

## HDFC Asset Management Co

HDFC Asset Management Co (HDFC AMC) is the asset management arm of the HDFC Ltd (Promoter) and was established in 1999. In 2001, Standard Life Investments acquired 26% stake in HDFC AMC. It is the most profitable AMC and the second largest in terms of asset under management (AUM) with ~14% market share. As on March 2018, it managed AUM of ₹2,91,985cr out of which 51% was equity AUM. It has grown its AUM at a CAGR of 25.5% over FY2013-18.

**Huge potential for growth (Industry) in Mutual Fund AUM:** In the past five years (FY14-FY18), equity AUM for Indian MF industry has increased 4.4x, from ₹2 lakh cr to ₹9 lakh cr. Further, overall AUM has nearly jumped 2.5x from ₹8.2 lakh cr to ₹21.3 lakh cr. Moreover, the MF industry is receiving about ₹7,000cr per month through SIP (Systematic Investment Plan). We believe that this trend would continue in the coming years owing to (1) continuation of black money crack down; (2) lower fixed deposit rates; (3) increased awareness; (4) low penetration (AUM/GDP -13% vs. +50% in developed markets).

**Most profitable AMC among top 5 AMCs:** HDFC AMC has been reporting the best profitability numbers in the industry owing to operating efficiency. For FY18, HDFC AMC had reported PAT/AAUM of 0.26%, whereas other top 5 players had reported the same in the range of 0.21-0.14%.

**Healthy financials to support higher dividend payout:** Revenue/EBITDA has grown at healthy CAGR of 20% over FY2013-17. Return on equity (ROE) for FY2018 was 40% and last 5 years average ROE was 42%. For FY2018, HDFC AMC registered dividend payout of 47%, notably the company has been maintaining dividend payout of 41% on an average for last 5 years.

**Outlook & Valuation:** At the upper end of the IPO price band, it is offered at 32x its FY2018 EPS and 11x its FY2018 book value, demanding ₹23,318cr market cap, which is 7.6% of the MF AUM (₹3,06,841cr for the month of June 2018). Considering that HDFC AMC is the second largest AMC coupled with huge potential of MF industry growth, strong return ratios, asset light business, higher dividend payout ratio and track record of superior investment performance, **we are positive on this IPO and rate it as SUBSCRIBE.**

### Key Financials

Y/E March (₹ cr)	FY14	FY15	FY16	FY17	FY18
<b>Net Sales</b>	<b>859</b>	<b>1,022</b>	<b>1,443</b>	<b>1,480</b>	<b>1,760</b>
% chg	20	19	41	3	19
<b>Net Profit</b>	<b>358</b>	<b>415</b>	<b>478</b>	<b>550</b>	<b>722</b>
% chg	12	16	15	15	31
EBITDA (%)	57	58	46	48	55
EPS (Rs)	17	20	23	26	34
P/E (x)	65	56	49	42	32
P/BV (x)	43	53	54	67	102
ROE (%)	45	41	42	43	40
ROA (%)	44	41	42	42	40

Source: RHP, Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band d

## SUBSCRIBE

Issue Open: July 25, 2018

Issue Close: July 27, 2018

### Issue Details

Face Value: ₹5

Present Eq. Paid up Capital: ₹25.24cr

Offer for Sale: ₹2,800cr

Fresh issue: -

Post Eq. Paid up Capital: ₹25.24cr

Issue size (amount): \*₹2,787cr - \*\*2,800 cr

Price Band: ₹1,095 - ₹1,100

Lot Size: 13 shares and in multiple thereafter

Post-issue implied mkt. cap: \*₹23,212cr - \*\*₹23,318cr

Promoters holding Pre-Issue: 95%

Promoters holding Post-Issue: 82.9%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	83%
Others	17%

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## Company Background

HDFC Asset Management Co (HDFC AMC) is the asset management arm of the HDFC Ltd (Promoter) and was established in 1999. In 2001, Standard Life Investments acquired 26% stake in HDFC AMC. It is the most profitable AMC and the second largest in terms of asset under management (AUM) with ~14% market share. As on March 2018, it managed AUM of ₹2,91,985cr out of which 51% was equity AUM. It has grown its AUM at a CAGR of 25.5% over FY2013-18.

### Exhibit 1: AUM split

Scheme Categories	AUM (₹ in cr)	% of AUM	No Of scheme
Equity-oriented	1,49,712	51	27
Debt	1,05,508	36	98
Liquid	35965	12	3
Other	799	0	5
<b>Total</b>	<b>2,91,984</b>	<b>100</b>	<b>133</b>

Source: Company

### Key Management Personnel:

**Mr. Milind Barve** is the **Managing Director and Executive Director** of the company and he has been with HDFC AMC since inception and is with the HDFC group for over 34years. He has a bachelor's degree in Commerce from the University of Pune and he is also a fellow of the Institute of Chartered Accountants of India.

