

IPO note: HDFC Asset Management Company Ltd. – Leading AMC with robust growth potential - “SUBSCRIBE”

HDFC Asset Management Company Limited (“HDFC AMC”) was incorporated on December 10, 1999. HDFC AMC operates as a joint venture between Housing Development Finance Corporation Limited (“HDFC”) and Standard Life Investments Limited (“SLI”). HDFC AMC is the largest Asset Management Company in India in terms of equity-oriented Asset under Management (“AUM”) since the last quarter of Fiscal 2011 and has consistently been among the top 2 Asset Management Companies in India in terms of total average AUM since the month of August 2008, according to CRISIL. The company is the most profitable asset management company in India in terms of net profits since Fiscal 2013 with a total AUM of Rs.291,985 crore as of March 31, 2018. HDFC AMC offers a large suite of savings and investment products across asset classes, which provide income and wealth creation opportunities to their customers. As of March 31, 2018, they offered 133 schemes that were classified into 27 equity-oriented schemes, 98 debt schemes (including 72 fixed maturity plans (“FMPs”)) 3 liquid schemes, and 5 other schemes (including exchange-traded schemes and funds of fund schemes).

As of March 31, 2018, the equity-oriented AUM and non-equity-oriented AUM constituted Rs.149,713 crore and Rs.142,273 crore, respectively, of their Total AUM. The actively managed equity-oriented AUM (which excludes index linked and arbitrage schemes) constituted Rs.144,925 crore of the Total AUM as of March 31, 2018. Company’s AUM has grown at a compounded annual growth rate (“CAGR”) of 25.5% between March 31, 2013 and March 31, 2018. HDFC AMC has a total number of Live Accounts of 8.10 million as of March 31, 2018. The company had a monthly flow of over Rs.1,150 crore through approximately 3.16 million systematic transactions as of March 31, 2018. The Company has a clear focus on retail investors. The industry has roughly 50 per cent of AUM (assets under management) coming from retail. The share of retail in HDFC AMCs AUM is 62 per cent. The Company boasts of largest retail market share at 15.7 per cent. In addition, its product mix is of superior quality, with equity assets accounting for over half of its assets, as against the industry average of 42 per cent.

As of March 31, 2018, they served customers in over 200 cities through their pan-India network of 209 branches (and a representative office in Dubai) and service centres of their 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. As of March 31, 2018, IFAs, national distributors and banks generated 27.6%, 21%, 17.3% of their total AUM, respectively, while the remaining 34.1% was invested in direct plans

The company offers their products and services through their online portal, HDFC MFOnline and mobile applications, both of which have become increasingly relevant to their business in recent years.

With this IPO, HDFC is reducing its stake from 57.3 per cent to 53.2 per cent. Standard Life is bringing down its stake from 38.2 per cent to 30.2 per cent. As far as HDFC is concerned, it remains committed to keeping its stake at the threshold of 50 per cent. In the past 18 years, the Company has hardly added any capital. When the company was started in 2000, the Company had a capital of just Rs 200 million. In 2003, when it completed the acquisition of Zurich AMC, the Company’s capital stood at Rs 1.08 billion. And recently, when it did a private placement, the Company added Rs 1.5 billion to its capital. The reason for its high return on equity (ROE) is its low levels of capital. The Company has a liberal dividend payout policy, which also helps in maintaining low levels of capital. In the past five years, the Company has paid Rs 10.6 billion in dividends.

IPO note date	20 th June, 2018		
Issue date	July 25 - July 27, 2018		
Listing date	August 06, 2018		
Type of issue	Offer for sale: 25.45 mn equity shares		
Face Value	Re. 5		
Price Band	Rs. 1,095 – Rs.1,100		
Issue size	Rs. 27.9 billion		
Issue allocation	QIB: 50% HNI: 15% Retail: 35%		
Lot size	13 equity shares and in multiple thereof		
Post issue market cap	Rs. 231 billion		
Book Running Lead Managers	Kotak, Axis Capital, BofA Merrill Lynch, JP Morgan, Citigroup		
Registrar to the issue	Karvy		
Y/e 31 Mar (Rs. mn)	FY18	FY17	FY16
Total Income	18,672	15,879	14,943
PAT	7,216	5,502	4,779
PAT (%)	38.6	34.6	31.9
Equity Share Capital	1052.78	251.67	251.64
Networth	21,600	14,229	11,512
Book value (Rs.)	103	71	57
EPS (Rs.)	35.02	27.33	23.64
P/E (x)	31	40	47
P/BV (x)	10.7	15.5	19.2
RoE(%)	33.4	38.67	41.51

Source: RHP, #is computed after conversion of CCPS

Investment recommendation and rationale

At the upper end of the price band, the issue is valued at a P/E 31 times and P/BV of 10.6x at FY18 EPS and FY18 BV respectively which is at a premium owing to the following factors like: a) consistent market leadership position in the Indian mutual fund industry, b) trusted brand and strong parentage, c) strong investment performance supported by comprehensive investment philosophy and risk management, d) superior and diversified product mix distributed through a multi – channel distribution network; e) focus on individual customers and customer centric approach; f) consistent profitable growth, g) Company reaping the benefits of strong operating leverage, h) robust ROE of 33.4 percent in FY18 as compared to other AMCs in the industry, we recommend “SUBSCRIBE” to the issue for long term wealth creation.

