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IPO REPORT

**“Subscribe for Long Term” to
UTI Asset Management Company Ltd.**

Salient features of the IPO:

- **UTI Asset Management Company Ltd.** (UTI AMC), one of India's oldest AMC, is planning to raise up to Rs. 21,600mn through an IPO, which will open on 29th Sept. and close on 1st Oct. 2020. The price band is Rs. 552 - 554 per share.
- The issue consists of only OFS portion. As a result, the company will not receive any proceeds from it.

Key competitive strengths:

- Well-positioned to capitalize on favorable industry dynamics, including the under penetration of mutual fund products
- Pure-play independent asset manager with strong brand recognition and diverse portfolio of funds and services
- Multiple distribution channels with wide reach and broad & stable client base
- Long-term track record of product innovation, consistent and stable investment performance and AUM growth
- Established position in retirement solutions through product innovation and large retirement fund mandates
- Experienced management and investment teams supported by strong governance structures and human resources programs
- Enhanced profitability driven by size and product mix

Risk and concerns:

- Continued subdued economic growth post Covid-19 pandemic
- Decline in global & domestic equity markets and delayed recovery
- Changes in interest rates and defaults
- Unfavorable composition of AUM
- Intense competition and unfavorable regulation

Peer comparison and valuation: At the higher price band of Rs. 554 per share, UTI AMC is demanding a P/E valuation of 23.3x, which is at a discount to the peer average of 35.1x.

Below are few key observations of the issue: (continued in next page)

- Mutual fund assets in India have seen robust growth, especially in recent years, driven by a growing investor base due to increasing penetration across geographies, strong growth of the capital markets, technological progress and regulatory efforts aimed at making mutual fund products more transparent and investor friendly. Although mutual fund AUM as a percent of GDP rose from 4.3% in FY02 to approximately 11% in FY20, penetration levels remain well below the world average of 63%. With supportive industry policies, financialization of the household saving, increasing penetration in the B30 cities, the macros of the domestic mutual fund industry are positive and provides huge scope for growth and development.
- Aggregate mutual fund industry AUM grew at around 14.9% CAGR from Rs. 11.9tn as of 31st Mar. 2015 to Rs. 24.6tn as of 30th Jun. 2020. This impressive growth was despite the industry witnessing IL&FS default and continuing NBFC crisis, which subsequently got exacerbated by the Covid-19 global pandemic. Q1 FY21 saw a drop in AUM as a result of the nationwide lockdown and overall capital markets performance. Due to pandemic led destruction, mutual fund quarterly AAUM growth is expected to be near-flat for FY21. However, post FY21, quarterly AAUMs are expected to gradually bounce back and grow to approximately Rs. 52tn by Mar. 2025 (i.e. a growth of around 18% CAGR between Mar. 2021 and Mar. 2025).
- As of 30th Jun. 2020, UTI AMC is the second largest AMC in India in terms of total AUM and eight largest in India with domestic QAAUM (quarterly average AUM) of Rs. 1,336.3bn. Among the top-10 domestic AMCs, the company has the highest proportion of its monthly average AUM attributable to B30 cities, which is characterized by a particularly low penetration of mutual fund products. By FY20 end, the industry generated only 12.6% of the total AUM from these cities.

| Recommendation | Subscribe for Long Term |
|---------------------------------------|---|
| Price Band | Rs. 552 - 554 per Share |
| Face Value | Rs. 10 |
| Shares for Fresh Issue | Nil |
| Shares for OFS | 38.99mn shares |
| Fresh Issue Size | N/a |
| OFS Issue Size | Rs. 21,520.9 - 21,598.8mn |
| Total Issue Size | 38.99mn shares (Rs. 21,520.9 - 21,598.8mn) |
| Reserved for employees | 0.2mn shares |
| Net issue size | 38.79mn shares (Rs. 21,410.5 - 21,488mn) |
| Bidding Date | 29 th Sept. - 1 st Oct. 2020 |
| MCAP at Higher Price Band | Rs. 70,240mn |
| Enterprise Value at Higher Price Band | Rs. 73,172mn |
| Book Running Lead Manager | Kotak Mahindra Capital Company Ltd., Axis Capital Ltd., Citigroup Global Markets India Pvt. Ltd., DSP Merrill Lynch Ltd., ICICI Securities Ltd., JM Financial Ltd. and SBI Capital Markets Ltd. |
| Registrar | KFin Technologies Pvt. Ltd. |
| Sector/Industry | Asset Management Company |
| Promoters | UTI AMC is a professionally managed company and does not have an identifiable promoter |

