

Bid for Long Term

Key Data	
Floor Price (Rs)	2362
Face Value (Rs)	05/-
Issue Size (Rs)	2834cr
Total offered	1.2 Crore shares
Retail	
Issue Opens	June 18, 2020
Issue Closes	June 18, 2020
Offered shares	12,00,000
NSE Code	HDFCAMC
BSE Code	541729
52 Week High	3844
52 Week Low	1784
Source:BSE	

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 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 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 promoter of the company – Standard Life Investments Ltd, proposes to sell up to 60,00,000 equity shares representing 2.82% of the total paid-up equity share capital of the company and face value of Rs.5/- each, with an option to additionally sell up to 60,00,000 equity shares representing 2.82% of the total paid-up equity share capital of the company. The floor price has been set at Rs. 2362/- per share.

Allocation Methodology:

The allocation would be made on price priority method at multiple clearing prices in accordance with the SEBI OFS circular. The issue opens for subscription on June 17, 2020 for institutional bidders. Retails investors for whom 10% shares have been reserved will get to bid on June 18, 2020.

Rationales:

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. The Company enjoys a leading position in equity-oriented AUM in the country. Further, The company has 2nd largest market share of Monthly Average AUM of 11.9% from B-30 cities in India. They managed a total AUM of Rs.3,191Bn as on FY20 & their AUM has grown at a CAGR of 16% since FY15. Since FY 01-02, HDFC AMC profits have grown every year and the company has been the most profitable AMC in India since FY 12-13.

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

Company's diversified product mix includes 22 equity-oriented schemes, 115 debt schemes, 3 liquid schemes, and 7 other schemes (including exchange-traded and funds of fund schemes), enables them to operate through various market cycles, cater to

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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. As of March 31, 2020, they served customers in over 200 cities through their pan-India network of 221 branches (and a representative office in Dubai), and service centres of their RTA. Further, as of March 31, 2020, they had over 70,000 empaneled distributors across India marketing the entire range of their schemes with their largest distribution partner (HDFC Bank Limited) accounted for 16% of the total AUM

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 financial performance led by consistent and profitable growth

HDFC AMC has been the most profitable asset management company in India in terms of net profits since Fiscal 2013. In last four years i.e. FY16 – FY20, HDFC AMC revenues grew at a CAGR of 8% to Rs.2,003Cr while net profit grew at a CAGR of 27% to Rs.1262Cr. Further, their dividend payout ratio increased from 41% in FY 2014 to 48% in FY 2020. Moreover, their net worth stands at Rs.4,029 Cr as on 31 March, 2020. In addition, their return on average net worth exceeded 30% year after year since FY 2014 and was 30.8% for FY20.

Recommendations:

At the floor price of Rs 2,362/-, the stock trades at 39.8x its FY20 EPS of Rs.59.36. HDFC AMC has been able to build a strong brand franchise due to strong parentage and consistent returns in the past with top funds witnessing continuous flows. Given the underpenetrated nature of MF industry, We believe HDFC is best positioned with its well-diversified suite of products and multi-channel distribution network, strong brand image, superior return ratios to capture the high-growth potential of India's mutual fund industry. **Hence, we recommend to BID for the OFS on a long-term basis.**

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Company

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