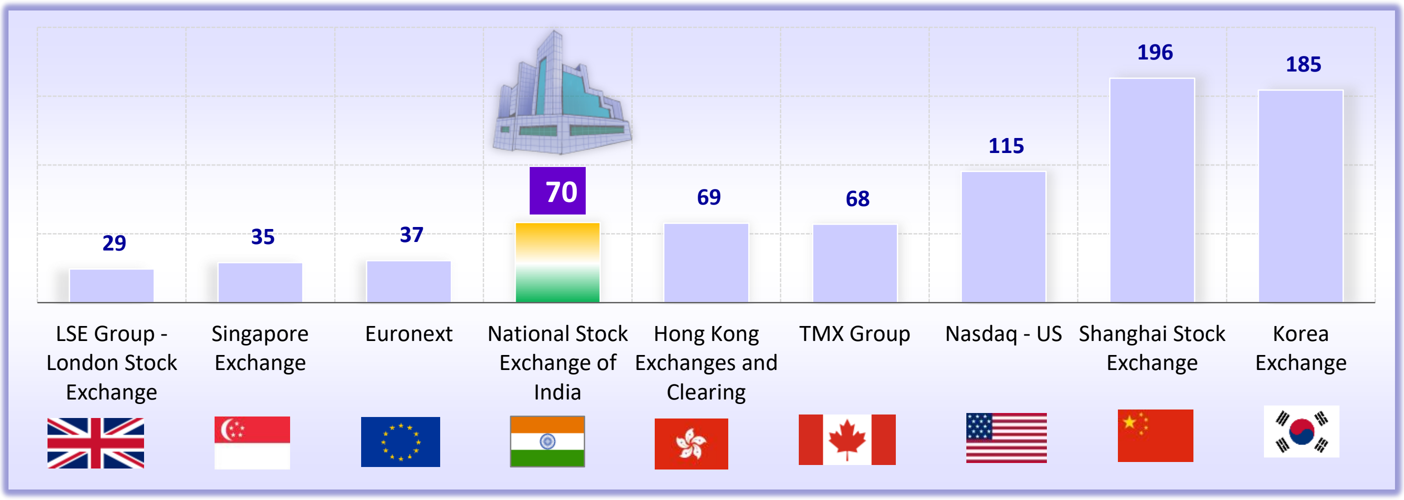
Source: NAM, MOFSL

Market cap trend of companies listed on the stock exchange (INRt)



Source: BSE, MOFSL

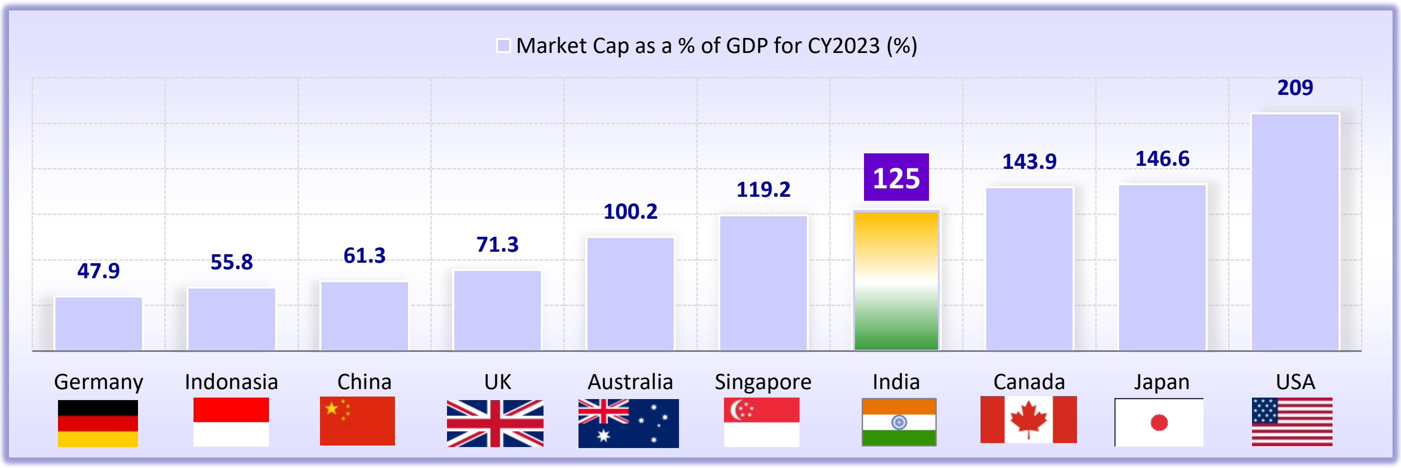
NSE – Potential to further catch up on turnover velocity (%)



Source: WFE Statistics

Turnover velocity is the ratio between the turnover of shares and their market capitalization

India's market cap-to-GDP ratio catching up aggressively with global peers (%) – based on CY23 data

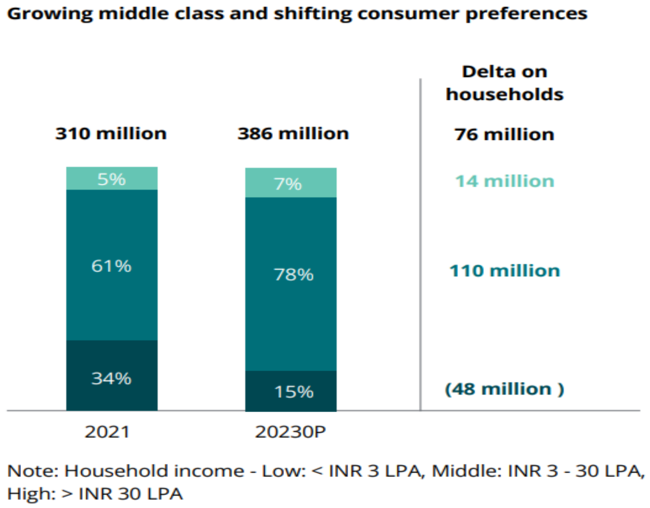


Source: WFE Statistics, ET, MOFSL. Note: For India, data is till Sep'24

Opportunities aplenty…

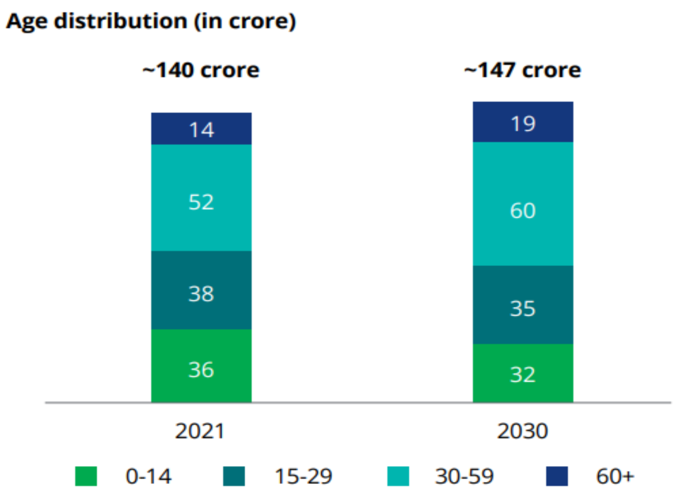
Demographic dividend of India firing on all cylinders

Exhibit 1: Middle class share to increase at a fast pace



Source: Deloitte, MOFSL

Exhibit 2: Share of working population to spurt

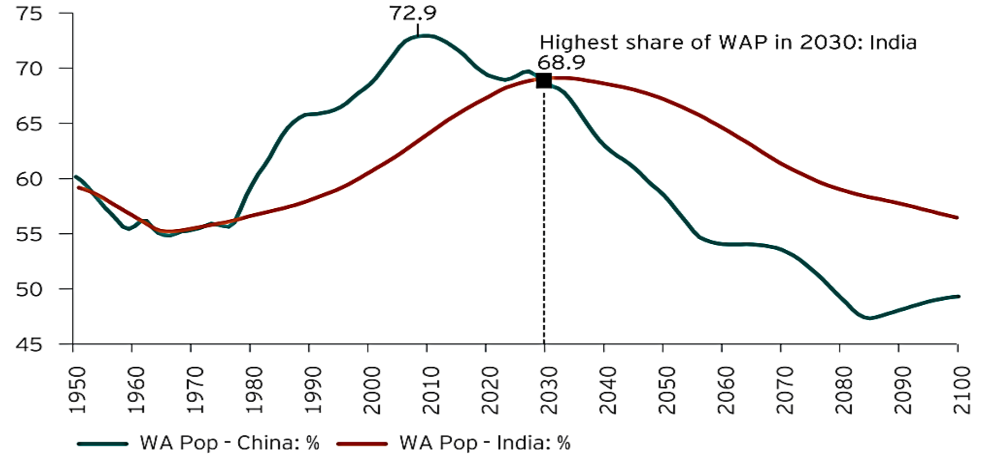


Source: Deloitte, MOFSL

- An increase in the middle-income population is pertinent to the growth in domestic savings and consumption. We have seen a healthy 4% CAGR during FY16-21 in terms of the number of middle-income households. Various estimates suggest a stronger 5% CAGR in the number of such households over the next decade.
- According to the United Nations population projections, about 940m people (or 67% of India's population) currently belong to the working age group of 15- 64 years. This cohort will increase 100m over the next decade, despite a declining birth rate.
- The growth of middle-income households and young demography, coupled with improvement in financial literacy, access to information, and awareness, is expected to bolster the Capital Markets industry in India.

An increase in the middle-income population is pertinent to the growth in domestic savings and consumption. We have seen a healthy 4% CAGR during FY16-21 in terms of the number of middle-income households. Various estimates suggest a stronger 5% CAGR in the number of such households over the next decade.

Exhibit 3: Share of working population will continue to expand over the next couple of decades



Source: E&Y, MOFSL

Exhibit 4: Changing retail investor landscape over time

Category	Retail Investor in 1990s	Retail Investor in 2020s
Typical Persona	❖ Major section belongs to Baby Boomers/Gen X Conservative approach consider investments primarily as a retirement benefit	❖ Increasing tilt towards millennial (Gen Y) & Gen Z These generations have reaped the fruits of economic liberalization in the country, more aggressive approach
Economic Environment	❖ After-effects of India's economic crisis still carry a deep impact on the business environment having a negative impact on the investment behavior	❖ World is facing economic uncertainties due to global macroeconomic factors like Ukraine-Russia war. However, investor behavior has been on an upswing.
Investor Diversity	❖ Household investment decision mostly handled by the earning member with very limited female participation	❖ Greater economic independence resulting in an increased participation of women, and emergence of new segments such as teenagers and students
Risk Appetite	❖ Low focus on sustaining existing corpus in an uncertain environment	❖ Higher resilience, open to investing in high- risk instruments for higher returns
Portfolio Diversification	❖ Very high exposure to traditional low-return assets like cash, gold, FD, PF, real-estate	❖ Portfolio is increasingly comprising of various equity & debt instruments, with growing inclination toward new-age products like crypto, digital gold, etc.
Digital Influence	❖ Digital technologies yet to see the light of the day, investments influenced and executed through neighborhood brokers and trading agencies	❖ Digital devices and investment apps are mainstream, resulting in high adoption and financial awareness
Geographical Participation	❖ Retail participation in financial markets majorly comprised of Tier-III city investors	❖ Democratization of financial knowledge availability of tech has increased participation from Tier-III/IV regions

Source: CRISIL

Sizing up the industry

Exhibit 5: Demat account penetration to increase to 31% even if we assume 20% CAGR

FY24	Demat A/C growth	FY30	
		Demat A/C (m)	Penetration (%)
151m Demat Accounts, 11% penetration	10% CAGR	312	20
	20% CAGR	483	31
	30% CAGR	720	46

Source: MOFSL

Exhibit 6: MF AUM to grow to INR154t even after assuming zero lumpsum flows in equities

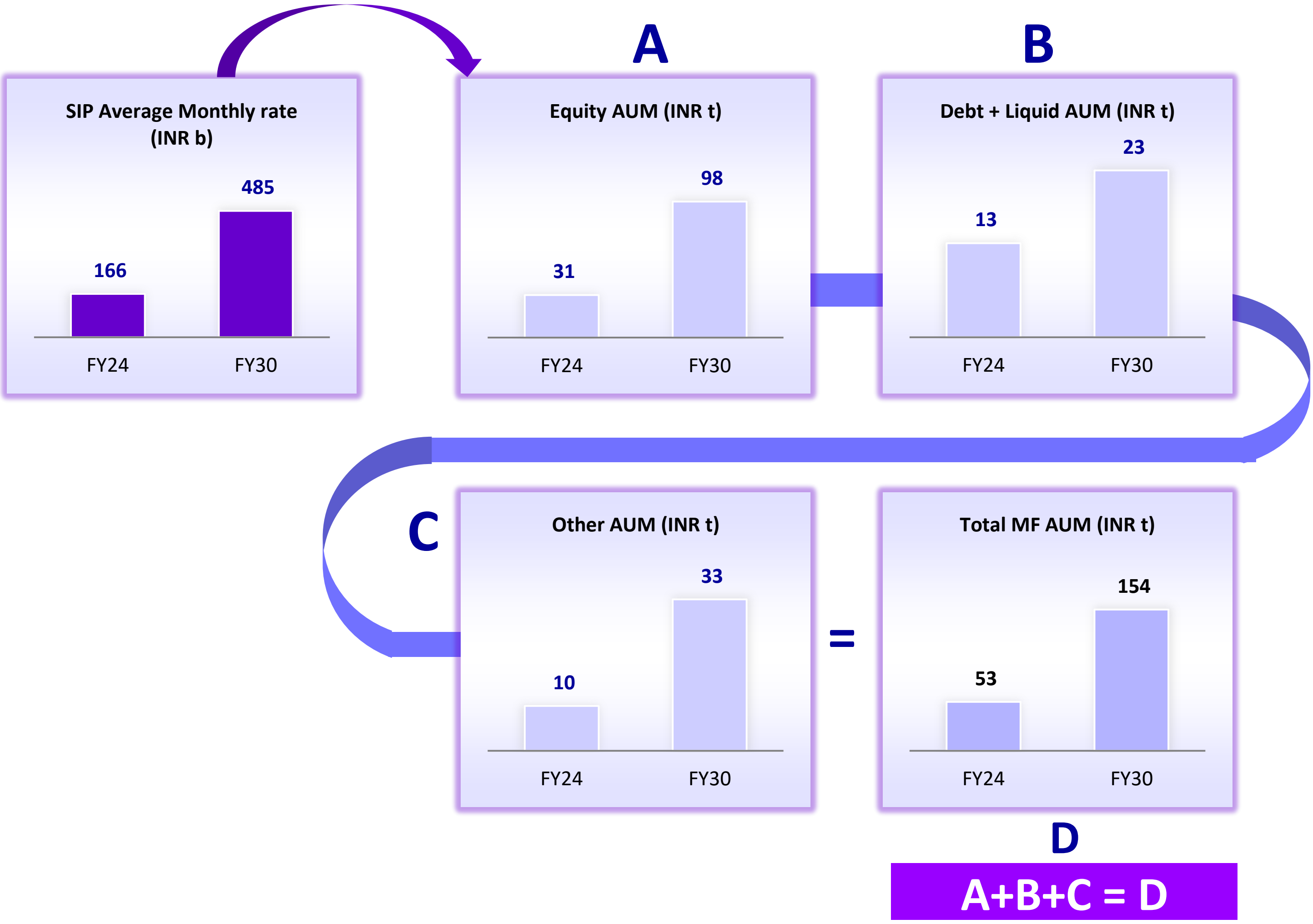


Exhibit 7: PMS AUM to grow to 3x assuming 10+% client addition and 12% increase in per client AUM

	FY24		FY30
Discretionary PMS			
No of clients	1,55,779	10% CAGR	2,75,972
Per client AUM (INR m)	25	12% CAGR	50
AUM (INR t)	3.9	23% CAGR	13.7
Non Discretionary PMS			
No of clients	5,243	10% CAGR	9,288
Per client AUM (INR m)	489	12% CAGR	965
AUM (INR t)	2.6	23% CAGR	9.0
Total PMS			
No of clients	1,61,022	10% CAGR	2,85,260
Per client AUM (INR m)	40	12% CAGR	79
AUM (INR t)	6.5	23% CAGR	22.7

Source: MOFSL

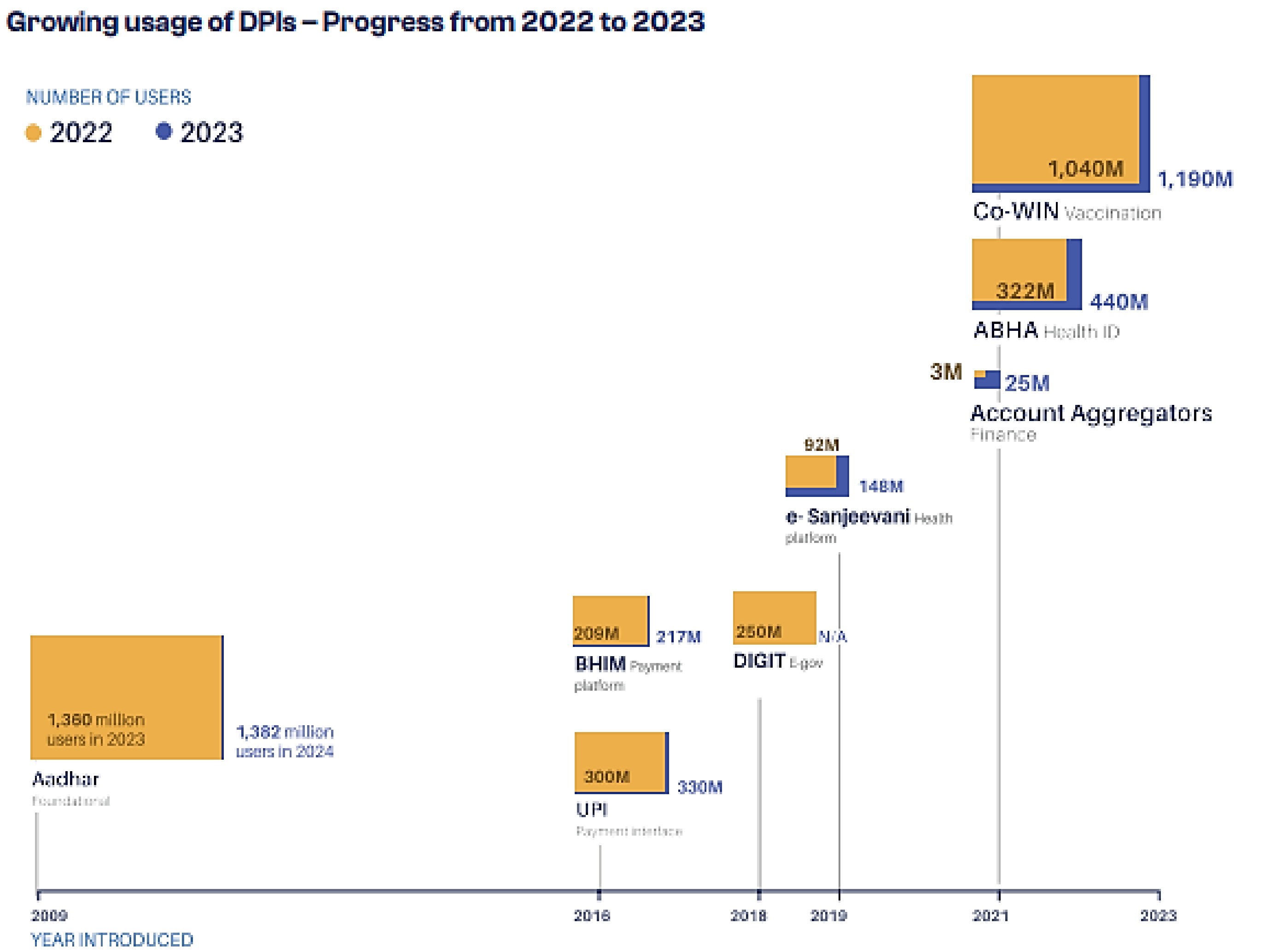
...and digitization will extrapolate this further

> The UPI-led migration to digital payments, the pandemic-led acceleration of shifts in customer preferences, growing acceptance among suppliers and consumers, and disruptive innovations by fintechs have brought about this sea change.

Digitization has been one of the core driving forces for the rapid growth across industries and services in India. The government and regulators have worked in tandem to create the India stack, which has enabled the world's best payment ecosystem. The UPI-led migration to digital payments, the pandemic-led acceleration of shifts in customer preferences, growing acceptance among suppliers and consumers, and disruptive innovations by fintechs have brought about this sea change. The revolution is still on the horizon, and we believe it will influence several other sectors.

The capital market space has already experienced disruption from discount brokers, digital wealth managers, and paperless onboarding across products, paperless transactions, etc.

Exhibit 8: Growing adoption of government led digital initiatives



Source: IPCIDE Research, MOFSL

Case study: Digitization in the domestic retail industry

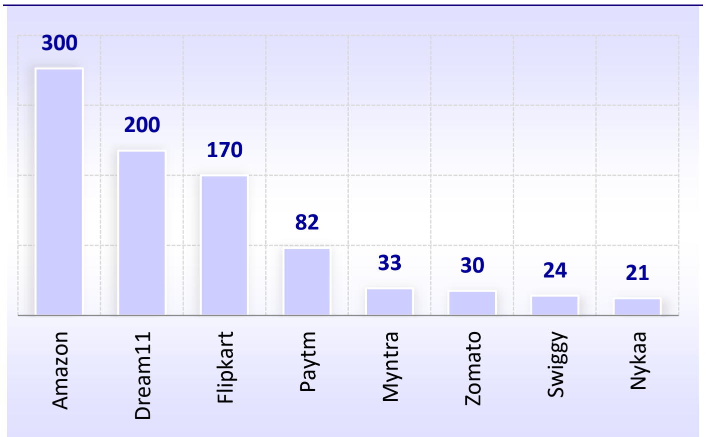
Exhibit 9: Rising preference for ecommerce platforms across retail segments

Consumer Channel Preference

Category	Offline Multi Brand Store	E-commerce marketplace	Quick Commerce	Offline Single Brand Store	Key Drivers
Grocery	1 ~50%	2 ~25%	2 ~25%		Price Convenience
Consumer Electronics	2 ~25%	1 ~55%			Price Trust
Apparel & Footwear	2 ~30%	1 ~45%			Wide range of products Experience
Beauty & Personal Care	2 ~25%	1 ~45%			Wide range of products Price
Furniture & Home Furnishings	1 ~50%			2 ~30%	Price Convenience & Experience
Gems & Jewellery	2 ~40%			1 ~45%	Trust
Pharmacy, Health & Wellness	1 ~50%	2 ~20%			Trust Convenience

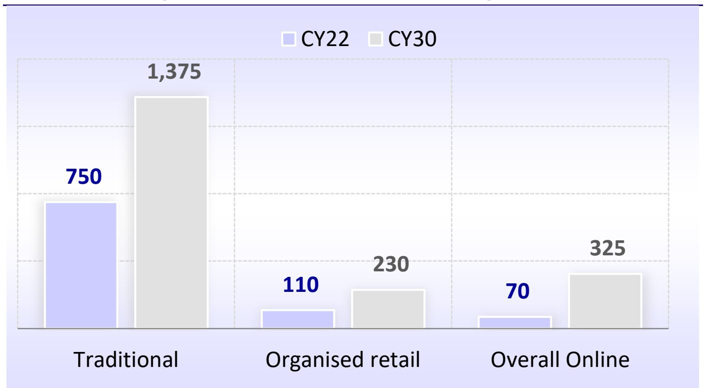
Source: Deloitte, MOFSL, Company

Exhibit 10: Number of users across e-commerce platforms (in m)



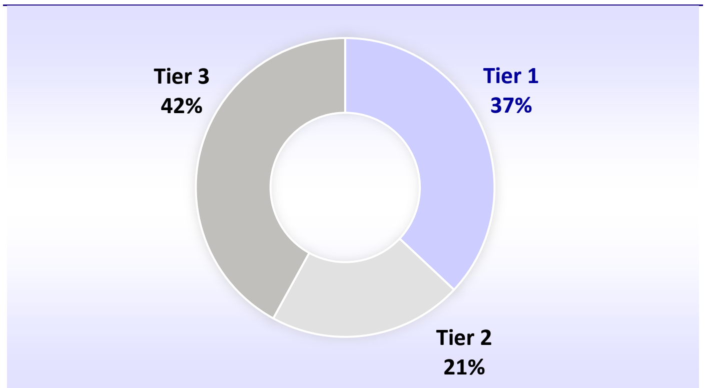
Amazon, Dream11 and Flipkart - users as on May 2023; Paytm - transacting users for FY23; Myntra - registered users; Zomato, Swiggy - active monthly users; Nykaa - cumulative customer base Source: MOFSL, Company

Exhibit 11: Online retail channel to jump 4.6x, while traditional/organized retail channels to surge 1.8x/2.1x



Source: Industry, MOFSL

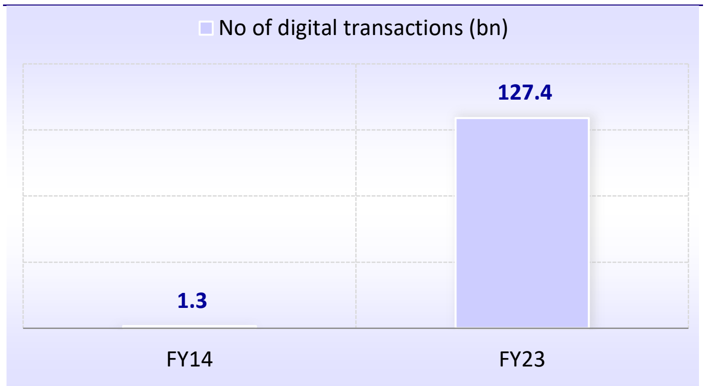
Exhibit 12: Share of lower tier cities has outgrown Tier 1 cities in terms of ecommerce



Source: Industry, MOFSL

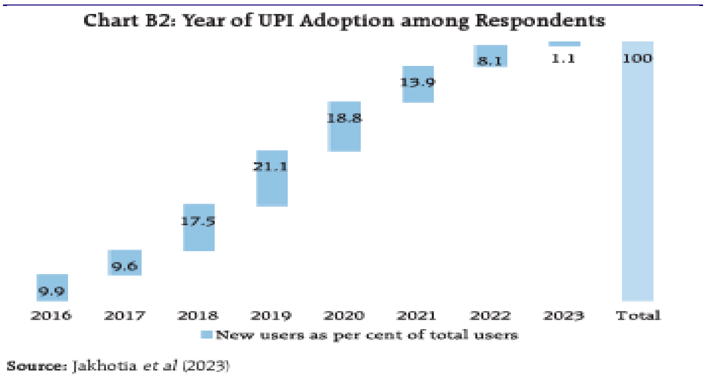
Case study: Digitization in the domestic payments industry

Exhibit 13: Digital transactions surge 100x in nine years



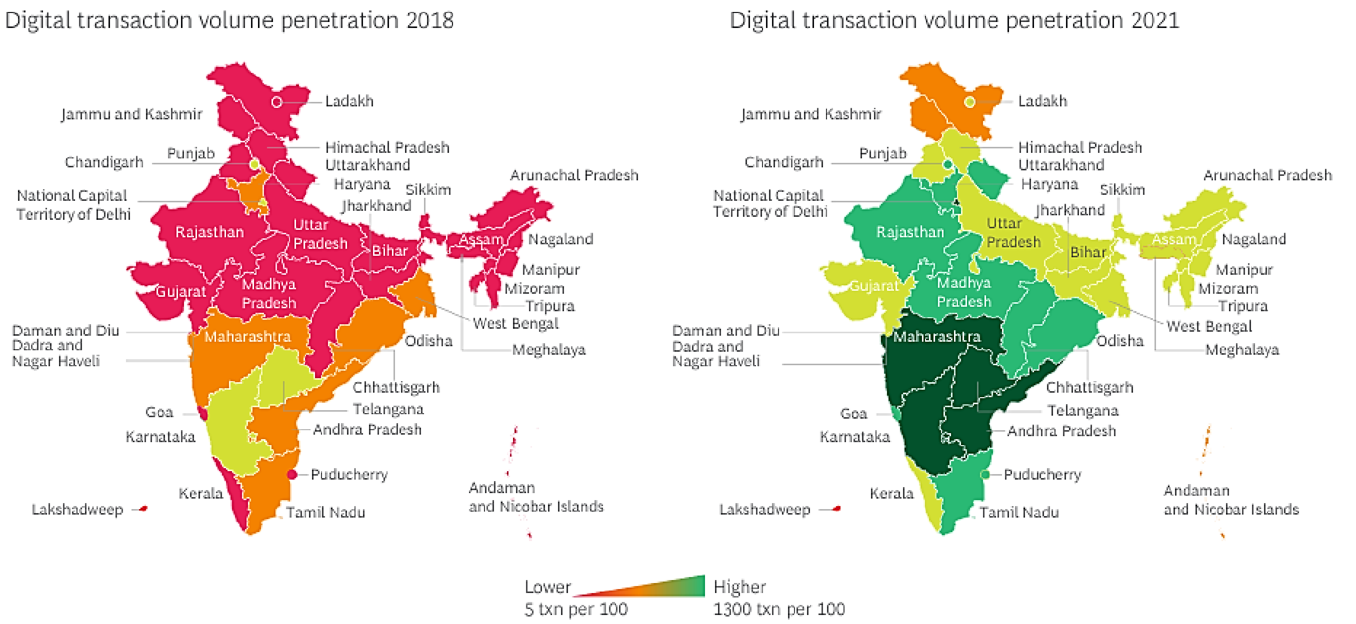
Source: RBI, MOFSL

Exhibit 14: Fast adoption of UPI as a payment tool



Source: RBI, MOFSL

Exhibit 15: Digital payment transaction rising at a fast pace across the country



Source: BCG, MOFSL

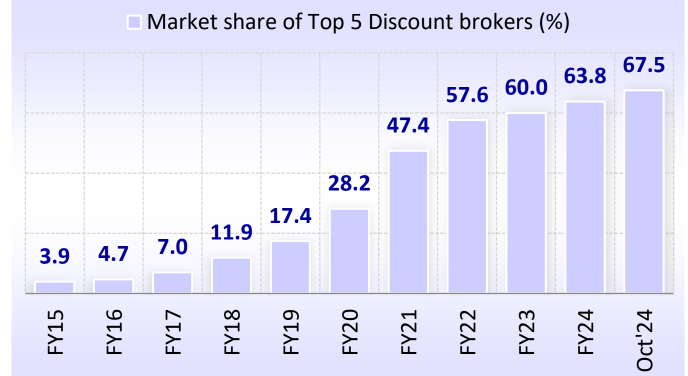
Even though discount broking had begun to gain traction in India much earlier, the concept actually took root during the pandemic. Back then, a large number of Indians began trading in stocks, particularly in futures and options. Since then, discount stock brokers have been capitalizing on this trend.

Broking industry has seen a sea change owing to discount brokers

Discount brokers being the game changers

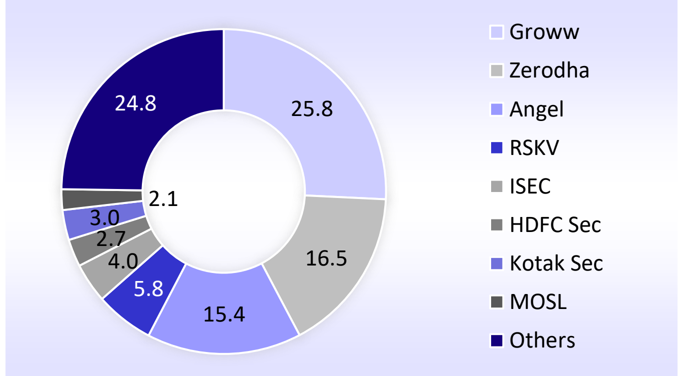
- Even though discount broking had begun to gain traction in India much earlier, the concept actually took root during the pandemic. Back then, a large number of Indians began trading in stocks, particularly in futures and options. Since then, discount stock brokers have been capitalizing on this trend.
- Discount brokers have been instrumental in widening retail investor participation in India. For them, the majority of incremental customer acquisitions have been happening in Tier-2 and lower locations.
- The business momentum for discount brokers was clearly visible, with the total market share of the top 5 discount brokers increasing to ~68% as of Oct'24.
- Adoption of E-KYC was undertaken to ensure an easy and smooth account opening journey for customers.

Exhibit 16: Market share of the top 5 discount brokers



Source: NSE, MOFSL

Exhibit 17: Market share in NSE Active clients – as of Oct'24



Source: NSE, MOFSL

Technological edge, lower costs, and differentiated product offerings drive market share gains for discount brokers.

Enhancing the trading experience

- It is no surprise that novice investors are attracted to digital investment platforms due to the convenience and affordability these platforms offer; additionally, these platforms do a lot of the heavy lifting in terms of account creation and payouts of the returns in a timely manner
- Besides this, a company aims to constantly innovate and upgrade its technology stack, which is a key competitive moat in the investment-tech space.
- Technological edge, lower costs, and differentiated product offerings drive market share gains for discount brokers.

Exhibit 18: Traditional vs. Discount brokers

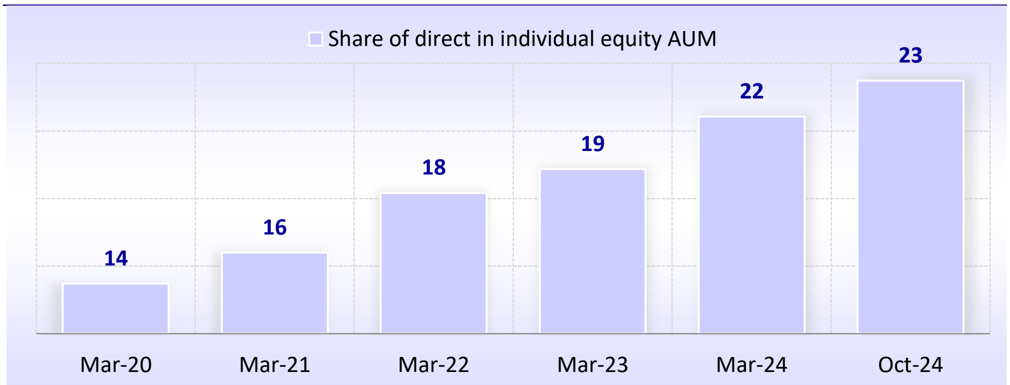
Factors	Full-Service Brokers	Discount Brokers
Service	❖ Advisory for shares, mutual funds, bonds, currencies, commodities, etc.	❖ Provides all-in-one trading platform
Brokerage	❖ Average daily brokerage is 0.3%-0.5% per trade	❖ Flat trade fees charged per transaction irrespective of the order value
Presence	❖ Operates through a number of branches	❖ Provides online services
Suitable For	❖ An individual who seeks hand-holding along with trading tools	❖ An individual who intends to go for self-investment
Deciding Parameters	a) Brokerage & Other Charges	a) Brokerage
	b) Research Desk	b) Services offered
	c) Customer Service	c) Customer Support
	d) Leverages Funding	d) Call & Trade Facility

We believe the share of direct will continue to rise, even though the distributors will continue to be meaningful players in the near future.

Indirect vs. direct MF investments

The share of direct AUM in the industry has been surging over the past five years, given the offerings by AMCs of such schemes along with the emergence of discount brokers and transaction-only platforms for MFs. The awareness among customers has also been improving with respect to the benefits of direct investing. We believe this trajectory will continue to rise, even though the distributors will continue to be meaningful players in the near future.

Exhibit 19: Share of direct investments in individual AUM has been growing steadily over the past five years



Source: AMFI, MOFSL

Exhibit 20: Direct vs. regular plans

Features	Direct Plan	Regular Plan
Expense Ratio	Lower	Higher
Net Asset Value	Higher	Lower
Expected Returns	Higher due to zero commission to the agent or distributor	Lower due to deduction of commission to the intermediary
Investment Advice	No	Yes
Market Awareness	Self	Driven by the advisor
Portfolio Tracking	Self	By the agent
Documents & KYC	To be submitted on your own	Advisor will collect it

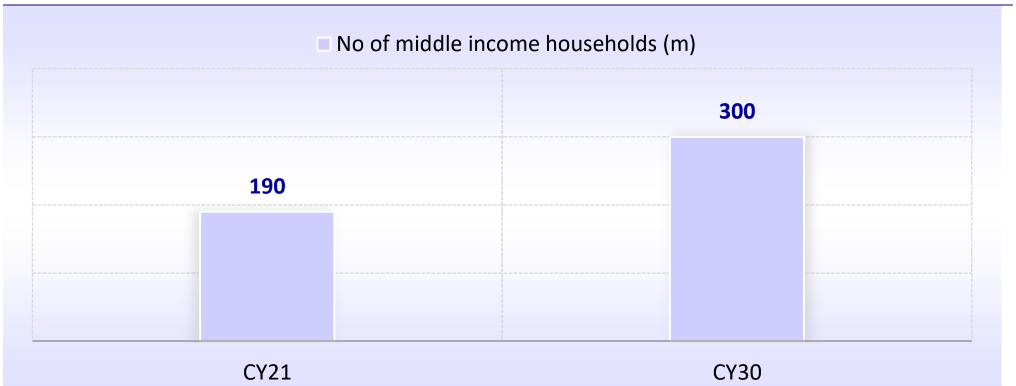
Source: Cleartax, MOFSL

Wealth Management to be the next big beneficiary of digitization

The Wealth Management industry has seen lower use of digitization than the other finance streams in India owing to the UHNI customer base. However, internally extensive digital tools have been developed to improve the efficiency of service delivery. Going forward, given the significant growth in the middle-income segment, digital wealth management tools are coming up, which will be used far more extensively. Emergence of the Account Aggregator ecosystem will provide additional thrust.

The Wealth Management industry has seen lower use of digitization than the other finance streams in India owing to the UHNI customer base.

Exhibit 21: Surge in middle-income households



Source: MOFSL, Company

Exhibit 22: Comparison between Digital and Traditional Wealth Management on various aspects

Aspects	Digital Wealth Management	Traditional Wealth Management
Value Proposition	Data- and tech-driven E2E client journey reinvention	Asset allocation and sales based on the experience of RMs and investment advisors
Clients	✓ Price-sensitive ✓ Value convenience ✓ Embrace innovative technologies	✓ Higher investable assets ✓ High demand for integrated services
Products	✓ Easy-to-understand ✓ Information-transparent ✓ More standardized products	✓ Wide variety of products ✓ Sophisticated, customized products as key differentiator
Services	✓ Unlimited by time and place ✓ Greater efficiency, convenience, and transparency	✓ Value-added services with a human touch ✓ Close client relationships and exclusive services
Channels	✓ Internet and mobile devices ✓ Videos and robots	✓ Primarily physical branches ✓ Supplemented with online channels

Source: MOFSL

Account aggregation: A UPI moment in personal finance

A total of 29 banks (including Private Sector, PSUs and Small Finance Banks) and six NBFCs have gone live with Financial Information Provider (FIP) and Financial Information User (FIU) implementations, leaving a lot of room for several players to go live.

- Account Aggregators (AA) use technology to assist in the simple and secure exchange of customer data among financial institutions (such as banks, insurance agencies or mutual fund companies). Customers' consent to sharing the information is mandatory.
- In India, rapid strides have been taken and will bring about a massive change in the personal finance industry, similar to what UPI did to the payments industry.
- It is taking the pace, with 112.4m accounts linked to the AA ecosystem and about 124m consent requests successfully completed in Oct'24. A total of 29 banks (including Private Sector, PSUs and Small Finance Banks) and six NBFCs have gone live with Financial Information Provider (FIP) and Financial Information User (FIU) implementations, leaving a lot of room for several players to go live

ACCOUNT AGGREGATOR

AA use case in the Wealth Management industry

- Wealth managers in India largely depend on their clients to submit data on a periodic basis. The client has a choice to share the credentials with the wealth manager through which sharing of the data is no longer a problem for the client, but this is not the right way to share data.
- A data principal (the wealth manager's client) can give a recurring consent to an AA to share data from select FIPs with the wealth manager. This method has several advantages:
  - The data principal does not have to share the FIP's credentials (login, passwords)
  - The wealth manager is not dependent on their client to share data
  - The data received by the wealth manager is in digital format; this can be fed directly to the wealth manager's platform that can generate **actionable reports**.

AA use case in Robo Advisory

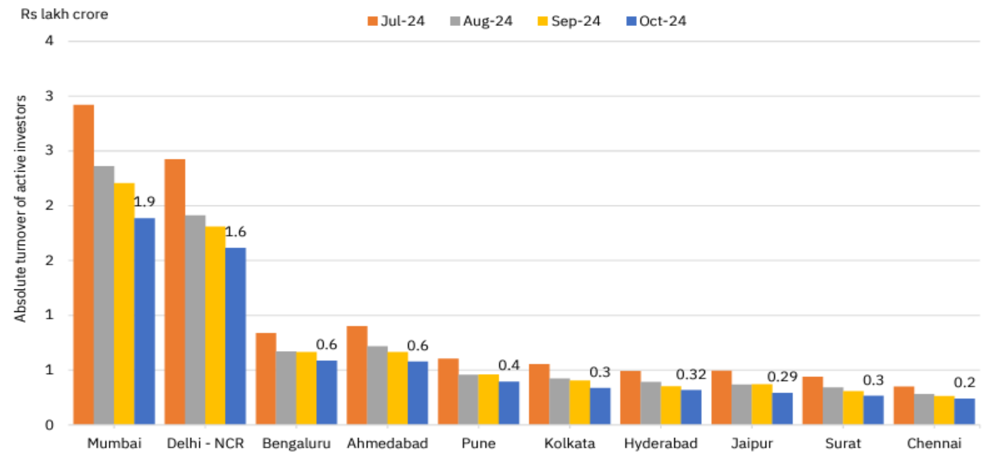
- The Robo Advisory apps are in a nascent stage in India. Globally, millennials prefer Robo-advisory-type solutions. Algorithms are the backbone of Robo Advisory apps, and with consistent data flow from the AA ecosystem the quality of advisory can improve significantly.
- In the current setup, the collection of data is a very cumbersome process. There could be too many hops to acquire, extract, and process the data. In the AA world, Robo advisors will receive digital data directly from the data fiduciaries (FIPs such as banks, mutual fund depositories, insurance policies, et al.).

India is running while 'Bharat' is galloping

With a deeper penetration of mobile networks and smartphone usage, the lower-tier cities have witnessed a healthy traction in the adoption of digital tools for consumption and other services.

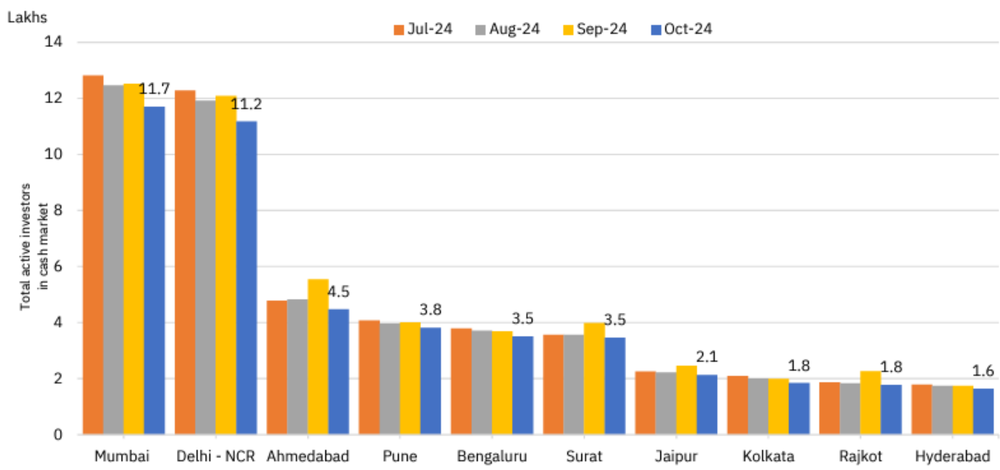
- With a deeper penetration of mobile networks and smartphone usage, the lower-tier cities have witnessed a healthy traction in the adoption of digital tools for consumption and other services.
- For financial services, penetration is still at a nascent stage, as reflected in the share of B30 AUM, which is 18%.
- In the broking segment, there is definitely a pick-up in customer additions, but significant headroom continues to exist.
- The industry has also innovated to address the needs of the lower tier population through apps that operate seamlessly even in a weak network area, in small sachet products (INR100 SIP), and through regional languages in call centers, BOTs, and apps.

Exhibit 23: Top 10 districts in terms of cash turnover of individuals



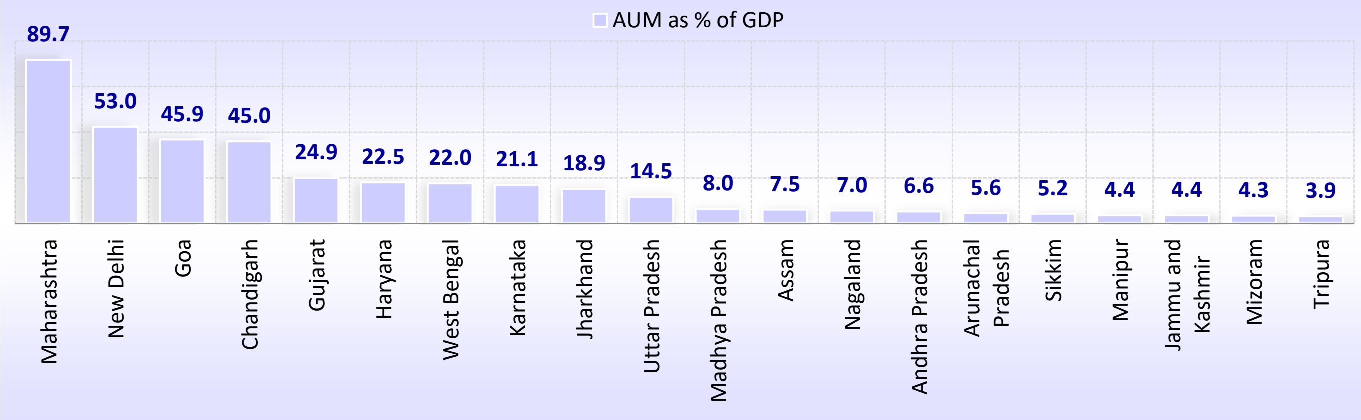
Source: MOFSL, NSE

Exhibit 24: Top 10 districts in terms of individual investors having traded



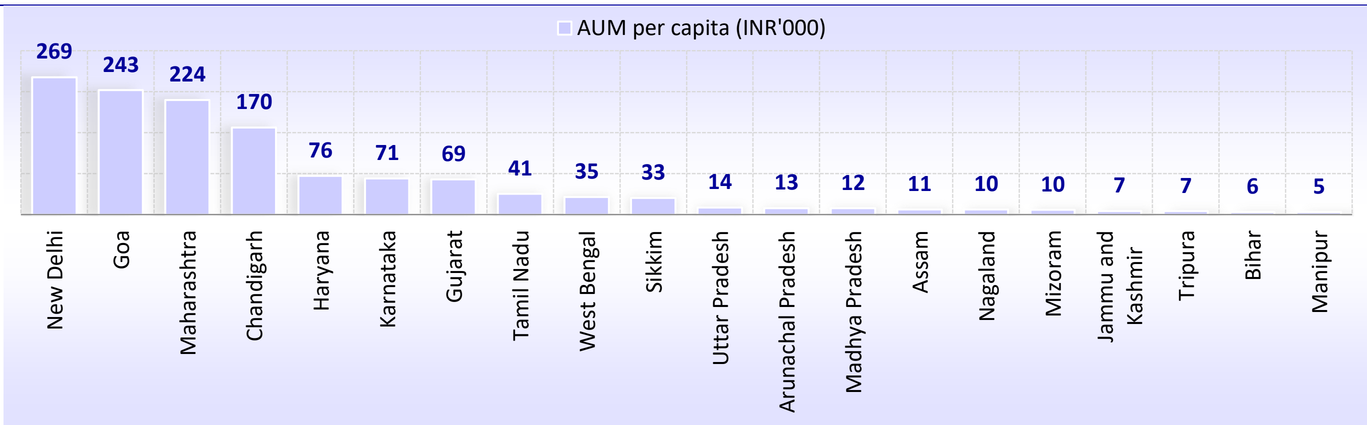
Source: MOFSL, NSE

Exhibit 25: Huge disparity in terms of MF penetration across Indian states…



Source: AMFI. Note: Data is of Top-10 and Bottom-10 states, MOFSL

Exhibit 26: …and per capita AUM



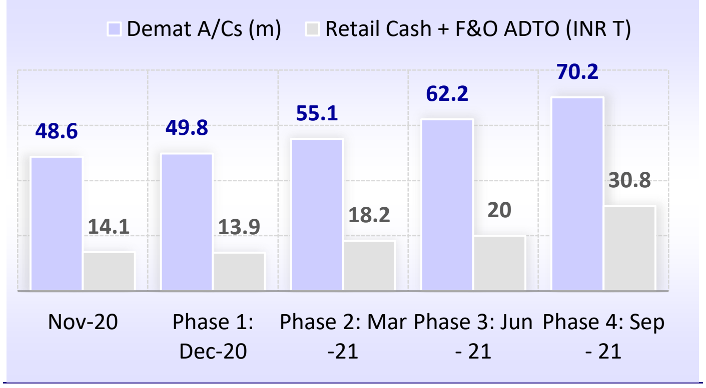
Source: AMFI. Note: Data is of Top-10 and Bottom-10 states, MOFSL

Regulations have strengthened the system for sustainable growth

Regulations for direct equity investments

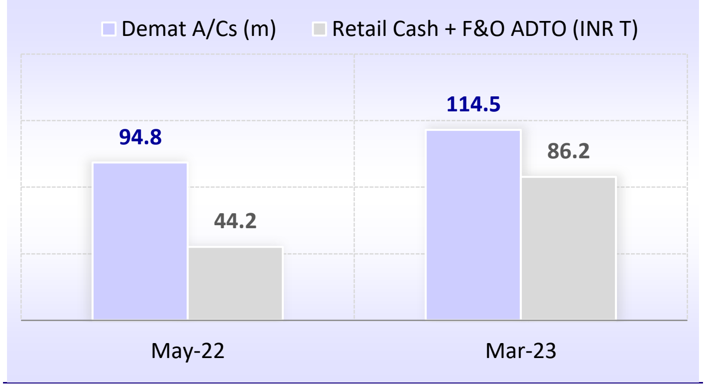
- **Interoperability in CCs:** In Nov'18, SEBI issued a circular on the interoperability of CCs; consequently, all clearing members were advised to move to this framework from Jul'19. In this framework, margins placed on one exchange could be used for trading on other exchanges. Inter-operability permits efficient allocation of capital for market participants, thereby saving on costs as well as providing better execution of trades.
- **Pledge and peak margin regulations:** During FY21, SEBI implemented regulations pertaining to the pledge mechanism, which was followed by the new peak margin norms. The intent of these regulations was to safeguard the interests of retail investors. The implications caused a short-term impact, but volumes and account additions recovered strongly thereafter.
- **Margin segregation regulations:** The regulator, in May'22, introduced measures with regards to segregation of margins between cash and collateral. As opposed to the earlier practice of segregation at the broker level, the new regulation implemented this at the client level. This regulation further strengthened protection for retail investors.
- **Client funds payout rules:** From Oct'22, brokers have to mandatorily pay out clients on the first Friday following either the monthly or quarterly settlement as opted by the client. Upon implementation, the industry was able to bring back client funds into the system rather swiftly. Resultantly, the measure brought in additional guardrails for clients without any volume implications for exchanges or brokers.
- **Upstreaming of funds:** According to the new regulations, client funds shall be transferred to the CCs in the form of cash, a lien on FDs, or a pledge of units of Mutual Fund Overnight Schemes on an end-of-day basis.
- **ASBA framework for the secondary market:** The framework has been prevalent in the domestic primary markets for a long period. With effect from 1st Feb'25, qualified stock brokers (QSBs) will have to mandatorily provide investors with the facility of trading using the UPI block mechanism or the 3-in-1 trading account facility in addition to the current mode of trading. Investors will have the option to continue with the existing facility or transfer funds in order to use other facilities.

Exhibit 27: Volumes and demat account additions continued to improve after the peak margin regulations…



Source: MOFSL, Company

Exhibit 28: …as well as the margin segregation regulations



Source: MOFSL, Company

True-to-Label charges by market intermediaries

SEBI in a circular has altered the mechanism of charges being levied by market intermediaries on brokers and between brokers and customers. Currently, the MIIs (Exchanges, Depositories) levy charges (transaction charges, depository fees) to brokers on a slab-wise structure. Brokers also charge customers on a slab-wise structure. However, the difference lies in the timing, wherein brokers generally recover such charges from the end-clients on a daily basis, whereas MIIs receive aggregate charges from the members on a monthly basis. As a result, the aggregated charges collected by the members from the end clients are higher than the end-of-the- month charges paid to the MIIs (due to the slab benefit).

The regulator has implemented the following changes

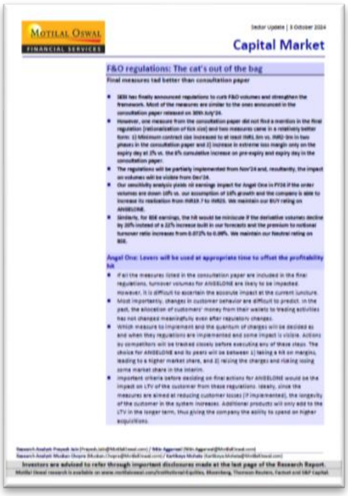
- The MII charges that are to be recovered from the end-client should be True to Label, i.e., if certain MII charges are levied on the end-client by members, it should be ensured by MIIs that the same amount is received by them.
- The charge structure of the MII should be uniform and equal for all its members instead of the slab-wise structure (viz., it should be dependent on volume/activity of members).
- To begin with, the new charge structure designed by MIIs should give due consideration to the existing per unit charges realized by MIIs so that the end clients are benefitted by the reduction of charges.

Brokers – Discount brokers' revenue to be hit, can be offset by higher brokerage rates

- Stockbrokers, especially discount brokers, given their large retail customer base and, hence, low volume ticket sizes, earn a significant share of their revenue from such charges. Angel One earned about INR4b from these charges in FY24.
- Angel One revised various charges to offset the impact from True to Label regulations. The key revisions are: 1) Brokerage for the cash/equity delivery segment at INR20/order or 0.1% of volume + GST, whichever is lower, 2) Interest of 0.0342%/day on cash or cash equivalent margin shortfall (if cash collateral for margin falls below 50% of total margin) exceeding INR50,000. Other discount brokers like Groww have also introduced brokerage for the equity delivery segment.

Impact on exchanges and depositories

Following the regulations, the exchanges revised their fee structure with effect from 01 Oct'24, fixing a uniform transaction fee for all market participants. For trades in the cash market, NSE will charge a fee of INR29.7 per m of traded value on each side. In equity futures, the fee will be INR17.3 per m on each side, and for equity options, it will be INR350.3 per m of premium value. For BSE, the transaction fees for Sensex and Bankex options contracts will be at INR325 per m of premium turnover value, while the charges in the other segments will continue as given: Nil for index futures and stock futures; and INR50 per m of premium turnover value for Sensex 50 Options and Stock Options. The new charges are largely similar to previous unit economics; these charges will not adversely affect earnings.


Sector Update | 3 October 2024

Capital Market

F&O regulations: The cat's out of the bag

Final measures tad better than consultation paper

Angel One: Levers will be used at appropriate time to offset the profitability hit

F&O regulations

SEBI recently announced regulations to curb F&O volumes and strengthen the framework. The measures are similar or a tad better compared to the ones announced in the consultation paper released on 30th Jul'24. We have given a detailed analysis in our report.

Summary of the regulations

- Upfront collection of options premium:
  - There is a stipulation for upfront collection of margin for futures position (both long and short) as well as options position (only short options require margin, whereas long options require payment of options premium by buyers). There is no explicit stipulation of upfront collection of options premium from options buyer by members.
  - To avoid any undue intraday leverage to the end client and to discourage any market-wide practice of allowing positions beyond the collateral at the end-client level, it has been decided to mandate collection of options premium upfront by TM/CM from the options buyer (at present, CCs block collateral at the CM-level for option buy trades).
  - The members will also collect option premiums on an upfront basis apart from the existing upfront collection of initial margin and extreme loss margin from the clients, with effect from 1st Feb'25.
- Intraday monitoring of position limits:
  - Amidst the large volumes of trading on expiry day, there is a possibility of undetected intraday positions beyond permissible limits during the course of the day. To address the aforementioned risk of position creation beyond permissible limits, it has been decided that existing position limits for equity index derivatives shall henceforth also be monitored intra-day by exchanges. For this, the stock exchange shall consider a minimum four snapshots during the day.
  - This would be applicable from 01 Apr'25.
- Removal of calendar spread benefit on expiry day:
  - Given the relatively large volumes witnessed on the expiry day vis-à-vis future expiry days, and the enhanced basis risk that it represents, it has been decided that the benefit of offsetting positions across different

expiries ('calendar spread') shall not be available on the day of expiry for contracts expiring on that day.
  - This would be applicable from 01 Feb'25.

- Minimum contract size:
  - Minimum contract size requirement for derivative contracts (i.e., INR0.5m to INR1.0m) was last set in 2015.
  - Given the strong growth in market values and prices, it has been decided that the minimum contract size requirement will not be less than INR1.5m.
  - This measure will be effective for new index derivative contracts introduced after 20 Nov'24.
- Rationalization of weekly index products:
  - To specifically address the issue of excessive trading in index derivatives on expiry day, it has been decided to rationalize index derivatives products offered by exchanges, which expire on a weekly basis. Henceforth, each exchange may provide derivatives contracts for only one of its benchmark index, with a weekly expiry.
  - This measure will be effective from 20th Nov'24.
- Increase in margin near contract expiry:
  - On the day of options expiry, it has been decided to increase the tail risk coverage by levying an additional ELM of 2% for short options contracts. This would be applicable for all open short options at the start of the day, as well as for short options contracts initiated during the day that are due for expiry on that day.
  - This measure shall be effective from 20th Nov'24.

Impact to be transient

The regulations will be partially implemented from Nov'24 and, as a result, the impact on volumes will be visible from Dec'24. However, we would like to highlight the following:

- In the past, when such path-breaking regulations were implemented, volume correction was resurrected in a few months as equity adoption continued to penetrate. Upfront cash margin norms were one such case in example.
- Customer behavior continues to be uncertain. An allocation to trading activities out of the surplus funds should continue to be there, as proven empirically.
- Brokers can offset the impact on volumes by raising brokerage charges or levying charges for services that are not chargeable today. Our sensitivity analysis yields a zero earnings impact for Angel One in FY26 if the order volumes are down 10% vs. our assumption of 16% growth and the company is able to increase its realization to INR25.0 from INR19.7.
- Exchanges, on the other hand, might have to witness a transitional impact on volumes and profitability. For BSE earnings, the hit would be miniscule if the derivative volumes decline by 20% instead of a 22% increase built in our forecasts and the premium to notional turnover ratio increases to 0.09% from 0.072%.

Exhibit 29: Impact on brokers and exchanges because of implementation of the measures

Measures	Brokers	Exchanges
Upfront collection of options premium	❖ Already doing it, so relatively lesser hit	❖ Impact on volumes if smaller, brokers are not collecting the premium upfront
Intraday monitoring of position limits	❖ Compliance costs to increase a bit	❖ Compliance costs to increase a bit
Removal of calendar spread benefit on the expiry day	❖ Retail customers may not be using it materially and hence, have a limited impact	❖ HNIs and institutions will have to bring more margins, and hence some volume hit can be envisaged, we expect more hit for NSE vs. BSE
Minimum contract size	❖ Largely retail base and hence, impact on volumes can be material	❖ Impact to the extent of retail volumes, HNI, and institutional volumes should be relatively less impacted
Rationalization of weekly index products	❖ Volumes could be hit because if the number of weekly expiries reduce, volumes could shift to other days or other segments (cash/commodities)	❖ NSE has a larger number of weekly expiries, and hence witnesses a relatively larger hit, BSE could see lesser hit as volume hit of Bankex can be offset by higher volumes on other days
Increase in margin near contract expiry	❖ Largely retail base who are buyers of options and hence no material impact	❖ HNIs and institutions will have to bring in more margins, and hence some volume hit can be envisaged.

Source: MOFSL

Exhibit 30: Sensitivity of Angel One's earnings

		Revenue per order						
No of orders	Change vs FY25	19.7	20.7	21.7	22.7	23.7	24.7	25.7
1,191	-40%	5,125	5,778	6,432	7,085	7,738	8,391	9,044
1,390	-30%	7,269	8,031	8,793	9,554	10,316	11,078	11,840
1,588	-20%	9,412	10,283	11,154	12,024	12,895	13,766	14,636
1,787	-10%	11,555	12,535	13,515	14,494	15,474	16,453	17,433
1,985	0%	13,699	14,787	15,876	16,964	18,052	19,141	20,229
2,184	10%	15,842	17,039	18,237	19,434	20,631	21,828	23,026
2,303	16%	17,128	18,391	19,653	20,916	22,178	23,441	24,703
2,581	30%	20,129	21,544	22,959	24,373	25,788	27,203	28,618
2,780	40%	22,272	23,796	25,320	26,843	28,367	29,891	31,415

Source: MOFSL, Company

Exhibit 31: Sensitivity of BSE's earnings

		Premium/Notional turnover ratio						
	13,449	0.06	0.07	0.08	0.09	0.1	0.11	0.12
Change in notional turnover	-20.0	11,434	12,254	12,768	13,435	14,102	14,769	15,436
	-10.0	11,615	12,538	13,116	13,866	14,616	15,367	16,117
	-	11,797	12,822	13,464	14,298	15,131	15,965	16,798
	10.0	11,978	13,105	13,812	14,729	15,646	16,563	17,480
	22.1	12,197	13,449	14,233	15,251	16,269	17,287	18,305
	30.0	12,340	13,673	14,508	15,592	16,675	17,759	18,843
	40.0	12,522	13,957	14,856	16,023	17,190	18,357	19,524

Source: MOFSL, Company

Consultation paper on CCs' treasury income

The CCs earn interest or income by investing or deploying cash collateral received from Clearing Members (CMs) and upstream clients' funds. The collaterals placed by CMs or their clients are not owned by the CCs. Instead, they are held in the fiduciary capacity by the CCs as a regulatory requirement specified for Risk Management Framework of CCs, and the cash collaterals are designated as Other Current Financial Liabilities in the balance sheet of CCs.

To review the existing practice of interest or income earned by CCs on the cash collaterals received from CMs and upstream clients' funds, the matter was discussed in the Risk Management Review Committee of SEBI (RMRC). Based on the recommendations of RMRC and subsequent deliberations, the following have been recommended:

- CCs Own funds and funds received from CMs as cash collateral & upstream client funds with the CC shall be segregated at all points of time.
- The CCs can invest or deploy the cash collateral received from CMs and upstream client funds in highly liquid financial instruments with minimal market and credit risks in line with the investment norms specified by the SEBI from time to time for investment in the Core Settlement Guarantee Fund (SGF) corpus.
- Interest or income, if any, by the CC out of cash collaterals received from CMs and upstream client funds shall periodically (at least on a quarterly basis) be distributed to CMs or added to the CMs collaterals, subject to adjustment of costs, taxes, and regulatory charges, if any, and the benefit of the same shall appropriately be passed on by the CMs to their clients.

Impact on exchanges

BSE and NSE have CCs as their subsidiaries, which earn treasury income on clearing and settlement funds. In FY24, BSE earned INR1.8b (13% of its revenue), while NSE earned INR8.1b (5% of its revenue). Post-implementation of the regulation, earnings will be hit. The extent of the hit will be consummate when the final regulations are announced and implemented.

CHANGES IN AMC REGULATIONS

REGULATIONS	EFFECTIVE DATE	KEY CHANGES
Commissions and expenses	Oct'18	❖ All scheme-related expenses, including commissions, shall be paid from the scheme and not from the books of the AMC.
Rationalization of MF schemes	FY19	❖ This would bring about uniformity in the characteristics of similar types of schemes in different MFs; only one scheme is allowed per category.
Total expense ratio (TER)	Apr'19	❖ SEBI revised the cap on TER based on the size of the AUM.
Investments in unlisted debt securities	Sep'19	❖ Investments in unlisted debt would be capped at 10% of the scheme's NAV (existing unlisted investments to be grandfathered).
		❖ The cap on investments in unrated debt was reduced to 5% of AUM from 25% of AUM.
Liquid funds	Apr'20	❖ Liquid funds can now invest a maximum of 20% (25% earlier) of their assets in one sector – with additional exposure to HFCs restricted to 10% (earlier 15%) – and a maximum of 5% in securitized debt based on the retail housing loan and affordable housing loan portfolios. ❖ At least one-fifth of assets must be kept in cash equivalents (incl. T-Bills and repo on G-Sec). ❖ Exposure to credit-enhanced securities is capped at a maximum of 10% of AUM.
Transparency in debt transactions	Oct'20	❖ Fund houses would have to disclose the yield of the underlying instruments of the scheme, along with the portfolio, on a fortnightly basis.
Change in investment mandate of multi-cap funds	01 Jan'21	❖ Multi-cap funds will have to invest a minimum of 25% each in largecaps, smallcaps, and midcaps.
New risk-o-meter label	Jan'21	❖ Apart from the existing five categories of risk, the 'Very High' risk category would also be seen on the risk-o-meter tool. SEBI has directed fund houses to disclose and evaluate the risk based on the portfolio of the particular scheme and not the category.
		❖ Fund houses are required to make their monthly risk-o-meter public, along with the portfolio disclosure.
Change in NAV calculation	Feb'21	❖ Investors would get the purchase NAV of the day when investor money is received by the AMC, irrespective of the size of the investment.
Advisor distributor segregation	Oct'21	❖ A company with both advisory and distribution arms can either provide financial advice or sell products to its clients.
		❖ Individual planners and distributors also have to choose one of the jobs and register accordingly with AMFI.
Consultation paper on TER	May'23	❖ In Dec'22, SEBI announced that it would reconsider the TERs, and accordingly in May'23, the regulator released a consultation paper with key measures that included subsuming of GST in brokerage; modification of additional TER for B30 markets; allowing AMCs to become members of stock exchanges; new TER slabs (higher for subsuming of GST) among others.
		❖ However, due to representations from industry participants, the regulator is now planning to release a revised consultation paper that would have a lesser impact on AMCs.
Transaction-only platforms	Sep'23	❖ Transaction-only platforms can levy a fee to the AMCs and Customers based on their status (Agency of AMC/Stock Broker).
MF Lite regulation for Passives	Recently launched	❖ Introduced to simplify the rules for passively managed MFs in India thus making it easier for new players to enter the industry.
Regulatory framework for new investment product	Oct'24	❖ Intended to bridge the gap between MFs and PMS in terms of flexibility in portfolio construction, and aims to curtail the proliferation of unregistered and unauthorized investment management services that often pose significant risk of loss of capital for the investors

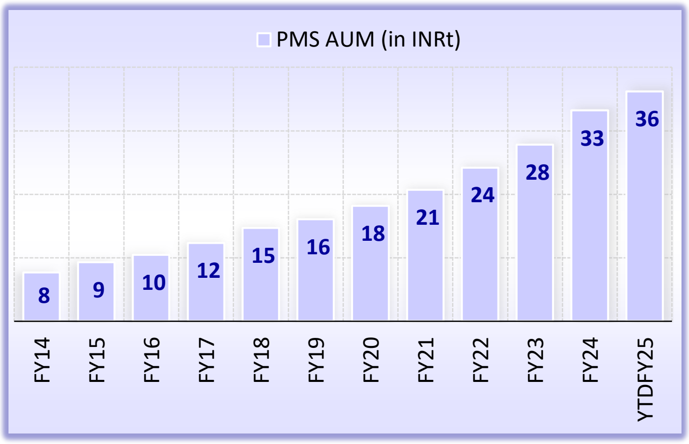
PMS

- In a circular released in Feb'20, SEBI prohibited the PMS companies from paying upfront commissions to distributors, who would be allowed to receive only trail commissions.
- SEBI also introduced a 'direct' option for PMS investors who do not wish to invest through distributors and would not pay distribution fees.
- SEBI raised the minimum ticket size for PMS investors to INR5m in May'20 from INR2.5m earlier.
- SEBI also placed restrictions on the exit load that PMS providers can charge, wherein the PMS providers can charge a maximum exit load of 3% in the first year of investment, 2% in the second year, and 1% in the third year. Thereafter, PMS providers cannot charge any exit load.

AIF

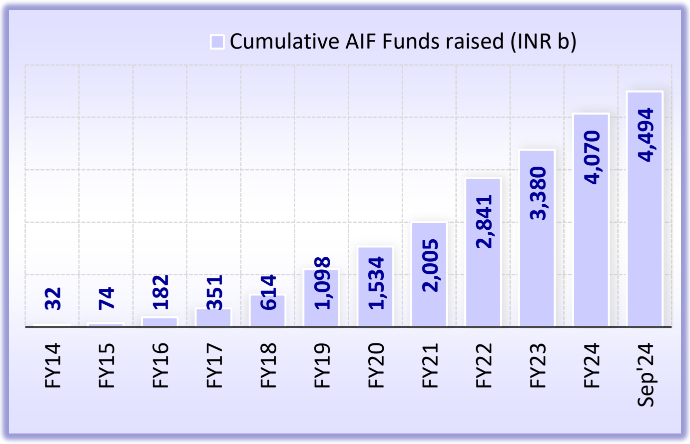
- Under the proposed norms, all investors in categories of AIFs will be charged a distribution fee on a trail basis. The Category I and II AIFs will, however, be allowed to levy a slightly higher fee.

PMS AUM Trend in INRt



Source: SEBI, MOFSL

Investments Raised by AIFs over the years in INRb

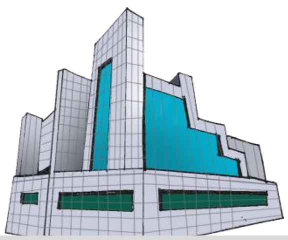


Source: SEBI, MOFSL

Industry on a strong footing

Each product segment over the medium to long term would have a larger potential for growth and help exchanges garner market share.

NSE



BSE

Exchanges – New products and rising F&O share

- **New products:** The introduction of new products would attract new investors to the exchange. Product diversification helps exchanges diversify their revenues and reduce dependence on fewer products. Each product segment over the medium to long term would have larger potential for growth and help exchanges garner market share.
- **Zero-day Options:** The growing popularity of weekly options trading among retail investors reached astounding proportions. The volumes have continued to be strong year after year despite massive losses by individuals, and subsequent warnings by the regulator that F&O trading causes nine out of 10 participants to lose significantly. The market rally since Mar'24 and availability of various weekly and monthly expiry options have been the key attractions. While the number of weekly options available will reduce under the new regulations, the attraction will remain.
- **Listing of new companies, exits and stake sales by promoters, and divestment program of the government will drive the free float in the country, leading to increased participation.**

Brokers – New tools, awareness & education, and cost of trading

- The primary benefit of using discount broking while executing a trade is lower commissions, as they charge a flat fee per order. Hence, operating leverage kicks in as the number of orders rises. Further, cross selling other products on the platform leads to incremental revenue generation.
- It is no surprise that novice investors are attracted to digital investment platforms due to the convenience and affordability offered. Hence, there is an increase in investments made by companies to develop digital platforms.
- Continuous innovation to build new trading and learning tools is necessary for customer engagement on the platform.
- Technological edge, lower costs, and differentiated product offerings drive market share gains for discount brokers.

AMCs – Geographical expansion, alternate products, and Active vs. Passive

- MFs are steadily emerging as the preferred choice in India's savings pie, especially for retail investors. Government measures to formalize the economy – Jan Dhan, Aadhaar, and demonetization – have also contributed to increasing MF flows in Tier II and Tier III cities.
- Measures undertaken by AMCs, such as product innovation, have improved reach/penetration; channel partner tie-ups to bring smaller investors into the pool have also helped.
- The MF industry has displayed positive financial performance and holds potential for further expansion with the adoption of digital channels and increased investor awareness expected to drive future growth in the industry.
- Passive investments are comparatively more attractive than active investments owing to their ease of investing, better liquidity, and lower cost. Passive investing in India has seen strong traction over the past five years.

The RM-led advisory is much needed to cater to the UNHI segment. Incrementally, behavioral change is seen with customers willing to pay for quality advice.

Wealth Managers: Inter-generational wealth transfer, newer products, and tech-driven approach to cater to all segments

- **Digital transformation:** AI-powered chatbots, Robo advisory, and Digital platforms are paving the way for next-gen wealth management solutions. These solutions are a huge success in the mature markets. As the sector matures in India, it is likely to witness further innovation and competition, leading to more diverse offerings and enhanced services for investors.
- **RM-led advisory:** The RM-led advisory is much needed to cater to the UNHI segment. Incrementally, behavioral change is seen with customers willing to pay for quality advice.
- **Customization:** While the wealth management industry in India has been focusing on curating customized portfolios of customers, its relevance has increased in the current ecosystem, wherein industry is transitioning from distribution to advisory models. Technology is playing a meaningful role in this.

Depositories/RTAs – Duopoly industry and new offerings

- MF RTAs are an integral part of the MF ecosystem. They provide seamless interfaces to asset management companies, investors, exchanges, depositories, and other stakeholders.
- The MF RTA industry in India is a duopoly between CAMS and KFin Tech. CAMS and KFin Tech. service 68% and 32% of the total MF AUM, respectively.
- Technology plays an important role in supporting industry growth as many regulatory guidelines and changes in processes/products are introduced by AMCs, which have to be incorporated over the shortest periods of time.
- The AUM structure managed by MF RTAs is likely to ensure a decline in yields on account of telescopic pricing. Hence, RTAs venture out into new offerings (non-MF businesses), which generally provide better margins and lesser dependence on MF-based revenues.

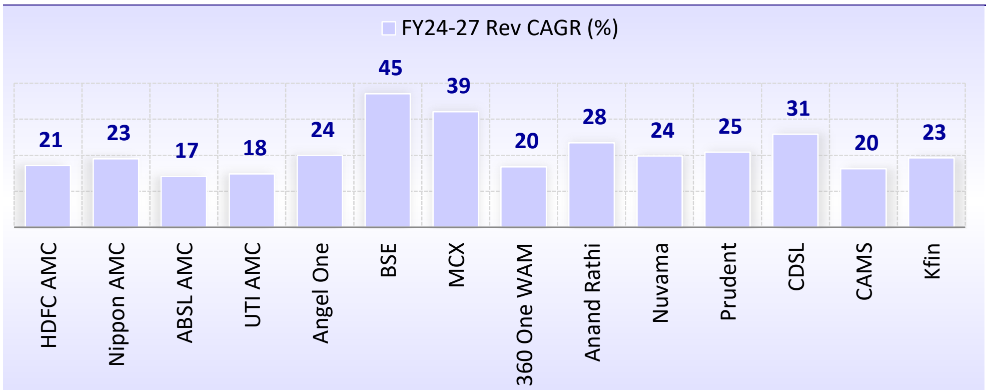
Valuations – Sustained high growth; cash rich companies

The wealth managers/distributors will gain from customer additions, strong inflows, and MTM, which will be offset by lower yields. Growth in revenue for all these players will percolate to strong growth for intermediaries too.

