

# HDFC Asset Management Company Ltd. (HDFCAMC)

Nifty	10,957
Sensex	36,351

## Issue Details

Offer Price Band	₹1095 – 1100
Face Value	5
Shares Offered (in mn)	25.4
HDFC AMC Employee Reservation Portion (in mn)	0.32
HDFC Employee Reservation Portion (in mn)	0.56
HDFC Shareholders Reservation Portion (in mn)	2.4
Net Issue (in mn)	22.17
Issue Size (in Bn)	27.8-28.0
Type	Offer for Sale
Listing (Stock Exchange)	NSE, BSE
Offer Open Date	25 July 2018
Offer Close Date	27 July 2018
QIB Allocation (of Net)	50.0%
NIB Allocation (of Net)	15.0%
Retail Allocation (of Net)	35.0%
Pre Issue Equity Shares (mn)	211.98
Post Issue Equity Shares (mn)	211.98
Bid Lot	13

## Scrp Estimates

Market Cap (₹Bn)	232.1 – 233.2
PAT - FY18 (₹Bn)	7.21
AUM – 31 <sup>st</sup> Mar, '18 (₹ Bn)	2919.85
P/E(x)	32.2 – 32.3
Market Cap/AUM (%)	7.9 - 8.0

## Shareholding Pattern (%)

	Pre - Offer	Post Offer
Promoter & Promoter Group	94.95%	82.96%
Public & Others	5.05%	17.04%

Investors should read the risk factors and more detailed information in the Prospectus and the application form before investing in the issue.

(₹mn)

Financials	FY16	FY17	FY18
Op. Revenue	14,425	14,800	17,598
Growth	41.1%	2.6%	18.9%
Op. Profit	6,565	6,919	9,550
Op. Profit (%)	45.5	46.7	54.3
PAT	4,779	5,502	7,216
PAT (%)	33.1	37.2	41.0
ROE (%)	42.1	42.8	40.3

Source: RHP, Way2Wealth Inst. Equity

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## Company Background

**HDFC Asset Management Co. Ltd. (HDFCAMC)** operates as a joint venture between **HDFC** and **Standard Life Investments Ltd.** HDFCAMC has been the most profitable asset management company in India in terms of net profits since FY13, according to CRISIL. HDFCAMC had a total AUM of ₹2.91trn as of 31<sup>st</sup> March, 2018. HDFCAMC has been the largest asset management company in India in terms of equity AUM since FY11 and has consistently been among the top two asset management companies in India in terms of total average AUM since August 2008. HDFCAMC's proportion of equity oriented AUM to total AUM was at 51% as of 31<sup>st</sup> March, 2018 which was higher than the industry average of 43%. As equity-oriented schemes generally have a higher fee structure compared to non-equity-oriented schemes, HDFCAMC's product mix helps it achieve higher profitability. HDFCAMC's market share of total AUM was 13.7% as of 31<sup>st</sup> March, 2018.

## Objects Of The Issue

The objects of the offer are to achieve the benefit of listing the Equity Shares on the Stock Exchanges and to carry out the sale of offered shares by the Promoter Selling Shareholders.

## Investment Rationale

- **Consistent market leadership in mutual fund industry** – HDFCAMC has been the largest asset management company in India in terms of equity oriented AUM since Q4FY11 and has consistently been among the top two asset management companies in India in terms of total average AUM since August 2008, according to CRISIL. As of 31<sup>st</sup> March, 2018, HDFCAMC had the highest share of individual customers of 15.7% and the second largest market share by MAAUM of 12.7% from B-15 cities in India, according to CRISIL. HDFCAMC has also been the most profitable asset management company in India in terms of net profit since FY13.
- **Strong investment performance supported by comprehensive investment philosophy:**
  - **Equity-oriented schemes** – HDFCAMC's investment philosophy for equity investments is based on the belief over time stock prices reflect their intrinsic values. HDFCAMC are medium to long term investors and the investments are driven by fundamental research with a medium to long term view. The research effort focuses on the qualitative and quantitative assessment of medium to long term fundamentals of the companies. As a result, HDFCAMC has been able to deliver strong and consistent performance for equity-oriented schemes. The six equity-oriented schemes set forth below accounted for 79% of the total equity oriented AUM.

