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Issue Details	
Price Band (Rs)	1095-1100
Face Value(Rs)	5
Issue Size(Rs)	2800cr
Issue Type	Book building
Minimum lot	13
Issue Opens	July 25, 2018
Issue Closes	July 27, 2018
Listing on	NSE, BSE

Indicative Timeline	On or before
Finalization of Allotment	Aug 01, 2018
Initiation of refund / unblocking of funds	Aug 02, 2018
Credit of Shares to D-mat Allottees	Aug 03, 2018
Listing on Stock Exchanges	Aug 06, 2018

Other Detail	
Book Running Lead Managers	Kotak Mahindra Capital, Axis Capital, DSP Merrill Lynch, Citigroup Global, CLSA India, HDFC bank, ICICI Sec, IIFL Holdings, JM Financial, JP Morgan India, Morgan Stanley India & Nomura Financial Advisory.
Registrar	Karvy Computershare Pvt Ltd

HDFC ASSET MANAGEMENT COMPANY LTD

Company Background

Incorporated in 1999, Mumbai based HDFC Asset Management Company (HDFC AMC) Limited is well-known fund house engaged in providing savings and investment products. It is a joint venture between Housing Development Finance Corporation Limited (HDFC) and Standard Life Investments Limited (SLI). SLI is part of Standard Life Aberdeen PLC is one of the world's largest investment company.

Company offers a large suite of savings and investment products across asset classes, which provide income and wealth creation opportunities to their customers. They also provide portfolio management and segregated account services, including discretionary, non-discretionary and advisory services, to high net worth individuals (HNIs), family offices, domestic corporate, trusts, provident funds and domestic and global institutions. HDFC Ltd 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 non-life insurance, asset management, real estate funds and education finance. 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.

Issue Details

The company through the IPO offers 2.5cr equity shares of face value of Rs. 5 each amounting to Rs. 2800cr on the upper price band. Company will not receive any proceeds from the Offer since the Offer is being made through an offer for sale of equity shares by the Promoter Selling Shareholders. The net issue would constitute 12% of the post-issue paid-up equity share capital.

Details of Selling Shareholders

Sr No	Selling Shareholders	No of Shares to be sold	Pre- offer Holding	Post- Offer Holdings
1	HDFC Ltd	85,92,970	56.97%	52.92%
2	Standard Life Investments	1,68,64,585	37.98%	30.03%
Total Shares to be sold		2,54,57,555	94.95%	82.95%

Source: Company RHP, ACMIIL

Objectives of the issue

The objective of the offer is to achieve the benefits of listing equity share & to carry out the sale of equity shares offered for sale by the Promoter Selling Shareholders.

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IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs. 1095)	Upper band (Rs.1100)
QIB	50%	1,10,88,776	1,214	1,220
Non-Institutional	15%	33,25,534	364	366
Retail	35%	77,62,145	850	854
HDFC AMC Employee		3,20,000	35	35
HDFC Ltd Employee		5,60,000	61	62
HDFC Ltd Shareholders		24,00,000	263	263
Total	100%	2,54,57,555	2,787	2,800

Source: Company RHP, ACMIIL

Outlook and Valuations

HDFC AMC is one of largest Asset Management Company in India. It is among the very few players which is best positioned to capture the high-growth potential of India's mutual fund industry, which is underpenetrated in comparison with developed nations (11% of GDP as compared to a world average of 62%). With increasing household savings and financial awareness, there is gradual shift from physical saving to financial saving. Further, with demonetization, RERA implementation, and GST roll-out, value of real estate and gold as an investment option has reduced. Given the underpenetrated nature of MF industry coupled with first-mover advantage followed by well-diversified suite of products and multi-channel distribution network, strong brand image, superior return ratios we believe the company is set to benefit in the long run. At Upper price band of Rs 1100/-, company trades at 10.7x its FY18 P/B Value of Rs 102.6/-, & 31.5x its FY18 EPS of Rs 34.9/-, which we believe is reasonably priced. Hence we recommend to SUBSCRIBE to the issue on long term basis.

