

HDFC Asset Management Company LIMITED

IPO Note

(SUBSCRIBE)

Analyst:

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IPO details

Key Data

Issue Opens	25-Jul-18
Issue Closes	27-Jul-18
Equity Shares Offered (in mn.)	25.46
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (₹)	5
Price Band (₹)	1095-1100
Max. Issue Size (₹ mn)	28,003
Lot Size (Eq. Shares)	13 and multiple thereof

Valuation

	@ 1095 per share	@ 1100 per share
Market Cap (₹ mn)	232,128	233,188
Total Debt (₹ mn)	0	0
Enterprise Value (₹ mn)	232,107	233,167
EV/ Sales	13.2	13.2
EV/ EBIDTA	24.0	24.1
P/B	10.7	10.8
P/E	32.0	32.1

Source: Red Herring Prospectus, Dealmoney Research

	Pre Issue		Post Issue [^]	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	201.3	95.0%	175.8	82.9%
Public	10.7	5.0%	10.7	5.0%
Others	0.0		0.0	0.0%
Offer for sale			25.5	12.0%
Fresh Issue				0.0%
Total	212.0	100.00%	212.0	100.0%

Object of the issue

- To carry out the sale of Equity Shares offered for sale by the Selling Shareholders
- Enhance the company's visibility and brand image
- Provide a public market for Equity Shares in Indi

Recommendation

HDFC AMC is the second largest and one of the most profitable AMC. The company has customer centric approach, wide pan India network and best-in-class profitability compared to it AMC peers. India's Mutual Fund industry globally is under penetrated which leaves headroom for potential growth in future. With good reach and customer satisfaction aided by controlled operating cost in the company could increase future prospects for the investors.

On valuation front, at upper issue price of Rs. 1100 it is valued at P/B of 10.7x FY18 earnings which is at premium provided brand and strong parentage. Therefore, we give SUBSCRIBE FOR LONG- TERM rating to this IPO.

Second largest and proven performer.

- ❑ HDFC Asset Management Company Limited (HDFC AMC) is a joint venture between Housing Development Finance Corporation Limited (“HDFC”) and Standard Life Investments Limited (“SLI”). HDFC is one of India’s leading housing finance companies and has emerged as a recognized financial conglomerate in India, with presence in housing finance, banking, life and non-life insurance, asset management, real estate funds and education finance.
- ❑ SLI is an indirect subsidiary of Standard Life Aberdeen plc (“Standard Life Aberdeen”), one of the world’s largest investment companies, created in 2017 from the merger of Standard Life plc and Aberdeen Asset Management PLC. HDFC AMC believes that strong parentage and trusted brand enhanced its appeal and provides confidence to customers.
- ❑ It offers a large suite of savings and investment products across asset classes, which provide income and wealth creation opportunities to its customers.
- ❑ The company offers 133 schemes that were classified into 27 equity-oriented schemes, 98 debt schemes (including 72 fixed maturity plans (“FMPs”)), three liquid schemes, and five other schemes (including exchange-traded schemes and funds of fund schemes).
- ❑ It had a total number of Live Accounts of 8.10 million as of March 31, 2018, and Monthly Average AUM (“MAAUM”) from individual customers accounted for 62.2% of MAAUM, compared to the industry average of 51.4%.
- ❑ It has served customers in over 200 cities through its pan-India network of 209 branches (and a representative office in Dubai) and service centres of its registrar and transfer agent (“RTA”), which is supported by a strong and diversified network of over 65,000 empaneled distribution partners across India, consisting of independent financial advisors (“IFAs”), national distributors and banks.
- ❑ The company believes that it is at the forefront of leveraging technology in the Indian asset management sector, with a focus on digitization to transform sales, customer on-boarding and internal processes. The company provides products and services through online portal, HDFC MF Online and mobile applications, both of which have become increasingly relevant to the business in recent years.
- ❑ HDFC AMC has an established track record of delivering robust financial performance. It’s total revenue increased from Rs.9,031.14 million in FY14 to Rs.18,672.46 million in FY18, with a CAGR of 19.91%, and the net profit has grown from Rs.3,577.70 million to Rs.7,216.16 million during the same period at a CAGR of 19.17%. Dividend Payout Ratio increased from 41% in FY14 to 56% in FY18 and it paid a dividend of Rs.3,368.88 million in FY18 compared to Rs.1,262.04 million in FY14. It had a net worth of Rs.21,599.68 million as of March 31, 2018. It’s ROE exceeded 40% every year since FY14 and was 40.28% for FY18..