Objects of the issue

The Offer for Sale (OFS) – Upto 25,457,555 equity shares

The proceeds of the Offer for Sale shall be received by the Selling Shareholder. The Company will not receive any proceeds from the Offer for Sale. The following are the selling shareholders:

HDFC Ltd. – 8,592,970 equity shares

Standard Life Investments – 16,864,585 equity shares

Company background

HDFC Asset Management Company Limited (“HDFC AMC”) was incorporated on December 10, 1999. The Promoters of the company are HDFC Limited and Standard Life Investments. The company is a subsidiary of one of their promoters – HDFC Limited.

HDFC AMC operates as 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. HDFC group has emerged as a recognized financial conglomerate in India, with presence in housing finance, banking, life and nonlife insurance, asset management, real estate funds and education finance. **Listed companies of the HDFC group include HDFC Limited, HDFC Bank Limited, HDFC Standard Life Insurance Company Limited and GRUH Finance Limited**, which had market capitalizations of US\$4,687 crore (Rs.320,938 crore), US\$8,019 crore (Rs.549,074 crore), US\$1,341 crore (Rs.91,801 crore) and US\$325 crore (Rs.22,247 crore), respectively, as of June 30, 2018. HDFC had over 2,500 employees across 474 outlets in India, as of March 31, 2018.

SLI is indirect subsidiary of Standard Life Aberdeen plc (“Standard Life Aberdeen”) which is one of the world’s largest investment companies, created in 2017 from the merger of Standard Life plc and Aberdeen Asset Management plc. SLI operates within the brand Aberdeen Standard Investments, with its investment arm managing £57,570 crore (Rs.4,966,650 crore) of assets as of December 31, 2017, making it one of the largest active managers in Europe. As a result of the merger, SLI had operations across approximately 50 countries, with global clients in over 80 countries as of March 31, 2018. Standard Life Aberdeen is listed on the London

Board of Directors and management

Deepak Parekh is the Non-Executive Director and Chairman on the Board. He has been on the Board since July 4, 2000. He is also the Non-Executive Director and Chairman of the Promoters - HDFC Ltd. He has received Padma Bhushan conferred by Government of India in 2006.

Keki Mistry is the Non-Executive Director on the company Board. He has been a Director on the Board since December 24, 2007. He is also the Vice Chairman and Chief Executive Officer of one of the Promoters – HDFC Ltd.

Renu Karnad is the Non-Executive Director on the company Board. She has been on the board since July 4, 2000. She is also the managing director of one of the Promoters – HDFC Ltd.

Norman Keith Skeoch is the Non-Executive Director on the company Board and has been appointed as a nominee of Standard Life Investments. He has been on the Board since October 26, 2005. He has been on the board of Standard Life Aberdeen plc (formerly known as Standard Life plc) since 2006 and was appointed chief executive officer in 2015, having been the chief executive officer at Standard Life Investments Limited – one of the Company’s Promoters, since 2004.

James Baird Aird is the Non-Executive Director on the Board and has been appointed as a nominee of Standard Life Investments. He has been on the company Board since April 23, 2009. In addition, he is Head of Corporate Development for Standard Life Aberdeen plc (formerly Standard Life plc) where he focuses on developing new international business, joint ventures and mergers and acquisitions and has responsibility for corporate finance.

Hoshang Billimoria, Humayun Dhanrajgir, P. M. Thampi, Deepak Phatak, Rajeshwar Bajaj, Vijay Merchant are the independent Directors of the company.

Milind Barve is the Managing Director and an Executive Director of the company since July 4, 2000. He headed the treasury operations at HDFC Ltd for 14 years and was responsible for the management of HDFC’s treasury portfolio and for raising funds from financial institutions and capital markets. He was also the head of marketing for retail deposit products and responsible for investment advisory relationships for Commonwealth Equity Fund Mutual Fund and Invesco India Growth Fund.

Prashant Jain is the Chief Investment Officer of the Company. He has been associated with the company for over 14 years since June 20, 2003. Prior to joining the company, he was associated with Zurich Asset Management Company (India) Pvt. Ltd. and SBI Mutual Funds Management Pvt. Ltd.

Piyush Surana is the Chief Financial Officer of the company. He has been associated with the company for over 5 years. Prior to joining the company, he was associated with Daiwa Asset Management (India) Pvt. Ltd., Shinsei Corporate Advisory Services Pvt. Ltd. and Alliance Capital Asset Management (India) Pvt. Ltd.

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