Sustained high growth in revenue over the long term

Revenue growth for the entire capital market ecosystem is expected to be in double digits over the near future. While AMCs will benefit from the sustained strong growth in flows led by SIPs, the MTM impact will be volatile. On the other hand, yields are expected to moderate, led by a telescopic structure of the TER. For brokers and exchanges, volumes will be the key driver, and we expect the momentum to sustain in the near term. The wealth managers/distributors will gain from customer additions, strong inflows, and MTM, which will be offset by lower yields. Growth in revenue for all these players will percolate to strong growth for intermediaries too.

Exhibit 32: Healthy revenue CAGR across our coverage

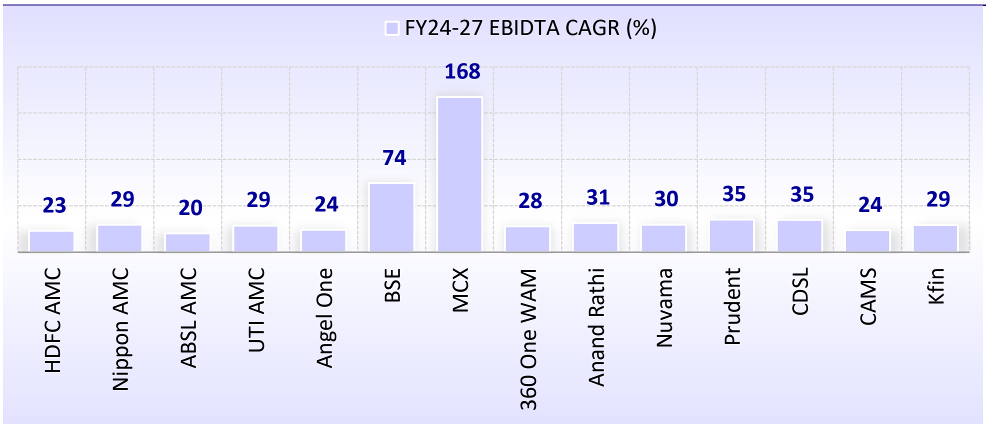


Source: Company, MOFSL

All businesses possess huge operating leverage, driving faster profit growth

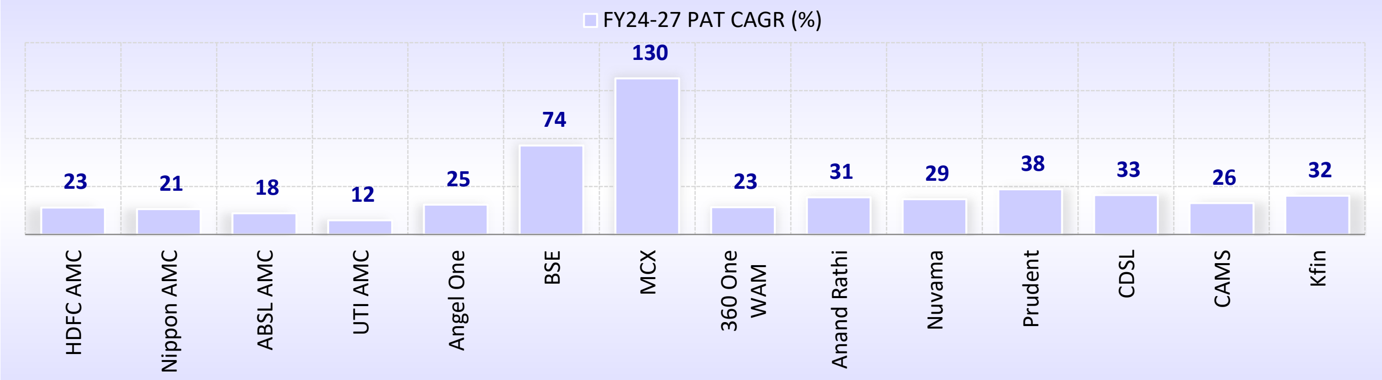
Employee and technology costs account for 45-60% of the total costs across our coverage. These are largely semi-variable in nature, and hence we believe operating leverage benefits can be derived across all spaces. Wealth management is the only space where we see limited benefits of operating leverage as RM count needs to be increased to scale up AUM beyond certain thresholds.

Exhibit 33: Scale benefits driving EBITDA CAGR across our coverage



Source: Company, MOFSL

Exhibit 34: Healthy PAT CAGR across our coverage

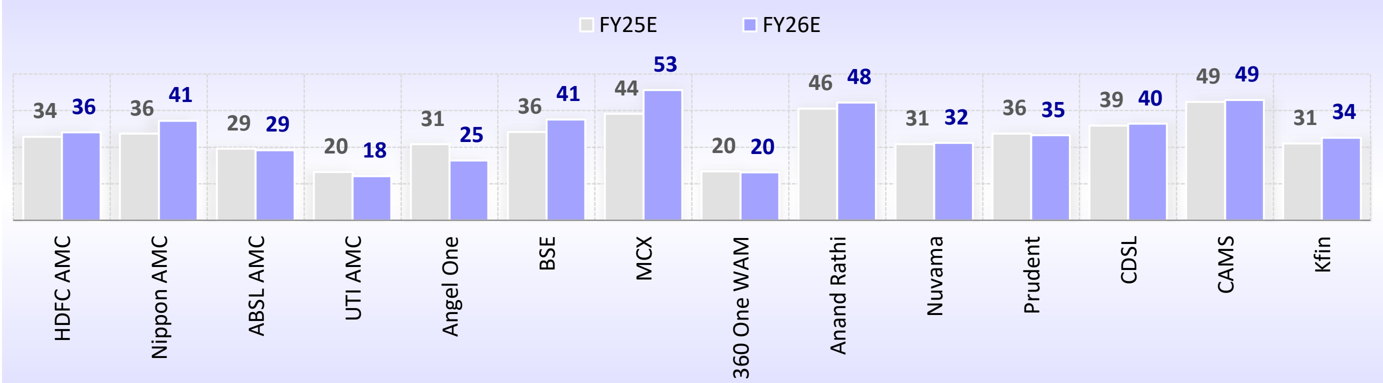


Source: Company, MOFSL

Cash rich companies with high dividend payouts

The strongest part of all coverage companies is the balance sheet, which is cash rich. Sustained strong profit growth will only add to the kitty, allowing these companies to maintain high levels of dividends consistently.

Exhibit 35: Improving RoE trajectory across our coverage



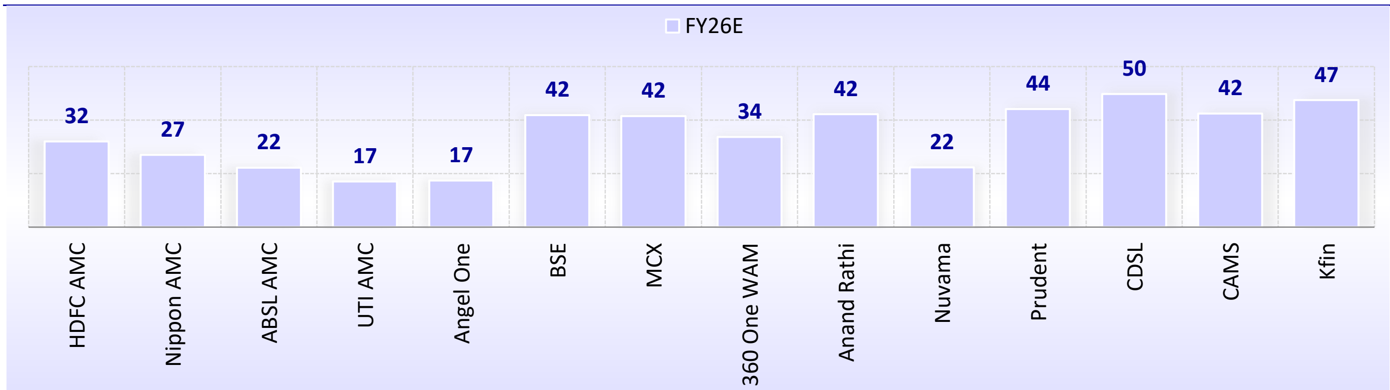
Source: Company, MOFSL

We note that except for the broking space, all other stocks trade at 1-yr forward P/E higher than broader index multiples.

Deserve premium multiples

We note that except for the broking space, all other stocks trade at 1-yr forward P/E higher than broader index multiples. Given the high degree of confidence in sustained growth over a longer period of time, we believe these stocks would continue to command premium multiples. High RoE and strong cash generation further support our thesis of premium multiples.

Exhibit 36: Premium valuations well justified



Source: Company, MOFSL

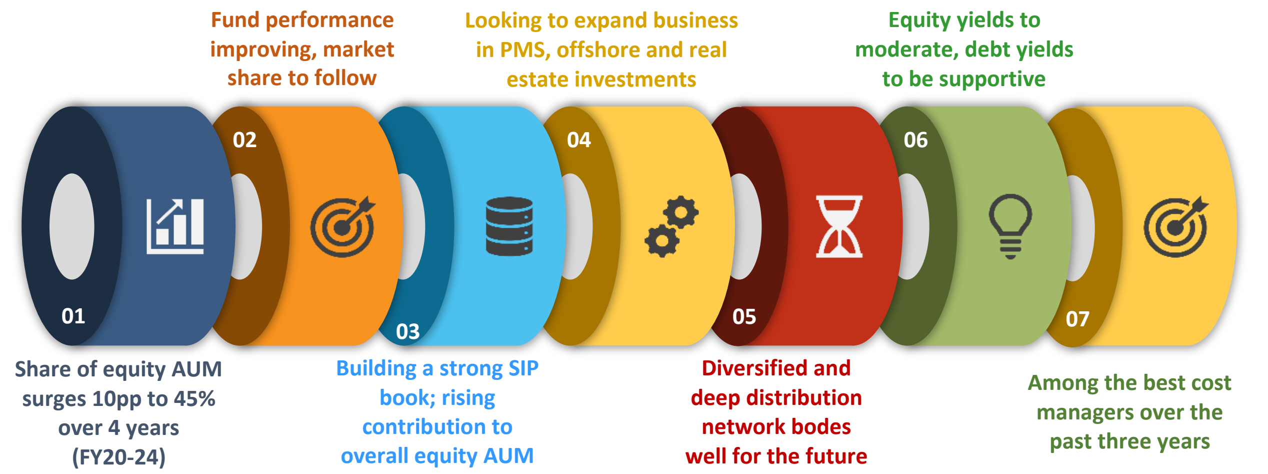
Valuation summary

	Mcap (USDb)	CMP (INR)	Reco	Target (INR)	Upside (%)	FY24-27E CAGR (%)			RoE (%)	EPS (INR)			P/E (x)		
						Revenue	EBITDA	PAT	FY26E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
AMCs															
HDFC AMC	11.0	4,365	BUY	5,200	19	21	23	23	36	119	136	155	36.7	32.0	28.1
Nippon AMC	5.2	718	BUY	900	25	23	29	21	41	23	27	31	31.7	27.0	23.0
ABSL AMC	2.9	848	BUY	1,100	30	17	20	18	29	34	38	44	24.6	22.2	19.2
UTI AMC	2.0	1,322	BUY	1,600	21	18	29	12	18	80	78	88	16.6	17.0	15.0
Exchanges & Brokers															
Angel One	3.5	3,292	BUY	4,200	28	24	24	25	25	169	190	264	19.5	17.3	12.5
BSE	8.6	5,396	BUY	6,500	20	45	74	74	41	99	129	158	54.4	41.8	34.1
MCX	4.2	6,918	Neutral	7,600	10	39	168	130	53	124	167	199	56.0	41.5	34.8
NSE						15	22	22	39	42	50	60			
Wealth Managers & Distributors															
360 One WAM	5.1	1,120	BUY	1,350	21	20	28	23	20	25	33	38	44.4	33.7	29.1
Nuvama	2.9	7,025	BUY	8,800	25	24	30	29	32	272	315	363	25.8	22.3	19.3
Anand Rathi	2.1	4,302	Neutral	4,500	5	28	31	31	48	75	102	122	57.1	42.1	35.1
Prudent	1.5	2,962	Neutral	3,200	8	25	35	38	35	49	67	87	59.9	44.1	33.9
Intermediaries															
CDSL	4.7	1,884	Neutral	2,000	6	31	35	33	40	31	38	47	61.5	49.8	40.0
CAMS	2.9	5,072	BUY	6,000	18	20	24	26	49	99	120	144	51.1	42.4	35.2
Kfin	2.6	1,272	Neutral	1,400	10	23	29	32	34	21	27	34	60.9	47.4	37.7

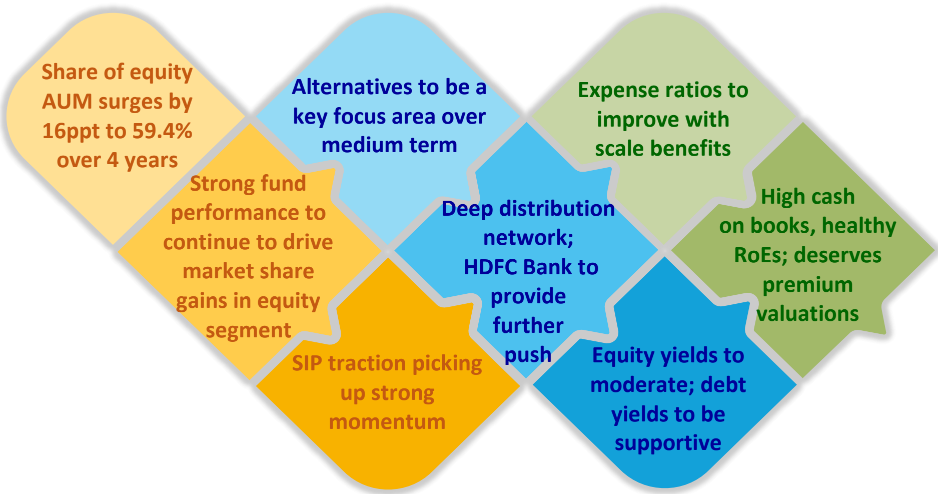
Source: MOFSL

INVESTMENT ARGUMENT OF COMPANIES IN INFOGRAPHIC

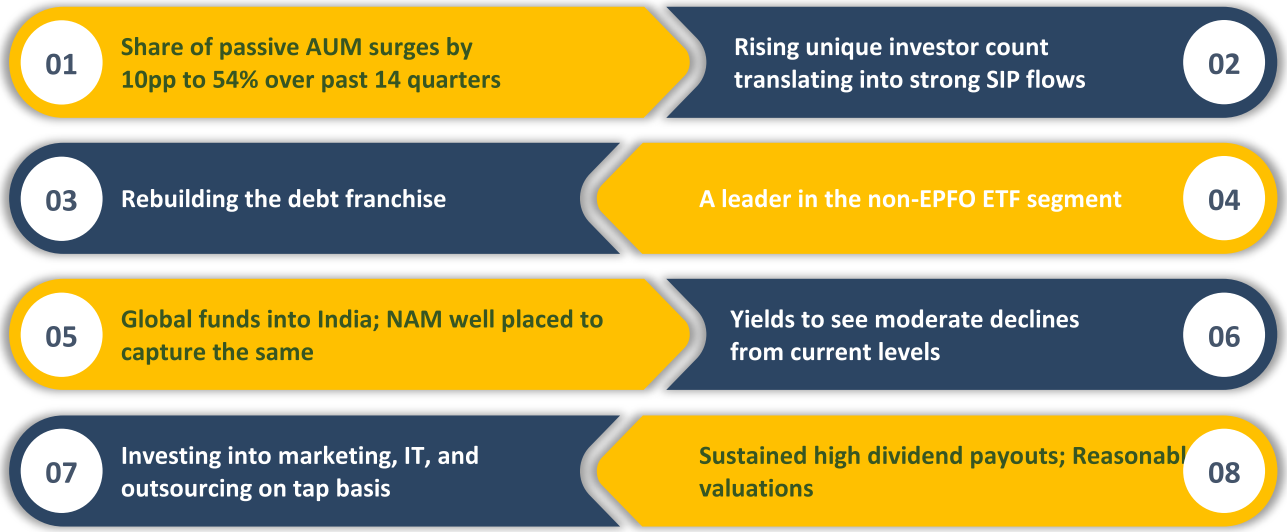
ABSL AMC – Intensified focus on SIPs; building the alternatives segment



HDFC AMC – Solid distribution franchise; leading the SIP traction



NIPPON INDIA AMC – Rising equity market share; best play on passives



UTI AMC – A strong brand with multiple growth drivers

- Equity outflows in FY24; expect better performance in FY25
- Share of passive AUM surges
- Strong positioning in NPS industry
- Yields to moderately decline from current levels
- Endeavors to augment digital presence
- Reasonable valuations; initiate with a BUY
- Brighter prospects for UTI International

ANGEL ONE – Muscled for a sustained high growth

- Revolutionizing Broking business via app innovations and competitive pricing
- Strengthening the assisted partner (AP) channel to scale new heights
- Non-broking ventures to contribute meaningfully over the medium term
- Significant operating leverage from the acquired base
- True to label and consultation paper implementation to have transitionary impact on revenues and profitability
- Strong balance sheet to support robust business growth; Reiterate BUY

BSE – Building a strong future; more options for growth

01 Disrupting the monopoly structure in equity derivatives segment

02 Achieves 25%+ notional T/O market share, premium T/O share to follow

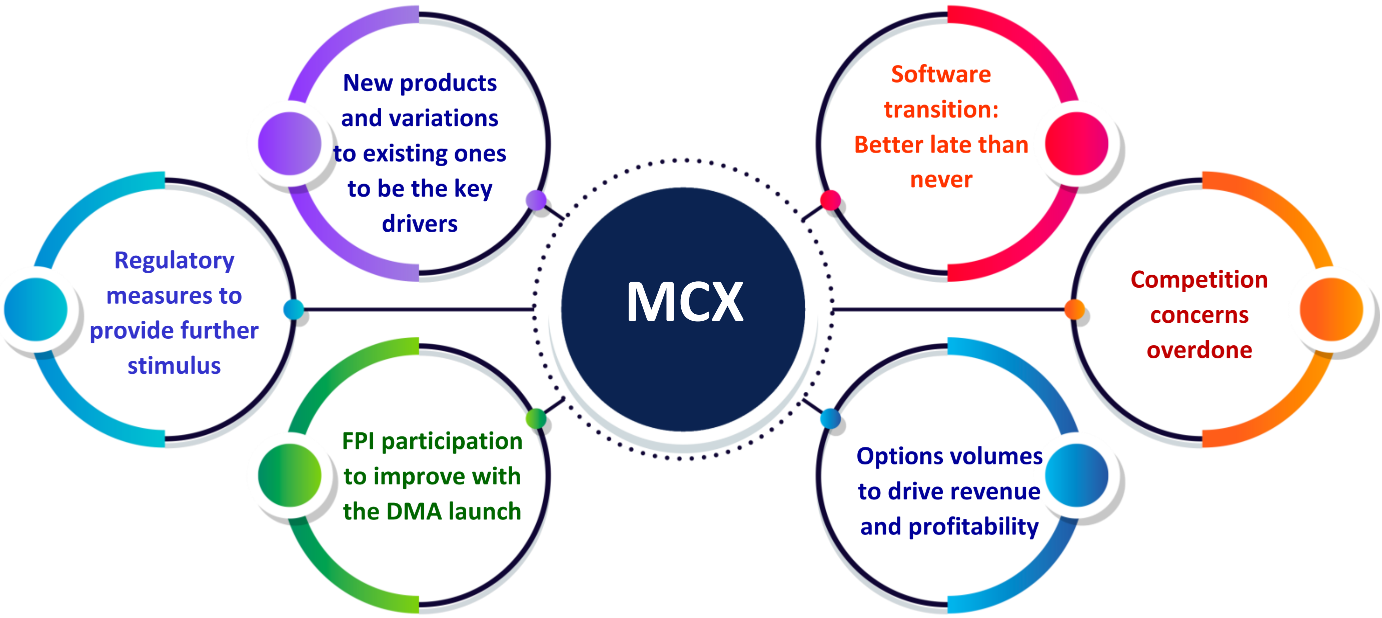
03 Co-location could be the next big revenue and profit driver

04 Remedial measures undertaken to revive cash segment's market share

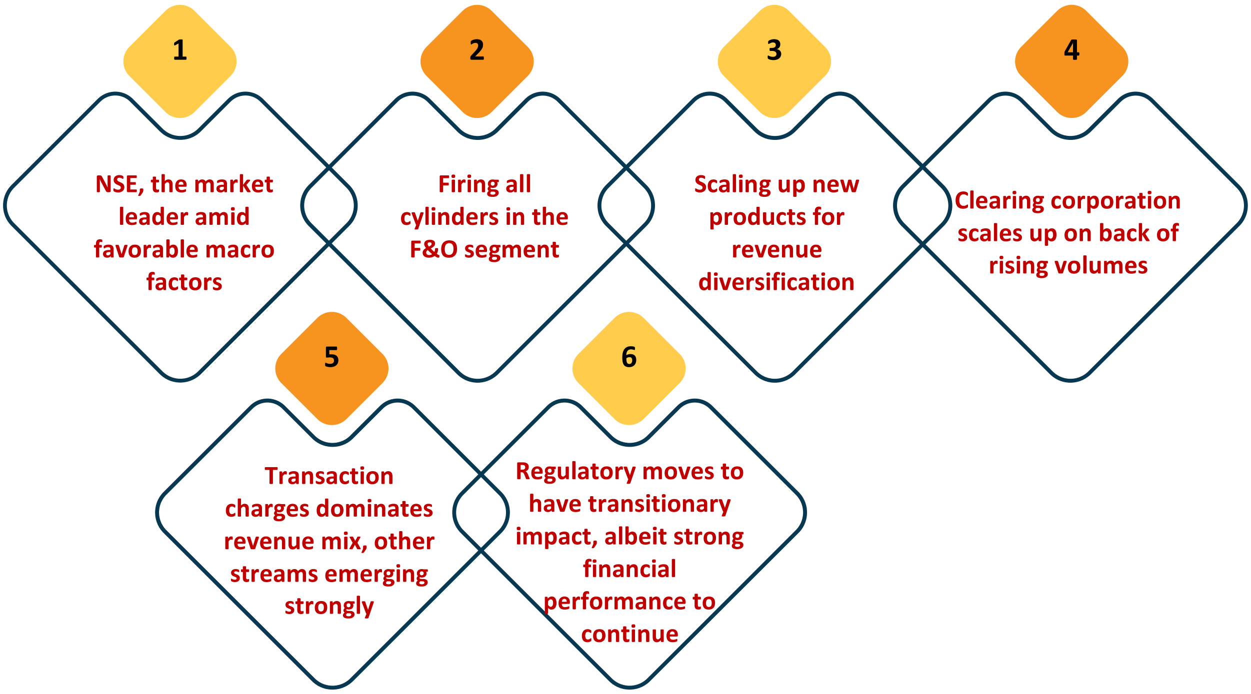
05 Brighter prospects for Star MF

06 Strong growth in profitability driven by the derivatives segment, regulatory changes to have a transitionary impact

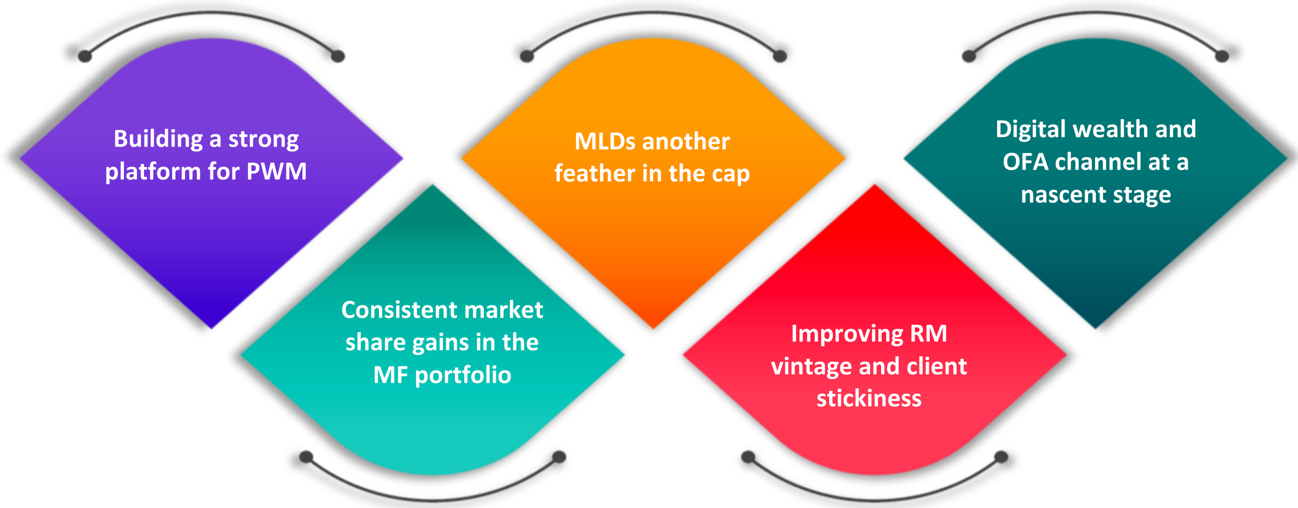
MCX: New products to drive strong growth



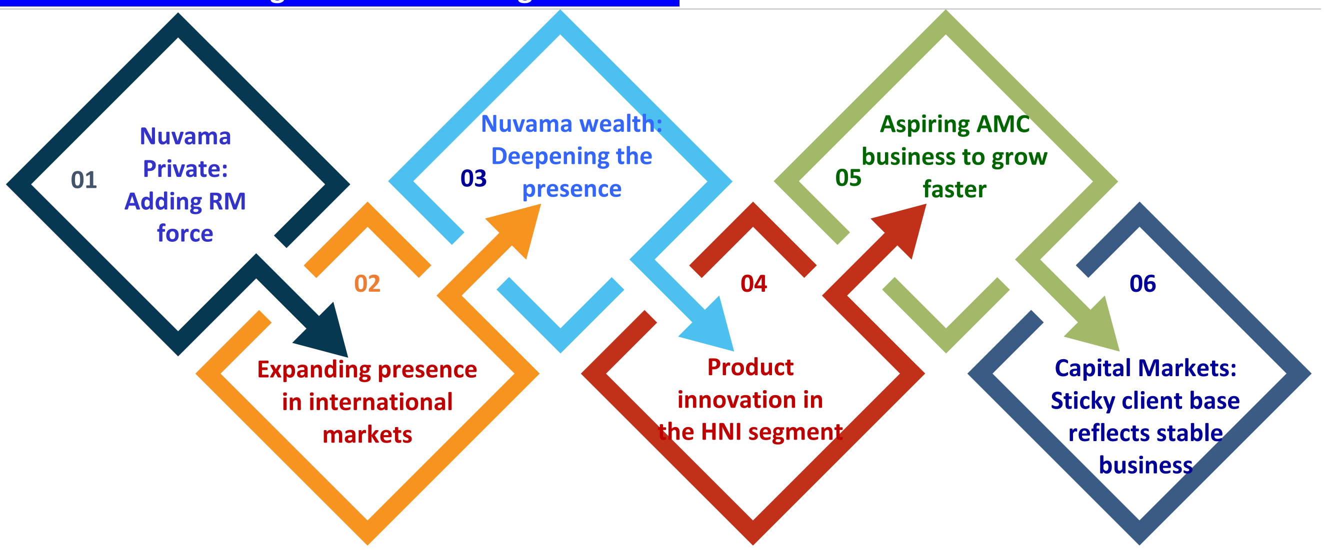
NSE – The behemoth at its best



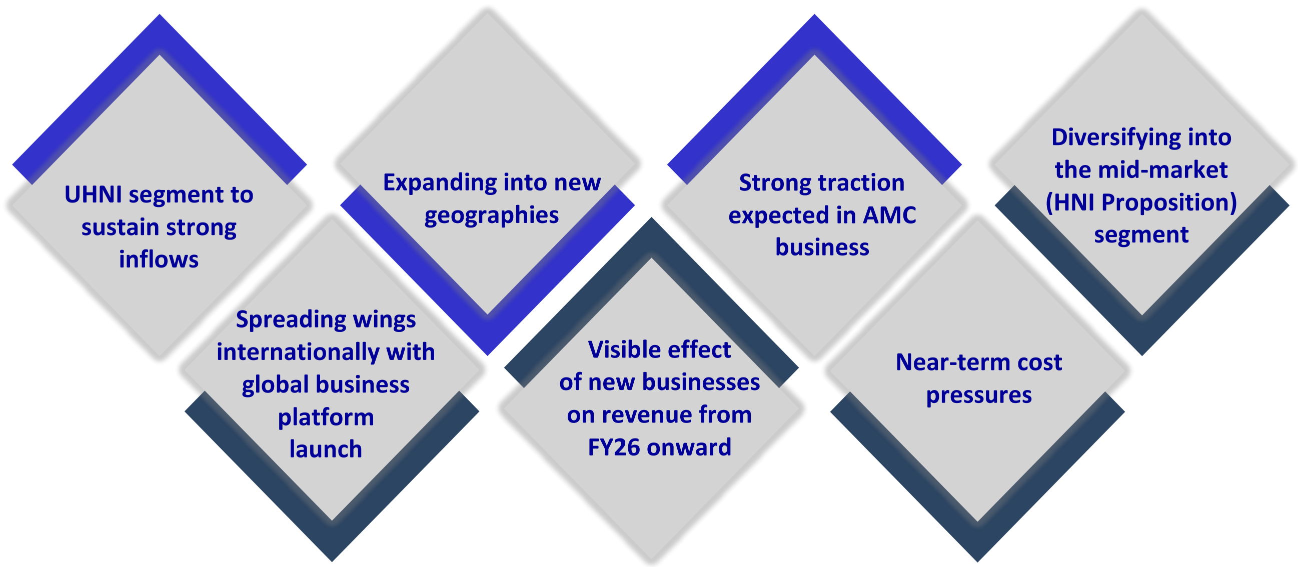
ANAND RATHI WEALTH – Building a solid distribution franchise



NUVAMA WEALTH – Riding the wealth management tide



360ONE WAM – Leader in a fast-growing industry



PRUDENT CORPORATE ADVISORY – Going from strength to strength

1. Prudent: India's 4th Largest Mutual Fund Distributor
2. The Untapped SIP Market
3. Evolving Together with MFDs
4. Harnessing Diversification and Technology
5. The Rising Contribution of Insurance

CAMS – Non MF business to boost the next leg of growth

01 Structural growth in Mutual Fund business

02 AIF / PMS to be the fastest non-MF segments

03 Future is digital: CAMSPay to gain traction

04 Think360 – AI stack for digital financial services

05 Other Non-MF business gaining traction

KFIN Technologies – Expanding beyond boundaries

01 Structural growth in Mutual Fund business

02 Retail participation to give a leg-up to issuer solutions business

03 Ramping up the international issuer solutions space

04 VAS aiding growth in other businesses

CENTRAL DEPOSITORY SERVICES – Compelling story but rich valuations

01
Duopoly industry — CDSL dominates retail, NSDL leads in institutions

02
Issuer charges provide an annuity stream of revenues

03
Transaction revenue – a proxy for rising activity in retail cash segment

04
KYC, insurance repository will aid in diversification of revenues

05
Insurance repository emerging to be a strong opportunity

06
Asset-light business model, operating leverage drive robust cash flows

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Companies covered in the report

ABSL AMC

BSE SENSEX	S&P CNX
81,709	24,678

Stock Info

Bloomberg	ABSLAMC IN
Equity Shares (m)	288
M.Cap.(INRb)/(USDb)	245 / 2.9
52-Week Range (INR)	912 / 450
1, 6, 12 Rel. Per (%)	2/37/65
12M Avg Val (INR M)	283

Financials Snapshot (INR b)

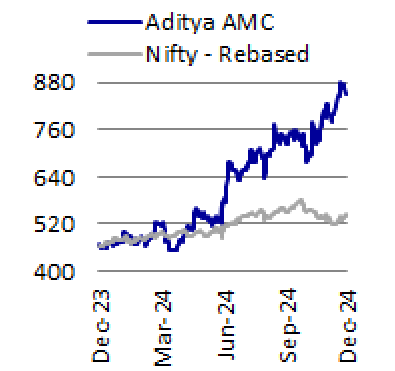
Y/E March	2025E	2026E	2027E
AAUM	3,815	4,424	5,136
MF Yield (bps)	42.2	41.2	40.2
Rev from Ops	16.9	19.1	21.6
Core PAT	7.2	8.3	9.6
PAT	9.9	11.0	12.7
PAT (bps as AAUM)	26	25	25
Core EPS	25	29	33
EPS	34	38	44
EPS Grw. (%)	27	11	15
BVPS	124	141	159
RoE (%)	29	29	29
Div. Payout (%)	58	58	59
Valuations			
Mcap/AUM (%)	6.4	5.5	4.8
P/E (x)	24.6	22.2	19.2
P/BV (x)	6.8	6.0	5.3
Div. Yield (%)	2.4	2.6	3.1

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	75.0	75.0	86.5
DII	12.4	11.6	4.7
FII	4.5	4.6	1.7
Others	8.1	8.8	7.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR850 TP: INR1,100 (+29%) Buy

Intensified focus on SIPs; building the alternatives segment

- **ABSLAMC's fund performance has been improving in the recent past, with the number of schemes appearing in the top quartile on a one-year return basis increasing to 3-5 over the past few months from 1-2 in FY23. As evinced by HDFC AMC and NAM, the market share improvement comes with a lag in relation to fund performance improvement.**
- **For ABSLAMC, the share of equity (including hybrid) AUM increased to 46.5% in 2QFY25 from 34.8% in 4QFY20. While MTM has played a key role, SIP flows have been trending higher, growing to ~INR14.3b per month in 2QFY25 from ~INR9b per month in 4QFY21.**
- **ABSLAMC has an established, geographically diversified pan-India distribution presence with 300+ locations covering 19k+ pin codes, supplemented by 95+ emerging market (EM) representatives. Over 80% of these are in B30 cities that will drive granular growth in the long term.**
- **The company is looking to increase its offerings in the alternate space, and the company has established a dedicated team in the equity and fixed income segment for growing the business. It also aims to grow its offshore equity AUM by expanding into new geographies and it is developing new real estate scheme launches.**
- **Yields in the equity segment are expected to decline at a relatively moderate pace compared to the past couple of years. The decline in overall yields will be protected by a higher share of equities and a mix in debt AUM likely moving toward long-duration funds. We expect the yield to be flattish in FY25 and decline 1bp each in FY26 and FY27.**
- **We expect ABSLAMC to report a CAGR of 18%/17%/20% in AUM/revenue/core PAT over FY24-27. Assuming a 59% dividend payout ratio, we expect the company to generate a cumulative operating cash flow of INR35.7b during the same period. The stock trades at a steep discount to HDFCAMC and NAM. We believe the gap should narrow, and we assign a 36x P/E on Sep'26E core earnings. Initiate coverage with a BUY rating and a one-year TP of INR1,100.**

Share of equity AUM surges 10pp to 45% over four years (FY20-24)

- ABSLAMC reported a 7.6% QAUM CAGR during FY20-FY24 to INR3.3t, and it recorded a QAUM of ~INR3.8t in 2QFY25, leading to an overall market share of 6.5% in Sep'24.
- The growth was mainly driven by the equity segment, which posted a CAGR of 15% during the same period (FY20-FY24). The ETFs/other funds (mainly index funds) clocked a strong CAGR of 96%/133% on a low base.
- The hybrid/ liquid segments posted a CAGR of 11%/5.6% and the debt segment reported a decline. Accordingly, the share of equity (including hybrid) increased to 46.5%/45.4% in 2QFY25/4QFY24 from 34.8% in 4QFY20.

Fund performance improving, market share to follow

- ABSLAMC saw its equity segment market share dwindle to 4.4% in Oct'24 from 7.2% in Apr'21 due to weak fund performance, wherein the number of schemes appearing in the top quartile was fewer.

- Empirically, it has been observed that the market share improvement happens with a lag compared with improvement in fund performance.
- Over the past 7-8 months, fund performance of ABSLAMC schemes has been improving, with about 3-5 schemes appearing in the top quartile on a one-year return basis. On a three-year return basis, there are 3 schemes appearing in the top quartile, but the reflection in market share would happen with a lag.

Building a strong SIP book; rising contribution to overall equity AUM

- The live outstanding SIPs have seen good traction and grew to 4.6m as of Sep'24 from 2.8m as of FY21, while SIP monthly flows increased to INR14.3b in 2QFY25 from INR9.0b in 4QFY21.
- The quality of the SIP book has also improved with increased granularity. The average ticket size improved to ~INR3,105 in Sep'24 from ~INR2,755 in FY21.
- ABSLAMC has experienced a decline in its SIP market share from the peak of ~9% to around ~5.8% as of Sep'24; however, conscious management initiatives, such as the launch of the "Win with SIP" multi SIP campaign and employee incentives, are expected to drive the SIP book going forward.

Looking to expand business in PMS, offshore and real estate investments

- In addition to MF products, ABSLAMC also provides portfolio management services, offshore funds, and alternative investments. Its non-MF AAUM stood at INR171b as of Sep'24, comprising INR39b of PMS assets, INR127b of offshore assets, and INR5b of real estate assets.
- With the intent to increase its offerings, the company has established a dedicated team for growing its alternative assets. It also aims to grow its offshore equity AUM by expanding into new geographies, such as the US, the UK and Europe, and it is developing new real estate scheme launches.
- In 2021, the company entered into a non-binding term sheet with GreenOak Asia Advisor LP – an affiliate of BentallGreenOak, a global real estate investment advisor that is part of the alternatives asset management business of Sun Life – to invest in securities of companies engaged in residential, commercial, or mixed-use real estate projects in India.

Diversified and deep distribution network bodes well for the future growth

- ABSLAMC has an established, geographically diversified pan-India distribution presence, with 300+ locations covering 19k+ pin codes supported by 95+ EM representatives. Over 80% of these branches are in B30 cities, which will drive granular growth over the long term.
- Among the top 6 AMCs, ABSLAMC has the least concentration of AUM from the top distributor, reducing the risk of business loss due to any change in distributor relationship dynamics. It has tie-ups with 90+ banks, negating any impact of the lack of bank parentage. It also has a strong distributor franchise with 86,000+ MFDs and 340+ national distributors.
- The company has also established relationships with digital-edge platforms such as Paytm, Zerodha, PhonePe, and Groww, wherein it is witnessing higher client engagement. ABSLAMC provides various benefit programs to its MFDs, such as its Privilege Club channel loyalty program, to strengthen relationships with them.

Equity yields to moderate, debt yields to be supportive

- In spite of the increase in the share of equity in the overall AUM, revenue yields for ABSLAMC have been range-bound in the past couple of years. This is attributed to weakening yields in the equity segment due to the transition from legacy assets to new assets, lower TER owing to increase in the AUM, and higher commissions on NFOs.
- We note that if AUM across equity schemes increases at a 20% CAGR, the overall TER on equity assets can decline by 6bp just because of the telescopic structure.
- Debt segment yields are expected to recover as inflows in long-duration assets increase going ahead.
- Given that we expect a higher CAGR of 20% in equity AUM vs. 16% in overall AUM, the rising share of equity in overall AUM will help cushion the fall in yields.

Among the best cost managers over the past three years

- Over the past three years, total expenses for ABSLAMC have reported CAGR of 8%. However, employee costs have increased at a 10% CAGR, which is offset by a 9% decline in commission & fee expenses.
- Strengthening the equity investment team, along with building the alternates and passives teams, has resulted in an increase in employee costs. Additionally, the company has rolled out an ESOP plan, which has resulted in incremental expenses.
- As the new businesses (Alternates & Passives) scale up, we expect scale benefits to translate into higher profitability.

Valuation and view

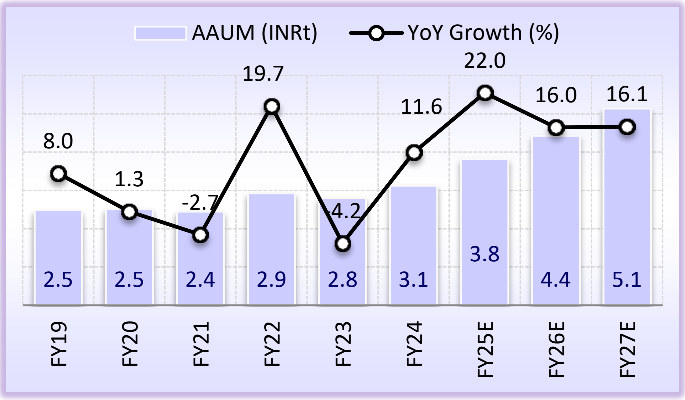
- We expect ABSLAMC to report a CAGR of 18%/17%/20% in AUM/revenue/core PAT over FY24-27. Assuming a 59% dividend payout ratio, we expect the company to generate a cumulative operating cash flow of INR35.7b during the same period.
- As of Mar'24, the company had a cash balance of ~INR33.2b, which is 13% of today's market cap. A yield of 6% can contribute to ~15% of its FY25E PBT.
- The stock trades at FY26E EPS/core EPS of 22x/29x. Improving fund performance and scaling up non-MF business will improve profitability over the medium term. The stock trades at a steep discount to HDFCAMC and NAM. We believe the gap should narrow, and we assign a 36x core Sep'26E EPS. **Initiate coverage with a BUY rating and a one-year TP of INR1,100.**

Key risks

- Currently we have not factored in the implications of an expected TER adjustment by the regulator. Depending on the final regulations, the impact will have to be ascertained.
- Investments in alternatives business could take time to fructify given the rising competitive intensity in the segment.

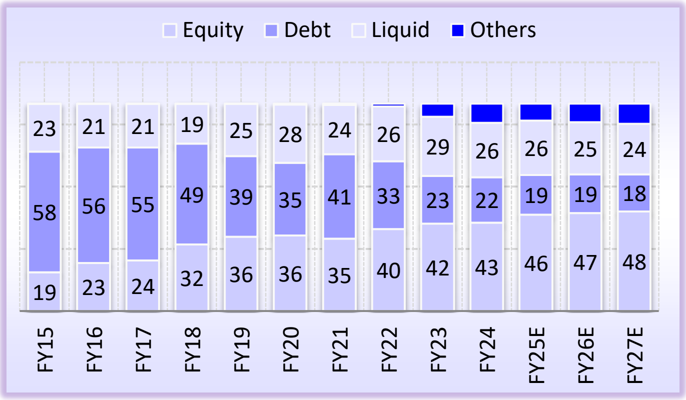
STORY IN CHARTS

Strong AUM growth ahead



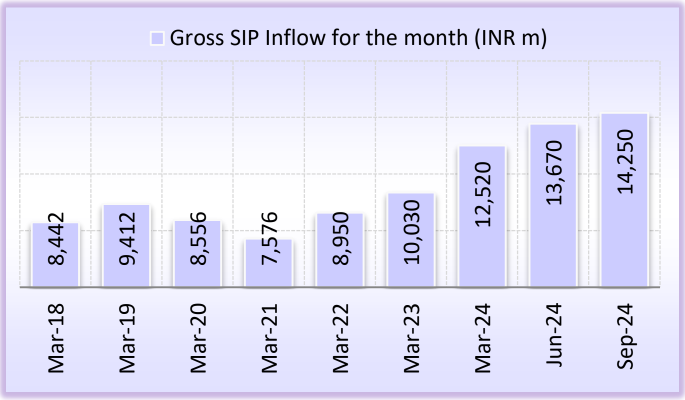
Source: MOFSL, Company

Share of equities will continue to improve



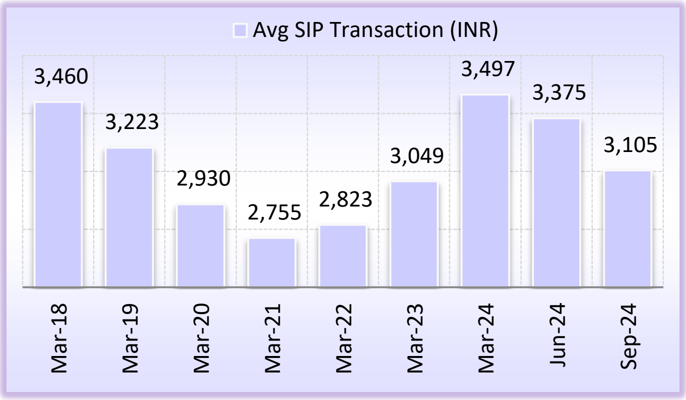
Source: MOFSL, Company

Monthly SIP flows gaining traction



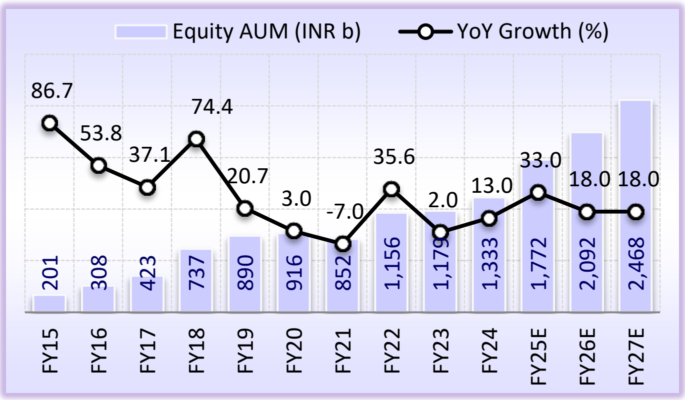
Source: MOFSL, Company

Trend in average SIP ticket size



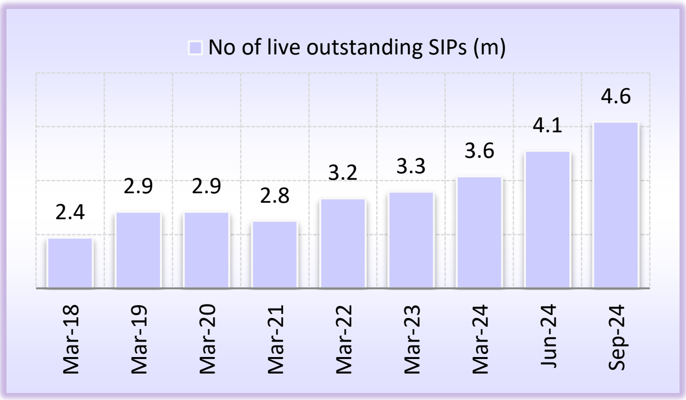
Source: MOFSL, Company

Strong traction in Equity AUM



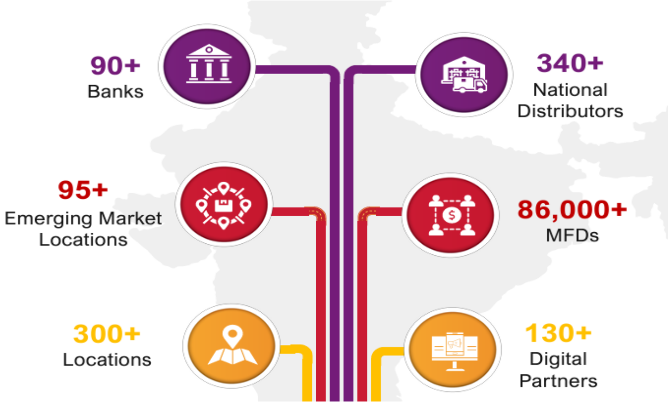
Source: MOFSL, Company

No. of live outstanding SIPs to rise after revamped focus



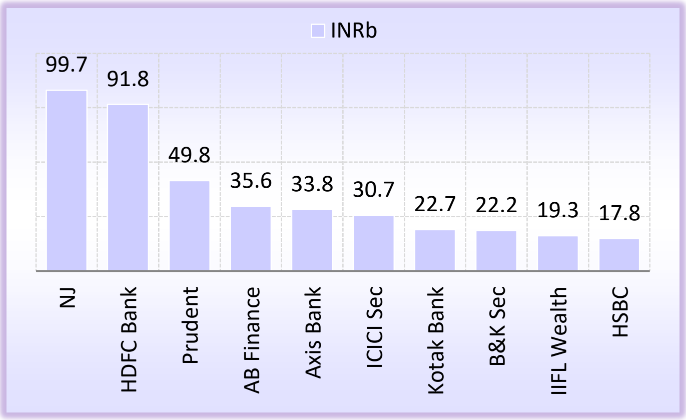
Source: MOFSL, Company

Wide distribution network



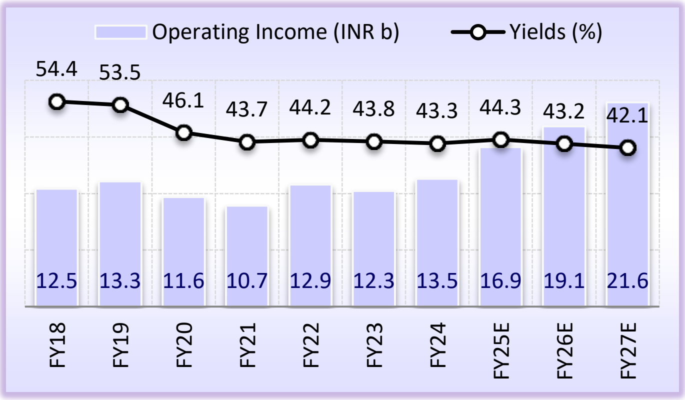
Source: MOFSL, Company

Top distributors for ABSLAMC



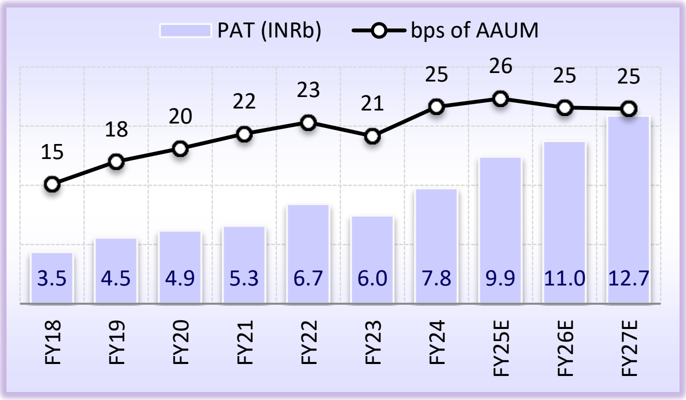
Source: MOFSL, Company

Yield to see steady decline



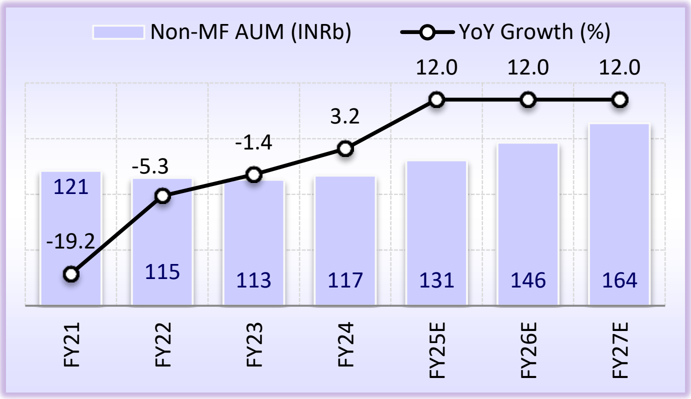
Source: MOFSL, Company

PAT margin to remain largely stable



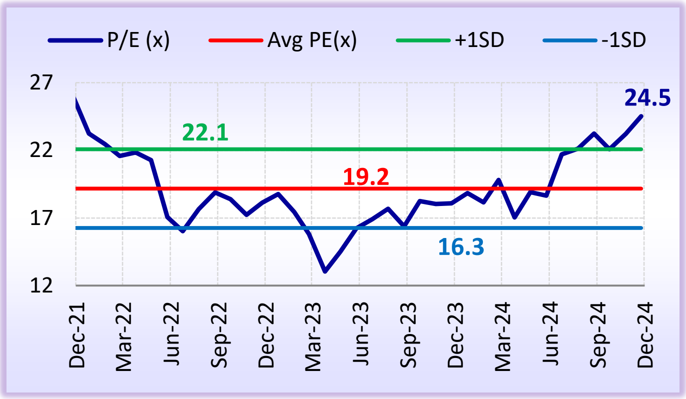
Source: MOFSL, Company

Non-MF AUM growth trend



Source: MOFSL, Company

1-year forward P/E above average levels



Source: MOFSL, Company

SWOT analysis

Strength

- Strong brand backed by parentage of Aditya Birla group; strong presence across sectors
- Improving performance in the equity segment
- Rebuilding confidence in the brand will favor long-term growth in debt assets

Weakness

- Fund performance has started improving after a period of weak performance
- Relatively higher dependence on national distributors

Opportunity

- Increasing financialization of household savings
- The participation of retail investors is on the rise, as the perception of Indian equity markets is evolving among young population
- Investing into distribution channels

Threats

- Technology risk and cyber security attacks
- Unfavorable regulatory interventions and decisions
- Significant increase in competition arising from rising number of AMCs

Key management personnel

Mr. A. Balasubramanian (Managing Director & CEO)

He has three decades of rich experience of the Mutual Fund Industry. Before joining ABSLAMC in the year 1994, he worked with GIC Mutual Fund, Can Bank Financial Services and Pandit & Co. He has also been on the board of AMFI and as governor on the board of NISM. He has completed Advanced Management Programs at IIM (Bangalore) and Harvard Business School. He also holds a Bachelor's degree in Science (Mathematics) and a Master's degree in Business Administration from GlobalNxt University.

Mr. Pradeep Sharma (Chief Financial Officer)

He has been part of the Aditya Birla Group since 1996 and currently serves as the CFO of Aditya Birla Money Ltd. He previously held significant roles in Aditya Birla Money Mart Ltd and Ultratech Cement's Corporate Finance Division. He is a CA and CS with more than 21 years of experience. He was appointed from 31st Oct'24.

Mahesh Patil (Chief Investment Officer)

He has joined AB Capital in 2009 as a Co Head Equity and became CIO in 2021. Before this he has worked in Reliance Communications in the Strategy Department, in Motilal Oswal and PPFAS as an Equity Analyst, in TATA Economic Consultancy services as an economist and CMC Ltd as a computer Engineer. He is a CFA and holds MMS degree in Finance from Jamnalal Bajaj Institute.

Anil Shyam (Head- Strategy)

He has two decades of experience and has been associated with the organisation since October 2007. He has previously worked at AK Capital Services Limited, Cholamandalam AMC Limited, JM Financial Asset Management Private Limited and at ICICI Prudential AMC Limited. He holds a Bachelor's Degree in commerce and Master's Degree in Finance & Control from Himachal Pradesh University, Shimla.

Amit Kansal (Head Alternate Investments- Fixed Income)

He has a total experience of more than 21 years, he has now been with the Aditya Birla Group for more than a decade and spearheaded the group's entry into this business, from ideation to scaling up. Previously, he has worked at SREI Infrastructure, ICICI Bank and Ernst & Young. He is a commerce graduate from Shri Ram College of Commerce and a Rank Holder Chartered Accountant.

Harish Krishnan (CIO and Head - Equity)

He has as an experience of nearly 20 years in the Asset Management industry, both domestically and internationally. Prior to joining ABSLAMC as the Co-CIO and Head Equity, he was associated with Kotak Mutual Fund for more than 10 years as Senior Fund Manager - Equity. He has also worked at Kotak Mahindra (UK) Limited where he managed offshore funds based out of Singapore and Dubai. He holds a Bachelor's Degree in Engineering from the Government College, Trichur and has done his PGDBM from IIM Kozhikode. He is also a Chartered Financial Analyst from CFA Institute, USA.

Bull and Bear cases

Bull case

- ☑ In our bull case, we factor in higher AUM growth of 23% (vs. 18% in the base case) and a yield decline of 0.6bp (vs. decline of 1.1bp in base case).
- ☑ Given operating leverage in the business, we expect a 27% EBITDA CAGR vs. 20% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 23% over FY24-27 vs. 18% in the base case.

Bear case

- ☑ In our bear case, we factor in lower AUM growth of 14% (vs. 18% in the base case) and a yield decline of 3.2bp (vs. decline of 1.5bp in the base case).
- ☑ Given operating leverage in the business, we expect a 12% EBITDA CAGR vs. 20% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 11% over FY24-27 vs. 18% in the base case.

Scenario analysis - Bull Case

INR b	FY25E	FY26E	FY27E
AUM	3,972	4,804	5,818
Growth (%)	27.0	21.0	21.1
Net revenues	17.6	21.1	24.9
Net Yields (Bps)	44	44	43
Cost to Income (%)	40.2	39.0	37.8
Core Operating Profits	10.6	12.8	15.4
PBT	14.0	16.2	19.4
PAT	10.5	12.2	14.5
Growth (%)	35.0	15.5	19.3
PAT margin (bp of AUM)	27	25	25
EPS (INR)	36.6	42.3	50.4
Core EPS (INR)	26.5	32.2	39.0
Target Core P/E multiple			**42**
Target price (INR)			**1,496**
Upside (%)			**76.4**

Source: Company, MOFSL

Scenario analysis – Bear Case

INR b	FY25E	FY26E	FY27E
AUM	3,690	4,131	4,631
Growth (%)	18.0	12.0	12.1
Net revenues	15.3	17.0	18.6
Net Yields (Bps)	42	41	40
Cost to Income (%)	44.2	43.0	41.8
Core Operating Profits	8.6	9.7	10.8
PBT	11.6	12.7	14.3
PAT	8.7	9.5	10.7
Growth (%)	26.4	8.8	12.6
PAT margin (bp of AUM)	23.7	23.0	23.1
EPS (INR)	30.4	33.1	37.2
Core EPS (INR)	21.3	24.0	26.9
Target Core P/E multiple			
Target price (INR)			**814**
Upside (%)			**(4.0)**

Source: Company, MOFSL

Financials and valuations

Income Statement								INR m
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Investment management fees	11,597	10,679	12,930	12,266	13,532	16,889	19,109	21,637
Change (%)	(12.6)	(7.9)	21.1	(5.1)	10.3	24.8	13.1	13.2
Operating Expenses	5,321	4,670	4,992	5,216	5,922	6,958	7,644	8,403
Core Operating Profits	**6,276**	**6,010**	**7,937**	**7,050**	**7,610**	**9,930**	**11,465**	**13,233**
Change (%)	4.0	-4.2	32.1	-11.2	7.9	30.5	15.5	15.4
Dep/Interest/Provisions	420	430	147	382	402	444	462	481
Core PBT	**5,856**	**5,580**	**7,791**	**6,668**	**7,208**	**9,487**	**11,003**	**12,752**
Change (%)	3.6	-4.7	39.6	-14.4	8.1	31.6	16.0	15.9
Other Income	751	1,379	1,156	1,271	2,874	3,661	3,660	4,180
PBT	**6,607**	**6,959**	**8,947**	**7,939**	**10,082**	**13,148**	**14,663**	**16,932**
Change (%)	2.3	5.3	28.6	-11.3	27.0	30.4	11.5	15.5
Tax	1,663	1,696	2,219	1,975	2,278	3,221	3,666	4,233
Tax Rate (%)	25.2	24.4	24.8	24.9	22.6	24.5	25.0	25.0
PAT	**4,944**	**5,263**	**6,728**	**5,964**	**7,804**	**9,926**	**10,997**	**12,699**
Change (%)	10.7	6.4	27.8	-11.4	30.9	27.2	10.8	15.5
Core PAT	4,382	4,220	5,858	5,009	5,579	7,162	8,252	9,564
Change (%)	12.0	-3.7	38.8	-14.5	11.4	28.4	15.2	15.9
Dividend	3,978	1,400	3,298	2,952	3,889	5,760	6,336	7,488

Balance Sheet								INR m
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Equity Share Capital	180	180	1,440	1,440	1,441	1,440	1,440	1,440
Reserves & Surplus	12,989	16,866	20,525	23,730	30,248	34,415	39,076	44,287
Net Worth	**13,169**	**17,046**	**21,965**	**25,170**	**31,689**	**35,855**	**40,516**	**45,727**
Borrowings	0	0	0	0	0	0	0	0
Other Liabilities	2,551	2,799	2,382	2,711	3,330	3,663	4,029	4,432
Total Liabilities	**15,720**	**19,846**	**24,347**	**27,881**	**35,019**	**39,517**	**44,545**	**50,159**
Cash and Investments	14,038	18,393	22,848	25,896	33,167	37,480	42,304	47,694
Change (%)	5.4	31.0	24.2	13.3	28.1	13.0	12.9	12.7
Loans	**1**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Fixed Assets	872	782	750	723	1,128	1,240	1,364	1,501
Current Assets	808	670	750	1,263	724	797	877	964
Total Assets	**15,720**	**19,846**	**24,347**	**27,881**	**35,019**	**39,517**	**44,545**	**50,159**

Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
AAAUM (INR B)	**2,513**	**2,445**	**2,926**	**2,802**	**3,127**	**3,815**	**4,424**	**5,136**
Change (%)	1.3	-2.7	19.7	-4.2	11.6	22.0	16.0	16.1
Equity (Including Hybrid)	36.5	34.9	39.5	42.1	42.6	46.5	47.3	48.0
Debt	35.0	40.7	32.7	23.0	21.9	19.2	18.6	17.9
Liquid	28.2	23.7	26.4	28.6	26.2	26.2	25.3	24.4
Others	0.4	0.6	1.4	6.3	9.3	8.2	8.9	9.7

Dupont Analysis (Bps of AAAUM)								
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Operating Income	46	44	44	44	43	44	43	42
Operating Expenses	21	19	17	19	19	18	17	16
EBITDA	**25**	**25**	**27**	**25**	**24**	**26**	**26**	**26**
Depreciation and Others	2	2	1	1	1	1	1	1
Core PBT	**23**	**23**	**27**	**24**	**23**	**25**	**25**	**25**
Other Income	3	6	4	5	9	10	8	8
PBT	**26**	**28**	**31**	**28**	**32**	**34**	**33**	**33**
Tax	7	7	8	7	7	8	8	8
ROAAAUM	**20**	**22**	**23**	**21**	**25**	**26**	**25**	**25**

Financials and valuations

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Margins Analysis (%)								
Operating income to total income	93.9	88.6	91.8	90.6	82.5	82.2	83.9	83.8
Cost to Core Income Ratio	**45.9**	**43.7**	**38.6**	**42.5**	**43.8**	**41.2**	**40.0**	**38.8**
EBITDA Margins	54.1	56.3	61.4	57.5	56.2	58.8	60.0	61.2
Core PBT Margins	**50.5**	**52.2**	**60.3**	**54.4**	**53.3**	**56.2**	**57.6**	**58.9**
PBT Margins (On total income)	53.5	57.7	63.5	58.6	61.5	64.0	64.4	65.6
Profitability Ratios (%)								
RoE	39.0	34.8	34.5	25.3	27.4	29.4	28.8	29.4
Dividend Payout Ratio	80.5	26.6	49.0	49.5	49.8	58.0	57.6	59.0

Valuations	2020	2021	2022	2023	2024	2025E	2026E	2027E
BVPS (INR)	46	59	76	87	110	124	141	159
Change (%)	7.9	29.4	28.9	14.6	25.9	13.1	13.0	12.9
Price-BV (x)	**18.6**	**14.3**	**11.1**	**9.7**	**7.7**	**6.8**	**6.0**	**5.3**
EPS (INR)	17.2	18.3	23.4	20.7	27.1	34.5	38.2	44.1
Change (%)	10.7	6.4	27.8	-11.4	30.9	27.2	10.8	15.5
Price-Earnings (x)	**49.4**	**46.4**	**36.3**	**41.0**	**31.3**	**24.6**	**22.2**	**19.2**
Core EPS (INR)	15.2	14.6	20.3	17.4	19.4	24.9	28.6	33.2
Change (%)	12.0	-3.7	38.8	-14.5	11.4	28.4	15.2	15.9
Core Price-Earnings (x)	**55.8**	**57.9**	**41.7**	**48.8**	**43.8**	**34.1**	**29.6**	**25.5**
DPS (INR)	183.3	77.8	11.5	10.3	13.5	20.0	22.0	26.0
Dividend Yield (%)	**21.6**	**9.2**	**1.4**	**1.2**	**1.6**	**2.4**	**2.6**	**3.1**

E: MOFSL Estimates

Cashflow INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Profit after Tax	4,944	5,263	6,728	5,964	7,804	9,926	10,997	12,699
Adjustments	365	374	356	343	346	388	403	419
Change in Working Capital	(336)	387	(497)	(184)	1,157	261	287	315
Cashflow from Operating activities	**4,973**	**6,025**	**6,587**	**6,124**	**9,306**	**10,574**	**11,687**	**13,434**
Change in Fixed Asset	-268	-284	-324	-317	-751	-500	-527	-556
Cashflow from Investing activities	**-268**	**-284**	**-324**	**-317**	**-751**	**-500**	**-527**	**-556**
Change in equity	-3	15	1,489	193	2,605	-1	0	0
Dividend Expense	-3,978	-1,400	-3,298	-2,952	-3,889	-5,760	-6,336	-7,488
Cashflow from Financing activities	**-3,981**	**-1,385**	**-1,809**	**-2,759**	**-1,285**	**-5,761**	**-6,336**	**-7,488**
Net Cashflow	725	4,355	4,454	3,048	7,271	4,314	4,824	5,390
Opening Cash	13,314	14,038	18,393	22,848	25,896	33,167	37,480	42,304
Closing Cash	**14,038**	**18,393**	**22,848**	**25,896**	**33,167**	**37,480**	**42,304**	**47,694**

HDFC AMC

BSE SENSEX	S&P CNX
81,709	24,678

HDFC ASSET MANAGEMENT COMPANY LIMITED

Stock Info

Bloomberg	HDFCAMC IN
Equity Shares (m)	214
M.Cap.(INRb)/(USDb)	931.1 / 11
52-Week Range (INR)	4864 / 2853
1, 6, 12 Rel. Per (%)	-4/8/28
12M Avg Val (INR M)	2102

Financials Snapshot (INR b)

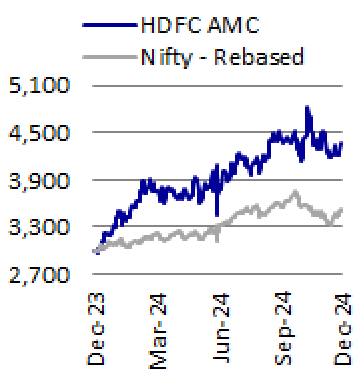
Y/E March	2025E	2026E	2027E
AAUM	7,552	8,790	10,237
MF Yield (bps)	46.2	45.2	44.2
Rev from Ops	35.0	39.8	45.3
Core PAT	20.4	23.9	27.4
PAT	25.4	29.1	33.1
PAT (bps as AAUM)	34	33	32
Core EPS	96	112	128
EPS	119	136	155
EPS Grw. (%)	31	15	14
BVPS	361	395	434
RoE (%)	34	36	37
Div. Payout (%)	75	75	75
Valuations			
Mcap/AUM (%)	12.3	10.6	9.1
P/E (x)	36.7	32.0	28.1
P/BV (x)	12.1	11.0	10.1
Div. Yield (%)	2.0	2.3	2.7

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	52.5	52.5	52.6
DII	16.9	17.7	20.7
FII	21.6	20.6	16.1
Others	9.0	9.2	10.7

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR4,358 TP: INR5,200 (+19%) Buy

Solid distribution franchise; leading the SIP traction

- **HDFCAMC's equity segment (excluding Hybrid) market share has improved to 10.7% in Oct'24 from 8.9% in Apr'22. This growth is attributed to significant improvement in fund performance, as evident from the increase in the number of schemes appearing in the top quartile, based on a three-year return, rising to six in Oct'24 from nil in Apr'22. A top brand with a healthy fund performance will support sustained market share gains.**
- **The share of equity (including hybrid) AUM has increased to 61.8% for HDFCAMC in 2QFY25 from 43.9% in 4QFY20. This has been driven by focused efforts on expanding the SIP business. Specifically, the share of SIP AUM surged to 23.5% of the QAUM in 2QFY25, up from 14.0% in 4QFY21.**
- **The share of HDFCAMC in AUM of HDFC Bank was at 26%, which was much lower than the share of group AMCs in distributed AUM of SBI, Axis, and ICICI Bank. Post the merger of HDFC Bank and HDFC Ltd, HDFCAMC is now the subsidiary of HDFC Bank. There is a conscious effort towards scaling up the business for HDFC AMC at HDFC Bank.**
- **HDFCAMC has built strong teams for investment and marketing of alternate funds (AIFs and PMS) along with investments into tech. In this segment, the company has already launched three PMS strategies and one AIF strategy. Company sees a lot of potential on the private credit side over next few years and is planning to launch a product soon in that segment.**
- **Yields on the equity segment are expected to decline at a relatively moderate pace compared to the past couple of years. The decline in overall yields will be protected by a higher share of equities and there is an expected shift in Debt AUM toward longer duration funds. Currently, the flow yields stood at around ~50-60bp but were lower than the book margins of ~59bp. We expect a yield decline of 1.2bp in FY25 and 1bp each in FY26 and FY27.**
- **We expect HDFC AMC to report FY24-27E AUM/Revenue/Core PAT CAGR of 23%/21%/23%. Assuming a 75% dividend payout ratio, we expect the company to generate INR85.4b in cumulative free cash flow during the same period. The stock trades at FY26E core P/E of 39x. We initiate coverage on the stock with a BUY rating and a one-year TP of INR5,200 (premised on 44x Sep'26 Core P/E).**

Share of equity AUM jumps 16pp to 59.4% in four years; 61.8% in 2QFY25

- HDFC AMC, on a QAUM basis, has experienced a CAGR of 13% over FY20-FY24 to reach a QAUM of INR6.1t. QAUM of INR7.6t was reported in 2QFY25, leading to an overall market share of 11.5% in Sep'24.
- The growth has been mainly driven by the equity segment, which has seen a CAGR of 29% during FY20-24. ETFs/Other funds (mainly index funds) have seen strong 76%/60% CAGR on a low base.
- During the same period, Hybrid/Debt segment has seen a CAGR of 13%/1% respectively whereas liquid segment reported flattish growth. Resultantly, the share of equity, including hybrid, has increased to 61.8% in 2QFY25/59.4% in 4QFY24 from 43.9% in 4QFY20.

Strong fund performance to continue to drive market share gains in equity segment

- HDFC AMC saw its actively managed equity segment market share dwindle to 11.5% in Mar'22 from 14.7% in Mar'20, on the back of weak fund performance, wherein the number of schemes appearing in the top quartile were low.
- However, since Apr'22, there has been a consistent improvement in fund performance and in Oct'24, six schemes appeared in the top quartile based on three-year returns. This has resulted in market share bouncing back to 12.9% in Oct'24 (including hybrid).
- We believe, consistent fund performance will continue to drive market share gains for the HDFC AMC in the equity segment.

SIP traction picking up

- In 2QFY25, HDFC AMC had 11.8m unique investors, representing 24% share in the overall industry. It derives 71% of its AUM from individuals, much higher than the industry average of 62%, and commanding a market share of 13.2% (highest in industry).
- The SIP AUM represents a ~35% share in the actively managed equity-oriented AUM, which is more or less in line with that of the industry.
- This has been driven by its focus on scaling up its systematic transactions (SIP + STP) which stood at INR36.8b in Sep'24, more than 3x of INR10.4b in Mar'21. Resultantly, SIP AUM has surged to ~INR1.79t, contributing to ~24% of the QAUM in 2QFY25, up from 15% in 1QFY22.
- HDFC AMC holds a pole position when it comes to market share in individual investor AUM and second highest in terms of B30 AUM.
- Strong fund performance, new product launches, tie ups with digital distributors and a push across channels will help sustain the momentum in SIPs.

Alternatives to be a key focus area over medium term

- With a view to diversify the revenue mix and to give diverse offerings to the customers, HDFC AMC has laid impetus on growing the alternative assets over the medium term.
- At the end of FY24, HDFC AMC closed its Select AIF FOF with commitments adding up to INR9b, with participation of over 300 investors. To further expand product proposition within AIF, HDFC AMC has hired two senior resources on private credit side (soon be launching products in this segment)
- The investment team overseeing AIFs and PMS is robust, having hired top-tier talent over the past couple of years. As the company plans to expand its strategies in the medium term, it aims to on board additional experts in those areas.

Deep distribution network; HDFC Bank to provide further push

- HDFC AMC has a deep distribution network with 255 branches and 90k+ distribution partners covering 99% pin codes across India. As of Sep'24, MFDs accounted for 28%/35% of total AUM/Equity AUM. For Sep'24, the share of HDFC Bank in the overall mix stood at 6.0%/7.6% in total AUM/Equity AUM vs. 5.6%/9.9% in Mar'20.
- With the merger of HDFC Ltd. and HDFC Bank, HDFC AMC has become a subsidiary of HDFC Bank. This increased involvement indicates a potential scale-up in inflows from the bank. To put things in perspective, out of the total AUM of HDFC Bank, only 26% is from HDFC AMC, as compared to 99%/70%/65% for SBI/ICICI Bank/Axis Bank selling their group AMCs MFs.

- Only a small portion of HDFC Bank customers currently have active SIPs, leaving significant headroom for HDFC AMC's penetration. Furthermore, HDFC Bank's substantial investment in nationwide branch expansion across the country opens up new markets for HDFC AMC over the medium term.

Equity yields to moderate; debt yields to be supportive

- Equity segment yields have been moderating due to the shift from legacy assets to newer assets, a decrease in TER resulting from the increases AUM, and higher commissions with NFOs.
- We note that if the AUM across equity schemes reports a CAGR of 20%, the overall yield on the equity assets could potentially decline by 6-7bps solely due to adjustments in TER slabs.
- Debt segment yields are expected to recover as inflows on longer duration assets increase going ahead.
- The increasing share of equity in the overall AUM, driven by an anticipated higher CAGR of 20% in equity AUM vs overall AUM CAGR of 17%, will help mitigate the potential decline in yields.

Expense ratios to improve with scale benefits

- Over the past three years (FY21-24), HDFC AMC has witnessed a CAGR of 17% in overall expenses, led by 16% CAGR in employee expenses and 24% CAGR in other expenses.
- Strengthening the equity investment team along with building the alternates, passives and digital team have resulted in an increase in employee costs. Additionally, the implementation of an ESOP plan has resulted in incremental expenses.
- On the 'other costs', investments in IT infrastructure, the return of domestic travel post-pandemic, and the launch expenditures of NFOs have been critical factors contributing to the expenses.
- As the new businesses (Alternates & Passives) scale up, we expect scale benefits to translate into higher profitability.

