

## HDFC ASSET MANAGEMENT - IPO RECOMMENDATION – SUBSCRIBE



**Most profitable asset management company in India**

**Largest asset management companies by equity-oriented AUM and top two by total average AUM**

HDFC Asset Management Company (HDFC AMC), a joint venture between Housing Development Finance Corporation (HDFC) and Standard Life Investments (SLI), is the most profitable asset management company in India in terms of net profits since FY2013 with total AUM of Rs 291985 crore as of end March 2018. The profits of the company have grown every year since the first full year of operations in FY2002. The company has been the largest asset management company in India in terms of equity-oriented AUM since the last quarter of FY2011 and consistently remains among the top two asset management companies in India in terms of total average AUM since August 2008.

Among the promoters of the company, HDFC group is 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. SLI is an indirect subsidiary of Standard Life Aberdeen plc, one of the world's largest investment companies. The strong parentage and trusted brand enhances appeal and provides confidence to customers of the company.

HDFC AMC has recorded healthy 25.5% compounded annual growth rate (CAGR) in AUM between March 2013 and March 2018. As at end March 2018, equity-oriented AUM constituted Rs 149713 crore and non-equity-oriented AUM at Rs 142273 crore of total AUM. The proportion of equity-oriented AUM to total AUM was at 51.3%, which was higher than the industry average of 43.2%, end March 2018. As equity-oriented schemes generally have a higher fee structure compared to non-equity-oriented schemes, the product mix helps achieve higher profits. The market share of total AUM was 13.7% and of actively managed equity-oriented AUM (Rs 144925 crore which excludes index linked and arbitrage schemes) was 16.8% among all asset management companies in India.

Milind Barve, Managing Director, has been with the company since the year of its inception and with the HDFC group for over 34 years. Prashant Jain, Executive Director and Chief Investment Officer joined the Company in 2003. The senior management team has been with the company for an average of 13 years and has a total average work experience of 26 years. The company has strong and stable investment team, which consisted of 26 employees as of March 2018 with an average of over eight years of work experience with Company and an average of over 17 years of total experience.

The company offers a large suite of savings and investment products across asset classes, which provide income and wealth creation opportunities to its customers. As of March 31, 2018, it offered 133 schemes that were classified into 27 equity-oriented schemes, 98 debt schemes (including 72 fixed maturity plans (FMPs)), three liquid schemes, and five other schemes (including exchange-traded schemes and funds of fund schemes). HDFC AMC also provide portfolio management and segregated account services, including discretionary, non-discretionary and advisory services, to high net worth individuals (HNIs), family offices, domestic corporates, trusts, provident funds and domestic and global institutions. As of March 2018, it managed AUM of Rs 6474 crore as part of portfolio management and segregated accounts services' business.

The company had a total number of Live Accounts of 8.10 million as of March 2018, and the monthly average AUM (MAAUM) from individual customers accounted for 62.2% of MAAUM, compared to the industry average of 51.4%. A key element of the business strategy is to promote a customer-centric culture that spans across all aspects of business. As of March 2018, the company served customers in over 200 cities through pan-India network of 209 branches, supported by a strong and diversified network of over 65,000 empaneled distribution partners across India

HDFC AMC has an established track record of delivering robust financial performance. The total revenue increased from Rs 903.11 crore in FY2014 to Rs 1867.25 crore in FY2018, with a CAGR of 19.9%. Net profit has grown from Rs 357.77 crore to Rs 721.62 crore during the same period at a CAGR of 19.2%. Dividend Payout Ratio increased from 41% in FY2014 to 56% in FY2018 and paid a dividend of Rs 336.89 crore in FY2018 compared to Rs 126.20 crore in FY2014. The net worth of the company stood at Rs 2159.97 crore as of March 2018. Return on average net worth exceeded 40% every year since FY2014 and was 40.28% for FY2018.

