



Choice

Nurturing Financial Excellence

IPO REPORT

“SUBSCRIBE” to
HDFC Asset Management Company Ltd.

Most profitable AMC with dominant market position

Salient features of the IPO:

- HDFC Asset Management Company Ltd. (HDFCAMC), the country's second-largest fund house in terms of average assets under management (AUM), is planning to raise around Rs. 28,003.3mn through an IPO by offering 25.46mn share between the price range Rs. 1,095 – 1,100 per share.
- The issue is fully OFS, the company will not receive any proceeds from it.

Key competitive strengths:

- Consistent market leadership position in the Indian mutual fund industry
- Trusted brand and strong parentage
- Strong investment performance supported by comprehensive investment philosophy and risk management
- Superior and diversified product mix distributed through a multi-channel distribution network
- Focus on individual customers and customer centric approach
- Consistent profitable growth

Risk and concerns:

- Volatility in the equity market
- Deteriorating investment performance
- Inability to attract new investors and fall in AUM
- Unfavorable regulatory limits on management fees
- Competition

Valuation & recommendation:

At the higher price band of Rs. 1,100 per share, HDFCAMC's share is valued at a P/E multiple of 32.3x (to its restated FY18 EPS of Rs. 34) as compared to only listed peer P/E of 26.1x.

Below are few key observations of the issue: (For detailed valuation, refer to page 8 & 9 of the report)

- Since FY11, HDFCAMC has been the largest asset management company (AMC) in India in terms of equity-oriented AUM. Also it has consistently been among the top two AMCs in India in terms of total average AUM since the month of Aug. 2008. Its AUM has grown at a CAGR of 25.5% between FY13-18. As on 31st Mar. 2018, it had a total AUM of Rs. 2,919.9bn. The company's market share of total industry AUM was 13.7% and of actively managed equity oriented AUM (which excludes index linked and arbitrage schemes) was 16.8% among all AMCs in India.
- HDFCAMC has been the most profitable AMC in India in terms of net profits since FY13. It had the highest share of net profits and total revenue of 18.8% and 13.5%, respectively, among asset management companies in India in FY17.
- Equity-oriented AUM formed around 51.3% of its total AUM and was higher than the industry average of 43.2%. Equity-oriented schemes generally have a higher fee structure with around 2x margin compared to non-equity-oriented schemes, which helps HDFCAMC to achieve higher profits.
- HDFCAMC had the highest share of individual customers of 15.7% and the second largest (after SBI MF) market share of monthly average AUM (MAAUM) of 12.7% from B-15 cities in India. MAAUM from individual customers accounted for 62.2% compared to 51.4% for the mutual fund industry in India as a whole.
- The company has reported a robust financial performance over FY14-18. On the back of 27.5% CAGR rise in the AUM, total operating revenue increased by 19.7% CAGR, while EBITDA increased by 18.7% CAGR over FY14-18 with average EBITDA margin of 52.6%. Reported PAT increased by 19.2% CAGR with an average PAT margin of 38.7%. Average RoIC and RoE stood at 32.4% and 38.1%, respectively.
- The company has paid dividend in the last five years with dividend payout increasing from 35.3% in FY14 to 46.7% in FY18. The management has indicated that it would try to maintain the current RoE trend in future. As on FY18 end, HDFCAMC's equity capital was around Rs. 1bn and was supported by reserves of around Rs. 22bn. Thus in a low capex business and with average continuous generation of operating cash flow, it would be prudent for the company to increase the dividend payout ratio so as to maintain the RoE.

On valuation front, HDFCAMC is demanding a valuation of 7.8% to its FY18 AUM, whereas as its only peer Reliance Nippon Life Asset Management Ltd. is trading at 5.6% to its AUM. Considering the higher concentration of equity assets in the AUM, most profitable AMC tag and the brand name associated, we feel that the higher valuation demanded by HDFCAMC seems to be justified. Thus, we assign a **"SUBSCRIBE"** rating for the issue.

Recommendation	SUBSCRIBE
Price Band (Rs.)	Rs. 1,095 – 1,100 per Share
Face Value (Rs.)	Rs. 5
Shares for Fresh Issue (mn)	Nil
Shares for OFS (mn)	25.46mn Shares
Fresh Issue Size (Rs. mn)	N/A
OFS Issue Size (Rs. mn)	Rs. 27,876 - 28,003.3mn
Total Issue Size (Rs. mn)	Rs. 27,876 - 28,003.3mn
Bidding Date	25 th Jul. - 27 th Jul. 2018
Reservation for HDFC AMC Employees	0.32mn Shares
Reservation for HDFC Ltd. Employees	0.56mn Shares
Reservation for HDFC Ltd. Shareholders	2.4mn Shares
Net Offer for Sales (mn Shares)	22.18mn Shares (Rs. 24,284.4 – 24,395.3mn)
MCAP at Higher Price Band	Rs. 233,188mn
Enterprise Value at Higher Price Band	Rs. 218,480mn

