

UTI Asset Management Company Limited

UTI AMC, the second largest AMC in India in terms of total AUM, is 8th largest in terms of QAAUM (₹1,33,600cr) as of June 30, 2020. In terms of live folios, UTI AMC accounts for 12.2% of the 89.7mn industry folios as of March 31, 2020.

Huge growth potential in Mutual Fund AUM: Over the past five years (FY2015-20), equity AUM for the Indian MF industry has increased 2.7x from ₹3.24 lakh cr to ₹9 lakh cr. Further, overall AUM has nearly jumped 2.4x from ₹11.48 lakh cr to ₹27.14 lakh cr over the same period. There is a huge growth potential for MF industry as the penetration of mutual funds is low in India with an AUM/GDP ratio of 11% as of March 2020 vs. that of developed countries at >50%. Lower attraction in real estate by investors due to subdued returns coupled with lower inflation will direct investors from physical assets to financial savings, resulting in MF AUM to grow at a healthy rate.

Healthy financials to support aid dividend payout: UTI AMC reported EBITDA margin of 36% for FY20 and average RoE for last 3 years stood at 13.5%. Primary reason for subdued RoE is lower dividend payout (20%) vs. listed players payout ratio of more than 50%. However, management has indicated that from FY2020 they will consider increasing dividend payout ratio substantially.

There is possibility of EBITDA margin to improve: UTI AMC's operational profitability is lower vs. listed peers primarily owing to higher cost. With growth in AUM, we expect cost to grow at slower speed, which will benefit operating leverage and will help the company to improve EBITDA margins.

Outlook & Valuation: At the upper end of the IPO price band, it is offered at 25.4x its FY20 earnings and 5.25% of Q1FY21 QAAUM, demanding ₹7,024cr market cap, which we believe is reasonable. Further, listed peers like HDFC AMC trades at 35x FY20 earnings and Nippon AMC trades at 37x FY20 earnings. Additionally, HDFC and Nippon AMC trade at 12.56% and 8.55% of Q1FY21 QAAUM, respectively. Considering attractive valuation, huge growth potential of MF industry, asset-light business and higher dividend payout ratio, we are positive on this IPO and rate it as SUBSCRIBE.

Key Financials

Y/E March (₹ cr)	FY2018	FY2019	FY2020
Net Sales	967	891	788
% chg		(8)	(12)
Net Profit	405	348	276
% chg		(14)	(21)
EBITDA (%)	40	38	36
EPS (₹)	32	27	22
P/E (x)	17	20	25
ROE (%)	17	13	10

Valuation done at higher band price

SUBSCRIBE

Issue Open: Sep 29, 2020

Issue Close: Oct 1, 2020

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹127cr

Offer for Sale: **3.9cr Shares

Fresh issue: -

Post Eq. Paid up Capital: ₹127cr

Issue size (amount): *₹2,152cr - **2,160 cr

Price Band: ₹552-554

Lot Size: 27 shares and in multiples thereafter.

Post-issue implied mkt. cap: *₹6,999cr - **₹7024cr

Promoters holding Pre-Issue: 0%

Promoters holding Post-Issue: 0%

*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	0%
Others	100%

Jaikishan J Parmar
 Research Analyst
 +022 39357600, Extn: 6810
 Jaikishan.parmar@angelbroking.com

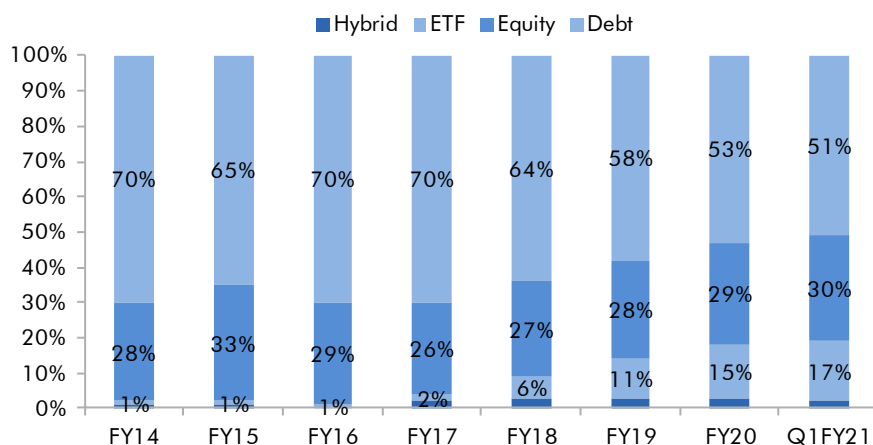
Company Details

UTI AMC is the second largest AMC in India in terms of total AUM and the 8th largest in terms of QAAUM (₹1,33,600cr) as of Q1FY21. In terms of live folios, UTI AMC accounts for 12.2% of the 89.7mn industry folios as of Q4FY20.