High cash on books, healthy RoEs; deserves premium valuations

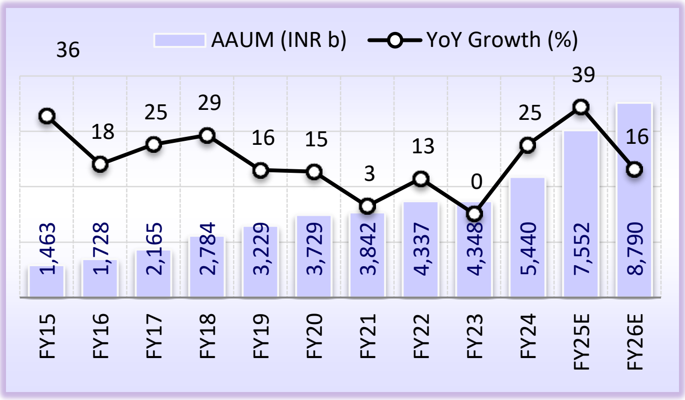
- We expect HDFC AMC to report FY24-27 AUM/Revenue/Core PAT CAGR of 23%/21%/23%. Assuming a 75% dividend payout ratio, we expect the company to generate INR85.4b cumulative free cash flow during the same period.
- As of FY24, the company had cash balances of INR72b, which is 12.5% of today's market capitalization. A yield of 6% can contribute to ~11% of the FY25E PBT.
- The stock trades at FY26E P/E/Core P/E of 32x/39x. With upside from HDFC Bank channel, best-in-class cost management, and improving fund performance, we believe the stock deserves premium valuations. **We initiate coverage with a BUY rating and a one-year TP of INR5,200, premised on 44x P/E on core Sep'26E EPS (36x Sep'26E P/E).**

Key risks

- Currently, we have not accounted for the expected TER adjustment by the regulator. Once the final regulations are clear, we will assess and determine its potential impact.
- Investments in the alternatives business could take time to fructify, given the rising competitive intensity in the segment.
- Due to HDFC Bank's open architecture, the scale up of volumes could take some time and would heavily rely on consistent fund performance for sustained growth.

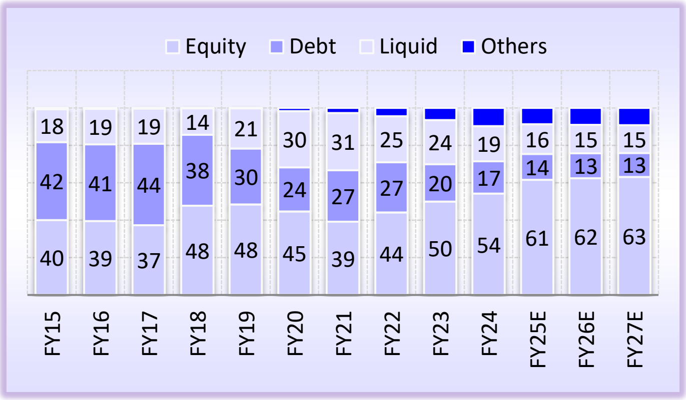
STORY IN CHARTS

Strong AUM growth ahead



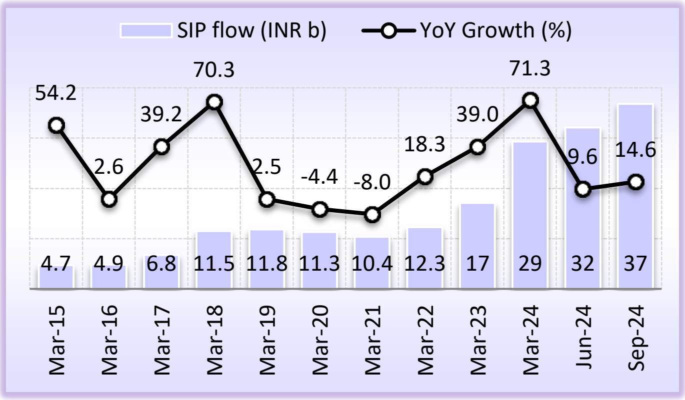
Source: MOFSL, Company

Share of equities will continue to improve



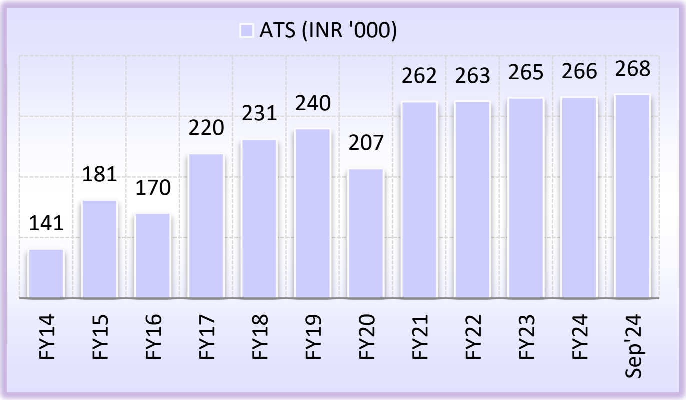
Source: MOFSL, Company

Monthly SIP flows gaining traction



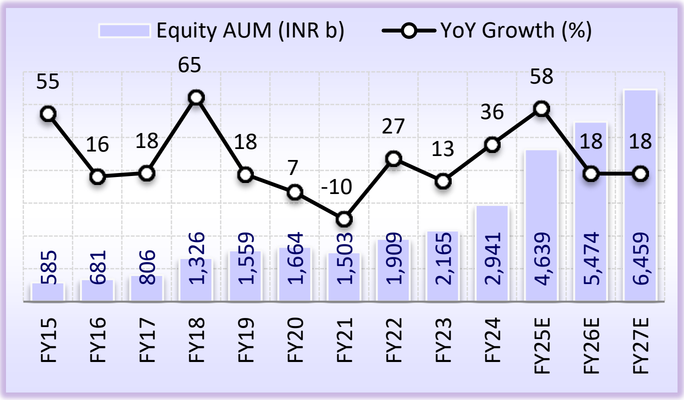
Source: MOFSL, Company

Average ticket size in the individual segment has been on a steady rise



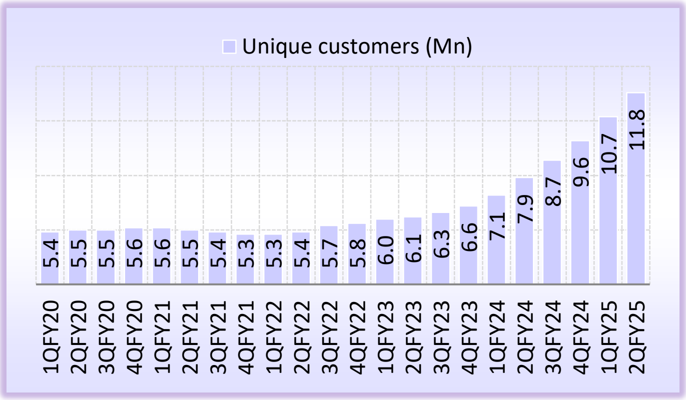
Source: MOFSL, Company

Strong traction in Equity AUM



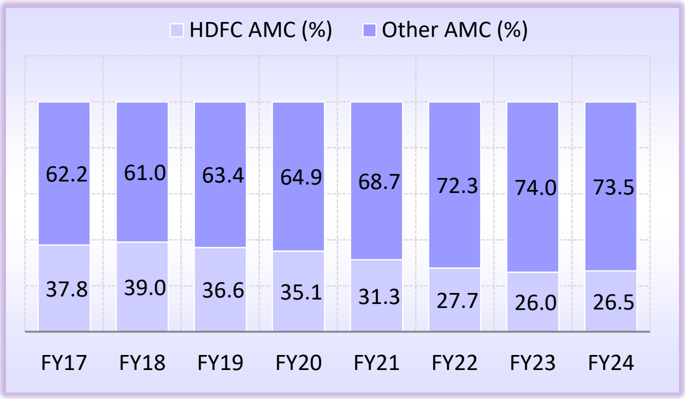
Source: MOFSL, Company

Rising number of unique investors



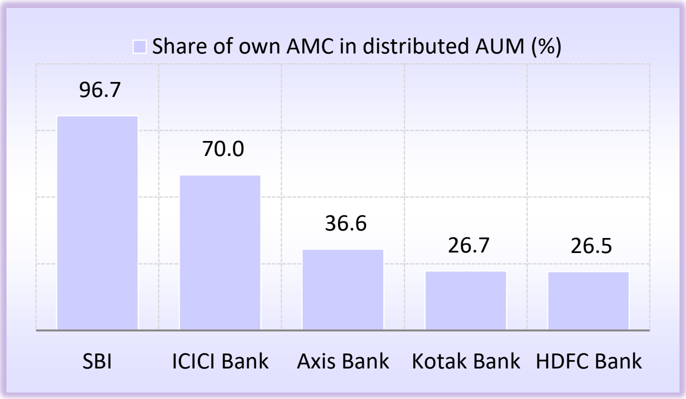
Source: MOFSL, Company

Share of HDFC AMC in HDFC Bank's distributed AUM declining



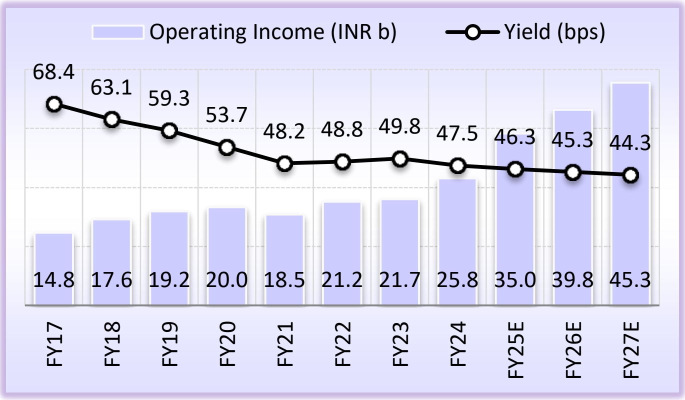
Source: MOFSL, Company

Share of own AMC much lower in HDFC Bank



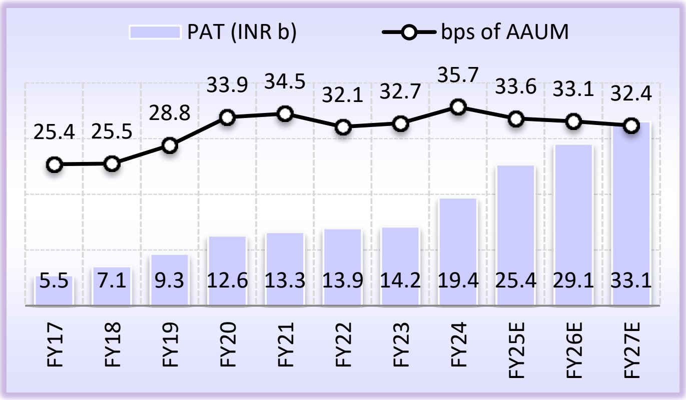
Source: MOFSL, Company

Yield to see steady decline



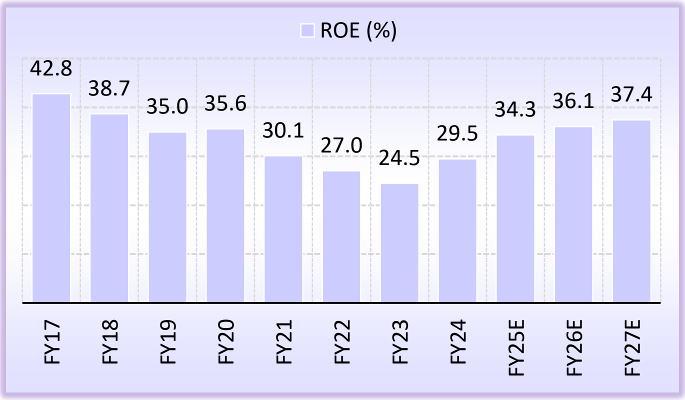
Source: MOFSL, Company

PAT margin to contract due to lower other income



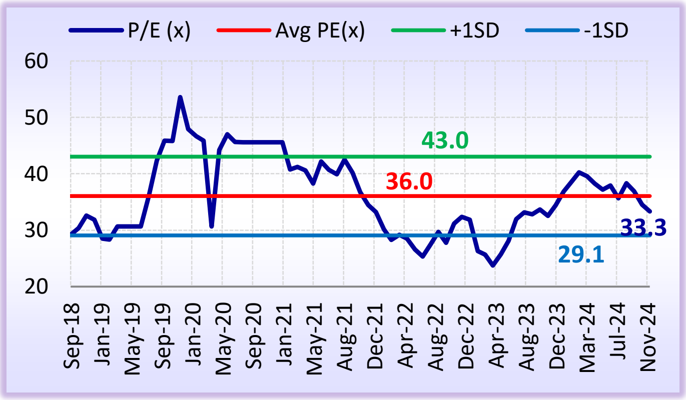
Source: MOFSL, Company

Improving RoE



Source: MOFSL, Company

One-year forward P/E below average levels



Source: MOFSL, Company

SWOT analysis

- Strong brand being a HDFC group company given the pedigree of the group's strong presence across the finance industry
- Sustained strong performance in the equity segment
- Strong resonance with the retail population, leading to sticky SIP assets
- Strong confidence in the brand will favor long-term growth in debt assets

- Late entrant into the passive segment, which is seeing a faster traction in the industry
- Weaker presence in the parent bank than other bank-promoted AMCs

- Increasing financialization of household savings
- Retail investor participation is on the rise, as the perception of Indian equity markets is evolving, with the younger generation believing that equity markets provide an opportunity to earn Alpha.
- Merger of HDFC Ltd and HDFC Bank will lead to more skin in the game

- Technology risk and cyber security attacks
- Unfavorable regulatory interventions and decisions
- Significant increase in competition arising from the rising number of AMCs

Key management personnel

Mr. Navneet Munot (Managing Director & Chief Executive Officer)

He has 29 years of rich experience in Financial Markets. Prior to joining the Company, he was the Executive Director and Chief Investment Officer of SBI Funds Management Pvt. Ltd. where he was a key member of the Executive Committee and was responsible for overseeing investments of over $150 billion across various asset classes in mutual funds and segregated accounts. He is a qualified Chartered Accountant, a CFA and a CAIA Institute(s), has a master's degree in Accountancy and Business Statistics and holds a Financial Risk Management (FRM) certification.

Naozad Sirwalla (Chief Financial officer)

He has a notable experience in the financial services industry spread across banking, NBFC, Consulting domestic and cross border AIF. He is a Chartered Accountant and Company Secretary by profession. Before this he was associated with Lupa Systems Investment Advisors as the CFO, has also worked with PWC in Corporate Finance and Kotak Mahindra Bank

Naveen Gogia (Co-Head – Sales & Distribution, International Business and Public Relations)

He has done MBA from Nottingham Trent University and advanced management program from Harvard Business School. He has served for almost 22 years in HDFC AMC before which he worked with Birla Sun Life Distribution Company, Sony Entertainment and Ammirati Puris Lintas.

Simal Kanuga (Head – PMS Sales and International Business and Chief Investor Relations Officer)

He is a Chartered Accountant and a CMA by profession. He has been associated with HDFC AMC for almost 20 years before which he worked with Citibank in the Wealth Management space, in Zurich AMC and ITC Treadneedle AMC.

Sameer Seksaria (Head – Corporate Client Services)

He is a CFA and holds a PGDM degree from IIM Bangalore. He has also done B Tech, Chemical engineering from Jadavpur University. Before joining HDFC AMC he worked with Franklin Templeton AMC, Aditya Birla Management Corporation, Reliance Nippon Life Insurance and PNB MetLife India Insurance Co. Ltd.

Chirag Setalvad (Head – Equities)

He collectively has over 24 years of experience, of which 20 years have been in fund management and equity research and four in investment banking. He has been associated with HDFC AMC for over 15 years. Before this, he was associated with New Vernon Advisory Services Pvt. Ltd ,ING Barings N.V. He has completed his B.Sc. in business administration from the University of North Carolina, Chapel Hill.

Bull and Bear cases

Bull case

- ☑ In our bull case, we factor in higher AUM growth of 30% vs. 23% in the base case and a yield decline of 1.5bp as compared to 3.2bp in the base case.
- ☑ Given operating leverage in the business, we expect a 31% EBITDA CAGR over FY24-FY27 as compared to 23% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 27% over FY24-27 vs. 19% in the base case.
- ☑ Our Bull case TP of INR7,352 is based on 52x Sep'26E Core P/E.

Bear case

- ☑ In our bear case, we factor in lower AUM growth of 16% vs 23% in the base case and a yield decline of 4.5bp as compared to 3.2bp in the base case.
- ☑ Given operating leverage in the business, we expect an 11% EBITDA CAGR over FY24-27 as compared to 23% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 9% over FY24-27 vs. 19% in the base case.
- ☑ Our Bear case TP of INR3,649 is based on 40x Sep'26E Core P/E.

Scenario analysis - Bull Case

INR b	FY25E	FY26E	FY27E
AUM	7,725	9,579	11,878
Growth (%)	42.0	24.0	24.0
Net revenues	36.3	44.5	54.6
Net Yields (Bps)	47.0	46.5	46.0
Cost to Income (%)	20.6	19.9	19.2
Core Operating Profits	28.8	35.7	44.1
PBT	35.3	42.5	51.6
PAT	26.8	32.7	39.7
Growth (%)	37.7	22.2	21.5
PAT margin (bp of AUM)	35	34	33
EPS (INR)	125.3	153.2	186.1
Core EPS (INR)	99.9	126.2	156.6
Target Core P/E multiple (Sep'26)			**52**
Target price (INR)			**7,352**
Upside (%)			**68.4**

Source: Company, MOFSL

Scenario analysis – Bear Case

INR b	FY25E	FY26E	FY27E
AUM	6,800	7,616	8,530
Growth (%)	25.0	12.0	12.0
Net revenues	31.3	33.9	36.7
Net Yields (Bps)	46	45	43
Cost to Income (%)	25.1	25.9	26.8
Core Operating Profits	23.4	25.1	26.9
PBT	28.7	30.6	32.8
PAT	21.7	23.5	25.3
Growth (%)	11.7	8.5	7.4
PAT margin (bp of AUM)	31.9	30.9	29.6
EPS (INR)	101.6	110.2	118.4
Core EPS (INR)	80.8	88.1	94.3
Target Core P/E multiple (Sep'26)			**40**
Target price (INR)			**3,649**
Upside (%)			**(16.4)**

Source: Company, MOFSL

Financials and valuations

Income Statement

INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Investment management fees	20,033	18,525	21,154	21,668	25,844	34,958	39,807	45,335
Change (%)	4.6	-7.5	14.2	2.4	19.3	35.3	13.9	13.9
Operating Expenses	4,310	3,884	5,154	5,489	6,270	7,310	8,125	9,039
Core Operating Profits	**15,722**	**14,641**	**15,999**	**16,179**	**19,574**	**27,648**	**31,683**	**36,296**
Change (%)	26.2	-6.9	9.3	1.1	21.0	41.2	14.6	14.6
Dep/Interest/Provisions	594	644	625	630	614	643	677	711
Core PBT	**15,129**	**13,997**	**15,375**	**15,549**	**18,960**	**27,006**	**31,006**	**35,585**
Change (%)	26.8	-7.5	9.8	1.1	21.9	42.4	14.8	14.8
Other Income	1,402	3,492	3,178	3,158	5,790	6,517	6,805	7,443
PBT	**16,531**	**17,490**	**18,553**	**18,706**	**24,750**	**33,523**	**37,811**	**43,028**
Change (%)	20.2	5.8	6.1	0.8	32.3	35.4	12.8	13.8
Tax	3,906	4,232	4,622	4,467	5,323	8,146	8,697	9,896
Tax Rate (%)	23.6	24.2	24.9	23.9	21.5	24.3	23.0	23.0
PAT	**12,624**	**13,258**	**13,931**	**14,239**	**19,427**	**25,377**	**29,115**	**33,131**
Change (%)	35.7	5.0	5.1	2.2	36.4	30.6	14.7	13.8
Core PAT	11,554	10,610	11,545	11,836	14,882	20,443	23,875	27,400
Change (%)	43.1	-8.2	8.8	2.5	25.7	37.4	16.8	14.8
Dividend	7,183	7,241	8,954	10,244	14,944	19,033	21,836	24,848

Balance Sheet

INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Equity Share Capital	1,064	1,065	1,066	1,067	1,067	1,067	1,067	1,067
Reserves & Surplus	39,229	46,697	54,235	60,017	69,683	76,027	83,306	91,588
Net Worth	**40,293**	**47,762**	**55,301**	**61,084**	**70,750**	**77,094**	**84,373**	**92,656**
Borrowings	0	0	0	0	0	0	0	0
Other Liabilities	2,793	3,185	3,503	4,281	4,788	3,924	4,159	4,412
Total Liabilities	**43,086**	**50,947**	**58,804**	**65,365**	**75,539**	**81,018**	**88,532**	**97,068**
Cash and Investments	39,716	47,556	55,783	60,832	71,961	76,890	84,022	92,141
Change (%)	33.9	19.7	17.3	9.1	18.3	6.8	9.3	9.7
Loans	**217**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Fixed Assets	1,567	1,532	1,351	1,505	1,526	1,626	1,726	1,826
Current Assets	1,586	1,859	1,670	3,029	2,052	2,503	2,784	3,100
Total Assets	**43,086**	**50,947**	**58,804**	**65,365**	**75,539**	**81,018**	**88,532**	**97,068**

E: MOFSL Estimates

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
AAAUM (INR B)	**3,729**	**3,842**	**4,337**	**4,348**	**5,440**	**7,552**	**8,790**	**10,237**
Change (%)	15.5	3.0	12.9	0.2	25.1	38.8	16.4	16.5
Equity (Including Hybrid)	44.6	39.1	44.0	49.8	54.1	61.4	62.3	63.1
Debt	23.6	27.4	26.9	20.0	17.3	13.9	13.3	12.8
Liquid	30.0	30.6	24.7	23.7	18.8	15.9	15.3	14.8
Others	1.7	2.9	4.5	6.5	9.8	8.8	9.1	9.3

E: MOFSL Estimates

Dupont Analysis (Bps of AAAUM)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Income	54	48	49	50	48	46	45	44
Operating Expenses	12	10	12	13	12	10	9	9
EBITDA	**42**	**38**	**37**	**37**	**36**	**37**	**36**	**35**
Depreciation and Others	2	2	1	1	1	1	1	1
Core PBT	**41**	**36**	**35**	**36**	**35**	**36**	**35**	**35**
Other Income	4	9	7	7	11	9	8	7
PBT	**44**	**46**	**43**	**43**	**45**	**44**	**43**	**42**
Tax	10	11	11	10	10	11	10	10
ROAAAUM	**34**	**35**	**32**	**33**	**36**	**34**	**33**	**32**

Financials and valuations

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Margins Analysis (%)								
Operating income to total income	93.5	84.1	86.9	87.3	81.7	84.3	85.4	85.9
Cost to Core Income Ratio	**21.5**	**21.0**	**24.4**	**25.3**	**24.3**	**20.9**	**20.4**	**19.9**
EBITDA Margins	78.5	79.0	75.6	74.7	75.7	79.1	79.6	80.1
Core PBT Margins	**75.5**	**75.6**	**72.7**	**71.8**	**73.4**	**77.3**	**77.9**	**78.5**
PBT Margins (On total income)	77.1	79.4	76.2	75.4	78.2	80.8	81.1	81.5
Profitability Ratios (%)								
RoE	35.6	30.1	27.0	24.5	29.5	34.3	36.1	37.4
Dividend Payout Ratio	47.2	54.6	64.3	71.9	76.9	75.0	75.0	75.0

Valuations	2020	2021	2022	2023	2024	2025E	2026E	2027E
BVPS (INR)	189	224	259	286	331	361	395	434
Change (%)	31.2	18.5	15.8	10.5	15.8	9.0	9.4	9.8
Price-BV (x)	**23.1**	**19.5**	**16.9**	**15.3**	**13.2**	**12.1**	**11.0**	**10.1**
EPS (INR)	59.1	62.1	65.3	66.7	91.0	118.9	136.4	155.2
Change (%)	35.7	5.0	5.1	2.2	36.4	30.6	14.7	13.8
Price-Earnings (x)	**73.8**	**70.3**	**66.9**	**65.4**	**48.0**	**36.7**	**32.0**	**28.1**
Core EPS (INR)	54.1	49.7	54.1	55.4	69.7	95.8	111.8	128.4
Change (%)	43.1	-8.2	8.8	2.5	25.7	37.4	16.8	14.8
Core Price-Earnings (x)	**80.7**	**87.8**	**80.7**	**78.7**	**62.6**	**45.6**	**39.0**	**34.0**
DPS (INR)	28.0	34.0	42.0	48.0	70.0	89.2	102.3	116.4
Dividend Yield (%)	**0.6**	**0.8**	**1.0**	**1.1**	**1.6**	**2.0**	**2.3**	**2.7**

E: MOFSL Estimates

Cash Flow Statement

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Cashflow from operations	13,928	13,834	14,436	14,211	21,540	24,456	29,473	33,482
PBT	16,531	17,490	18,553	18,706	24,750	33,523	37,811	43,028
Depreciation and amortization	504	554	539	533	523	551	585	619
Tax Paid	-3,906	-4,232	-4,622	-4,467	-5,323	-8,146	-8,697	-9,896
Deferred tax	-28	321	432	254	148	-1,156	0	0
Interest, dividend income (post-tax)	-915	-243	-234	-220	0	-271	-295	-322
Interest expense (post-tax)	89	89	86	96	90	91	91	91
Working capital	1,655	-145	-317	-692	1,351	-136	-23	-38
Cash from investments	0	0	0	0	0	0	0	0
Capex	-1,688	-485	-350	-704	-532	-651	-685	-719
Interest, dividend income (post-tax)	915	243	234	220	0	271	295	322
Others	-10,076	-7,962	-7,786	-5,215	-10,797	-5,023	-7,024	-8,025
Cash from financing	0	0	0	0	0	0	0	0
Equity	0	0	0	1	0	0	0	0
Debt	0	0	0	0	0	0	0	0
Interest costs	-89	-89	-86	-96	-90	-91	-91	-91
Dividends Paid	-7,183	-7,241	-8,954	-10,244	-14,944	-19,033	-21,836	-24,848
Others	4,144	1,452	2,562	1,788	5,183	0	0	0
Change of cash	-49	-247	57	-39	360	-71	132	120
Cash start	320	271	23	81	40	400	329	461
Cash end	271	23	81	40	400	329	461	581
FCFF	12,240	13,349	14,086	13,507	21,007	23,805	28,788	32,762

Nippon India AMC

BSE SENSEX	S&P CNX
81,709	24,678

Nippon india Mutual Fund
Wealth sets you free

Stock Info

Bloomberg	NAM IN
Equity Shares (m)	633
M.Cap.(INRb)/(USDb)	455.4 / 5.4
52-Week Range (INR)	749 / 430
1, 6, 12 Rel. Per (%)	-3/9/41
12M Avg Val (INR M)	676

Financials Snapshot (INR b)

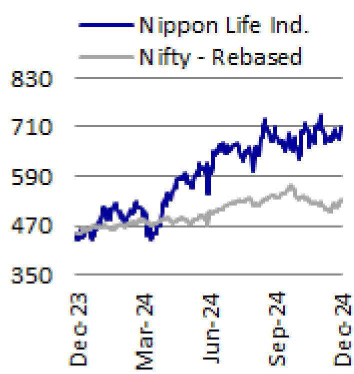
Y/E March	2025E	2026E	2027E
AAUM (INRb)	5,432	6,462	7,697
MF Yield (bps)	41.0	40.0	39.0
Rev from Ops	22.6	26.2	30.5
Core PAT	10.9	13.6	16.5
PAT	14.3	16.7	19.6
PAT margin(bp)	26	26	26
Core EPS	17.2	21.7	26.2
EPS	22.7	26.6	31.2
EPS Grw. (%)	29	17	17
BVPS	64	66	67
RoE (%)	36	41	47
Div. Payout (%)	95	95	95
Valuations			
Mcap/AUM (%)	8.1	6.8	5.8
P/E (x)	31.7	27.0	23.0
P/BV (x)	11.2	10.9	10.7
Div. Yield (%)	3.0	3.5	4.1

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	72.5	72.7	73.5
DII	13.5	14.3	14.6
FII	7.7	6.6	5.1
Others	6.3	6.4	6.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR719 TP: INR900 (+25%) BUY

Equity market share improving; best play on passives

- **NAM has experienced strong market share gains in the equity segment (ex-Hybrid) to 7.6% in Oct'24 from 7% in Apr'22. This growth is driven by a recent improvement in fund performance, evident from the increase in the number of schemes appearing in the top quartile, based on a three-year return, from two in Apr'21 to five in Oct'24. Sustenance of fund performance will ensure continued market share gains in the equity segment.**
- **The share of equity (including hybrid) AUM has increased to 49.2% for NAM in 2QFY25 from 41.6% in 4QFY20. The improvement was led by rise in unique investors' customer base, a deep engagement with MFDs (107k+), and focused approach toward building the B30 base.**
- **In terms of SIP flows, the company has quadrupled its monthly run-rate to INR30.1b in 2QFY25 from INR7.6b in 1QFY23.**
- **NAM has a large bouquet of schemes in terms of passive segments and is the largest player in the non-EPFO segment for the industry with a market share of 18%. While the passive segment is margin dilutive, incremental AUM brings incremental profit, which bodes well for NAM.**
- **Over the medium term, NAM plans to bring in large offshore funds with the help of its parent company. For this, multiple possibilities exist 1) bringing more funds into Indian schemes, 2) launching special funds in Gift City, and 3) launching funds in specific international geographies. Japan continues to remain their focus area. The overall offshore AUM grew ~52% in FY24 and expected to ramp up faster in the coming 2-3 years.**
- **Yields on the equity segment are expected to decline at a relatively moderate pace compared to the past couple of years. The decline in overall yields will be protected by a higher share of equities and mix in Debt AUM likely to move towards longer duration funds. We expect a yield decline of 2.5bp in FY25 and 1bp each in FY26 and FY27.**
- **We expect NAM to report FY24-27E AUM/Revenue/Core PAT CAGR of 28%/23%/28%. Assuming 95% dividend payout ratio, we expect the company to generate INR52.3b cumulative operating free cash flow during the same period. The stock trades at FY26E P/E/ core P/E of 27x/ 33x. Initiate coverage on the stock with a BUY rating and a one-year TP of INR900 based on Sep'26E Core P/E of 38x.**

Share of ETF AUM surges 10pp to 27% over the past 12 quarters

- Nippon AMC, on a QAUM basis, has reported a CAGR of 24% over 4QFY20-2QFY25 to reach a QAUM of INR5.5t.
- The growth has been mainly driven by the equity segment which has seen a CAGR of 34% during the same period. ETFs/Other funds (mainly index funds) have seen a strong 43%/60% CAGR. This is in spite of the fact that NAM is the largest ETF player in the non-EPFO segment.
- During the same period Hybrid/Liquid segments have witnessed a CAGR of 10% each whereas debt segment was flat. Resultantly, the share of equity, including hybrid, has increased to 49.2% in 2QFY25, up from 41.6% in 4QFY20. The share of ETFs has surged to 27% in 2QFY25 from 14.4% in 4QFY20.

Rising unique investor count translating into strong SIP flows

- In 2QFY25, NAM had 18.9m unique investors, capturing 37.7% share in the overall industry. It derives 61% of its AUM from individual investors vs. the industry average of 62%
- The company has set up a Rural and Emerging Markets Group (REMG) and Retail Business Development (RBD) divisions to improve focus on granular addition in AUM through SIPs from lower-tier towns. These initiatives have resulted in NAM generating monthly SIPs of INR30.1b in Sep'24. In 2QFY25, NAM's SIP AUM contributed 58% of its total equity AUM, including Hybrid, surpassing the industry average of 29%.
- NAM has a 14-15-member team working for its own digital assets along with increasing association with fintech partners such as Groww and Paytm Money. This, along with sustained fund performance, can translate into further strength in the equity segment's market share.

Rebuilding the debt franchise

- NAM has seen its debt segment market share drop to 6.6% in Jan'23 from 13% in Apr'17. The fall was attributed to challenges associated with the former promoter group.
- However, under the aegis of Nippon Life Insurance, NAM implemented several confidence building measures including 1) restricting credit risks to specific debt funds with similar objectives and 2) avoiding investments in below AA category papers in other funds.
- While these measures added to the confidence, NAM faced challenges as the returns were lower than funds taking a relatively higher credit risks, leading to a continuous loss in market share. However, the same has rebounded, with the market share now standing at 8.6% as of Oct'24.

A leader in the non-EPFO ETF segment

- The share of ETFs in overall industry AUM has increased to 12.3% in Sep'24 from 6% in Mar'15. Of the INR8.1t AUM in ETFs, the majority is from the corporate segment, with a significant portion attributed to EPFO investments in ETFs.
- NAM has a large suite of 24 ETF products and is a leader in the non-EPFO segment, commanding a 56% volume market share on the NSE and BSE. Additionally, in terms of folios, it has a 57% market share.
- We believe that passive AUM will continue to outpace active AUM, but not by a huge gap. Despite the significantly lower yields on ETFs compared to overall yields, the incremental AUM still contributes to profits.

Global funds into India; NAM well placed to capture the same

- NAM will continue to focus on fundraising from international markets, exploring business opportunities with subsidiaries, associates, and leveraging the large network of Nippon Life Japan, which remains committed in supporting NAM India's offshore business.
- NAM has launched a bond fund in Europe and also has a couple of funds in Japan. Such funds can be used to attract flows into India.

- Nippon Life's support will help in forming a comprehensive global distribution strategy to facilitate the flow from various companies in which it holds investments or possesses strong relationships.

Yields to see moderate declines from current levels

- NAM has seen increased inflows into the equity schemes which has led to AUMs of schemes crossing thresholds of TER slabs causing the cuts in TERs. However, this was offset by the mix wherein the share of equity has increased, resulting in flattish yields.
- Going ahead, equity yields are expected to decline albeit at a much lower pace, considering a bulk of transition from legacy to new assets has been completed.
- Debt yields, on the other hand, are likely to inch up as cut in interest rates would drive flows toward longer term funds, fetching better yields. Further support would come from higher share of equities.

Investing into marketing, IT, and outsourcing on tap basis

- NAM has been investing on marketing initiatives to enhance its brand presence and capture mind share of customers.
- Furthermore, it is investing in terms of IT and digital infrastructure wherein it's building a data lake for enhanced use of artificial intelligence.
- Additionally, the company is looking at certain processes, which can be outsourced in order to bring in efficiencies.
- All these expenses are on tap basis and can be cut down in case of a weak business environment.

Sustained high dividend payouts; Reasonable valuations

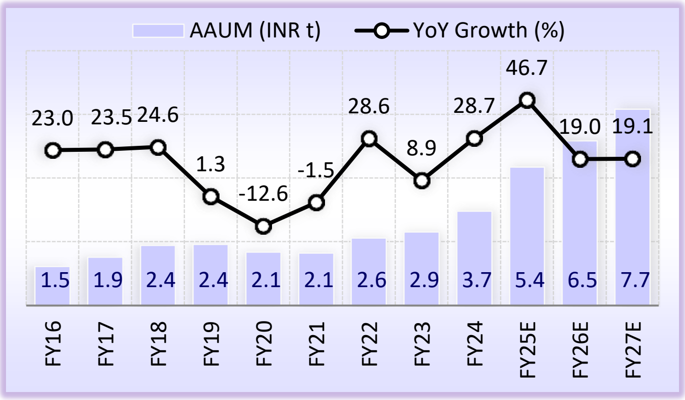
- We expect NAM to report FY24-27E AUM/Revenue/Core PAT CAGR of 28%/ 23%/28%. Assuming a 95% dividend payout ratio, we expect the company to generate INR52.3b cumulative operating free cash flow during the same period.
- As of Mar'24, the company had cash balances of INR38.4b, which is 9.1% of today's market capitalization. A yield of 6% can contribute to ~12% of FY25 PBT.
- The stock trades at FY26E P/E/Core P/E of 27x/33x. With continued strong fund performance and upside from international flows, we believe the stock deserves re-rating toward the most premium franchise. **We initiate coverage on the stock with a BUY rating and a one-year TP of INR900, premised on 38x P/E on core Sep'26E EPS.**

Key risks

- Currently, we have not accounted for the implications of an expected TER adjustment by the regulator. Once the final regulations are clear, we will assess and determine its potential impact.
- The passive segment, where Nippon holds a leading position, has seen increased attention from competition, which could potentially lead to a decline in its market share.

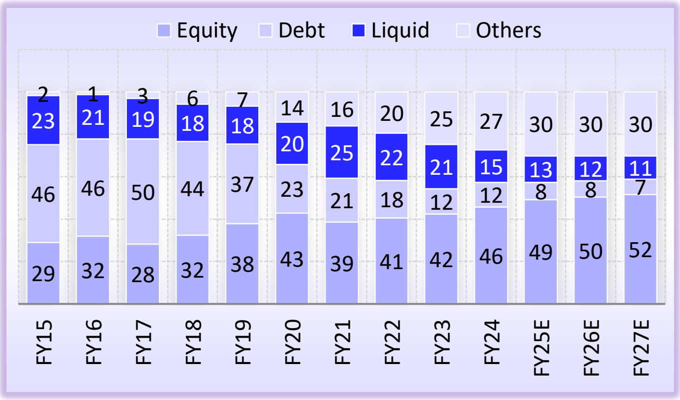
STORY IN CHARTS

Strong AUM growth ahead



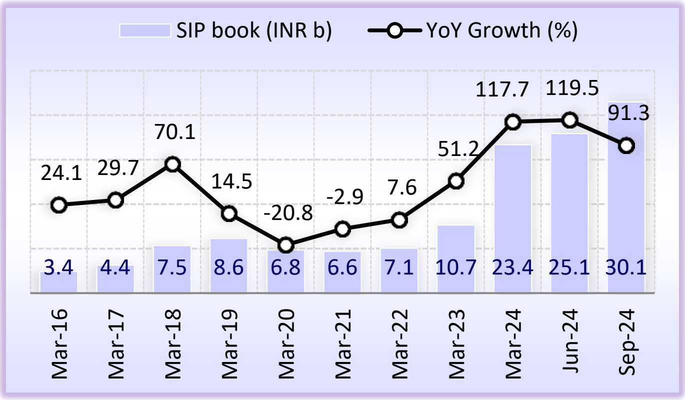
Source: MOFSL, Company

Share of equities and passives will continue to improve



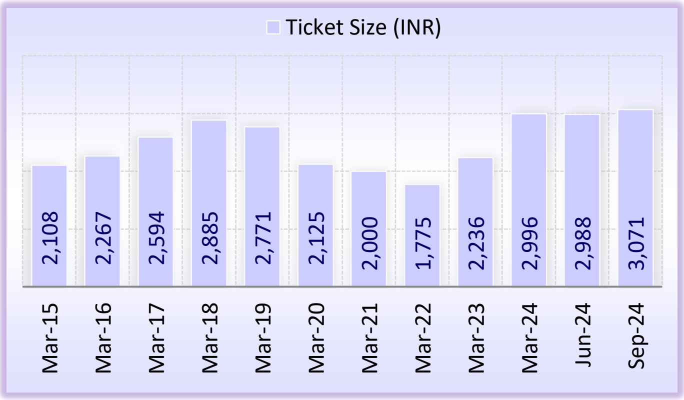
Source: MOFSL, Company

Strong momentum in SIP



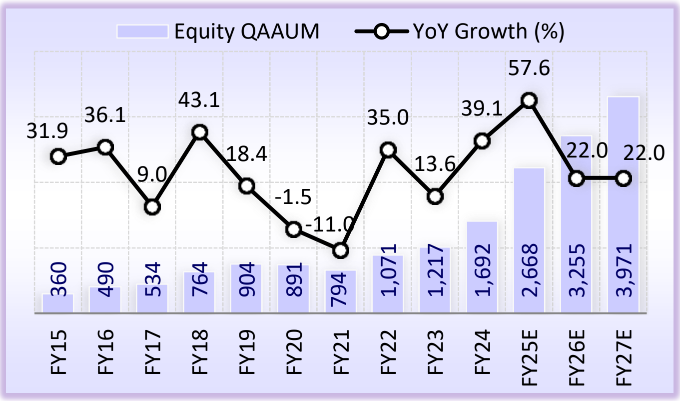
Source: MOFSL, Company

Average SIP ticket size picking up



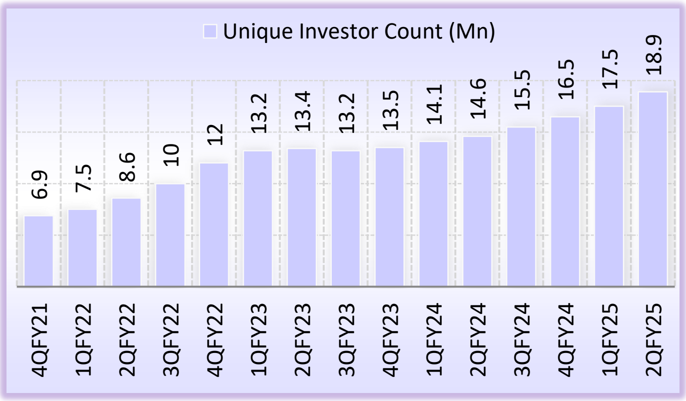
Source: MOFSL, Company

Strong traction in Equity AUM



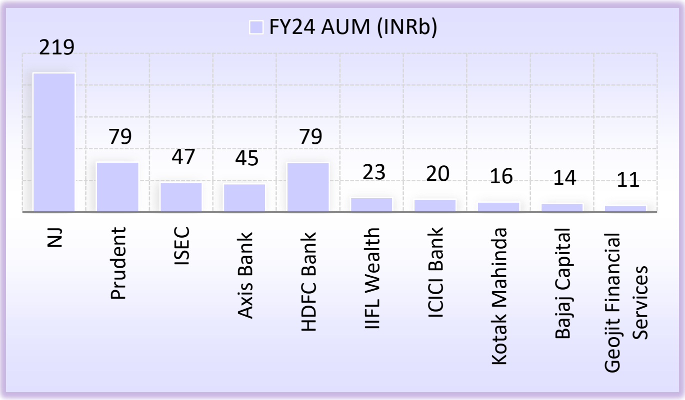
Source: MOFSL, Company

Rising number of unique investors



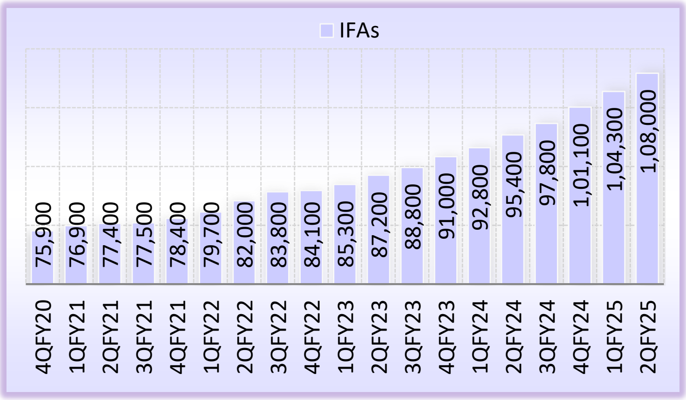
Source: MOFSL, Company

NJ and Prudent are among the large distributors



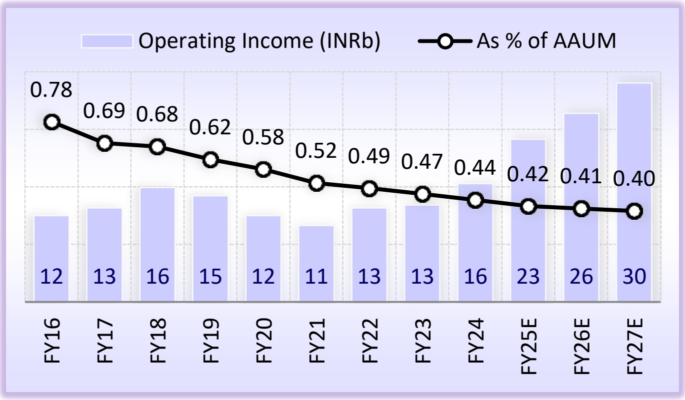
Source: MOFSL, Company

IFAs expanding gradually; contributing 55%+ to distribution



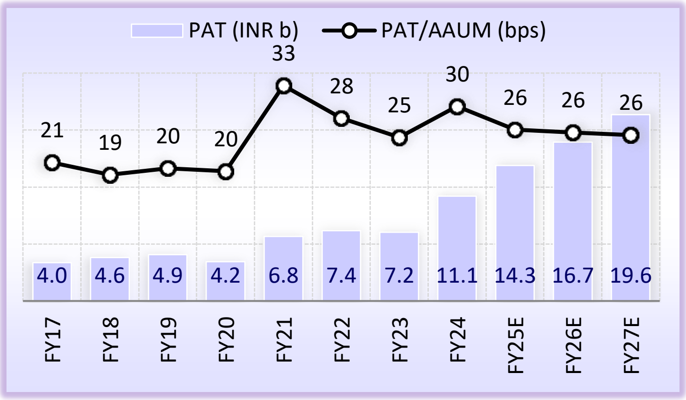
Source: MOFSL, Company

Yield to witness a steady decline



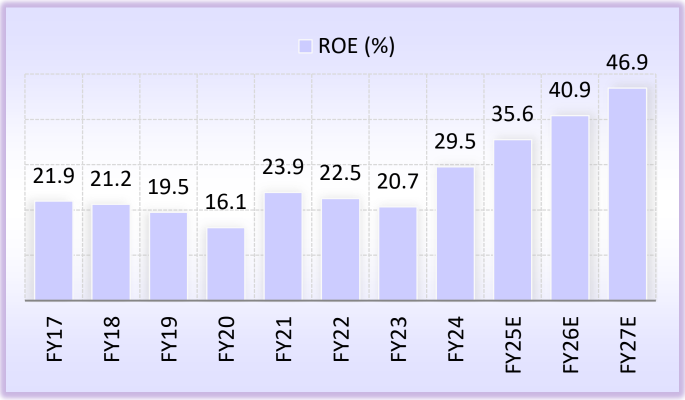
Source: MOFSL, Company

PAT margin to contract due to lower other income



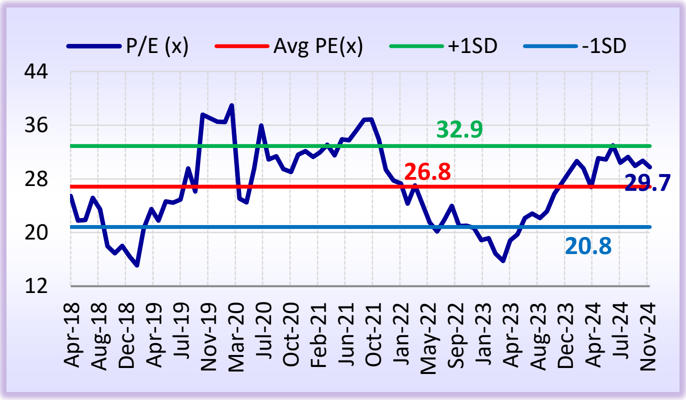
Source: MOFSL, Company

Improving RoE



Source: MOFSL, Company

One-year forward P/E above average levels



Source: MOFSL, Company

SWOT analysis

Strength
- Rebuilding the brand under the new management having a strong global presence
- Sustained strong performance in the equity segment
- Leading player in the passive segment where growth is expected to be higher than the other segments
- Changed investment processes to enhance confidence in the debt segment

Weakness
- Being a non-bank promoted AMC, efforts to grow in the banking channel is relatively higher
- Higher share of passives in the overall AUM is margin dilutive

Opportunity
- Increasing financialization of household savings
- Retail investor participation is on the rise, as the perception of Indian equity markets is evolving, with the younger generation believing that equity markets provide an opportunity to earn Alpha.
- Offshore money can be sourced through the parent entity

Threats
- Technology risk and cyber security attacks
- Unfavorable regulatory interventions and decisions
- Significant increase in competition arising from rising number of AMCs.

Key management personnel

Mr. Sundeep Sikka (Executive Director & CEO)

He has held both Vice Chairman and Chairman positions of the industrial body (AMFI). Sundeep joined NAM India in 2003, holding various leadership positions before being elevated in 2009 when he became one of the youngest CEOs in India. Sundeep then went on to lead NAM India towards tremendous growth of assets and to emerge as one of the most trusted mutual fund houses in India. He has grown the company to an all- round brand that five times won 'Kincentric Best Employer' in the last seven years and is included in Kincentric Best Employers Club - 2023.

Mr. Shailesh Raj Bhan (CIO-Equity)

Mr. Shailesh Raj Bhan is CIO - Equity Investments at Nippon India Mutual Fund. He has over 27 years of experience in Indian Equity Markets with over 19 years at Nippon Life India Asset Management Limited. He has been managing multiple flagship funds namely, Nippon India Large Cap Fund, Nippon India Multi Cap Fund & Nippon India Pharma Fund for over 15 years.

Mr. Amit Tripathi (CIO- Fixed Income)

Mr Amit Tripathi has 25 years of experience in Capital Markets. He has been with NIMF for around 20 years. He has successfully managed various fixed income and hybrid funds which have been recognized for superior performance both nationally and internationally. In his current role as CIO- Fixed Income, he leads a team of 20 highly motivated and experienced fixed income professionals.

Mr. Parag Joglekar (CFO)

Parag has total 25 years of rich experience, and he comes with multiple functional-level expertises in operational, regulatory, and compliance fields. With over two decades of experience, Parag is recognized for his deep functional excellence. He is a Chartered & Cost Accountant and a rank holder in Costing. Prior to joining Nippon Life India Asset Management, he has worked with Aditya Birla Sun Life AMC Limited, Strategic Capital Corporation Limited & Air Freight.

Bull and Bear cases

Bull case

- ☑ In our bull case, we factor in higher AUM CAGR of 33% vs. 28% in the base case and a yield decline of 3.2bp as compared to 4.8bp in the base case.
- ☑ Given operating leverage in the business, we expect a 37% EBITDA CAGR as compared to 29% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 30% over FY24-27 vs 21% in the base case.

Bear case

- ☑ In our bear case, we factor in lower AUM growth of 22% vs. 28% in the base case and a yield decline of 4.9bp as compared to 4.8bp in the base case.
- ☑ Given operating leverage in the business, we expect a 18% EBITDA CAGR as compared to 29% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 9% over FY24-27 vs. 21% in the base case.

Scenario analysis - Bull Case

INR b	FY25E	FY26E	FY27E
AUM	5,627	7,034	8,792
Growth (%)	52.0	25.0	25.0
Net revenues	24.3	29.6	36.2
Net Yields (Bps)	43.2	42.1	41.2
Cost to Income (%)	34.8	31.9	29.2
Core Operating Profits	15.8	20.2	25.6
PBT	20.8	26.2	32.6
PAT	15.6	19.6	24.5
Growth (%)	41.1	25.6	24.7
PAT margin (bp of AUM)	27.8	27.9	27.8
EPS (INR)	24.8	30.0	35.7
Core EPS (INR)	22.8	27.7	33.2
Target Core P/E multiple			**42**
Target price (INR)			**1,278**
Upside (%)			**78.0**

Scenario analysis – Bear Case

INR b	FY25E	FY26E	FY27E
AUM	5,109	5,875	6,756
Growth (%)	38.0	15.0	15.0
Net revenues	21.3	23.8	26.7
Net Yields (Bps)	41.8	40.5	39.5
Cost to Income (%)	37.0	38.0	39.0
Core Operating Profits	13.4	14.8	16.3
PBT	16.9	17.8	19.3
PAT	12.7	13.3	14.5
Growth (%)	14.7	4.8	8.6
PAT margin (bp of AUM)	24.9	22.7	21.4
EPS (INR)	20.2	21.1	23.0
Core EPS (INR)	18.8	19.9	21.8
Target Core P/E multiple			**30**
Target price (INR)			**626**
Upside (%)			**(12.9)**

Financials and valuations

Income Statement — INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Investment management fees	12,030	10,621	13,066	13,498	16,432	22,631	26,245	30,452
Change (%)	(18.6)	(11.7)	23.0	3.3	21.7	37.7	16.0	16.0
Operating Expenses	5,945	5,046	5,159	5,551	6,495	7,884	8,363	8,904
Core Operating Profits	**6,085**	**5,575**	**7,907**	**7,947**	**9,937**	**14,746**	**17,882**	**21,549**
Change (%)	12.9	-8.4	41.8	0.5	25.0	48.4	21.3	20.5
Dep/Interest/Provisions	389	377	310	338	354	372	388	405
Core PBT	**5,696**	**5,198**	**7,597**	**7,609**	**9,584**	**14,375**	**17,493**	**21,144**
Change (%)	7.7	-8.7	46.1	0.2	25.9	50.0	21.7	20.9
Other Income	-98	3,572	2,290	1,668	3,941	4,550	3,964	4,025
PBT	**5,598**	**8,770**	**9,887**	**9,277**	**13,525**	**18,925**	**21,457**	**25,169**
Change (%)	-20.1	56.7	12.7	-6.2	45.8	39.9	13.4	17.3
Tax	1,441	1,976	2,472	2,048	2,462	4,637	4,721	5,537
Tax Rate (%)	25.7	22.5	25.0	22.1	18.2	24.5	22.0	22.0
PAT	**4,158**	**6,794**	**7,415**	**7,229**	**11,063**	**14,288**	**16,737**	**19,632**
Change (%)	-14.6	63.4	9.1	-2.5	53.0	29.2	17.1	17.3
Core PAT	4,230	4,027	5,698	5,929	7,839	10,853	13,645	16,492
Change (%)	15.0	-4.8	41.5	4.1	32.2	38.4	25.7	20.9
Proposed Dividend	3,061	4,932	6,839	7,167	10,395	13,585	15,911	18,662

Balance Sheet — INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Equity Share Capital	6,121	6,165	6,220	6,232	6,300	6,300	6,300	6,300
Reserves & Surplus	19,809	24,844	28,566	28,925	33,522	34,237	35,074	36,056
Net Worth	**25,931**	**31,009**	**34,786**	**35,156**	**39,822**	**40,537**	**41,374**	**42,356**
Borrowings	0	0	0	0	0	0	0	0
Other Liabilities	2,878	2,914	3,179	3,453	3,929	5,231	6,004	6,926
Total Liabilities	**28,808**	**33,922**	**37,965**	**38,609**	**43,750**	**45,767**	**47,378**	**49,283**
Cash and Investments	23,479	29,106	32,802	32,959	37,832	38,435	39,124	39,965
Change (%)	28.1	24.0	12.7	0.5	14.8	1.6	1.8	2.1
Loans	**1,006**	**781**	**842**	**1,164**	**848**	**1,244**	**1,480**	**1,763**
Change (%)	-76.9	-22.4	7.8	38.3	-27.2	46.7	19.0	19.1
Net Fixed Assets	3,256	3,021	2,961	3,073	3,328	3,532	3,732	3,932
Current Assets	1,067	1,015	1,361	1,413	1,743	2,557	3,042	3,623
Total Assets	**28,808**	**33,922**	**37,965**	**38,609**	**43,751**	**45,767**	**47,378**	**49,283**

E: MOFSL Estimates

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
AAAUM (INR B)	**2,086**	**2,054**	**2,628**	**2,876**	**3,702**	**5,432**	**6,462**	**7,697**
Change (%)	-12.6	-1.5	27.9	9.4	28.7	46.7	19.0	19.1
Equity (Including Hybrid)	42.7	38.6	40.2	42.3	45.7	49.1	50.4	51.6
Debt	23.1	20.6	17.7	12.0	11.6	8.1	7.6	7.2
Liquid	20.0	24.8	22.5	20.9	15.3	12.5	11.8	11.1
Others	14.2	16.0	19.6	24.8	27.4	30.3	30.2	30.2

E: MOFSL Estimates

Dupont Analysis (Bps of AAAUM)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Income	58	52	50	47	44	42	41	40
Operating Expenses	28	25	20	19	18	15	13	12
EBITDA	**29**	**27**	**30**	**28**	**27**	**27**	**28**	**28**
Depreciation and Others	2	2	1	1	1	1	1	1
Core PBT	**27**	**25**	**29**	**26**	**26**	**26**	**27**	**27**
Other Income	0	17	9	6	11	8	6	5
PBT	**27**	**43**	**38**	**32**	**37**	**35**	**33**	**33**
Tax	7	10	9	7	7	9	7	7
ROAAAUM	**20**	**33**	**28**	**25**	**30**	**26**	**26**	**26**

Financials and valuations

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Margins Analysis (%)								
Operating income to total income	100.8	74.8	85.1	89.0	80.7	83.3	86.9	88.3
Cost to Core Income Ratio	**49.4**	**47.5**	**39.5**	**41.1**	**39.5**	**34.8**	**31.9**	**29.2**
EBITDA Margins	50.6	52.5	60.5	58.9	60.5	65.2	68.1	70.8
Core PBT Margins	**47.3**	**48.9**	**58.1**	**56.4**	**58.3**	**63.5**	**66.7**	**69.4**
PBT Margins (On total income)	46.9	61.8	64.4	61.2	66.4	69.6	71.0	73.0
Profitability Ratios (%)								
RoE	16.1	23.9	22.5	20.7	29.5	35.6	40.9	46.9
Dividend Payout Ratio	73.7	72.5	92.1	99.1	93.9	95.0	95.0	95.0

Valuations	2020	2021	2022	2023	2024	2025E	2026E	2027E
BVPS (INR)	41	49	55	56	63	64	66	67
Change (%)	0.9	19.6	12.2	1.1	13.3	1.8	2.1	2.4
Price-BV (x)	**17.4**	**14.6**	**13.0**	**12.9**	**11.4**	**11.2**	**10.9**	**10.7**
EPS (INR)	6.6	10.8	11.8	11.5	17.6	22.7	26.6	31.2
Change (%)	-14.6	63.4	9.1	-2.5	53.0	29.2	17.1	17.3
Price-Earnings (x)	**108.8**	**66.6**	**61.0**	**62.6**	**40.9**	**31.7**	**27.0**	**23.0**
Core EPS (INR)	6.7	6.4	9.0	9.4	12.4	17.2	21.7	26.2
Change (%)	15.0	-4.8	41.5	4.1	32.2	38.4	25.7	20.9
Core Price-Earnings (x)	**106.9**	**112.3**	**79.4**	**76.3**	**57.7**	**41.7**	**33.2**	**27.4**
DPS (INR)	5.0	8.0	11.0	11.5	16.5	21.6	25.3	29.6
Dividend Yield (%)	**0.7**	**1.1**	**1.5**	**1.6**	**2.3**	**3.0**	**3.5**	**4.1**

E: MOFSL Estimates

Cash flow **(INR m)**

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
PAT	4,153	6,803	7,423	7,233	11,074	14,300	16,749	19,644
Dep	333	333	272	298	291	297	313	330
Changes in working capital	6,642	369	29	73	-46	288	169	199
Op Cash flow	11,127	7,505	7,725	7,604	11,319	14,885	17,231	20,173
Capex	-1,021	-97	-213	-410	-546	-501	-513	-530
Investments	-6,815	-6,590	-4,006	-969	-4,558	-1,482	-787	-1,344
Changes in equity	-862	3,207	3,194	304	3,987	0	0	0
Dividend	-3,061	-4,932	-6,839	-7,167	-10,395	-13,585	-15,911	-18,662
Debt	-164	-120	-82	-19	170	286	170	204
Op Cash	5,428	4,633	3,606	3,385	2,728	2,706	2,308	2,498
Cash generation	-794	-1,027	-221	-657	-22	-397	190	-159
Cl Cash	4,633	3,606	3,385	2,728	2,706	2,308	2,498	2,338

UTI AMC

BSE SENSEX	S&P CNX
81,709	24,678

UTI Mutual Fund

Stock Info

Bloomberg	UTIAM IN
Equity Shares (m)	127
M.Cap.(INRb)/(USDb)	169.1 / 2
52-Week Range (INR)	1401 / 785
1, 6, 12 Rel. Per (%)	-1/30/40
12M Avg Val (INR M)	307

Financials Snapshot (INR b)

Y/E March	2025E	2026E	2027E
AAUM (INRb)	3,404	3,983	4,664
MF Yield (bps)	34.5	33.5	32.5
Rev from Ops	14.9	17.0	19.3
Core PAT	5.2	6.1	7.3
PAT	10.2	9.9	11.2
PAT margin*	30	25	24
Core EPS	41	48	58
EPS	80	78	88
EPS Grw. (%)	27	-3	14
BVPS	415	438	464
RoE (%)	20	18	20
Div. Payout (%)	70	70	70
Valuations			
Mcap/AUM (%)	4.9	4.2	3.6
P/E (x)	16.6	17.0	15.0
P/BV (x)	3.2	3.0	2.8
Div. Yield (%)	4.2	4.1	4.7

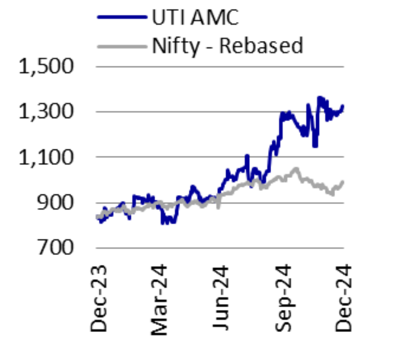
(bp as AAUM)

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	0.0	0.0	0.0
DII	60.2	60.7	61.7
FII	7.2	6.3	4.9
Others	32.6	33.1	33.4

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,326 TP: INR1,600 (+21%) Buy

A strong brand with multiple growth drivers

- **UTI AMC's share of equity AUM in the total AUM has been range bound since FY20 and was at 34.8% in Sep'24, whereas equity (including hybrid) market share has witnessed some moderation to 3.8% for UTI in Oct'24.**
- **Efforts in terms of fund performance, new product launches (BAF launched in Jul'23, multi-cap in FY25), the launch of smart beta products in the passive segment, and the scaling up of SIPs through digital partnerships shall aid the growth in equity AUM for UTI AMC.**
- **UTI's passive segment has witnessed a rise in market share, to 13.4% in Oct'24 from 6.4% in Mar'17. The growth is primarily attributed to increased flows from EPFO and MTM gains.**
- **In terms of distribution, UTI has intensified engagement with MFDs (71.1k), while concurrently focusing on expanding its presence within the B30 segment through established channels such as DAs, Banks, and Fintech platforms. ~21% for the MAAUM for Sep'24 originated from the B30 segment, compared to the industry average of ~19%.**
- **UTI International and UTI RSL are well placed to garner higher AUM in years to come. Internationally, UTI is aggressively expanding its footprint along with the launch of new products. With a 25.1% market share in NPS, UTI RSL is well placed to garner strong growth as demand for pension products continues to surge in the country.**
- **Yields in the equity segment are anticipated to moderate due to the telescopic structure affecting the TER. However, expected stronger growth in longer-term debt funds should cushion the impact. We expect overall yields to moderate by 2.4bp over FY24-27.**
- **We expect UTI to report FY24-27 AUM/Revenue/Core PAT CAGR of 20%/18%/ 29%. The stock trades at FY26E P/E/ core P/E of 17x/27x. We initiate coverage on the stock with a BUY rating and a one-year TP of INR1,600 (premised on 30x Core Sep'26E EPS).**

Equity outflows in FY24; expect better performance in FY25

- UTI AMC, on a QAUM basis, has experienced a CAGR of 24% over FY20-24 to reach a QAUM of INR2.9t. It reported a QAUM of INR3.4t at the end of 2QFY25. In 1HFY25, it registered an overall net inflow of INR177b, driven by ETFs and index funds attracting net inflows of INR 121.3b.
- However, the company continues to experience net outflows in equity and hybrid schemes combined, totaling INR13.9b in 1HFY25 (INR13.7b of net outflows in 4QFY24).
- The overall market share has been range bound over the last four years, with equity market share moderating to ~3.8% in FY24/ Oct'24.
- We anticipate an increase in equity AUM supported by: 1) the ongoing efforts to enhance fund performance; 2) the launch of BAF in Jul'23, which has gained traction (AUM of INR29.8b as of Sep'24) and the launch of further new schemes in the upcoming years to boost equity AUM (e.g.: a multi-cap fund to be launched in FY25); and 3) the introduction of products under the smart beta category to meet the growing demand.

Share of passive AUM surges

- The growth has mainly been driven by the passives segment. Index & ETFs QAAUM stood at INR1.45t in 2QFY25 vs. INR984b in 2QFY24, a growth of 47.5% YoY.
- AUM in ETFs/Index segments has registered a strong CAGR of 58%/118%; but yields on ETFs have declined due to revised bid submission for EPFO money.
- With the growth in UTI's share in managing EPFO money (~23.5% market share on incremental flow), the share of ETFs has more than doubled to 32.5% in 2QFY25 from 15.1% in 4QFY20. On account of higher competition, the yields on EPFO have also declined; however, UTI's yield on EPFO is still one of the best in the industry.
- In 2024, UTI has launched two differentiated products, namely Nifty 5-year and 10-year G-Sec ETFs, for institutional investors and is expected to gain traction in the coming years.

Endeavors to augment digital presence

- UTI is growing the number of MFDs that sell SIPs and the sales engagement strategy gives special attention to their portion of the overall wallet. SIP AUM and flow mix from the direct and regular channels (primarily MFDs) is 30:70.
- UTI envisages analytical tools and a digital marketing platform to identify and capitalize on cross selling and upselling opportunities. E.g., "UTI Buddy" is a revamped office-on-the-go mobile app and website for distributors.
- UTI intends to continue investments in paid marketing and digital partnerships across channels, with the aim of acquiring new investors and increasing sales. Sales through digital platforms (% of equity & hybrid MF gross sales) have grown to 37.6% in 2QFY25 from 22.9% in FY20.
- UTI's new and revamped website offers enhanced accessibility and functionality. All digital assets of UTI Mutual Fund are now consolidated under 'UTI HART', indicating a commitment to providing a delightful experience across all touch points.

Brighter prospects for UTI International

- UTI International is the manager for International (offshore) Funds. The AUM stood at INR298b in 1HFY25. UTI International reported 24% revenue CAGR over FY21-24, and it formed ~10% of the total revenue.
- UTI International obtained a license from the French regulators for business operations in the European region through the Paris office. It expects volume growth from these new locations to scale up the offshore business.
- Yields on UTI International business have improved. Redemption in the flagship fund (asset mix changes) led to volatility in yields in FY24, which shall stabilize in the coming years.
- Overall, this would lead to some higher operating costs in new locations from FY25 onwards. However, with constant focus on expanding its footprint, we believe the UTI international share in total revenue should inch upwards in the coming years.

Strong positioning in the NPS industry

- Over the past decade, NPS has seen a significant increase in participation due to incentives such as tax breaks and co-contribution.
- Overall, NPS AUM has registered a CAGR of 37.2% over the last 10 years and stood at ~INR13t as of 31st Oct'24. NPS subscriber base has recorded a CAGR of 10.7% over the last 10 years and stood at 18.9m as of 31 Oct'24.
- For the schemes applicable to employees of Central & State Governments, the FY23 AUM was allocated to SBI Pension Fund, UTI Retirement Solution (UTI RSL), and LIC Pension Fund in the ratio of 33:32:35. The top three players in the NPS industry command ~90% of the market share (UTI PFL has 25.1% share).
- UTI PFL's AUM stood at INR3.36t in Sep'24, after reporting a healthy CAGR of 25.5% over FY20-24. UTI PFL has reported 96% revenue CAGR over FY21-24, and it currently forms ~10% of the total revenue.
- UTI PFL has obtained a point-of-presence license from PFRDA and an NOC from SEBI. The POP license will allow UTI PFL to reach out to new pension fund investors and engage the services of partners to grow the business.

Yields to moderately decline from the current levels

- In 2QFY25, blended yields improved 0.2bp sequentially to 43.6bp, with a slight increase in equity mix to 34.8%. This improvement in yields can be attributed to several factors: 1) overestimation of commission for the full year, leading to adjustments in the fourth quarter, 2) discontinuation of additional commission for B30 flows, and 3) ~1bp improvement in arbitrage yields.
- Yields in the equity segment are anticipated to moderate due to the telescopic structure affecting the TER. However, expected stronger growth in longer-term debt funds should cushion the impact. We expect overall yields to moderate by 2.4bp during FY24-27.
- Employee and other expenses remained elevated in FY24 on account of increased investments in people in subsidiaries and expansion in foreign geographies. This run rate should continue over the coming years.

Reasonable valuations; initiate coverage with a BUY rating

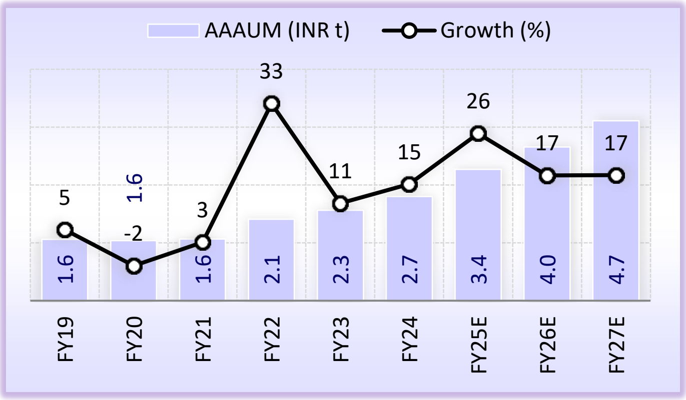
- We expect UTI to report FY24-27 AUM/Revenue/Core PAT CAGR of 20%/18%/29%. It is expected that investments in the international and retirement solutions businesses shall drive growth. The company's strong brand name & distribution presence in the semi-urban and rural areas enables it to garner granular AUM, especially the B30 penetration.
- The stock trades at FY26E P/E/Core P/E of 17x/27x. With steady fund performance and higher growth prospects from international and retirement solution businesses, we believe the stock is reasonably priced. **We initiate coverage on the stock with a BUY rating and a one-year TP of INR1,600 (premised on 30x Core Sep'26E EPS).**

Key risks

- Regulatory changes in terms of increased taxation or further reduction in TERs threshold may also affect inflows and revenue.
- Continued higher costs would adversely impact margins, and thus, profitability.
- Further shift toward ETFs/index funds may hurt revenues as this segment commands significantly lower fees.
- Key management personnel exits.

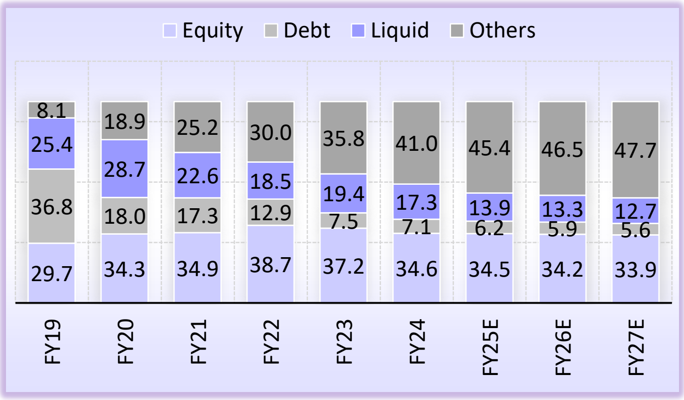
STORY IN CHARTS

Strong AUM growth ahead



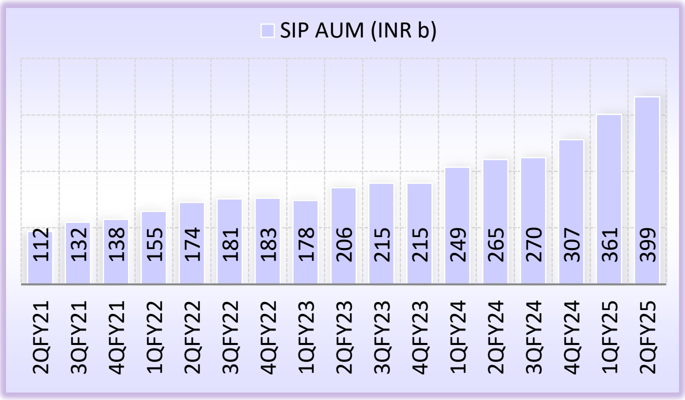
Source: Company, MOFSL

Share of passives will continue to improve



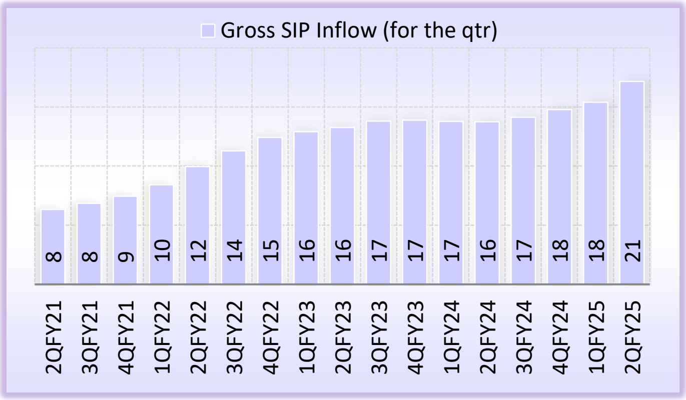
Source: Company, MOFSL

Strong momentum in SIP



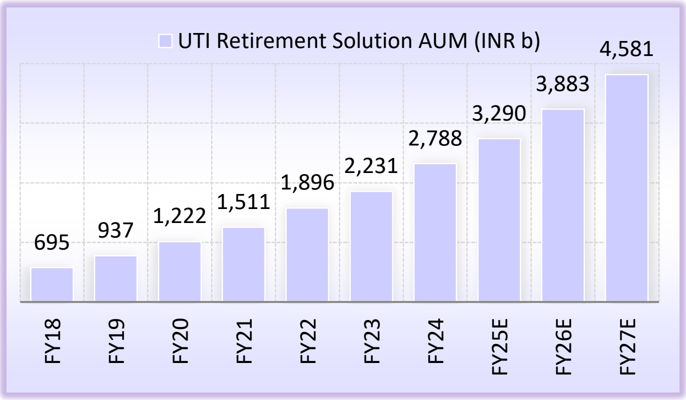
Source: Company, MOFSL

Quarterly Gross SIP flows picking up



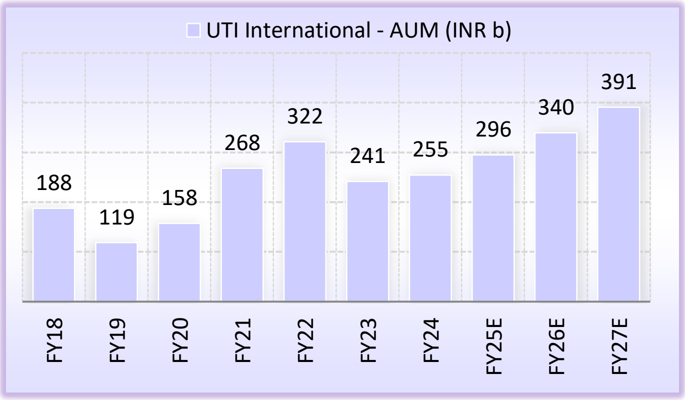
Source: Company, MOFSL

Strong pick up in NPS AUM



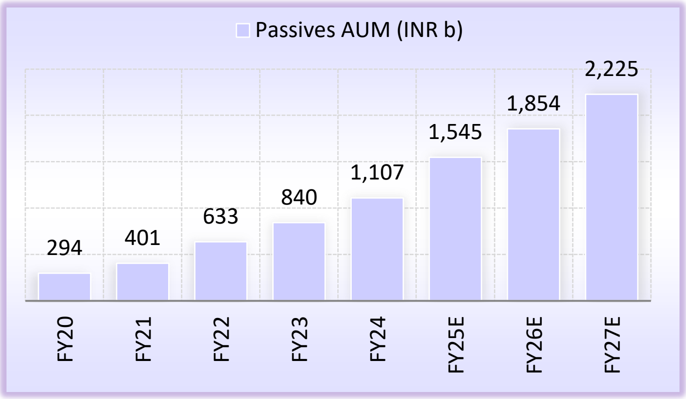
Source: Company, MOFSL

International AUM to pick up



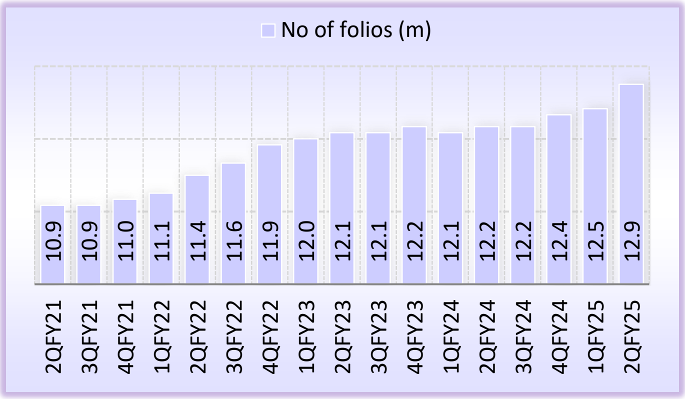
Source: Company, MOFSL

Strong traction in passive AUM



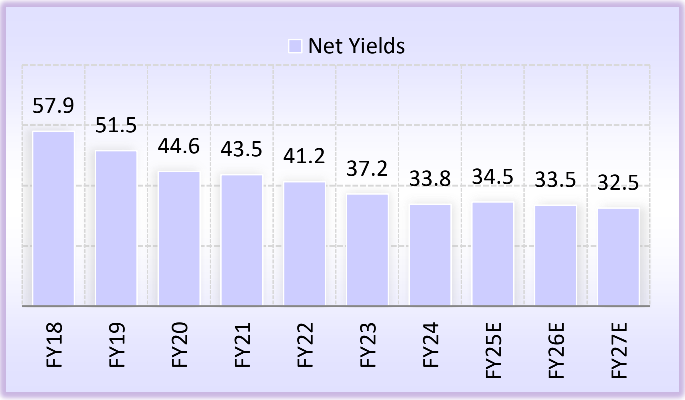
Source: MOFSL, Company

Rising number of live folios



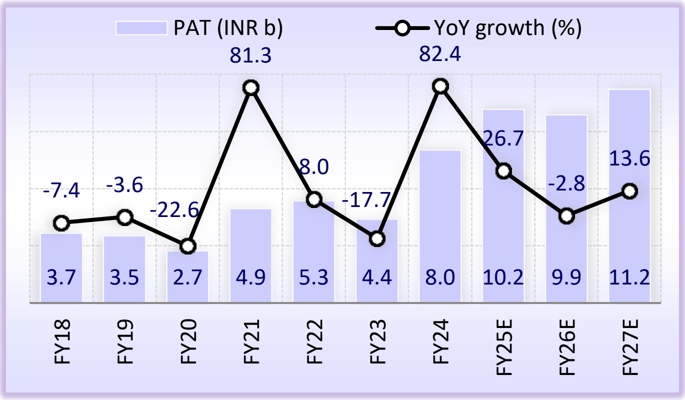
Source: MOFSL, Company

Yield to witness a steady decline



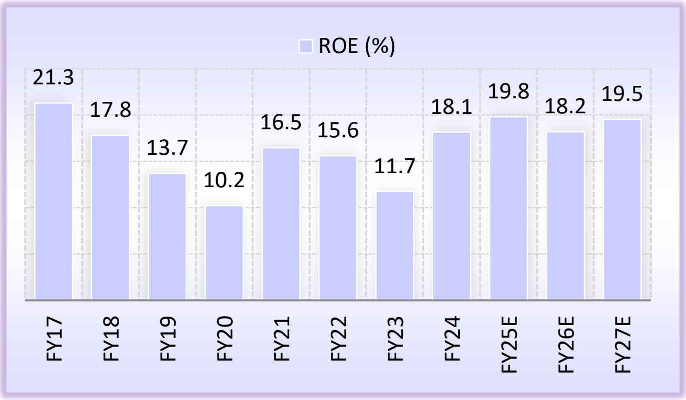
Source: MOFSL, Company

Trend in profitability



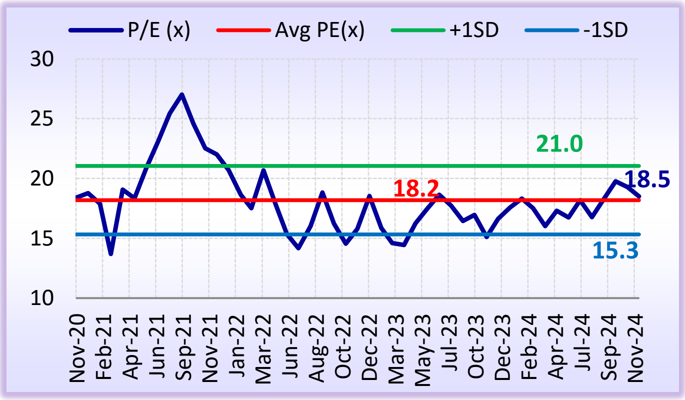
Source: MOFSL, Company

Trend in ROE's



Source: MOFSL, Company

One-year forward P/E at average levels



Source: MOFSL, Company

SWOT analysis

- Best positioned in B30 cities, with 21% of the AUM contributed by these geographies; this is the highest among its peers vs. 18% of industry
- Meaningful profit contribution coming from subsidiaries: UTI Retirement Solutions and UTI International.
- Continuous focus on strengthening its digital focus has helped enhance its processes and expand its investor base. Around ~94.5% of total gross sales is done through digital platforms as of Mar'24.