| issue breakup | | |
|---------------------------|----------------------|-----------------------|
| Category | Percent of issue (%) | Number of shares (mn) |
| QIB portion | 50% | 19.39mn shares |
| Non institutional portion | 15% | 5.82mn shares |
| Retail portion | 35% | 13.58mn shares |

| Indicative IPO process time line | | |
|------------------------------------|--|----------------------------|
| Finalization of basis of allotment | | 7 th Oct. 2020 |
| Unblocking of ASBA account | | 8 th Oct. 2020 |
| Credit to demat accounts | | 9 th Oct. 2020 |
| Commencement of trading | | 12 th Oct. 2020 |

| Pre and post - issue shareholding pattern | | |
|---|----------------|----------------|
| | Pre - Issue | Post - Issue |
| Promoter & Promoter Group | 00.00% | 00.00% |
| Public | 100.00% | 100.00% |
| Total | 100.00% | 100.00% |

| Retail application money at higher cut-off price per lot | | |
|--|--|--------------------|
| Number of Shares per Lot | | 27 |
| Application Money | | Rs. 14,958 per Lot |

| Analyst | | |
|---|--|--|
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Peer comparison and valuation (Contd...):

| Company name | Face value (Rs.) | CMP (Rs.) | MCAP (Rs. mn) | EV (Rs. mn) | Stock return (%) | | | | Operating revenue (Rs. mn) | EBITDA (Rs. mn) | PAT (Rs. mn) | EBITDA margin (%) | PAT margin (%) |
|--|------------------|------------|---------------|---------------|------------------|--------|------|--------|----------------------------|-----------------|--------------|-------------------|----------------|
| | | | | | 1 W | 1 M | 3 M | 1 Y | | | | | |
| UTI Asset Management Company Ltd. | 10 | 554 | 70,240 | 73,172 | | | | | 8,823 | 3,660 | 3,021 | 41.5% | 34.2% |
| HDFC Asset Management Company Ltd. | 5 | 2,111 | 449,345 | 451,868 | -15.2% | -13.7% | 3.5% | -26.3% | 19,104 | 14,930 | 12,730 | 78.2% | 66.6% |
| Nippon Life Asset Management Ltd. | 10 | 254 | 155,660 | 154,292 | -8.7% | -18.2% | 8.7% | -3.3% | 11,110 | 5,623 | 4,462 | 50.6% | 40.2% |
| Average | | | | | | | | | | | | 64.4% | 53.4% |

| Company Name | AUM (Rs. mn) | Mutual fund market share (%) | Operating revenue / AUM (%) | Net profit / AUM (%) | EPS (Rs.) | BVPS (Rs.) | DPS (Rs.) |
|------------------------------------|---------------------|------------------------------|-----------------------------|----------------------|-----------|------------|------------|
| UTI Asset Management Company Ltd. | 1,336,300 ** | 5.4% | 0.66% | 0.23% | 23.8 | 223.6 | 5.0 |
| HDFC Asset Management Company Ltd. | 3,674,000 | 14.5% | 0.52% | 0.35% | 59.8 | 189.3 | 12.0 |
| Nippon Life Asset Management Ltd. | 2,569,000 | 7.3% | 0.43% | 0.17% | 7.3 | 42.4 | 6.0 |
| Average | | | 0.48% | 0.26% | | | 9.0 |