UTI AMC manages 153 domestic mutual fund schemes comprising equity, hybrid, income, liquid and money market funds.

As of Q1FY21, its distribution network includes 163 UTI Financial Centres, 257 Business Development Associates and Chief Agents (40 of whom operate Official Points of Acceptance) and 43 other OPAs, most of which are located in B30 cities. Its IFA channel includes approximately 53,000 Independent Financial Advisors (“IFAs”) as of Q1FY21.

Exhibit 1: UTI MF AUM mix (%)



Source: Company

Key Management Personnel:

Imtaiyazur Rahman is the whole-time Director and the Acting Chief Executive Officer of the company. He has over 30 years of experience in management, business leadership and forming strategic alliance. He is associated with the company since 2003.

Surojit Saha is the Chief Financial Officer of the company. He joined erstwhile UTI on December 05, 1990 and was subsequently transferred to the company with effect from January 15, 2003.

Amandeep Singh Chopra is the Group President and Head of Fixed Income of the company. He joined erstwhile UTI on June 27, 1994 and was subsequently transferred to the company with effect from January 15, 2003.

Vetri Subramaniam is the Group President and Head of Equity of the company. He joined the company with effect from January 23, 2017.

Issue details

This IPO is purely an offer for sale and the issue is worth ₹2,160cr at upper price band. Total 38,987,081 equity is being offered through this IPO and company has kept 2,00,000 shares for employee reservation.

State Bank of India, Punjab National Bank, Bank of Baroda, Life Corporation of India, and T Rowe Price International will reduce their stake in UTI AMC. SBI, BoB, and LIC will divest 8.25% stake each, while T Rowe Price International and Punjab National Bank will sell 3% each through the issue.

According to Sebi's cross-holding norms for mutual funds, the sponsor of one AMC cannot hold more than 10% in another. To meet the above regulatory requirement SBI, BoB and LIC are trimming their stake.

Exhibit 2: Pre and Post-IPO shareholding pattern

Particular	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Public	12,67,87,254	100	8,78,00,173	69
Public (OFS)		-	3,89,87,081	31
Total	12,67,87,254	100	12,67,87,254	100

Source: RHP Note, : Calculated on upper price band

Exhibit 3: Details of equity shareholding of the Shareholders Pre and Post-IPO

Shareholder	Pre Offer			Post Offer	
	Number of Equity Shares	% of the pre-Offer Equity Share capital (%)	Offer for Sale	Number of Equity Shares	% of the pre-Offer Equity Share capital (%)
T. Rowe Price International	3,29,64,686	26.0	38,03,617	2,91,61,069	23.0
State Bank of India	2,31,25,000	18.2	1,04,59,949	1,26,65,051	10.0
Life Insurance Corporation	2,31,25,000	18.2	1,04,59,949	1,26,65,051	10.0
Bank of Baroda	2,31,25,000	18.2	1,04,59,949	1,26,65,051	10.0
Punjab National Bank	2,31,25,000	18.2	38,03,617	1,93,21,383	15.2
Other Investor	13,22,568	1.0		4,03,09,649	31.8
Total	12,67,87,254	100.0	3,89,87,081	12,67,87,254	100.0

Source: RHP Note

Objects of the offer

- To meet SEBI cross holdings norms for mutual fund, i.e. the sponsor of one AMC cannot hold more than 10% in another. To meet above regulatory requirement SBI, BoB and LIC are trimming their stake.
- To achieve the benefits of listing the Equity Shares on the Exchanges and to carry out offer for sale of equity shares.

Risk

- Employee-related litigation could hit balance sheet adversely.
- Major revenue comes from charging Asset management fees and any continuous decline in AUM or regulatory change in fees could adversely impact profitability of UTI AMC.

Exhibit 4: Relative Valuation

AMC	Q1FY21		FY20			FY18	FY19	FY20	Dividend				
	AUM	Mcap	PAT	PE	Mcap/AUM	PAT/AUM		ROE	Pay Out	Equity Mix	Retail	B 30	
HDFC	3,56,710	44,792	1,262	35	12.6	0.26	0.29	0.34	35.5	50.0	41.0	18.0	13.5
Nippon	1,81,048	15,400	415	37	8.5	0.19	0.20	0.26	16.1	74.0	39.0	24.0	17.5
UTI	1,33,631	7,024	277	25	5.3	0.27	0.22	0.18	10.3	22.0	32.1	28.0	26.0

Source: Company, Valuation done on CMP of 24th Sep, for UTI upper IPO price.