- Dependency on market cyclicality causing reduction in MTM gains.
- High share of low yielding EPFO AUM in overall business mix.

- Increased participation from households in recent years, owing to growing awareness, financial inclusion, improved access to banking channels and increased adoption of technology by distributors.
- Growing SIPs have helped further retail investor participation in the mutual fund space

- AMCs across India are grappling with mounting pressure on margins
- Technology risk and cyber security attacks
- Unfavorable regulatory interventions and decisions
- Continued volatility in stock market may restrict participation of retail investors
- High interest rates will continue to pose a challenge for debt mutual funds in India

Key management personnel

Mr Imtaiyazur Rahman – Chief Executive Officer

Mr Imtaiyazur Rahman is Whole-time Director and Chief Executive Officer of UTI AMC and has been associated with the company since 2003. He has over 30 years of experience in management, business leadership, and forming strategic alliances. Recently, he served as a member of the working group for risk management in liquid schemes constituted by SEBI. He holds a B.Sc. degree from Lalit Narayan Mithila University, Darbhanga, and a Postgraduate Diploma in Computer Application from Institute of Modern Management, Calcutta. He is also a Fellow Member of the Institute of Company Secretaries of India and the Institute of Cost and Works Accountants of India.

Mr Vetri Subramaniam – Chief Investment Officer

Vetri Subramaniam is the Chief Investment Officer of the Company. He holds a B.Com degree from University of Madras and a Post Graduate Diploma in Management from Indian Institute of Management, Bangalore. He joined the Company with effect from January 23, 2017. Prior to joining the Company, he was associated with Invesco Asset Management Private Limited, Motilal Oswal Securities Limited, Kotak Mahindra Asset Management Company Limited, SSKI Investor Service Private Limited and Kotak Mahindra Finance Limited.

Mr Vinay Lakhotia – Chief Financial Officer

Vinay Lakhotia is the Chief Financial Officer of the Company. He holds a B.Com (Honors) degree from the University of Calcutta. He is a Rank holder Chartered Accountant and was also awarded the Chartered Financial Analyst designation from the CFA institute in the year 2007. He joined Erstwhile UTI on 15th Jul'99 and was subsequently transferred in the company with effect from 15th Jan'03. He is also currently overseeing the daily operations of IT & Digital departments.

Mr Dinesh Kumar Mehrotra – (Non - Executive Chairman and an Independent Director)

He holds a B.Sc. (Honors) degree from the University of Patna. He has previously served as the Chairman and Managing Director of LIC. He has also served as the Executive Director of International Operations at LIC. The shareholders approved his appointment as an Independent Director of the Company at the Annual General Meeting held on 23rd August, 2017

Mr Ajay Tyagi – (Head of Equities)

Ajay Tyagi is Head of Equities in the company. He is a CFA Charter holder from The CFA Institute, US and also holds a Master's degree in Finance from Delhi University. Ajay joined UTI in the year 2000 and has successfully carried out various roles and responsibilities across equity research, offshore funds, as well as domestic onshore funds. He has won many awards and accolades for his performance both domestically and globally. Ajay presently manages the flagship equity scheme in India and is also the Investment Advisor to UTI International's range of India-dedicated offshore funds.

Bull and Bear cases

Bull case

- ☑ In our bull case, we factor in higher AUM growth of 25% vs. 20% in the base case and a yield decline of 1.6bp as compared to 2.4bp in the base case.
- ☑ Given operating leverage in the business, we expect a 35% EBITDA CAGR as compared to 29% in the base case.
- ☑ As a result, we estimate its PAT to reach INR12.4b in FY27 from INR11.2b in the base case.

Bear case

- ☑ In our bear case, we factor in lower AUM growth of 15% vs. 20% in the base case and a yield decline of 2.6bp as compared to 2.4bp in the base case.
- ☑ Given operating leverage in the business, we expect a 16% EBITDA CAGR as compared to 29% in the base case.
- ☑ As a result, we estimate its PAT to reach INR8.7b in FY27 from INR11.2b in the base case.

Scenario analysis - Bull Case

INR b	FY25E	FY26E	FY27E
AUM	3,509	4,386	5,264
Growth (%)	30.0	25.0	20.0
Net revenues	15.4	18.8	22.2
Net Yields (Bps)	44	43	42
Cost to Income (%)	52.0	49.0	47.0
Core Operating Profits	7.4	9.6	11.8
PBT	13.1	13.8	16.1
PAT	10.1	10.6	12.4
Growth (%)	25.9	5.3	16.9
PAT margin (bp of AUM)	28.8	24.2	23.6
Core PAT (INR b)	5.7	7.4	9.1
EPS (INR)	79.3	83.5	97.6
Core EPS (INR)	44.6	57.9	71.2
Target P/E multiple			**36**
Target price (INR) - on Core EPS			**2,324**
Upside (%)			**76%**

Source: MOFSL, Company

Scenario analysis – Bear Case

INR b	FY25E	FY26E	FY27E
AUM	3,239	3,660	4,136
Growth (%)	20.0	13.0	13.0
Net revenues	13.9	15.4	17.0
Net Yields (Bps)	43.0	42.0	41.2
Cost to Income (%)	58.0	57.0	56.0
Core Operating Profits	6.0	6.6	7.5
PBT	11.7	10.8	11.9
PAT	8.6	7.9	8.7
Growth (%)	6.8	-7.6	9.4
PAT margin (bp of AUM)	26.5	21.6	20.9
Core PAT (INR b)	4.2	4.7	5.3
EPS (INR)	67.3	62.2	68.1
Core EPS (INR)	32.6	36.6	41.6
Target P/E multiple			**28**
Target price (INR) - on core EPS			**1,095**
Downside (%)			**-17%**

Source: MOFSL, Company

Financials and valuations

Income Statement

INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Investment management fees	7,879	8,066	11,189	11,314	11,821	14,909	16,971	19,314
Change (%)	-11.5	2.4	38.7	1.1	4.5	26.1	13.8	13.8
Operating Expenses	5,057	5,253	6,211	6,550	7,036	7,704	8,380	9,115
Core Operating Profits	**2,822**	**2,812**	**4,978**	**4,764**	**4,785**	**7,205**	**8,591**	**10,199**
Change (%)	-16.6	-0.3	77.0	-4.3	0.4	50.6	19.2	18.7
Dep/Interest/Provisions	398	438	460	495	535	589	626	666
Core PBT	**2,424**	**2,374**	**4,518**	**4,269**	**4,250**	**6,616**	**7,965**	**9,533**
Change (%)	-19.5	-2.1	90.3	-5.5	-0.5	55.7	20.4	19.7
Other Income	1,031	3,663	2,084	1,587	5,619	6,328	4,859	5,034
PBT	**3,454**	**6,036**	**6,602**	**5,856**	**9,868**	**12,944**	**12,824**	**14,567**
Change (%)	-29.7	74.7	9.4	-11.3	68.5	31.2	-0.9	13.6
Tax	690	1,087	1,257	1,459	1,848	2,783	2,950	3,350
Tax Rate (%)	20.0	18.0	19.0	24.9	18.7	21.5	23.0	23.0
PAT before non-controlling interest	**2,765**	**4,949**	**5,346**	**4,397**	**8,020**	**10,161**	**9,875**	**11,217**
Change (%)	-20.5	79.0	8.0	-17.7	82.4	26.7	-2.8	13.6
Less: Non-controlling interest	35	0	0	0	0	0	0	0
PAT	**2,730**	**4,949**	**5,346**	**4,397**	**8,020**	**10,161**	**9,875**	**11,217**
Change (%)	-22.6	81.3	8.0	-17.7	82.4	26.7	-2.8	13.6
Core PAT	1,905	**1,946**	**3,658**	**3,206**	**3,454**	**5,194**	**6,133**	**7,340**
Change (%)	-12.6	2.1	88.0	-12.4	7.7	50.4	18.1	19.7
Dividend (incl. tax)	888	2,155	2,666	2,794	5,983	7,113	6,912	7,852

Balance Sheet

INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Equity Share Capital	1,268	1,268	1,270	1,270	1,273	1,273	1,273	1,273
Reserves & Surplus	26,465	31,102	34,907	37,409	48,460	51,508	54,470	57,835
Net Worth	**27,733**	**32,370**	**36,177**	**38,678**	**49,732**	**52,781**	**55,743**	**59,108**
Borrowings	0	0	0	0	0	0	0	0
Other Liabilities	3,816	4,279	3,701	3,071	3,678	4,492	5,048	5,693
Total Liabilities	**31,549**	**36,649**	**39,877**	**41,749**	**53,411**	**57,273**	**60,791**	**64,801**
Cash and Investments	24,857	29,631	33,862	36,143	48,744	52,050	55,134	58,667
Change (%)	3.7	19.2	14.3	6.7	34.9	6.8	5.9	6.4
Loans	**374**	**252**	**136**	**115**	**86**	**108**	**123**	**141**
Change (%)	32.9	-32.8	-46.0	-15.7	-25.0	26.1	13.8	13.8
Net Fixed Assets	3,529	3,545	3,560	3,683	2,886	2,978	3,101	3,225
Net Current Assets	2,789	3,221	2,320	1,809	1,694	2,137	2,432	2,768
Total Assets	**31,549**	**36,649**	**39,877**	**41,749**	**53,410**	**57,273**	**60,791**	**64,801**

E: MOFSL Estimates

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
AAAUM (INR B)	**1,552**	**1,593**	**2,112**	**2,344**	**2,699**	**3,404**	**3,983**	**4,664**
Change (%)	-2.5	2.6	32.6	11.0	15.1	26.1	17.0	17.1
Equity (Including Hybrid)	34.3	34.9	38.7	37.2	34.6	34.5	34.2	33.9
Debt	18.0	17.3	12.9	7.5	7.1	6.2	5.9	5.6
Liquid	28.7	22.6	18.5	19.4	17.3	13.9	13.3	12.7
Others	18.9	25.2	30.0	35.8	41.0	45.4	46.5	47.7

Dupont Analysis (Bps of AAAUM)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Income	51	51	53	48	44	44	43	41
Operating Expenses	33	33	29	28	26	23	21	20
EBITDA	**18**	**18**	**24**	**20**	**18**	**21**	**22**	**22**
Depreciation and Others	3	3	2	2	2	2	2	1
Core PBT	**16**	**15**	**21**	**18**	**16**	**19**	**20**	**20**
Other Income	7	23	10	7	21	19	12	11
PBT	**22**	**38**	**31**	**25**	**37**	**38**	**32**	**31**
Tax	4	7	6	6	7	8	7	7
ROAAAUM	**18**	**31**	**25**	**19**	**30**	**30**	**25**	**24**

Financials and valuations

Cash Flow Statement								INR m
	2020	2021	2022	2023	2024	2025E	2026E	2027E
PAT	2,765	4,949	5,346	4,397	8,020	10,161	9,875	11,217
Depreciation	313	358	368	399	423	465	502	542
Changes in working capital	(80)	580	400	112	579	404	260	304
Operating Cash flow	**2,998**	**5,887**	**6,114**	**4,908**	**9,022**	**11,030**	**10,637**	**12,063**
Capex	(434)	(374)	(383)	(522)	374	(556)	(626)	(666)
Investments	(1,073)	(4,047)	(2,160)	(2,768)	(12,972)	(1,528)	(1,852)	(1,901)
Changes in equity	(560)	1,843	1,127	898	9,016	-	-	-
Debt	(93)	(286)	(108)	(134)	170	144	118	139
Dividend	(888)	(2,155)	(2,666)	(2,794)	(5,983)	(7,113)	(6,912)	(7,852)
Cash generation	**-49**	**867**	**1,924**	**-411**	**-372**	**1,976**	**1,364**	**1,783**
Opening cash & bank balance	1,242	1,193	2,060	3,983	3,572	3,200	5,176	6,541
Closing cash & bank balance	1,193	2,060	3,983	3,572	3,200	5,176	6,541	8,324
FCFF		**5,513**	**5,731**	**4,386**	**9,396**	**10,474**	**10,011**	**11,397**

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Margins Analysis (%)								
Operating income to total income	88.4	68.8	84.3	87.7	67.8	70.2	77.7	79.3
Cost to Core Income Ratio	**64.2**	**65.1**	**55.5**	**57.9**	**59.5**	**51.7**	**49.4**	**47.2**
EBITDA Margins	35.8	34.9	44.5	42.1	40.5	48.3	50.6	52.8
Core PBT Margins	**30.8**	**29.4**	**40.4**	**37.7**	**36.0**	**44.4**	**46.9**	**49.4**
PBT Margins (On total income)	38.8	51.5	49.7	45.4	56.6	61.0	58.7	59.8
Profitability Ratios (%)								
RoE	10.2	16.5	15.6	11.7	18.1	19.8	18.2	19.5
Dividend Payout Ratio	41.7	43.5	49.5	62.5	72.3	70.0	70.0	70.0

Valuations	2020	2021	2022	2023	2024	2025E	2026E	2027E
BVPS (INR)	218	254	284	304	391	415	438	464
Change (%)	5.0	16.7	11.8	6.9	28.6	6.1	5.6	6.0
Price-BV (x)	**6.1**	**5.2**	**4.7**	**4.4**	**3.4**	**3.2**	**3.0**	**2.8**
EPS (INR)	21.7	38.9	42.0	34.5	63.0	79.8	77.6	88.1
Change (%)	-20.5	79.0	8.0	-17.7	82.4	26.7	-2.8	13.6
Price-Earnings (x)	**60.9**	**34.0**	**31.5**	**38.3**	**21.0**	**16.6**	**17.0**	**15.0**
Core EPS (INR)	15.0	15.3	28.7	25.2	27.1	40.8	48.2	57.7
Change (%)	-12.6	2.1	88.0	-12.4	7.7	50.4	18.1	19.7
Core Price-Earnings (x)	**88.3**	**86.5**	**46.0**	**52.5**	**48.7**	**32.4**	**27.4**	**22.9**
DPS (INR)	7.0	17.0	21.0	22.0	47.0	55.9	54.3	61.7
Dividend Yield (%)	**0.5**	**1.3**	**1.6**	**1.7**	**3.6**	**4.2**	**4.1**	**4.7**

E: MOFSL Estimates

Angel One

BSE SENSEX	S&P CNX
81,709	24,678

Stock Info

Bloomberg	ANGELONE IN
Equity Shares (m)	90
M.Cap.(INRb)/(USDb)	296.9 / 3.5
52-Week Range (INR)	3900 / 2025
1, 6, 12 Rel. Per (%)	11/23/-13
12M Avg Val (INR M)	3194

Financials Snapshot (INR b)

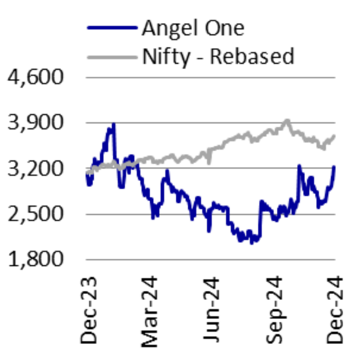
Y/E March	2025E	2026E	2027E
Revenues	45.4	52.2	63.4
Opex	25.4	29.4	33.6
PBT	18.9	21.2	27.8
PAT	14.0	15.7	21.9
EPS (INR)	169.0	189.7	264.1
EPS Gr. (%)	24.4	12.3	39.2
BV/Sh. (INR)	716.8	830.7	989.1
Ratios (%)			
C/I ratio	55.9	56.3	53.0
PAT margin	30.8	30.1	34.5
RoE	31.2	24.5	29.0
Div. Payout	0.0	40.0	40.0
Valuations			
P/E (x)	19.5	17.3	12.5
P/BV (x)	4.6	4.0	3.3
Div. Yield (%)	0.0	2.1	2.9

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	35.6	35.6	38.3
DII	12.7	14.0	10.8
FII	12.3	15.4	16.4
Others	39.4	35.0	34.5

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR3,292 TP: INR4,200 (+28%) Buy

Muscled for a sustained high growth

- ANGELONE has cemented its position as the third-largest brokerage firm in India, boasting a clientele of 28m, with 7.5m NSE active clients. Its market share within NSE active client base stands at 15.4% (Oct'24) vs. 7.2% (Oct'20).
- This achievement is attributed to ANGELONE's strategic shift from a conventional brokerage model to a fully digitalized approach. It offers a seamless online trading experience through its mobile application, website, and dedicated call center support. Central to this success is its customer acquisition strategy, which targets young and tech-savvy customers from lower tier cities.
- Having executed this strategy with remarkable success, ANGELONE is now poised to diversify its offerings. Over the next 5-7 years, the company plans to expand its portfolio to include the distribution of financial products such as loans and insurance, redefining the AP business, as well as venturing into wealth management and asset management companies (AMCs). Consequently, the share of non-broking revenue is expected to surge to 30-40% in this period.
- In the short term, ANGELONE stands to benefit from a recent fund raise of INR15b, which will be utilized to bolster its MTF book and expand margins with clearing corporations, thus facilitating an increase in broking volumes.
- Brokerage introduced for equity delivery (lower of INR20/order or 0.1%) will offset the impact of True to Label regulations. However, management expects an impact of 13-14% on revenues due to the F&O regulations from Dec'24. An increase in realization, driven by price hikes among various other levers, can negate the impact of these regulations on profitability.
- During FY24-27, we expect ANGELONE to report a revenue/PAT CAGR of 24%/25%, driven by sustained momentum in customer acquisition, expansion of the MTF book, and improved realizations going forward. However, a drop in volumes due to stringent F&O regulations and the impact of True to Label regulations will act as a hindrance towards growth. Valuations of 17.3x FY26E P/E appear attractive. **Reiterate BUY with a one-year TP of INR4,200 (premised on 18x Sep'26E P/E).**

Revolutionizing Broking business via app innovations and competitive pricing

- ANGELONE has a formidable market share across parameters: 15.7% in demat accounts, 15.4% in NSE active clients, ~20.7% in F&O retail ADTO, 17.5% in cash retail ADTO, and 62.2% in commodities retail ADTO.
- Best-in-class app, formidable marketing strategy, and an avid focus on the right customer segment have been key to its success. Constant innovations in the app and right pricing will aid further strengthening its position.
- With a strategic focus on expanding its market share in the cash segment, particularly in Tier 3 & 4 towns, ANGELONE has implemented measures to attract more customers including 1) reduction in charges to 0.03% from 0.25% of turnover and 2) increased thrust on MTF book led by recent fund raise.

Strengthening the assisted partner (AP) channel to scale new heights

- The assisted partner (AP) channel accounts for ~22-23% of net broking revenue. ANGELONE plans to materially scale up its Authorized Person (AP) network and demerge this segment into a separate subsidiary.
- Currently, most APs are solely focusing on broking products, and ANGELONE sees substantial potential for APs to diversify into other financial products, such as mutual funds, insurance, fixed income, and loans.
- It has redefined its approach toward partner acquisition, engagement, and retention, focusing on quality through the NXT platform and integrating a signaling mechanism that enhances partner-client interaction.
- The management expects this segment to grow in alignment with the digital business expansion, driven by both broking and distribution products.
- As per our analysis, we have built in a total size of 14,000 APs by FY27, of which 30% will sell MFs, generating an AUM of INR126b and leading to a gross/net revenue of INR1,260/INR378m (net revenue is after 70% sharing with APs).

Non-broking ventures to contribute meaningfully over the medium term

- ANGELONE, currently relies on broking activities for over 95% of its revenue (including brokerage, interest income, and related services); it anticipates a significant shift towards non-broking ventures in the medium term. Over the next 5-7 years, non-broking businesses are projected to contribute 30-40% to the company's revenue stream. We recently released a report emphasizing on each new business, wherein we carried out sizing analysis on how each of these new businesses will be contributing to the overall revenue. Link: (https://tinyurl.com/2s37x7ju).
- **Loan distribution:** Earlier, the distribution line was restricted only to IPOs and mutual funds; however, ANGELONE has recently gone live with the distribution of credit products on its platform. It has cumulatively made disbursements of INR3.6b through the platform. It is taking a calibrated approach to scale the credit distribution business, with an emphasis on enhancing risk understanding. Regarding realizations, the take rates of loans will be on par or slightly better than market standards, and it will take the next 1.5-2.0 years to breakeven. In terms of sizing, by FY27, if 0.3m customers of ANGELONE take personal loans with an average ticket size of INR0.13m, assuming a take rate of 3%, we estimate the revenue potential to be INR1,125m.
- **Wealth management:** ANGELONE is building its wealth management business under a separate wholly owned subsidiary and has infused INR2.5b into this business in Mar’24. The right-to-win for ANGELONE Wealth comes from its established brand, tech innovations, and a strong team. Currently, the targeted ticket size is INR100-150m (UHNI segment), but eventually, with a variety of products and technology, the ticket size is expected to come down to INR10m (HNI segment). Management has guided to achieve breakeven in 2.5-3.0 years and opex is projected at ~1.8% of operating profit margin. For FY27, if the company is able to create an RM strength of 75 and a total client base of 1,125 customers with AUM of INR68b, the incremental revenues could be INR675m.
- **Asset management:** ANGELONE has recently received approval from the regulators to operate its MF business under a wholly owned subsidiary,

'ANGELONE Asset Management Company Limited'. The company intends to focus on developing a comprehensive suite of ETF and Index fund products, designed to provide clients with diversified investment options that align with their investment preferences and risk profiles.

Significant operating leverage from the acquired base

- With respect to customer acquisition costs (CoA), ANGELONE achieves breakeven within six months. The acquired clients are profitable from Year 1, indicating the robustness of the digital business model. From Year 2 onward, the contribution margin exceeds 90%, and the three-year revenue-to-CoA ratio for clients acquired in FY22 remains robust at 7.9x.
- The revenue-to-CoA ratio is expected to further expand, driven by the benefits of offering multi-products in the Super App, thereby enhancing the lifetime value of every cohort.

Appropriate use of levers to maintain profitability post-regulatory hit

- While SEBI's recent circular around F&O has cleared the air around measures to be taken to curb F&O activity, it is currently difficult to ascertain the absolute impact on volumes.
- To maintain profitability, the choice for Angel One is 1) taking a hit on margins, leading to a higher market share, and 2) raising the charges and risking losing some market share in the interim. The recently announced pricing action (cash delivery broking charge increased from nil to INR20/order or 0.1% per executed order) demonstrates the company's willingness to protect its profitability.
- Ideally, since the measures have been taken to reduce customer losses, the longevity of the customer in the system should also increase. Additional products will only add to the LTV in the longer term, thus giving the company the ability to spend on higher acquisitions.
- We expect a transitionary hit to earnings, as the regulations are implemented and the company gauges the impact before making corrective actions. However, we believe the company is in a transformational phase wherein the share of financial product distribution (loans and fixed income), wealth management, and AMC, will start contributing meaningfully over the next couple of years.
- We have factored in a decline in F&O orders in 3QFY25 as new regulations kick in from Nov'24. We expect the trend to continue in 4QFY25 as well, with a steeper sequential decline in order run-rate, leading to a 20% YoY dip in revenue for that quarter. From 1QFY26, we have factored in moderate growth in the number of orders but a hike of INR5 in realization will offset the slow order run-rate.
- In the cash segment, while the True to Label regulations will take away ancillary income of Angel One, we expect the introduction of brokerage for equity delivery orders, to offset the impact completely.

Strong balance sheet to support robust business growth; Reiterate BUY

- In Apr'24, ANGELONE raised INR15b via QIP to fortify its balance sheet, facilitating future growth initiatives. The funds will bolster the MTF book and support increased working capital requirements to enhance market share in a fast growing broking industry.
- The company is investing heavily to maintain the robust momentum in client acquisition wherein it has tied up with BCCI and is now an Associate Partner for

IPL for a period of five years. The committed expenditure for this is ~INR4b along with some spending on advertisement.

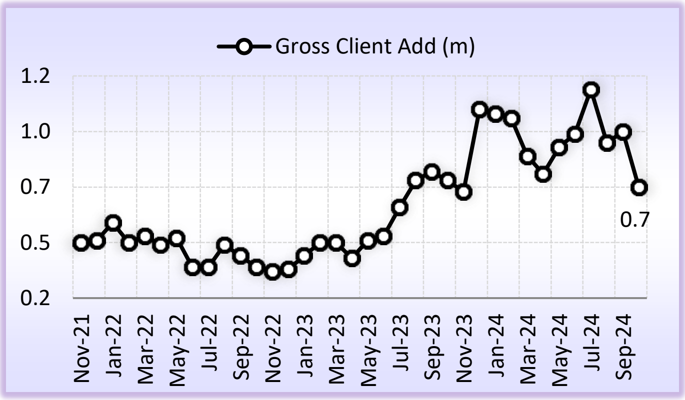
- Gradual improvement in realizations to offset the dip in volumes; scale-up of MTF and rising contributions from new businesses would translate into a revenue CAGR of 24% over FY24-27. EBITDA margin, however, is expected to contract owing to the sharper increase in client acquisition and investments in new businesses (both will yield revenue in the future). Consequently, its PAT CAGR is likely to be 25% over FY24-27. On a diluted equity basis, RoE is likely to be healthy at 29% in FY27. **Reiterate BUY with a one-year TP of INR4,200 (premised on 18x Sep'26E P/E).**

Key risks

- Volume hit, owing to stringent F&O regulations, could hurt its earnings momentum.
- A sharp correction in equity markets with a follow-up sideways market is the biggest risk to options volumes.
- There are execution risks in the new businesses (such as AMC and Wealth Management).

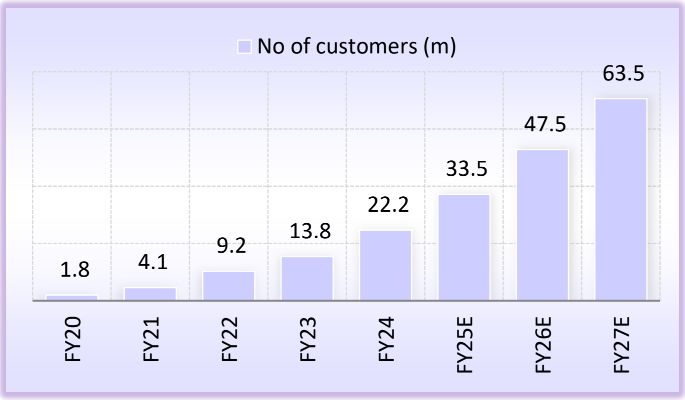
STORY IN CHARTS

Chart showing trend in client additions



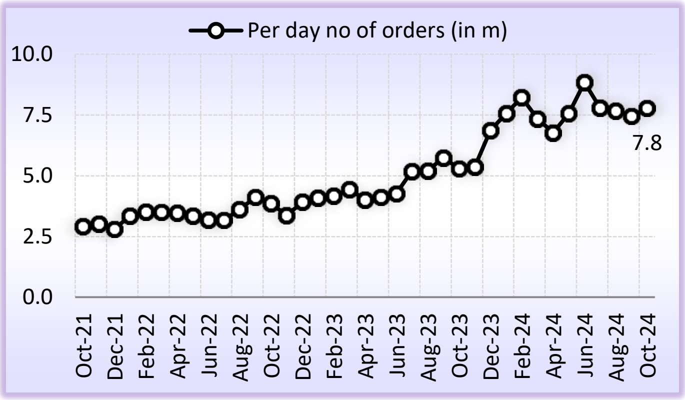
Source: MOFSL, Company

Expect momentum to sustain



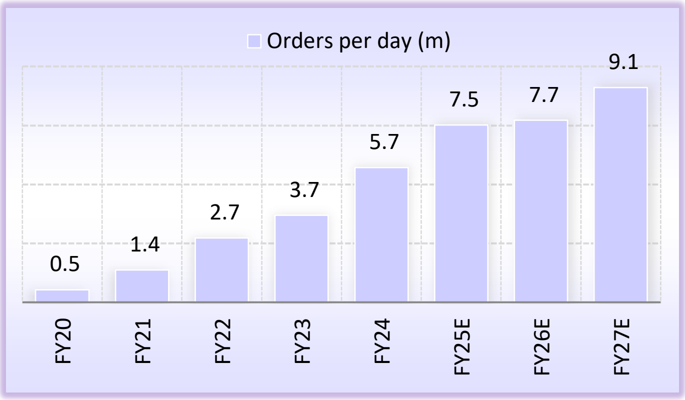
Source: MOFSL, Company

Per day orders surging



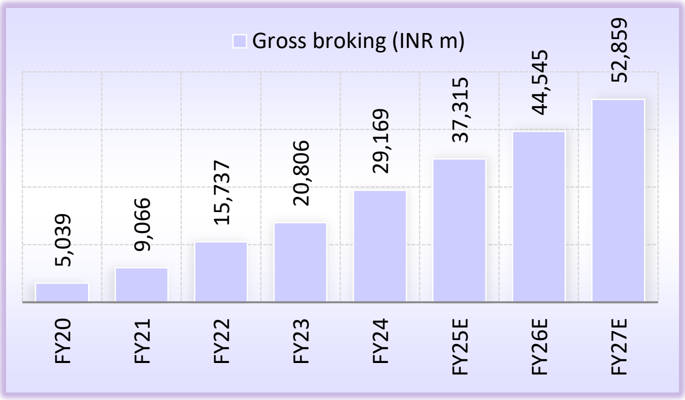
Source: MOFSL, Company

Ordering activity to see muted growth in FY26



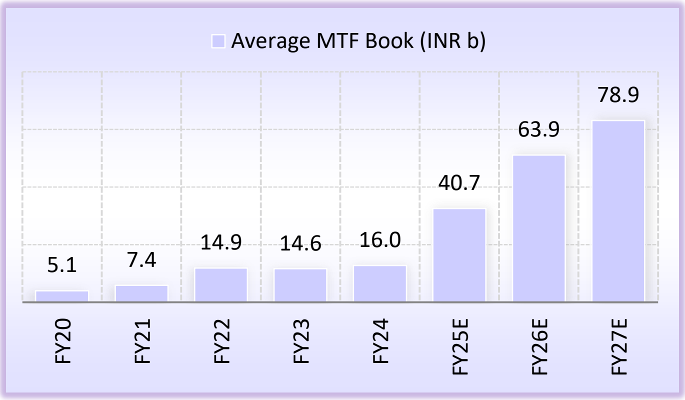
Source: MOFSL, Company

Better realizations to offset decline in orders



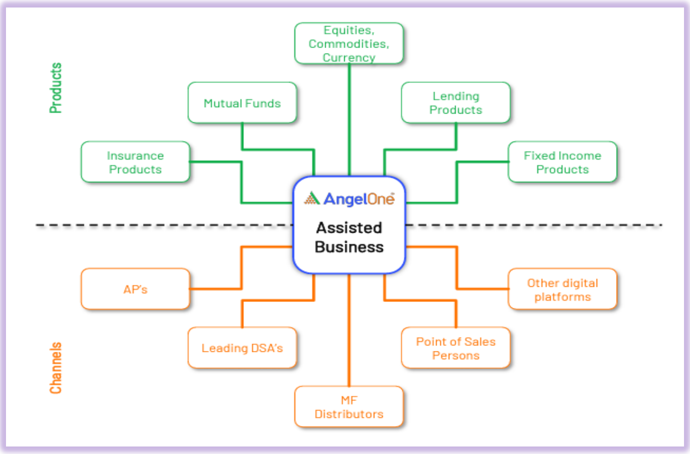
Source: MOFSL, Company

Aiming to grow its MTF book



Source: MOFSL, Company

Scaling up the assisted model



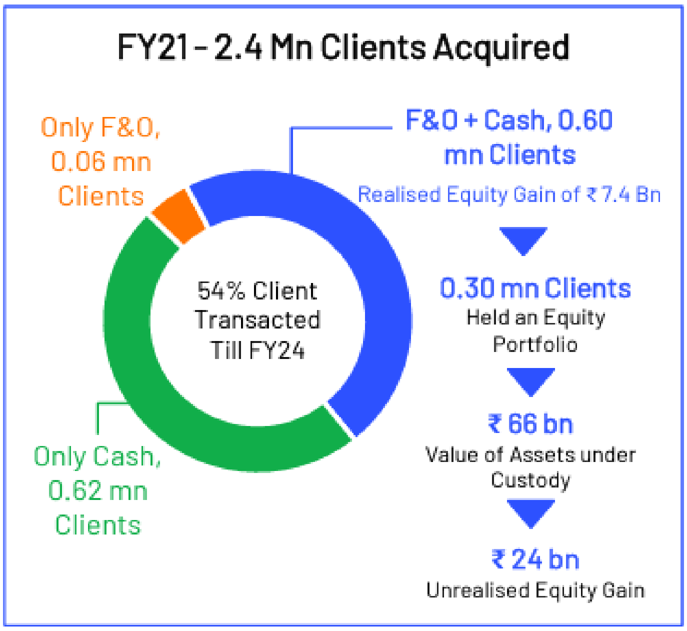
Source: MOFSL, Company

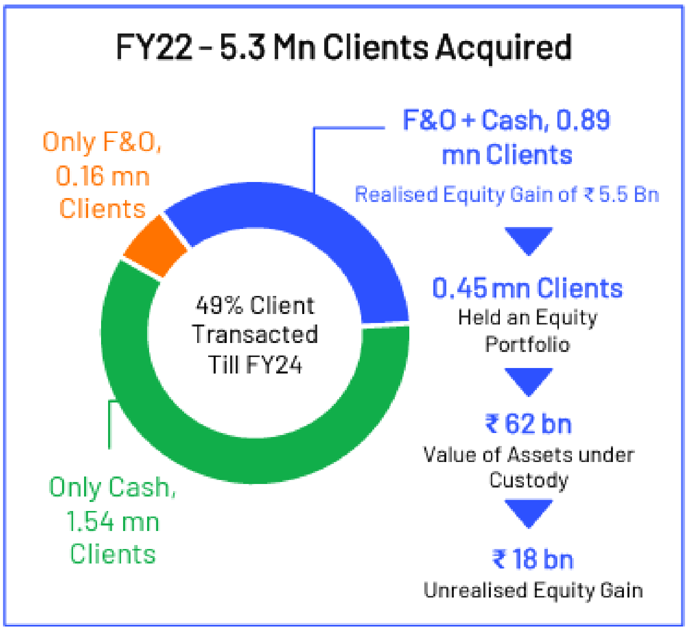
Stickiness of revenues from existing customers

		Actuals				
(₹ Mn)	Gross Acquisition (Mn)	FY20	FY21	FY22	FY23	FY24
Pre-FY20		3,589	3,358	3,606	3,439	3,681
FY20	0.6	1,116	2,066	1,801	1,743	1,894
FY21	2.4		3,472	6,455	5,760	6,037
FY22	5.3			4,885	8,233	8,483
FY23	4.7				3,728	7,081
FY24	8.8					6,156
Total Net Revenue		**4,705**	**8,896**	**16,747**	**22,902**	**33,331**
(-) Employee + Opex (Ex-Branding Spend)		3,205	4,436	7,951	10,479	16,817
Margin (Ex-Branding Spend)		**1,500**	**4,460**	**8,797**	**12,423**	**16,514**
Margin (Ex-Branding Spend)		*31.9%*	*50.1%*	*52.5%*	*54.2%*	*49.5%*
(-) Branding Spend		103	165	243	202	878
Operating Profit		**1,397**	**4,295**	**8,554**	**12,221**	**15,637**
Operating Profit Margin (%)		*29.7%*	*48.3%*	*51.1%*	*53.4%*	*46.9%*
Break-even (# of months)				5	7	7

Source: MOFSL, Company

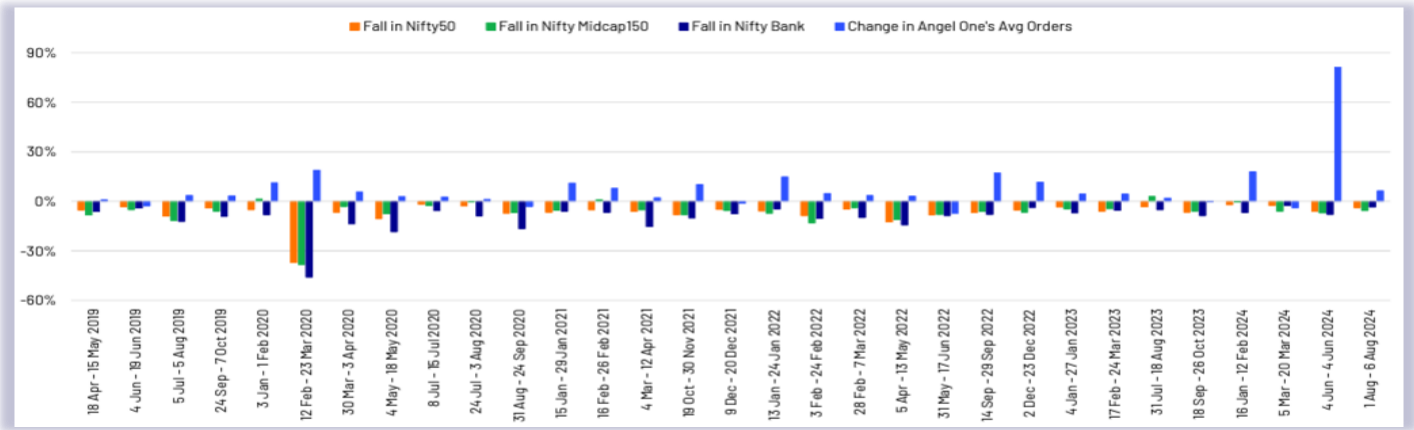
F&O Clients building long term portfolio





Source: MOFSL, Company

Comparison between fall in Nifty & change in Angel One's average orders



Source: MOFSL, Company

Revenue sizing for loan distribution business based on assumptions across key parameters

Loans	FY26	FY27	FY28
No of customers (m)	0.30	0.60	0.80
Ticket size (INR m)	0.10	0.13	0.15
Disbursement (INR b)	30.0	75.0	120.0
Yield (%)	3.0	3.0	3.0
Revenue (INR m)	900	2,250	3,600

Source: MOFSL, Company

Sensitivity analysis for FY27 revenues for the loan distribution business based on number of RMs and customer ticket size

	Number of customers				
Ticket Size (INR m)	0.4	0.5	0.6	0.7	0.8
0.1	1,200	1,500	1,800	2,100	2,400
0.125	1,500	1,875	2,250	2,625	3,000
0.15	1,800	2,250	2,700	3,150	3,600
0.175	2,100	2,625	3,150	3,675	4,200
0.2	2,400	3,000	3,600	4,200	4,800

Source: MOFSL, Company

Revenue sizing for Wealth Management business based on assumptions across key parameters

Wealth Management	FY26	FY27	FY28
No of RMs	50	75	100
Customers/RM	10	15	20
No of customers	500	1,125	2,000
Ticket size (INR m)	50	60	70
AUM (INR b)	25	68	140
Yield (%)	1.0	1.0	1.0
Revenue (INR m)	250	675	1,400

Source: MOFSL, Company

Sensitivity analysis for FY27 revenues for the Wealth business based on number of RMs and customer ticket size

	Number of RMs				
Ticket Size (INR m)	25	50	75	100	125
30	112.5	225	337.5	450	562.5
40	150	300	450	600	750
50	187.5	375	562.5	750	937.5
60	225	450	675	900	1125
70	262.5	525	787.5	1,050	1,312.5

Source: MOFSL, Company

Revenue sizing for AP channels distribution business based on assumptions across key parameters

AP Distribution	FY26	FY27	FY28
No of APs	12,000	14,000	16,000
% of APs selling MFs	20	30	40
No of APs selling MFs	2,400	4,200	6,400
Ticket size (INR m)	20	30	40
AUM (INR b)	48	126	256
Yield (%)	1.0	1.0	1.0
Revenue (INR m)	480	1,260	2,560
Sharing with AP (%)	70.0	70.0	70.0
Net revenue	144	378	768

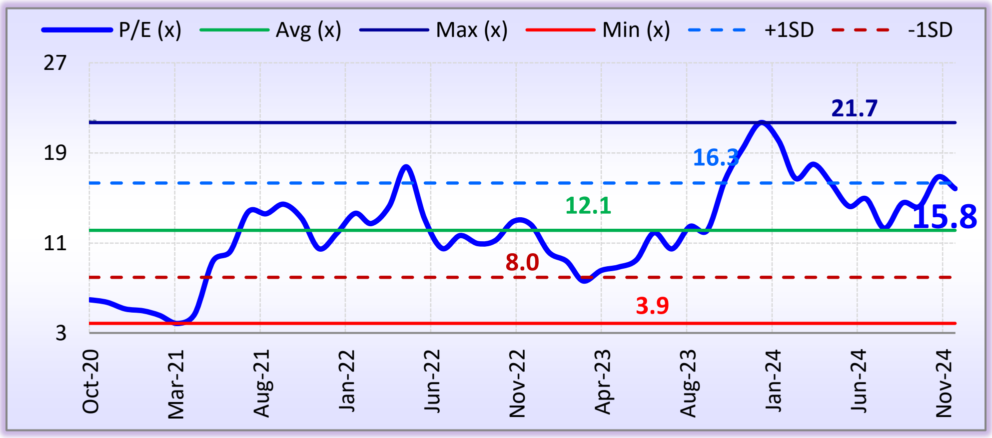
Source: MOFSL, Company

Sensitivity analysis for FY27 revenues for the AP channel based on number of APs and their respective ticket size

	Number of APs				
Ticket Size (INRm)	10,000	12,000	14,000	16,000	18,000
10	90	108	126	144	162
20	180	216	252	288	324
30	270	324	378	432	486
40	360	432	504	576	648
50	450	540	630	720	810

Source: MOFSL, Company

One year forward P/E chart trend



Source: MOFSL, Company

Financials and valuations

Income Statement

(INR m)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Total Income	**4,721**	**8,971**	**16,827**	**22,931**	**33,331**	**45,432**	**52,158**	**63,429**
Change (%)		90.0	87.6	36.3	45.4	36.3	14.8	21.6
Net Brokerage Income	2,735	5,436	10,235	14,399	21,062	27,619	33,014	39,176
Interest income	1,254	1,998	3,653	5,195	7,859	14,968	19,829	25,374
Less - Finance costs	489	389	721	895	1,359	3,760	6,405	7,908
Net Interest income	765	1,609	2,932	4,300	6,500	11,208	13,425	17,466
Other Income	1,221	1,927	3,661	4,232	5,769	6,605	5,720	6,787
Operating Expenses	**3,142**	**4,675**	**8,273**	**10,705**	**17,695**	**25,411**	**29,350**	**33,602**
Change (%)	-3.2	48.8	76.9	29.4	65.3	43.6	15.5	14.5
Operating Margin	**1,578**	**4,296**	**8,554**	**12,226**	**15,636**	**20,022**	**22,808**	**29,827**
Depreciation	209	184	187	303	498	1,084	1,564	2,044
Profit Before Tax	**1,204**	**4,112**	**8,367**	**11,923**	**15,138**	**18,938**	**21,244**	**27,783**
PAT	**884**	**2,981**	**6,251**	**8,907**	**11,257**	**14,006**	**15,722**	**21,884**
Change (%)	5.0	237.3	109.7	42.5	26.4	24.4	12.3	39.2
Dividend	227	1,056	2,245	3,324	3,039	0	6,289	8,753

Balance Sheet

(INR m)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Equity Share Capital	720	818	829	834	840	902	902	902
Reserves & Surplus	5,427	10,492	15,015	20,781	29,546	58,493	67,926	81,056
Net Worth	**6,147**	**11,310**	**15,844**	**21,616**	**30,386**	**59,394**	**68,828**	**81,958**
Borrowings	4,880	11,715	12,577	7,872	25,353	41,144	57,156	66,763
Other Liabilities	11,043	25,114	43,777	45,175	76,636	1,24,999	1,79,822	2,44,966
Total Liabilities	**22,070**	**48,138**	**72,198**	**74,663**	**1,32,375**	**2,25,537**	**3,05,805**	**3,93,688**
Cash and Investments	14,607	18,830	48,936	56,006	98,442	1,31,538	1,80,061	2,49,865
Change (%)	44.1	28.9	159.9	14.4	75.8	33.6	36.9	38.8
Loans	**2,806**	**11,285**	**13,575**	**11,533**	**17,771**	**56,329**	**78,252**	**91,405**
Change (%)	-63.2	302.2	20.3	-15.0	54.1	217.0	38.9	16.8
Net Fixed Assets	1,104	1,150	1,638	2,482	4,094	6,094	9,094	12,094
Current Assets	3,553	16,873	8,050	4,642	12,069	31,575	38,399	40,323
Total Assets	**22,070**	**48,138**	**72,199**	**74,663**	**1,32,375**	**2,25,537**	**3,05,805**	**3,93,688**

E: MOFSL Estimates

Financials and valuations

Cashflow Statement

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Cashflow from operations	**5,438**	**-10,624**	**-2,187**	**3,793**	**19,319**	**-18,018**	**13,294**	**36,529**
PBT	1,204	4,112	8,367	11,923	15,138	18,938	21,244	27,783
Depreciation and amortization	209	184	187	303	498	1,084	1,564	2,044
Tax Paid	-296	-1,070	-2,088	-2,900	-3,889	-4,932	-5,522	-5,899
Interest, dividend income (post-tax)	-920	-1,448	-2,729	-3,881	-5,894	-11,226	-14,872	-25,374
Interest expense (post-tax)	359	282	539	669	1,019	2,820	4,803	7,908
Working capital	4,883	-12,684	-6,463	-2,321	12,447	-24,701	6,077	30,067
Fixed deposits (part of cash & equivalent)	-	-	-	-	-	-	-	-
Cash from investments	**-335**	**194**	**-806**	**-2,055**	**-1,016**	**-3,084**	**-4,564**	**-5,044**
Capex	-131	-230	-675	-1,146	-2,110	-3,084	-4,564	-5,044
Others	-204	424	-131	-908	1,095	-	-	-
Cash from financing	**-3,446**	**10,183**	**1,336**	**-4,628**	**19,870**	**39,198**	**19,792**	**18,320**
Equity	-28	3,237	528	189	553	15,002	-0	-
Debt	-3,786	6,835	863	-4,705	17,481	15,790	16,012	9,607
Interest costs	562	1,166	2,190	3,212	4,875	8,406	10,069	17,466
Dividends Paid	-194	-1,056	-2,245	-3,324	-3,039	-	-6,289	-8,753
Others	-	-	-	-	-	-	-	-
Change of cash	1,657	-247	-1,657	-2,890	38,173	18,097	28,522	49,805
Opening Cash	4,468	6,125	5,878	4,221	1,331	39,503	57,600	86,123
Closing Cash	6,125	5,878	4,221	1,331	39,503	57,600	86,123	1,35,927
FCFE	**2,082**	**-2,853**	**191**	**1,153**	**39,565**	**3,094**	**34,811**	**58,558**

Ratios (%)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
As a percentage of Revenues								
Net Brokerage Income	57.9	60.6	60.8	62.8	63.2	60.8	63.3	61.8
Net Interest Income	16.2	17.9	17.4	18.8	19.5	24.7	25.7	27.5
Other Income	25.9	21.5	21.8	18.5	17.3	14.5	11.0	10.7
Total cost	**66.6**	**52.1**	**49.2**	**46.7**	**53.1**	**55.9**	**56.3**	**53.0**
Employee Cost	33.9	19.2	16.7	17.4	16.7	19.9	19.3	17.2
Opex (ex emp) Cost	32.7	33.0	32.5	29.3	36.4	36.0	37.0	35.8
PBT	**25.5**	**45.8**	**49.7**	**52.0**	**45.4**	**41.7**	**40.7**	**43.8**
PAT	**18.7**	**33.2**	**37.1**	**38.8**	**33.8**	**30.8**	**30.1**	**34.5**
Profitability Ratios (%)								
RoE	15.2	34.2	46.0	47.6	43.3	31.2	24.5	29.0
Dividend Payout Ratio	25.7	35.4	35.9	37.3	27.0	0.0	40.0	40.0

Valuations	2020	2021	2022	2023	2024	2025E	2026E	2027E
BVPS (INR)	74.2	136.5	191.2	260.9	366.7	716.8	830.7	989.1
Change (%)	12.1	84.0	40.1	36.4	40.6	95.5	15.9	19.1
Price-BV (x)	**44.4**	**24.1**	**17.2**	**12.6**	**9.0**	**4.6**	**4.0**	**3.3**
EPS (INR)	10.7	36.0	75.4	107.5	135.9	169.0	189.7	264.1
Change (%)	5.0	237.3	109.7	42.5	26.4	24.4	12.3	39.2
Price-Earnings (x)	**308.6**	**91.5**	**43.6**	**30.6**	**24.2**	**19.5**	**17.3**	**12.5**
DPS (INR)	3.2	12.9	27.1	39.9	36.2	0.0	69.8	97.1
Dividend Yield (%)	**0.1**	**0.4**	**0.8**	**1.2**	**1.1**	**0.0**	**2.1**	**2.9**

E: MOFSL Estimates

BSE

BSE SENSEX	S&P CNX
81,709	24,678

CMP: INR5,396 TP: INR6,500 (+20%) Upgrade to Buy

Building a strong future; more options for growth

- **The equity derivatives segment has been a monopoly of the NSE for the past couple of decades. However, since the BSE stepped on the gas and has achieved a market share of 23%+ in notional options turnover, this segment is gradually evolving into a duopoly.**
- **BSE has been able to expand its market share through: 1) relaunch of contracts with a smaller lot size, 2) an expiry that differs from key competitor products, 3) lower transaction fees than competition, and 4) aggressive outreach to brokers to enroll for BSE derivatives**
- **These initiatives have translated into a notable volume improvement. In Oct'24, the total premium turnover was INR2t (market share of 11.4% on premium T/O). Pricing for BSE is now marginally lower than competition after the recent price hikes.**
- **Over the medium term, scale up of co-location servers will bring in high frequency traders and other institutions, leading to higher volumes on long-dated expiry products. This bodes well for realizations as well as costs.**
- **Apart from this, BSE has taken various measures over the past nine months to boost its market share and profitability. These include: 1) reducing the tick size to 1 paisa for stocks with prices in the range of INR15-100, 2) introducing a 10-paisa strike interval on USD-INR contracts, 3) discontinuing the liquidity enhancement scheme for derivatives, 4) levying charges for co-location services, and 5) introducing new products to enhance product offerings.**
- **Implementation of true-to-label and new F&O regulations can have a transitionary impact on volumes and profitability. However, we note that BSE will be relatively less impacted compared to NSE, and other revenue drivers like colocation and new products (commodities and power) will boost earnings growth.**
- **We expect BSE to register a revenue/EBITDA/PAT CAGR of 45%/74%/74% during FY24-27. This is premised on exponential growth in options volume. Hence, we upgrade the stock to BUY based on 45x Sep'26E EPS with a revised one-year TP of INR6,500.**

Stock Info

Bloomberg	BSE IN
Equity Shares (m)	135
M.Cap.(INRb)/(USDb)	730.6 / 8.6
52-Week Range (INR)	5445 / 1941
1, 6, 12 Rel. Per (%)	14/92/99
12M Avg Val (INR M)	6023

Financials Snapshot (INR b)

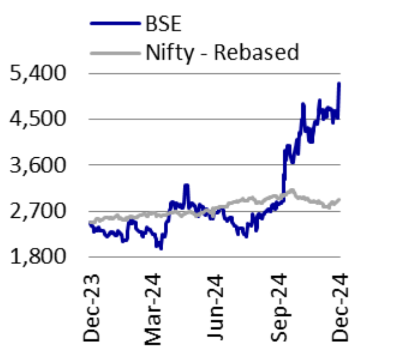
Y/E Mar	FY25E	FY26E	FY27E
Net Sales	28.5	35.2	41.9
EBITDA	15.1	20.5	25.3
PAT	13.4	17.5	21.4
Adj. PAT	13.4	17.5	21.4
EPS (INR)	99.2	129.0	158.1
EPS Gr (%)	232.3	30.0	22.6
BV / Sh (INR)	274	312	360
Ratios (%)			
RoE	36.3	41.3	43.9
Payout ratio	70.0	70.0	70.0
Valuations			
P/E (x)	54.4	41.8	34.1
P / BV (x)	19.7	17.3	15.0

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	0.0	0.0	0.0
DII	11.7	11.6	8.1
FII	35.9	33.9	33.0
Others	52.4	54.5	58.9

FII Includes depository receipts

Stock Performance (1-year)



Achieves 23% notional T/O market share, premium T/O share to follow

- Since the relaunch in May'23, BSE's derivatives volumes have increased, especially for index options. In Oct'24, BSE's notional turnover in the options segment was INR2,643t, with a 23.2% market share. The premium turnover stood at INR2t with an 11.4% market share during the month.
- In terms of pricing, the transaction charges have been raised with effect from Oct'24 to INR325 per m of premium turnover for Sensex and Bankex contracts and INR50 per m of premium turnover for other options. The recent price change was primarily to adhere to the True to Label regulations.
- BSE has a lesser market share in terms of premiums owing to slower traction in long-dated options. Improvement in premium turnover market share will be driven by 1) increasing institutional participation, 2) the possibility of an increase in volumes on longer-than-expiry days post-implementation of new regulations.
- Based on market demand, BSE plans to launch a stock derivatives product that shall have expiry on the second Thursday of the month.

Co-location could be the next big revenue and profit driver

- When BSE relaunched its derivatives segment, it had 100 racks, which have now been consumed. It has implemented Phase 1 of its expansion, where it has added about 100 racks and is in the process of allocating the same.
- BSE has been levying charges to recover the cost of the racks. The recent additions have been for 15kVA racks and to recover the additional costs, it has raised the rental in line with the industry.
- Currently, BSE is not charging for orders, but charges are likely to be levied once the scale up of volumes and utilization of the expanded co-location capacity surpasses optimal levels.
- The co-location facility attracts institutional investors, which will in turn drive volumes on long-dated options, leading to higher realizations as well as lower clearing and settlement costs.

Remedial measures undertaken to revive cash segment's market share

- BSE had been consistently losing its market share in cash equities to NSE (from ~12% share in Mar'18 to ~5.5% in Apr'23). To counter the loss, the company introduced a 1-paisa tick size (earlier 5-paisa) from 1st Mar'23 for equity scrips priced between INR15 and INR100. Following the move, its market share has improved to ~6.4% (Oct'24).
- This universe has more than 700 stocks available for trading. The objective is to achieve tighter bid-ask spreads with a standard difference of 1 paisa.
- Over the medium term, the rub-off effect from scaling up derivative volumes along with the implementation of best price execution can further drive BSE's market share.

Brighter prospects for Star MF

- Star MF (the mutual fund business of BSE) continues to deliver stellar performance (three-year volume/revenue CAGR of 36%/42%). Its strong growth is a testament to the strategic broadening of BSE's business model.
- Star MF's fee structure has two parts: 1) transaction charges for processing the orders, and 2) recovery of costs incurred by BSE while handling and processing those transactions. These fee components are subject to different slabs that are applicable to different parties based on the level of operations. Overall, BSE earns ~INR3 per transaction, considering the structure.
- Star MF recorded a jump of 100% YoY in revenue to INR587m in 2QFY25. The total number of transactions processed by BSE Star MF jumped 68% YoY to reach ~162.8m transactions in 2QFY25 from ~96.7m in 2QFY24. Oct'24 recorded the highest number of transactions at 60.5m.
- With MF penetration deepening through the SIP book, we see further growth potential for the Star MF platform.

Derivatives will boost profitability; New F&O regulations to have a short-term impact on earnings

- Implementation of true-to-label, new F&O regulations and consultation paper on treasury income of clearing corporations will have a transitionary impact on volumes and profitability for BSE.

- Most of the measures implemented will have an impact on volumes, likely visible from Dec'24. However, one weekly expiry per exchange will give BSE an opportunity to compete on days where NSE will not have a product expiry. Hence, we believe, BSE will be relatively less impacted.
- Product innovation could be an alternative wherein new contracts can be launched on new indices with monthly expiries in different weeks.
- For BSE, since large volumes were happening on expiry day, its premium to notional turnover ratio was 0.08% vs. 0.18% for NSE (Oct'24). With the probability of volumes increasing on longer-than-expiry days, this ratio would increase for BSE. This will not only help in revenues but also in bringing down the clearing and settlement costs.
- Additional upsides could come from 1) the volume shift to the cash segment and 2) if the premium to notional turnover increases, the clearing and settlement costs could decline.
- We have factored in a 20%/10% MoM decline in Dec'24/Jan'25 following the implementation of regulations and expect volumes to grow at a moderate pace after that. However, we expect the premium-to-notional turnover ratio to improve to 9.5bp from the current 6.2bp, which will offset the impact of volume decline. We have not considered any reduction in the clearing and settlement costs, which is another profitability lever.

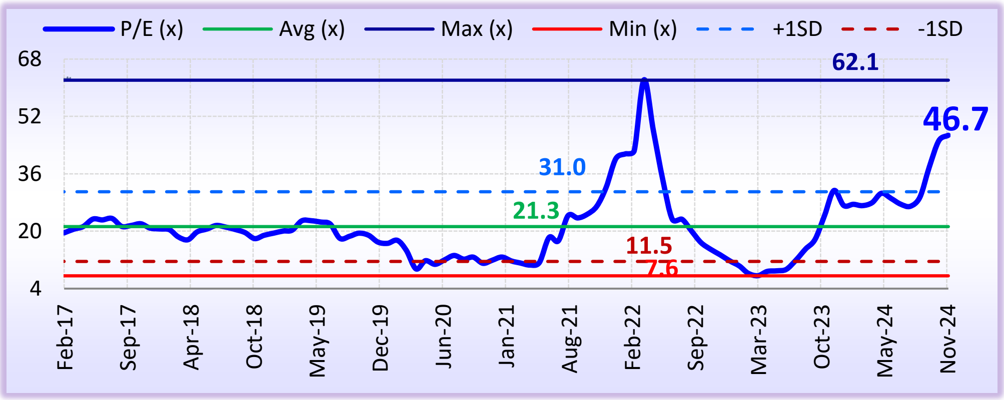
Valuation and View

- We anticipate no impact of the price hikes on exchange volumes, as exchange transaction costs account for a small portion of overall trade costs. Stamp duty and STT are the larger contributors. Despite our assumptions of 5.6x volumes during FY24-FY27, BSE's premium turnover market share would reach ~16% by Mar'27E.
- We expect BSE to report a revenue/EBITDA/PAT CAGR of 45%/74%/74% in FY24-27. This is premised on exponential growth in options volume. **Hence, we upgrade the stock to BUY** based on 45x Sep'26E EPS with a revised one-year TP of INR6,500.

Key risks

- Slowdown in derivative volumes post new regulations is the biggest concern.
- A weaker volume trajectory in longer-dated options can pose a risk to profitability.

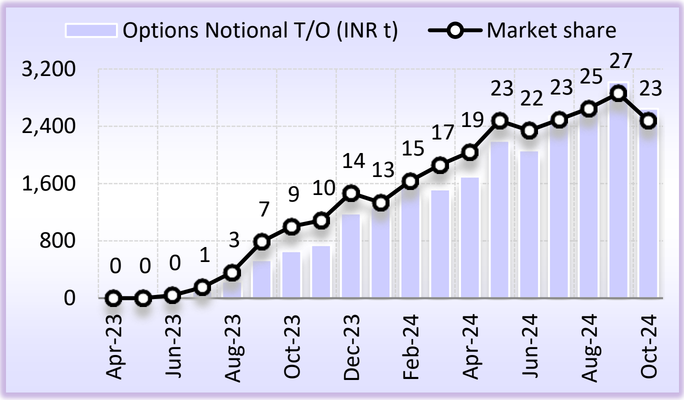
One-year forward P/E chart trend



Source: MOFSL, Company

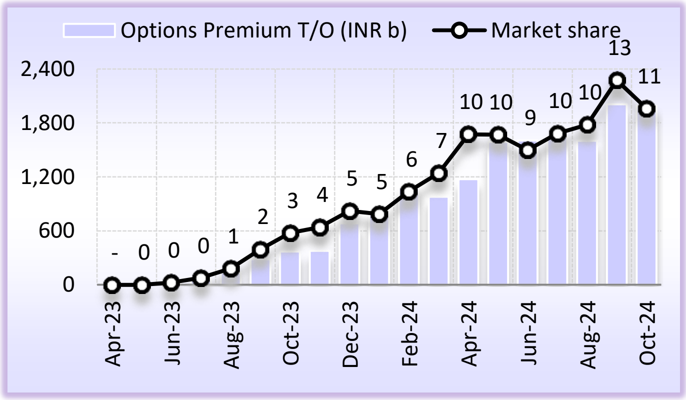
STORY IN CHARTS

Option segment's notional turnover (BSE)



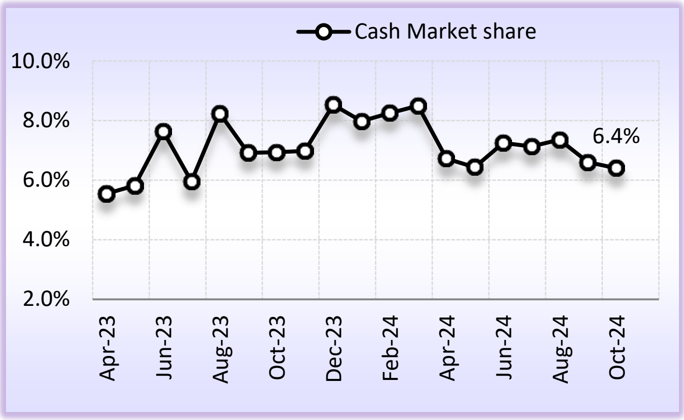
Source: MOFSL, Company

Option segment's premium turnover (BSE)



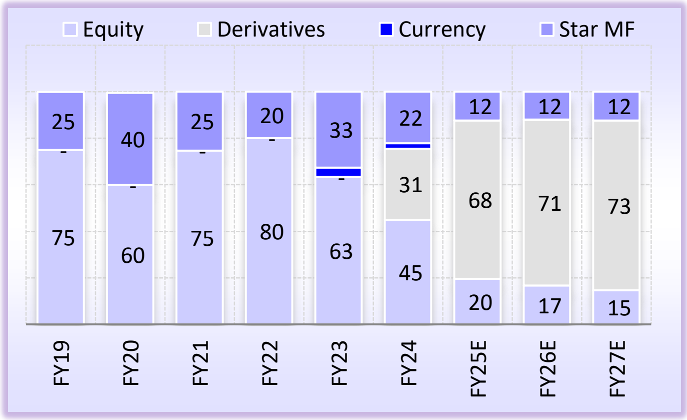
Source: MOFSL, Company

Trend in BSE cash segment's market share (%)



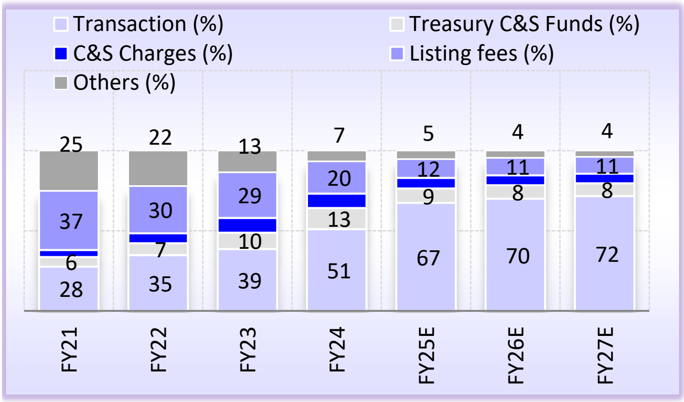
Source: MOFSL, Company

Share of derivatives in transaction charges to improve



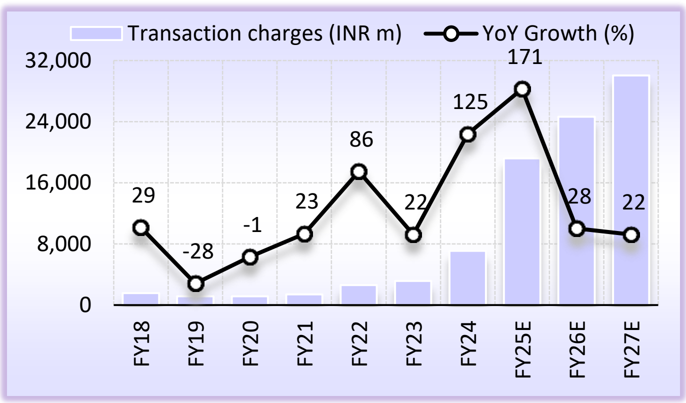
Source: MOFSL, Company

BSE's mix of overall revenue (%)



Source: MOFSL, Company

Trend in overall transaction revenue



Source: MOFSL, Company

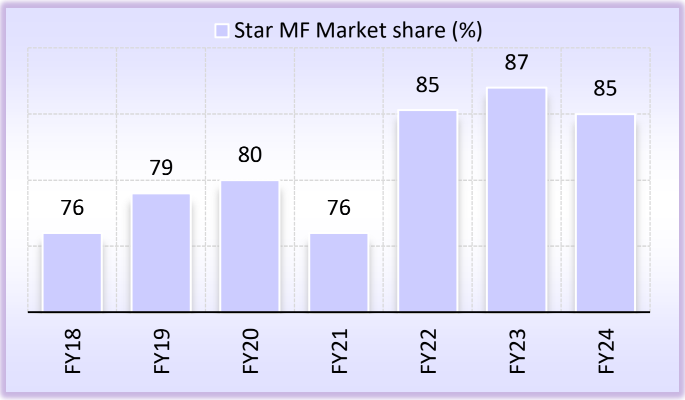
Snapshot of global listed exchanges

Company Name	Market Cap	Revenue (USD M)		EBITDA (%)		RoE (%)		PE (x)		PB (x)	
	(USD m)	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E
ICE	92,419	9,301	9,844	64	65	12	12	27	24	3	3
HKEX	47,341	2,848	3,033	73	73	25	25	29	27	7	7
LSE	76,015	10,942	11,695	47	48	8	8	32	29	3	3
ASX Ltd	8,427	681	713	62	62	13	13	27	26	4	3
SGX	10,134	926	995	57	58	31	29	26	23	8	6
TMX Group	8,762	1,025	1,109	54	55	10	11	27	24	3	3
BSE	7,303	342	422	53	58	36	41	54	42	20	17
MCX	4,175	144	186	58	63	44	53	56	42	23	21
CDSL	4,660	149	181	62	64	39	40	61	50	21	18

Note: ASX and SGX has year ended June data; BSE, MCX and CDSL has FY25 and FY26 data

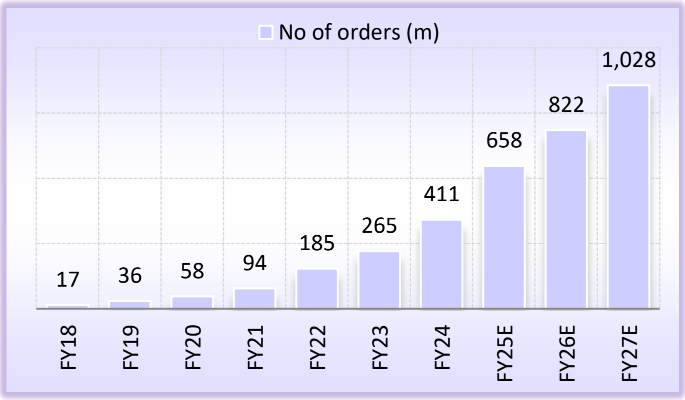
Source: Bloomberg, MOFSL

Improving market share of Star MF among exchanges



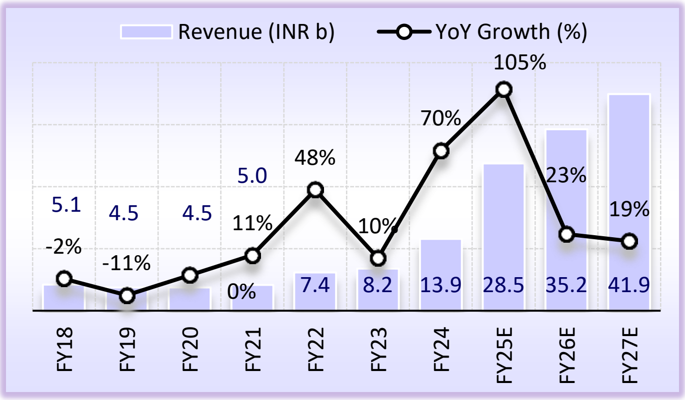
Source: MOFSL, Company

Strong traction in Star MF orders



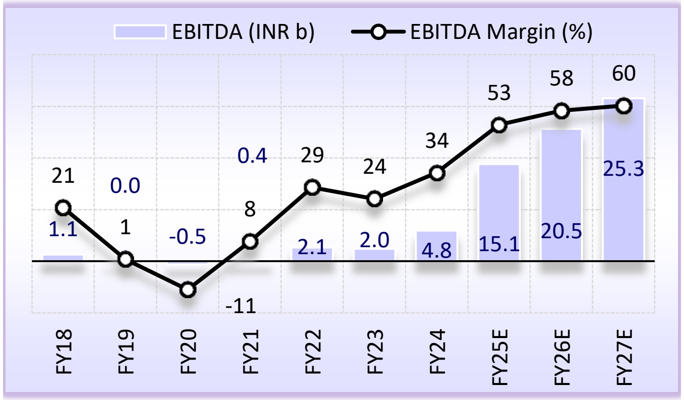
Source: MOFSL, Company

Overall revenue growth…



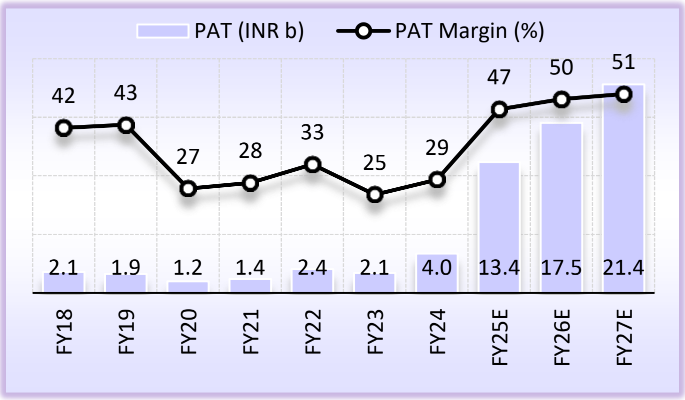
Source: MOFSL, Company

…with improving EBITDA margin

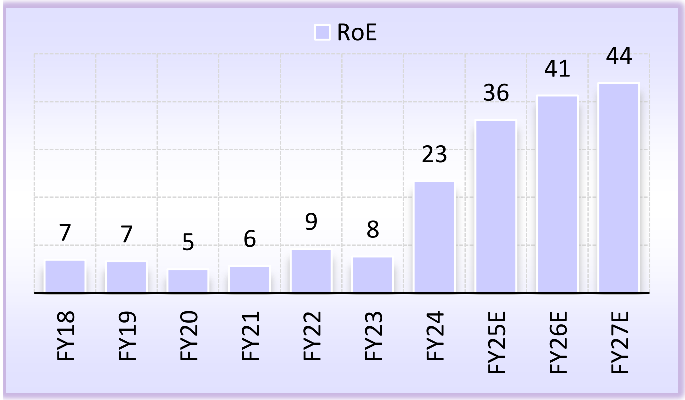


Source: MOFSL, Company

Improving PAT margin



Rising RoE trajectory (%)