Source: Red Herring Prospectus, Dealmoney research

Strengths

- ❑ **Consistent market leadership position in the Indian mutual fund industry:** HDFC AMC is a leader in the Indian mutual fund industry as demonstrated by its leading position across key industry metrics. It has been the most profitable asset management company in India in terms of net profits since FY13 with a total AUM of Rs.2,919.85 billion as of March 31, 2018 with has grown at a CAGR of 33.9% since FY01. The company's leading industry and financial position gives a robust platform for growth and efficiencies of scale, and enhances the capability of investing in the growth of physical and digital infrastructure, which it believes, would further access to a larger customer base, and provide improved customer experience.
- ❑ **Trusted brand and strong parentage:** The company has a strong brand that customers trust, as evidenced by its consistent leadership position in the Indian mutual fund industry. It benefits from the brand reputation of its promoters, HDFC and SLI. The HDFC group has a strong presence across financial products and services, especially in the retail sector. The company benefits from HDFC's brand name as it gives a unique advantage of being a trusted provider of financial services, and SLI provides access to international best practices, for operations and risk management.
- ❑ **Consistent profitable growth:** The company has been the most profitable asset management company in India in terms of net profits since Fiscal 2013, according to CRISIL. Total AUM of Rs.2,919.85 billion as of March 31, 2018, of which equity-oriented AUM and non-equity-oriented AUM constituted Rs.1,497.13 billion and Rs.1,422.73 billion, respectively. As equity-oriented schemes generally have a higher fee structure compared to non-equity-oriented schemes, its product mix helps it to achieve higher profits.
- ❑ **Focus on individual customers and customer centric approach:** With an individual investor focused strategy, It has a customer base with a greater proportion of individual AUM in comparison to the overall Indian mutual fund industry. With this trend towards greater individual investments in mutual funds, significant individual customer base and leadership remains a key strength.
- ❑ **Superior and diversified product mix distributed through a multi-channel distribution network:** The diversified product mix, which includes 27 equity-oriented schemes, 98 debt schemes (including 72 FMPs), three liquid schemes, and five other schemes (including exchange-traded and funds of fund schemes), enables to operate through various market cycles, cater to specific customer requirements and reduce concentration risk. It offers equity-oriented schemes based on market capitalization and asset class mix, as well as thematic, tax saving, goal-based, arbitrage and index schemes. Schemes based on market capitalization include multi-cap, large-cap, mid-cap and small-cap schemes, while those based on asset classes include equity-oriented hybrid schemes with a mix of equity and debt instruments

Source: Red Herring Prospectus, Dealmoney research

Future road ahead

- ❑ **Maintain strong investment performance:** The company's endeavour is to continue to deliver superior investment performance against benchmarks and peers over medium to long-term periods. The company is medium to long-term investors and investments are driven by fundamental research with a medium to long-term view. It believes that over time, stock prices reflect their intrinsic values. The key elements of the investment strategy include investment discipline, long-term focus, risk management and team approach coupled with talented individuals.
- ❑ **Expand reach and distribution channels:** The AUM of the Indian mutual fund industry has grown at a CAGR of 24.9%, and the equity-oriented AUM that generally has a higher fee structure has grown at a CAGR of 37.3% from March 31, 2013 to March 31, 2018, according to CRISIL. It has expanded its physical presence from 141 branches as of March 31, 2014 to 210 branches as of March 31, 2018 and it aims to continue expanding its physical footprint consistent with the growing opportunity. T-15 cities account for 81.2% of the industry MAAUM, having grown at a CAGR of 24.9% since March 2014, according to CRISIL. It has expanded its reach in T-15 cities, both in terms of branches and personnel, and intend to continue evaluating opportunities and strengthening the physical presence further in T-15 cities.
- ❑ **Enhance product portfolio:** HDFC AMC aims to offer need-based and customer-centric products that address the core needs of diversified customer base. It typically exercise discipline in launching new funds and prefer to focus on growing existing funds. However, it continuously seek feedback from investment team, distributor network and customers to cater to customer demands and market trends, which it utilize to adjust existing products or launch new products. The deep experience has provided the company with significant know-how to develop and provide investment products across various customer segments, economic conditions and market cycles.
- ❑ **Invest in digital platforms to effectively leverage the growing digital space:** The company's vision is to be a leader in the effective use of technology to meet the changing needs of the customers, employees and key distribution partners. It aims that digital transformation is strategic and integral to its business, as it redefines standards in terms of meeting customer expectations and reducing costs. It aims to progress towards a digital model to meet customers' requirements by personalizing offerings, facilitating easy on-boarding, ease in transacting and access to other relevant data through the digital platform.

