



Company Overview

Established in 1999, HDFC AMC is a joint venture between HDFC and Standard life investments Limited. SLI is part of Standard Life Aberdeen plc., a global leading investment company. HDFC AMC is the largest AMC in India in terms of equity AUM and amongst the top 2 in terms of total AUM, standing at INR 2.9 trillion as of FY18. The company has a diverse product base that has helped in targeting a large amount of individual customers with a total of 133 schemes as of FY18. The company remains the most profitable AMC in terms of net profits. HDFC AMC also provides portfolio management and individual account services on a discretionary as well as non discretionary basis to various family offices, HNI and other institutions.

Objects of the issue

To achieve the benefits of listing equity shares on the stock exchanges and for the sale of up to 25,457,555 equity shares by the selling shareholders

Investment Rationale

Sustained leadership position in the mutual fund industry

The company has consistently ranked among the top two AMCs in term of overall AUMs, with the largest equity AUM of all AMC's. Total AUM as of FY18 was INR 2.9 trillion translating into a market share of ~14% and ~17% for equity. The equity composition of AUM was 51%, which is higher than the industry average of 43%. HDFC AMC also has the highest proportion of individual customers at ~16%, which has been contributed partly by the increasing branch network standing at 209 in FY18 from 141 branches in FY14. As of FY18, the company's MAUM from individual customers was 62% of the total MAUM as compared to the industry average of 51%.

Strong parentage coupled with reliable brand

HDFC is one of India's leading mortgage lenders. The HDFC group is a prominent financial conglomerate with presence across banking, housing finance, asset management and real estate funds. The listed companies of HDFC group are HDFC limited, HDFC Bank limited, HDFC standard life limited and GRUH Finance limited. SLI is an indirect subsidiary of standard life Aberdeen, one of the largest investment companies in the world. SLI has operations spread across 50 countries with global clients in over 80 countries. Aside from the strong parentage, HDFC AMC believes it has a strong brand that is demonstrated through its leadership position in the Indian mutual fund. Strong brand recall of HDFC group companies is also beneficial for the company.

Diversified product mix supported by multi channel distribution network

The Company has a wide product portfolio of investment schemes that are spread across asset classes catering to varying risk profiles. The company's offerings have recorded strong and consistent performance relative to industry benchmarks. The company's total AUM was INR 2.9 trillion in FY18 with equity AUM constituting INR 1.49 trillion and non equity forming 1.42 trillion. The product mix includes 27 equity oriented schemes, 98 debt schemes (including 72 FMPs), three liquid schemes and five other schemes (including ETFs and fund of funds). This allows the company to operate through various market channels. The company has served customers across 200 cities through 209 branches and service centers of its RTAs. HDFC AMC's channel mix as of FY18 comprised of IFA's-27.6%, national distributors-21%, banks-17.3% with the remaining 34.1% invested in direct plans.

Conclusion and Outlook

HDFC AMC's leadership position in India's growing mutual fund industry has led to superior growth and profitability. This has been supported by factors such as 1) higher share of AUM from individual customers, 2) higher proportion of equity oriented AUM 3) increasing contribution of systematic transactions. Further, a well diversified distribution network, superior brand and strong parentage contribute positively. The management's ability to deliver strong investment performance and commitment towards constantly increasing distribution reach, strengthen product portfolio are indicative of sustained future growth. At the upper end of the price band the company available at a P/E of 31.4x FY18 earnings, compared to Reliance Nippon AMC, s P/E of 26x implying a ~20% premium. We feel the premium is justified owing to the stated reasons and therefore recommend a 'SUBSCRIBE' rating to the IPO.

Issue Details	
Offer Period	25th - 27th July 2018
Price Band	Rs. 1,095 to Rs. 1,100
Bid Lot	13
Listing	BSE&NSE
Issue Size (no. of shares in mn)	25.45
Issue Size (Rs. in mn)	28,003
Face Value	5

Issue Structure	
QIB	50%
Retail	35%
HNI	15%
BRLM	Kotak investment Banking Citigroup Global Markets India Pvt Ltd
Registrar	Karvy Com-pushare Pvt Ltd.