Business Overview

HDFC Asset Management Company is the most profitable asset management company in India in terms of net profits since FY13 with a total AUM (Assets Under Management) of Rs 2,91,985cr, according to CRISIL. HDFC AMC was incorporated on December 10, 1999. The company is a subsidiary of HDFC Limited.

HDFC AMC is the largest Asset Management Company in India in terms of equity-oriented Asset under Management since the last quarter of FY11 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.291,985cr 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).

The schemes broadly categorize as follows:

Equity-oriented schemes	Debt Schemes	Liquid Schemes	Other Schemes
Diversified Equity-oriented Scheme	Ultra-short-term schemes	Liquid Schemes	Exchange Traded Fund (ETF)
Equity-oriented hybrid schemes	Short and medium term schemes		Funds of Funds
Tax saving schemes	Income schemes		
Thematic schemes	GILT Funds		
Index Schemes	Debt-oriented hybrid schemes		
Goal-based equity-oriented schemes	Fixed-maturity plans		
Arbitrage schemes	Goal-oriented debt schemes		

Source: Company RHP, ACMIIL

The AUM split across the respective schemes as of March 31, 2018:

Equity scheme	AUM in Rs Crs	No of Scheme
Diversified	64,805	11
Equity Oriented Hybrid	64,390	3
Tax Savings	8,696	3
Thematic	4,347	2
Arbitrage	4,260	2
Goal Oriented Equity	2,686	3
Index	528	3
Total Equity Oriented	1,49,712	27

Debt Scheme	AUM in Rs Crs	No of Scheme
Short to medium term	31,992	5
Ultra Short term	28,593	2
FMP	19,820	72
Income Scheme	17,807	4
Debt Oriented Hybrid	4,981	12
Gilt Funds	2,259	2
Goal Oriented debt	56	1
Total Debt Oriented	1,05,508	98

Liquid Scheme	AUM in Rs Crs	No of Scheme
Liquid	35965	3
Total Liquid Scheme	35,965	3

Others	AUM in Rs Crs	No of Scheme
Exchange Traded Funds	557	3
Fund of funds	242	2
Total Other Scheme	799	5

Source: Company RHP, ACMIL

In last six years i.e. FY13-FY18, Company's AUM has grown at a CAGR of 25.5%. As of March 31, 2018, the equity-oriented AUM and non-equity-oriented AUM constituted Rs 1,49,713cr and Rs 1,42,273cr respectively of their total AUM. The actively managed equity-oriented AUM (which excludes index linked and arbitrage schemes) constituted Rs 1,44,925cr of the total AUM as of March 31, 2018.

CLOSING AUM AS OF (Rs Crs)							
Particular	FY13	FY14	FY15	FY16	FY17	FY18	Q1FY19
Mutual Funds	93,766	1,08,913	1,50,569	1,65,619	2,30,594	2,91,985	3,01,094
PMS & Segregated account services	5,376	3,925	2,363	4,560	5,864	6,474	6,491

Source: Company RHP, ACMIL

HDFC AMC has a total number of Live Accounts of 8.10 million as of March 31, 2018 & their Monthly Average AUM (MAAUM) from individual customers' accounts for 62.2%, compared to the industry average of 51.4%, for the same period, according to CRISIL. The company had a monthly flow of over Rs 1,150cr through approximately 3.16 million systematic transactions. Further as on March 31, 2018, they also managed AUM of Rs 6474cr as part of their portfolio management and segregated accounts services' business. Additionally, as part of their portfolio management and segregated accounts services, company provides non-binding investment advisory services to a fund which had an AUM of Rs 469cr as of March 31, 2018 and is managed by Standard Life Investments Global SICAV.