Kotak Mahindra Capital, Axis Capital, DSP Merrill Lynch, Citigroup Global Markets, CLSA India, HDFC Bank, ICICI Securities, IIFL Holdings, JM Financial, J.P. Morgan, Morgan Stanley and Nomura Financial Advisory & Securities

Book Running Lead Manager	Karvy Computershare Pvt. Ltd.
Registrar	Asset Management Cos.
Sector/Industry	Housing Development Finance Corporation Ltd. and Standard Life Investments Ltd.
Promoters	

Pre and post - issue shareholding pattern		
	Pre – Issue	Post - Issue
Promoter and Promoter Group	94.95%	82.94%
Public	5.05%	17.06%
Total	100.00%	100.00%

Retail Application Money at Higher Cut-Off Price per Lot

Number of Shares per Lot	13
Application Money	Rs. 14,300 per Lot

Analyst	
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About the issue:

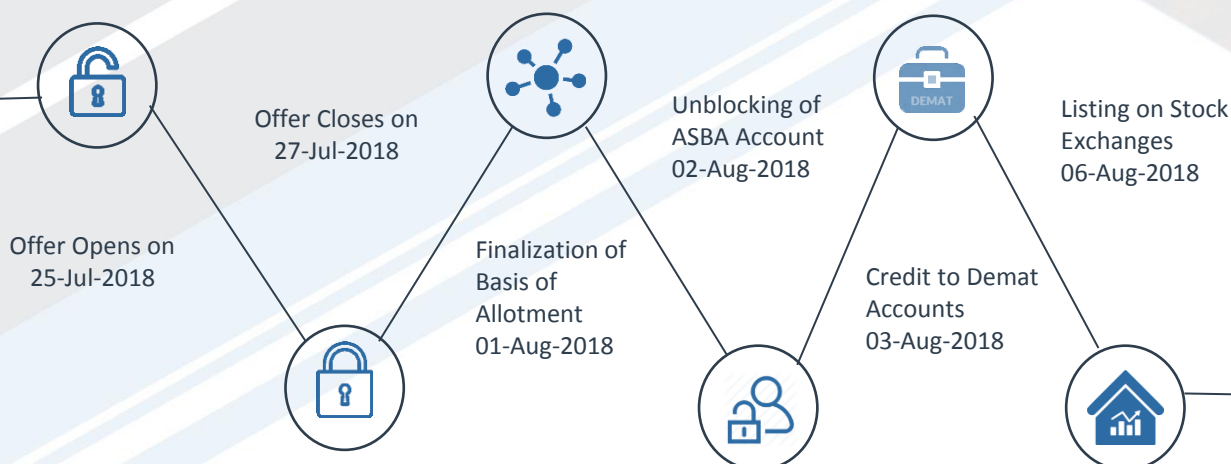
- HDFCAMC is coming up with an initial public offering (IPO) with 25.46mn shares (fresh issue: nil; OFS shares: 25.46mn shares) in offering. The offer represents around 12.01% of its post issue paid-up equity shares of the company. Total IPO size is Rs. 27,876 - 28,003.3mn.
- The issue will open on 25th Jul. 2018 and close on 27th Jul. 2018.
- The issue is book building with a price band of Rs. 1,095 – 1,100 per share.
- Since the issue is fully OFS, the company will not receive any proceeds from it.
- 0.32mn shares are reserved for HDFC AMC employees, 0.56mn share are reserved for HDFC Ltd. employees and 2.4mn shares are reserved for HDFC Ltd. shareholders. Thus the net issue size is 22.18mn shares (Rs. 24,284.4 – 24,395.3mn).
- 50% of the net issue shall be allocated on a proportionate basis to qualified institutional buyers, while rest 15% and 35% is reserved for non-institutional bidders and retail investors, respectively.
- Its promoter holds 94.95% stake in the company and post IPO this will come down to 82.94%. Public holding will increase from current 5.05% to 17.06%.

Pre and Post Issue Shareholding Pattern (%)

	Pre Issue	Post Issue (at higher price band)
Promoter & Promoter Group (%)	94.95%	82.94%
Public (%)	5.05%	17.06%

Source: Company RHP

Indicative IPO Process Time Line:



Company Introduction:

HDFCAMC has been the most profitable asset management company (AMC) in India in terms of net profits since FY13, according to CRISIL. As on 31st Mar. 2018, it had a total AUM of Rs. 2,919.9bn. The company's profits have grown every year since the first full year of operations in FY02. Since FY11, HDFCAMC has been the largest AMC in India in terms of equity-oriented AUM. Also it has consistently been among the top two AMCs in India in terms of total average AUM since the month of Aug. 2008 (Source: Company RHP).