**Prashant Jain** is the **Chief Investment Officer (CIO)** and he has been with HDFC AMC since June 2003 and was appointed as CIO with effect from July 2004. He holds a bachelor's degree in Technology from the Indian Institute of Technology, Kanpur and a post graduate diploma in Management from Indian Institute of Management, Bangalore. He is also a designated Chartered Financial Analyst from the Chartered Financial Analyst Institute, USA.

**Piyush Surana** is the **Chief Financial Officer** and has been associated with HDFC AMC for over five years. He holds a bachelor's degree in Commerce and Law from the University of Jodhpur. He is also a member of the Institute of Chartered Accountants of India and a Certified Financial Planner from Financial Planning Standards Board India.

## Issue details

HDFC AMC Issue is offer for sale (OFS) of 2.55cr of equity shares and OFS is worth ₹2,788cr/₹2,800cr at lower band/upper band. HDFC Ltd and Standard Life Investment is paring 4.05% and 7.96% stake respectively.

IPO to reserve 0.03cr, 0.056cr and 0.24cr shares for HDFC AMC employee, HDFC Ltd Employee and HDFC Shareholders respectively.

### Exhibit 2: Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)	%No of shares (Post-issue)		%
<b>Promoter</b>	20,12,88,000	95.0	17,58,30,445	82.9
- HDFC Ltd	12,07,72,800	57.0	11,21,79,830	52.9
- Standard Life Inv	8,05,15,200	38.0	6,36,50,615	30.0
<b>Public</b>	1,07,00,800	5.0	3,61,58,355	17.1
<b>Total</b>	<b>21,19,88,800</b>	<b>100.0</b>	<b>21,19,88,800</b>	<b>100.0</b>

Source: RHP Note: Calculated on upper price band

## Objects of the offer

- To achieve benefits of listing equity shares on stock exchanges and to carry out the offer for sale. Listing of equity shares will enhance HDFC AMC brand name and provide liquidity to existing shareholders.

## Outlook & Valuation

At the upper end of the IPO price band, it is offered at 32x its FY2018 EPS and 11x its FY2018 book value, demanding ₹23,318cr market cap, which is 7.6% of the MF AUM (₹3,06,841cr for the month of June 2018). Considering that HDFC AMC is the second largest AMC coupled with huge potential of MF industry growth, strong return ratios, asset light business, higher dividend payout ratio and track record of superior investment performance, **we are positive on this IPO and rate it as SUBSCRIBE.**

### Exhibit 3: Key competitive metrics for FY18 of the top 4 AMC

	HDFC AMC	Reliance Nippon AMC	ICICI Pru AMC	Aditya Birla Sun Life AMC
Revenue (₹ in cr)	1,876	1,746	1,897	1,261
PAT (₹ in cr)	722	505	626	322
Revenue as % AAUM	0.67	0.74	0.67	0.55
PAT as % AAUM	<b>0.26</b>	<b>0.21</b>	<b>0.22</b>	<b>0.14</b>
Expenses as % of AUM	0.29	0.44	0.33	0.34

Source: RHP

## Key Risk

- Overall underperformance of investment scenario would adversely affect new investment flow and could lead to redemption of existing investments.
- Correction in the stock market would impact revenue and profitability of the company.
- Any step taken by SEBI to further reduce management fees would impact revenues sharply.

### Income Statement

Y/E March (₹ cr)	FY14	FY15	FY16	FY17	FY18
<b>Revenues from Operations</b>	<b>859</b>	<b>1,022</b>	<b>1,443</b>	<b>1,480</b>	<b>1,760</b>
- YoY Growth (%)	20	19	41	3	19
<b>Employee Expenses</b>	<b>112</b>	<b>128</b>	<b>143</b>	<b>158</b>	<b>175</b>
- YoY Growth (%)	11	14	12	10	11
<b>Other Expenses</b>	<b>261</b>	<b>304</b>	<b>632</b>	<b>619</b>	<b>618</b>
- YoY Growth (%)	18	17	108	(2)	(0)
<b>Total Expenses</b>	<b>372</b>	<b>432</b>	<b>775</b>	<b>776</b>	<b>793</b>
- YoY Growth (%)	16	16	80	0	2
<b>EBITDA</b>	<b>486</b>	<b>591</b>	<b>668</b>	<b>704</b>	<b>966</b>
- YoY Growth (%)	23	21	13	5	37
<b>Depreciation</b>	<b>8</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>11</b>
- YoY Growth (%)	(49)	20	9	8	(4)
<b>Other Income</b>	<b>45</b>	<b>42</b>	<b>52</b>	<b>108</b>	<b>108</b>
- YoY Growth (%)	(35)	(6)	24	108	(0)
<b>Profit Before Tax</b>	<b>522</b>	<b>623</b>	<b>708</b>	<b>800</b>	<b>1,063</b>
- YoY Growth (%)	17	19	14	13	33
<b>TAX</b>	<b>165</b>	<b>207</b>	<b>230</b>	<b>250</b>	<b>341</b>
% of PBT	32	33	33	31	32
<b>PAT</b>	<b>358</b>	<b>415</b>	<b>478</b>	<b>550</b>	<b>722</b>
- YoY Growth (%)	12	16	15	15	31