Source: Red Herring Prospectus, Dealmoney research

Peer Comparison

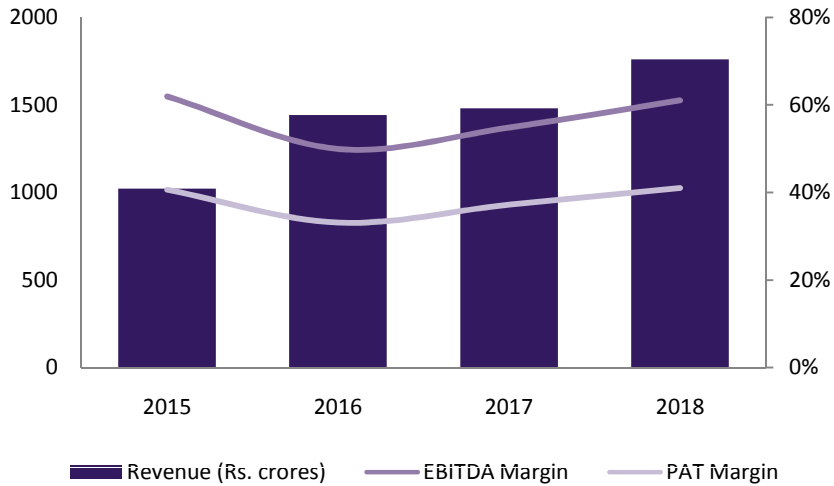
Company Name	Net Sales (₹ crores)	EBITDA (Excl OI)	EBITDA Margin (%)	PAT	PAT Margin (%)	Total Debt	PE (x)	PB (x)	EPS (Rs.)	ROE (%)	ROCE (%)
HDFC Asset Management Company Ltd.	1,480.0	703.9	47.6	550.3	37.2	-	42.1	10.7	26.1	38.7	50.3
Peers											
IIFL Holdings Ltd.	4,815.9	3,249.0	67.5	822.2	17.1	24,330.4	30.7	4.2	21.5	21.3	13.8
Motilal Oswal Financial Services Ltd.	1,726.3	835.7	48.4	364.5	21.1	5,066.8	33.1	7.9	24.9	22.6	17.4
ICICI Securities Ltd.	1,404.2	575.4	41.0	338.6	24.1	395.4	34.7	24.8	16.5	76.3	76.9
Geojit Financial Services Ltd.	273.7	74.2	27.1	61.3	22.4	-	24.9	2.7	2.4	12.2	18.3
Reliance Nippon Life Asset Management	1,307.5	466.6	35.7	402.8	30.8	-	26.01	9.8	8.7	22.2	31.6