Monthly Average Asset under Management ("MAAUM") on a customer basis

Monthly Average AUM (MAAUM)	FY14		FY15		FY16		FY17		FY18		Q1FY19	
	Rs in Crs	% to total	Rs in Crs	% to total	Rs in Crs	% to total	Rs in Crs	% to total	Rs in Crs	% to total	Rs in Crs	% to total
Individual (Rs)	62431	54.6%	93135	56.3%	94521	52.8%	135031	56.0%	186254	62.2%	191001	62.4%
Institutional (Rs)	52002	45.4%	72289	43.7%	84505	47.2%	105882	44.0%	113189	37.8%	115039	37.6%
Total (Rs)	114433	100.0%	165424	100.0%	179026	100.0%	240913	100.0%	299443	100.0%	306040	100.0%
Individual Live Accounts	44,36,796		51,38,654		55,46,068		61,50,163		80,45,402		83,59,711	

Source: Company RHP, ACMIL

As of FY18, the mutual fund industry comprised 41 players, of which, 25 are sponsored by private companies, seven each are sponsored by public and foreign institutions, and two are sponsored by financial institutions.

AUM Shares of top 10 Players

Mutual funds	Quarterly Average AUM as on 31st March 2018		Month-end AUM as on 31st March 2018	
	Rs Bn	% of Industry AUM	Rs Bn	% of Industry AUM
Top 5				
ICICI Prudential MF	3,057	13.3%	2,913	13.60%
HDFC MF	3,005	13.3%	2,917	13.70%
Aditya Birla Sun Life MF	2,475	10.7%	2,301	10.80%
Reliance MF	2,449	10.6%	2,261	10.60%
SBI MF	2,176	9.4%	2,054	9.60%
Total of Top 5	13,162	57.1%	12,446	58.30%
Next 5				
UTI MF	1,549	6.7%	1,360	6.40%
Kotak Mah MF	1,247	5.4%	1,151	5.40%
Franklin Templeton MF	1,032	4.5%	993	4.60%
DSP Blackrock MF	863	3.7%	821	3.80%
Axis MF	773	3.4%	669	3.10%
Total of Next 5	5,464	23.7%	4,994	23.40%
Total	18,626	80.8%	17,440	81.60%

Source: Company RHP, ACMIL

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, 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.

As on March 31, 2018, HDFC AMC has 1,010 employees on the rolls of company. HDFC AMC has received several awards for their operations, such as the Equity Fund House of the year award for 2017 at the Outlook Money Awards in 2018.

The table below highlights the key competitive metrics for Fiscal 2018 of the top five asset management companies:

Revenue & Profitability	HDFC AMC	Reliance Nippon AMC	ICICI pru AMC	Aditya Birla AMC	SBI AMC
Total revenues (Rs. Bn)	17.6	17.46	18.97	12.61	Not Available (NA)
Total revenues as a % of AAUM	0.67%	0.74%	0.67%	0.55%	NA
Operating Revenue (Rs Bn)	9.7	15.3	18.2	12.2	NA
Profit before tax and other income (Rs. Bn)	10.6	4.9	8.7	4.4	NA
Net profit (Rs. Bn)	7.2	5.1	6.3	3.2	3.3
Net profit as a % of AAUM	0.26%	0.21%	0.22%	0.14%	0.17%
Profit before tax & other income as % of AAUM	0.35%	0.21%	0.31%	0.19%	NA
Total Expenses (Rs Bn)	7.9	10.39%	9.47%	7.77%	NA
Total Expenses as % of AAUM	0.29%	0.44%	0.33%	0.34%	NA

Source: Company RHP, ACMIL

Investment Rationale

Consistent market leadership position

HDFC AMC has been a leader in the Indian mutual fund industry as demonstrated by their leading position across key industries verticals. As of March 31, 2018, HDFC AMC had the highest share of individual customers of 15.7% and the 2nd largest market share of MAAUM of 12.7% from B-15 cities in India, according to CRISIL. Their Live Accounts increased from 4.94 million in FY13 to 8.10 million as of March 31, 2018. According to CRISIL, HDFC AMC has been the largest asset management company in India in terms of equity-oriented 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. HDFC Mutual Fund has the highest share of equity AUM, followed by ICICI Prudential Mutual Fund. They managed a total AUM of Rs 2,91,985cr as on FY18 & their AUM has grown at a CAGR of 33.9% since Fiscal 2001.