As of 31st Mar. 2018, HDFCAMC's equity-oriented AUM and non-equity-oriented AUM constituted Rs. 1,497.1bn and Rs. 1,422.7bn, respectively, of its total AUM. The company's actively managed equity-oriented AUM (excluding index linked and arbitrage funds) constituted Rs. 1,449.3bn of the total AUM. Its AUM has grown at a CAGR of 25.5% between FY13-18. According to CRISIL, the proportion of equity-oriented AUM to total AUM was at 51.3%, which was higher than the industry average of 43.2%. As equity-oriented schemes generally have a higher fee structure compared to non-equity-oriented schemes, HDFCAMC's product-mix helps it to achieve higher profits. As of 31st Mar. 2018, the company's market share of total AUM was 13.7% and of actively managed equity oriented AUM (which excludes index linked and arbitrage schemes) was 16.8% among all AMCs in India.

HDFCAMC operates as a JV between Housing Development Finance Corporation Ltd. (HDFC) and Standard Life Investment Ltd. (SLI). HDFC is one of leading housing finance companies in India. The HDFC group 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. Listed companies of the HDFC group include HDFC, HDFC Bank Ltd., HDFC Standard Life Insurance Company Ltd. and GRUH Finance Ltd. SLI is an indirect subsidiary of Standard Life Aberdeen Plc., which is one of the largest investment company created in 2017 with the merger of Standard Life Plc. and Aberdeen Asset Management Plc. SLI operates within the brand Aberdeen Standard Investments, with its investment arm managing £ 575.7bn of assets as on 31st Dec. 2017, making it one of the largest active managers in Europe.

HDFCAMC offers a large suite of savings and investment products across asset classes, which provide income and wealth creation opportunities for its customers. As of 31st Mar. 2018, it offered 133 schemes that were classified into 27 equity-oriented schemes, 98 debt schemes (including 72 fixed maturity plans), three liquid schemes and five other schemes (including exchange-traded schemes and funds of fund schemes). This diversified product mix provides it with the flexibility to operate successfully across various market cycles, cater to a wide range of customers from individuals to institutions, address market fluctuations, reduce concentration risk in a particular asset class and work with diverse sets of distribution partners thereby assisting it to expand its reach. The company also provide portfolio management and segregated account services, including discretionary, non-discretionary and advisory services, to HNIs, family offices, domestic corporates, trusts, provident funds and domestic & global institutions. This diverse product offerings and services allows it to reach out to a large segment of the Indian mutual fund market and develop a broad individual focused customer base. As on 31st Mar. 2018, HDFCAMC had 8.1mn live accounts and its MAAUM from individual customers accounted for 62.2% of its MAAUM as compared to industry average of 51.4%.

Its diverse schemes target varying customer requirements and risk profiles, and has helped it to attract a growing individual-focused customer base. The company's offering of systematic transactions further enhances its appeal to individual customers. According to CRISIL, systematic transactions have gained significance among individual customers and it had a monthly flow of over Rs. 11.5bn through approximately 3.2mn systematic transactions, as of 31st Mar. 2018.

Closing AUM as of								
Particulars (₹ in billions)	March 31,							
	2018	2017	2016	2015	2014	2013	2012	2011
Mutual funds	2,919.85	2,305.94	1,656.19	1,505.69	1,089.13	937.66	863.29	743.35
Portfolio management and segregated account services.....	64.74 ⁽¹⁾	58.64 ⁽¹⁾	45.60 ⁽¹⁾	23.63	39.25	53.76	63.37	65.01
AUM.....	2,984.59 ⁽¹⁾	2,364.58 ⁽¹⁾	1,701.79 ⁽¹⁾	1,529.32	1,128.38	991.42	926.66	808.36

As of March 31,										
In millions	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Live accounts.....	3.09	3.49	3.90	4.65	5.13	4.94	4.47	5.17	5.58	6.19

Source: Company RHP

Company Introduction (Contd...):

A key element of HDFC AMC's strategy is to promote a customer-centric culture that spans across all aspects of its business. As of 31st Mar. 2018, the company served customers in over 200 cities through a pan-India network of 209 branches (and a representative office in Dubai) and service centers of its registrar and transfer agents, which are supported by a strong and diversified network of over 65,000 empaneled distribution partners across India, consisting of independent financial advisors (IFA), national distributors and banks. As of 31st Mar. 2018, IFAs, national distributors and banks generated 27.6%, 21.0%, 17.3% of its total AUM, respectively, while the remaining 34.1% was from direct plans. HDFC AMC is at the forefront of leveraging technology in the Indian asset management sector, with a focus on digitization to transform sales, customer onboarding and internal processes. The company offers its products and services through its online portal, HDFC MFOnline and mobile applications.