Exhibit 5: Operating Parameter

AMC	FY18	FY19	FY20
	PAT/AUM	PAT/AUM	PAT/AUM
Motilal	0.31	0.39	0.54
HDFC	0.26	0.29	0.34
ICICI	0.22	0.22	0.30
Nippon	0.19	0.20	0.26
Ab Capital	0.15	0.18	0.20
Kotak	0.07	0.17	0.18
SBIN	0.17	0.17	0.18
UTI	0.27	0.22	0.18
AXIS	0.06	0.06	0.10
IDFC	0.08	0.07	0.08

Source: Company

Income Statement

Y/E March (₹ cr)	FY2018	FY2019	FY2020	Q1FY21
Net Sales	967	891	788	160
% chg		(7.9)	(11.5)	
Total Expenditure	581	552	506	137
Personnel	321	307	340	98
Operating Exp	257	244	163	38
Others Expenses	4	2	3	1
EBITDA	386	338	282	23
% chg		(12.2)	(16.6)	
(% of Net Sales)	39.9	38.0	35.8	14.2
Depreciation & Amortisation	27	29	31	8
EBIT	358	309	251	14
% chg		(13.7)	(18.9)	
(% of Net Sales)	37.1	34.7	31.8	
Interest & other Charges	9	8	8	2
Other Income	196	190	103	111
(% of PBT)	35.9	38.7	29.8	
Share in profit of Associates	-	-	-	
Recurring PBT	545	491	345	123
% chg		(9.9)	(29.7)	
Tax	140	143	69	22
(% of PBT)	25.7	29.2	20.0	18.0
PAT (reported)	405	348	276	101
ADJ. PAT	405	348	277	101
(% of Net Sales)	41.9	39.1	35.1	63.3
Basic EPS (Rs)	32.0	27.4	21.8	

Source: Company

Balance sheet

Y/EMarch(₹cr)	FY2018	FY2019	FY2020	Q1FY21
SOURCES OF FUNDS				
Equity Share Capital	127	127	127	127
Reserves & Surplus	2,241	2,478	2,636	2,708
Shareholders Funds	2,367	2,604	2,762	2,835
Minority Interest	70	37	11	11
Financial Liability	154	159	176	178
Provision	106	92	83	130
Total Liabilities	2,698	2,893	3,032	3,154
APPLICATION OF FUNDS				
Net Block	270	264	261	258
Intangible assets	97	87	102	108
Investments	2,179	2,261	2,356	2,457
Current Assets	333	344	366	363
Inventories	-	-	-	-
Sundry Debtors	55	64	55	51
Cash	150	124	119	124
Loans & Advances	36	28	37	36
Other Assets	92	128	154	151
Current liabilities	221	121	123	109
Net Current Assets	112	223	243	254
Deferred Tax Asset	17	32	46	50
Other Asset	23	25	23	27
Total Assets	2,698	2,893	3,032	3,154

Cash Flow Statement

Y/E March (₹ cr)	FY2018	FY2019	FY2020	Q1FY21
Profit before tax	545	491	345	123
Depreciation	27	29	31	8
Change in Working Capital	28	(83)	(42)	10
Interest / Dividend (Net)	1	(6)	(10)	(1)
Direct taxes paid	(161)	(167)	(75)	(17)
Others	(173)	(141)	(55)	(108)
Cash Flow from Operations	269	123	195	15
(Inc.)/ Dec. in Fixed Assets	(12)	(7)	(22)	(1)
(Inc.)/ Dec. in Investments	(142)	(19)	(84)	(15)
Cash Flow from Investing	(154)	(26)	(106)	(16)
Issue of Equity	0	0	0	0
Inc./Dec. in loans	(51)	(44)	(32)	3
Dividend Paid (Incl. Tax)	(51)	(63)	(63)	0
Interest / Dividend (Net)	28	(15)	2	3
Cash Flow from Financing	(75)	(123)	(94)	6
Inc./Dec. in Cash	40	(26)	(5)	5
Opening Cash balances	110	150	124	119
Closing Cash balances	150	124	119	124

Key Ratio

Y/E March	FY2018	FY2019	FY2020
Valuation Ratio (x)			
P/E (on FDEPS)	17.3	20.2	25.4
P/CEPS	16.2	18.6	22.8
P/BV	3.0	2.7	2.5
Dividend yield (%)	0.7	0.9	0.9
EV/Sales	5.0	5.4	6.0
EV/EBITDA	12.6	14.2	16.7
EV / Total Assets	1.8	1.7	1.6
Per Share Data (₹)			
EPS (Basic)	32.0	27.4	21.8
EPS (fully diluted)	32.0	27.4	21.8
Cash EPS	34.1	29.7	24.3
DPS	4.0	5.0	5.0
Book Value	186.7	205.4	217.9
Returns (%)			
ROCE	14.2	11.2	8.5
Angel ROIC (Pre-tax)	185.8	81.7	54.2
ROE	17.1	13.4	10.0
Turnover ratios (x)			
Asset Turnover (Gross Block)	2.6	2.5	2.2
Inventory / Sales (days)	-	-	-
Receivables (days)	21	26	26
Payables (days)	61	29	31
Working capital cycle (ex-cash) (days)	(40)	(3)	(5)

Valuation done on higher price band

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.comWebsite: www.angelbroking.com

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