Financials and valuations

Income Statement (INR m)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenue	**4,505**	**5,014**	**7,432**	**8,155**	**13,901**	**28,512**	**35,155**	**41,947**
Change (%)	**0.0**	**11.3**	**48.2**	**9.7**	**70.5**	**105.1**	**23.3**	**19.3**
Employee expenses	1,512	1,487	1,773	1,802	2,047	2,334	2,684	2,952
Technology expenses	1,176	948	969	1,239	1,374	1,621	1,816	1,997
Admin & Others	2,132	1,854	2,209	2,777	5,715	9,486	10,134	11,713
Liquidity enhancement expenses	178	337	350	363	0	0	0	0
EBITDA	**-493**	**388**	**2,131**	**1,974**	**4,765**	**15,071**	**20,522**	**25,284**
EBITDA %	**-10.9**	**7.7**	**28.7**	**24.2**	**34.3**	**52.9**	**58.4**	**60.3**
Depreciation / Amortization	510	579	483	603	954	1,122	1,302	1,482
EBIT	**-1,003**	**-190**	**1,649**	**1,371**	**3,810**	**13,949**	**19,220**	**23,802**
EBIT %	**-22.3**	**-3.8**	**22.2**	**16.8**	**27.4**	**48.9**	**54.7**	**56.7**
Finance costs	24	103	222	275	0	0	0	0
Other Income	1,795	1,533	1,204	1,384	2,279	2,668	2,447	2,713
PBT	**768**	**1,240**	**2,631**	**2,480**	**5,172**	**16,617**	**21,667**	**26,515**
Tax	149	109	823	916	1,848	4,154	5,417	6,629
ETR %	19.4	8.8	31.3	36.9	35.7	25.0	25.0	25.0
PAT before associate profits	**619**	**1,131**	**1,808**	**1,564**	**3,324**	**12,463**	**16,250**	**19,886**
Share of Associates profit	267	432	642	492	718	970	1,212	1,515
PAT after Associate profits	**886**	**1,562**	**2,449**	**2,056**	**4,042**	**13,433**	**17,462**	**21,401**
Change (%)	**-54.5**	**76.4**	**56.8**	**-16.0**	**96.6**	**232.3**	**30.0**	**22.6**
PAT margin %	**19.7**	**31.2**	**33.0**	**25.2**	**29.1**	**47.1**	**49.7**	**51.0**
Exceptional items	320	-145	0	0	3,675	0	0	0
PAT after exceptional items	**1,206**	**1,417**	**2,449**	**2,056**	**7,717**	**13,433**	**17,462**	**21,401**

Balance Sheet (INR m)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Total fixed assets	2,085	1,843	1,681	2,535	2,991	3,491	3,991	4,491
Non-current investments	9,252	8,005	6,298	8,961	11,529	12,106	12,711	13,347
Other non-current assets	4,207	4,914	4,339	9,871	20,283	20,689	21,102	21,524
Total non-current assets	**15,543**	**14,762**	**12,318**	**21,367**	**34,803**	**36,285**	**37,804**	**39,362**
Cash & Current investments	16,092	19,269	35,117	30,496	44,629	46,953	53,995	62,725
Trade receivables	700	876	634	909	2,109	4,562	5,625	6,711
Other current assets	12,425	11,364	13,785	7,166	12,962	13,592	14,254	14,949
Total current assets	**29,216**	**31,509**	**49,535**	**38,571**	**59,699**	**65,107**	**73,874**	**84,385**
TOTAL ASSETS	**44,759**	**46,271**	**61,854**	**59,938**	**94,502**	**1,01,393**	**1,11,679**	**1,23,747**
Share Capital	270	270	271	271	271	270	270	270
R&S	23,981	24,796	26,275	26,741	32,752	36,782	42,021	48,441
Shareholders' equity	**24,251**	**25,066**	**26,545**	**27,012**	**33,023**	**37,052**	**42,291**	**48,711**
Core SGF	4,354	5,391	6,409	7,576	9,550	9,550	9,550	9,550
Minority Interest	186	235	1,352	1,278	1,524	1,524	1,524	1,524
Other LT liabilities	111	124	109	145	136	136	136	136
Total non-current liabilities	**113**	**124**	**109**	**145**	**136**	**136**	**136**	**136**
Outstanding dues to creditors	758	982	729	804	3,603	2,028	2,207	2,511
Other current liabilities	15,098	14,473	26,711	23,123	46,667	51,103	55,971	61,315
Total current liabilities	**15,856**	**15,455**	**27,439**	**23,927**	**50,270**	**53,131**	**58,178**	**63,826**
TOTAL LIABILITIES	**44,759**	**46,271**	**61,854**	**59,938**	**94,502**	**1,01,393**	**1,11,679**	**1,23,747**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Basic (INR)								
EPS	**8.9**	**10.5**	**18.1**	**15.2**	**57.0**	**99.2**	**129.0**	**158.1**
EPS (excl EOI)	**6.5**	**11.5**	**18.1**	**15.2**	**29.9**	**99.2**	**129.0**	**158.1**
Cash EPS	9.9	11.5	19.0	16.3	58.8	101.3	131.4	160.9
Book Value	179.2	185.2	196.1	199.6	244.0	273.7	312.5	359.9
DPS	5.8	7.1	13.5	12.0	15.0	69.5	90.3	110.7
Payout %	64.6	67.9	74.6	78.8	26.3	70.0	70.0	70.0
Valuation (x)								
P/E	824.6	467.5	298.2	355.2	180.7	54.4	41.8	34.1
Cash P/E	547.6	467.7	284.2	330.9	91.8	53.3	41.1	33.5
Price/Book Value	30.1	29.1	27.5	27.0	22.1	19.7	17.3	15.0
Dividend Yield (%)	0.1	0.1	0.3	0.2	0.3	1.3	1.7	2.1
Profitability Ratios (%)								
RoE	5.0	5.7	9.2	7.6	23.4	36.3	41.3	43.9
RoCE	3.3	5.4	10.7	10.2	18.4	44.8	51.2	54.4

E: MOFSL Estimates

Cash Flow **(INR m)**

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
PAT	1,206	1,417	2,449	2,056	7,717	13,433	17,462	21,401
Dep	510	579	483	603	954	1,122	1,302	1,482
Changes in working capital	**3,755**	**(1,329)**	**13,007**	**(4,649)**	**26,401**	**384**	**3,961**	**4,537**
Op Cash flow	**5,471**	**666**	**15,940**	**(1,990)**	**35,072**	**14,939**	**22,725**	**27,420**
Capex	-414	-337	-321	-1,457	-1,410	-1,622.05	-1,802.05	-1,982.05
Investments	1,274	2,351	-920	-714	-20,033	(1,589)	(1,657)	(1,728)
Changes in equity	**-5,348**	**409**	**1,974**	**-44**	**570**	(1)	-	-
Debt	407	1,050	1,002	1,204	1,965	-	-	-
Dividend	-779	-962	-1,827	-1,620	-2,030	(9,403)	(12,223)	(14,981)
Cash generation	**-10,331**	**1,845**	**-16,032**	**-642**	**-56,011**	(27,554)	(38,407)	(46,110)
Op Cash	15480.8	16091.8	19268.7	35116.6	30495.7	44,629	46,953	53,995
Cl Cash	**16,092**	**19,269**	**35,117**	**30,496**	**44,629**	46,953	53,995	62,725
FCF	**5,057**	**329**	**15,619**	**-3,447**	**33,662**	13,317	20,923	25,438

MCX

BSE SENSEX	S&P CNX
81,709	24,678

METAL & ENERGY
Trade with Trust

Stock Info

Bloomberg	MCX IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	352.9 / 4.2
52-Week Range (INR)	7049 / 2917
1, 6, 12 Rel. Per (%)	6/90/100
12M Avg Val (INR M)	2751

Financials Snapshot (INR b)

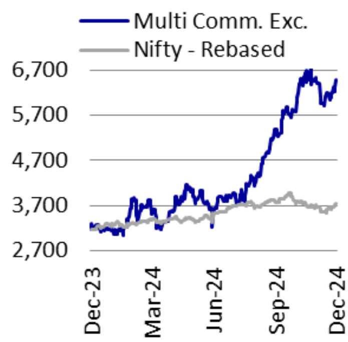
Year End	2025E	2026E	2027E
Sales	12.0	15.6	18.2
EBIT margin (%)	58.5	62.7	64.2
PAT	6.3	8.5	10.1
EPS (INR)	123.5	166.6	198.8
EPS Gr. (%)	658.0	34.9	19.3
BV/Sh. (INR)	295.0	328.3	368.1
Ratio			
RoE (%)	43.7	53.5	57.1
Valuations			
P/E (x)	56.0	41.5	34.8
P/BV (x)	23.5	21.1	18.8
Div Yld (%)	0.5	0.5	0.5

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	0.0	0.0	0.0
DII	57.5	57.3	56.4
FII	22.3	20.9	25.5
Others	20.3	21.9	18.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR6,920 TP: INR7,600 (+10%) Downgrade to Neutral

New products to drive strong growth

- **New products will be the key driving force behind our expectations of 56% CAGR in options volumes for MCX during FY24-27. These include Steel bar (launched), Gold 1 kg options (monthly expiry – launched), Crude sunflower, Gold 10 gram (monthly futures), and cotton seed wash oil (launched).**
- **Retail participation in the Indian commodities market (19.4m UCCs, Oct'24) is low when compared to equity market participation (48.9m NSE active clients, Oct'24). Strong technology-based offerings from discount brokers, along with lower ticket-size contracts from MCX, can improve the participation significantly.**
- **Currently, MCX has 100FPIs actively trading, with around 90 in CAT 1 and 10 in CAT 2 but trades on only two commodities i.e. crude oil and natural gas. Healthy traction is seen from the FPIs, and the company expects more participation that will result in the volume momentum picking up notably.**
- **With all the aforementioned factors and high volatility persisting in the energy basket, we expect ADTV in the options segment to increase to INR2t in FY25 from ~INR892b in FY24 (2QFY25 ADTV was at INR1.9t). Our sensitivity analysis yields ~4% rise in EPS for every INR100b additional ADTV in the options segment.**
- **With the successful completion of software transition to TCS software, cost savings will be realized. This will lead to a marked improvement in profitability.**
- **We expect MCX to deliver an FY24-27 revenue/EBITDA/PAT CAGR of 39%/168%/ 130%, fueled by a 56% CAGR in option volumes. The stock has quadrupled over the past 1.5 years and has doubled since our upgrade in Apr'24. We believe the stock is trading at its peak valuation. We revise our recommendation to Neutral with a TP of INR7,600 (premised on 42x Sep'26E EPS).**

New products and variations to existing ones to be the key drivers

- Currently, 90% of the volumes in the options segment are from crude oil and natural gas. MCX plans to launch smaller contracts and weekly expiry products (serial contracts – monthly contracts with expiry every week) in the bullion segment, which could provide a significant improvement in volumes.
- The company has recently launched Steel TMT bar contracts. This can be a large volume originator for MCX over the medium term, as the participation will be from SMEs. Further, the product has the widest participation among all steel products in India. Cotton seed wash oil contracts were also launched recently.
- Crude sunflower, Gold 10 gram (monthly futures) are going live soon as they're under the testing phase.
- MCX has applied for power future contracts, which are unavailable in the market at present. The approval for these contracts rests with the SEBI and CERC. These will be cash-settled contracts, and considering the interest from private companies looking to sell their surplus captive power generation, there is substantial potential for these contracts.
- Additionally, MCX has plans to launch mini contracts on other metal products, such as copper and nickel, which can boost 'futures' volumes.

Regulatory measures to provide further stimulus

- Equity markets have interoperability of margins between the exchanges. However, the same margins cannot be utilized to trade or invest on MCX. If the regulator approves the same, brokers can help customers trade in commodities without the requirement of moving margins.
- In the equity segment, clients' margins are computed based on net positions. However, in the commodities market, margins are computed on a gross basis. Rectifying this difference is crucial for scaling up volumes in the commodities market.
- Faster approvals for new products and variants of existing products can reduce the lead time for MCX.
- Regulatory requirement to redesign the existing charge structure (INR17.5 to INR26 per million on futures contracts and INR 400-500 per million of premium) to make it uniform and equal for all its members instead of a slab wise structure which was dependent on volume or activity of the members came in effect from Oct'24. MCX's new charge structure is INR21 per million for futures and INR418 per million of premium turnover for options.

FPI participation to improve with the DMA launch

- During FY23, FPIs obtained regulatory approval to participate in cash-settled commodities. However, the business has not scaled up materially, owing to the software transition issue and the absence of DMA.
- With the software transition now behind for MCX, FPIs have started investing in building software tools for them to trade on the new trading platform. Additionally, MCX has successfully tested and launched its DMA offering in the markets.
- The key target audience for FPIs would be high-frequency traders and FPIs with exposure to commodities in Indian currency

Software transition: Better late than never

- Over the past couple of years, MCX has been embroiled in transitioning its core operating software from 63Moons to TCS. This transition impeded the launch of new products and demanded extensive management attention. Additionally, due to the necessity of extending the contract with 63moons thrice, MCX's costs escalated significantly.
- As of Oct'23, the company successfully completed its transition and the software has been operating smoothly. This is evidenced by the significant increase in volumes to pre-transition levels.
- At current volumes, we expect the costs (AMC + depreciation) to be lower than the normalized run-rate in the pre-transition phase.

Competition concerns overdone

- Recently, NSE has received approvals to launch products, which are similar to MCX products, especially in the energy segment. Due to the software transition issues, concerns emerged regarding the potential shift in volumes toward other exchanges.
- However, we note that the volumes on these exchanges have not scaled materially. For Oct'24, the total volumes on NSE in the commodities segment were INR2.8b as compared to INR45.3t on MCX.
- In the medium term, achieving significant volume growth could prove challenging unless competing exchanges introduce differentiated products. Similar to what has been observed in equity options, we believe that the introduction of new products create a new market rather than merely taking away market share from existing players.

Options volumes to drive revenue and profitability

- During FY24-27, we expect the options volumes to register a CAGR of 56% as retail volumes along with new products start contributing meaningfully. Futures volumes, on the other hand, are expected to remain subdued, led by cannibalization by options volumes.
- With a stable pricing environment, significant operating leverage, and a marked reduction in software costs, we expect EBITDA margin to expand to 68% in FY27 from 29% in FY23, resulting in an EBITDA/PAT CAGR of 69%/62% over FY23-27.
- RoE would significantly improve to 57.1% in FY27E from 10.3% in FY23, fueled by improved margins and asset turnover.

Valuations close to the historic peak

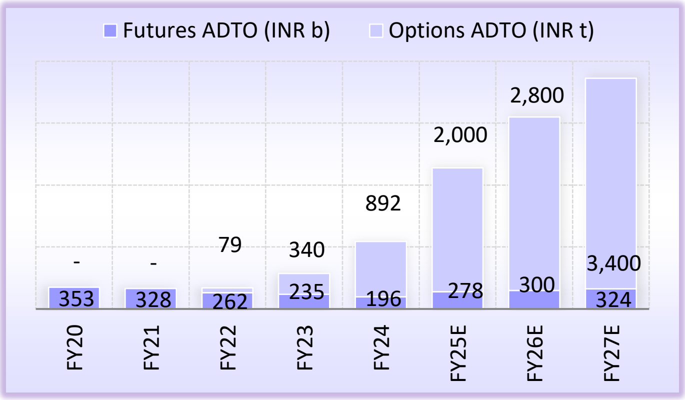
- We expect MCX to deliver a revenue/EBITDA/PAT CAGR of 39%/168%/130% over FY24-27, led by a 56% CAGR in option volumes. We highlight several near-to-medium term drivers of volume growth: 1) new product launches – futures & options (shorter duration contracts); 2) continued volatility in key commodity prices (gold, crude oil & natural gas) amid global uncertainties; and 3) a rise in retail participation in the options market.
- We expect no impact from competition on MCX's volumes, as similar products are currently available on other exchanges. With the technology overhang behind MCX, and near-term potential drivers in place, earnings momentum is likely to be strong. However, the stock has quadrupled over the past 1.5 years and has doubled since our upgrade in Apr'24. We believe the stock is trading at its peak valuation**. We revise our recommendation to Neutral with a TP of INR7,600 (premised on 42x Sep'26E EPS).**

Key risks

- Delay in approvals for new products
- Regulations not coming through as expected
- Scale up of retail and FPI volumes slower than our forecasts

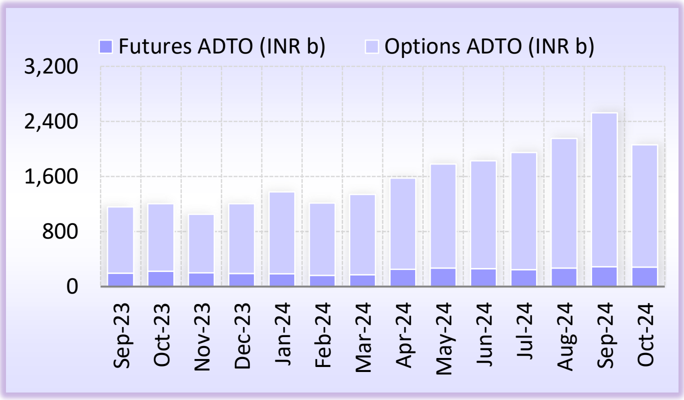
STORY IN CHARTS

Options volume will continue to increase…



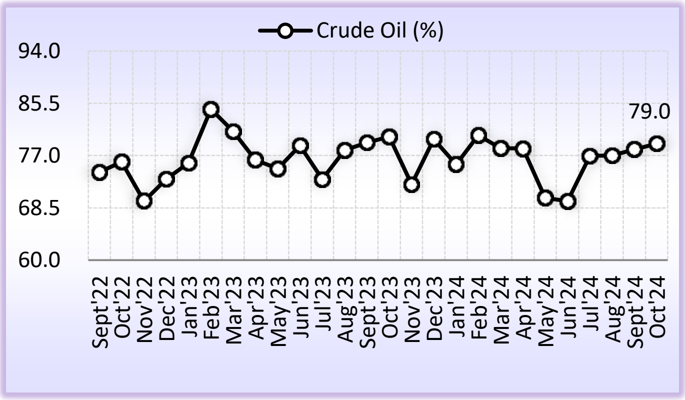
Source: Company, MOFSL

…as suggested by the recent monthly trends



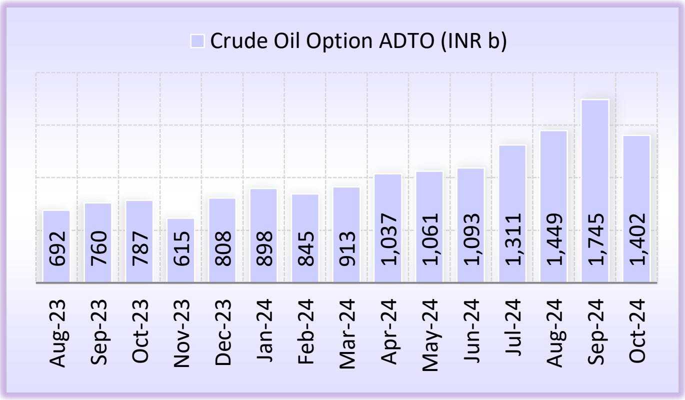
Source: Company, MOFSL

Crude oil forms the highest share as a % of option volumes…



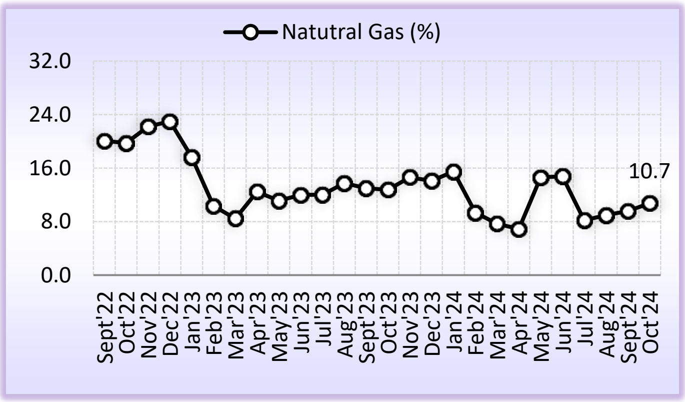
Source: Company, MOFSL

…as crude ADTO continues to surge



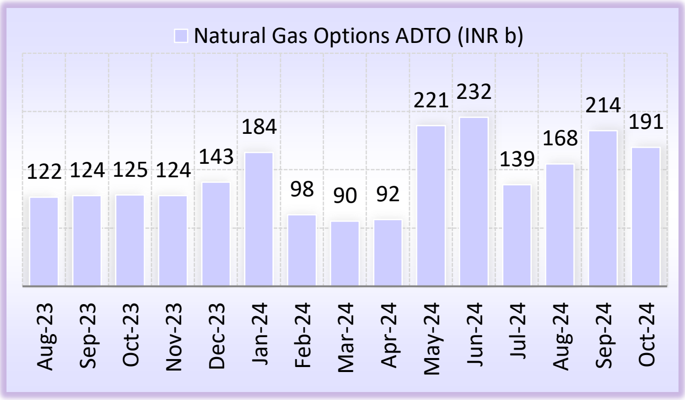
Source: Company, MOFSL

Share of natural gas as a % of option volumes picking pace…



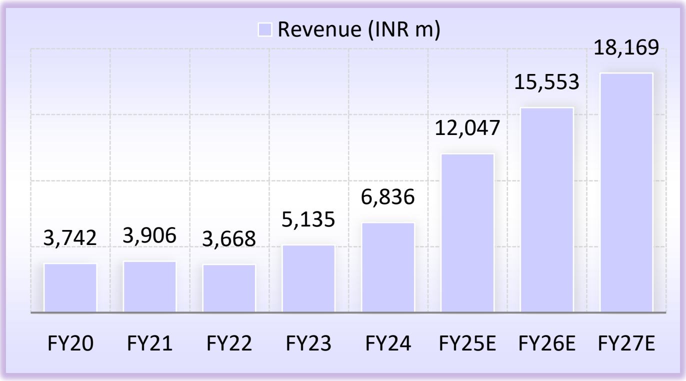
Source: Company, MOFSL

…as natural gas ADTO continues to surge

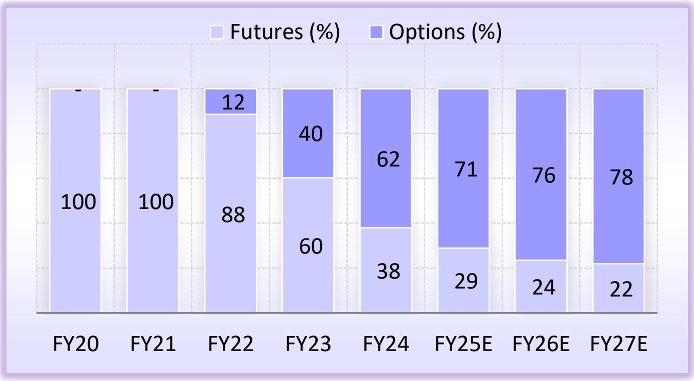


Source: Company, MOFSL

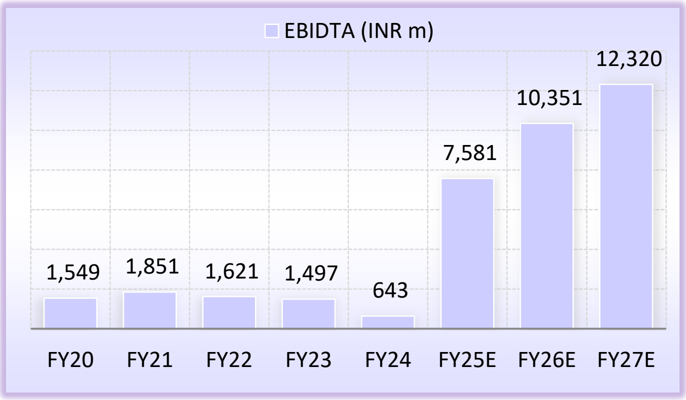
Overall revenue is expected to post 39% CAGR over FY24-27



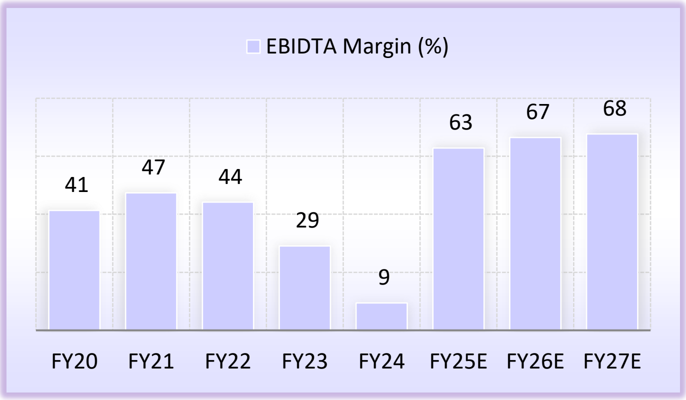
Options revenue mix continues to improve



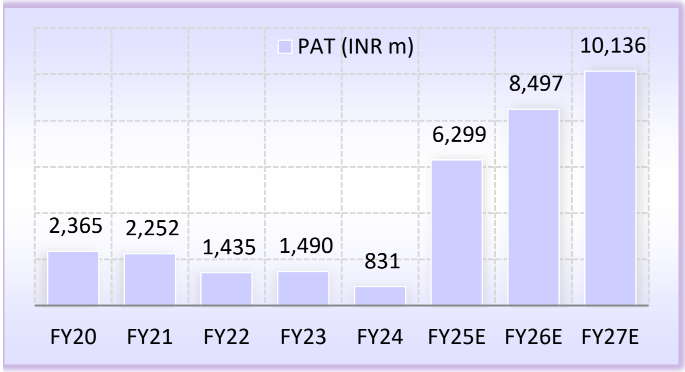
With growth in volumes, EBITDA is likely to increase in the coming years



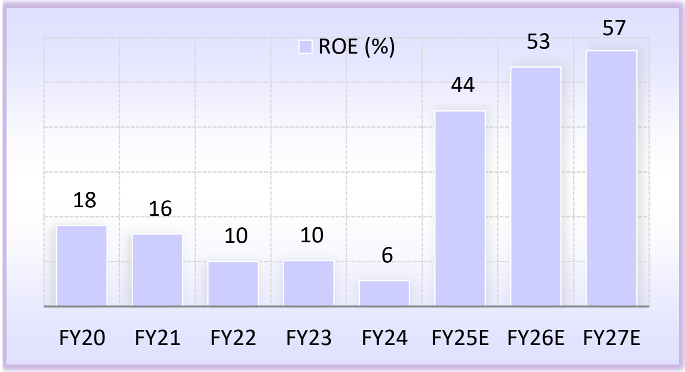
Post-transition to TCS, EBITDA margin is expected to improve with scale benefits



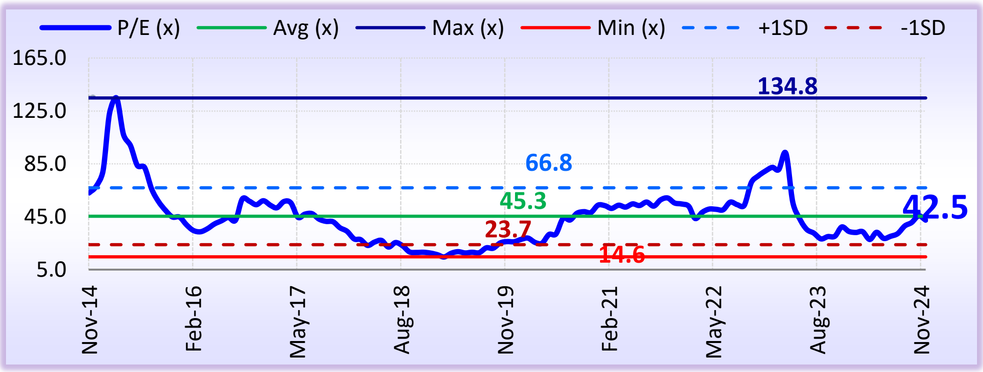
Overall profitability to improve



ROE to surge in the coming years



One year forward P/E chart trend



Source: MOFSL, Company

Financials and valuations

Income statement (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sales	**3,742**	**3,906**	**3,668**	**5,135**	**6,836**	**12,047**	**15,553**	**18,169**
Change (%)	25	4	(6)	40	33	76	29	17
Cost of Services	1,463	1,388	1,440	2,880	5,052	2,226	2,440	2,656
SG&A Expenses	730	667	607	759	1,140	2,240	2,761	3,194
Provisions								
EBITDA	**1,549**	**1,851**	**1,621**	**1,497**	**643**	**7,581**	**10,351**	**12,320**
% of Net Sales	41	47	44	29	9	63	66.56	67.81
Depreciation	182	221	227	216	359	539	595	651
EBIT	**1,367.1**	**1,630.7**	**1,394.5**	**1,281.0**	**284**	**7,043**	**9,757**	**11,669**
Interest	2	2	3	2	3	3	3	3
Other Income	1,289	1,038	665	677	754	1,012	1,139	1,329
EO Item (net)	-	-	204	-	-	-	-	-
PBT	**2,654**	**2,667**	**1,853**	**1,956**	**1,035**	**8,052**	**10,893**	**12,995**
Tax	389	415	406	416	189	1,771	2,397	2,859
Rate (%)	15	16	22	21	18	22	22	22
PAT before MI	2,266	2,251	1,447	1,540	846	6,280	8,497	10,136
Minority Interest	(99)	(1)	12	50	15	(19)	-	-
PAT	**2,365**	**2,252**	**1,435**	**1,490**	**831**	**6,299**	**8,497**	**10,136**
Extraordinary								
Net Income	**2,365**	**2,252**	**1,435**	**1,490**	**831**	**6,299**	**8,497**	**10,136**
Change (%)	62	(5)	(36)	4	(44)	658	35	19

Balance Sheet (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	510	510	510	510	510	510	510	510
Reserves	13,084	13,672	13,671	14,283	13,275	14,535	16,234	18,261
Net Worth	**13,594**	**14,182**	**14,181**	**14,793**	**13,785**	**15,045**	**16,744**	**18,771**
SGF	4,098	4,692	5,256	5,898	7,806	7,806	7,806	7,806
Loan & other long-term liabilities	546	576	658	561	656	668	679	691
Capital Employed	**18,237**	**19,451**	**20,095**	**21,252**	**22,246**	**23,518**	**25,229**	**27,268**
Net Block	**1,820**	**1,857**	**2,513**	**3,172**	**3,938**	**4,309**	**4,759**	**5,209**
Other LT Assets	-	-	2,828	2,355	9,621	9,893	10,179	10,479
Investments	10,508	11,885	4,440	8,441	6,025	6,628	7,291	8,020
Curr. Assets	**15,028**	**11,283**	**18,225**	**16,259**	**14,504**	**14,766**	**15,320**	**16,126**
Current Investments	6,618	5,985	7,135	2,024	3,114	4,614	6,114	7,614
Debtors	65	90	115	146	679	693	707	721
Cash & Bank Balance	7,593	4,261	9,755	11,779	9,656	8,384	7,403	6,673
Loans & Advances	2	1	222	1,328	543	554	565	576
Other Current Assets	751	948	998	983	511	522	532	543
Current Liab. & Prov	**9,109**	**5,575**	**7,911**	**8,976**	**11,842**	**12,079**	**12,320**	**12,567**
Net Current Assets	**5,919**	**5,709**	**10,314**	**7,283**	**2,662**	**2,688**	**3,000**	**3,560**
Application of Funds	**18,247**	**19,451**	**20,095**	**21,252**	**22,246**	**23,518**	**25,229**	**27,268**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	**46.4**	**44.2**	**28.1**	**29.2**	**16.3**	**123.5**	**166.6**	**198.8**
Cash EPS	50.4	49.2	33.6	34.3	24.6	136.4	180.8	214.3
Book Value	266.6	278.1	278.1	290.1	270.3	295.0	328.3	368.1
DPS	30.0	27.7	30.0	19.1	-	35.0	35.0	35.0
Payout %	83.0	77.1	129.6	63.2	-	80.0	80.0	80.0
Valuation (x)								
P/E	149.2	156.6	245.8	236.8	424.5	56.0	41.5	34.8
Cash P/E	137.1	140.7	206.1	201.4	280.9	50.7	38.3	32.3
Price/Book Value	26.0	24.9	24.9	23.8	25.6	23.5	21.1	18.8
Dividend Yield (%)	0.4	0.4	0.4	0.3	-	0.5	0.5	0.5
Profitability Ratios (%)								
RoE	18.1	16.2	10.1	10.3	5.8	43.7	53.5	57.1

Cash flow statement (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
PAT	2,365	2,252	1,435	1,490	831	6,299	8,497	10,136
Depreciation	182	221	227	216	359	539	595	651
Changes in working capital	4,773	(3,755)	2,137	(155)	3,671	202	206	210
Operating cash flow	**7,319**	**(1,282)**	**3,799**	**1,551**	**4,862**	**7,040**	**9,298**	**10,997**
Changes in PPE	(232)	(257)	(882)	(875)	(1,126)	(909)	(1,045)	(1,101)
Change in investments	(4,492)	(743)	3,466	1,583	(5,940)	(2,375)	(2,449)	(2,530)
Investing cash flow	**(4,724)**	**(1,001)**	**2,584**	**708**	**(7,066)**	**(3,284)**	**(3,494)**	**(3,631)**
Changes in ESC	600	72	439	96	(1,839)	-	-	-
Debt	931	625	547	643	1,921	11	12	12
Dividend paid	**(1,880)**	**(1,736)**	**(1,875)**	**(974)**	**-**	**(5,040)**	**(6,797)**	**(8,109)**
Financing cash flow	(349)	(1,039)	(889)	(235)	82	(5,028)	(6,786)	(8,097)
Cash flow for the year	**2,246**	**(3,322)**	**5,494**	**2,024**	**(2,122)**	**(1,272)**	**(981)**	**(730)**
Opening cash & cash equivalents	**5,346**	**7,593**	**4,261**	**9,755**	**11,779**	**9,656**	**8,384**	**7,403**
Closing cash & cash equivalents	**7,592**	**4,271**	**9,755**	**11,779**	**9,657**	**8,384**	**7,403**	**6,673**

NSE

BSE SENSEX	S&P CNX
81,709	24,678

Financials Snapshot (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Net Sales	175	190	225
EBITDA	133	150	180
NP	104	123	149
EPS (INR)*	42	50	60
EPS Gr.%	25	19	21
RoE (x)	42	39	39
RoCE (x)	37	35	34
BV/Share (INR)	631	762	950

*** Ex-bonus of 4:1**

The Behemoth at its best

- **NSE, with its 90%+ market share in equity (Cash + F&O) volumes in India, would be a key beneficiary amidst the growing free float in Indian markets. This surge stems from rising stake sales by promoters (primary & secondary). The increasing participation of retail investors is expected to accentuate the exchange's turnover velocity, bringing it closer to global averages.**
- **F&O volumes have consistently maintained its high momentum, given the daily expiry of products across exchanges. BSE has leveraged this to transition the industry from a monopoly to an emerging duopoly. Nevertheless, we believe NSE can sustain a 20%+ CAGR in volumes, supported by the influx of new customers and overall robustness of the market, albeit for regulatory intervention, which we believe would have a transitionary impact.**
- **Further, NSE has other revenue drivers through its new product launches in commodities, currency, debt, power, and in GIFT City. Data dissemination, index licensing, and colocation are additional services which can contribute to overall revenue growth.**
- **NSE is investing in technology, products, and talent to expand its capacity to capture the ensuing growth opportunities. Also, the exchange is building up its Core Settlement Guarantee Fund in response to robust market trends, reinforcing its ability to support further growth.**
- **We expect NSE to clock FY24-27 revenue/EBITDA/PAT CAGR of 15%/22%/22%. NSE has the best-in-class profitability and return ratios.**

NSE, the market leader amid favorable macro factors

- NSE has been the leader among stock exchanges in India with over 90% market share in the equity segment (Cash and F&O). It is the global leader in terms of derivatives volumes measured in contracts traded or notional turnover.
- Overall, the free float, turnover velocity, and market capitalization to GDP for NSE is lower than the global exchanges. These parameters have seen improvement over the past five years and we expect further improvement going ahead.
- With the increasing number of IPOs, promoter stake sales, and divestment from the government, free float and turnover velocity will continue to improve. Increasing participation of sticky individual investors will further support volume growth

Firing all cylinders in the F&O segment

- NSE derives 90% of its revenue from the transaction charges, of which ~73% is from options, ~14% is from the cash segment, ~13% is from futures, and the remaining from the currency segment as of 2QFY25.
- New product launches in the equity derivatives segment such as the launch of weekly options contract in Nifty 50 in 2019 (earlier, it was only available in Bank Nifty) and the launch of Nifty Financial Services Index for derivatives in 2021 have been the key drivers for the option volumes.

- Furthermore, with the rise of discount brokers offering brokerage rates of INR20/order, the implementation of new margin rules affecting cash and futures volumes and launch of new products, we remain confident that volumes will continue to surge.
- NSE has introduced derivative contracts on Nifty Next 50 Index post-approval by SEBI. Nifty Next 50 Index provides representation to large capitalized stocks beyond the Nifty 50 Index. With increasing interest of participants beyond the top 50 stocks, this index will provide an additional tool for risk management.

Scaling up new products for revenue diversification

- **Commodities:** NSE has a long-term objective to emerge as the leader in the segment. It currently offers futures and options on all key products in energy, bullion, and base metal categories. The average daily trading quantity has seen a significant rise, doubling from ~2.5m barrels per day in FY24 to over 5.6m barrels in FY25. Moreover, the NSE crude oil options have clocked an impressive turnover, exceeding INR6.9t.
- **Debt market:** One of the top near-term priorities for NSE is developing fixed income and fixed-income derivatives markets. Regulatory support is improving and measures to further widen the retail participation have been taken. Recently, SEBI has allowed retail participants to buy/sell bonds on RFQ Platform through debt segment members.
- **GiftCity:** NSE International Exchange at GIFT City, continues to hold a dominant market share of 96% in 2QFY25, highlighting NSE IX's extensive leadership in GIFT IFSC. GIFT NIFTY contracts have set an all-time high monthly turnover of USD101b for the month of Sep’24. Average daily volumes in GIFT NIFTY contracts for 2QFY25 is 92,350 lots with average daily turnover of USD4.5b. The total demat accounts surged 10x QoQ in GIFT City to 34,924 as of Sep’24.
- **Currency:** NSE’s market share in the Currency options segment stood at 99.74%, while in the Currency futures segment, it accounted for 94% as of 1HFY25. In the calendar year 2022, NSE experienced a 55% YoY increase in contracts traded, reaching 1.25b. This surge catapulted NSE to the top position globally in the currency futures segment.
- The above are the key segments that NSE would be focusing on to diversify its core revenues in the near term. Each of these segments has a large potential for growth and NSE’s **technological** prowess and execution capabilities position it to capture significant market share within these segments.

Clearing corporation scales up on back of rising volumes

- NSE Clearing Limited (NCL), post-interoperability, continues to have a robust market share in volumes of 88% for cash segment, 83% for equity futures, 21% for equity options, 83% for currency futures, and 98% for currency options segments.
- Interoperability among clearing corporations allows market participants to consolidate their clearing and settlement functions at a single CCP, irrespective of the stock exchanges on which the trades are executed.
- It is expected to result in efficient allocation of capital for the market participants, thereby saving on costs as well as provide better execution of trades.

- With BSE scaling up volumes and NCL having a larger market share amidst clearing corporations, incremental revenues have started flowing to NSE. Further momentum in BSE volumes will translate into stronger revenues for NCL.

Transaction charges dominates revenue mix, other streams emerging strongly

- Transaction income for NSE has been primarily driven by volumes, backed by innovative products and superior tech.
- NSE commands strong pricing power, but has not been resorting to significant pricing actions. From Apr'23, NSE rolled back its 6% hike (implemented at the time of Covid-19) across its product segments. NSE introduced uniform transaction fee for brokers across segments w.e.f. 01 Oct'24 to adhere to SEBI's true to label regulation. We expect pricing to be stable from here.
- On the other hand, listing fees is a steady revenue stream with growth continuing to accrue from the increasing number of listings.
- With increasing AUM of ETFs in the country (38% CAGR over the last five years), the index creation and data-related revenue would continue to see healthy momentum. ETFs surpassed 200th listing during 4QFY24. The daily average turnover in ETFs stood at INR15.5b during YTDFY25 and grew by 144% YoY.
- Globally, for exchanges, the share of data-related income is much higher than that of NSE. Over the medium term, we expect strong momentum, given the company's new initiatives, such as empanelment with Association of Portfolio Managers (APMI), increasing focus on moving up the value chain by launching analytical products on trading data feed among others.
- Enhanced traction in the debt segment, expansion of revenues in the data segment, and partnerships like the one with SGX in Gift City can significantly drive NSE's revenue growth over the medium term. NSE IX post commencement of full-scale operation has turned EBITDA positive and has also posted profits.
- NSE is in the process of moving out of non-core businesses. In this regard NSE has signed definitive agreement to divest the technology business which included digital business of NSEIT along with NSEIT's subsidiary companies.

Regulatory moves to have transitionary impact, albeit strong financial performance to continue

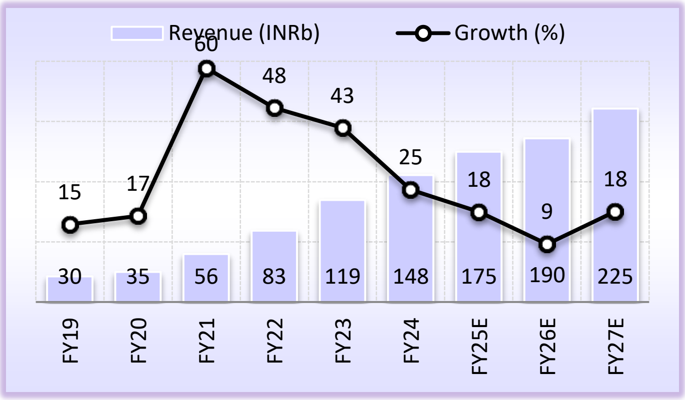
- True-to-label charges, F&O regulations, and consultation papers on treasury income of clearing corporations to be passed on to the customers are likely to impact volumes and profitability. We expect volumes to decline from Dec'24 and have a short-term impact on earnings of the company.
- We foresee 15% revenue CAGR over FY24-27E, largely led by the ~16% CAGR in transaction income, owing to exponential growth in retail volumes. The overall growth will be primarily driven by F&O volumes.
- The NSE Board received approval from shareholders via postal ballot for issue of four bonus shares for existing one share held.
- We expect margins to continuously inch up, led by high operating leverage and expectations of an increase in the share of Data Feed/Index Licensing services. Therefore, we project an improvement in EBITDA margin to 80.1% in FY27 from 66.8% in FY24, implying ~22% CAGR each for EBITDA/PAT over the same period.

Key risks

- Technology/server failures & high regulatory interventions: Any irregularities in the servers could halt trading on the platform, thereby impacting the NSE's volumes. Moreover, it could also damage its reputation. In Oct'12, NSE had to suspend trading activities due to server failures. Since then, the platform has been operating on multiple servers.
- Loss in market share: In the derivatives segment, BSE has emerged to be a competitor with 25%+ market share in the options segment notional turnover. Further increase in market share can be detrimental to NSE.
- Adverse verdicts in legal cases: NSE has been embroiled in multiple legal cases over the past decade. Any adverse judgments on these cases leading to incremental penalties can have adverse financial implications.

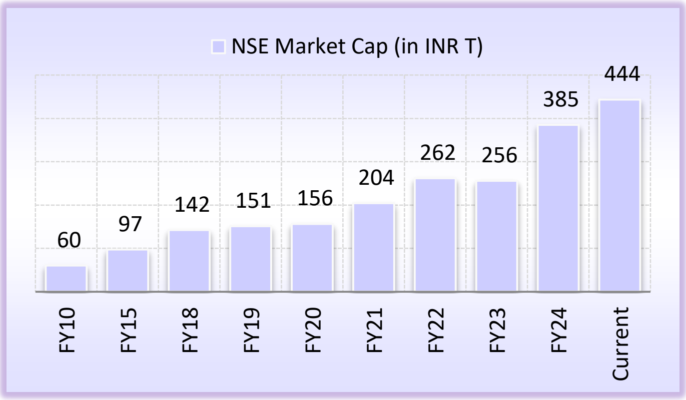
STORY IN CHARTS

Revenue has recorded a 27% CAGR over the past eight years



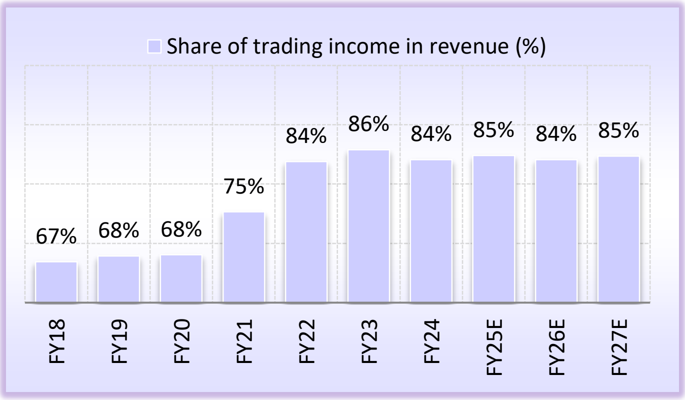
Source: Company, MOFSL

Growth in market capitalization of companies listed on NSE



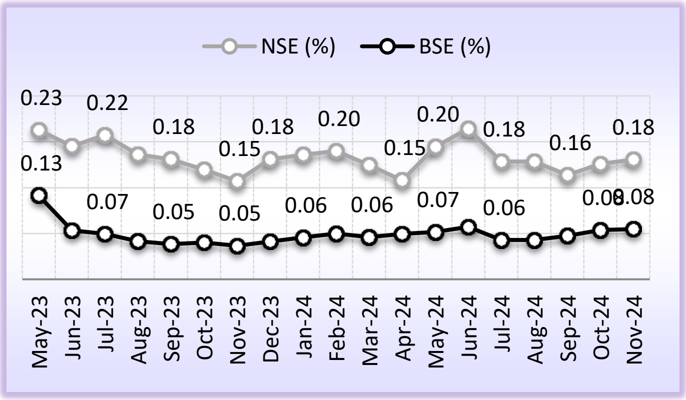
Source: Company, MOFSL

Revenue mix dominated by trading income



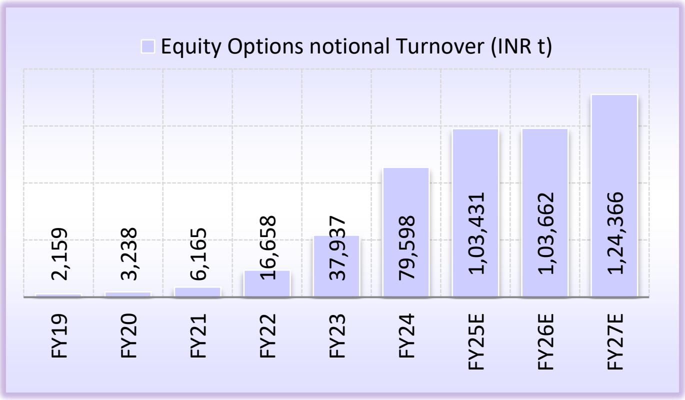
Source: Company, MOFSL

Trend in premium turnover to notional turnover for BSE and NSE



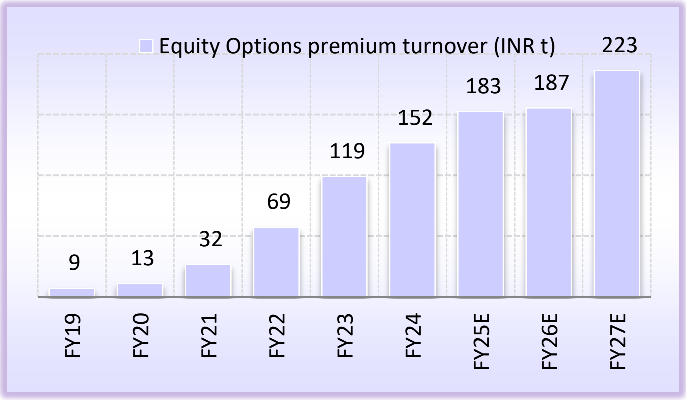
Source: Company, MOFSL

Trend in NSE's equity options notional turnover (87% CAGR over FY16-24).



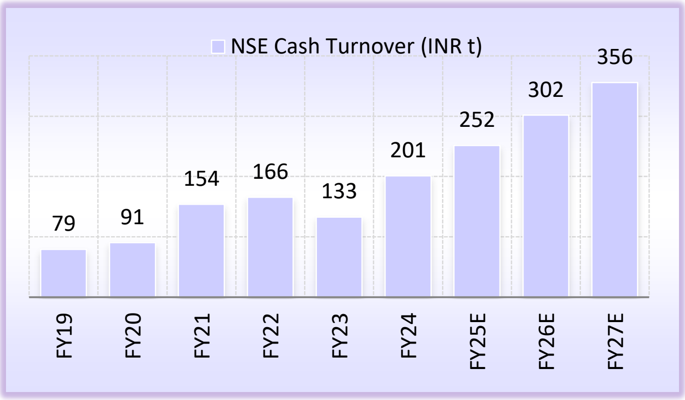
Source: Company, MOFSL

Trend in NSE's equity options premium turnover (57% CAGR over FY16-24)



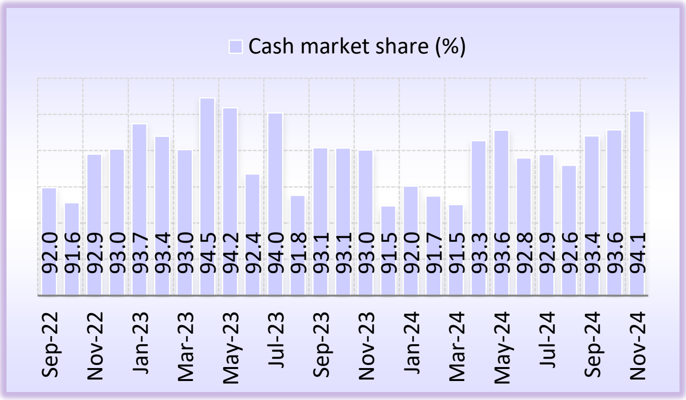
Source: Company, MOFSL

Trend in cash turnover for NSE (~21% CAGR over FY16-24)



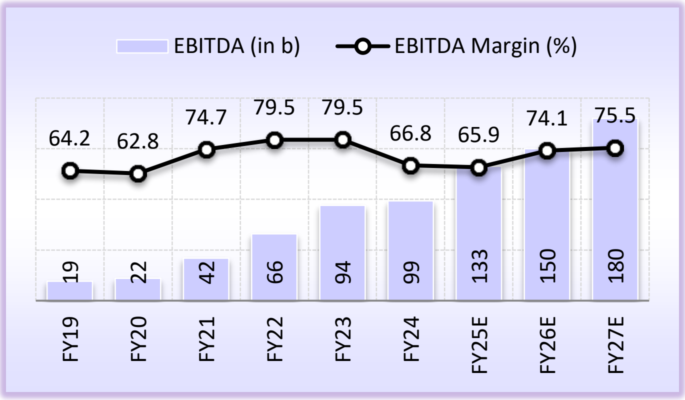
Source: Company, MOFSL

NSE Cash T/O market share is higher than 90%



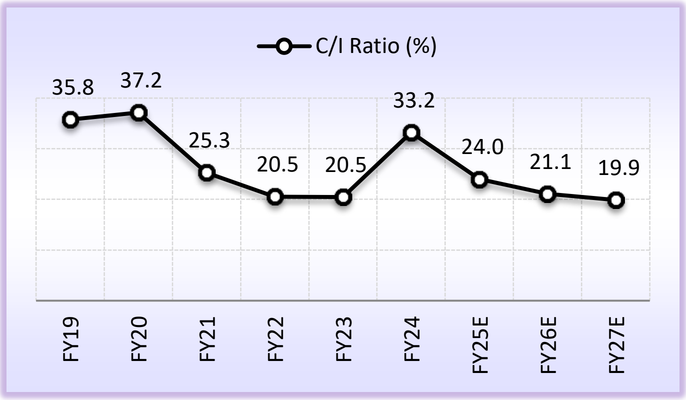
Source: Company, MOFSL

EBITDA to continue to trend upwards…



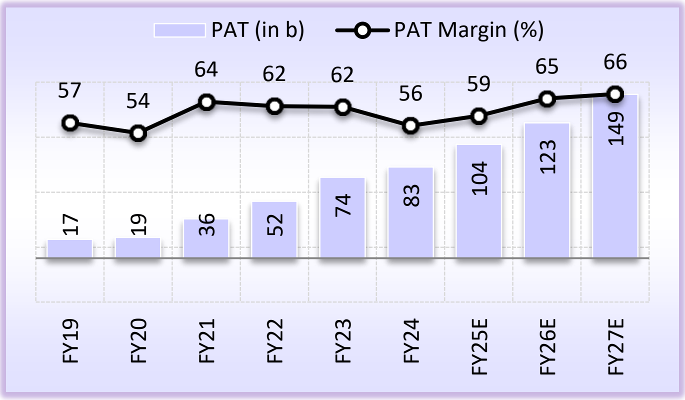
Source: Company, MOFSL

C/I ratio trend for NSE



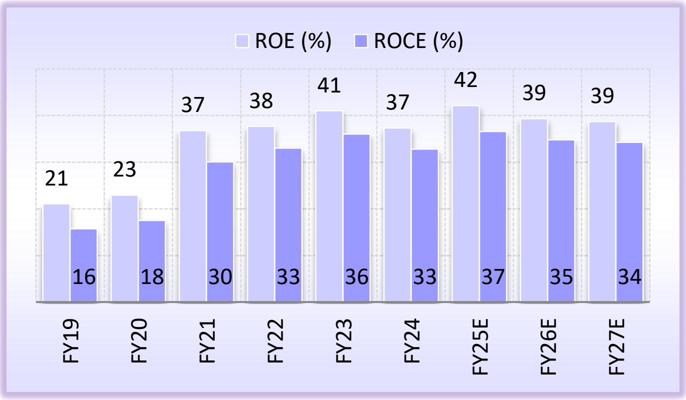
Source: Company, MOFSL

Trend in PAT and PAT margin for NSE



Source: Company, MOFSL

Trends in ROCE and ROE for NSE



Source: Company, MOFSL

SWOT analysis

Strength
- An undisputed market leader in equity and derivative segments
- Asset-light model supports high cash conversion rate
- With disproportionate market share and liquidity provided by NSE, it shall continue to maintain its dominant position.

Weakness
- Higher dependency on transaction revenue (options revenue) to drive profitability
- Negligible market share in the commodity segment
- Impact of co-location case on overall profitability.

Opportunity
- Diversification of revenue from other segments to reduce dependency
- Structural growth in capital markets (growth in Demat accounts, PAN cards, NSE active clients, etc.)
- Increasing financialization of household savings
- Retail investor participation is on the rise, as the perception of Indian equity markets is evolving, with the younger generation believing that equity markets provide an opportunity to earn Alpha.

Threats
- Technology risk and cyber security attacks
- Impending penalty on co-location case
- Unfavorable regulatory interventions and decisions.

Key management personnel

Mr. Ashishkumar Chauhan (MD & CEO)

Mr. Chauhan has been appointed as the MD & CEO of NSE. He is a mechanical engineer from IIT-Bombay and an alumnus of IIM Kolkata. He was a part of the founding team of NSE, but left the company in 2000 and served in various roles at Reliance Industries group, before returning to the stock exchange arena as the deputy CEO of BSE in 2009 and then as CEO in 2012.

Mr. Ian Desouza (Chief Financial Officer)

Mr. Ian has joined NSE in FY24 as a CFO. Before this, he served as CFO of Bank of Baroda for a period of 3.7 years. He also worked in Yes Bank, Magma Housing Finance, India Mortgage Guarantee Corporation, Bajaj Finserv. He is a Chartered Accountant and a Cost Accountant by profession.

Mr. Sriram Krishnan (Chief Business Development Officer)

Mr. Krishnan has over 26 years of work experience, a large part of which has been in the Indian Capital Markets domain, across Asset Management and Securities Services. He is a qualified Chartered and Cost Accountant from India and also holds a Bachelor’s degree in Commerce.

Mr. Mayur Sindhwad (Chief Technology Officer – Operations)

Mr. Mayur Sindhwad is a Senior Vice President at NSE. Before this he has worked in Edelweiss Securities, Tata Communications, Iflex Solutions and Clearing Corporation of India. He has studied in Insurance Institute of India and holds commerce degree from Narsee Monjee College.

Bull and Bear cases

Bull case

- ☑ In our bull case, we factor in higher revenue CAGR of 20% vs. 15% in the base case over FY24-27E.
- ☑ Given operating leverage in the business, we expect a 29% EBITDA CAGR over FY24-27E vs. 22% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 27% over FY24-27E vs 22% in the base case.

Bear case

- ☑ In our bear case, we factor in lower revenue CAGR of 10% vs. 15% in the base case over FY24-27E.
- ☑ Given operating leverage in the business, we expect a 15% EBITDA CAGR over FY24-27E vs. 22% in the base case.
- ☑ As a result, we estimate a modest PAT CAGR of 12% over FY24-27E vs 22% in the base case.

Scenario analysis - Bull Case

(INR b)	FY25E	FY26E	FY27E
Total revenue	192	221	254
% YoY	30	15	15
Opex	39	35	41
% YoY	(20)	(10)	15
EBITDA	153	186	213
EBITDA Margin	79.6	84.0	84.0
PAT	127	153	176
% YoY	48	20	15
EPS (INR)	51	62	71

Source: Company, MOFSL

Scenario analysis – Bear Case

(INR b)	FY25E	FY26E	FY27E
Total revenue	177	181	195
% YoY	20	2	8
Opex	44	42	46
% YoY	(10)	(5)	10
EBITDA	133	139	149
EBITDA Margin	75.1	76.8	76.4
PAT	109	113	121
% YoY	26	4	7
EPS (INR)	44	46	49

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	**35,079**	**56,248**	**83,131**	**1,18,562**	**1,47,800**	**1,74,731**	**1,90,187**	**2,24,992**
Change (%)	17.0	60.3	47.8	42.6	24.7	18.2	8.8	18.3
Employees Cost	4,299	4,798	3,564	3,661	4,604	6,123	7,348	8,670
Other Expenses	8,742	9,422	13,515	20,622	44,499	35,799	32,778	36,056
Total Expenditure	**13,041**	**14,221**	**17,079**	**24,282**	**49,103**	**41,922**	**40,126**	**44,727**
% of Sales	37.2	25.3	20.5	20.5	33.2	24.0	21.1	19.9
EBITDA	**22,039**	**42,028**	**66,053**	**94,280**	**98,697**	**1,32,809**	**1,50,060**	**1,80,266**
Margin (%)	62.8	74.7	79.5	79.5	66.8	76.0	78.9	80.1
Depreciation	1,808	2,260	3,105	3,841	4,396	4,945	5,419	5,584
EBIT	**20,231**	**39,768**	**62,948**	**90,439**	**94,301**	**1,27,864**	**1,44,641**	**1,74,681**
Other Income	3,896	5,775	5,607	9,091	16,536	16,884	19,417	22,330
PBT bef. EO Exp.	**24,127**	**45,543**	**68,555**	**99,531**	**1,10,837**	**1,44,749**	**1,64,058**	**1,97,011**
EO Items	0	-1,552	855	0	0	-6,702	0	0
PBT after EO Exp.	**24,127**	**43,991**	**69,410**	**99,531**	**1,10,837**	**1,38,047**	**1,64,058**	**1,97,011**
Total Tax	6,405	8,916	16,983	25,397	27,778	34,512	41,015	49,253
Tax Rate (%)	26.5	20.3	24.5	25.5	25.1	25.0	25.0	25.0
Minority Interest	-1,126	-659	-903	-885	-1,005	-1,106	-1,217	-1,338
Profit/(Loss) from disc op			-1,459	-1,346	-1,007	-1,007	-1,007	0
Reported PAT	**18,848**	**35,734**	**51,870**	**73,673**	**83,058**	**1,03,634**	**1,23,253**	**1,49,096**
Adjusted PAT	**18,848**	**37,286**	**51,015**	**73,673**	**83,058**	**1,10,335**	**1,23,253**	**1,49,096**
Change (%)	17.9	97.8	36.8	44.4	12.7	32.8	11.7	21.0
Margin (%)	53.7	66.3	61.4	62.1	56.2	63.1	64.8	66.3

Consolidated - Balance Sheet

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	495	495	495	495	495	2,475	2,475	2,475
Total Reserves	85,718	1,15,865	1,53,609	2,04,290	2,39,249	2,81,403	3,40,205	4,24,852
Net Worth	**86,213**	**1,16,360**	**1,54,104**	**2,04,785**	**2,39,744**	**2,83,878**	**3,42,680**	**4,27,327**
Minority Interest	7	0	79	19	-5	-5	-5	-5
Total Deposits	18,840	19,804	23,236	28,811	32,649	37,546	43,178	49,655
Deferred Tax Liabilities	-3,523	-3,961	-3,603	-3,800	-7,408	-8,519	-9,797	-11,267
Capital Employed	**1,01,537**	**1,32,203**	**1,73,816**	**2,29,815**	**2,64,980**	**3,12,899**	**3,76,056**	**4,65,709**
Gross Block	7,279	9,122	12,195	11,927	12,352	15,352	15,852	16,352
Less: Accum. Deprn.	0	0	0	0	0	0	0	0
Net Fixed Assets	**7,279**	**9,122**	**12,195**	**11,927**	**12,352**	**15,352**	**15,852**	**16,352**
Goodwill on Consolidation	1,286	3,959	4,109	2,069	2,069	2,069	2,069	2,069
Capital WIP	1,144	468	1,577	985	821	821	821	821
Total Investments	**73,535**	**1,14,059**	**1,37,239**	**1,89,350**	**2,92,614**	**3,35,477**	**3,84,770**	**4,41,457**
Curr. Assets, Loans&Adv.	**1,53,415**	**1,59,305**	**1,95,968**	**1,55,929**	**3,36,322**	**4,06,919**	**4,70,352**	**5,60,396**
Account Receivables	6,521	9,986	16,150	15,892	18,647	21,444	24,660	28,359
Cash and Bank Balance	1,25,384	1,34,576	1,63,227	1,15,832	2,91,110	3,54,926	4,10,560	4,91,635
Loans and Advances	21,510	14,744	16,592	24,205	26,565	30,549	35,132	40,402
Curr. Liability & Prov.	**1,35,121**	**1,54,709**	**1,77,271**	**1,30,445**	**3,79,197**	**4,47,738**	**4,97,807**	**5,55,384**
Account Payables	1,665	2,405	3,492	2,622	3,328	3,827	4,401	5,061
Other Current Liabilities	1,33,456	1,52,304	1,73,779	1,27,823	3,75,870	4,43,912	4,93,407	5,50,324
Provisions	0	0	0	0	0	0	0	0
Net Current Assets	**18,295**	**4,596**	**18,698**	**25,484**	**-42,876**	**-40,819**	**-27,455**	**5,011**
Appl. of Funds	**1,01,537**	**1,32,204**	**1,73,817**	**2,29,815**	**2,64,980**	**3,12,899**	**3,76,056**	**4,65,709**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
Reported EPS	**7.6**	**14.4**	**21.0**	**29.8**	**33.6**	**41.9**	**49.8**	**60.2**
Cash EPS	45.9	87.9	120.3	172.3	194.3	256.2	285.9	343.7
BV/Share	191.6	258.6	342.5	455.1	532.8	630.8	761.5	949.6
DPS	5.2	6.2	10.5	20.0	28.1	25.0	27.5	27.5
Payout (%)	68.3	42.9	50.1	67.2	83.8	59.7	55.2	45.7
Return Ratios (%)								
RoE	23.0	36.8	37.7	41.1	37.4	42.1	39.3	38.7
RoCE	17.6	30.1	33.0	36.1	32.8	36.6	34.8	34.2
RoIC	25.5	36.8	52.7	53.3	37.4	41.3	40.9	43.4
Working Capital Ratios								
Fixed Asset Turnover (x)	4.8	6.2	6.8	9.9	12.0	11.4	12.0	13.8
Asset Turnover (x)	0.3	0.4	0.5	0.5	0.6	0.6	0.5	0.5
Inventory (Days)	0	0	0	0	0	0	0	0
Debtor (Days)	68	65	71	49	46	45	47	46
Creditor (Days)	17	16	15	8	8	8	8	8
Leverage Ratio (x)								
Current Ratio	1.1	1.0	1.1	1.2	0.9	0.9	0.9	1.0
Net Debt/Equity	-2.1	-2.0	-1.8	-1.3	-2.3	-2.3	-2.2	-2.1

Consolidated - Cash Flow

INR m

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	24,127	43,991	69,410	99,531	1,10,837	1,38,047	1,64,058	1,97,011
Depreciation	1,808	2,260	3,105	3,841	4,396	4,945	5,419	5,584
Changes in Operating assets	-12,984	2,926	-3,610	-11,413	-10,958	-7,289	-8,383	-9,640
Changes in Operating Liabilities	30,063	15,587	18,135	-56,906	2,13,958	43,973	50,568	58,154
Changes in SGF	3,691	3,662	4,623	10,285	36,266	25,026	28	29
Operating Cash Flow	46,704	68,426	91,662	45,338	3,54,499	2,04,702	2,11,691	2,51,138
Changes in PPE	-2,845	-3,428	-7,287	-2,981	-4,657	-7,945	-5,919	-6,084
Good will on consolidation	-54	-2,674	-150	2,040	0	0	0	0
Changes in investments	7,648	-40,524	-23,180	-52,111	-1,03,264	-42,863	-49,293	-56,687
Other NCA and L&A	-5,517	278	-4,240	3,654	765	-1,062	-1,221	-1,404
Changes in deposits	-170	964	3,433	5,575	3,838	4,897	5,632	6,477
Investing Cash Flow	-938	-45,384	-31,424	-43,822	-1,03,318	-46,973	-50,802	-57,699
Changes in ESC	0	0	0	0	0	1,980	0	0
Dividend Paid	-10,622	-5,445	-20,790	-39,600	-55,688	-49,500	-54,450	-54,450
Others	-5,168	-8,405	-10,797	-9,310	-20,215	-46,393	-50,805	-57,915
Financing Cash Flow	-15,790	-13,850	-31,587	-48,910	-75,902	-93,913	-1,05,255	-1,12,365
Cash Flow for the year	29,977	9,192	28,651	-47,395	1,75,279	63,816	55,634	81,075
Opening cash & cash Equivalents	95,407	1,25,384	1,34,576	1,63,227	1,15,832	2,91,110	3,54,926	4,10,560
Closing cash & cash Equivalents	1,25,384	1,34,576	1,63,227	1,15,832	2,91,110	3,54,926	4,10,560	4,91,635

Anand Rathi Wealth

BSE SENSEX	S&P CNX
81,709	24,678

ANANDRATHI
PRIVATE WEALTH MANAGEMENT. uncomplicated.

Stock Info

Bloomberg	ANANDRAT IN
Equity Shares (m)	42
M.Cap.(INRb)/(USDb)	178.8 / 2.1
52-Week Range (INR)	4478 / 2379
1, 6, 12 Rel. Per (%)	7/0/48
12M Avg Val (INR M)	246

Financials Snapshot (INR b)

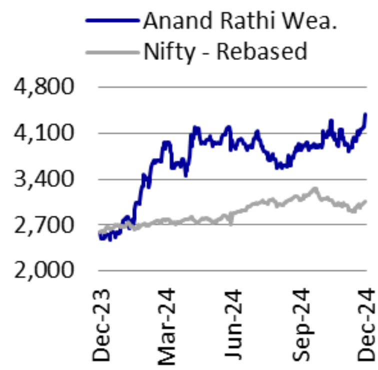
Y/E March	2025E	2026E	2027E
Revenues	10.0	12.9	15.2
Rev Gr. (%)	37.5	29.7	18.0
Opex	5.7	7.1	8.3
PBT	4.2	5.7	6.9
PAT	3.1	4.2	5.1
EPS (INR)	75.3	102.1	122.5
EPS Gr. (%)	39.3	35.5	20.0
BV/Sh. (INR)	34.4	50.1	68.6
Ratios (%)			
EBITDA margin	42.9	44.7	45.3
PAT margin	31.4	32.8	33.3
RoE	45.9	48.3	41.3
Div. Payout	26.5	23.5	24.5
Valuations			
P/E (x)	57.1	42.1	35.1
P/BV (x)	124.9	86.0	62.8
Div. Yield (%)	0.5	0.6	0.7

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	48.0	48.1	48.7
DII	8.0	8.3	10.3
FII	5.3	5.0	1.8
Others	38.7	38.6	39.2

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR4,307 TP: INR4,500 (+4%) Neutral

Building a solid distribution franchise

- Anand Rathi Wealth Management (ARWM) has emerged as one of the largest non-bank mutual fund distributors in India. In FY24, ARWM was the fourth-largest non-bank in terms of average AUM, and commission.
- ARWM has built strong product capabilities in MF portfolio creation and non-principal protected MLDs. It has been consistently gaining market share in MFs and is among the largest distributors of MLDs in the country.
- The company has devised a three-pronged approach to address customers in various cohorts: 1) Private Wealth Management – addressing the HNI base, 2) Digital Wealth – addressing the mass-affluent customer base, and 3) Omni Financial Advisor – addressing the B2B2C channel.
- The PWM business (95%+ revenue contribution) is primarily driven by relationship managers. ARWM has clocked a 13% CAGR to 332 RMs in Mar'24 from 233 in Mar'21. The number of RMs was reported at 372 in 2QFY25 and is likely to continue growing at a similar rate going forward. The share of higher vintage RMs (more than five years) has increased to 47% in Sep'24 from 35% in Mar'21. The stickiness of RMs leads to the stickiness of AUMs, which bodes well for long-term growth of the company.
- Both DW and OFA are in their nascent stages, and the company anticipates strong growth opportunities in them. Utilizing the strong product base of PWM and coupling it with technology, ARWM is looking to expand these offerings in the future.
- We expect ARWM to report an AUM/revenue/PAT CAGR of 28%/28%/ 31% during FY24-27E. Robust cash generation (INR9.5b of OCF during FY24-27E), RoE of 40%+, and a healthy balance sheet are well priced in at its valuation of 42x FY26E P/E. **We initiate coverage on the stock with a Neutral rating and a one-year TP of INR4,500 (premised on 40x Sep'26E P/E).**

Building a strong platform for PWM

- ARWM derives 95%+ of its AUM from the PWM segment, of which 61% is from the MF segment, and the rest is dominated by the non-principal protected MLDs. The share of MFs, however, has been on an increasing trend, with the share rising to 61% as of Sep'24 from 56% as of Jun'21.
- The target customers in this segment are HNI clients with an investible surplus of INR50-500m. This segment has been underserved, and ARWM aims to sustainably gain market share in this segment over the medium term.
- As of Sep'24, ARWL's closing AUM stood at INR751b (+57% YoY) with an AUM mix of: 55% Equity MFs, 6% Debt MFs, 25% Non-PP Structured Products, and the balance 14% Other products.

Consistent market share gains in the MF portfolio

- ARWM's MF AUM has reported a 45% CAGR during FY21-24 vs. the industry's AUM CAGR of 31%. The company is among the top four in terms of gross commissions earned (at INR2.9b, +37% YoY) in FY24.
- This has been driven by consistent outperformance in terms of inflows, particularly lump sum (net equity inflows minus SIP inflows). In the past four years, the industry witnessed SIP outflows in three years, while ARWM has seen inflows in all the years.
- In FY24, ARWM's equity MF net inflows grew 47% YoY to INR46b. This was despite one of the small-cap equity mutual fund schemes being removed from the model portfolio from mid-Mar'24.
- The moat comes from the scientific picking of MFs in the model portfolio, where the selection is based on several parameters using high-level data analytics. Over many years, ARWM has boasted a consistent outperformance of 2-3% vs. the Nifty.
- We expect MF AUM for ARWM to register a 31% CAGR during FY24-27 and yields to be stable at ~91bp.

MLDs another feather in the cap

- Apart from the distribution of mutual funds, ARWM also sells non-principal protected structured products/market-linked non-convertible debentures to its clients (viz., MLDs). These products create a hedge against market variability, thus providing more predictable returns.
- For FY24, income from MLDs formed 62% of the overall revenues for ARWM. Anand Rathi Global Finance is the largest issuer of these debentures for ARWM.
- The duration of such products until Aug'20 was three years, but post-Covid, it increased to five years. In FY25, the company expects INR8-9b in the maturity of MLDs.
- The share of MLDs in overall AUM reduced to 25% in Sep'24 from 28% in Mar'23. The company expects a recovery in the share, as MF AUM growth normalizes in FY25.

Improving RM vintage and client stickiness

- ARWM, at the end of Sep'24, has 374 RMs (up from 234 as of Sep'21 – posted a CAGR of 17%). In 1HFY25, the company added 42 new RMs.
- The share of >5-year RMs has increased to 47% in Sep'24 from 35% in Mar'21. Furthermore, the efficiency in terms of clients per RM and AUM per RM has been consistently increasing.
- This has been driven by a robust environment created for RMs via insistent training and a rewarding payout model, which has been unchanged for the past several years.
- In terms of clients, ARWM has clocked an 18% CAGR in its client count (rising to 10,977 in Sep'24 from 6,678 in Sep'21). The share of clients, of more than three years, has been around 80% for the past couple of years.
- The stickiness of RMs and clients bodes well for sustainable long-term AUM/revenue growth for ARWM.

Digital wealth and OFA channel at a nascent stage

- The digital wealth segment is a fin-tech extension of ARWM's proposition and addresses the large mass-affluent segment (i.e., a group of individuals with financial assets between INR1m and INR50m) with a wealth solution delivered through a 'phygital channel' (i.e., a combination of human distributor empowered with technology), which was launched in 2016.
- During FY21-24, AUM for the Digital Wealth business has seen a CAGR of 36% to reach INR15.5b and the client base has registered a CAGR of 16% to reach 4,862. By the end of 1HFY25, the business reported AUM of INR18.3b and client count at 5,454.
- Another segment is Omni Financial Advisors (OFA), under which ARWM provides a technology platform for Independent Financial Advisors (IFAs) to service its clients and grow the business. It was launched in Sep'16 and works on a subscription-based model to serve the retail segment with the B2B2C model.
- Within a short span, it has become India's leading technology platform for IFAs in terms of MF distributors with over 6,188 subscribers as of Sep'24 (6% CAGR in FY21-24). These IFAs handle ~2.1m clients (9% CAGR over FY21-24) and have a platform AUM of INR1,552b as of Sep'24 (FY21-24 CAGR of 34%).
- While Digital Wealth is a Phygital model, OFA is an end-to-end digital model for ARWM. Tech investments will continue to be the key growth driver in these segments.