The following table shows the performance:

Fund	CAGR since inception	Benchmark CAGR	AUM (₹bn)
HDFC Prudence Fund	18.68%	10.29%	365.95
HDFC Balanced Fund	16.49%	13.25%	204.01
HDFC Equity Fund	19.18%	11.7%	203.84
HDFC Mid-Cap Opportunities Fund	17.25%	12.95%	193.42
HDFC Top-200 Fund	20.24%	13.96%	143.45
HDFC Equity Savings Fund	9.59%	5.74%	73.95

The following table provides a snapshot of the equity-oriented schemes taken together for a period of 15 years:

Equity oriented AUM Alpha	1 year	2 year	3 years	5 years	10 years	15 years
AUM weighted Alpha (CAGR)	-2.74%	2.92%	2.67%	4.96%	5.57%	4.01%

Data as of 31<sup>st</sup> March, 2018.

- **Debt schemes** – The investment philosophy for fixed income investments is based on the objective of delivering optimal risk adjusted returns across its schemes, with a particular focus on safety, liquidity and returns. The fixed income schemes invest in securities including corporate bonds, municipal bonds, mortgage backed securities, asset backed securities, real estate investment trusts, infrastructure investment trusts and money market instruments. The asset allocation depends on the outlook, spread and yields for the relevant securities.
- **Consistent profitable growth** – HDFCAMC has been the most profitable Asset Management Co. in India in terms of net profit since FY13. HDFCAMC had a total AUM of ₹2919.85bn as of 31<sup>st</sup> March, 2018, of which the equity-oriented AUM and non-equity-oriented AUM constituted ₹1497.13bn and ₹1422.73bn respectively. The AUM has grown at a CAGR of 33.9% since FY2001 and profits have grown at a CAGR of 32.1% since FY02, which was the first full year of operations. HDFCAMC has been the most profitable AMC in India in terms of net profits and total revenue since FY13 and has the highest share of net profits and total revenue of 18.8% and 13.5%, among all AMC's in India in FY17.
- **Trusted brand and strong parentage** – HDFCAMC has a strong brand which customers trust, as evidenced by strong leadership in the Indian mutual fund industry. HDFCAMC benefits from brand reputation of its promoters, HDFC and Standard Life Investments. HDFCAMC 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.
- **Experienced management and investment teams** – HDFCAMC is led by a management team with extensive experience in asset management, banking and finance sector with a proven track record of performance. The senior management team has been with HDFCAMC for an average of 13 years and has a total average work experience of 26 years. The Managing Director, Milind Barve has been with HDFCAMC since inception and with HDFC group for over 34 years. The Chief Investment Officer, Prashant Jain joined HDFCAMC in 2003 when HDFCAMC acquired Zurich India Asset Management Co. where he had been since 1993.

### Risk

- Underperformance of investment products could lead to decline in AUM and adversely affect revenues, reputation and brand.
- Failure to continue with existing distributor relationships or to secure new distributor relationships may have a material adverse impact on its competitiveness, financial condition and result of operations.
- If HDFCAMC's techniques for managing risk are ineffective, it may be exposed to material unanticipated losses.
- Regulations capping the fee structure of AMC's in the future could affect the financial performance of HDFCAMC.

### Peer Comparison

	CMP	M.Cap (₹bn)	AUM (₹bn)	Share of Equity in AUM (%)	AUM CAGR (%) (FY14-18)	Revenue CAGR (%) (FY14-18)	Profit CAGR (%) (FY14-18)
Reliance AMC	218.45	133.69	2261	36.0	21.6	24.4	14.5
HDFC AMC	1095-1100	233.2	2917	51.3	26.6	19.7	19.2

	Div. Payout Ratio (%) (FY18)	ROE (%) (FY18)	Revenue (FY18) (₹mn)	Net Profit (FY18) (₹mn)	M. Cap/AUM (FY18) (%)	P/E	P/B
Reliance AMC	68.72	25.1	15860	5220	5.9	25.6	5.96
HDFC AMC	45.71	40.3	17598	7216	8.0	32.3	10.8