Competition: HDFC AMC's fee structure and its expenses depend on the competitive landscape in which it operates. The company faces significant competition from companies seeking to attract customers' financial assets including other mutual fund companies, traditional and online brokerage firms and other financial institutions.

The financial services industry in India is rapidly evolving and intensely competitive. HDFC AMC's key competitors in the mutual fund space include ICICI Prudential Asset Management Company Ltd., Reliance Nippon Life Asset Management Company Ltd., Aditya Birla Sun Life AMC Ltd., SBI Funds Management Pvt. Ltd. and UTI Asset Management Company Ltd., amongst others. Mutual funds also compete with products such as insurance, bank deposits, pension products, small savings schemes, as well as gold and real estate. Increased competition may either decrease market share of its AUM or increase brokerage or commission costs, and other acquisition costs which could reduce its profits.

Company Introduction (Contd...):

Financial performance: On the back of 27.5% CAGR rise in the AUM over FY14-18, HDFCAMC reported 24.8% CAGR rise in the investment management fees. Portfolio management fee & other advisory services business declined by 36.5% CAGR during the period. As a result total operating revenue increased by 19.7% CAGR over FY14-18 to Rs. 17,597.5mn in FY18. Revenue as a percent of annual AUM declined from 0.76% in FY14 to 0.59% in FY18.

Total operating expenditure outpaced the growth in the top-line and increased by 20.8% CAGR. Employee benefit expenses, which formed around 10-13% of the top-line increased by 11.9% CAGR. Other expenses which formed an average of 36% of the top-line increased by 24.1% CAGR. Consequently, EBITDA increased by 18.7% CAGR over FY14-18 to Rs. 9,664.6mn in FY18. Average EBITDA margin stood at 52.6% during the period. However, it contracted from 56.6% in FY14 to 54.9% in FY18. As a percent of annual AUM, EBITDA declined from 0.43% in FY14 to 0.32% in FY18.

Depreciation & amortization charges increased by 7.9% CAGR, while other income increased by 24.6% CAGR during FY14-18. Reported PAT increased by 19.2% CAGR over FY14-18 to Rs. 7,216.2mn in FY18. Average PAT margin during the period stood at 38.7%.

Cash flow from operations increased by 31.2% CAGR in FY14-18 to Rs. 6,201.4mn in FY18. Average RoIC and RoE during the period stood at 32.4% and 38.1%, respectively. The company has paid dividend in the last five years with dividend payout increasing from 35.3% in FY14 to 46.7% in FY18.

	FY14	FY15	FY16	FY17	FY18	CAGR (%)	Y-o-Y (%)
Total Operating Revenue	8,585.5	10,224.4	14,425.5	14,800.4	17,597.5	19.7%	18.9%
EBITDA	4,863.3	5,909.0	6,675.1	7,038.9	9,664.6	18.7%	37.3%
Reported PAT	3,577.7	4,155.0	4,778.8	5,502.5	7,216.2	19.2%	31.1%
Cash Flow from Operating Activities	2,094.7	948.2	7,420.2	4,548.6	6,201.4	31.2%	36.3%
NOPLAT	3,272.5	3,875.8	4,429.3	4,760.3	6,486.1	18.7%	36.3%
FCF	3,183.7	2,561.8	3,325.8	1,942.9	3,739.9	4.1%	92.5%
RoIC (%)	30.8%	34.0%	31.5%	31.1%	34.7%	392 bps	354 bps
Revenue Growth Rate (%)		19.1%	41.1%	2.6%	18.9%		
EBITDA Growth Rate (%)		21.5%	13.0%	5.4%	37.3%		
EBITDA Margin (%)	56.6%	57.8%	46.3%	47.6%	54.9%	(173) bps	736 bps
EBIT Growth Rate (%)		21.5%	13.0%	5.4%	38.0%		
EBIT Margin (%)	55.7%	56.8%	45.5%	46.8%	54.3%	(139) bps	752 bps
Reported PAT Growth Rate (%)		16.1%	15.0%	15.1%	31.1%		
Reported PAT Margin (%)	41.7%	40.6%	33.1%	37.2%	41.0%	(66) bps	383 bps
Trade Receivable Turnover Ratio (x)	55.5	63.8	52.3	23.9	20.1	-22.4%	-16.2%
Accounts Payable Turnover Ratio (x)	5.8	8.4	10.8	11.0	17.0	30.7%	53.5%
Fixed Asset Turnover Ratio (x)	30.7	30.2	44.7	44.0	45.4	10.3%	3.1%
Total Asset Turnover Ratio (x)	0.8	0.8	1.0	0.9	0.7	-0.8%	-19.8%
Current Ratio (x)	4.0	5.2	4.4	7.5	7.7	17.5%	3.0%
Debt to Equity (x)	0.0	0.0	0.0	0.0	0.0		
Net Debt to EBITDA (x)	(1.2)	(0.8)	(1.2)	(1.5)	(1.4)	2.1%	-10.5%
RoE (%)	39.7%	37.1%	41.5%	38.7%	33.4%	(629) bps	(526) bps
RoA (%)	31.9%	31.7%	33.6%	34.4%	30.4%	(147) bps	(396) bps
RoCE (%)	52.2%	51.2%	56.3%	48.6%	44.2%	(796) bps	(440) bps
Restated Reported EPS (Rs.)	16.9	19.6	22.5	26.0	34.0	19.2%	31.1%
Restated DPS (Rs.)	6.0	7.7	9.5	10.9	15.9	27.8%	45.5%
Restated BVPS (Rs.)	42.5	52.8	54.3	67.1	101.9	24.4%	51.8%
Restated Operating Cash Flow Per Share (Rs.)	9.9	4.5	35.0	21.5	29.3	31.2%	36.3%
Restated Free Cash Flow Per Share (Rs.)	15.0	12.1	15.7	9.2	17.6	4.1%	92.5%
Dividend Payout Ratio	35.3%	39.5%	42.1%	42.1%	46.7%	1,141 bps	461 bps