Valuation and View

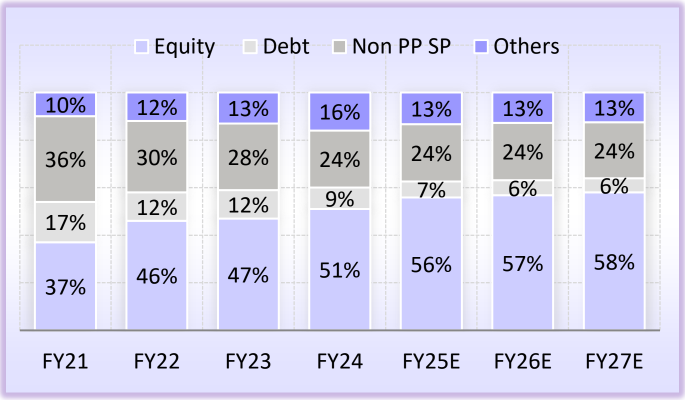
- ARWM is one of the rare companies in the listed universe space which has consistently outperformed its stated guidance. For FY23/FY24, it beat its revenue guidance by 9%/14% and PAT guidance by 8%/10%.
- For FY25, management has guided for a revenue/PAT of INR9.8b/INR3b vs. our estimates of INR9.9b/INR3.1b.
- We expect ARWM to report an AUM/revenue/PAT CAGR of 28%/28%/ 31% during FY24-27E. Robust cash generation (INR9.5b of OCF during FY24-27E), RoE of 40%+, and a healthy balance sheet are well priced in at its valuation of 42x FY26E P/E. **We initiate coverage on the stock with a Neutral rating and a one-year TP of INR4,500 (premised on 40x Sep'26E P/E).**

Key risks

- An unfavorable movement in the equity market can hit the AUM and net flows as its MLDs are primarily equity-oriented, which form a significant part of the company's revenue.
- Intense competition from existing and new players, driven by technological advancements and changing customer preferences, is a key risk.
- Any regulatory changes, such as a reduction in the expense ratio by SEBI, would hit its revenue as they would affect the commission segment of the revenue.
- Any changes in the top management could lead to a change in the company's strategy, as it has been run by the same management for decades.

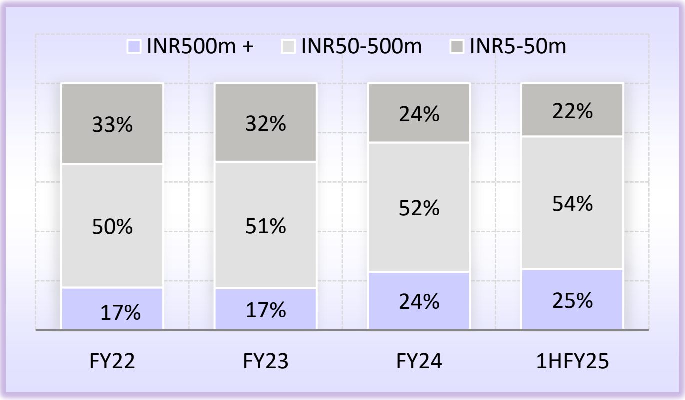
STORY IN CHARTS

Share of equity MFs improving



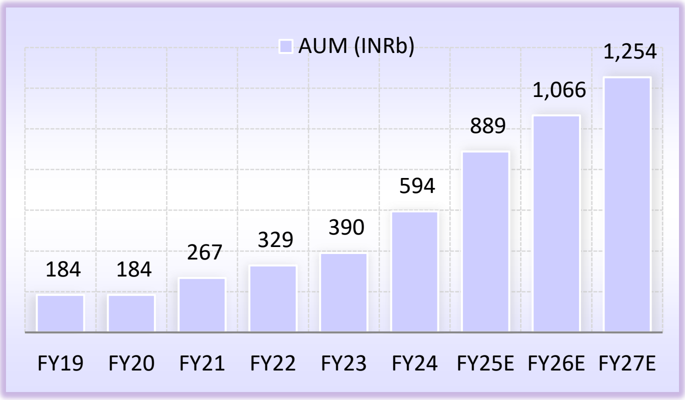
Source: Company, MOFSL

AUM share of UHNI increasing



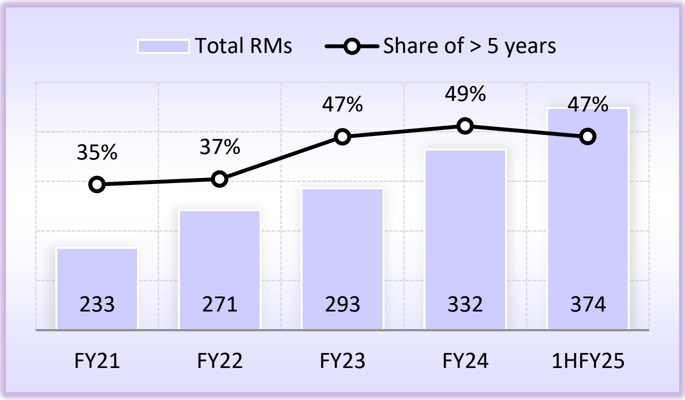
Source: Company, MOFSL

Consistent growth in AUM



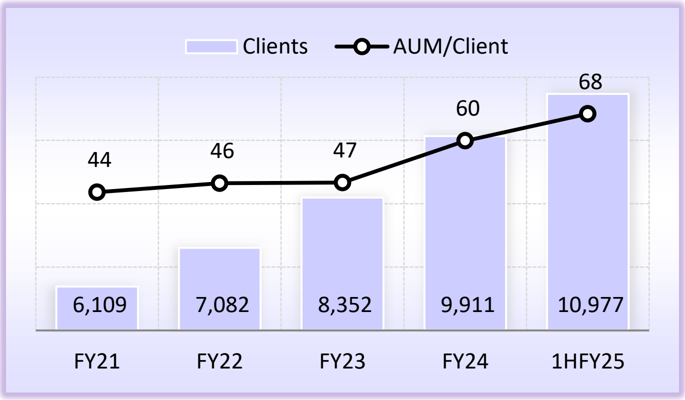
Source: Company, MOFSL

Increasing RM count and share of vintage RMs



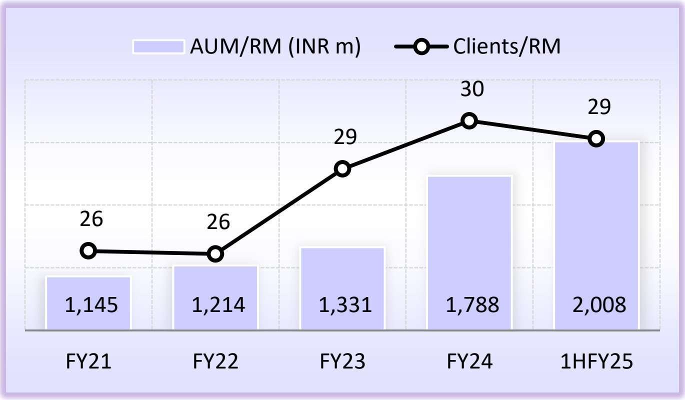
Source: Company, MOFSL

Healthy growth in client base and AUM/Client



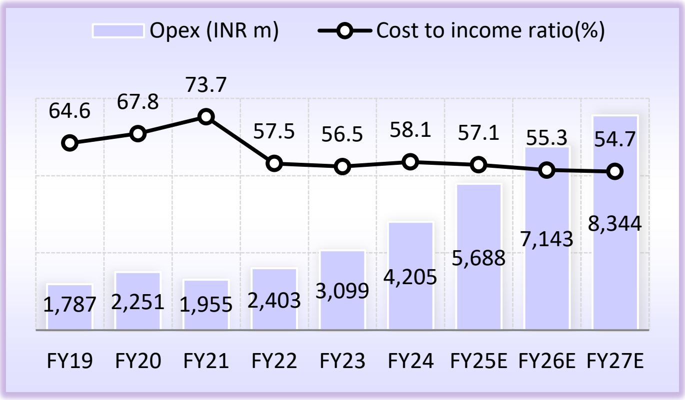
Source: Company, MOFSL

Improving RM productivity

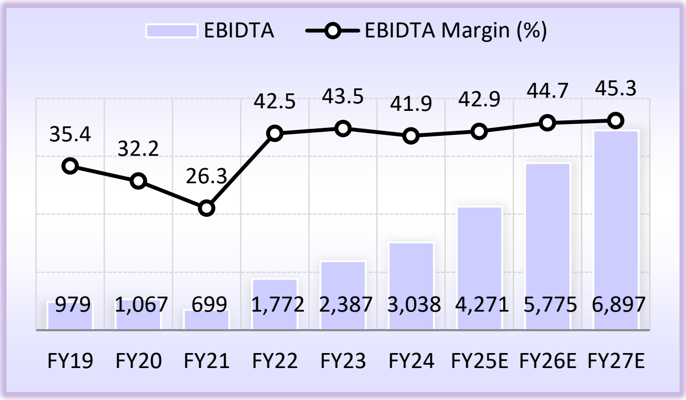


Source: Company, MOFSL

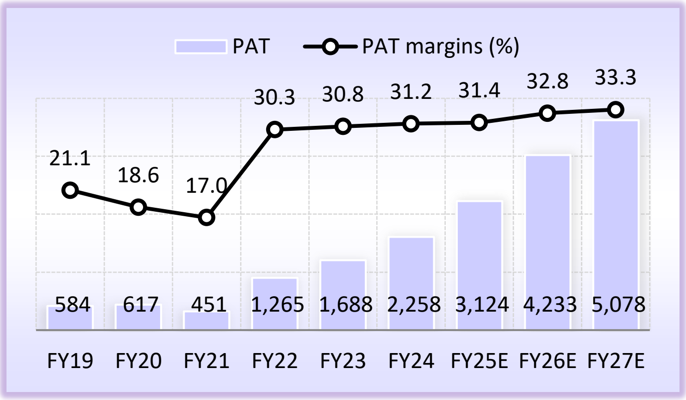
Cost-to-income to trend lower



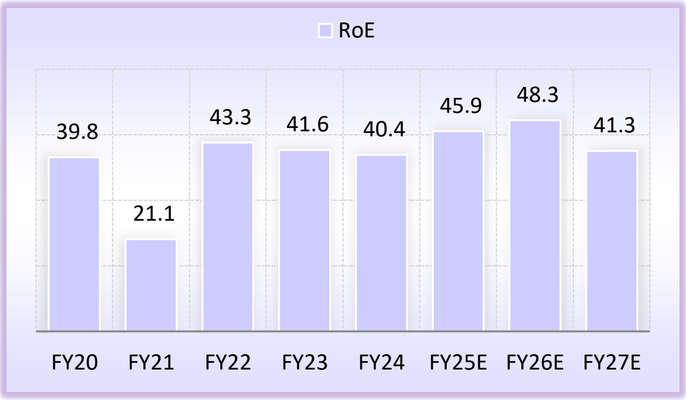
EBITDA margin to improve to 45.3% by FY27E



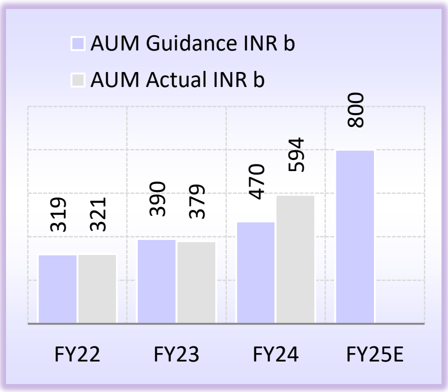
Strong PAT growth to sustain



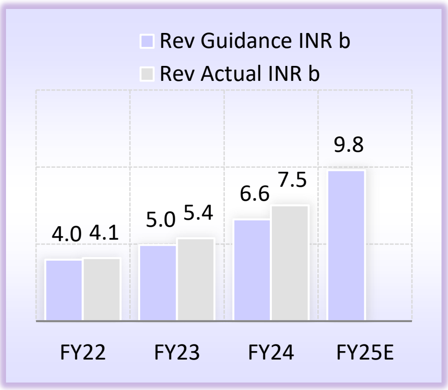
RoE to remain above 40% (%)



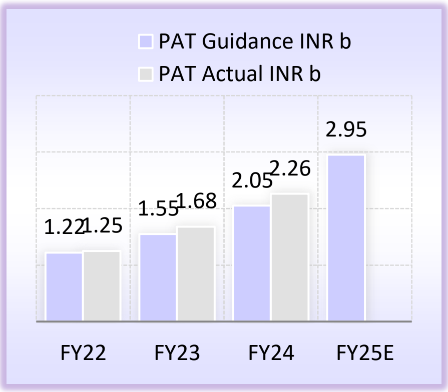
Beating AUM guidance



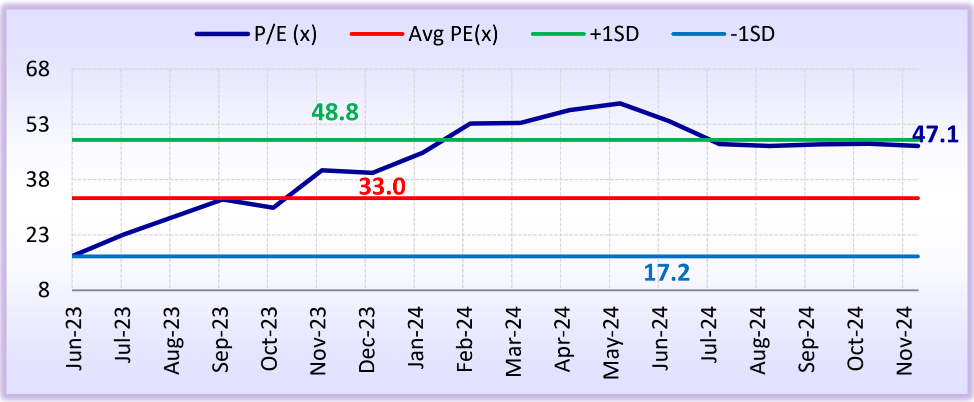
Beating revenue guidance



Beating PAT guidance



One-year forward P/E chart trend



Source: MOFSL, Company

SWOT analysis

- The focus is mainly on improving its offerings to the **HNI segment** (NW between INR50m and INR500m), willing to pay a premium for value-added services.
- ARWM is led by **proficient leaders with extensive expertise** in the private wealth industry.
- The company's **RMs are highly experienced** and possess the skills required
- The **attrition rate has fallen** over time as the company's culture is recognized as a 'Great Place to Work'.

- **Higher dependency on MLD** distribution as a major part of revenue.
- **Highly focused on the HNI** segment.

- **Rising wealth and HNI population**. The numbers of HNIs is expected to almost double at a CAGR of 12% until 2026.
- The unexplored **underpenetrated markets** as India's mutual fund AUM to Gross Domestic Product (GDP) ratio stands at only 15.9%, as opposed to the global average of 63%.
- **Easing regulations and government's efforts** towards financially educating the community has led to a growing confidence among households to participate in the financial markets.

- **Intense competition** from existing and new players, driven by technological advancements and changing customer preferences.
- **Increase in direct investments** in MFs by clients
- A **technology failure or security breach** can impact the company's ability to deliver services to clients, thus causing financial losses.

Key management personnel

Mr. Anand Rathi (Chairman and Non-Executive Director)

He is a Gold Medalist Chartered Accountant with 57 years of experience across sectors. He was associated with Aditya Birla group and was also appointed President of BSE in 1999. He played a key role in setting up of the online trading system in BSE, Trade Guarantee Fund, and Central Depository Services Ltd.

Mr Pradeep Kumar Gupta (Non-Executive Director)

He has been associated with the company since 2005. Prior to this, he was associated with Navratan Capital and Securities, after an initial beginning with a family-owned textile business. He has a rich three-decade-long experience and is an entrusted advisor for many. He played an instrumental role in the success of the Institutional Broking and Investment Services arms of the Group.

Mr. Rakesh Rawal (Executive Director and CEO)

He has been associated with the company since 2007. He holds a Master's Degree in Management Studies and a Bachelor's Degree in Mechanical Engineering from IIT, Kanpur. He was associated with Deutsche Bank and Hindustan Lever before and currently looks after client acquisition for the Group's Private Wealth Management division.

Mr Feroze Azeez (Deputy Chief Executive Officer)

He has joined Anand Rathi in 2012. He completed his Postgraduate Diploma in Management – with majors in Derivatives and Finance – from SDM Institute for Management Development and Mechanical Engineer (University of Mysore). He was associated with ABN AMRO Bank NV and Religare Macquarie Private Wealth before.

Mr Jugal Mantri (Group Chief Financial Officer)

He has been with Anand Rathi since 1994. He is a rank holder Chartered Accountant and SMP from IIM Ahmedabad. He has been associated with Anand Rathi since 1994 when it was founded.

Bull and Bear cases

Bull case

- ☑ In our bull case, we factor in a higher AUM CAGR of 33% (vs. 28% in the base case), leading to a higher revenue CAGR of 34% (vs. 28% in the base case).
- ☑ Given operating leverage in the business, we expect the EBITDA margin to improve to 46.5% in FY27 vs. 45.3% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 38% over FY24-27E vs. 31% in the base case.

Bear case

- ☑ In our bear case, we factor in lower AUM CAGR of 23% (vs. 28% in the base case), leading to a lower revenue CAGR of 23% (vs. 28% in the base case).
- ☑ Given operating leverage in the business, we expect the EBITDA margin to contract to 43% in FY27E vs. 45.3% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 24% over FY24-27E vs. 31% in the base case.

Scenario analysis - Bull Case

INR b	FY25E	FY26E	FY27E
Total AUM	920	1,150	1,403
YoY growth (%)	55.0	25.0	22.0
Total Revenue	10,291	14,075	17,359
Yield	1.36	1.36	1.36
YoY growth (%)	42	37	23
EBITDA	4,477	6,475	8,072
EBITDA margin (%)	43.5	46.0	46.5
PBT	4,433	6,428	8,047
PAT	3,281	4,757	5,955
EPS (INR)	79.1	114.7	143.6
P/E (x)			**45**
FV (INR)			**5,813**
CMP (INR)			**4,302**
Upside (%)			**35.1%**

Source: Company, MOFSL

Scenario analysis – Bear Case

INR b	FY25E	FY26E	FY27E
AUM	861	990	1,108
YoY growth (%)	45	15	12
Total Revenue	9,742	12,212	13,638
Yield	1.34	1.32	1.30
YoY growth (%)	34.5	25.3	11.7
EBITDA	4,092	5,251	5,864
EBITDA margin (%)	42.0	43.0	43.0
PBT	4,048	5,204	5,840
PAT	2,996	3,851	4,321
EPS (INR)	72.3	92.9	104.2
P/E (x)			**35**
FV (INR)			**3,648**
CMP (INR)			**4,302**
Upside (%)			**-15.2%**

Source: Company, MOFSL

Financials and valuations

Income Statement								INR m
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Mutual Fund Distribution Income	3,273	2,604	4,127	5,438	7,187	9,894	12,844	15,156
Other Operating income	46	45	48	48	56	64	74	85
Revenue From Operations	**3,318**	**2,653**	**4,175**	**5,486**	**7,243**	**9,959**	**12,918**	**15,241**
Change (%)	20.0	-20.0	57.3	31.4	32.0	37.5	29.7	18.0
Employee benefits expense	1,666	1,508	1,920	2,418	3,222	4,479	5,643	6,574
Other expenses	585	447	482	681	983	1,209	1,499	1,769
Operating Expenses	**2,251**	**1,955**	**2,403**	**3,099**	**4,205**	**5,688**	**7,143**	**8,344**
Change (%)	26.0	-13.2	22.9	29.0	35.7	35.3	25.6	16.8
Operating Profit	**1,067**	**699**	**1,772**	**2,387**	**3,038**	**4,271**	**5,775**	**6,897**
Other Income	46	139	77	103	276	310	372	446
Depreciation	210	173	157	166	194	243	289	317
Finance Cost	33	29	20	39	65	110	130	153
Exceptional items								
Profit Before Tax	**870**	**636**	**1,673**	**2,285**	**3,056**	**4,227**	**5,729**	**6,873**
Change (%)	5	-27	163	37	34	38	36	20
Tax	253	185	408	597	798	1,104	1,496	1,794
Tax Rate (%)	29.1	29.1	24.4	26.1	26.1	26.1	26.1	26.1
PAT	617	451	1,265	1,688	2,258	3,124	4,233	5,078
Change (%)	5.5	-26.8	180.4	33.4	33.8	38.3	35.5	20.0
Dividend	-	138	458	499	586	829	995	1,244

Balance Sheet								INR m
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Equity Share Capital	135	138	208	208	209	207	207	207
Reserves & Surplus	1,720	2,275	3,229	4,474	6,279	6,930	10,168	14,003
Net Worth	1,855	2,413	3,437	4,682	6,489	7,137	10,375	14,210
NCI	116	116	117	119	127	127	127	127
Borrowings	499	313	392	367	517	625	706	768
Other Liabilities	1,620	552	856	1,072	1,665	2,043	2,349	2,584
Total Liabilities	**4,090**	**3,395**	**4,802**	**6,240**	**8,797**	**9,932**	**13,557**	**17,689**
Cash and Investments	1,313	1,699	1,906	1,710	1,454	1,548	3,386	5,316
Change (%)	51.7	29.4	12.2	-10.3	-15.0	6.4	118.8	57.0
Loans	649	-	-	-	-	-	-	-
Net Fixed Assets	1,396	1,235	1,240	1,361	1,532	1,991	2,190	2,409
Non-current assets	175	199	515	347	64	70	77	85
Current Assets	556	261	1,141	2,823	5,748	6,323	7,904	9,879
Total Assets	4,090	3,395	4,802	6,240	8,797	9,932	13,557	17,689

E: MOFSL Estimates

Financials and valuations

Cash flow Statement								INR m
Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Cashflow from operations	**1,425**	**-227**	**802**	**341**	**-37**	**3,022**	**3,068**	**3,438**
PBT	870	636	1,673	2,285	3,056	4,227	5,729	6,873
Depreciation and amortization	210	173	157	166	194	243	289	317
Tax Paid	-253	-185	-408	-597	-798	-1,104	-1,496	-1,794
Interest, dividend income (post-tax)	-33	-99	-58	-76	-204	-229	-275	-329
Interest expense (post-tax)	23	20	15	29	48	81	96	113
Working capital	608	-773	-576	-1,466	-2,332	-197	-1,274	-1,741
Cash from investments	**-1,212**	**711**	**-418**	**-43**	**123**	**-480**	**-220**	**-215**
Capex	-794	-12	-161	-287	-364	-703	-488	-536
Interest, dividend income (post-tax)	33	99	58	76	204	229	275	329
Others	-450	625	-316	169	283	-6	-7	-8
Cash from financing	**234**	**-99**	**-177**	**-494**	**-342**	**-2,448**	**-1,010**	**-1,295**
Equity	1	2	71	-	1	-2	-	-
Debt	268	-185	79	-25	149	108	81	62
Interest costs	-23	-20	-15	-29	-48	-81	-96	-113
Dividends Paid	-	-138	-458	-499	-586	-829	-995	-1,244
Others	-11	242	147	59	141	-1,644	-	-
Change of cash	448	386	207	-196	-256	94	1,839	1,929
Opening Cash	866	1,313	1,699	1,906	1,710	1,454	1,548	3,386
Closing Cash	1,313	1,699	1,906	1,710	1,454	1,548	3,386	5,316

Ratios								
Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
As a percentage of Revenues								
MF revenues	30.0	34.0	36.9	34.6	36.8	42.1	43.3	44.0
Other products	70.0	66.0	63.1	65.4	63.2	57.9	56.7	56.0
Total cost								
Employee Cost	50.2	56.8	46.0	44.1	44.5	45.0	43.7	43.1
Other Opex Cost	17.6	16.9	11.5	12.4	13.6	12.1	11.6	11.6
PBT	26.2	24.0	40.1	41.6	42.2	42.4	44.3	45.1
PAT	18.6	17.0	30.3	30.8	31.2	31.4	32.8	33.3
Profitability Ratios (%)								
RoE	39.8	21.1	43.3	41.6	40.4	45.9	48.3	41.3
Dividend Payout Ratio								

Valuations	2020	2021	2022	2023	2024	2025E	2026E	2027E
BVPS (INR)	44.6	58.0	82.6	112.5	155.9	171.5	249.3	341.5
Price-BV (x)	96.5	74.2	52.1	38.2	27.6	25.1	17.3	12.6
EPS basic (INR)	22.7	16.5	30.5	40.5	54.1	75.3	102.1	122.5
Change (%)	3.3	-27.3	84.5	32.7	33.7	39.3	35.5	20.0
Price-Earnings (x)	189.2	260.3	141.0	106.3	79.5	57.1	42.1	35.1
DPS (INR)	-	5.0	11.0	12.0	14.0	20.0	24.0	30.0
Dividend Yield (%)		0.1	0.3	0.3	0.3	0.5	0.6	0.7

E: MOFSL Estimates

Nuvama Wealth

BSE SENSEX	S&P CNX
81,709	24,678

Stock Info

Bloomberg	NUVAMA IN
Equity Shares (m)	36
M.Cap.(INRb)/(USDb)	252 / 3
52-Week Range (INR)	7491 / 3108
1, 6, 12 Rel. Per (%)	-5/35/99
12M Avg Val (INR M)	604

Financials Snapshot (INR b)

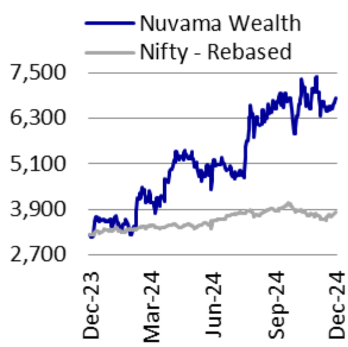
Y/E March	2025E	2026E	2027E
Revenues	29.2	34.2	39.1
Opex	16.2	19.4	22.0
PBT	13.0	14.8	17.1
PAT	9.7	11.2	12.9
EPS (INR)	272	315	363
EPS Gr. (%)	62	16	15
BV/Sh. (INR)	935	1,063	1,209
Ratios (%)			
C/I ratio	55.6	56.7	56.2
PAT margin	33.1	32.8	33.1
RoE	31.2	31.8	32.2
Div. Payout	54.7	56.7	57.4
Valuations			
P/E (x)	25.8	22.3	19.3
P/BV (x)	7.5	6.6	5.8

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	55.2	55.7	56.2
DII	1.5	1.4	0.8
FII	13.9	6.7	10.9
Others	29.4	36.2	32.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR7,028 TP: INR8,800 (+25%) BUY

Riding the wealth management tide

- Nuvama is a play on multiple themes in the capital market space, including UHNI wealth management, affluent segment wealth management and AMC.
- Nuvama services the UHNI segment under the Nuvama Private brand and has scaled up to INR2.1t in AUM as of Sep'24. The underlying growth mantra has been aggressive RM additions and strong support from the investment banking (IB) team. With the aim of doubling the RM count (127 as of Sep'24) in the next five years and improving the efficiency of the existing base, Nuvama is expected to witness strong inflows. We expect a CAGR of 20%/ 21% in ARR AUM/revenue during FY24-27 in this segment.
- The mid-market segment is served under Nuvama Wealth and is among a few non-bank players with a meaningful scale. Investment in tech, RM additions and deeper geographical penetration are its core strategies for growth in this segment. We expect a CAGR of 27%/23% in AAUM/revenue during FY24-27 in this segment.
- The capital market segment accounts for ~50% of Nuvama's revenues and comprises IB, institutional equity (IE), and custody and clearing business (C&C). While it is among the leading players in IE and IB, to counter the cyclicality of the segment, Nuvama has built a robust C&C business. C&C is linked to the thriving F&O market in India and can see strong sustainable growth over the long term.
- While the AMC business is in the early stage (AUM of INR103b as of Sep'24), Nuvama plans to scale it up materially with new product launches – a real estate product with Cushman and tie-ups with distributors.
- We expect Nuvama to deliver a CAGR of 23%/24%/29% in AAUM /revenue/ PAT over FY24-27, led by growing wealth management and asset management business. Sustained momentum in the capital market segment should provide strong support for the overall profitability of the company. **We initiate coverage on Nuvama with a BUY on the stock with a TP of INR8,800, based on 26x Sep'26E EPS.**

Nuvama Private: Adding RM force

- Nuvama Private provides various investment solutions, credit solutions, family office solutions and institutional services to UHNIs (>INR250m investable surplus).
- Average client assets (excluding held-away assets) stand at INR1.7t, with a ~20% share of recurring AUM. Investment solutions account for ~60-70% of recurring AUM, and the rest is credit solutions and advisory.
- In 2QFY25, transactional AUM accounted for ~67% of the total AAUM but 42% of total revenue. Brokerage income makes up only 20-25% of transactional revenue, and the rest comes from debt transactions and other products, from which an upfront fee is collected.

- In FY24, the RM count has reached 125+ with an expected yearly growth of 20%. The productivity of senior RMs is 5-6x higher than that of new RMs, who take 18-24 months to increase their productivity by 2-2.5 times. In the UHNI segment, Nuvama will continue to expand its RM network aggressively by leveraging its in-house IB franchise.
- FY24 was impacted due to AIF up-front fee capping. However, given the large scope for margin expansion, stronger earnings growth can be sustained in the coming years. Nuvama Private's CIR stood at ~67% (2QFY25), while 360 ONE WAM's CIR was ~50%.

Key strategic drivers for Nuvama Private:

- **Client acquisition and client deepening:** It is deepening its presence at the existing geographies and expanding to new geographies. It aims to further enhance its geographical reach to new locations, including tier 2 and tier 3 towns. It also focuses on enhancing its wallet share with existing clients.
- **International presence:** Nuvama has already initiated licensing and hiring in Singapore and Dubai. It is considering a three-pronged strategy of servicing: 1) offshore needs of Indian families, 2) India needs of offshore clients, and 3) offshore needs of offshore clients.
- **Enhancing Nuvama ecosystem:** The company continues to explore more synergies and collaboration opportunities across Nuvama units, especially with IB and private equity funds, to deliver holistic solutions to clients.
- **We expect the segment to register a CAGR of 20%/21% in ARR AUM/revenue during FY24-27** and expect the cost-income ratio to improve to 63% in FY27 from 64.4% in FY24.

Nuvama Wealth: Deepening the presence

- Nuvama Wealth caters to one of the fastest-growing segments in the wealth management pyramid (INR50m to INR250m investable surplus), which were traditionally not serviced by specialized wealth management firms as the cost to acquire and serve is high.
- The client base is serviced through a scaled and differentiated platform, which offers access to an extensive multi-product suite and hybrid distribution channel (phygital model).
- Nuvama plans to grow this segment exponentially over the next three years as it expands its RM base at a ~25% CAGR and deepens its geographic presence. Average client AUM stood at INR948b as of Sep'24, which is likely to see a 27% CAGR over FY24-27.
- We believe that productivity gains from RM additions will help reduce the C/I ratio by ~250bp and lead to a 26% CAGR in operating PBT over FY24-27E.

Key strategic drivers for Nuvama Wealth

- **Product innovation:** Nuvama has a significant advantage in leveraging product innovation in the upper segment and customizing it for the middle segment of the pyramid. It plans to customize products under the **"infinity platform"** and make them available for HNI/affluent clients.
- **Increasing RMs and productivity:** There have been significant RM additions over the past few years, and improving productivity of this base will help AUM

growth and profitability. Additionally, it aims to invest across geographies beyond Tier 1 and Tier 2 cities, where wealth management services have yet to penetrate.

- **Strengthening technology ecosystem:** Nuvama leverages technology at every stage of business, including digital acquisitions, advisory services and customer support. By using the crowdsourcing methodology, the internal platform makes use of technology to boost productivity and upskill employees.

Aspiring AMC business to grow faster

- Nuvama started its asset management business in 2021 focusing on alternative asset classes. In this short period, it has built a diversified suite of AIFs and PMS products.
- Currently, it has two broad strategies: 1) On the private market side, it has a pre-IPO fund and a crossover fund, and 2) listed strategy. It has recently launched a real estate strategy in a JV with Cushman.
- The comprehensive and feature-rich distributor platform enables quick digital on-boarding and offers multiple DIY tools, which help RMs service their clients.
- Nuvama's AMC is in a buildout phase, with a closing AUM of INR103b and revenue of INR324m in 1HFY25 (INR626m in FY24).
- The blended yield in the asset management business is expected at ~100bp as the private equity bucket is the biggest. Given the smaller AUM, the C/I ratio stood at 109% in 2QFY25. However, as the AUM scales up with new launches, we estimate a break-even by FY25 and contribute to profitability from FY26.

Capital Markets: Sticky client base reflects stable business

- The capital markets business includes IB, IE, and C&C (asset servicing). Nuvama is a SEBI-registered securities custodian & designated depository participant (DDP) and a professional clearing member (PCM) in the derivatives segment.
- It offers a one-stop platform offering India access, securities custody, derivatives clearing services and fund accounting services. ~90-95% of the income in C&C is recurring in nature.
- A significant portion of revenues are derived from high-frequency traders and the float they bring in to trade in derivatives. Given the sustainable long-term potential of the derivatives segment, we expect this segment to witness strong sustainable growth in revenues.
- It leverages capital markets’ capability to service the needs of wealth management clients by offering holistic solutions under one integrated platform.
- In FY24 and 1HFY25, the capital markets segment was the largest contributor to overall profitability. We expect operating PBT in this segment to deliver a 32% CAGR over FY24-27E.

Valuation and View

- The capital market segment is currently the largest contributor to Nuvama’s total revenue (31%/39%/50% in FY23/FY24/1HFY25). The company has made efforts to increase the contribution of wealth management business (49% in FY21 to 58% in FY24/47% in 1HFY25).

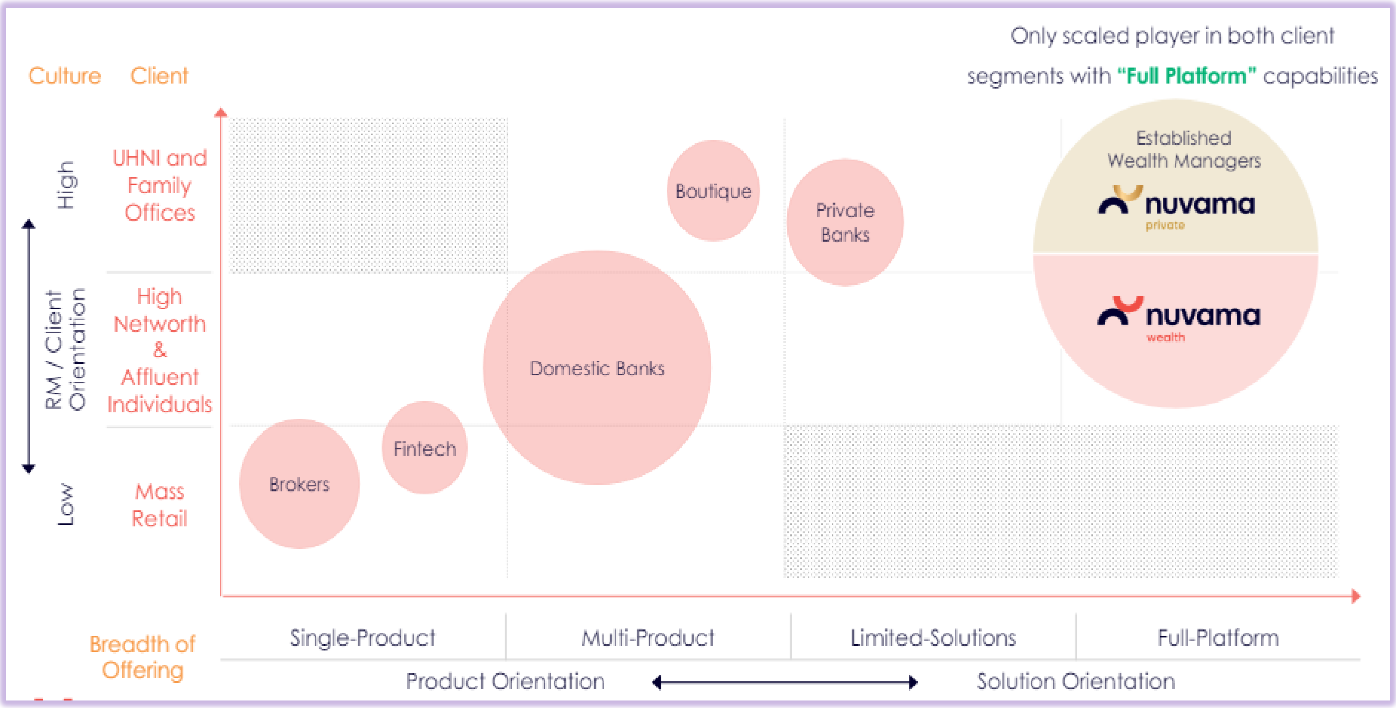
- Within the wealth management space, Nuvama focuses on increasing recurring revenue. Wealth management revenue (UHNI and HNI) saw a 35% CAGR in FY21-24 vs. overall revenue growth of 27% in FY21-24.
- The capital market business impacts total revenue and profits based on capital market sentiments. The float income and fund accounting income from C&C (relatively sticky business) provide great support to the company's overall profitability.
- We expect Nuvama to deliver a CAGR of 23%/24%/29% in AAUM /revenue /PAT over FY24-27E, led by growing wealth management and asset management business. Sustained momentum in the capital market segment should provide strong support for the overall profitability of the company. **We initiate coverage on Nuvama with a BUY rating and a TP of INR8,800, based on 26x Sep'26E EPS.**

Key risks

- An unfavorable movement in the equity market could hurt AUM growth, which would hit revenue and profitability.
- More-than-expected RM attrition in UHNI business and increase in employee costs to retain RM talent.
- Intense competition from existing and new players, driven by technological advancements and changing customer preferences.
- Regulatory risk leading to changes in the expense ratio in MFs, PMF, and AIFs.

STORY IN CHARTS

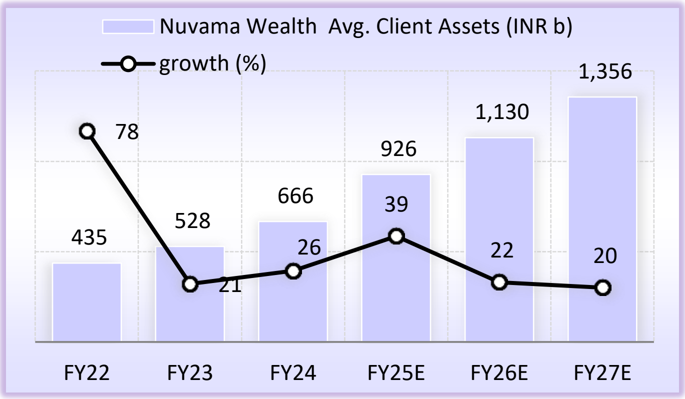
Nuvama is well-positioned in this evolving wealth space



Segmental data of Nuvama

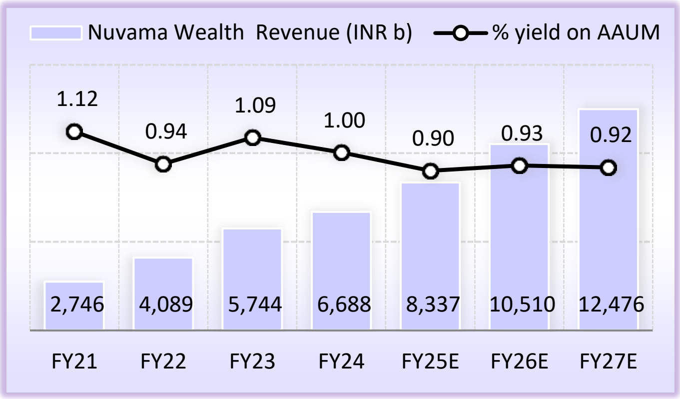
Segment		% of Revenue (1HFY25)	Products offered	
Nuvama Private (UHNI)		20	1. 3rd Party products: MF, AIF, PMS, Insurance 2. Fixed Income and Exchange traded products 3. In-house AMC, Credit 4. Advisory	❖ Primarily caters to clients with investible assets of > INR 250m. The company had ~4,050 clients as of 2QFY25 serviced through a network of 127 RMs
Nuvama Wealth (Mid-Market)		28		❖ Primarily caters to clients with an investible surplus of < INR 250m. ~1.2m HNI being serviced of which 20% serviced by RMs & external wealth managers
Nuvama Asset management		2	AIF and PMS	❖ Diversified bouquet of AIFs (Private Equity, Long Short funds, and Commercial Real Estate) and PMS schemes. The company currently has ~20+ investment professionals
Capital Market	Institutional Equities	50	Broking	❖ Over two decades old and covers 280+ large and mid-cap companies.
	Investment Banking		IB	❖ Full-service investment bank providing equity and debt market services and advisory for private equity and M&A across sectors.
	Custody & clearing services		Service	❖ Provide a platform to FPIs, MFs, etc. for access to Indian equity markets, securities custody, derivatives clearing services, and fund accounting services.

Avg. client assets for Nuvama Wealth expected to see 27% CAGR…



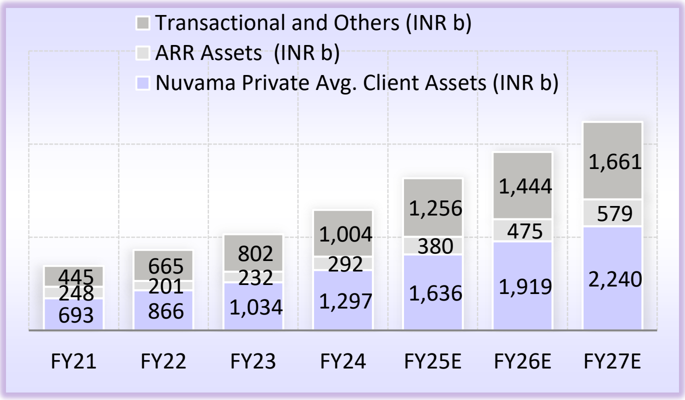
Source: MOFSL, Company

…with revenue CAGR of 23% over FY24-27E



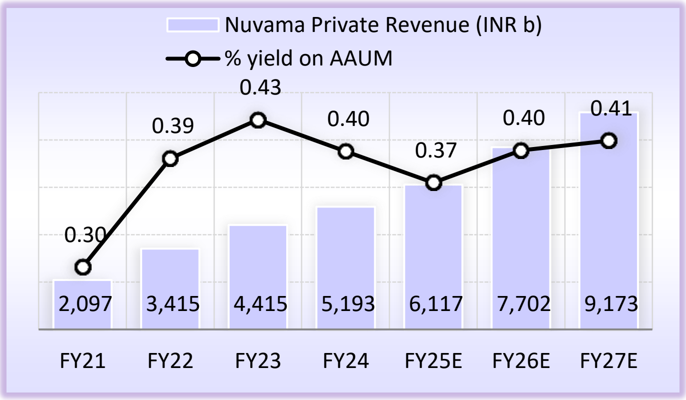
Source: MOFSL, Company

Avg. client assets for Nuvama Private expected to post 20% CAGR (ARR AUM 26% CAGR)…



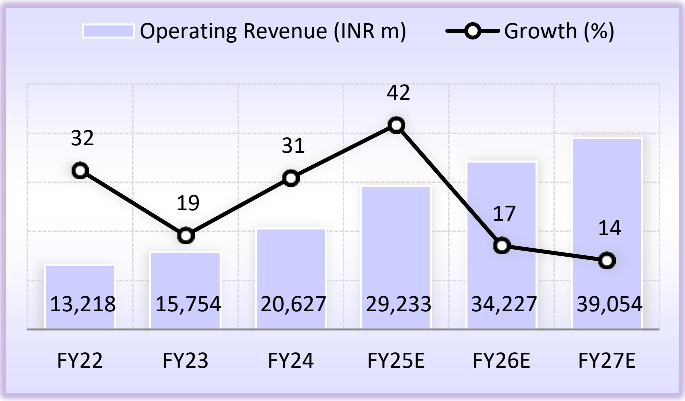
Source: MOFSL, Company

…with revenue CAGR of 21% over FY24-27E



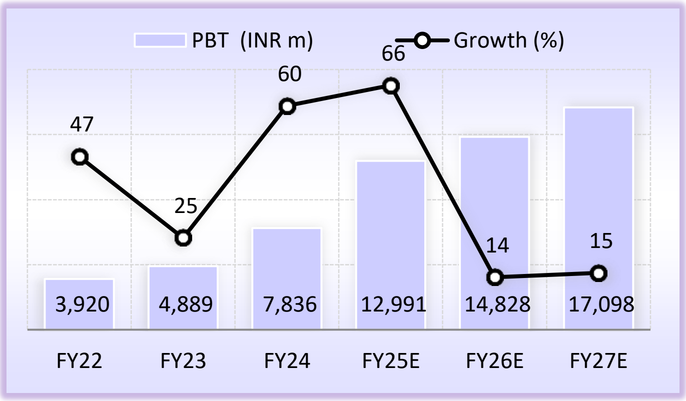
Source: MOFSL, Company

Total operating revenue to witness 24% CAGR over FY24-27E



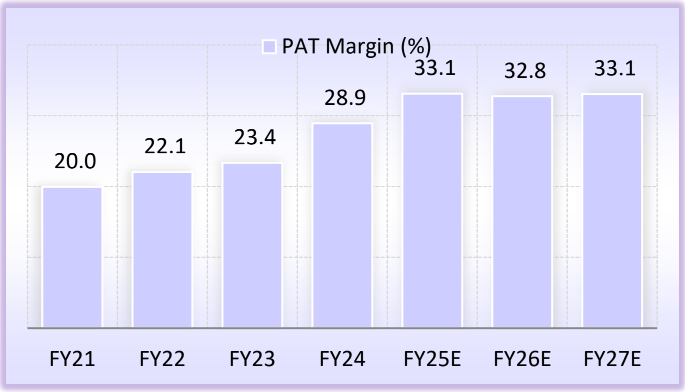
Source: MOFSL, Company

PBT to grow at 30% CAGR over FY24-27E



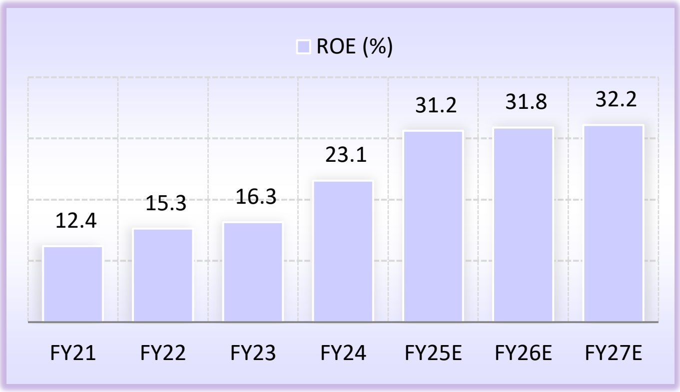
Source: MOFSL, Company

PAT margins to improve gradually to 33% by FY27E



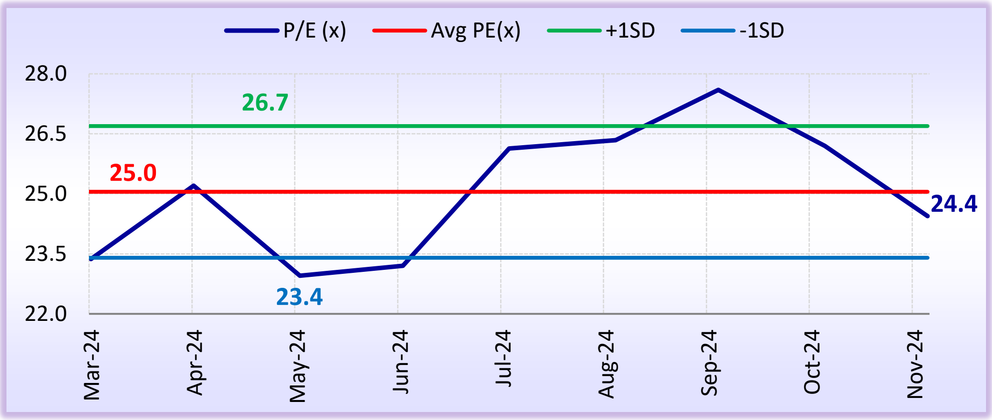
Source: MOFSL, Company

ROE to be around 32%



Source: MOFSL, Company

One-year forward P/E chart trend



Source: MOFSL, Company

SWOT analysis

- Diversified business model with wealth business catering to UHNI and HNI segments, AMC business and IE/ IB business.
- Invested in building RM team for the wealth management business which will reap benefits in the future.
- Investment in robust tech platforms for seamless client experience

- Cyclical IE/ IB businesses which is linked to movement in the equity market.
- Heavy dependence on affluent segments may expose the firm to market volatility affecting these groups.
- Relatively lesser presence in international markets compared to global players.

- Rising wealth in India and increasing awareness towards financial planning.
- Potential to diversify into AIFs and ESG-focused investment strategies
- Opportunity to expand into untapped international markets to serve global Indian investors.
- Expanding digital platforms and AI-driven advisory tools can attract tech-savvy younger investors.

- Intense competition from existing and new players, driven by technological advancements and changing customer preferences.
- Growing reliance on digital platforms increases the risk of cyber threats and data breaches.

Key management personnel

Mr. Birendra Kumar, Chairman & Independent Director

Mr. Kumar has been a career banker with over five decades of rich and diverse experience in commercial, credit, investment, and international banking in India and abroad, and in asset reconstruction business. He is a postgraduate in mathematics from University of Delhi and certified associate of Indian Institute of Bankers, Mumbai.

Mr. Ashish Kehair, MD & CEO

Mr. Kehair has been part of Nuvama Group since Mar'17. He was appointed as MD & CEO with effect from 21st Sep'21. He is a qualified Chartered Accountant. He has previously worked with IDFC Bank as Head – Wealth Management & Private Banking.

Mr. Bharat Kalsi, CFO and Head of Strategy

Mr. Bharat Kalsi has 24 years of extensive experience. Mr. Kalsi's last assignment was with Bajaj Allianz Life Insurance, as the CFO, Head of Product & Secretarial functions. Prior to working with Bajaj Allianz Life, Bharat has worked with Tata AIA Life Insurance, Max Life Insurance, Canara HSBC Life, Aviva and HCL Perot Systems. Mr. Kalsi is a CPA, CFA and has completed his MBA Finance.

Mr. Rahul Jain, President & Head – Nuvama Wealth

He started his journey with the company in 2008 as a Zonal Business Head and today has over 16 years of professional experience in driving new business lines as well as growing existing ones. In his previous roles, Rahul headed the retail broking division of ABN AMRO India, and ICICI Bank as Regional Product Manager – Broking. Rahul is a Post Graduate in Business Administration from IMT Ghaziabad with specialization in Finance.

Mr. Alok Saigal, President & Head – Nuvama Private

Alok joined the company in 2014 and has been a key leader in the transformation and scale-up of the wealth business. He founded the Family Office practice, introduced Wealth Structuring and Estate Planning for ultra HNI customers, and also oversaw the Products and Investment Advisory. Alok has over 20 years of work experience. Prior to Nuvama, Alok was associated with Darashaw and HDFC Bank. Alok holds a master's degree in Economics from the Delhi School of Economics, Delhi University.

Mr. Shiv Sehgal, President & Head – Nuvama Capital Markets

Mr. Sehgal provides leadership to one of India's largest equity franchises and is responsible for the Capital Market businesses, which include Institutional Equities (covering sales, research, and trading) and Asset Services. Shiv has worked in the investment management and financial services industry for close to two decades, the majority of which has been in emerging market funds in the pan-Asia markets. Shiv has extensive experience working in long-short emerging market hedge funds in Sydney and Singapore. He is a Chartered Financial Analyst from the CFA Institute, USA and holds a Masters in Banking and Finance from Griffith University, Brisbane.

Bull and Bear cases

Bull case

- ☑ In our bull case, we factor in higher revenue growth at 28% CAGR over FY24-27E vs. 24% CAGR in the base case.
- ☑ Given operating leverage in the business, we expect EBITDA margin to improve to 46.1% in FY27E vs. 43.8% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 36% over FY24-27E vs. the base case of 29% CAGR.

Bear case

- ☑ In our bear case, we factor in lower revenue growth of 20% CAGR over FY24-26E vs. 24% CAGR in the base case.
- ☑ Given operating de-leverage in the business, we expect EBITDA margin to contract to 40.3% in FY27 from 43.8% in the base case.
- ☑ As a result, we estimate PAT CAGR of 22% over FY24-27E vs. the base case of 29% CAGR.

Scenario analysis - Bull Case

(INR m)	FY25E	FY26E	FY27E
Total Revenue	30,116	36,741	43,722
% YoY	46	22	19
Opex	16,501	20,131	23,553
% YoY	29	22	17
PBT	13,615	16,610	20,169
PBT Margin	45.2	45.2	46.1
PAT	10,211	12,458	15,127
% YoY	71	22	21
EPS (INR)	289.2	352.8	428.4
Target Multiple			**30.0**
Target Price			**11,719**
Upside			**67%**

Source: Company, MOFSL

Scenario analysis – Bear Case

(INR m)	FY25E	FY26E	FY27E
Total Revenue	27,847	32,024	35,867
% YoY	35	15	12
Opex	16,629	19,123	21,418
% YoY	30	15	12
PBT	11,218	12,901	14,449
PBT Margin	40.3	40.3	40.3
PAT	8,414	9,676	10,837
% YoY	41	15	12
EPS (INR)	238.3	274.0	306.9
Target Multiple			**20.0**
Target Price			**5,810**
Downside			**-17%**

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)
Y/E March	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Nuvama Wealth	2,746	4,089	5,744	6,688	8,337	10,510	12,476
Nuvama Private	2,097	3,415	4,415	5,193	6,117	7,702	9,173
Asset Management	3	196	682	626	712	966	1,295
Capital Markets	5,030	5,594	4,894	8,050	14,067	15,050	16,109
Total Income	**9,979**	**13,218**	**15,754**	**20,627**	**29,233**	**34,227**	**39,054**
Change (%)		32.5	19.2	30.9	41.7	17.1	14.1
Employee expenses	4,725	6,404	7,586	9,065	11,369	13,579	15,259
Depreciation	501	713	886	1,364	1,705	2,046	2,456
Other Operating cost	2,080	2,181	2,393	2,362	3,167	3,773	4,241
Operating Expenses	**7,305**	**9,298**	**10,865**	**12,791**	**16,242**	**19,399**	**21,956**
Change (%)		27.3	16.9	17.7	27.0	19.4	13.2
PBT before share from associates	2,674	3,920	4,889	7,836	12,991	14,828	17,098
Change (%)		46.6	24.7	60.3	65.8	14.1	15.3
Tax	668	1,011	1,217	1,892	3,378	3,707	4,274
Tax Rate (%)	25.0	25.8	24.9	24.1	26.0	25.0	25.0
PAT before share from associates	**2,005**	**2,909**	**3,673**	**5,944**	**9,613**	**11,121**	**12,823**
Share from associates (net of taxes)	**-9**	**10**	**10**	**21**	**75**	**90**	**90**
Consolidated PAT	**1,996**	**2,919**	**3,682**	**5,965**	**9,688**	**11,211**	**12,913**
Change (%)		46.3	26.1	62.0	62.4	15.7	15.2
Dividend					5,296	6,355	7,414

Balance Sheet							(INR m)
Y/E March	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Equity Share Capital	172	172	351	353	353	353	353
Reserves & Surplus	15,923	18,957	22,237	28,635	32,674	37,177	42,323
Net Worth	**16,095**	**19,128**	**22,588**	**28,988**	**33,028**	**37,530**	**42,676**
Borrowings	14,116	35,336	53,980	67,457	75,552	84,618	94,772
Other Liabilities	44,301	51,518	50,589	1,07,424	1,40,060	1,82,692	2,38,420
Total Liabilities	**74,512**	**1,05,983**	**1,27,157**	**2,03,869**	**2,48,639**	**3,04,840**	**3,75,869**
Cash and Investments	45,783	47,196	54,975	1,27,835	1,55,757	1,90,008	2,32,976
Change (%)		3.1	16.5	132.5	21.8	22.0	22.6
Loans	**14,833**	**29,531**	**35,533**	**48,629**	**63,218**	**82,184**	**1,06,839**
Change (%)		99.1	20.3	36.9	30.0	30.0	30.0
Net Fixed Assets	1,260	1,632	2,290	2,192	2,149	2,106	2,063
Current Assets	12,636	27,624	34,358	25,212	27,516	30,543	33,990
Total Assets	**74,512**	**1,05,983**	**1,27,157**	**2,03,869**	**2,48,639**	**3,04,840**	**3,75,869**

E: MOFSL Estimates

Cashflow Statement						
Y/E March	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
PAT	2,919	3,682	5,965	9,688	11,211	12,913
Change in Accumulated Depreciation	713	886	1,364	1,705	2,046	2,456
Change in Reserves	114	-223	5,731	6,002	7,061	-353
Change in Working Capital	-7,621	-7,596	66,314	29,982	39,605	52,281
Cashflow from Operation	**-3,874**	**-3,251**	**79,374**	**47,377**	**59,924**	**67,297**
Change in Investments	-15,153	-6,997	-13,102	-14,759	-19,153	-24,861
Change in Loans	21,220	18,644	13,477	8,095	9,066	10,154
Change in Fixed Asset	-1,235	-1,611	-1,249	-1,661	-2,003	-2,413
Cashflow from Investing	**4,832**	**10,035**	**-874**	**-8,326**	**-12,090**	**-17,120**
Dividend Expense	0	0	0	-5,296	-6,355	-7,414
Cashflow from Financing	**0**	**0**	**0**	**-5,296**	**-6,355**	**-7,414**
Net Cashflow	958	6,784	78,501	33,756	41,479	42,762
Opening Cash	45,536	46,494	53,278	1,26,133	1,53,884	1,87,948
Closing Cash	46,494	53,278	1,31,779	1,59,889	1,95,363	2,30,711

Financials and valuations

Ratios							(%)
Y/E March	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
As a percentage of Revenues							
Nuvama Wealth	28	31	36	32	29	31	32
Nuvama Private	21	26	28	25	21	23	23
Asset Management	0	1	4	3	2	3	3
Capital Markets	50	42	31	39	48	44	41
Total cost	**73.2**	**70.3**	**69.0**	**62.0**	**55.6**	**56.7**	**56.2**
Employee Cost	47.3	48.4	48.2	43.9	38.9	39.7	39.1
Opex (ex emp) Cost	25.9	21.9	20.8	18.1	16.7	17.0	17.1
PBT margin	**26.8**	**29.7**	**31.0**	**38.0**	**44.4**	**43.3**	**43.8**
PAT margin	**20.0**	**22.1**	**23.4**	**28.9**	**33.1**	**32.8**	**33.1**
Profitability Ratios (%)							
RoE	12.4	15.3	16.3	23.1	31.2	31.8	32.2
Dividend Payout Ratio					54.7	56.7	57.4

Valuations	2021	2022	2023	2024	2025E	2026E	2027E
BVPS (INR)	456	542	640	821	935	1,063	1,209
Change (%)		18.8	18.1	28.3	13.9	13.6	13.7
Price-BV (x)	**15.4**	**13.0**	**11.0**	**8.6**	**7.5**	**6.6**	**5.8**
EPS (INR)	56.8	82.4	104.0	168.3	272.3	314.9	363.2
Change (%)		45.1	26.2	61.8	61.7	15.7	15.3
Price-Earnings (x)	**123.7**	**85.3**	**67.5**	**41.7**	**25.8**	**22.3**	**19.3**
DPS (INR)					150.0	180.0	210.0
Dividend Yield (%)					**2.1**	**2.6**	**3.0**

E: MOSL Estimates

360ONE WAM

BSE SENSEX	S&P CNX
81,709	24,678

Stock Info

Bloomberg	360ONE IN
Equity Shares (m)	388
M.Cap.(INRb)/(USDb)	433.2 / 5.1
52-Week Range (INR)	1216 / 592
1, 6, 12 Rel. Per (%)	5/33/54
12M Avg Val (INR M)	638

Financials Snapshot (INR b)

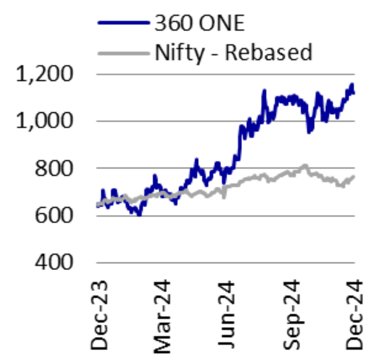
Y/E March	2025E	2026E	2027E
Net Revenues	23.6	27.9	32.0
Opex	11.8	13.4	15.1
Core PBT	11.8	14.5	16.9
PAT	9.8	12.9	14.9
EPS	25.2	33.3	38.4
EPS Grw (%)	12.5	31.9	15.6
BV	162.2	175.5	183.2
Ratios			
PBT margin (bp)	30.6	31.2	31.5
PAT margin (bp)	27.7	27.8	27.9
RoE (%)	20.1	19.7	21.4
Div. Payout (%)	40.0	60.0	80.0
Valuations			
P/E (x)	44.4	33.7	29.1
P/BV (x)	6.9	6.4	6.1
Div. Yield (%)	0.9	1.8	2.7

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	15.7	15.8	20.8
DII	8.5	54.7	53.2
FII	65.6	18.6	15.0
Others	10.3	10.9	10.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,117 TP: INR1,350 (+21%) Buy

Leader in a fast-growing industry

- **360 ONE WAM (360ONE) is well placed to maintain its leadership position in a favorable macro environment as inter-generational wealth transfer is expected to gather momentum and the adoption of organized wealth management increases in low-tier cities.**
- **With a wide product portfolio, 360ONE is capable of countering the cyclicality as it is seeing strong traction in credit products and advisory mandates (360ONE Plus inflows of INR208b in FY24 vs. INR110b in FY23).**
- **To improve its ARR AUM, 360ONE is focusing on a four-point strategy: 1) increase wallet share among existing clients, 2) expand into new geographies, 3) improve share in inter-generation wealth transfer, and 4) scale up AMC.**
- **In FY25, 360ONE will continue investing in building the mid-market segment and global business. A visible impact on revenue is expected from FY25 onwards (could add INR100b in AUM in FY25, with ~60% from HNI and ~40% from global platform). Over the next three years, the new business should contribute ~15-20% of the total revenue. The mid-market segment should start contributing from FY25, while the global platform has been built and has already made net flows of USD160m (not much revenue contribution in FY25, i.e., INR10m vs. costs at INR260m).**
- **360ONE recently raised INR22.5b through the QIP route. These funds will help in scaling the lending book, AIF business, and aid working capital requirements for the new businesses. The usage of funds towards these high-yielding business segments will also help in maintaining blended yields of the company.**
- **With the investments in new businesses and higher ESOP costs will be offset by increased TBR revenues in FY25. Thus, CIR is expected to improve to 47.3% in FY27.**
- **We expect 360ONE to report a 24% CAGR in ARR AUM during FY24-27. This, along with an improvement in CIR, will translate into an earnings CAGR of 23%. The company should also report a healthy RoE of 21% by FY27E and maintain a healthy dividend payout of 80%. We reiterate our BUY rating on the stock with a one-year TP of INR1,350, based on 38x Sep'26E P/E multiple.**

UHNI segment to sustain strong inflows

- Both primary and secondary equity markets are witnessing strong activity, and the deal flow in terms of promoter stake sales has been upbeat. Given its close association with promoters through its seed funds and pre-IPO funds, 360ONE is well placed to sustain the momentum in flows.
- New business can potentially add INR100b (~60% from HNI and ~40% from the global platform) in FY25. ARR net flows continued to be strong at ~INR269b in FY24. Additionally, inflows in the wealth segment in FY24 were 17% higher than FY23 inflows. Of the total inflows of INR200-300b, around INR150-160b is expected to come from the wealth management side.

Expanding into new geographies

- Two years ago, the top 10 cities accounted for 88%-91% of 360ONE's business, which has now declined to 80%-83%. However, the company now sees opportunities beyond tier 1 cities, where there are a significant number of high-net-worth families (INR150-200m).

- The company expects to increase the number of addressable cities to ~70 from ~20 and sees significant potential in the Tier II and Tier III locations targeting the HNI and UHNI segments. The company plans to establish offices in these cities by attracting talent from local bank branches.
- In FY24, 360ONE onboarded over 400 new clients with over INR100m per client in ARR AUM. Further, the company added over 150 clients with ARR AUM of more than INR500m per client in FY24. 360ONE has over 2,750 clients with a total AUM of INR100m+, accounting for 93% of wealth AUM (excl. custody).
- During FY24, at the partner & above level, 35+ new hires were on-boarded to drive these businesses, taking the total strength to 85-90 people. The headcount addition will allow 360ONE to significantly expand its market coverage and penetration.
- A senior partner, basically a managing partner with a junior partner should be able to manage at least ~45-50 families. From a capacity perspective, 360ONE would be well set to manage 5,500-6,000 active families with more than INR100m+ size as against ~3,000 families served today.

Healthy fund performance leads to growth in the mutual fund segment

- In the MF business, 360ONE saw inflows of INR28.8b in FY24 vs. relatively low inflows of INR1.6b in FY23. The company has been able to maintain the momentum in FY25 and is likely to sustain momentum over the next 12-24 months.
- In the UHNI segment, the company has an open structure, where relationship managers are instructed not to invest more than 15-20% in its own asset management products. However, in the mid-market segment, the limit to invest in own asset management products will be almost double compared to the UNHI segment. This will drive AUM growth in the AMC business for 360ONE.
- The company plans to launch a special opportunities fund, SOF 12 in 1QFY25 and also a credit fund in 2QFY25. It continues to have a strong product pipeline.
- The company is a pioneer in launching funds in the pre-IPO and secondary's space and the key sector themes include Healthcare, Consumers, Financials, Technology, and Industrials.
- With the current market cycles being quite volatile, the diversified strategies on alternates – across listed, unlisted, credit, and RE & Infra – allow 360ONE to go through these cycles with a higher resilience. Thus, we believe that there are multiple levers at play to accelerate growth in the AMC business.

Diversifying into the mid-market (HNI proposition) segment

- The total strength of RMs in the mid-market segment will be increased to ~70-75 by the end of FY25 (from current levels of ~35-40). The corporate, product, and investment teams are in place and have been in operation since Aug'24.
- The mid-market business currently contributes ~2.0-2.5% of the overall revenue, which, with the launch of the HNI segment, will grow to ~10% spread over the next three years. And from a profitability mix perspective, around 15-17% can potentially come from the HNI mid-market segment going ahead.
- This segment remains highly attractive and underpenetrated and opens an additional prospective client base of ~160k-170k households in the domestic market with an addressable asset pool of over USD1t, growing in the high teens over the next few years.

Spreading wings internationally with global business platform launch

- With a robust product suite and human talent in place, 360 ONE is well-placed to address the growing global Indian wealth management opportunity.
- During FY24, 360 ONE onboarded an experienced team to serve the global Indian population. With ~30m Indians worldwide, the market opportunity is massive, and 360 ONE is actively seeking such investment opportunities.
- Management has already received new flows of USD160m in the global segment and is confident of ramping this up over the next few quarters.
- The objective here is to: 1) become the preferred advisor for the allocation of the client's portfolio; and 2) become an advisor and effectively manage the entire global portfolio as advisors rather than being only the pure executors.
- By leveraging its established deep connections with the Indian diaspora globally, 360ONE expects this segment to be a strong growth engine in the medium to long term.
- In 1HFY25, the global business reported revenue of INR10m and costs of INR260m, resulting in a loss of INR250m.

Visible effect of new businesses on revenue from FY25 onward

- Over the next six to nine months, 360ONE will embark on an investment phase (with an incremental CIR of 2.5-3% for FY25) aimed at expanding its global businesses and mid-market segment (HNI Proposition).
- The management expects a visible effect on revenue from FY25 onward (INR100b, with ~60% from HNI and ~40% from the global platform), with a stronger upside in FY26, along with retentions of 70-75bp for both businesses, together with solid returns in the longer term.
- The margins here are broadly the same, as a lot of the functions, including products, investments, compliance, and platform, are already in place.

Near-term cost pressures

- With increasing competitive intensity and a limited pool of talent, 360ONE would ensure that employees are well rewarded. The fixed cost of employees will grow in line with overall wage inflation, while variable pays are likely to grow in line with overall AUM growth in ARR assets.
- 360ONE has a combination of both ESOPs and incentives for employees, based on three parameters: 1) time spent by the employee (~15- 20% weightage), 2) respective business plan achievement and performance (~50-60% weightage), and 3) performance of the firm (~10-20% weightage).
- In FY24, operating costs rose on account of headcount additions, including certain senior-level hires in the UHNI segment, which is not supported by corresponding revenues at this stage.
- During FY24, at the partner & above level, 35+ new hires are being onboarded in the wealth sales teams.
- CIR is expected to gradually settle down over the next few quarters as new business initiatives and new teams start generating revenues. CIR should claw back to ~44-45% levels from 49% currently in the next two years.

QIP funds to boost lending book and garner higher AIF business

- The Board had approved raising INR22.5b through the QIP route in Sep'24. In Oct'24, ~22.2m shares were allotted at an issue price of INR1,013/share (floor price of INR1,065.36/share).
- Of the total money being raised, 360ONE will use INR9b to strengthen the lending book and will invest INR8b in its alternate asset management business.
- 360ONE's loan book at the end of 1HFY25 was at INR68b compared to INR53.1b as of 1HFY24. The availability of QIP funds can help the NIM to recover to 5%.
- Apart from the existing growth trajectory of the asset management business, we expect ~INR10b of AIF flows over FY26-27 on the back of QIP. This will also improve the overall yields of the asset management business.

Valuations and view

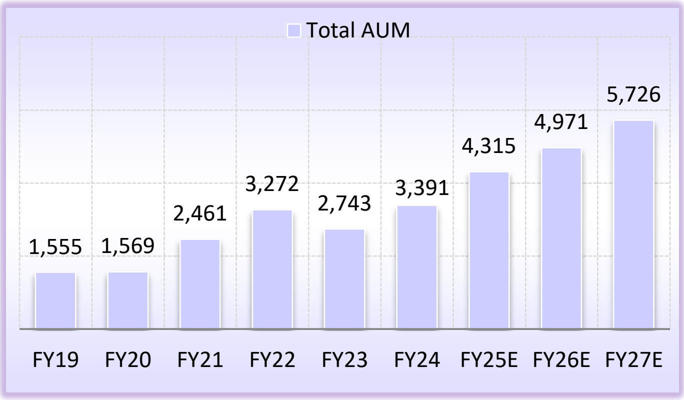
360ONE retains its niche position in the wealth management space, supported by a track record of innovative product offerings. The company operates with a strong team leader-driven model, resulting in low attrition rates at both the client and senior banker levels. The management's decision to venture into new domestic geographies and target the HNI category, besides global markets, is likely to spur the next leg of growth and boost revenue from FY25 onward. In terms of costs, continued investments in new businesses will keep the costs high in 1HFY25. Hence, CIR is expected to improve to 47.3% in FY27 from 51.8% in FY24. **We expect 360ONE to register a CAGR of 24% in ARR AUM over FY24-27E. This, along with improvement in CIR, will translate into an earnings CAGR of 23%. The company will also report a healthy RoE of 21.4% by FY27E and maintain a healthy dividend payout of 80%. We reiterate our BUY rating on the stock with a one-year TP of INR1,350, based on 38x Sep'26E PE multiple.**

Key risks

- **Regulatory risk –** Changes in expense ratios for AMCs can have a pass-through impact, e.g., the recent change in commission payouts on AIFs.
- **Competitive intensity –** The increase in boutique wealth management firms and the scale-up of wealth management arms of domestic private banks will likely put pressure on incremental flows.
- **High costs –** Higher spending on technology and business expansion; further, there is risk to talent retention costs as competitive pressure intensifies.

