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## HIGH COMPETITION, PESSIMISM OVER FUTURE GROWTH MAKE INVESTORS WARY

# AMC stocks witness a subdued year

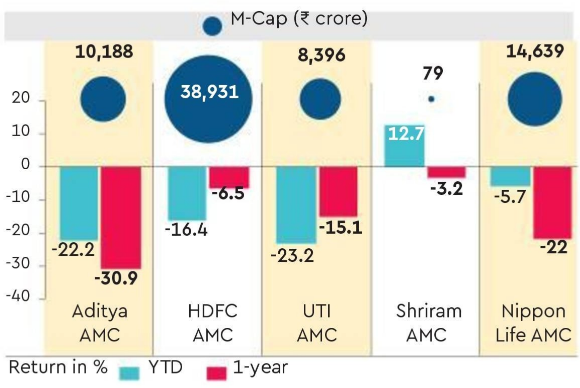
**SIDDHANT MISHRA**
Mumbai, May 7

**STOCKS OF ASSET MANAGEMENT** companies (AMCs) have been trading weak over the past year, with four out of the five listed entities falling between 7% and 30%. On a year-to-date (YTD) basis, too, the picture is not very encouraging, with three of the five stocks down more than 15%.

Experts attribute this to a combination of factors, such as below par results as well as regulatory changes.

"Removal of the indexation benefit, which was a unique advantage to debt schemes, surprised the industry. Now, they are no longer as attractive. A gradual shift is also being witnessed towards low-fee passive funds, with close to 150 ETFs and as many index funds available. Especially with EPFO money coming in, it has given the impression that a low-fee product translates to higher returns," said Dhirendra Kumar, founder & CEO of Value Research. He said there is pessimism over the future growth of the industry as it is highly competitive, but there is huge scope ahead.

### GLOOMY PICTURE




The biggest loser has been Aditya Birla Sun Life AMC (ABSLAMC) whose share prices are down 31% over the past year and 22% YTD. It reported a 14.5% y-o-y fall in net profit to ₹135 crore. Heightened yield compression, continued equity market share loss, and elevated marketing spending were key triggers, according to an HDFC Securities report.

UTI AMC has returned a 15% loss over one year and 23% YTD. The firm reported a net profit of ₹86 crore, up 59% from the previous year. This has been primarily due to higher redemptions seen by UTI AMC (vis-a-vis HDFC AMC and NAM) due to subdued scheme performance, said a JM Financial report, adding that the pressure on equity yield should subside as only 20% of higher-yielding AUM is left in its pool.

The management indicated that the fall in yields was driven by pressure on equity yields due to new flows replacing high-yielding stock AUM, according to the report, adding that the management has also indicated that it lost market share in equity flows owing to scheme performance. However, at an inexpensive valuation of 11.5x FY25 P/E, it is at a substantial discount to listed peers.

"Yields have been impacted owing to regulatory changes, which has hit margins. In addition, there has been a slump in NFO launches, which has led to a dip in inflows," said Kranthi Bathini, director (equity strategy), WealthMills Securities.

He said that while Indian AMCs will be robust in the coming years, and the industry has huge potential, the debt market is relatively smaller compared to global peers, and MF AUMs are still at an "emerging stage".

HDFC AMC, with the highest market cap of ₹38,931 crore, saw Q4 profits beat estimates on lower opex. Its profits grew better than estimates thanks to lower operating expenses, and though it gained market share in the equity segment, there was a loss in the debt category owing to delayed launches of debt index funds.

"The lack of NFO launches especially in the last two years, has hit fresh inflows. The larger trigger, however, seems to be Sebi's regulation surrounding the expense ratios," said independent market analyst Ambareesh Baliga. He said sentiment will remain subdued until the next big trigger in the space, and disappointing returns may even push people to go for redemptions.