Source: Company RHP



Competitive Strengths:

- Consistent market leadership position in the Indian mutual fund industry
- Trusted brand and strong parentage
- Strong investment performance supported by comprehensive investment philosophy and risk management
- Superior and diversified product mix distributed through a multi-channel distribution network
- Focus on individual customers and customer centric approach
- Consistent profitable growth
- Experienced and stable management and investment teams

Business Strategy:

- Maintaining strong investment performance
- Expanding reach and distribution channels
- Enhance product portfolio
- Invest in digital platforms to effectively leverage the growing digital space



Risk and Concerns:

- Subdued economic activities
- Volatility in the equity market
- Deteriorating investment performance
- Inability to attract new investors and fall in AUM
- Unfavorable AUM mix leading to lower management fees
- Unfavorable regulatory limits on management fees
- Inability to launch new mutual fund and AIF schemes
- Competition

Peer Comparison and Valuation:

Company Name	Face Value (Rs.)	CMP (Rs.)	MCAP (Rs. mn)	Enterprise Value (Rs. mn)	AUM (Rs. mn)	Total Operating Revenue (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EBITDA Margin (%)	PAT Margin (%)
HDFC Asset Management Company Ltd.	5	1,100	233,188	218,480	2,984,590	17,597.5	9,664.6	7,216.2	54.9%	41.0%
Reliance Nippon Life Asset Management Ltd.	10	222	136,017	129,107	2,450,000	15,860.0	5,310.0	5,220.0	33.5%	32.9%
ICICI Prudential Asset Management Company Ltd.	10	-	-	-	3,057,000	18,186.4	8,833.9	6,255.5	48.6%	34.4%
Aditya Birla Sun Life AMC Ltd.	10	-	-	-	2,677,390	12,160.7	4,492.5	3,220.0	36.9%	26.5%
SBI Funds Management Pvt. Ltd.	100	-	-	-	1,570,250	7,363.4	3,009.7	2,243.2	40.9%	30.5%
Average									40.0%	31.1%

Company Name	Industry Revenue Share (%)	Industry Net Profit Share (%)	Operating Revenue / AUM (%)	Net Profit / AUM (%)	EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Debt Equity Ratio	Fixed Asset Turnover Ratio
HDFC Asset Management Company Ltd.	13.50%	18.80%	0.59%	0.24%	34.0	109.3	15.9	0.0	45.4
Reliance Nippon Life Asset Management Ltd.	11.90%	13.80%	0.65%	0.21%	8.5	37.4	6.0	0.0	6.8
ICICI Prudential Asset Management Company Ltd.	11.50%	16.40%	0.59%	0.20%	354.4	466.4	252.0	0.0	45.6
Aditya Birla Sun Life AMC Ltd.	8.40%	7.60%	0.45%	0.12%	178.9	595.9	133.6	0.0	47.8
SBI Funds Management Pvt. Ltd.	6.60%	7.70%	0.47%	0.14%	448.6	1,542.0	120.0	0.0	4.1
Average	9.60%	11.38%	0.54%	0.17%					26.1