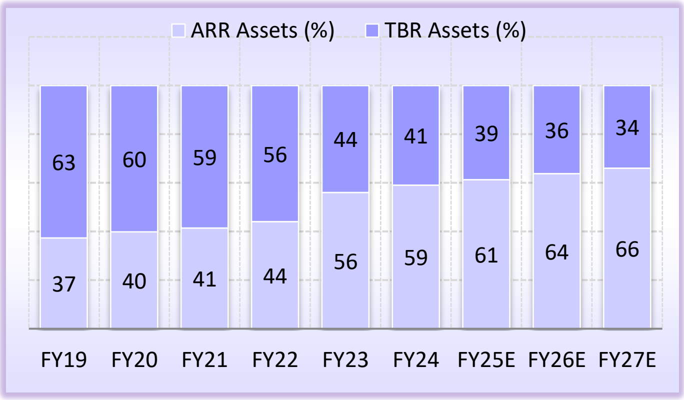
STORY IN CHARTS

Trend in total AUM (INR b)



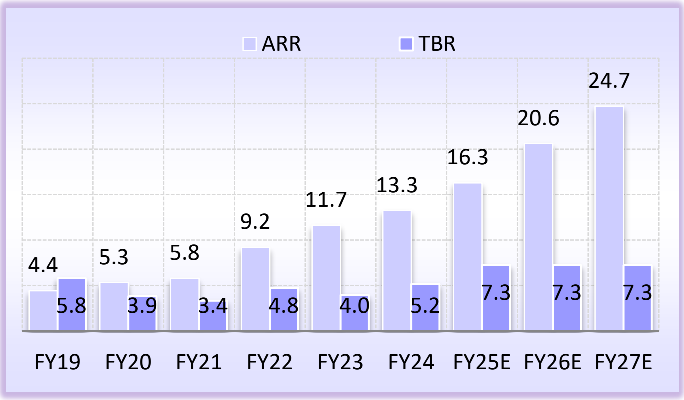
Source: Company, MOFSL

Expect ARR AUM mix to improve



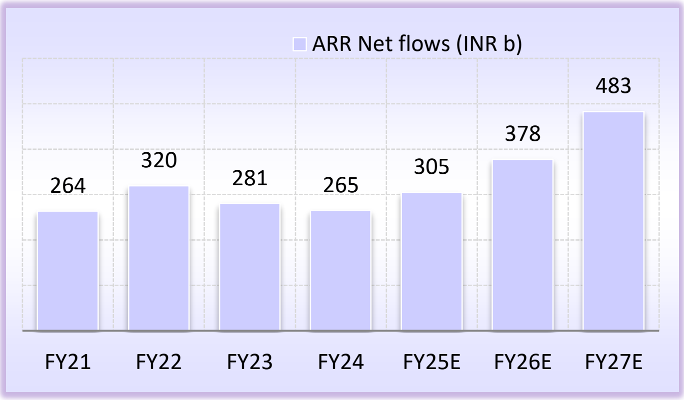
Source: Company, MOFSL

Trend in ARR and TBR revenues (INR b)



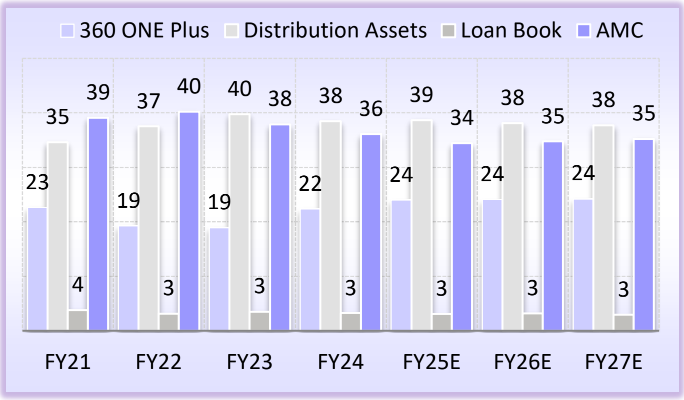
Source: Company, MOFSL

Trend in ARR net flows



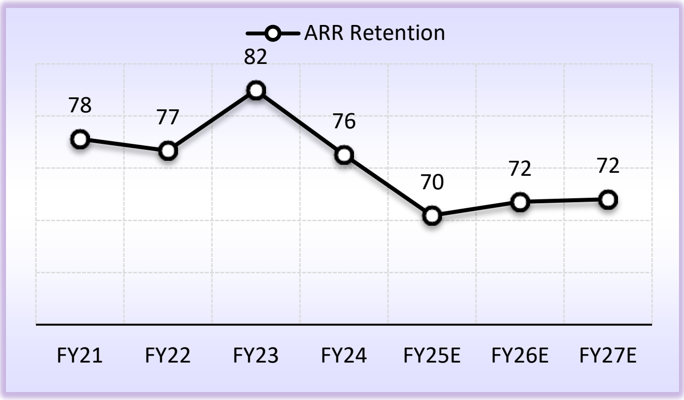
Source: Company, MOFSL

ARR AUM mix expected to remain stable (%)



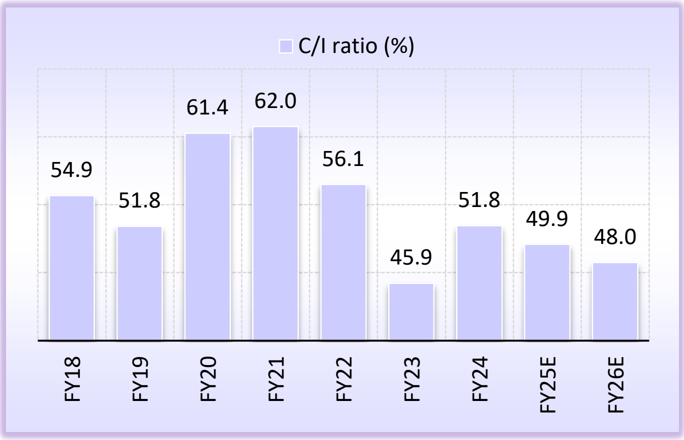
Source: Company, MOFSL

ARR Retentions to improve gradually to 72 bps in FY27



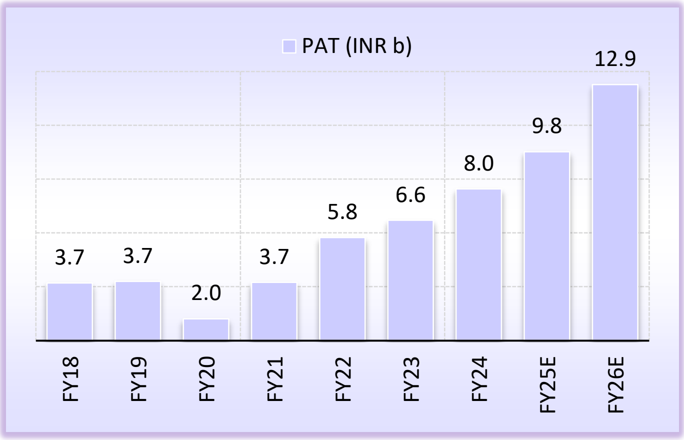
Source: Company, MOFSL

Trend in Cost-to-income ratio



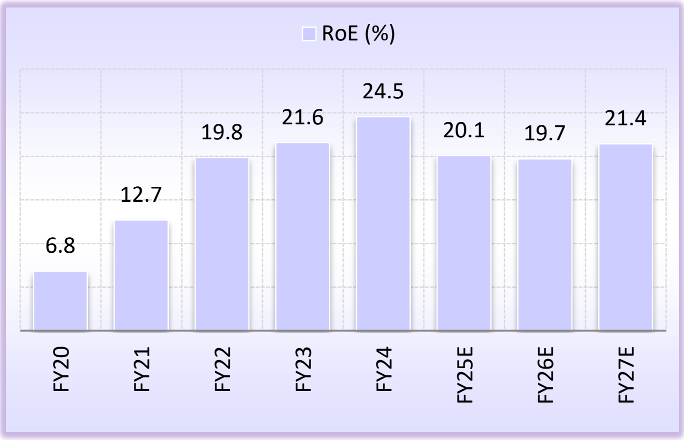
Source: Company, MOFSL

Trend in consolidated PAT (INR m)



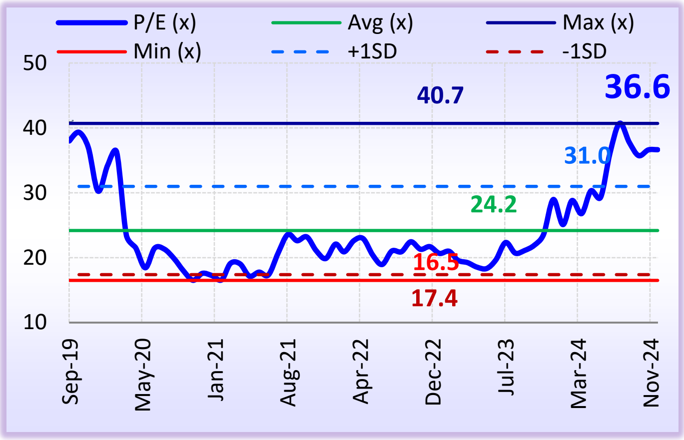
Source: Company, MOFSL

ROE to decline in FY25 due to fund raise



Source: Company, MOFSL

One-year forward P/E chart



Financials and valuations

Income Statement								(INR m)
Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Annual Recurring Revenues Assets	5,345	5,800	9,209	11,653	13,270	16,310	20,626	24,730
Transactional/Broking Revenues Assets	3,855	3,355	4,773	3,997	5,185	7,260	7,260	7,260
Net Revenues	**9,200**	**9,155**	**13,982**	**15,650**	**18,455**	**23,569**	**27,885**	**31,989**
Change (%)	-10.1	-0.5	52.7	11.9	17.9	27.7	18.3	14.7
Operating Expenses	5,645	5,679	7,841	7,184	9,565	11,762	13,391	15,126
Core Profit Before Tax	**3,555**	**3,476**	**6,141**	**8,466**	**8,891**	**11,808**	**14,495**	**16,863**
Change (%)	-28.0	-2.2	76.7	37.9	5.0	32.8	22.8	16.3
Other Income	-691	1,375	1,372	37	1,195	1,852	2,037	2,241
Profit Before Tax	**2,864**	**4,850**	**7,513**	**8,503**	**10,085**	**13,659**	**16,532**	**19,104**
Change (%)	-46.8	69.4	54.9	13.2	18.6	35.4	21.0	15.6
PBT after exceptional items	**2,864**	**4,850**	**7,513**	**8,503**	**10,085**	**12,779**	**16,532**	**19,104**
Change (%)	525.4	69.4	54.9	13.2	18.6	26.7	29.4	15.6
Tax	853	1,157	1,736	1,924	2,043	3,005	3,637	4,203
Tax Rate (%)	29.8	23.9	23.1	22.6	20.3	22.0	22.0	22.0
PAT	**2,011**	**3,693**	**5,777**	**6,579**	**8,042**	**9,774**	**12,895**	**14,901**
Change (%)	-46.3	83.6	56.4	13.9	22.2	21.5	31.9	15.6
Proposed Dividend	2,018	6,153	4,858	4,418	6,023	3,910	7,737	11,921

Balance Sheet								(INR m)
Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Equity Share Capital	174	176	177	356	359	388	388	388
Reserves & Surplus	29,741	28,102	29,798	30,685	34,138	62,503	67,661	70,641
Net Worth	**29,915**	**28,278**	**29,976**	**31,041**	**34,497**	**62,891**	**68,049**	**71,029**
Borrowings	88,381	47,116	58,075	67,473	94,111	88,412	1,15,538	1,38,143
Other Liabilities	11,967	12,006	19,345	13,406	22,581	24,839	27,323	30,055
Total Liabilities	**1,30,263**	**87,400**	**1,07,396**	**1,11,921**	**1,51,189**	**1,76,141**	**2,10,909**	**2,39,227**
Cash and Investments	76,911	33,010	49,566	43,347	65,859	71,978	84,292	99,968
Change (%)	131.0	-57.1	50.2	-12.5	51.9	9.3	17.1	18.6
Loans	**36,319**	**37,206**	**40,549**	**49,101**	**63,687**	**80,374**	**1,00,468**	**1,10,515**
Net Fixed Assets	5,754	8,153	8,163	8,798	9,397	10,337	11,371	12,508
Net Current Assets	11,278	9,030	9,117	10,675	12,246	13,452	14,778	16,237
Total Assets	**1,30,263**	**87,400**	**1,07,396**	**1,11,921**	**1,51,189**	**1,76,141**	**2,10,909**	**2,39,227**

E: MOFSL Estimates

Financials and valuations

Cash Flow (INR m)	2020	2021	2022	2023	2024	2025E	2026E	2027E
PAT	2,011	3,693	5,777	6,579	8,042	9,774	12,895	14,901
Dep	410	430	417	463	486	511	536	563
Changes in working capital	-1,541	2,248	-87	-1,558	-1,571	-1,206	-1,326	-1,458
Op Cash flow	**881**	**6,371**	**6,108**	**5,484**	**6,957**	**9,079**	**12,104**	**14,006**
Capex	-1,064	-2,828	-427	-1,098	-1,086	-1,450	-1,570	-1,700
Loans	13,346	-887	-3,344	-8,551	-14,586	-16,688	-20,094	-10,047
Changes in equity	817	822	779	-1,095	1,436	22,529	-	-
Debt	31,650	-41,226	18,298	3,459	35,812	-3,441	29,610	25,338
Dividend	-2,018	-6,153	-4,858	-4,418	-6,023	-3,910	-7,737	-11,921
Cash generation	43,612	-43,901	16,556	-6,219	22,512	6,119	12,314	15,675
Op Cash	33,300	76,911	33,010	49,566	43,347	65,859	71,978	84,292
Cl Cash	76,911	33,010	49,566	43,347	65,859	71,978	84,292	99,968
FCFF	**-183**	**3,542**	**5,681**	**4,386**	**5,872**	**7,628**	**10,535**	**12,306**

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
AUM (Ex Custody assets) (INR b)	**1,569**	**2,461**	**3,272**	**2,743**	**3,391**	**4,315**	**4,971**	**5,726**
Change (%)	0.9	56.8	33.0	-16.2	23.6	27.2	15.2	15.2
Annual Recurring Revenue Assets	626	1,020	1,444	1,540	2,004	2,650	3,173	3,784
Transactional/Brokerage Assets	943	1,441	1,828	1,203	1,387	1,665	1,798	1,942

E: MOFSL Estimates

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
As a percentage of Net Revenues								
ARR Income	58.1	63.4	65.9	74.5	71.9	69.2	74.0	77.3
TRB Income	41.9	36.6	34.1	25.5	28.1	30.8	26.0	22.7
Total Cost (Cost to Income Ratio)	61.4	62.0	56.1	45.9	51.8	49.9	48.0	47.3
Employee Cost	40.5	44.7	43.0	33.2	38.4	37.6	35.6	34.8
PBT	38.6	38.0	43.9	54.1	48.2	50.1	52.0	52.7
Profitability Ratios (%)								
RoE	6.8	12.7	19.8	21.6	24.5	20.1	19.7	21.4
Dividend Payout Ratio	100.3	166.6	84.1	67.2	74.9	40.0	60.0	80.0

Dupont Analysis (Bps of AAAUM)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Income	58.9	45.4	48.8	52.0	60.2	61.2	60.1	59.8
Operating Expenses	36.1	28.2	27.4	23.9	31.2	30.5	28.8	28.3
Core Profit Before Tax	**22.8**	**17.2**	**21.4**	**28.1**	**29.0**	**30.6**	**31.2**	**31.5**
Other Income	-4.4	6.8	4.8	0.1	3.9	4.8	4.4	4.2
Profit Before Tax	**18.3**	**24.1**	**26.2**	**28.3**	**32.9**	**35.5**	**35.6**	**35.7**
Tax	5.5	5.7	6.1	6.4	6.7	7.8	7.8	7.9
ROAAAUM	**12.9**	**18.3**	**20.2**	**21.9**	**26.2**	**27.7**	**27.8**	**27.9**

Valuations	2020	2021	2022	2023	2024	2025E	2026E	2027E
BVPS (INR)	86	80	84	87	96	162	175	183
Change (%)	-0.4	-6.3	5.0	3.2	10.3	68.7	8.2	4.4
Price-BV (x)	**13.1**	**13.9**	**13.3**	**12.8**	**11.7**	**6.9**	**6.4**	**6.1**
EPS (INR)	6	11	16	18	22	25	33	38
Change (%)	-47.9	82.1	55.0	13.5	21.3	12.5	31.9	15.6
Price-Earnings (x)	**194.1**	**106.6**	**68.8**	**60.6**	**50.0**	**44.4**	**33.7**	**29.1**
DPS (INR)	5	18	14	12	17	10	20	31
Dividend Yield (%)	**0.4**	**1.6**	**1.2**	**1.1**	**1.5**	**0.9**	**1.8**	**2.7**

E: MOFSL Estimates

Prudent Corporate Advisory

BSE SENSEX	S&P CNX
81,709	24,678

Prudent
— Money through wisdom —

Stock Info

Bloomberg	PRUDENT IN
Equity Shares (m)	41
M.Cap.(INRb)/(USDb)	123.4 / 1.5
52-Week Range (INR)	3741 / 1129
1, 6, 12 Rel. Per (%)	-1/73/121
12M Avg Val (INR M)	184

Financials Snapshot (INR b)

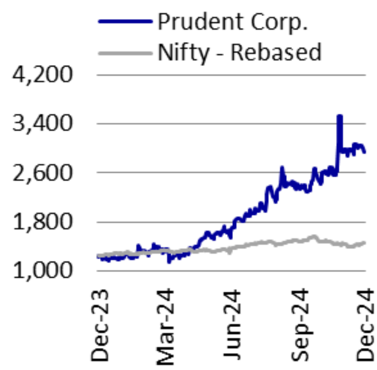
Year End	2025E	2026E	2027E
Revenues	11,393	14,644	18,144
Opex	8,663	10,964	13,370
PBT	2,729	3,705	4,830
PAT	2,047	2,779	3,623
EPS (INR)	49.4	67.1	87.5
EPS Gr. (%)	47.5	35.8	30.4
BV/Sh. (INR)	32.2	44.7	61.1
Ratios (%)			
EBITDA Margin	24.0	25.1	26.3
PAT margin	18.0	19.0	20.0
RoE	35.6	34.9	33.1
Div. Payout	9.1	7.4	6.3
Valuations			
P/E (x)	59.9	44.1	33.9
P/BV (x)	91.9	66.3	48.5
Div. Yield (%)	0.2	0.2	0.2

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	55.7	58.4	58.4
DII	23.9	22.3	15.7
FII	14.6	12.9	3.8
Others	5.7	6.4	22.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR2,979 TP: INR3,200 (+7%) Neutral

Going from strength to strength

- PRUDENT, the second largest National Distributor of MFs, is a direct play on growing popularity of MFs and insurance as favored investment options among the retail population.
- The B2B2C model, wherein PRUDENT has built an enviable network of ~29.6k distributors, has registered a CAGR of 21% over the last four years from FY20 to FY24, including the integration of Karvy distributors (~31.4k as of 2QFY25). This model drives granular growth patterns.
- A major part of the company's MF AUM of INR1.1t as of Sep'24 has been built through SIP flows, which have now reached a monthly run rate of INR8.7b for Prudent. The company aims to scale this up to INR10b by FY26. With only 50% of the customer base currently enrolled in SIPs, we see significant headroom for growth.
- Insurance has begun to make a contribution of ~12% of total revenue in 2QFY25. Considering that only 25% of its distributors are currently empaneled for selling insurance, we expect stronger growth in this segment.
- Additionally, PRUDENT is building base for other products, such as stock broking, bonds, AIFs, PMS, Fixed Deposits, and P2P loans. This one-stop-shop strategy deepens relationship with the MFDs and empowers them to broaden their revenue horizons.
- PRUDENT's asset-light business model supports high cash conversion rate and is open for expansion through inorganic opportunities. This shall boast the growth strategy of the company.
- We expect PRUDENT to deliver a revenue/EBITDA/PAT CAGR of 31%/ 35%/38% over FY24-27, fueled by growing MF AUM and increasing share of insurance in the overall mix. **We initiate coverage on Prudent with a Neutral rating and a TP of INR3,200 (based on 42x EPS Sep'26E).**

Prudent: India's fourth largest Mutual Fund Distributor

- PRUDENT has built a strong B2B2C business model, which empowers ~31.4k+ distributors with digital tools to service retail customers with mutual fund products.
- For YTDFY25, PRUDENT had an AUM of INR1.1t, up from INR257b in FY21. Equity AUM contributed 96.7% of the overall AUM in 2QFY25. This included AUM acquired through the takeover of Karvy's MF business in FY22.
- Importantly, the distributors have built this model granularly via SIPs. The monthly run rate in 2QFY25 stood at INR8.7b (INR3.1b in 2QFY21), and SIP inflows accounted for ~36.1% of the gross equity inflows for the company.
- While the proportion of Regular plans in Total AUM might decline, the overall market size could expand as retail penetration deepens. This makes Prudent a better option to play the SIP investment megatrend.

The Untapped SIP Market

- The SIP narrative has evolved over the years, becoming a game changer in the investment arena. It has transitioned from being an Urban Household phenomenon to a widely accepted investment strategy, particularly post-pandemic.
- It is observed that regular plans constitute the lion's share of 77% of the total SIP AUM as of Sep'24. This dominance of regular plans demonstrates investors' trust and belief in the importance of professional guidance.
- The AUM per folio of these SIP Investors is at INR 0.13m in regular plans, which is ~2.3 times more than that of direct plans, indicating that clients are confident of investing larger sums, when dealing with MFDs.
- Even within PRUDENT's own clientele, 50% have not embraced SIPs. This untapped segment holds substantial promise for expansion. Prudent aims to reach monthly SIP flow of INR 10b by FY26.
- By harnessing data-driven insights, it aims to understand and address the unique needs of clients. With a nuanced understanding of investors, Prudent believes it can encourage a shift toward SIPs, boosting their financial resilience, while simultaneously driving growth trajectory.

Evolving Together with MFDs

- MFDs have reported a threefold jump to a staggering 31,452 by 2QFY25 from 11,620 in FY19. Yet, the true cornerstone of success lies not just in their growing numbers, but also in the evolution of these MFDs into seasoned professionals.
- From having only 339 MFDs with an AUM exceeding INR100m in Mar'19, Prudent has witnessed an almost fourfold surge to 1,565 MFDs by Mar'24.
- Mature MFDs have notably surpassed their younger counterparts across multiple domains, exhibiting higher gross sales per client, increased new SIPs per client, and higher AUM per client. This correlation between experience and productivity further reiterates the profound impact of continuous learning and growth.
- PRUDENT's data reaffirms a substantial increase in productivity as MFDs gain experience and maturity. This trend underlines the importance of nurturing and retaining MFDs, facilitating their progression from novices to seasoned veterans.
- The increasing maturity and AUM of MFDs are encouraging them to take up this profession as a whole-time business, thereby leading to substantial growth for themselves, eventually translating into success for Prudent.
- Prudent Loyalty Program is an annual event, wherein Prudent selects valued partners based on their business performance every year. This is a broad-based program to get more participation from mutual fund distributors.

Harnessing Diversification and Technology

- Prudent has successfully diversified its product portfolio to cater to client's diverse financial needs.
- The robust platform offers various products, including PMS, AIF, Peer-to-Peer Lending, Corporate FDs, Primary & Secondary Bonds, and Smallcase, equipping MFDs to meet all their client requirements under a single platform.
- This one-stop-shop strategy deepens relationship with the MFDs and empowers them to broaden their revenue horizons.
- This diversification journey has been an integral part of Prudent's success, yielding an impressive CAGR of 45% in revenues from FY21 to FY24 from products other than mutual fund distribution. This shift in growth strategy has de-risked revenue concentration and created a solid foundation for sustained growth.

The Rising Contribution of Insurance

- In an astute move to boost cross-selling and deepen customer relationships, Prudent started distributing insurance products (another high-margin product) in 2019. It focuses on retail products which include term insurance and traditional products such as par, non-par, and annuity plans.
- Of the 31,452 MFDs as on 2QFY25, 12,431 MFDs are also point of sales persons (POSPs) who sell insurance products.
- In General Insurance, the focus is more towards health insurance. Fresh premium from health insurance have seen a robust growth of 28% in 1HFY25. We expect the momentum to sustain as adoption of insurance increases amongst MFDs.
- With better clarity on EOM guidelines, there is a possibility that the yields on the insurance business would improve.
- Prudent is open to acquisitions in the B2B sector and is looking at opportunities in the insurance segment.

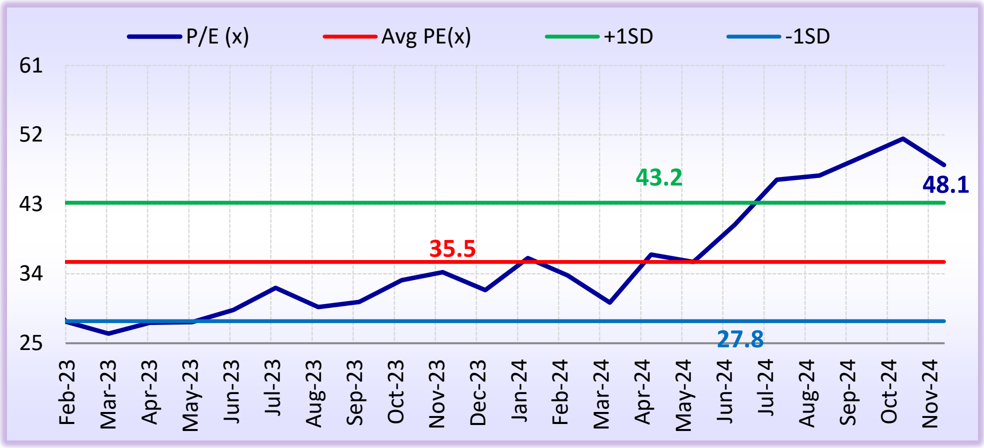
Valuation and View

- We expect Prudent to sustain revenue growth momentum in the medium to long term primarily because of the following reasons: 1. Increasing MF AUM mainly driven by rising SIP participation and MTM gains on the existing AUM and 2. Prudent's focus on one-stop-shop solution are poised to result in an increase in distribution revenue from higher-margin products such as insurance.
- PRUDENT expects yields on Mutual Fund AUM to decline and settle at ~90-92bp on account of SEBI's decision to discontinue the B-30 incentive structure from 1st Mar'23.
- We expect commission and fees income from MFs/insurance products/other financial and non-financial products to record a CAGR of 33%/23%/37% over FY24-FY27.
- We expect PRUDENT to deliver revenue/EBITDA/PAT CAGR of 31%/35%/38% over FY24-27E, led by growing MF AUM and increasing share of insurance in the overall mix. The company is expected maintain an RoE of 30%+ for FY25/FY26/ FY27. **We initiate coverage with a Neutral rating on the stock with a TP of INR 3,200 (42x EPS Sep'26E).**

Key risks

- An unfavorable movement in the Equity market can adversely affect the AUM, consequently impacting revenue and profitability negatively.
- Intense competition from existing and new players, driven by technological advancements and changing customer preferences.
- The regulatory risks for MFDs also emanates from the regulator. In a recent consultation paper, SEBI proposed capping the maximum TER that mutual funds can levy, indirectly affecting MFDs.

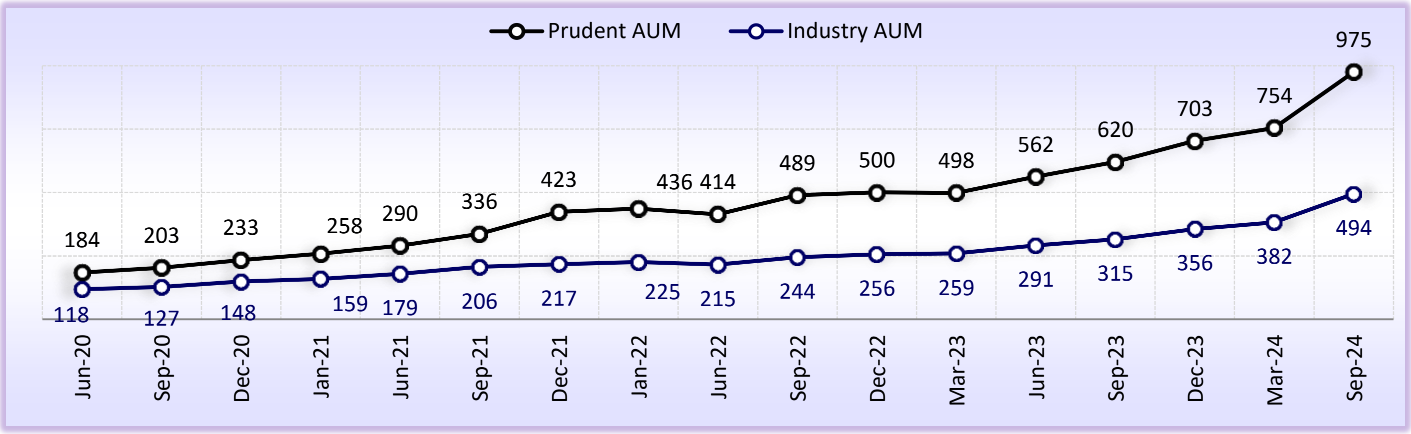
One-year forward P/E chart trend



Source: MOFSL, Company

STORY IN CHARTS

Prudent's Equity AUM is 2x industry growth (values rebased to 100)



Source: MOFSL, Company

How Prudent Bridged the GAP with Biggies in the last Decade (values rebased to 100)

Peers	Peers Commission Income Compared to Prudent		Peers AUM Compared to Prudent	
	FY14	FY24	FY14	FY24
HDFC Bank Limited	450	110	590	170
NJ Indiainvest Pvt Ltd	420	260	330	230
ICICI Bank Limited	330	50	330	80
Kotak Mahindra Bank Limited	280	40	510	70
Axis Bank Limited	270	80	260	110
Standard Chartered Bank	250	20	270	30
Hongkong & Shanghai Banking Corporation Ltd.	240	20	370	40
ICICI Securities Limited	210	70	230	90
Bajaj Capital Ltd.	130	20	120	20
State Bank of India	80	140	260	250

Source: MOFSL, Company

Experienced cadre of MFDs - Sept'24

	No. of MFDs	MFDs to Total MFDs (%)	MFDs as % of MFDs AUM	Gross Sales (Apr-Sept'24)	New SIP Accretion (Apr-Sept'24)
Below 5 years	20,397	64.9	27.1	39.3	40.0
Above 5 years	11,055	35.1	72.0	60.7	60.0

Source: MOFSL, Company

Productivity of MFD increases once it crosses the INR 100m mark

	Average Gross Sales Per Client	Average Value of New Sips Added Per Client	Average AUM per Client
MFDs with AUM more than 100m	1,43,069	4,154	8,92,889
MFDs with AUM less than 100m	52,395	2,948	3,26,944
Difference (in Times)	2.7	1.4	2.7

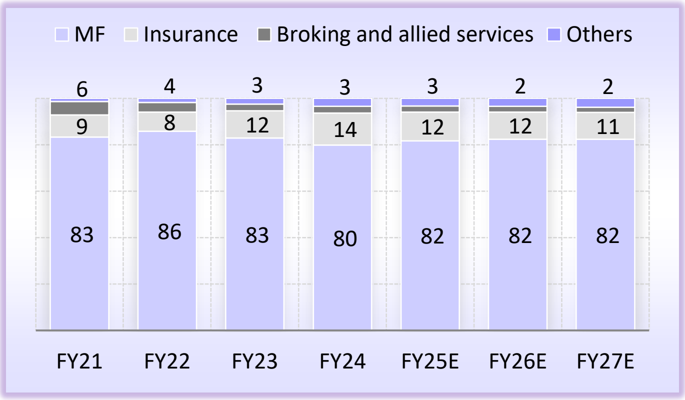
Source: MOFSL, Company

Prudent's Customer Profiling showing that Age Group below 35 are contributing to build Granular Book

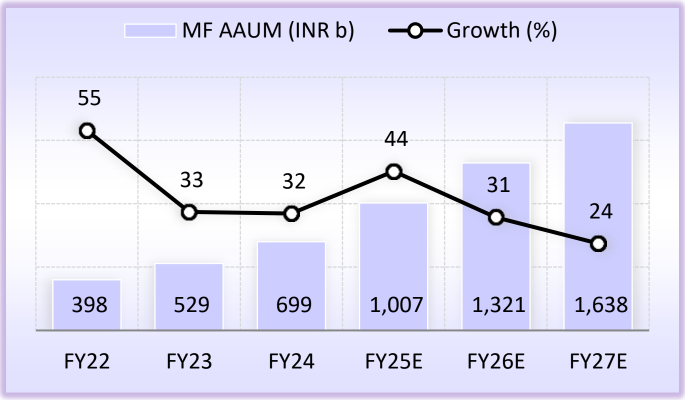
	No. of Investors	Total AUM	Equity	Non-Equity	No of Live SIP	Live SIP Amount	AUM Per Investor
>0 <25	8.20	3.40	3.30	3.70	7.10	6.40	2,06,753
25 to 35	21.40	11.50	13.10	6.60	26.50	22.80	2,29,453
35 to 45	28.50	23.60	26.50	14.50	34.20	33.00	4,08,666
45 to 60	27.00	34.30	34.50	33.70	25.20	28.40	6,29,311
>60	15.00	27.10	22.50	41.40	7.00	9.50	8,96,808

Source: MOFSL, Company

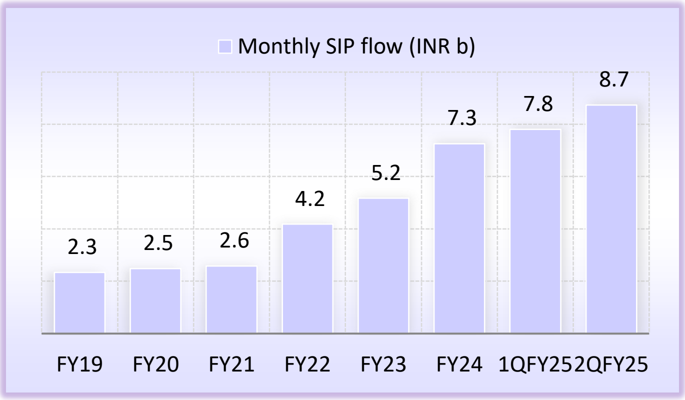
Revenue diversification on track…



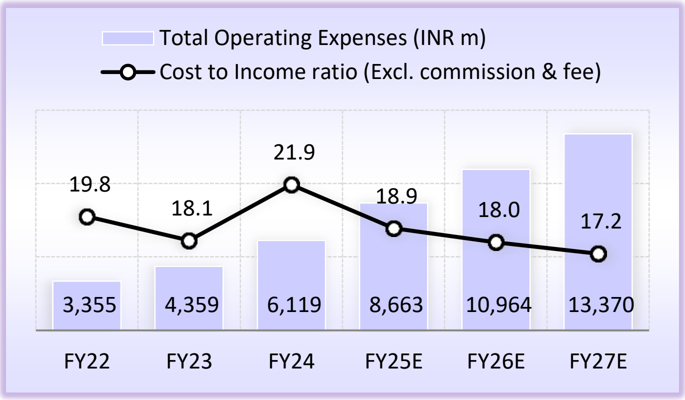
…however, MF AAUM to surpass the INR1t mark by FY25



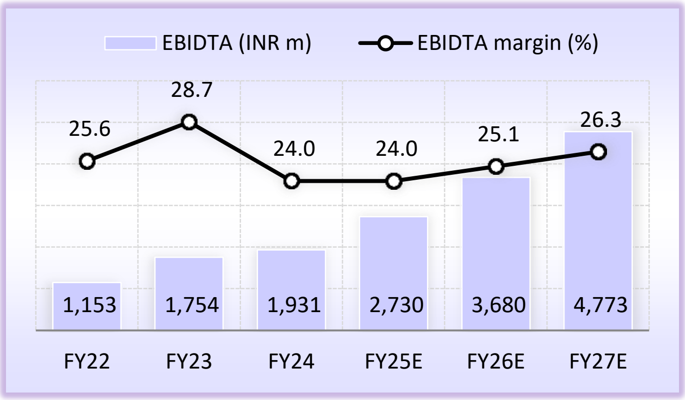
Monthly SIP boom to reach INR10b by FY26



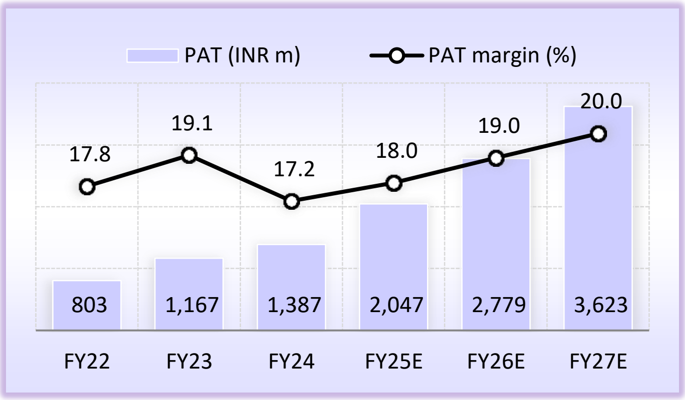
Operating leverage playing out well



EBITDA margin to improve to 26.3% by FY27



PAT margin expected to improve to 20% by FY27



SWOT analysis

Strength

- Asset-light model supports high cash conversion rate
- Business stability resilience demonstrated by higher SIP AUM as % of total MF AUM.
- Strong base of MFDs created over last few years through organic and inorganic routes
- Diverse products including MFs, Life Insurance, General Insurance, AIFs, PMS, stock broking and others.

Weakness

- Higher dependency on distribution partners to source revenues. Share of direct is relatively low.
- Revenue is more skewed toward Mutual Fund AUM.

Opportunity

- Mutual fund penetration in India continues to be low when compared globally
- Penetration of other financial products such as insurance, stocks, AIFs and PMS is also on lower side.
- Within the customer base of Prudent, only 50% have subscribed to SIPs
- Only 38% MFDs of Prudent currently sell insurance products

Threats

- Intense competition from existing and new players, driven by technological advancements and changing customer preferences.
- Regulations around TERs and commissions have been tightened in the past. Any such moves again can impact commissions for PRUDENT.

Key management personnel

Mr. Sanjay Shah (Chairman & Managing Director)

He is a Chartered Accountant with more than two decades of experience in wealth management. Holds a degree of BBA from Sardar Patel University & is admitted as a fellow member of the Institute of Chartered Accountants of India.

Mr. Shirish Patel (CEO & Whole-time Director)

He is an MBA in Finance & holds a diploma in Computer Applications. He has worked with ICICI Bank and Citi Bank and holds an overall 22 years of experience in wealth management. Joined the firm in 2005 and has been instrumental in the growth of the company.

Mr. Chirag Shah (Whole-time Director)

He is a Fellow member of Institute of Chartered Accountants of India with 17 years of experience in insurance & compliance sector. Previously, he has been associated with NSDL. He joined Prudent in 2004 and is currently serving on the board of Gennext. He is responsible for HR, Admin & Compliance functions of the Prudent group.

Mr. Chirag Kothari (Chief Financial Officer)

He is a qualified company secretary and is a fellow member of the Institute of Company Secretaries of India. He holds 15 years of experience in the finance sector & is associated with Prudent since 2006.

Bull and Bear cases

Bull case

- ☑ In our bull case, we factor in higher revenue growth of 47%/34%/29% for FY25E/26E/FY27E vs 42%/29%/24% in the base case.
- ☑ Given operating leverage in the business, we expect the EBITDA margin to improve to 30.4% in FY27E vs 26.3% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 50% over FY24-27E.

Bear case

- ☑ In our bear case, we factor in higher revenue growth of 35%/25%/20% for FY25E/ FY26E/FY27E vs 42%/29%/24% in the base case.
- ☑ Given operating leverage in the business, we expect EBITDA margin to decline to 22.1% in FY27E vs 26.3% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 25% over FY24-27E.

Scenario analysis - Bull Case

(INR m)	FY25E	FY26E	FY27E
Total Revenue	11,834	15,857	20,456
% YoY	47	34	29
Opex	8,689	11,296	14,232
% YoY	42	30	26
EBITDA	3,145	4,562	6,224
Margin	26.6	28.8	30.4
PBT	3,072	4,561	6,249
PAT	2,304	3,421	4,687
% YoY	66	48	37
EPS (INR)	55.6	82.6	113.2
P/E (x)			**46**
FV (INR)			**4,503**
Upside (%)			**52%**
CMP (INR)			**2,962**

Source: MOFSL, Company

Scenario analysis – Bear Case

(INR m)	FY25E	FY26E	FY27E
Total Revenue	10,868	13,585	16,302
% YoY	35	25	20
Opex	8,261	10,408	12,698
% YoY	35	26	22
EBITDA	2,607	3,177	3,604
Margin	24.0	23.4	22.1
PBT	2,607	3,177	3,604
PAT	1,955	2,382	2,703
% YoY	41	22	13
EPS (INR)	47.2	57.5	65.3
P/E (x)			**38**
FV (INR)			**2,333**
Upside (%)			**-21%**
CMP (INR)			**2,962**

Source: MOFSL, Company

Financials and valuations

Income Statement

(INR m)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Commission and Fees Income	2,293	2,776	4,428	6,048	7,990	11,331	14,582	18,082
Other Operating income	55	89	80	65	60	62	62	62
Revenue From Operations	**2,348**	**2,865**	**4,508**	**6,113**	**8,050**	**11,393**	**14,644**	**18,144**
Change (%)	5.8	22.0	57.3	35.6	31.7	41.5	28.5	23.9
Commission and Fees expenses	1,205	1,531	2,464	3,252	4,354	6,504	8,328	10,247
Employee benefits expense	489	555	693	833	928	1,179	1,391	1,599
Impairment of FI	12	20	-1	-20	0	0	0	0
Other expenses	176	140	199	295	837	980	1,245	1,524
Operating Expenses	**1,882**	**2,246**	**3,355**	**4,359**	**6,119**	**8,663**	**10,964**	**13,370**
Change (%)	2.4	19.4	49.4	29.9	40.4	41.6	26.6	21.9
Operating Profit	**467**	**619**	**1,153**	**1,754**	1,931	2,730	3,680	4,773
Other Income	14	84	78	75	196	288	331	381
Depreciation	79	81	134	240	248	265	278	292
Finance Cost	27	17	26	21	21	24	28	32
Exceptional items	0	0	0	0	0	0	0	0
Profit Before Tax	**374**	**605**	**1,071**	**1,568**	**1,858**	**2,729**	**3,705**	**4,830**
Change (%)	30.6	61.7	77.0	46.4	18.5	46.9	35.8	30.4
Tax	96	152	268	401	471	682	926	1,208
Tax Rate (%)	25.6	25.2	25.0	25.6	25.3	25.0	25.0	25.0
PAT	**279**	**453**	**803**	**1,167**	**1,387**	**2,047**	**2,779**	**3,623**
Change (%)	32.5	62.6	77.4	45.2	18.9	47.5	35.8	30.4
Dividend	5	5	41	62	83	186	207	228

Balance Sheet

(INR m)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Equity Share Capital	10	10	207	207	207	207	207	207
Reserves & Surplus	1,115	1,566	2,169	3,293	4,607	6,467	9,039	12,434
Net Worth	**1,125**	**1,576**	**2,376**	**3,500**	**4,814**	**6,674**	**9,246**	**12,641**
Borrowings	78	26	0	0	0	0	0	0
Other Liabilities	758	1,247	1,624	1,699	2,762	2,900	3,045	3,197
Total Liabilities	**1,961**	**2,850**	**4,000**	**5,199**	**7,576**	**9,574**	**12,291**	**15,838**
Cash and Investments	1,035	1,598	967	2,127	3,780	5,176	7,149	9,775
Change (%)	41.4	54.4	-39.5	120.0	77.7	36.9	38.1	36.7
Loans	9	5	7	9	**10**	**11**	**12**	**14**
Net Fixed Assets	179	166	157	148	163	188	216	248
Current Assets	737	1,080	2,870	2,915	3,622	4,199	4,915	5,802
Total Assets	**1,961**	**2,850**	**4,000**	**5,199**	**7,576**	**9,574**	**12,291**	**15,838**

E: MOFSL Estimates

Financials and valuations

Ratios

(%)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
As a percentage of Revenues								
Commission and Fees Income	97.6	96.9	98.2	98.9	99.3	99.5	99.6	99.7
Other Operating income	2.4	3.1	1.8	1.1	0.7	0.5	0.4	0.3
Total cost	**80.1**	**78.4**	**74.4**	**71.3**	**76.0**	**76.0**	**74.9**	**73.7**
Commission and Fees expenses	51.3	53.4	54.7	53.2	54.1	57.1	56.9	56.5
Employee Cost	20.8	19.4	15.4	13.6	11.5	10.3	9.5	8.8
Other Opex Cost	8.0	5.6	4.4	4.5	10.4	8.6	8.5	8.4
PBT	**15.9**	**21.1**	**23.8**	**25.7**	**23.1**	**24.0**	**25.3**	**26.6**
PAT	**11.9**	**15.8**	**17.8**	**19.1**	**17.2**	**18.0**	**19.0**	**20.0**
Profitability Ratios (%)								
RoE	28.5	33.5	40.7	39.7	33.4	35.6	34.9	33.1
Dividend Pay-out Ratio	37.1	22.8	5.1	5.3	6.0	9.1	7.4	6.3
Valuations	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
BVPS (INR)	108.8	152.5	11.5	16.9	23.3	32.2	44.7	61.1
Price-BV (x)	**27.2**	**19.4**	**258.1**	**175.2**	**127.4**	**91.9**	**66.3**	**48.5**
EPS (INR)	6.7	11.0	19.4	28.2	33.5	49.4	67.1	87.5
Change (%)	32.7	62.6	77.2	45.1	18.9	47.5	35.8	30.4
Price-Earnings (x)	**439.5**	**270.3**	**152.5**	**105.1**	**88.4**	**59.9**	**44.1**	**33.9**
DPS (INR)	2.5	2.5	1.0	1.5	2.0	4.5	5.0	5.5
Dividend Yield (%)	**0.1**	**0.1**	**0.0**	**0.1**	**0.1**	**0.2**	**0.2**	**0.2**

E: MOFSL Estimates

Cash Flow

(INR m)

INR m	2020	2021	2022	2023	2024	2025E	2026E	2027E
PAT	279	453	803	1,167	1,387	2,047	2,779	3,623
Adjustments	0	0	0	0	0	0	0	0
Change in Accumulated Depreciation	79	81	134	240	248	265	278	292
Change in Reserves	21	3	38	19	9	0	0	0
Finance cost	27	17	26	21	21	24	28	32
Other Income	-14	-84	-78	-75	-196	-288	-331	-381
Change in Working Capital	173	143	45	-110	207	-420	-548	-708
Cashflow from Operation	**565**	**614**	**968**	**1,261**	**1,676**	**1,628**	**2,206**	**2,858**
Other Income	14	84	78	75	196	288	331	381
Change in Investments	6	-140	-188	-1,040	-1,031	-370	-425	-489
Change in Loans	-129	-46	6	38	33	10	11	11
Change in Fixed Asset	-111	-71	-1,614	-137	-139	-318	-340	-363
Cashflow from Investing	**-220**	**-172**	**-1,718**	**-1,064**	**-941**	**-390**	**-423**	**-460**
Interest Expense	-27	-17	-26	-21	-21	-24	-28	-32
Dividend Expense	-5	-5	-41	-62	-83	-186	-207	-228
Cashflow from Financing	**-32**	**-22**	**-67**	**-83**	**-104**	**-210**	**-235**	**-260**
Net Cashflow	**313**	**419**	**-818**	**123**	**622**	**1,027**	**1,548**	**2,138**
Opening Cash	660	973	1,392	575	698	1,320	2,348	3,896
Closing Cash	**973**	**1,392**	**575**	**698**	**1,320**	**2,348**	**3,896**	**6,034**

CAMS

BSE SENSEX	S&P CNX
81,709	24,678

Stock Info

Bloomberg	CAMS IN
Equity Shares (m)	49
M.Cap.(INRb)/(USDb)	249.8 / 2.9
52-Week Range (INR)	5361 / 2611
1, 6, 12 Rel. Per (%)	8/42/66
12M Avg Val (INR M)	1518

Financials Snapshot (INR b)

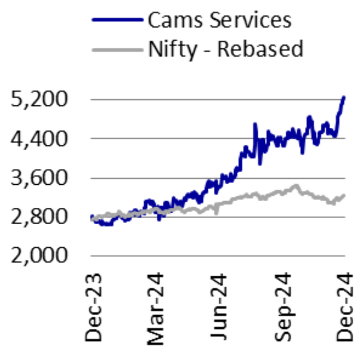
Y/E March	2025E	2026E	2027E
AAUM (INR t)	43.5	50.6	58.9
Revenue	14.5	16.8	19.4
EBITDA	6.8	8.0	9.5
Margin (%)	46.6	47.7	49.0
PAT	4.9	5.9	7.1
PAT Margin (%)	33	35	36
EPS	99.2	119.5	144.0
EPS Grw. (%)	38.5	20.4	20.5
BVPS	221.4	263.2	313.6
RoE (%)	48.6	49.3	49.9
Div. Payout (%)	65.0	65.0	65.0
Valuations			
P/E (x)	51.1	42.4	35.2
P/BV (x)	22.9	19.3	16.2
Div. Yield (%)	1.3	1.5	1.8

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	0.0	0.0	19.9
DII	18.7	19.4	16.1
FII	56.5	56.5	38.6
Others	24.8	24.1	25.5

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR5,072 TP: INR6,000 (+18%) BUY

Non-MF business to boost the next leg of growth

- **CAMS is a direct play on the growing financialisation of savings in India and is also a key enabler for digitization in the mutual fund (MF) industry. With MF penetration in India at 17% vs. global average of 65% we expect a strong 18% AUM CAGR for the industry in the next decade.**
- **CAMS derives ~87% of its revenue from the MF segment (2QFY25). AUM CAGR for this segment is likely to be healthy at 21% during FY24-27E; MF revenue CAGR is likely to be 18% due to lower yields driven by the telescopic structure of contracts with AMCs.**
- **Beyond MF, there is a sustained focus on expanding the non-MF business, with the aim to increase its share to 20% going forward. AIF/PMS RTA, CAMSPay, Think-360, CAMS KRA, and CAMSRep would lead the growth path for the non-MF business.**
- **We believe CAMS has made timely investments in these businesses over the past couple of years, as the macro-environment has been highly conducive to each of these segments.**
- **We expect CAMS to deliver overall revenue/EBITDA/PAT CAGR of 20%/24%/26% during FY24-27E. EBITDA margin is likely to expand to 49% in FY27E from 44.4% in FY24, driven by scale benefits from the non-MF business.**
- **Empirically, CAMS has traded at a premium to HDFC AMC. However, the gap has narrowed recently, and we believe the same should reverse with: 1) the duopoly nature of the industry, 2) low risk of market share loss, and 3) high customer ownership vs. AMCs. We reiterate our BUY rating on the stock with a TP of INR6,000 based on 45x Sep'26E earnings.**

Structural growth in Mutual Fund business

- MFs being the core business segment (~87% of total revenue), CAMS has established clear leadership with difficult-to-replicate systems, processes, and technology infrastructure.
- CAMS' technology has been pivotal in driving the rapid retail growth of the MF industry. CAMS has won five out of the last seven AMC mandates, which include Zerodha, Helios, Torus Oro, Angel One, and Unifi Capital.
- CAMS is the single source of business intelligence and analytics for the entire MF industry, with various data bureau services and predictive analytics. It is future ready to serve the next INR30t assets and 100m customers in the MF industry.
- Considering the TER pricing structure, yields on MF AUM will be under pressure. During FY24-27, we expect MF revenue to grow at a slower pace (at 18% CAGR) than MF AUM (at 21% CAGR).

AIF / PMS to be the fastest non-MF segments

- Over the past decade, there has been a sharp rise in flows into big-ticket capital market instruments, such as AIFs and PMS, so as to generate alpha over the performance of actively managed MFs and owing to the declining yield of fixed-income products.

- Investors in the affluent segment have started shifting their preferences to AIF and PMS.
- CAMS is a leading player in servicing AIF/PMS clients using RTA services. With the acquisition of Fintuple, CAMS integrates all of custody, clearing, fund accounting, and treasury & forex services under one roof.
- For CAMS, the GIFT City offering was bolstered by launching fund administration services and tying up with Multifonds for multicurrency accounting capabilities.
- With margins in the AIF and PMS businesses being in line with the MF business, CAMS expects this segment to be the fastest to reach the INR1b revenue mark (as of 2QFY25, it contributed ~2.7% to the total revenue).

Future is digital: CAMSPay to gain traction

- The digital payments market in India is set to jump ~2x by CY25 (according to a RedSeer Consulting report). With the increase in transaction volumes and new product offerings, CAMSPay is expected to grow at a much faster pace.
- CAMS has now received the RBI's in-principle license to be a payment aggregator. It has expanded its presence to cater to the growing digital payments ecosystem (the merchant base is rising rapidly within the BFSI space).
- CAMSPay has ~68% market share in the MF ecosystem. CAMSPay’s product offerings are further fortified, and the UPI autopay offering expands beyond MF with adoption by fintech channels and prominent third-party apps. This is clearly visible in its transaction volume growth. It recorded stellar year for new client acquisition with 83 new wins.
- The margins here are higher than in the entire non-MF business segment but lower than in the MF business (on account of pricing pressure). CAMS expects the contribution from this segment to improve over the coming quarters (as of 2QFY25, CAMSPay accounted for 3.3% of the total revenue).

Think360 – AI stack for digital financial services

- Data, Algorithm, and Application are the three pillars of AI. The share of digital lending is expected to exceed $720b by FY2030, with 55% attributed to consumer lending. (Article: https://tinyurl.com/3yu4an48)
- Among others, Think360’s flagship alternative credit scoring product, Algo360, is India’s leading alternate data solution. This product powers income estimation and risk estimation based on device data.
- CAMS + Think360 bring exciting synergetic opportunities, and these value-added services aim to expand the reach to newer markets (“GenAI” capability completed its first engagement with an international client) in order to transform customer onboarding and drive smarter decisions.
- The AI stack offering through Think360 is an exciting value proposition, and management expects this business to scale up exponentially given its low base. As of 2QFY25, this business contributed ~0.7% of the total revenue.

Other Non-MF business gaining traction

- **CAMS KRA:** It continues to bolster its product superiority, and the momentum continues with new client additions. The 10-minute KYC feature has been the foundational component. Margins in the KRA business segment are in line with the MF business, and CAMS is confident of increasing the KRA share in overall revenue (as of 2QFY25, this business contributed ~3.9% of the total revenue).

- **Insurance Repository (CAMSRep):** The potential e-insurance policy market size is ~500m, and the revenue potential is likely to be ~INR5b annually. Considering competition, even if the prices dip by 50%, the market size is expected to be ~INR2.0-2.5b annually. Now that Bima Central is gone live and has entered the non-life segment, it provides CAMSRep a huge growth opportunity for eIA sign-up and policy servicing for customers. It would be imperative to gauge the sales execution of CAMSRep in this space (as of 2QFY25, this business contributed ~1.2% of the total revenue).
- **CAMS Finserv:** The AA network went live in Sep'21 and is still in the nascent stage. NFIR, when integrated with the AA system, will have a game-changing impact on the financial services industry in India. CAMS has a 16.5% market share for customers successfully linked to the AA ecosystem. CAMS, with its go-to-market strategy, is confident of scaling this business.
- **NPS business:** CAMS CRA has developed the industry's first features of CKYC and UPI-based bank account verification. As of now, the revenue contribution from the NPS business is not material; however, there are macro triggers that should drive growth in the NPS segment.

Valuation and View

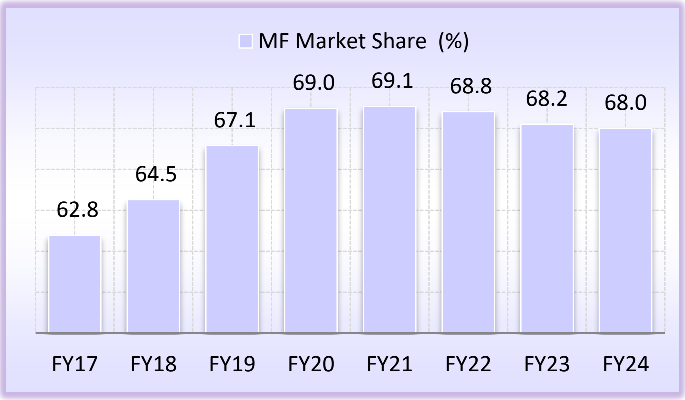
- We expect CAMS to deliver an overall AUM CAGR of 21% over FY24-27 (27% CAGR for Equity MF AUM and 14% CAGR for Non-Equity MF AUM). We also project CAMS to report overall revenue/EBITDA/PAT CAGR of 20%/24%/26% during FY24-27, led by growing MF AUM and increasing share of non-MF businesses in the overall mix. This growth will help the ROE scale up to ~50% by FY27 by maintaining the dividend payout of 65%.
- Empirically, CAMS has traded at a premium to listed AMCs in terms of one-year forward P/E. After the outperformance, the gap between CAMS and AMC stocks has narrowed. The premium for CAMS is well deserved, given: 1) the duopoly nature of the industry and high entry barriers, 2) the relatively low risk of a market share loss, and 3) higher customer ownership as compared to AMCs.
- **Reiterate BUY with a TP of INR6,000, premised on a P/E multiple of 45x on Sep'26E earnings.**

Key risks

- An unfavorable movement in the Equity market can adversely impact the AUM and hit revenue and profitability.
- Intense competition from existing and new players led by technological advancements and changing customer preferences.

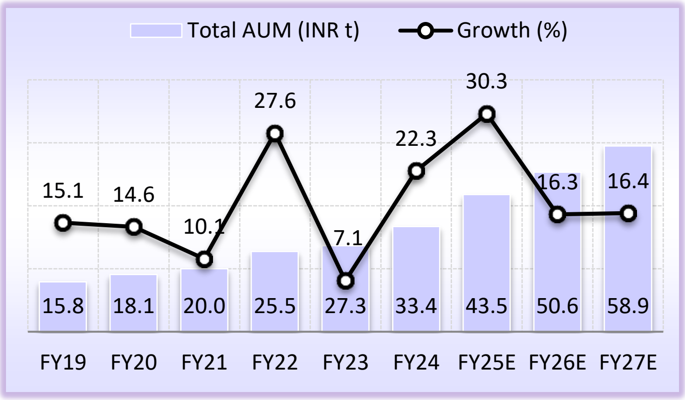
STORY IN CHARTS

Commands leadership in the MF RTA industry



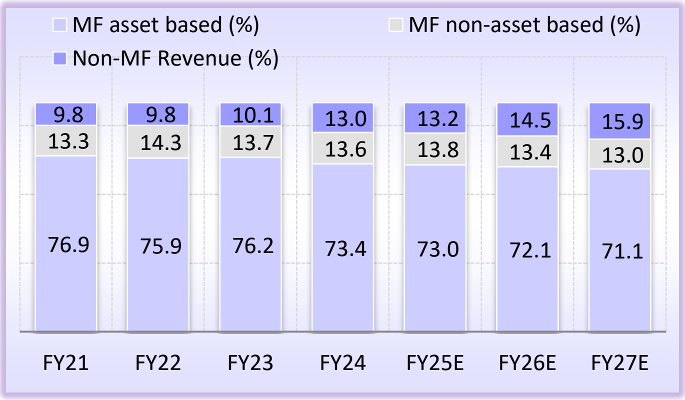
Source: MOFSL, Company

CAMS AUM growth



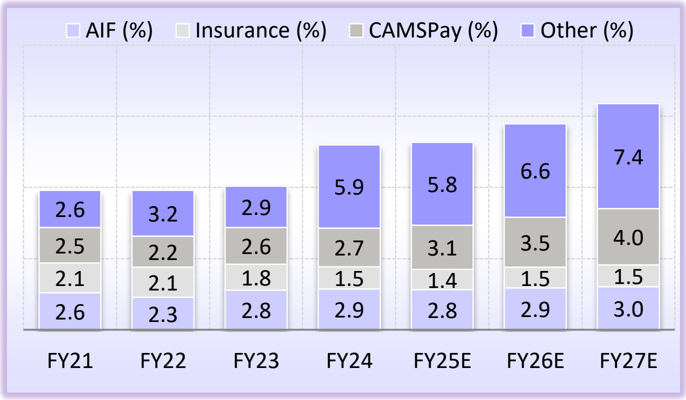
Source: MOFSL, Company

MF revenue constitutes 87% of the total pie in FY24



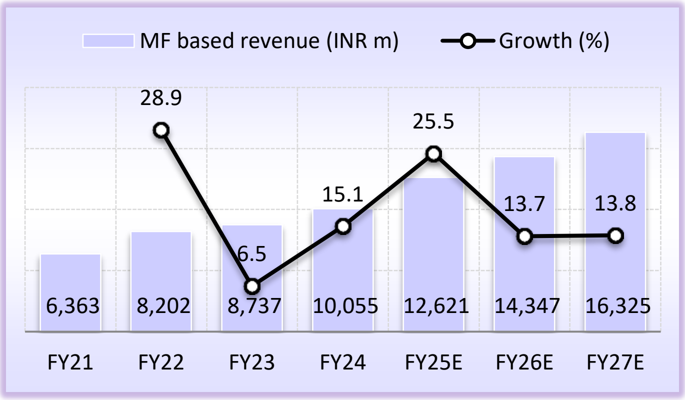
Source: MOFSL, Company

Share of the Non-MF businesses to overall revenues



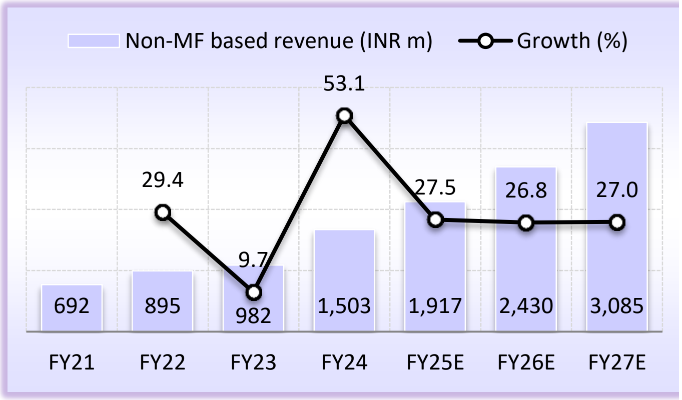
Source: MOFSL, Company

MF revenue growth



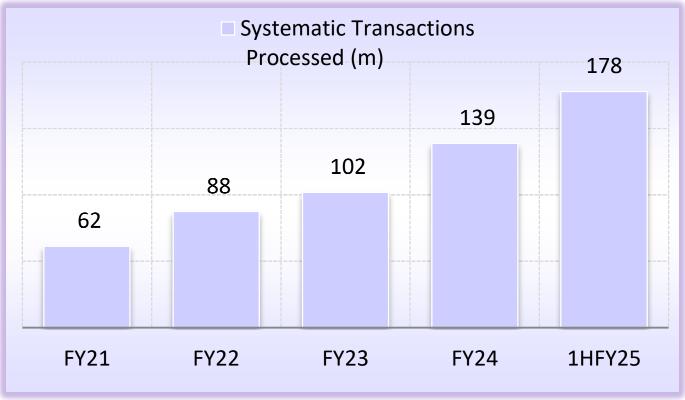
Source: MOFSL, Company

Non-MF businesses growth



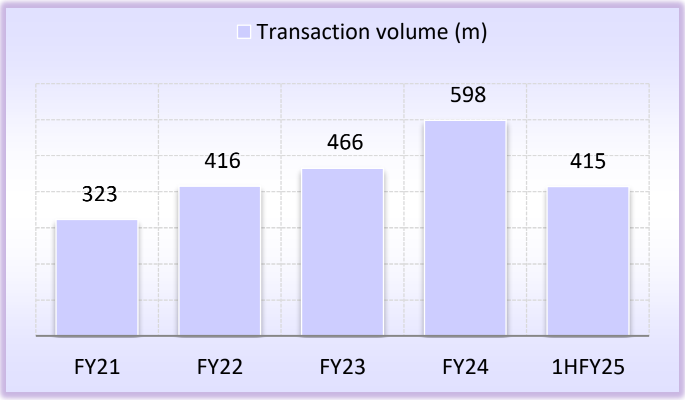
Source: MOFSL, Company

Systematic transactions processed by CAMS



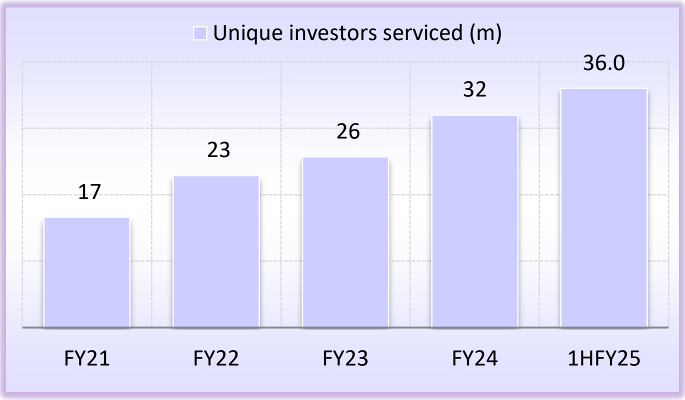
Source: MOFSL, Company

Uptick in transaction volume



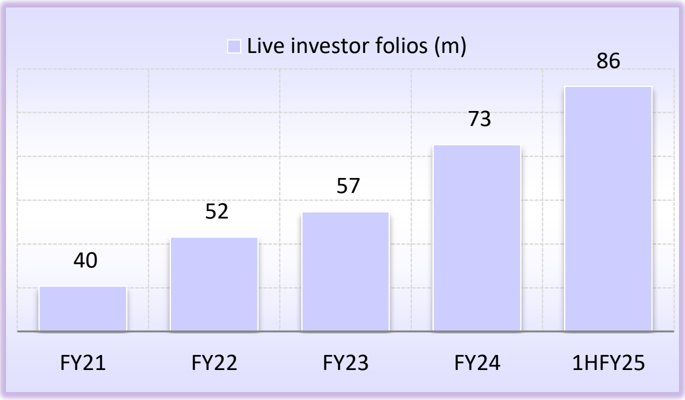
Source: MOFSL, Company

Unique investors serviced by CAMS



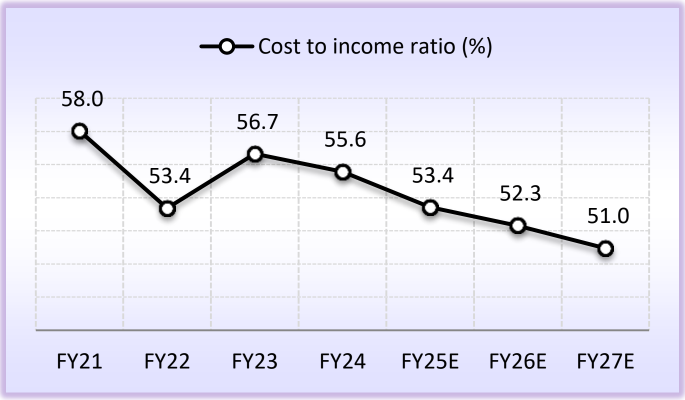
Source: MOFSL, Company

Live investor folios on the rise



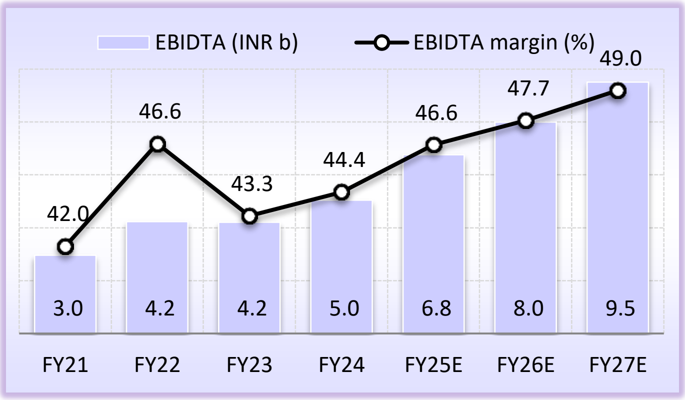
Source: MOFSL, Company

Operating leverage facilitating a drop in cost-to-income ratio



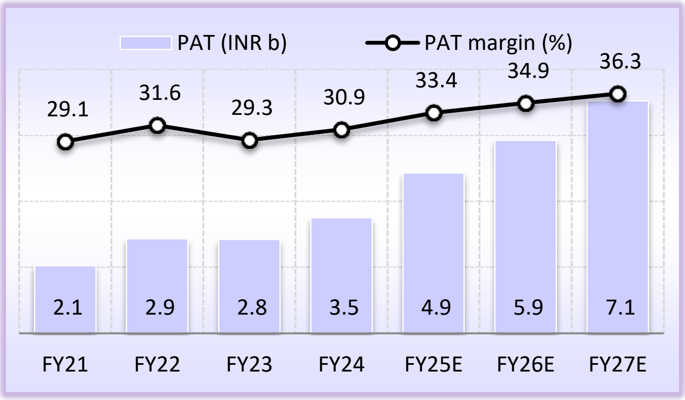
Source: MOFSL, Company

Trends in EBITDA and EBITDA margin



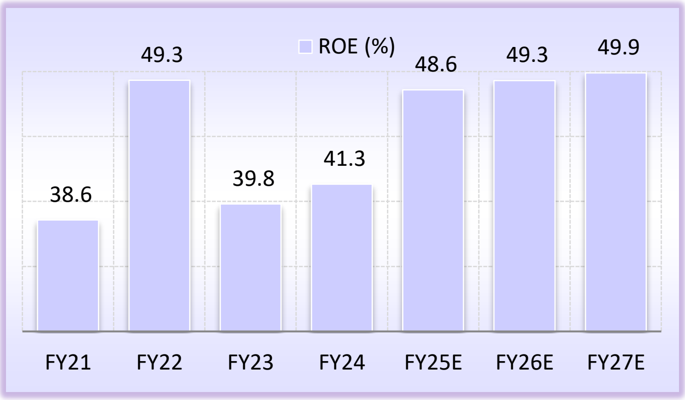
Source: MOFSL, Company

PAT and PAT margin continue to trend upward



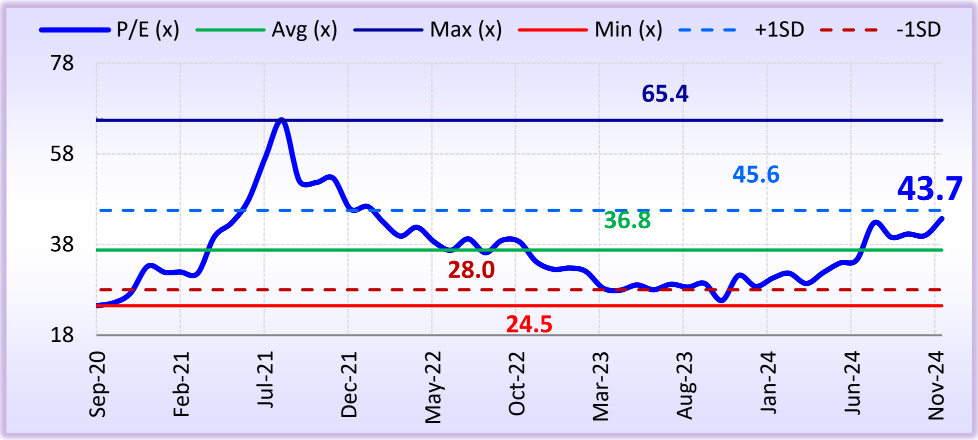
Source: MOFSL, Company

Return ratios in late-40's over the long run



Source: MOFSL, Company

One year forward P/E chart trend



Financials and valuations

Income Statement

INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenue	6,996	7,055	9,097	9,718	11,365	14,538	16,777	19,410
Change (%)	1	1	29	7	17	28	15	16
Employee expense	2,580	2,624	3,218	3,581	3,972	4,766	5,338	5,978
Other expenses	1,544	1,471	1,638	1,925	2,345	3,001	3,439	3,912
Operating Expenses	4,124	4,094	4,855	5,506	6,316	7,767	8,777	9,890
EBITDA	**2,873**	**2,961**	**4,241**	**4,212**	**5,049**	**6,771**	**8,000**	**9,519**
Change (%)	18	3	43	-1	20	34.1	18.2	19.0
Dep/Interest/Provisions	582	513	587	679	787	810	846	882
Other Income	217	298	173	268	406	522	653	768
PBT	**2,508**	**2,745**	**3,827**	**3,802**	**4,668**	**6,483**	**7,807**	**9,405**
Change (%)	25	9	39	-1	23	38.9	20.4	20.5
Tax	773	692	957	956	1,159	1,621	1,952	2,351
Tax Rate (%)	31	25	25	25	25	25.0	25.0	25.0
PAT	**1,735**	**2,053**	**2,870**	**2,846**	**3,510**	**4,862**	**5,855**	**7,053**
Change (%)	33	18	40	-1	23	38.5	20.4	20.5
Dividend	594	2,488	1,895	1,850	2,064	3,160	3,806	4,585

Balance Sheet

INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Equity Share Capital	488	488	489	490	491	491	491	491
Reserves & Surplus	5,001	4,671	5,987	7,335	8,665	10,356	12,405	14,874
Net Worth	**5,489**	**5,159**	**6,476**	**7,825**	**9,156**	**10,847**	**12,896**	**15,365**
Borrowings	0	0	0	0	0	0	0	0
Other Liabilities	2,542	3,260	3,094	3,151	4,986	5,600	6,204	6,879
Total Liabilities	**8,030**	**8,419**	**9,571**	**10,976**	**14,142**	**16,447**	**19,101**	**22,244**
Cash and Bank balance	504	1,803	1,510	1,524	2,111	2,514	2,722	2,894
Investments	3,056	2,355	3,170	3,298	4,066	5,866	8,166	10,966
Net Fixed Assets	3,090	2,840	3,141	3,413	3,889	3,467	3,109	2,714
Current Assets	1,380	1,421	1,750	2,740	4,076	4,600	5,105	5,670
Total Assets	**8,030**	**8,419**	**9,571**	**10,975**	**14,142**	**16,447**	**19,101**	**22,244**

E: MOFSL Estimates

Financials and valuations

Cashflow								INR m
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Profit after Tax	1,734	2,053	2,870	2,846	3,510	4,862	5,855	7,053
Adjustments	-126	199	729	754	261	288	193	115
Change in Working Capital	(237)	697	(129)	(17)	1,493	418	460	506
Cashflow from Operating activities	**1,371**	**2,950**	**3,470**	**3,583**	**5,264**	**5,568**	**6,508**	**7,674**
Other Income	217	298	173	268	406	522	653	768
Change in Current Investments	-751	701	-815	-128	-767	-1,800	-2,300	-2,800
Change in Fixed Asset	174	-63	-791	-875	-1,181	-300	-400	-400
Others	-128	-20	-365	-910	-991	-339	-360	-396
Cashflow from Investing activities	**-489**	**915**	**-1,798**	**-1,645**	**-2,532**	**-1,917**	**-2,407**	**-2,829**
Interest Expense	-97	-79	-71	-76	-82	-88	-88	-88
Dividend Expense	-716	-2,488	-1,895	-1,850	-2,064	-3,160	-3,806	-4,585
Cashflow from Financing activities	**-813**	**-2,567**	**-1,966**	**-1,926**	**-2,146**	**-3,248**	**-3,894**	**-4,673**
Net Cashflow	69	1,298	(293)	13	586	403	207	173
Opening Cashflow	435	504	1,803	1,510	1,524	2,111	2,514	2,722
Closing Cashflow	**504**	**1,803**	**1,510**	**1,524**	**2,111**	**2,514**	**2,722**	**2,894**
AAAUM (INR B)	**18,149**	**19,984**	**25,500**	**27,300**	**33,400**	**43,512**	**50,610**	**58,934**
Change (%)	14.6	10.1	27.6	7.1	22.3	30.3	16.3	16.4
Equity	6,706	6,806	10,100	12,400	16,400	23,452	28,142	33,771
Non-Equity	11,443	13,178	15,400	14,900	17,000	20,060	22,467	25,163

E: MOFSL Estimates

Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Margins Analysis (%)								
Revenue Yield (bps)	3.85	3.53	3.57	3.56	3.40	3.34	3.31	3.29
Cost to Income Ratio	**58.9**	**58.0**	**53.4**	**56.7**	**55.6**	**53.4**	**52.3**	**51.0**
EBITDA Margins	41.1	42.0	46.6	43.3	44.4	46.6	47.7	49.0
PBT Margin	35.8	38.9	42.1	39.1	41.1	44.6	46.5	48.5
PAT Margin	24.8	29.1	31.6	29.3	30.9	33.4	34.9	36.3
Profitability Ratios (%)								
RoE	34.8	38.6	49.3	39.8	41.3	48.6	49.3	49.9
Dividend Payout Ratio	34.2	121.2	66.0	65.0	58.8	65.0	65.0	65.0
Dupont Analysis (Bps of AAAUM)								
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Operating Income	3.9	3.5	3.6	3.6	3.4	3.3	3.3	3.3
Operating Expenses	2.3	2.0	1.9	2.0	1.9	1.8	1.7	1.7
EBITDA	**1.6**	**1.5**	**1.7**	**1.5**	**1.5**	**1.6**	**1.6**	**1.6**
Depreciation and Others	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1
Other Income	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
PBT	**1.4**	**1.4**	**1.5**	**1.4**	**1.4**	**1.5**	**1.5**	**1.6**
Tax	0.4	0.3	0.4	0.4	0.3	0.4	0.4	0.4
ROAAAUM	**1.0**	**1.0**	**1.1**	**1.0**	**1.1**	**1.1**	**1.2**	**1.2**
Valuations	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
BVPS (INR)	112	105	132	160	187	221	263	314
Change (%)	22.1	-6.0	25.5	20.8	17.0	18.5	18.9	19.1
Price-BV (x)	**44.2**	**47.1**	**37.5**	**31.0**	**26.5**	**22.4**	**18.8**	**15.8**
EPS (INR)	35.4	41.9	58.6	58.1	71.6	99.2	119.5	144.0
Change (%)	32.5	18.4	39.8	-0.8	23.3	38.5	20.4	20.5
Price-Earnings (x)	**140.0**	**118.2**	**84.6**	**85.3**	**69.2**	**49.9**	**41.5**	**34.4**
DPS (INR)	12.1	50.8	38.7	37.8	42.1	64.5	77.7	93.6
Dividend Yield (%)	**0.2**	**1.0**	**0.8**	**0.8**	**0.9**	**1.3**	**1.6**	**1.9**

E: MOFSL Estimates

KFIN Technologies

BSE SENSEX	S&P CNX
81,709	24,678

KFINTECH
EXPERIENCE TRANSFORMATION

Stock Info

Bloomberg	KFINTECH IN
Equity Shares (m)	171
M.Cap.(INRb)/(USDb)	218.3 / 2.6
52-Week Range (INR)	1314 / 456
1, 6, 12 Rel. Per (%)	21/75/121
12M Avg Val (INR M)	954

Financials Snapshot (INR b)

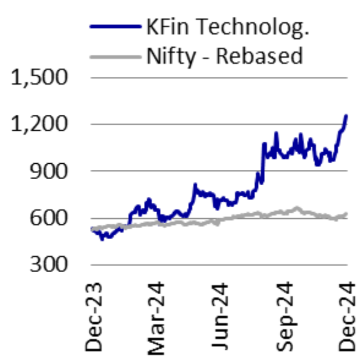
Year End	2025E	2026E	2027E
Revenue	11.2	13.3	15.6
EBITDA	5.1	6.4	7.9
PAT	3.6	4.6	5.8
EPS	20.9	26.8	33.8
EPS Grw. (%)	43.5	28.5	25.8
BVPS	71.7	86.5	106.2
RoE (%)	31.5	33.9	35.0
Div. Payout (%)	45.0	60.0	60.0
Valuations			
P/E (x)	60.9	47.4	37.7
P/BV (x)	17.7	14.7	12.0
Div. Yield (%)	0.7	1.3	1.6

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	33.0	33.1	49.1
DII	20.6	21.5	22.1
FII	24.6	22.8	9.2
Others	21.7	22.7	19.6

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,271 TP: INR1,400 (+10%) Neutral

Expanding beyond boundaries

- **Kfin Technologies (KFINTECH) offers a diverse portfolio of services, with exposure to stable and mature businesses like MF RTA/company issuer services and high-potential growth stories like international issuer solutions, AIF and fund accounting.**
- **The company's asset-light and stable businesses benefit from macro tailwinds like sticky SIP and retail flows and increased retail participation/corporate activity. KFIN is gradually evolving into a data processing and analytics solution provider, with a higher share of value-added services (VAS as percentage of revenue is 6% in FY24).**
- **Its foray into the global AMCs and AIF segments will expand its product portfolio. Strong product proposition and rich experience in offering investor solutions can enable faster growth.**
- **With its unique 'platform-as-a-service' business model that provides comprehensive end-to-end solutions enabled by proprietary technology solutions, KFIN is well-positioned to benefit from strong growth in Indian markets as well as across global markets.**
- **We expect KFIN to deliver 23%/29%/32% CAGR in revenue/EBITDA/PAT over FY24-27, led by growing MF AUM and increasing share of VAS in the overall mix. We initiate coverage on KFIN with a Neutral rating and a TP of INR1,400 (based on 45x Sep'26E EPS).**

Structural growth in MF business

- KFIN is one of the leading RTAs for mutual funds in India, with a 32.4% share of AUM in a duopoly market. KFIN's MF RTA business accounts for ~71% of total revenue (2QFY25).
- The MF industry has seen decline in TERs owing to the telescopic structure and sharp rise in AUM. Resultantly, AMCs have passed on the impact to RTAs leading to compression in yields.
- KFIN is likely to post a 22% CAGR in domestic MF RTA revenue in FY24-27E, compared to a 26% CAGR in MF AAUM (with a 31% CAGR in equity MF AUM). KFIN's clients having a relatively higher share of equity in their AUM mix, which bodes well for overall AUM mix and yields. KFIN has also been able to leverage the revenue opportunity by offering VAS to MF clients.
- MF yields are expected to decline from 4.0bp/3.8bp in FY23/FY24 to 3.6bp each by FY26/FY27. Frequent revisiting of yields by MFs will add some pressure on MF revenue growth.
- KFIN has advantages such as higher exposure to smaller MFs, better-than-industry exposure to high-yielding equity and balanced AAUM, and a higher market share in equity and balanced AAUM (33.4% as of 2QFY25) compared to overall AAUM (32.4% as of 2QFY25).