Particulars	Pre Issue %	Post Issue %
Promoter	95	83
Public	5	17
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (Millions)

INR Mn	FY14	FY15	FY16	FY17	FY18
Revenue					
Revenue from operations	8,585.5	10,224.4	14,425.5	14,800.4	17,597.5
Total Revenue	8,585.5	10,224.4	14,425.5	14,800.4	17,597.5
Expenses					
Employee expenses	1,115.5	1,275.1	1,431.9	1,575.5	1,749.5
Other Expenses	2,606.7	3,040.3	6,318.5	6,185.9	6,183.4
EBITDA	4,863.3	5,909.0	6,675.1	7,038.9	9,664.6
Other income	445.7	418.4	518.0	1,078.8	1,075.0
Depreciation	84.5	101.4	110.6	119.6	114.4
EBT	5,224.5	6,226.0	7,082.5	7,998.0	10,625.2
Tax	1,646.8	2,071.0	2,303.7	2,495.6	3,409.0
PAT	3,577.7	4,155.0	4,778.8	5,502.5	7,216.2
Diluted EPS	17.6	20.3	23.6	27.1	35.0

Source: Company, BP Equities Research

Cash Flow Statement (Millions)

INR Mn	FY14	FY15	FY16	FY17	FY18
Cash flow from operating activities	2,094.7	948.2	7,420.2	4,548.6	6,201.4
Net cash flow from investing activities	(508.0)	1,035.7	(2,970.7)	1,760.3	6,347.6
Net cash (used) generated by financing activities	(1,585.1)	(1,968.7)	(4,465.5)	(2,785.3)	154.1
Net increase/decrease in cash and cash equivalents	1.6	15.3	(15.9)	3,523.6	12,703.2
cash and cash equivalents at the beginning of the year	7.8	9.4	24.6	8.7	11.6
cash and cash equivalents at the end of the year	9.4	24.6	8.7	3,532.3	12,714.8

Source: Company, BP Equities Research



Balance Sheet (Millions)

INR Mn	FY14	FY15	FY16	FY17	FY18
Liabilities					
Share Capital	252.4	252.4	251.6	251.6	1,052.8
Reserve and Surplus	8,760.2	10,946.5	11,260.6	13,977.7	20,546.9
Net Worth	9,012.6	11,198.9	11,512.2	14,229.3	21,599.7
Long Term Borrowings					
Long Term Provisions	150.0	150.0	150.0	8.0	7.8
Other Liabilities					
Total Liabilities	9,162.6	11,348.9	11,662.2	14,237.3	21,607.5
Assets					
Fixed Asset	280.0	338.9	322.6	336.0	387.5
Non Current Investment	1,303.9	1,616.8	1,598.6	1,688.0	6,395.4
Deferred Tax Asset	128.1	132.8	138.9	93.5	97.3
Long Term loans & Advances	1,198.0	1,752.0	973.8	690.2	616.7
Total Non Current Asset	2,910.0	3,840.5	3,033.9	2,807.7	7,496.9
Short Term loans & Advances	1,063.3	2,487.5	1,721.4	1,627.5	2,054.7
Trade Receivables	154.8	165.8	385.7	850.9	902.8
Cash and Bank Equivalents	10.4	25.7	9.8	12.7	20.7
Investments	6,061.8	4,888.4	8,259.3	10,678.6	13,110.2
Other Current Assets	1,013.1	1,709.7	817.2	18.5	120.9
Total Current Assets	8,303.4	9,277.0	11,193.3	13,188.3	16,209.2
Less: Trade Payables	1,477.2	950.9	1,719.8	960.6	1,115.8
Less: Other Current Liabilities	573.6	817.7	845.2	796.9	981.9
Less: Short Term Provisions				1.0	1.1
Net Current Asset	6,252.6	7,508.4	8,628.4	11,429.8	14,110.5
Total Assets	9,162.6	11,348.9	11,662.2	14,237.5	21,607.4

Source: Company, BP Equities Research

Key Risks

- Adverse market fluctuations and or diverse market conditions could effect the business by way of reduction in AUM, drop in various fees .
- Investment performance is crucial to retaining existing customers and attracting new prospective customers.
- AUM may be constrained due to unavailability of appropriate investment opportunities or change in schemes

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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