Company Name	RoE (%)	RoCE (%)	P / E (x)	P / B (x)	EV / Sales (x)	EV / EBITDA (x)	MCAP / Sales (x)	MCAP / AUM (%)	Earnings Yield (%)
HDFC Asset Management Company Ltd.	31.1%	41.2%	32.3	10.1	12.4	22.6	13.3	7.8%	3.1%
Reliance Nippon Life Asset Management Ltd.	22.8%	21.6%	26.1	5.9	8.1	24.3	8.6	5.6%	3.8%
ICICI Prudential Asset Management Company Ltd.	76.0%	99.6%	-	-	-	-	-	-	-
Aditya Birla Sun Life AMC Ltd.	30.0%	40.9%	-	-	-	-	-	-	-
SBI Funds Management Pvt. Ltd.	29.1%	37.2%	-	-	-	-	-	-	-
Average	39.5%	49.8%	26.1	5.9	8.1	24.3	8.6	5.6%	3.8%

Note: SBI Funds Management data is of FY17; ICICI Prudential AMC, Aditya Birla Sun Life AMC and SBI Funds are not listed

Source: Choice Broking Research

At the higher price band of Rs. 1,100 per share, HDFCAMC's share is valued at a P/E multiple of 32.3x (to its restated FY18 EPS of Rs. 34) as compared to only listed peer's P/E multiple of 26.1x.

Below are few key observations of the issue:

- The national penetration of mutual funds as financial saving instrument was low at 2.9%. Also with respect to national GDP, the penetration was at 12.8% in FY17 as compared to global average of 62%. Countries like Australia and the US have AUM to GDP ratios of over 100%. So, the mutual fund industry in the country provides huge scope for growth and development.
- With the historic announcement of scrapping high denomination notes in 2016, there was a fall in interest rates and demand of other assets such as gold and real estate; thereby leading to a surge in investment in insurance and mutual fund schemes. Almost since then, the AUM of the mutual fund industry is increasing and it reached a level of Rs. 23 lakh crore by the end of FY18. The mutual fund industry witnessed a healthy growth in the past decade, with the average AUM increasing from Rs. 3.5tn in FY07 to Rs. 21.4tn in FY18, representing growth of 18% CAGR over a decade. Going forward, it is expected to grow by 19% CAGR over FY18-23 to reach an average AUM size of Rs. 48tn by end of FY23. Individual investors are expected to remain a key driver for the growth in the mutual fund assets, since individual investor which includes retail and HNI's accounted for around 85% of the individual monthly average AUM.
- Since FY11, HDFCAMC has been the largest AMC in India in terms of equity-oriented AUM. Also it has consistently been among the top two AMCs in India in terms of total average AUM since the month of Aug. 2008. Its AUM has grown at a CAGR of 25.5% between FY13-18. As on 31st Mar. 2018, it had a total AUM of Rs. 2,919.9bn. The company's market share of total industry AUM was 13.7% and of actively managed equity oriented AUM (which excludes index linked and arbitrage schemes) was 16.8% among all AMCs in India.

Peer Comparison and Valuation (Contd...):