*ACE Equity, all figures are of FY17

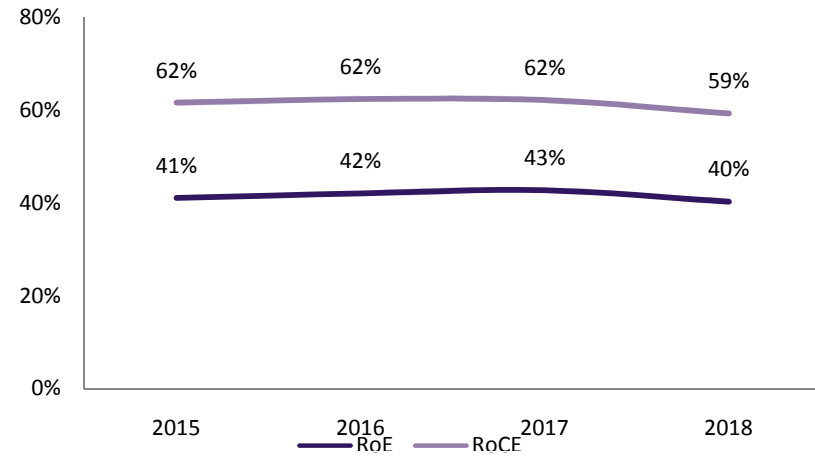
Source: ACE Equity, Dealmoney Research

Financial Performance

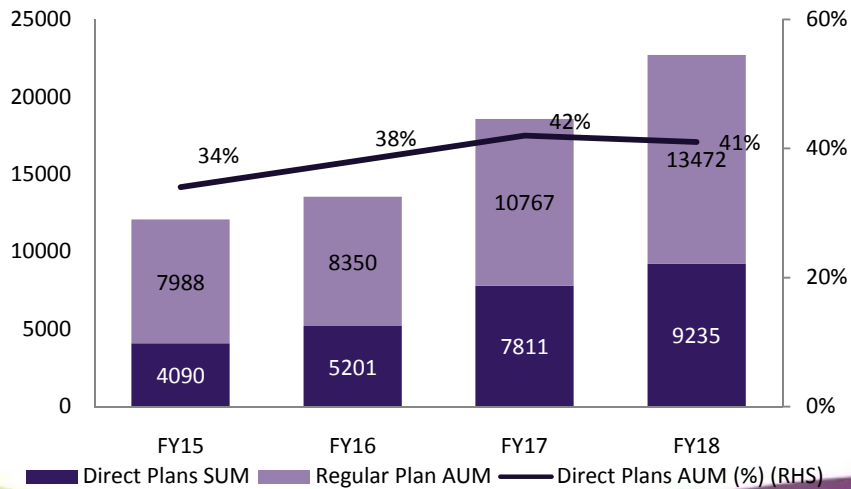
Financial Metrics



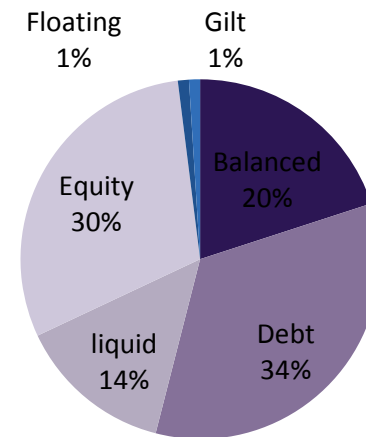
Return Ratios



Industry AUM growth (₹ mn)



AUM Mix (%)



Consolidated Summary Financials

Income Statement

₹ mn	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
Total Income	17,598	14,800	14,425	10,224	8,585
Operating Expense	7,933	7,761	7,750	4,315	3,722
EBIDTA	9,665	7,039	6,675	5,909	4,863
Depreciation	114	120	111	101	84
Other Income	1,075	1,079	518	418	446
Finance Costs	-	-	-	-	-
PBT	10,625	7,998	7,082	6,226	5,225
Exceptional items	-	-	-	-	-
Profit before tax	10,625	7,998	7,082	6,226	5,225
Current tax (including MAT)	3,409	2,496	2,304	2,071	1,647
Deferred tax (including MAT credit entitlement)	-	-	-	-	-
Profit for the year	7,216	5,502	4,779	4,155	3,578

₹ mn	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
EBIDTA Margin	61.0%	54.8%	49.9%	61.9%	61.8%
Net Margin	41.0%	37.2%	33.1%	40.6%	41.7%
ROE	33.4%	38.7%	41.5%	37.1%	39.7%
ROCE	45.0%	50.3%	50.3%	47.9%	47.1%

Balance Sheet

₹ mn	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
Liabilities					
Share capital	1,053	252	252	252	252
Reserves and surplus	20,547	13,978	11,261	10,946	8,760
Non-controlling interest	-	-	-	-	-
Long-Term Borrowings	-	-	-	-	-
Deferred tax liabilities(Net)	(97)	(94)	(139)	(133)	(128)
Other Long Term Liabilities	-	-	-	-	-
Long term provisions	8	8	150	150	150
Other non-current liabilities	-	-	-	-	-
Short term borrowings	-	-	-	-	-
Trade payables	1,116	961	1,720	951	1,477
Other current liabilities	982	797	845	818	574
Other financial liabilities	-	-	-	-	-
Income tax liabilities	-	-	-	-	-
Other current liabilities	1	1	-	-	-
Total Liabilities	23,609	15,902	14,088	12,985	11,085
Assets					
Net Block	33	31	31	34	28
Intangible assets	6	-	-	-	-
Capital work in progress	-	-	-	-	-
Non current Investments	6,395	1,688	1,599	1,617	1,304
Other financial assets	439	478	307	253	229
Deferred tax asset	-	-	-	-	-
Other non-current assets	178	237	678	1,500	972
Income tax asset	-	-	-	-	-
Inventories	-	-	-	-	-
Current Investments	13,110	10,679	8,259	4,888	6,062
Trade receivables	903	851	386	166	155
Cash and cash equi.	21	13	10	26	10
Other financial assets	-	-	-	313	303
Other current assets	2,176	1,646	2,539	3,884	1,772
Total Assets	23,260	15,622	13,808	12,681	10,835

Source: Red Herring Prospectus, Dealmoney research

Key Risks

- ❑ Low financial literacy and lack of awareness, unless addressed properly, will inhibit the industry's growth.
- ❑ The skew towards fixed deposit is very high at 62% of gross financial savings in FY17.
- ❑ Product from insurance companies like ULIPs also compete with mutual funds companies for market share.
- ❑ Expansion into B-15 cities would require mutual funds to invest in marketing and distribution channels. The additional marketing expenses can put pressure on the profit margins of mutual fund houses.

Source: Red Herring Prospectus, Dealmoney research

Dealmoney Securities Private Limited

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