### Balance Sheet

Y/E March (₹ cr)	FY14	FY15	FY16	FY17	FY18
Share Capital	25	25	25	25	105
Reserve & Surplus	876	1,095	1,126	1,398	2,055
Net Worth	901	1,120	1,151	1,423	2,160
Debt	-	-	-	-	-
Other Liabilities	15	15	15	1	1
<b>Total Liabilities</b>	<b>916</b>	<b>1,135</b>	<b>1,166</b>	<b>1,424</b>	<b>2,161</b>
Total Fixed Assets	28	34	31	31	33
Total Non Current Assets	-	-	-	-	6
Investments	737	651	986	1,237	1,951
Current Asset					
Cash & Cash equivalents	1	3	1	1	2
Other Current Assets	1,036	436	292	250	308
Current Liability	1,007	177	257	176	210
Net Current Asset	30	262	37	75	100
Other Asset	122	189	112	81	71
<b>Total Assets</b>	<b>916</b>	<b>1,135</b>	<b>1,166</b>	<b>1,424</b>	<b>2,161</b>
Growth YoY	28	24	3	22	52

### Cash flow statement

Y/E March (₹cr)	FY14	FY15	FY16	FY17	FY18
<b>Profit before tax</b>	<b>522</b>	<b>623</b>	<b>708</b>	<b>800</b>	<b>1,063</b>
Depreciation	8	10	11	12	11
Change in Working Capital	(115)	(293)	306	4	(9)
Interest / Dividend (Net)	-	-	-	-	-
Direct taxes paid	(167)	(212)	(235)	(258)	(337)
Others	(39)	(33)	(48)	(103)	(107)
<b>Cash Flow from Operations</b>	<b>209</b>	<b>95</b>	<b>742</b>	<b>455</b>	<b>620</b>
(Inc.)/ Dec. in Fixed Assets	(17)	(16)	(9)	(13)	(18)
(Inc.)/ Dec. in Investments	(34)	119	(288)	(163)	(617)
<b>Cash Flow from Investing</b>	<b>(51)</b>	<b>104</b>	<b>(297)</b>	<b>(176)</b>	<b>(635)</b>
Issue of Equity	29	-	143	0	423
Inc./(Dec.) in loans	-	-	-	-	-
Others	(188)	(197)	(590)	(279)	(408)
<b>Cash Flow from Financing</b>	<b>(159)</b>	<b>(197)</b>	<b>(447)</b>	<b>(279)</b>	<b>15</b>
<b>Inc./(Dec.) in Cash</b>	<b>0.16</b>	<b>1.54</b>	<b>(1.60)</b>	<b>0.30</b>	<b>0.80</b>
<b>Opening Cash balances</b>	<b>0.8</b>	<b>1.0</b>	<b>2.6</b>	<b>1.0</b>	<b>1.3</b>
<b>Closing Cash balances</b>	<b>1.0</b>	<b>2.6</b>	<b>1.0</b>	<b>1.3</b>	<b>2.0</b>

### Key Ratio

Y/E March	FY14	FY15	FY16	FY17	FY18
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	65	56	49	42	32
P/CEPS	64	55	48	41	32
P/BV	26	21	20	16	11
Dividend yield (%)	0.5	0.7	0.9	1.0	1.4
<b>Per Share Data (₹)</b>					
EPS (Basic)	16.9	19.6	22.5	26.0	34.0
EPS (fully diluted)	16.9	19.6	22.5	26.0	34.0
Cash EPS	17.3	20.1	23.1	26.5	34.6
DPS	6.0	7.7	9.5	10.9	15.9
Book Value	42.5	52.8	54.3	67.1	101.9
<b>Returns (%)</b>					
PAT/AUM	0.33	0.28	0.29	0.24	0.25
ROE	45	41	42	43	40
ROA	44	41	42	42	40
EBITDA	57	58	46	48	55
PAT	42	41	33	37	41

Source: RHP, Note: ratios are Calculated on upper price band

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