Trusted brand and strong parentage

HDFC AMC has a strong brand that their customers trust, as evidenced by their consistent leadership position in the Indian mutual fund industry. They have strong brand recall among Indian customers, which they attribute, in part, to the strength of their brand and strong parentage. The company benefits from the brand reputation of their promoters, HDFC and SLI. The HDFC group has a strong presence across financial products and services, especially in the retail sector. They benefit from HDFC's brand name as it gives them a unique advantage of being a trusted provider of financial services and SLI provides them access to international best practices, for operations and risk management.

Strong investment performance supported by comprehensive investment philosophy and risk management

Equity-oriented schemes:-

Company's consistent position as one of India's leading asset management companies is driven by their comprehensive investment philosophy and investment performance. Equity-oriented schemes constituted 51.3% of their total AUM as of March 31, 2018. The investment philosophy for equity-oriented investments is based on the belief that over time stock prices reflect their intrinsic values. The research effort focuses on the assessment of medium to long-term fundamentals. As a result of this approach, the company has been able to deliver strong and consistent performance for their equity-oriented schemes and view ourselves as the market leader for equity-oriented schemes.

According to CRISIL, as of March 31, 2018,

- The HDFC Equity Fund was the largest scheme in the Multi cap-oriented equity category;
- The HDFC Midcap Opportunities Fund was the largest scheme in the Mid-cap category;
- The HDFC Prudence Fund was the largest scheme in the Dynamic Asset Allocation or Balanced Advantage category; and
- The HDFC Tax Saver was amongst the top three largest funds in the equity-linked savings scheme in terms of QAAUM.

The 6 Equity-oriented schemes set forth in the table below accounted for 79.1% of their equity-oriented AUM as of March 31, 2018.

Debt schemes:-

Company's investment philosophy for fixed income investments is based on the objective of delivering optimal risk adjusted returns across their schemes, with a particular focus on safety, liquidity and returns. The fixed income schemes constituted 48.5% of their total AUM as of March 31, 2018. 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.

Superior and diversified product mix distributed through a multi-channel distribution network

Company's diversified product mix includes 27 equity-oriented schemes, 98 debt schemes (including 72 FMPs), 3 liquid schemes, and 5 other schemes (including exchange-traded and funds of fund schemes), enables them to operate through various market cycles, cater to specific customer requirements and reduce concentration risk. They offer equity-oriented schemes based on market capitalization and asset class mix, as well as thematic, tax saving, goal-based, arbitrage and index schemes. Schemes based on market capitalization include multi-cap, large-cap, midcap and small-cap schemes, while those based on asset classes include equity-oriented hybrid schemes with a mix of equity and debt instruments. The company offers their customers access to their products and services through an extensive multi-channel sales and distribution network comprising banks, national distributors and IFAs. 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 RTA. Customers also access their products and services directly through their branches and online channels. Further, as of March 31, 2018, they had over 65,000 empaneled distributors across India marketing the entire range of their schemes with their largest distribution partner (HDFC Bank Limited) accounted for 10.3% of the total AUM and 12.1% of their equity-oriented AUM, while their second and third largest distributor accounted for 3.2% and 2.6% of their total AUM, respectively.

Experienced and reputed management team

HDFC AMC is led by a robust management team with extensive experience in the asset management, banking and finance sectors with a proven track record of performance. The company has been in operation for over 17 years. Their senior management team has been with them for an average of 13 years and has a total average work experience of 26 years. Their Managing Director, Mr. Milind Barve has been with the company since the year of its inception and with the HDFC group for over 34 years. The Executive Director and Chief Investment Officer, Mr. Prashant Jain joined the company in 2003 when they acquired Zurich India Asset Management Company where he had been since 1993. Company's leadership team is committed to growing their business, as demonstrated by their track record in delivering consistent business and financial results. The company has a strong and stable investment team, which consisted of 26 employees as of March 31, 2018 with an average of 8 years of work experience with the company and an average of 17 years of total experience. Their attrition rates are amongst the lowest in the industry.