### **The Offer and the Objects**

The offer consists of an offer for sale (OFS) of 25,457,555 equity shares by HDFC (8,592,970 equity shares) and Standard Life Investments (16,864,585 equity share) totaling up to Rs 2800.3 crore at the upper price band. Post issue HDFC will hold 52.92% and SLI will hold 30.03% of HDFC AMC. The entire proceeds from the offer for sale (OFS) will be paid to selling shareholders. The OFS would mop up proceeds of Rs 2787.6 crore at the lower price band of Rs 1095 per share (face value Rs 5 per share) and Rs 2800.3 crore at the upper band of Rs 1100 per share.

The issue is to be made through a book building process and will open on 25 July 2018 and will close on 27 July 2018. The objects of the offer are to achieve the benefits of listing the equity shares of the company on the stock exchanges. The listing of equity shares will enhance its visibility and brand image and provide liquidity to its existing shareholders.

### **Strengths**

- **Consistent market leadership position in the Indian mutual fund industry:**
- **Trusted brand and strong parentage**
- **Superior and diversified product mix distributed through a multi-channel distribution network**
- **Focus on individual customers and customer centric approach**
- **Consistent profitable growth**

### **Weaknesses**

The asset management business is significantly affected by market fluctuations and general economic conditions, which could affect business in many ways, including by reducing the value of AUM, causing a decline in investment management fees, portfolio management fees or fees from advisory services, reducing systematic transactions, and causing customers to withdraw their investments, each of which could materially and adversely affect revenue, business prospects and financial condition.

### **Valuation**

Revenues of the company have increased at CAGR of 20% from Rs 858.55 crore in FY2014 to Rs 1759.75 crore in FY2018. The company has posted healthy 19% CAGR growth in net profit to Rs 721.62 crore in from FY2018 from Rs 357.77 crore in FY2014. The company has consistently delivered RoE of above 40% for last five years to FY2018.

Post-issue valuation is Rs 23319 crore at the upper price band of Rs 1100 per share and Rs 23213 crore at the lower price band of Rs 1095 per share. EPS for FY2018 works out to Rs 34.04 on post-IPO equity basis. The scrip is offered at P/E multiple of 32.3 times FY2018 EPS at the upper price band. The post-issue book value (BV) is Rs 101.9. The scrip is offered at a P/BV multiple of 10.8 times at the upper price band of Rs 1100 per share.

HDFC Asset Management Company: Issue highlights	
For Offer for Sale Offer size (Rs crore)	
- On lower price band	2787.60
- On upper price band	2800.33
Offer size (in no of shares)	2.55 crore
Price band (Rs)*	1095-1100
Minimum Bid Lot (in no. of shares )	13
Post issue capital (Rs crore)	105.99
Post-issue promoter & Group shareholding (%)	82.9
Issue open date	25-7-2018
Issue closed date	27-7-2018
Listing	BSE,NSE

HDFC Asset Management Company: Financials					
	1403 (12)	1503 (12)	1603 (12)	1703 (12)	1803 (12)
Sales	858.55	1022.44	1442.55	1480.04	1759.75
<b>OPM %</b>	<b>56.6%</b>	<b>57.8%</b>	<b>46.3%</b>	<b>47.6%</b>	<b>54.9%</b>
OP	486.33	590.90	667.51	703.89	966.46
Other Income	44.57	41.84	51.80	107.88	107.50
PBDT	530.90	632.74	719.31	811.77	1073.96
Depreciation	8.45	10.14	11.06	11.96	11.44
PBT	522.45	622.60	708.25	799.80	1062.52
Tax	164.68	207.10	230.37	249.56	340.90
PAT	357.77	415.50	477.88	550.25	721.62
<b>EPS (Rs)*</b>	<b>16.88</b>	<b>19.60</b>	<b>22.54</b>	<b>25.96</b>	<b>34.04</b>
*EPS is annualised on post issue equity capital of Rs 105.99 crore of face value of Rs 5 each					

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