- HDFCAMC has been the most profitable AMC in India in terms of net profits since FY13. The company's profits have grown every year since the first full year of operations in FY02. Moreover, it had the highest share of net profits and total revenue of 18.8% and 13.5%, respectively, among asset management companies in India in FY17.
- Equity-oriented AUM formed around 51.3% of its total AUM and was higher than the industry average of 43.2%. Equity-oriented schemes generally have a higher fee structure with around 2x margin compared to non-equity-oriented schemes, which helps HDFCAMC to achieve higher profits.
- The company market and supports its products through its vast sales and client services teams. As of 31st Mar. 2018, it served customers in over 200 cities through a pan-India network of 209 branches and service centers of its registrar and transfer agents, which are supported by a strong and diversified network of over 65,000 empaneled distribution partners across India, consisting of independent financial advisors (IFA), national distributors and banks. As of 31st Mar. 2018, IFAs, national distributors and banks generated 27.6%, 21.0%, 17.3% of its total AUM, respectively, while the remaining 34.1% was from direct plans.
- As of 31st Mar. 2018, HDFCAMC had the highest share of individual customers of 15.7% and the second largest (after SBI MF) market share of MAAUM of 12.7% from B-15 cities in India. MAAUM from individual customers accounted for 62.2% compared to 51.4% for the mutual fund industry in India as a whole. The company also offers other retail assets in the form of SIPs. Retail assets are sticky in nature and in terms of tenure, around 77% of its SIPs have tenure of over five years and around 65% have tenure of over ten years.
- HDFCAMC has reported a robust financial performance over FY14-18. On the back of 27.5% CAGR rise in the AUM over FY14-18, HDFCAMC reported 24.8% CAGR rise in the investment management fees. As a result total operating revenue increased by 19.7% CAGR over FY14-18. EBITDA increased by 18.7% CAGR over the period with average EBITDA margin of 52.6%. Reported PAT increased by 19.2% CAGR with an average PAT margin of 38.7%. Average RoIC and RoE during the period stood at 32.4% and 38.1%, respectively.
- We are anticipating a top-line of Rs. 20,860.2mn (a growth of 18.5% over FY18) and an EPS of 40.9 per share (a growth of 20.1% over FY18). EBITDA and PAT margin are anticipated at 53.7% and 41.6%, respectively, in FY19 as compared to 54.9% and 41% in FY18. In FY20, top-line is expected to grow by 15% to Rs. 23,989.2mn, while EPS to grow by 14.6% to Rs. 46.8 per share.
- The company has paid dividend in the last five years with dividend payout increasing from 35.3% in FY14 to 46.7% in FY18. The management has indicated that it would try to maintain the current RoE trend in future. As on FY18 end, HDFCAMC's equity capital was around Rs. 1bn and was supported by reserves of around Rs. 22bn. Thus in a low capex business and with an average operating cash flow generation of Rs. 6bn over FY16-18, it would be prudent for the company to increase the dividend payout ratio so as to maintain the RoE.
- The mutual fund industry is highly scattered in India with presence of 42 players. The industry is concentrated with the top 10 players accounting for an estimated 80% of the industry in terms of AUMs. Further, players operating between the 11th and 20th positions have a share of 15% in the industry AUM. While there are many small players operating, they have not been able to make significant inroads and have been facing the challenge of high operating costs. Such players maybe potential targets for acquisition by the top ten players. HDFCAMC with its solid performance and leadership position in the industry would be better placed to participate in the consolidation process.

On valuation front, HDFCAMC is demanding a valuation of 7.8% to its FY18 AUM, whereas as its only peer Reliance Nippon Life Asset Management Ltd. is trading at 5.6% to its AUM. Considering the higher concentration of equity assets in the AUM, most profitable AMC tag and the brand name associated, we feel that the higher valuation demanded by HDFCAMC seems to be justified. Thus, we assign a **"SUBSCRIBE"** rating for the issue.

Financial Statements:

Profit and Loss Statement (Rs. mn)

	FY14	FY15	FY16	FY17	FY18	CAGR over FY14 - 18 (%)	Annual Growth over FY17 (%)
Total Operating Revenue	8,585.5	10,224.4	14,425.5	14,800.4	17,597.5	19.7%	18.9%
Employee Benefits Expense	(1,115.5)	(1,275.1)	(1,431.9)	(1,575.5)	(1,749.5)	11.9%	11.0%
Other Expenses	(2,606.7)	(3,040.3)	(6,318.5)	(6,185.9)	(6,183.4)	24.1%	0.0%
EBITDA	4,863.3	5,909.0	6,675.1	7,038.9	9,664.6	18.7%	37.3%
Depreciation / Impairment & Amortization Expenses	(84.5)	(101.4)	(110.6)	(119.6)	(114.4)	7.9%	-4.4%
EBIT	4,778.8	5,807.6	6,564.5	6,919.3	9,550.2	18.9%	38.0%
Other Income	445.7	418.4	518.0	1,078.8	1,075.0	24.6%	-0.4%
PBT	5,224.5	6,226.0	7,082.5	7,998.0	10,625.2	19.4%	32.8%
Tax Expenses	(1,646.8)	(2,071.0)	(2,303.7)	(2,495.6)	(3,409.0)	19.9%	36.6%
Reported PAT	3,577.7	4,155.0	4,778.8	5,502.5	7,216.2	19.2%	31.1%

Balance Sheet Statement (Rs. mn)