Consistent profitable growth

HDFC AMC has been the most profitable asset management company in India in terms of net profits since Fiscal 2013. Their AUM has grown at a CAGR of 33.9% since FY01 and their profits have grown at a CAGR of 32.1% since their first full year of operations in FY02. In last five years i.e. FY14 - FY18, HDFC AMC revenues grew at a CAGR of 20% to Rs 1,867cr while net profit grew at a CAGR of 19% to Rs 721cr. They have been the most profitable asset management company in India in terms of net profits and total revenue since Fiscal 2013 and 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. Further, their dividend payout ratio increased from 41% in Fiscal 2014 to 56% in Fiscal 2018 and company has paid a dividend of Rs 337cr in FY18 compared to Rs 126cr in FY14. Moreover, their net worth stands at Rs 2160cr as of March 31, 2018. In addition, their return on average net worth exceeded 30% year after year since Fiscal 2014 and was 33.4% for FY18.

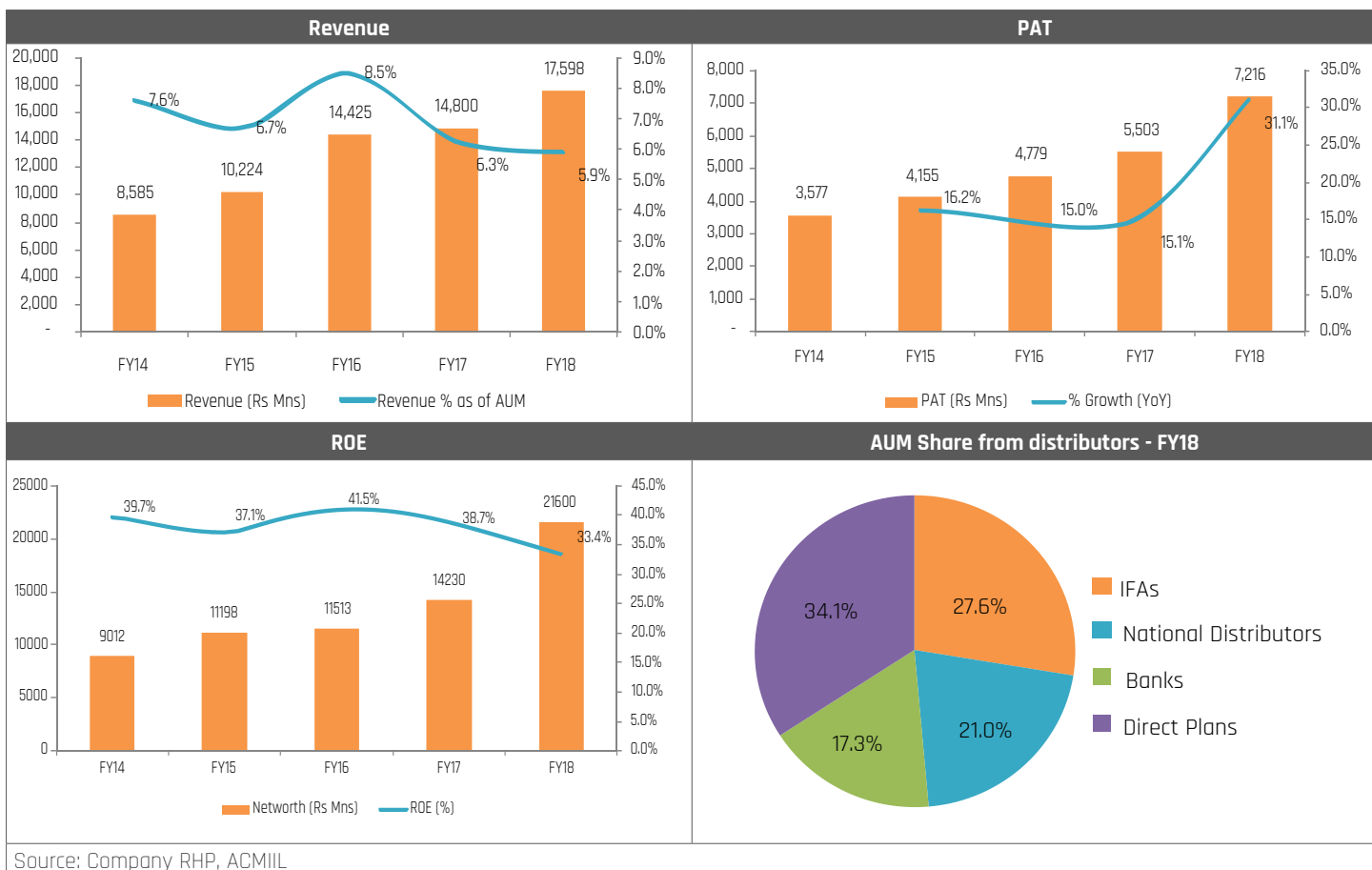
Risk Factors

- Company's future revenue and profit are largely dependent on the growth, value and composition of AUM of the schemes managed by them, which may decline.
- Underperformance of investment products in respect of which they provide asset management services could lead to a loss of investors and reduction in AUM and adversely affect their revenue and reputation.
- Company's business has grown consistently in the recent past and such growth might not continue or might reverse.
- Competition from existing and new market participants offering investment products could reduce their market share or put downward pressure on their fees.

Listed Peer Comparison

Company Name	FV	Diluted EPS (Rs)	P/E	P/B	ROE
Reliance Nippon Life AMC	10	8.7	25.4	5.9	22.8%