Retail participation to give a leg-up to issuer solutions business

- Unlike the MF RTA business, the company issuer solution industry is highly fragmented with multiple players. However, by leveraging superior technology and other VAS, KFIN has secured market leadership in this segment (~48.2% market share in NSE 500 by market capitalization).

- Over FY20-FY24, the number of investor folios doubled to 124m, while the number of corporate clients increased at a steady pace to 6,071.
- Revenue growth in this segment is led by a) an increase in the listing of companies (listed firms contribute higher revenue compared to unlisted companies) and b) an increase in the folio count.
- Unlike the depository business, the company issuer business does not enjoy pricing power. Despite pricing pressure, growth in this segment will be driven by an uptick in new listings and higher retail participation in direct equity.
- As a result, we expect KFIN to achieve a revenue CAGR of 20% in this segment over FY24-27.

Ramping up the international issuer solutions space

- Given the global opportunity in the MF RTA space, KFIN has expanded its business outside India, especially to Southeast Asia. After acquiring the RTA business from a German bank in Malaysia, KFIN increased its client base notably to 66 in 1HFY25 from 8 in FY17.
- Total AUM in Southeast Asia is ~2.5x higher than that of the domestic MF industry and thus, recognizing this strong opportunity, KFIN is focusing on geographies like Singapore, Thailand, and GIFT City. It has also expanded its presence in Canada and the Middle East.
- Further, the acquisition of Hexagram has helped KFIN acquire more clients to offer fund administration solutions and cross-sell VAS to existing clients.
- The international issuer solutions offer unit economics, aided by limited pricing pressure, better yields, and higher AUM, leading to operational efficiencies.
- Given the huge potential for KFIN to add more clients and expand to different geographies, we expect a 37% CAGR in the global issuer solution business over FY24-FY27.

VAS aiding growth in other businesses

Wealth & Alternates business

- Over the past decade, there has been a sharp rise in flows into big-ticket capital market instruments, such as AIFs and PMS, so as to generate alpha over the performance of actively managed MFs and owing to declining yields of fixed-income products. Investors in the affluent segment have started shifting their preferences to AIFs and PMS.
- AUM of the wealth and alternates industry has witnessed robust growth and a rising number of clients are outsourcing services. These services include digital onboarding, fund administration, fund accounting (using Hexagram), corporate services, and other technology solutions.
- **XAlt** is a game-changer initiative by KFin, which is a fully integrated transfer agency fund administration solution overlaid by digital CRM and analytics. The platform is also multi-asset, multi-geography, multi-lingual and multi-currency, which effectively makes it a platform that is ready for the world and not just India.
- KFIN has 37.5% market share (based on total AIF registered with SEBI as of Sept'24), and now with the launch of GIFT City operations, we expect healthy growth in this segment going forward. Over FY20-24, AAUM grew more than 3x

to INR 987b, whereas the number of funds serviced grew more than 5x to 472 funds.

National Pension Scheme

- Here, KFIN maintains NPS subscriber records and provides administration and customer service functions. This segment generates revenue through a) fixed account opening charges, b) annual maintenance fees, and c) fee per transaction.
- KFIN is currently re-architecting its channel partner platform to empower point-of-presence partners with seamless technology and features. With its subscriber-first approach and digital focus, KFIN will continue to gain market share by acquiring through citizen channel, winning corporate clients and collaborating with state governments.

Valuation and View

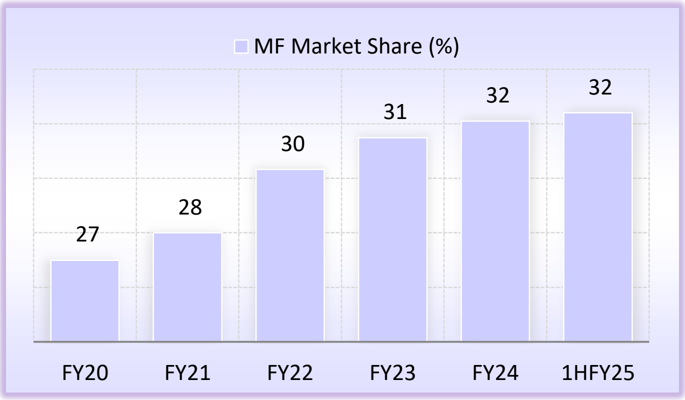
- We expect KFIN to deliver a 26% CAGR in overall MF AAUM over FY24-27E (31% CAGR for Equity MF AUM and 18% for Non-Equity MF AUM). KFIN is expected to deliver a CAGR of 23%/29%/32% in revenue/EBIDTA/PAT over FY24-27E, led by growing MF AUM and increasing share of other businesses in the overall mix. The growth will boost ROE to ~35%, maintaining the dividend payout at 60% by FY27.
- **Valuation:** Structural tailwinds in the MF industry will drive absolute growth in MF revenue. With its unique 'platform-as-a-service' business model that provides comprehensive end-to-end solutions enabled by proprietary technology solutions, KFIN is well positioned to benefit from strong growth across large markets in India and across the world.
- **We initiate coverage on KFIN with a Neutral rating and a TP of INR 1,400 (based on 45x Sep'26E).**

Key risks

- An unfavorable movement in the equity market can adversely impact the AUM mix, resulting in a decline in yields. This can hit revenue and profitability.
- Slower-than-expected growth in AUM can be detrimental, as a bulk of its revenue is AUM-linked revenue.
- KFIN maintains all critical data records for investors on behalf of its clients. A financial liability may arise for KFIN in case of any data security breach.
- Changes in the global RTA and fund accounting regulatory environment would impact its fast-growing international business.

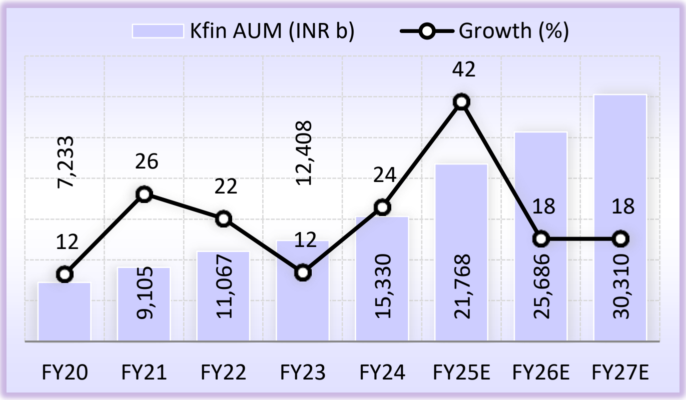
STORY IN CHARTS

Increasing market share in MF RTA industry



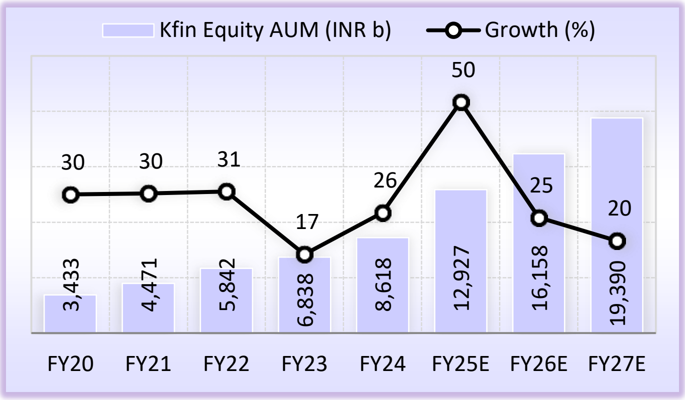
Source: MOFSL, Company

KFIN MF AUM growth



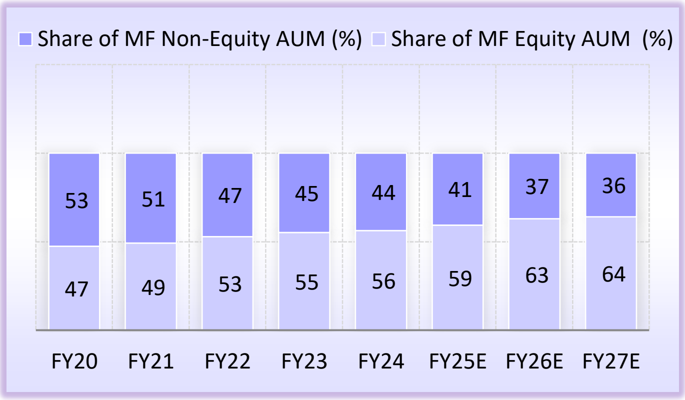
Source: MOFSL, Company

KFIN Equity-MF AUM growth



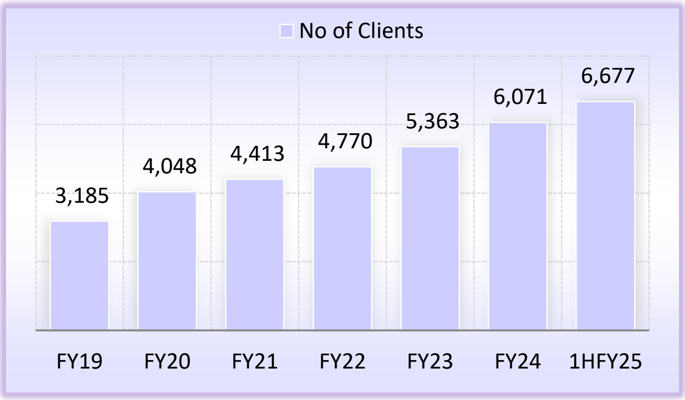
Source: MOFSL, Company

KFIN's share of Equity & Non-Equity MF AUM



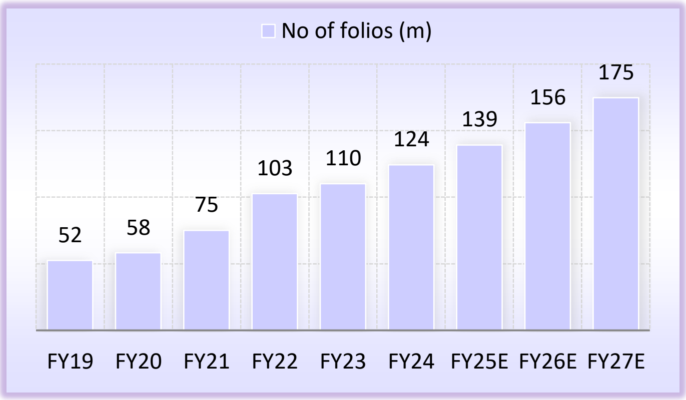
Source: MOFSL, Company

Growth in number of issuer solution clients



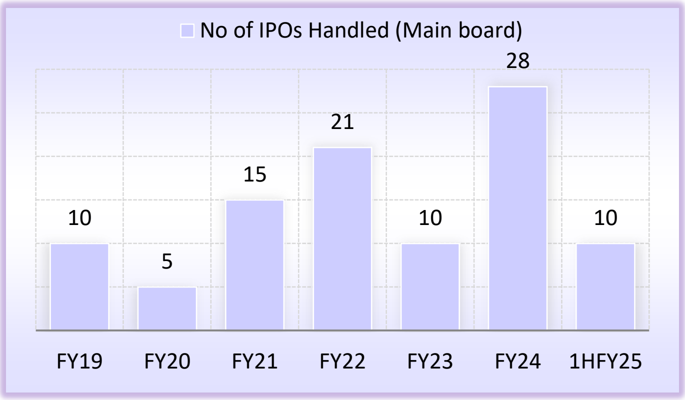
Source: MOFSL, Company

More than 2.4x growth in folios in last 5 years



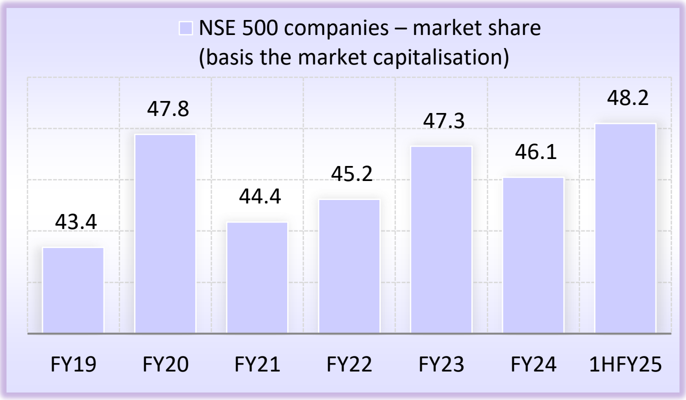
Source: MOFSL, Company

Overall corporate activity driving growth in IPOs handled by KFIN



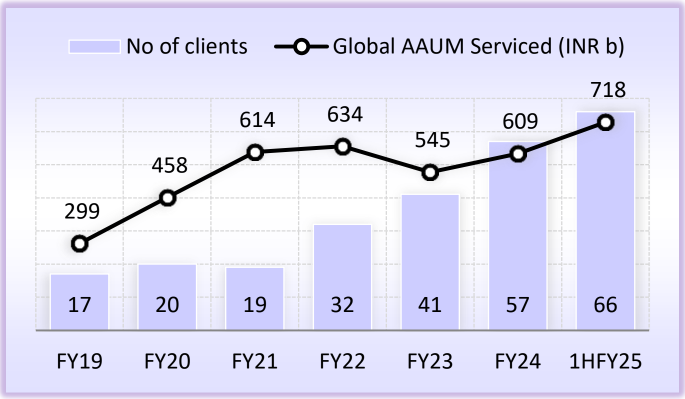
Source: MOFSL, Company

KFIN commands more than 45% market share in NSE 500 companies by market capitalization



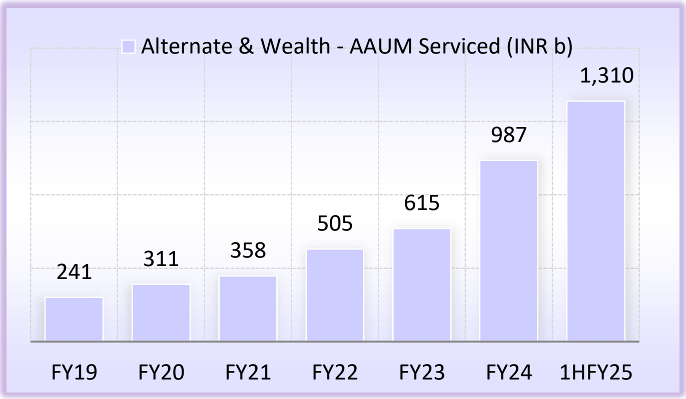
Source: MOFSL, Company

Increase in Global AUM serviced by KFIN led by growth in no. of clients



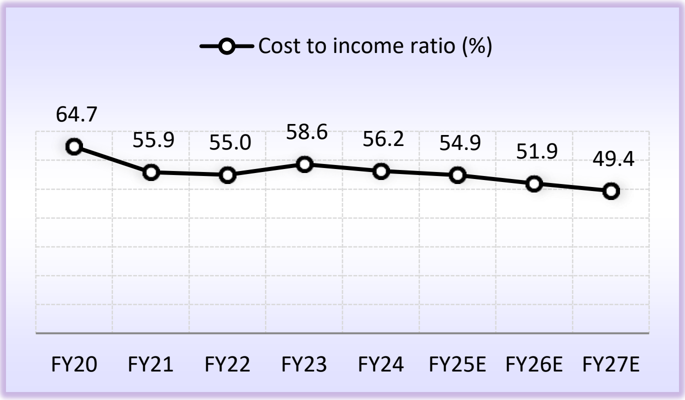
Source: MOFSL, Company

Rapid growth in alternate & wealth AUM serviced by KFIN



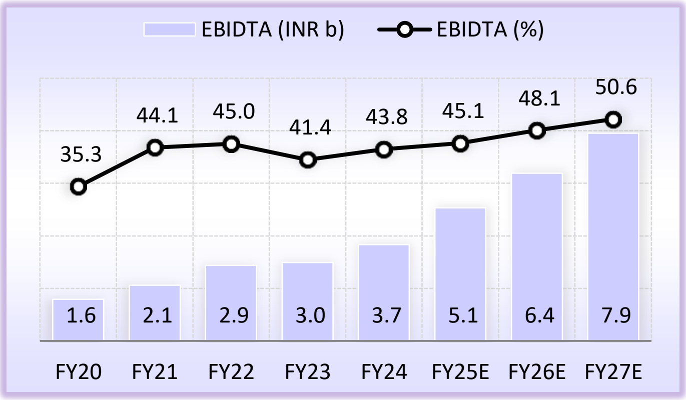
Source: MOFSL, Company

Operating leverage facilitating a decrease in cost-to-income ratio



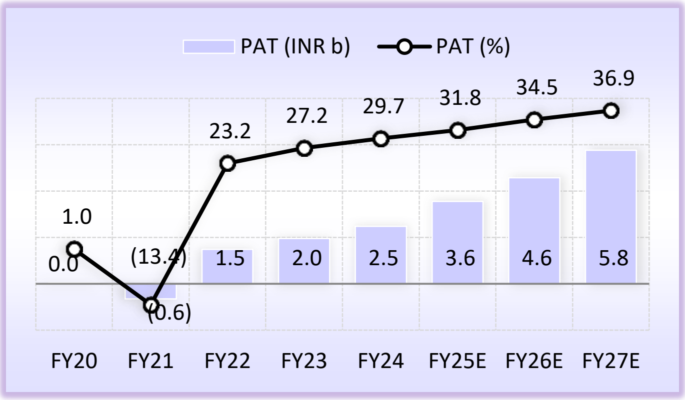
Source: MOFSL, Company

Trends in EBITDA and EBITDA margins



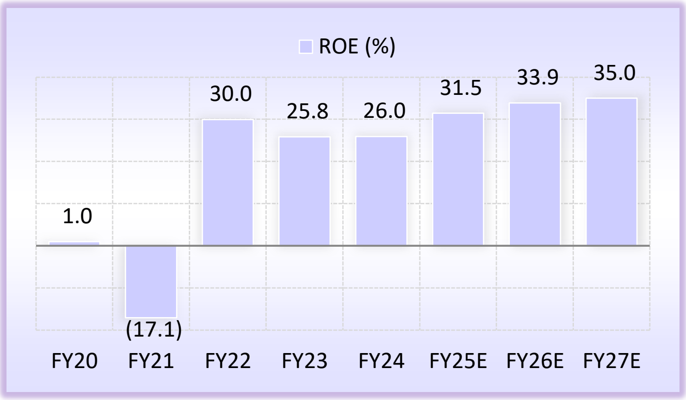
Source: MOFSL, Company

PAT and PAT margins continue to trend upward



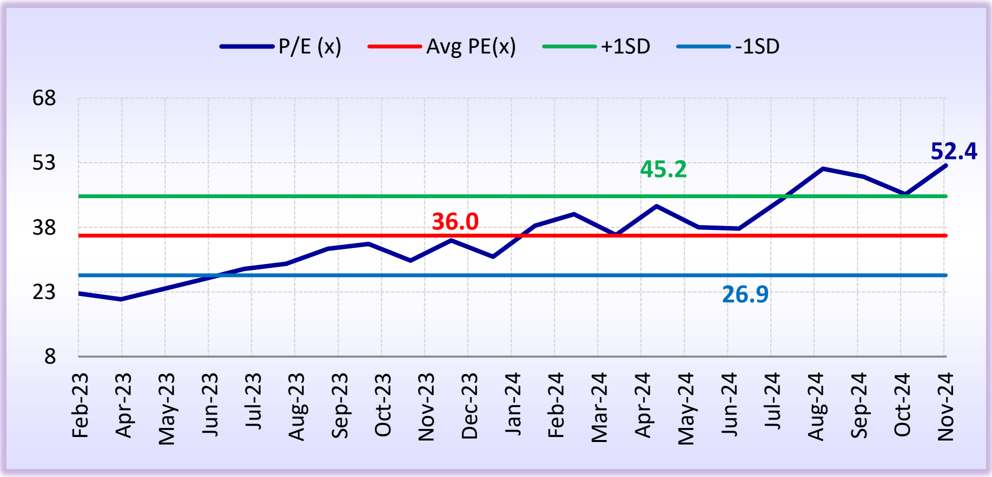
Source: MOFSL, Company

RoE trend



Source: MOFSL, Company

One year forward P/E chart trend



Source: MOFSL, Company

SWOT analysis

- Asset-light model supports high cash conversion rate
- Deep domain knowledge of MF investors and expanding RTA business & VAS globally.
- Long-lasting business relationships with MF houses
- Expanding into new and emerging business opportunities

- Higher dependency on MF RTA business as it accounts for ~70% of the total revenue
- Major part of the revenue is directly linked to Mutual Fund AUM

- As MF penetration in India stands at 15% vs. the global average of 65%, it provides a huge headroom for growth
- Traction in other highly opportunistic business
- Investment in technology to improve cost efficiencies

- Unfavorable regulatory change in TER can impact yields
- A data security breach can impact the company's reputation

Key management personnel

Mr. Sreekanth Nadella, MD & CEO

Mr. Nadella has been associated with KFIN since Jun'18. He holds a bachelor's degree in commerce from Osmania University and is an associate member of the Institute of Chartered Accountants of India. Mr. Nadella has over 20 years of experience and was previously associated with Accenture as managing director and IBM Global Services India as transformation manager.

Mr. Vivek Mathur, CFO

Mr. Mathur holds a bachelor's degree in commerce (Hons.) from University of Delhi and is a qualified chartered accountant from the Institute of Chartered Accountants of India. He previously worked for Bharti BT Internet, American Express Bank, Bajaj Capital, Cigna TTK Health Insurance Co. and Tata AIG Life Insurance Co.

Mr. Senthil Gunasekaran, Chief Business Development Officer

Mr. Senthil has overall 18+ years of experience in the field of sales and advisory of which over 16 years in the role of Investment advisory and selling of investment products to varied clientele He possesses strong analytical ability, leadership qualities and proven history of high sales. Before KFin, he was associated with HDFC AMC, Lotus India Asset Management Company and Sundaram MF. He is a CFA and has done MBA from ICFAI Business School.

Mr. Gopala Giridhar, Chief Business Officer

Mr. Giridhar has earned his undergraduate degree from Osmania University. He has over 25 years of experience in the financial services industry. Prior to joining KFIN, he worked for GIC Asset Management and Karvy Computershare.

Bull and Bear cases

Bull case

- ☑ In our bull case, we factor in higher revenue CAGR of 30% for FY24-27E vs. 23% in the base case.
- ☑ Given operating leverage in the business, we expect EBITDA margin to improve to 54.7% in FY27 vs. 50.6% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 40% over FY24-27E vs base case of 32%

Bear case

- ☑ In our bear case, we factor in higher revenue CAGR of 19% for FY24-27E vs. 23% in the base case.
- ☑ Given operating leverage in the business, we expect EBITDA margin to decline to 48.1% in FY27 vs. 50.6% in the base case.
- ☑ As a result, we estimate a PAT CAGR of 23% over FY24-27E vs base case of 32%.

Scenario analysis - Bull Case

(INR m)	FY25E	FY26E	FY27E
Total Revenue	11,725	14,657	18,321
% YoY	40	25	25
Opex	6,216	7,211	8,293
% YoY	32	16	15
EBITDA	5,509	7,446	10,028
Margin	47.0	50.8	54.7
PAT	3,746	5,063	6,819
% YoY	51	35	35
EPS (INR)	21.9	29.7	39.9
Target Multiple			**52**
Target Price			**1,810**
Upside			**42%**

Source: Company, MOFSL

Scenario analysis – Bear Case

(INR m)	FY25E	FY26E	FY27E
Total Revenue	10,804	12,317	14,041
% YoY	29	14	14
Opex	6,028	6,631	7,294
% YoY	28	10	10
EBITDA	4,776	5,686	6,747
Margin	44.2	46.2	48.1
PAT	3,248	3,866	4,588
% YoY	31	19	19
EPS (INR)	19.0	22.6	26.9
Target Multiple			**40**
Target Price			**991**
Upside			**-22%**

Source: Company, MOFSL

Financials and valuations

Income Statement INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenue	4,499	4,811	6,395	7,200	8,375	11,214	13,269	15,623
Change (%)	177	7	33	13	16	34	18	18
Employee expense	1,940	1,886	2,325	2,894	3,197	4,124	4,619	5,173
Other expenses	973	801	1,192	1,326	1,513	2,027	2,270	2,543
Operating Expenses	2,912	2,687	3,517	4,220	4,709	6,151	6,889	7,716
EBITDA	**1,586**	**2,124**	**2,879**	**2,980**	**3,666**	**5,063**	**6,380**	**7,908**
Change (%)	142	34	36	4	23	38	26	24
Depreciation/Interest	1,455	1,499	899	573	615	704	800	911
Other Income	54	51	61	175	247	407	529	687
PBT	**185**	**675**	**2,040**	**2,582**	**3,298**	**4,766**	**6,109**	**7,684**
Change (%)	33	265	202	27	28	45	28	26
Tax	140	1,320	555	625	813	1,201	1,527	1,921
Tax Rate (%)	185	844	-58	13	30	48	27	26
PAT	**45**	**-645**	**1,486**	**1,957**	**2,485**	**3,565**	**4,582**	**5,763**
Change (%)	-49	-1,526	-330	32	27	43	29	26
Dividend					983	1,368	1,710	2,052

Balance Sheet INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Worth	**4,096**	**3,464**	**6,443**	**8,702**	**10,427**	**12,239**	**14,768**	**18,137**
Borrowings	4,132	3,825	1,597	1,599	487	**511**	**536**	**563**
Other Liabilities	456	1,937	2,224	2,212	3,274	3,773	4,236	4,704
Total Liabilities	**8,683**	**9,226**	**10,264**	**12,514**	**14,187**	**16,523**	**19,540**	**23,404**
Cash and Bank balance	178	235	452	870	2,517	3,011	3,885	5,261
Investments	135	949	931	2,286	1,498	1,723	1,982	2,279
Net Fixed Assets	6,915	6,321	7,031	7,311	8,010	9,212	10,594	12,183
Current Assets	1,063	1,305	1,406	1,667	1,940	2,324	2,788	3,346
Other non-current assets	392	416	444	379	221	254	292	336
Total Assets	**8,684**	**9,226**	**10,264**	**12,513**	**14,187**	**16,523**	**19,540**	**23,404**

E: MOFSL Estimates

Financials and valuations

Cashflow Statement

INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
PAT	45	-645	1,486	1,957	2,460	3,565	4,582	5,763
Change in Accumulated Depreciation	922	980	370	467	530	657	756	869
Finance cost	533	520	529	106	84	46	44	42
Other Income	-54	-51	-61	-175	-247	-407	-529	-687
Change in Working Capital	**-436**	**1,214**	**157**	**-209**	**-36**	**-302**	**-382**	**-475**
Cashflow from Operation	**1,011**	**2,018**	**2,481**	**2,147**	**2,792**	**3,560**	**4,470**	**5,512**
Other Income	54	51	61	175	247	**407**	**529**	**687**
Change in Investments	980	-814	18	-1,355	787	-225	-258	-297
Change in Loans	-218	-306	-2,227	3	-1,112	24	26	27
Change in Fixed Asset	-510	-386	-1,081	-747	-1,230	**-1,859**	**-2,138**	**-2,459**
Cashflow from Investing	**306**	**-1,455**	**-3,228**	**-1,923**	**-1,308**	**-1,653**	**-1,842**	**-2,042**
Change in Reserves	-1,142	13	1,494	301	1,230	0	0	0
Interest Expense	-533	-520	-529	-106	-84	**-46**	**-44**	**-42**
Dividend Expense	0	0	0	0	-983	**-1,368**	**-1,710**	**-2,052**
Cashflow from Financing	**-1,675**	**-506**	**965**	**195**	**163**	**-1,414**	**-1,754**	**-2,094**
Net Cashflow	-359	57	218	419	1,647	493	874	1,376
Opening Cash	536	178	235	452	870	2,517	3,011	3,885
Closing Cash	**178**	**235**	**452**	**870**	**2,517**	**3,011**	**3,885**	**5,261**
AAAUM (INR b)	**7,233**	**9,105**	**11,067**	**12,408**	**15,330**	**21,768**	**25,686**	**30,310**
Change (%)	12%	26%	22%	12%	24%	42%	18%	18%
Equity	**3,433**	**4,471**	**5,842**	**6,838**	**8,618**	**12,927**	**16,158**	**19,390**
Non-Equity	3,800	4,634	5,226	5,570	6,712	8,842	9,528	10,920
Margins Analysis (%)								
Cost to Income Ratio	64.7	55.9	55.0	58.6	56.2	54.9	51.9	49.4
EBITDA Margins	35.3	44.1	45.0	41.4	43.8	45.1	48.1	50.6
PBT Margin	4.1	14.0	31.9	35.9	39.4	42.5	46.0	49.2
PAT Margin	1.0	-13.4	23.2	27.2	29.7	31.8	34.5	36.9
Profitability Ratios (%)								
RoE	1.0	-17.1	30.0	25.8	26.0	31.5	33.9	35.0
Dividend Payout Ratio	0.0	0.0	0.0	0.0	40.0	38.4	37.3	35.6

Dupont Analysis (Bps of AAAUM)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Income	6.2	5.3	5.8	5.8	5.5	5.2	5.2	5.2
Operating Expenses	4.0	3.0	3.2	3.4	3.1	2.8	2.7	2.5
EBITDA	**2.2**	**2.3**	**2.6**	**2.4**	**2.4**	**2.3**	**2.5**	**2.6**
Depreciation and Others	2.0	1.6	0.8	0.5	0.4	0.3	0.3	0.3
Other Income	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
PBT	0.3	0.7	1.8	2.1	2.2	2.2	2.4	2.5
Tax	0.2	1.4	0.5	0.5	0.5	0.6	0.6	0.6
ROAAAUM	**0.1**	**-0.7**	**1.3**	**1.6**	**1.6**	**1.6**	**1.8**	**1.9**

Valuations	2020	2021	2022	2023	2024	2025E	2026E	2027E
BVPS (INR)	24	20	38	51	61	72	87	106
Change (%)	-21.1	-15.4	86.0	35.1	19.8	17.4	20.7	22.8
Price-BV (x)	**48.5**	**57.4**	**30.8**	**22.8**	**19.1**	**17.7**	**14.7**	**12.0**
EPS (INR)	0.3	-3.8	8.7	11.5	14.6	20.9	26.8	33.8
Change (%)				31.8	26.9	43.5	28.5	25.8
Price-Earnings (x)			**133.8**	**101.5**	**80.0**	**60.9**	**47.4**	**37.7**
DPS (INR)					5.8	9.4	16.1	20.3
Dividend Yield (%)					**0.5**	**0.7**	**1.3**	**1.6**

E: MOFSL Estimates

Central Depository Services

BSE SENSEX	S&P CNX
81,709	24,678

CDSL
Convenient • Dependable • Secure

Stock Info

Bloomberg	CDSL IN
Equity Shares (m)	209
M.Cap.(INRb)/(USDb)	393.7 / 4.6
52-Week Range (INR)	1899 / 810
1, 6, 12 Rel. Per (%)	19/77/80
12M Avg Val (INR M)	4573

Financials Snapshot (INR b)

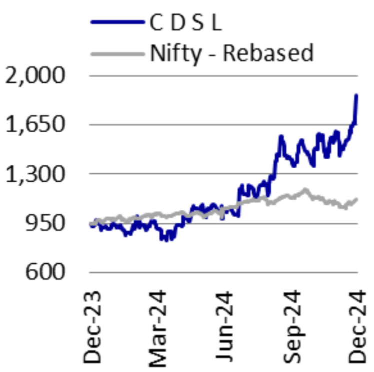
Y/E March	2025E	2026E	2027E
Revenue	12.4	15.1	18.3
EBITDA	7.7	9.6	12.0
EBITDA Margin (%)	61.7	63.6	65.5
PAT	6.4	7.9	9.8
PAT Margin (%)	51.6	52.5	53.9
EPS	30.7	37.9	47.1
EPS Grw. (%)	52.7	23.5	24.5
BVPS	87.7	103.5	123.6
RoE (%)	38.9	39.6	41.5
Div. Payout (%)	58.7	58.1	57.3
Valuations			
P/E (x)	61.5	49.8	40.0
P/BV (x)	21.5	18.2	15.2
Div. Yield (%)	1.0	1.2	1.4

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	15.0	15.0	15.0
DII	21.6	24.9	29.0
FII	13.8	14.0	8.1
Others	49.7	46.1	47.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,884 TP: INR2,000 (+6%) Neutral

Compelling story but rich valuations

- Depositories CDSL and NSDL, as key market intermediaries, are well positioned to derive significant value from the anticipated upsurge in equity market activity by retail investors.
- During FY21-24, the two reported a CAGR of 33%/40% in revenue and 28%/13% in PAT. Given the duopoly nature of the industry, high entry barriers in the form of technology and deep integration in the entire ecosystem, we believe that the growth momentum should remain intact.
- In 2QFY25, CDSL derived 22%/23% of revenue from issuer/transaction charges, which are dependent on the increase in retail participation, enhanced IPO activity and an increase in free-float on the bourses. These factors, we believe, should help to sustain strong momentum over the next few years.
- CDSL has been strengthening its market leadership in terms of the number of demat accounts (79% in Oct'24 vs. 56% in Oct'20), which reflects in its strong association with discount brokers. We believe that CDSL will maintain its leadership position, as discount brokers will continue to gain market share from traditional brokers in terms of demat accounts.
- Other segments, such as KYC, IPO and corporate action charges, e-voting commodity and insurance repository, and consolidated account statement (CAS), lend diversity to the company's revenues and profitability, which reduces cyclicality.
- Continued investments in human resources and technology for future growth could restrict gains from operating leverage, but we still expect EBITDA margins to expand to ~66% in FY27E from 60.3% in FY24. An asset-light business model and a healthy dividend payout ratio of 57% in FY27E will translate into a RoE of ~42% in FY27E as compared to 31% in FY24.
- We estimate a CAGR of 31%/35%/33% in revenue/EBIDTA/PAT for CDSL over FY24-27E. **We initiate coverage on CDSL with a Neutral rating and a one-year TP of INR2,000 with a P/E multiple of 46x Sep'26E.**

Duopoly industry — CDSL dominates retail, NSDL leads in institutions

- Depositories CDSL and NSDL have significantly benefitted from eccentric growth of the retail equity market over the past four years. The market is a duopoly with strong entry barriers, ensuring limited risk of new entrants.
- In terms of demat accounts, CDSL is the market leader with a 79% share as of Oct'24 (56% in Oct'20), which is a result of its first-mover advantage with discount brokers. CDSL has built strong associations with discount brokers before Covid. NSDL, on the other hand, has an upper hand with institutional investors with its strong positioning among traditional brokers.

- While CDSL has associations with 569 depository participants as of Oct'24 across 28 states and eight UTs vs. NSDL's 289 depository participants as of Oct'24. CDSL saw incremental growth in beneficial owners (BOs) accounts, from ~10.8m in FY16 to ~115.6m in FY24 (~137.3 as of Sep'24).

Issuer charges provide an annuity stream of revenues

- The primary role of depositories is to hold dematerialized securities and enable smooth transactions through depository participants, BOs, clearing corporations and exchanges.
- For holding these securities in the dematerialized form, depositories charge the issuers. The charges are fixed by the regulator and are levied on a per folio basis. These rates were revised once every five years until 2015.
- This stream of revenue is annuity in nature and has multiple revenue drivers going ahead, which include:
  - Rising primary market activity, which enhances folio creation
  - Corporate actions such as bonus, rights issue and buybacks also generate revenues and such events have been increasing.
  - Unlisted companies have been witnessing a lot of traction given the proliferation of unlisted AIFs in the country.
  - Debt issuances have also been trending higher, along with the possibility of increasing retail participation, given the enabling measures implemented by the government and the regulator.
- During FY19-24, annual issuer charges for CDSL clocked a CAGR of 31% to INR2,550m. Going forward, we estimate a CAGR of 22% during FY24-27. We do not factor in a price hike, which can provide further upsides to our estimates.

Transaction revenue – a proxy for rising activity in retail cash segment

- Depositories charge transaction fees to depository participants for every debit transaction that is executed in the cash delivery segment through them. Hence, the growth in this segment has a direct linkage to the number of BO accounts, overall cash volumes in the industry, and share of delivery transactions. CDSL also earns when customers create a pledge on their securities.
- Over the past five years, there has been strong growth in all major parameters:
  - The number of demat accounts increased from 36m in FY19 to 151m in FY24 (33% CAGR) and 179m as of Oct'24.
  - Cash volume ADTO averaged INR1.39t in 2QFY25, up from INR372b in 2QFY20.
  - Delivery volumes ADTO in the cash segment increased to INR45b in 2QFY25 from INR8.8b in 4QFY19.
- Resultantly, revenue from transaction charges saw a CAGR of 42% during FY19-24, with their share in total revenue rising to 28% in FY24 from 23% in FY18.
- Going ahead, we expect the momentum in demat account openings to remain strong and discount brokers to maintain their dominance. The pickup in cash and delivery volume is expected to remain intact, given rising primary market activity. We expect a 28% CAGR in transaction revenue during FY24-27.

KYC, insurance repository will aid in diversification of revenues

- CDSL is a leading player in the KYC segment with registration of 2,700 intermediaries and 70m KYC records held as on 31st Mar'24.
- CDSL provides:
  - Connectivity for creating, holding or maintaining any information or records in electronic form
  - Document management and electronic depository of certificates for educational institutions of central or state governments and other private entities.
- For every KYC created in the system, CDSL Ventures charges INR20 to the intermediary. For every KYC created in the system and fetched by another intermediary, the company charges INR35 to the intermediary.
- With the momentum in overall capital market activity expected to be robust, we see this segment growing at a 36% CAGR during FY24-27.

Insurance repository emerging to be a strong opportunity

- IRDAI has mandated insurance companies to issue e-policies for new policies from 1st Apr'24. CDSL, along with the other three insurance repositories (CAMS, NSDL, Karvy), qualified to issue e-policies.
- In FY24, about 330m general insurance and 29m life insurance policies were issued. Assuming INR6-8 per policy, the industry size could be INR2.1-2.9b per annum.
- Company has tie ups with 22 Life insurance, 5 health insurance and 14 general insurance companies. It also has a contract with an insurance company to operate remote offices on their behalf and provide outsourcing services. Considering the trend of company outsourcing their activities it will provide new stream of revenue apart from the Insurance Repository Business.
- CDSL has high-single digit market share currently, which would mean an incremental revenue opportunity of INR150-200m or 2-3% of FY24 revenues. We do not foresee any material investments in business, as the company has been investing for the past couple of years.
- Additional revenues can accrue from service requests such as change in nomination, address change and loan against policies, among others.

Asset-light business model, operating leverage drive robust cash flows

- A robust EBITDA margin of ~61% (1HFY25) and minimal capex requirements make the business cash-rich. Given its inherent strengths, CDSL has maintained healthy free cash flows, dividend payout (~55%) and ROE of ~31% as of FY24. CDSL has adopted a centralized technology infrastructure, wherein it is not required to store any data on its end.
- Moreover, the costs are fixed in nature, as employee costs and computer/ software maintenance costs account for the majority of total expenses.

Valuation and View

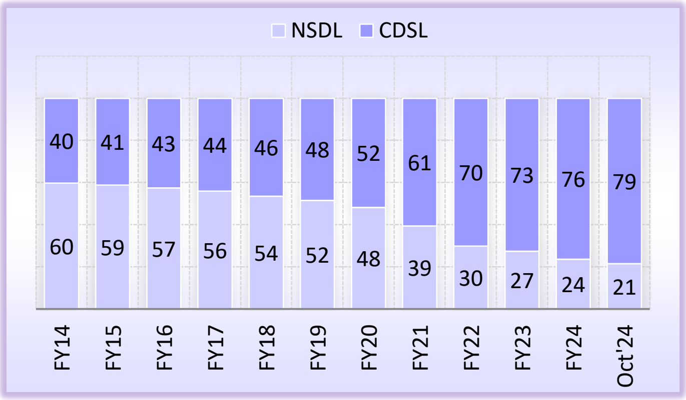
- We believe CDSL is well placed to garner strong revenue and PAT CAGR driven by India's capital market growth story and the financial inclusion theme. The duopolistic nature of the business, plenty of opportunities to scale up, low capex requirement and cash-rich balance sheet make CDSL a long-term steady compounder.
- We estimate a CAGR of 31%/35%/33% in revenue/EBIDTA/PAT for CDSL over FY24-27E. **We initiate coverage on CDSL with a Neutral rating and a one-year TP of INR2,000 with a P/E multiple of 46x Sep'26E.**

Key risks

- An unfavorable movement in the equity market can adversely impact revenues as it is primarily equity oriented.
- SEBI regulates annual issuer charges and the pricing of other services. As a result, depositories have limited pricing flexibility.
- Many fintech companies and global exchanges are investing in blockchain technology, which can potentially disrupt a few key businesses of depositories.
- Any loss of market share (in terms of BO) could potentially impact revenue, and thus, earnings for CDSL.
- Being into the business of technology, a cyber-attack is one of the biggest risks.

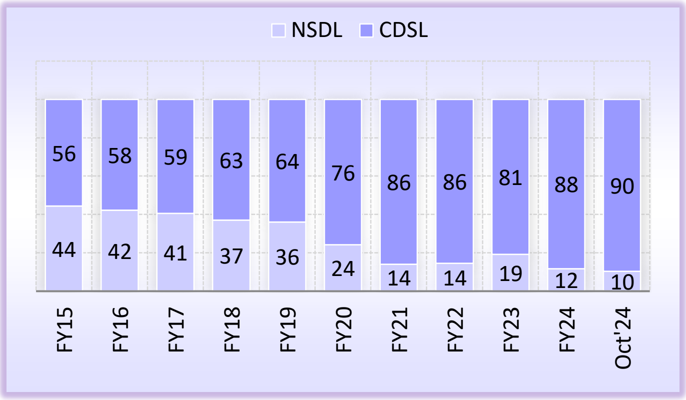
STORY IN CHARTS

Rising market share of CDSL in demat accounts (%)



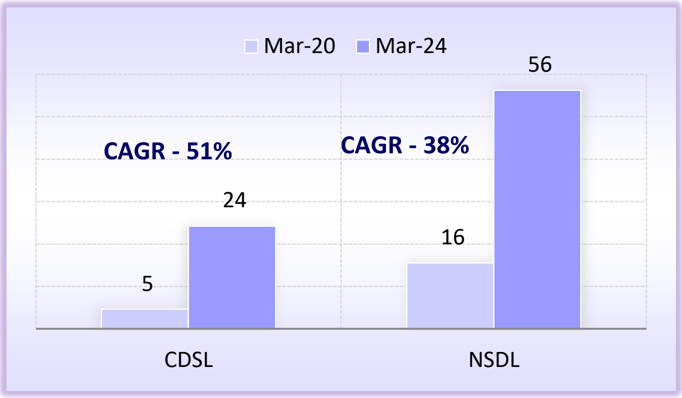
Source: NSDL, CDSL, MOFSL

Rising market share of CDSL in incremental demat accounts (%)



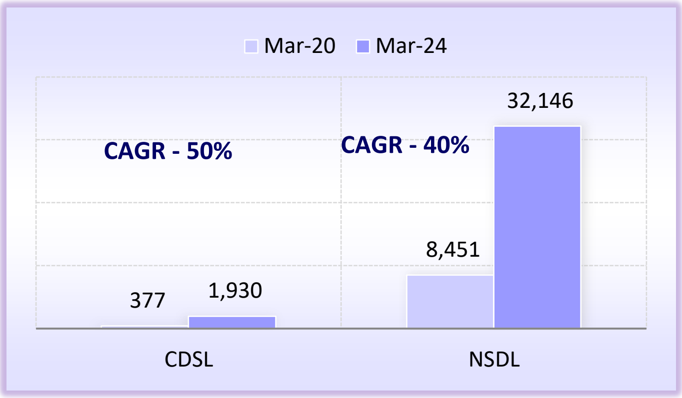
Source: NSDL, CDSL, MOFSL

CDSL outpacing NSDL in demat value of individual clients (INR t)…



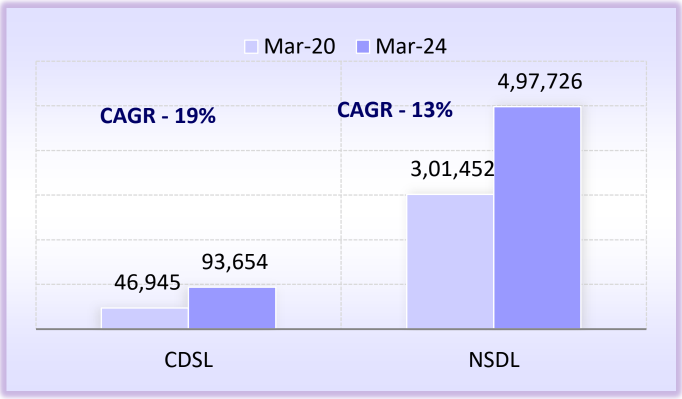
Source: NSDL, CDSL, MOFSL

…similar is the case in MF space (INR b)



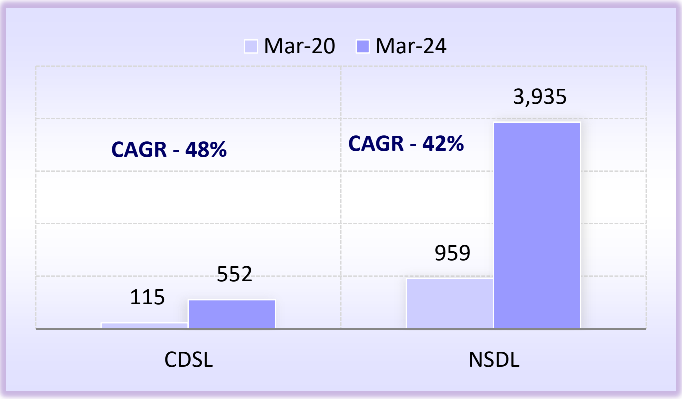
Source: NSDL, CDSL, MOFSL

CDSL outpacing NSDL in NRI client additions



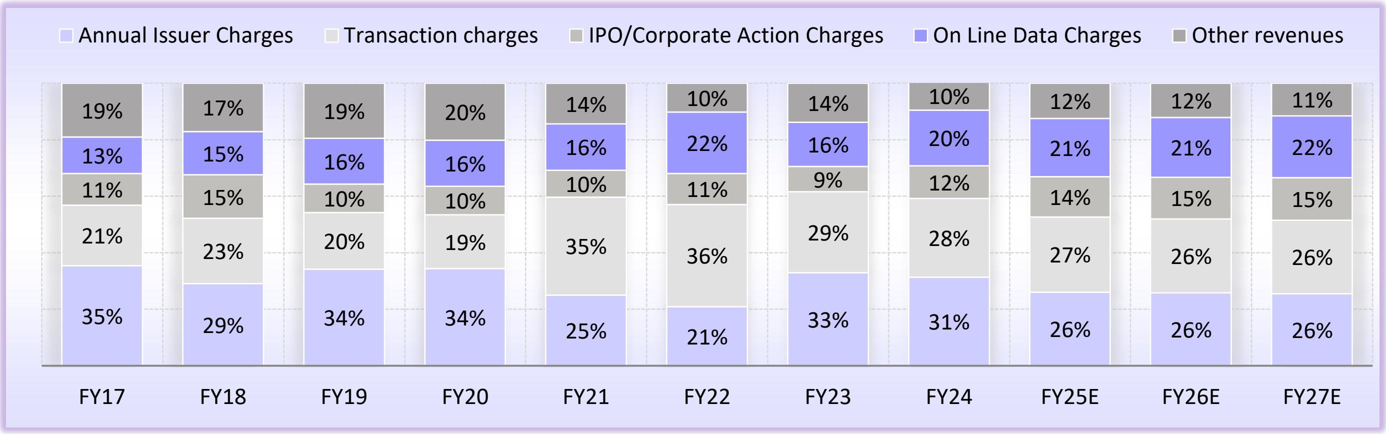
Source: NSDL, CDSL, MOFSL

Strong traction in NRI demat holdings (INR b)



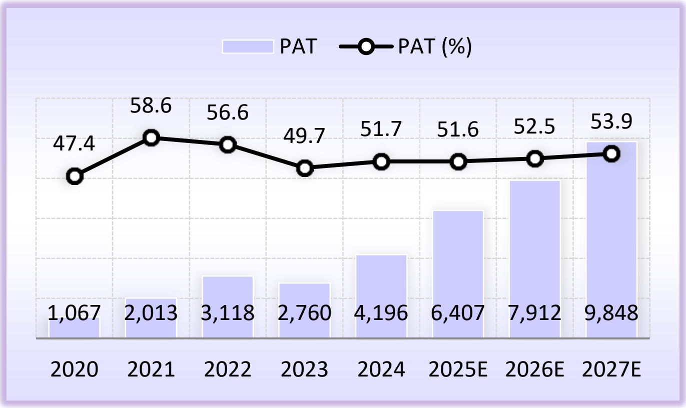
Source: NSDL, CDSL, MOFSL

Diversified revenue mix (%)



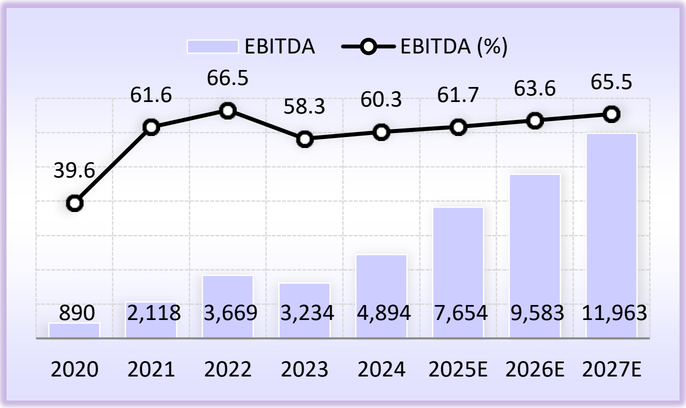
Source: NSDL, CDSL, MOFSL

PAT margin expected to be steady (In INRm)



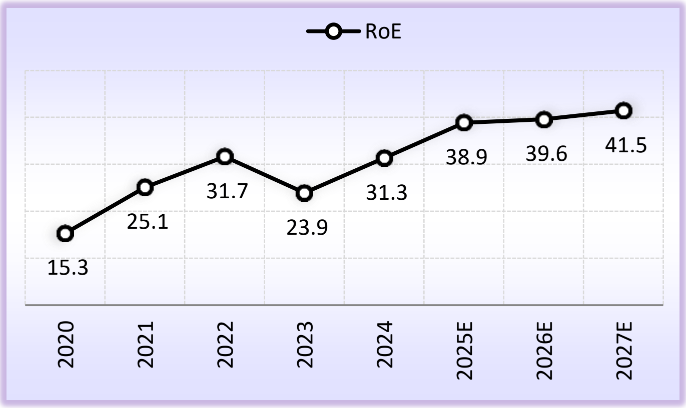
Source: NSDL, CDSL, MOFSL

EBITDA margin to improve to 65% by FY27 (In INRm)



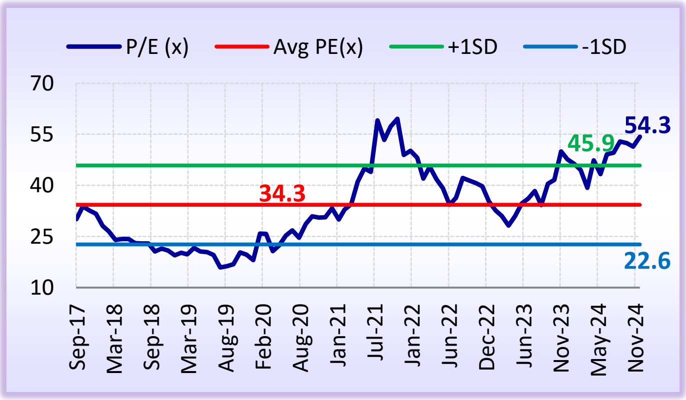
Source: NSDL, CDSL, MOFSL

Improving ROE trajectory (%)



Source: NSDL, CDSL, MOFSL

P/E one-year chart



Source: NSDL, CDSL, MOFSL

SWOT analysis

- CDSL is the **leading securities depository** in India covering at least 98% of pin codes; highest **market share.**
- **Strong presence with individual investors**, with 79% market share in demat accounts primarily driven by individual accounts.
- CDSL has a **strong distribution network** of more than 580 registered DPs covering at least 99% of pin codes.
- CDSL is led by **proficient leaders with extensive expertise** in the sector.
- **Digitalization,** i.e., eAGM and eDIS, new pledge/re-pledge mechanism, etc., has eased access for investors.

- Dependency on **market cycles** as major part of revenues are market-driven.
- CDSL has **only 20% market share** in large institutional segment, resulting in lower assets per demat account.
- **Pricing power is limited** as any change in pricing is to be approved by the regulator.

- Retail investors are quickly **transitioning** from traditional savings instruments like FDs to new-age risky asset classes like stocks, REITs and digital gold, among others, which is increasing business.
- A transparent, robust and forward-looking **regulatory framework** and government-led innovation have given the system the much-needed boost.
- **Increased IPO activity,** especially SME IPOs, has brought great opportunities to grow the business.

- **Intense competition** from existing player in investor accounts, DPs and number of securities pertaining to various instruments on its depository systems.
- Since the company's revenues are market-driven any **volatility in market** would be challenging.
- Risk of **interruptions or malfunctions** in the IT systems.

Key management personnel

Mr. Balkrishna V. Chaubal, Chairman

Mr. Chaubal holds a Bachelor's degree in science from the Institute of Science, Nagpur, and a Master's degree in physics from IIT Mumbai. He is a Fellow of the Indian Institute of Banking & Finance. He retired as Deputy Managing Director of State Bank of India after serving for more than 38 years. He is a visiting professor at the National Institute of Bank Management, Pune.

Mr. Nehal Vora, Managing Director and CEO

Mr. Vora holds a Commerce degree from H R College, Mumbai, and Master of Management Studies degree in Finance from NMIMS, Mumbai. He has over two decades of rich experience. He began his career with SEBI in 1996, where he managed various functions like derivatives and new products department. Earlier he was the Chief Regulatory Officer of BSE. He also headed Broking and Investment Banking Compliance at DSP Merrill Lynch as Director of Law and Compliance.

Mr. Girish Amesara, CFO

Mr. Amesara is Chartered Accountant by qualification. He has 25 years of extensive experience in the fields of finance, accounts, taxation, treasury, internal controls and preparation of annual reports. Prior to this appointment, he was Financial Controller of BSE, heading the Finance and Accounts Department. Before BSE, he worked with The Bombay Store, responsible for a whole gamut of finance-related functions.

Ms. Nayana Ovalekar, Chief Regulatory Officer

Ms. Ovalekar has a Bachelor’s degree in Commerce and is a qualified Company Secretary. She joined CDSL in 2003. Previously, she worked with Stock Holding Corporation of India and was involved in setting up its Depository Participant Operations.

Mr. Amit Mahajan, Chief Technology Officer

Mr. Mahajan holds a Bachelor of Engineering from BITS Pilani, India, and has done MBA from Mumbai University. Prior to joining CDSL, he headed the Information Products and Procurement function at BSE. He has over two decades of experience in the management of IT application project portfolios across stock exchanges, depositories, e-commerce, telecom and retail sectors.

Mr. Vinay Madan, Chief Risk Officer

Mr. Madan is a Chartered Accountant from the ICAI. He started his journey with KPMG Risk Advisory. He then worked with various financial services majors like American Express, Barclays and BNP Paribas Group. He has over 20 years of experience in Risk Advisory, Enterprise Risk Management, Management of Operational and Fraud Risks, etc.

Bull and Bear cases

Bull case

- In our bull case, we factor in higher revenue CAGR of 38% vs. 31% in the base case.
- Given operating leverage in the business, we expect EBITDA margin to improve to 67% in FY26E vs. 65.5% in the base case.
- As a result, we estimate a PAT CAGR of 40% over FY24-27E vs. 33% in the base case.

Bear case

- In our bear case, we factor in lower revenue CAGR of 26% vs. 31% in the base case.
- Given operating leverage in the business, we expect EBITDA margin to increase at a relatively modest pace to 63% in FY27E vs. 65.5% in the base case.
- As a result, we estimate a PAT CAGR of 26% over FY24-27E vs. 33% in the base case.

Scenario analysis - Bull Case

INR m	FY25E	FY26E	FY27E
Total Revenue	12,996	16,635	21,293
YoY growth (%)	60	28	28
EBITDA	8,058	10,813	14,266
EBITDA margin (%)	62.0	65.0	67.0
PBT	8,947	11,780	15,433
PAT	6,710	8,835	11,575
EPS (INR)	32.1	42.3	55.4
P/E (x)			50
FV (INR)			2,441
CMP (INR)			1,884
Upside (%)			29.6

Source: Company, MOFSL

Scenario analysis – Bear Case

INR m	FY25E	FY26E	FY27E
Total Revenue	12,021	14,065	16,175
YoY growth (%)	48	17	15
EBITDA	7,333	8,720	10,190
EBITDA margin (%)	61.0	62.0	63.0
PBT	8,222	9,687	11,357
PAT	6,167	7,265	8,518
EPS (INR)	29.5	34.8	40.8
P/E (x)			40
FV (INR)			1,510
CMP (INR)			1,884
Upside (%)			-19.8

Source: Company, MOFSL

Financials and valuations

Income Statement

INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenue	2,251	3,437	5,513	5,551	8,123	12,410	15,078	18,273
Change (%)	15	53	60	1	46	53	21	21
Employee expense	473	413	506	810	964	1,215	1,397	1,565
Computer technology related expenses	154	199	276	384	633	1,013	1,216	1,459
Other expenses	734	706	1,063	1,124	1,631	2,528	2,882	3,286
Operating Expenses	1,360	1,319	1,845	2,317	3,229	4,756	5,495	6,310
EBITDA	**890**	**2,118**	**3,669**	**3,234**	**4,894**	**7,654**	**9,583**	**11,963**
Change (%)	-18	138	73	-11.9	51.3	56.4	25.2	24.8
Dep/Interest/Provisions	118	92	115	196	273	462	518	574
Other Income	592	569	546	658	950	1,352	1,485	1,741
PBT	**1,364**	**2,595**	**4,100**	**3,696**	**5,571**	**8,543**	**10,550**	**13,130**
Change (%)	-8	90	58	-9.9	50.7	53.4	23.5	24.5
Share of P/L of associates			-14	-44.2	-10.8			
Tax	297	583	967	892	1,365	2,136	2,637	3,283
Tax Rate (%)	22	22	24	24	24	25	25	25
PAT	**1,067**	**2,013**	**3,118**	**2,760**	**4,196**	**6,407**	**7,912**	**9,848**
Change (%)	-7	89	55	-11.5	52.0	52.7	23.5	24.5
Dividend	470	941	1,568	1,672	2,299	3,762	4,598	5,643

Balance Sheet

INR m

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Equity Share Capital	1,045	1,045	1,045	1,045	1,045	2,090	2,090	2,090
Reserves & Surplus	6,195	7,727	9,884	11,092	13,588	16,234	19,548	23,753
Net Worth	**7,240**	**8,772**	**10,929**	**12,137**	**14,633**	**18,324**	**21,638**	**25,843**
Minority Interest	419	428	434	434	438	482	531	584
Borrowings	0	0	0	0	0	0	0	0
Other Liabilities	975	1,641	1,892	2,000	2,744	3,139	3,502	3,910
Total Liabilities	**8,633**	**10,841**	**13,254**	**14,571**	**17,816**	**21,945**	**25,670**	**30,337**
Cash and Bank balance	537	2,077	2,059	710	529	478	1,390	2,699
Investments	6,694	7,094	9,255	9,367	11,493	13,793	16,501	19,344
Net Fixed Assets	743	962	1,097	2,966	3,441	4,798	4,500	4,546
Current Assets	659	708	842	1,528	2,354	2,876	3,280	3,747
Total Assets	**8,633**	**10,841**	**13,253**	**14,571**	**17,816**	**21,945**	**25,670**	**30,337**

E: MOFSL Estimates

Financials and valuations

Cashflow								INR m
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Profit after Tax	1,067	2,013	3,118	2,760	4,196	6,407	7,912	9,848
Adjustments	(513)	(17)	30	(488)	(77)	(889)	(967)	(1,167)
Change in Working Capital	128	617	116	(577)	(82)	(127)	(42)	(58)
Cashflow from Operating activities	**683**	**2,613**	**3,264**	**1,694**	**4,036**	**5,391**	**6,904**	**8,622**
Other Income	592	569	546	658	950	1,352	1,485	1,741
Change in Current Investments	(719)	(401)	(2,161)	(112)	(2,126)	(2,300)	(2,708)	(2,844)
Change in Fixed Asset	(108)	(311)	(104)	(1,918)	(747)	(1,820)	(220)	(620)
Others	6	9	6	0	4	44	48	53
Cashflow from Investing activities	**(230)**	**(133)**	**(1,713)**	**(1,371)**	**(1,918)**	**(2,724)**	**(1,394)**	**(1,670)**
Interest Expense	0	0	0	-1	-1	0	0	0
Dividend Expense	(470)	(941)	(1,568)	(1,672)	(2,299)	(3,762)	(4,598)	(5,643)
Cashflow from Financing activities	**(471)**	**(941)**	**(1,568)**	**(1,673)**	**(2,300)**	**(2,717)**	**(4,598)**	**(5,643)**
Net cash flow	-18	1,540	-16	-1,350	-182	-50	911	1,310
Opening cash flow	555	537	2,077	2,059	710	529	478	1,390
Closing Cash flow	**537**	**2,077**	**2,059**	**710**	**529**	**478**	**1,390**	**2,699**

E: MOFSL Estimates

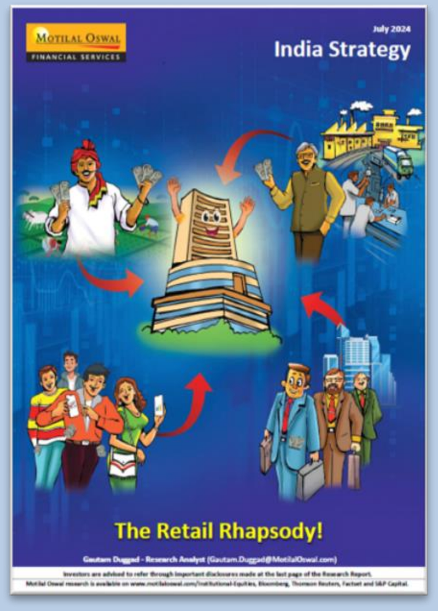
Ratios								
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Cost to Income Ratio	60.4	38.4	33.5	41.7	39.7	38.3	36.4	34.5
EBITDA Margins	39.6	61.6	66.5	58.3	60.3	61.7	63.6	65.5
PBT Margin	60.6	75.5	74.4	66.6	68.6	68.8	70.0	71.9
PAT Margin	47.4	58.6	56.6	49.7	51.7	51.6	52.5	53.9
Profitability Ratios (%)								
RoE	15.3	25.1	31.7	23.9	31.3	38.9	39.6	41.5
Dividend Payout Ratio	44.1	46.7	50.3	60.6	54.8	58.7	58.1	57.3

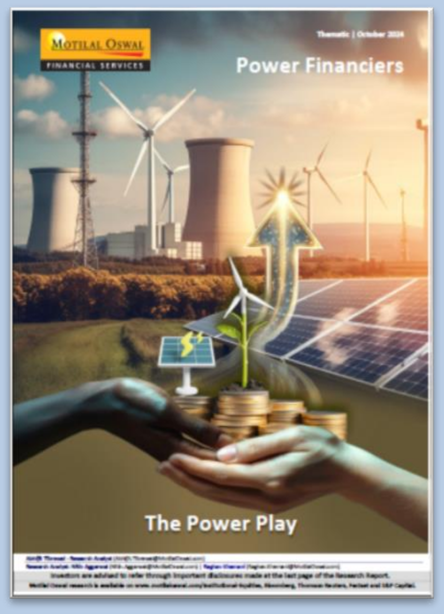
Valuations	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
BVPS (INR)	35	42	52	58	70	88	104	124
Change (%)	8.4	21.2	24.6	11.1	20.6	25.2	18.1	19.4
Price-BV (x)	**39.3**	**32.5**	**26.0**	**23.5**	**19.5**	**21.5**	**18.2**	**15.2**
EPS (INR)	5.1	9.6	14.9	13.2	20.1	30.7	37.9	47.1
Change (%)	-7.1	88.6	54.9	-11.5	52.0	52.7	23.5	24.5
Price-Earnings (x)	**266.7**	**141.4**	**91.3**	**103.1**	**67.8**	**61.5**	**49.8**	**40.0**
DPS (INR)	2.3	4.5	7.5	8.0	11.0	18.0	22.0	27.0
Dividend Yield (%)	**0.2**	**0.3**	**0.6**	**0.6**	**0.8**	**1.0**	**1.2**	**1.4**

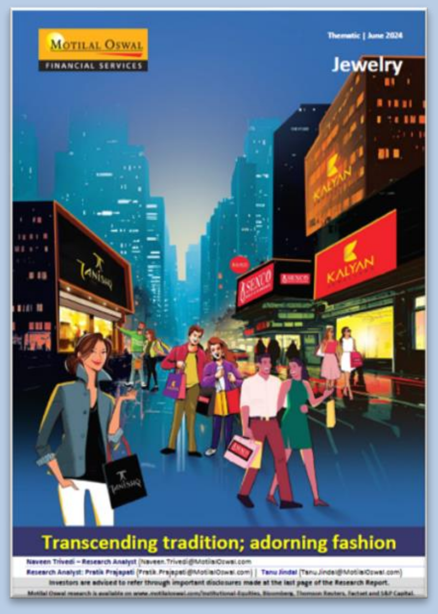
E: MOFSL Estimates

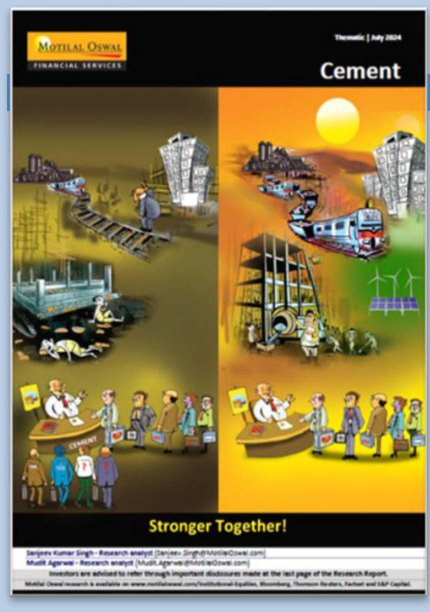
REPORT GALLERY

RECENT STRATEGY/THEMATIC REPORTS

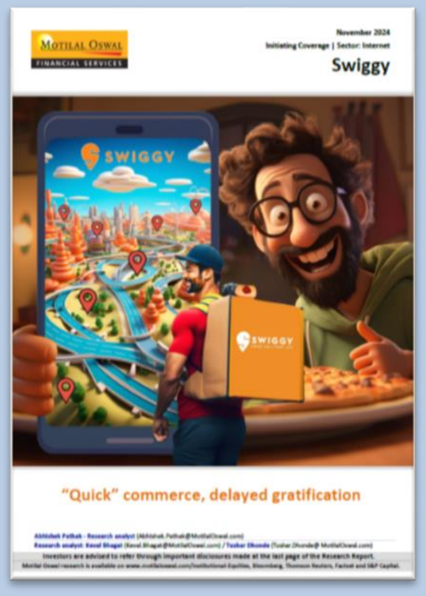


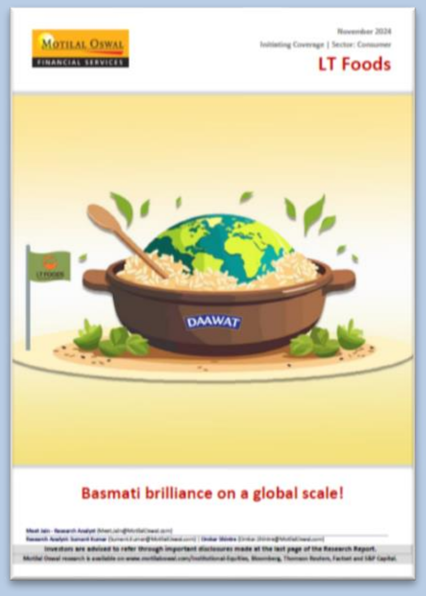


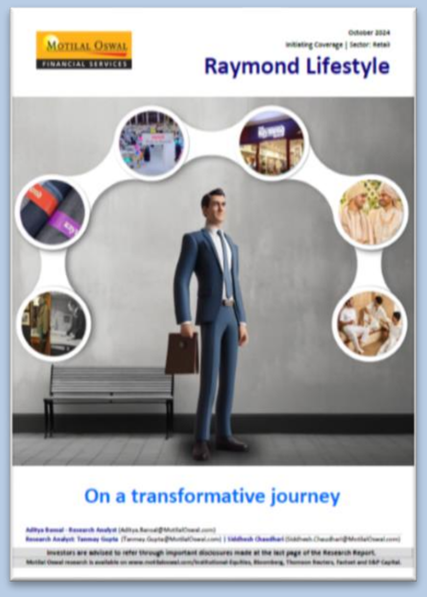


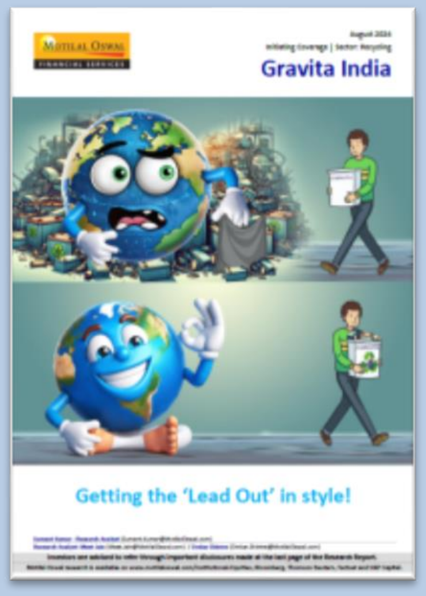


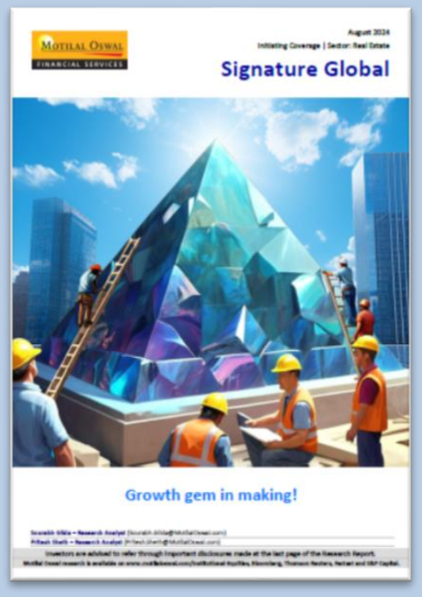
RECENT INITIATING COVERAGE REPORTS











Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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