**Valuation And Investment Argument**

HDFCAMC has grown its AUM at a CAGR of ~26% from FY14 to FY18 and Revenue/EBITDA/PAT at 20%/19%/19% during the same period. With Net Financial savings as a percentage of household savings on the rise (42% in 2017 as against 31% in 2012) coupled with increasing preference towards Shares and Debentures in gross financial savings basket (10% in FY17 as against ~2% in 2012), we believe HDFCAMC is well poised to capture the increasing trend of financialization of savings and Mutual Funds being a preferred vehicle within gross financial savings. Further, with higher mix of equities in the AUM compared to Mutual Fund industry, dominant no. 2 player in terms of AUM, no. 1 in terms of profitability, high operating leverage and strong parentage we believe HDFCAMC is well poised to grow its profits multi-fold in the coming years.

**At a price band of ₹1095-1100, the asking valuation for HDFCAMC is 8.0% of AUM at the upper end. Reliance AMC currently trades at 5.9% of AUM. We believe the premium valuations of HDFCAMC are justified on account of higher share of equities (higher yielding products) in the AUM, higher historical AUM and profit CAGR, higher ROE and strong parentage. We recommend investors to SUBSCRIBE to the issue.**

**Financials**

	(₹ mn)		
<b>Income Statement</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
Management Fees	14,425	14,800	17,598
<b>YoY (%)</b>	<b>41.1%</b>	<b>2.6%</b>	<b>18.9%</b>
Employee benefit expenses	1,432	1,576	1,749
Administrative and other expenses	6,318	6,186	6,183
<b>Operating Expenses</b>	<b>7,750</b>	<b>7,762</b>	<b>7,932</b>
<b>Op. Profit</b>	<b>6,675</b>	<b>7,038</b>	<b>9,666</b>
Op. Profit (%)	46.3%	47.6%	54.9%
YoY (%)	13.0%	5.4%	37.3%
Depreciation and Amortization expenses	111	120	114
Other Income	518	1,079	1,075
<b>PBT</b>	<b>7,082</b>	<b>7,997</b>	<b>10,627</b>
(-) Tax	2,304	2,496	3,409
Tax/ PBT	32.5%	31.2%	32.1%
<b>PAT</b>	<b>4,779</b>	<b>5,502</b>	<b>7,216</b>
YoY (%)	15.0%	15.1%	31.2%
PAT (%)	33.1%	37.2%	41.0%

	(₹ mn)		
<b>Balance Sheet</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
Share capital	252	252	1,053
Reserves	11,261	13,978	20,547
<b>Net Worth</b>	<b>11,513</b>	<b>14,230</b>	<b>21,600</b>
Long-term provisions	150	8	8
<b>Non-current liabilities</b>	<b>150</b>	<b>8</b>	<b>8</b>
<b>Total Liabilities</b>	<b>11,663</b>	<b>14,238</b>	<b>21,608</b>
Fixed Assets	323	336	388
Non-current Investments	1,599	1,688	6,395
Deferred Tax Assets	139	94	97
Long term loans and advances	974	690	617
<b>Non-current Assets</b>	<b>3,034</b>	<b>2,808</b>	<b>7,497</b>
Current Investments	8,259	10,679	13,110
Trade Receivables	386	851	903
Cash and Bank Balances	10	13	21
Short Term Loans and advances	1,721	1,628	2,055
Other current assets	817	19	121
<b>Current assets</b>	<b>11,193</b>	<b>13,188</b>	<b>16,209</b>
Trade payables	1,720	961	1,116
Other current liabilities	845	797	982
Short term provisions	-	1	1
<b>Current liabilities</b>	<b>2,565</b>	<b>1,758</b>	<b>2,099</b>
<b>Net current assets</b>	<b>8,628</b>	<b>11,430</b>	<b>14,110</b>
<b>Total Assets</b>	<b>11,663</b>	<b>14,238</b>	<b>21,608</b>

**Team**

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### Disclosure of Interest Statement in HDFC Asset Management Company Ltd. as on July 24, 2018

Name of the Security	HDFC Asset Management Company Ltd.
Name of the analyst	Chintan Gupta
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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