HDFC AMC	5	34.9	31.5	10.7	33.4%

Source: Company RHP, ACMIIL



Financials

Income Statement

Particular (Rs Mns)	FY14	FY15	FY16	FY17	FY18
Revenue from Operation	8585	10224	14425	14800	17598
Total Revenue	8,585	10,224	14,425	14,800	17,598
Less: Expenditure					
Employee benefit	1115	1275	1432	1575	1749
Other Expense	2607	3040	6318	6186	6183
Total Expenses	3722	4315	7750	7761	7932
EBITDA	4,863	5,909	6,675	7,039	9,666
EBITDA %	56.6%	57.8%	46.3%	47.6%	54.9%
Less : Dep	85	101	111	119	114
Add: Other income	446	418	518	1079	1075
PBT	5,224	6,226	7,082	7,999	10,627
Less: Tax	1647	2071	2303	2496	3411
Profit after tax	3,577	4,155	4,779	5,503	7,216
Profit %	42%	41%	33%	37%	41%
EPS (Rs)	17.6	20.3	23.6	27.1	34.9

Source: Company RHP, ACMIIL

Balance Sheet

Particular (Rs Mns)	FY14	FY15	FY16	FY17	FY18
Equity & Liabilities					
ShareCapital	252	252	252	252	1053
Reserves & Surplus	8760	10946	11261	13978	20547
Total Networth	9012	11198	11513	14230	21600
Long term provisions	150	150	150	8	8
Current Liabilities					
Trade Payables	1477	952	1720	960	1116
Other Current liabilities	574	818	845	797	982
Short Term provisions	0	0	0	1	1
Total Liabilities	11,213	13,118	14,228	15,996	23,706
Assets					
Tangible Assets	263	244	228	226	246
Intangible Assets	15	94	84	85	82
Intangible Assets under development	2	1	11	24	60
Non Current Investments	1304	1617	1599	1688	6395
Deferred Tax Assets	128	133	139	93	97
Long term loans & assets	1198	1752	974	690	617
Current assets					
Current Investment	6062	4888	8259	10679	13110
Trade Receivables	155	166	386	851	903
Cash & Cash Bal	10	26	10	13	21
Short term loans & advances	1063	2487	1721	1628	2055
Other Current assets	1013	1710	817	19	120
Total Assets	11,213	13,118	14,228	15,996	23,706

Source: Company RHP, ACMIIL

Asit C. Mehta

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