	FY14	FY15	FY16	FY17	FY18	CAGR over FY14 - 18 (%)	Annual Growth over FY17 (%)
Equity Share Capital	252.4	252.4	251.6	251.7	1,052.8	42.9%	318.3%
Reserves and Surplus	8,760.2	10,946.5	11,260.6	13,977.7	20,546.9	23.8%	47.0%
Long Term Provisions	150.0	150.0	150.0	8.0	7.8	-52.3%	-3.2%
Trade Payables	1,477.2	950.9	1,719.8	960.6	1,115.8	-6.8%	16.1%
Other Current Liabilities	573.6	817.7	845.2	796.9	981.9	14.4%	23.2%
Short Term Provisions				1.0	1.1		16.7%
Total Liabilities	11,213.4	13,117.5	14,227.2	15,995.9	23,706.2	20.6%	48.2%
Property, Plant and Equipment	262.6	243.8	227.7	226.3	245.8	-1.6%	8.6%
Intangible Assets	15.4	94.2	83.9	85.5	82.1	52.0%	-4.0%
Intangible Assets Under Development	2.0	1.0	11.0	24.2	59.6	132.5%	146.5%
Non Current Investments	1,303.9	1,616.8	1,598.6	1,688.0	6,395.4	48.8%	278.9%
Deferred Tax Assets (Net)	128.1	132.8	138.9	93.5	97.3	-6.6%	4.1%
Long Term Loans and Advances	1,198.0	1,752.0	973.8	690.2	616.7	-15.3%	-10.6%
Current Investments	6,061.8	4,888.4	8,259.3	10,678.6	13,110.2	21.3%	22.8%
Trade Receivables	154.8	165.8	385.7	850.9	902.8	55.4%	6.1%
Cash and Bank Balances	10.4	25.7	9.8	12.7	20.7	18.8%	62.2%
Short Term Loans and Advances	1,063.3	2,487.5	1,721.4	1,627.5	2,054.7	17.9%	26.2%
Other Current Assets	1,013.1	1,709.7	817.2	18.5	120.9	-41.2%	553.3%
Total Assets	11,213.4	13,117.5	14,227.2	15,995.9	23,706.2	20.6%	48.2%

Cash Flow Statement (Rs. mn)

Particulars (Rs. mn)	FY14	FY15	FY16	FY17	FY18	CAGR over FY14 - 18 (%)	Annual Growth over FY17 (%)
Cash Flow from Operating Activities	2,094.7	948.2	7,420.2	4,548.6	6,201.4	31.2%	36.3%
Cash Flow from Investing Activities	(508.0)	1,035.7	(2,970.7)	(1,760.3)	(6,347.6)	88.0%	260.6%
Cash Flow from Financing Activities	(1,585.1)	(1,968.7)	(4,465.5)	(2,785.3)	154.1		-105.5%
Net Cash Flow	1.6	15.3	(15.9)	2.9	7.9	48.9%	168.1%
Opening Balance of Cash and Bank Balances	7.8	9.4	24.6	8.7	11.6	10.6%	34.0%
Closing Balance of Cash and Bank Balances	9.4	24.6	8.7	11.6	19.5	20.1%	68.0%

Source: Company RHP

Financial Statements (Contd...):

Financial Ratios					
Particulars (Rs. mn)	FY14	FY15	FY16	FY17	FY18
Revenue Growth Rate (%)		19.1%	41.1%	2.6%	18.9%
EBITDA Growth Rate (%)		21.5%	13.0%	5.4%	37.3%
EBITDA Margin (%)	56.6%	57.8%	46.3%	47.6%	54.9%
EBIT Growth Rate (%)		21.5%	13.0%	5.4%	38.0%
EBIT Margin (%)	55.7%	56.8%	45.5%	46.8%	54.3%
Reported PAT Growth Rate (%)		16.1%	15.0%	15.1%	31.1%
Reported PAT Margin (%)	41.7%	40.6%	33.1%	37.2%	41.0%
Liquidity Ratios					
Current Ratio	4.0	5.2	4.4	7.5	7.7
Debt Equity Ratio	0.0	0.0	0.0	0.0	0.0
Net Debt to EBITDA	(1.2)	(0.8)	(1.2)	(1.5)	(1.4)
Turnover Ratios					
Trade Receivable Days	6.6	5.7	7.0	15.2	18.2
Accounts Payable Days	(62.8)	(43.3)	(33.8)	(33.1)	(21.5)
Cash Conversion Cycle Days	(56.2)	(37.6)	(26.8)	(17.8)	(3.3)
Fixed Asset Turnover Ratio (x)	30.7	30.2	44.7	44.0	45.4
Total Asset Turnover Ratio (x)	0.8	0.8	1.0	0.9	0.7
Return Ratios					
RoE (%)	39.7%	37.1%	41.5%	38.7%	33.4%
RoA (%)	31.9%	31.7%	33.6%	34.4%	30.4%
RoCE (%)	52.2%	51.2%	56.3%	48.6%	44.2%
Per Share Data					
Restated Reported EPS (Rs.)	16.9	19.6	22.5	26.0	34.0
Restated DPS (Rs.)	6.0	7.7	9.5	10.9	15.9
Restated BVPS (Rs.)	42.5	52.8	54.3	67.1	101.9
Restated Operating Cash Flow Per Share (Rs.)	9.9	4.5	35.0	21.5	29.3
Restated Free Cash Flow Per Share (Rs.)	15.0	12.1	15.7	9.2	17.6
Dividend Payout Ratio	35.3%	39.5%	42.1%	42.1%	46.7%

Note: Pre-issue data; Source: Company RHP

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