

AMCs growing at a breakneck speed

The mutual fund industry saw a total income of nearly Rs 14000 crore in FY18. Here's a detailed report on the earnings scorecard

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The SEBI's move to approve several recommendations proposed by the mutual fund advisory committee (MFAC) on distributor commissions, total expense ratios (TER), limiting the additional incentive, etc. are expected to have an adverse effect on Asset Management Company (AMC) revenues and profits in future. But that doesn't take away from the fact that FY 2018 was a big year for the AMC industry in India, with assets under management clocking new records. Let us have a look at how AMCs, as businesses, fared. With assets growing at a breakneck speed, the AMC space saw total income of nearly Rs 14000 crore and bottom line surging over Rs 3500 crore.

At an industry level

For AMCs, 2018 was a watershed year. We looked at financial data available for 35 AMCs. So, numbers do not include Essel Mutual Fund, Franklin Templeton Mutual Fund, Invesco Mutual Fund and Mirae Asset Mutual Fund.

Data shows that the 35 AMCs witnessed their collective AUM surge from Rs 16.4 lakh crore to Rs 20 lakh crore in just 12 months. Total income of these AMCs grew to Rs 13944.81 crore in FY18 compared to Rs 10700.34 crore in FY17. As a rate of total income growth, the increase of 30.3% witnessed in FY18 was the highest in six years.

The superb top line growth has had a great effect on the net profit numbers too. For the 35 AMCs, net profit jumped to Rs 3583.47 crore in FY18 from Rs 2610.96 crore in FY17. The 37.2% year on year rise in profit is the biggest surge since FY2014. For those interested in net profit margins, i.e., net profit as a percentage of total income, the number was nearly 26%, which is among the highest since the MF industry came into existence.

AMC Business

FY	2018	2017	2016	2015	2014
Total income (Rs Cr)	13945	10701	8707	6623	5286
Growth YoY (%)	31	23	32	26	21
Net profit (Rs Cr)	3584	2611	2088	1541	1333
Growth YoY (%)	38	26	36	16	44

The above numbers do not mean all AMCs clocked profits. As many as 9 AMCs were still in the red in FY18, almost the same number in FY17. We will come to them a little later.

Top 10 revenue earners in FY18

AMC	Rs Cr
ICICI Prudential Mutual Fund	1897
HDFC Mutual Fund	1867
Reliance Mutual Fund	1746
SBI Mutual Fund	1272
Aditya Birla Sun Life Mutual Fund	1261
UTI Mutual Fund	1058
Axis Mutual Fund	753
DSP Mutual Fund	752
Motilal Oswal Mutual Fund	668
Kotak Mahindra Mutual Fund	519

Top 10 profit-makers in FY18

AMC	Rs Cr
HDFC Mutual Fund	722
ICICI Prudential Mutual Fund	626
Reliance Mutual Fund	505
UTI Mutual Fund	376
SBI Mutual Fund	331
Aditya Birla Sun Life Mutual Fund	322
DSP Mutual Fund	201
Motilal Oswal Mutual Fund	131
Kotak Mahindra Mutual Fund	81
JM Financial Mutual Fund	57

A good way of assessing the nature of the AMC business is to see what kind of assets it manages. Since the AMC business is an economy of scale, the biggest AMCs happen to be the most profitable ones, with very few exceptions. Higher persistency and higher expense ratio make equity assets far more important to an AMC. For large AMCs, every Rs 1 crore of equity asset is equivalent to Rs 3 crore of debt asset, or Rs 6-7 crore of liquid fund asset.

The reason behind higher profitability for HDFC AMC, compared to ICICI Prudential, may be due to HDFC's 26.5% equity AUM compared to 23.2% for ICICI Prudential. Even though UTI MF is not in top 5 by total income, its 33% of AUM being in equity may have ensured higher profits than SBI and ABSL.

In terms of fastest profit growth in FY18, smaller AMCs ruled the roost on account of a smaller base effect. LIC Mutual Fund grew its net profit to Rs 6.32 crore from Rs 1.01 crore, clocking 525.68% growth.

AMCs with the highest profit growth

AMC	2018	2017	Growth (%)
LIC Mutual Fund	6	1	526
Baroda Pioneer Mutual Fund	3	1	196
Motilal Oswal Mutual Fund	131	50	164
DSP Mutual Fund	201	85	135
Kotak Mahindra Mutual Fund	81	38	112
IIFL Mutual Fund	30	15	100
SBI Mutual Fund	331	224	48
Aditya Birla Sun Life Mutual Fund	322	221	46
Canara Robeco Mutual Fund	23	16	40
HDFC Mutual Fund	722	550	31

As mentioned earlier, not all AMCs showed profits, despite having sizeable equity assets.

Loss makers

AMC	2018 (Rs Cr)	2017 (Rs Cr)
Mahindra Mutual Fund	-38	-20
Edelweiss Mutual Fund	-19	-7
Union Mutual Fund	-8	-23
Quantum Mutual Fund	-6	0
BOI AXA Mutual Fund	-5	-13
Sahara Mutual Fund	-4	-4
Shriram Mutual Fund	-2	-1
Principal Mutual Fund	0	-4

There is nothing shocking about them because many of them are relatively new businesses.

Though FY18 witnessed net profit climbing to all-time highs, there are AMCs like IDFC, Axis, PPFAS, Indiabulls, BNP Paribas and Taurus whose net profit has fallen year on year. L&T Mutual Fund swung back to black in FY18 with net profit at Rs 31.90 crore compared to net loss of Rs 25.81 in FY17.