| Company Name | Debt Equity Ratio | Total Asset Turnover Ratio | RoE (%) | RoA (%) | P / E (x) | P / B (x) | EV / Sales (x) | EV / EBITDA (x) | MCAP / Sales (x) | MCAP / AUM (x) | Earning Yield (%) |
|--|-------------------|----------------------------|--------------|--------------|-------------|------------|----------------|-----------------|------------------|----------------|-------------------|
| UTI Asset Management Company Ltd. | 0.1 | 0.3 | 10.7% | 9.3% | 23.3 | 2.5 | 8.3 | 20.0 | 8.0 | 5.3% | 4.3% |
| HDFC Asset Management Company Ltd. | 0.1 | 0.4 | 31.6% | 29.7% | 35.3 | 11.2 | 23.7 | 30.3 | 23.5 | 12.2% | 2.8% |
| Nippon Life Asset Management Ltd. | 0.1 | 0.4 | 17.2% | 15.5% | 34.9 | 6.0 | 13.9 | 27.4 | 14.0 | 6.1% | 2.9% |
| Average | 0.1 | 0.4 | 24.4% | 22.6% | 35.1 | 8.6 | 18.8 | 28.9 | 18.8 | 9.1% | 2.8% |

Note: All financial data are of TTM; ****** It is mutual fund AUM, however total AUM is Rs. 9.8tn; Source: Choice Broking Research

- UTI AMC also provides portfolio management services (PMS) to institutional clients and high net worth individuals (HNI), manage retirement funds, offshore funds and alternative investment funds (AIF). As of 30th Jun. 2020, in term of AUM - the company is the second largest PMS provider in India. Of the total AUM as of 30th Jun. 2020, domestic mutual fund AUM is around 13.6%, while PMS and retirement solutions AUM share is 70.9% and 13.8%, respectively. However, on the management fees front, domestic mutual fund accounted for 58.7% of the total income in Q1 FY21.
- With 10.9mn live folios (as of 31st Mar. 2020), the company's client base accounts for 12.2% of the approximately 89.7mn folios managed by the Indian mutual fund industry. Individual domestic clients represented 43.8% of its domestic mutual fund AUM, which helps it in reducing short-term churn and volatility. Moreover, these individual clients had a holding period of more than three years.
- UTI AMC has a comprehensive multi-channel distribution network comprising of 53,000 independent financial advisors (IFA), direct distribution (which includes internal sales teams for institutional & PSU clients and digital platforms) and banks & distributors. As of 30th Jun. 2020, these IFAs contributed 29.8%, while direct distribution contributed 58.7% of its domestic mutual fund AUM. This wide distribution network is spread across 697 districts (out of total 722 districts) in India, thereby giving access to the investors even in the remote areas.
- The financial performance of UTI AMC is not encouraging. Despite being one of the pioneers of mutual fund in India and with relatively better distribution network, the company is consistently losing the market share. Its market share has consistently declined from 8.2% in FY14 to 6.5% in FY19 to 5.4% in Q1 FY21.
- Over FY17-20, the mutual fund industry was marred by regulatory actions, adverse credit market, Covid-19 pandemic etc. These events cumulatively resulted to a fall in UTI AMC's mutual fund AUM and thus the corresponding management fees. During this period, the company witnessed 4% CAGR fall in the management fees (which is around an average 86% of the top-line during the period). Consequently, consolidated top-line declined by 9.1% CAGR over FY17-20. Consolidated EBITDA and PAT declined by 19.7% and 17.4%, respectively, with contraction in EBITDA and PAT margin by over 11ppts and 675bps. UTI AMC has consistently generated a positive operating cash flow over FY17-20, but it declined by 26.5% CAGR. With fall in profitability, RoIC and RoE is in declining trend. RoIC and RoE contracted by 934bps and 988bps, to be at 9% and 9.9%, respectively in FY20. It is a consistently paying dividend with an average payout ratio of 16.7% over FY17-20.
- In Q1 FY21, the company reported higher revenues and improved profitability, mainly on the back of recovery in the equity market performance, lower operating expenditure and tax rate. But this performance seems to be unsustainable.
- Based on our quick estimate, UTI AMC is expected to report an 8.1% CAGR rise in top-line over FY20-23 to Rs. 10,797.6mn in FY23. EBITDA and PAT margins are likely to improve by 370bps and 31bps, respectively. RoIC and RoE are forecasted to improve by 82bps and 87bps to be at 9.8% and 10.8%, respectively, in FY23.

At the higher price band of Rs. 554 per share, UTI AMC is demanding a P/E valuation of 23.3x, which is at a discount to the peer average of 35.1x. Considering the above observations and positive macros of the domestic mutual fund industry, we assign a **"Subscribe for Long Term"** rating for the issue.

About the issue:

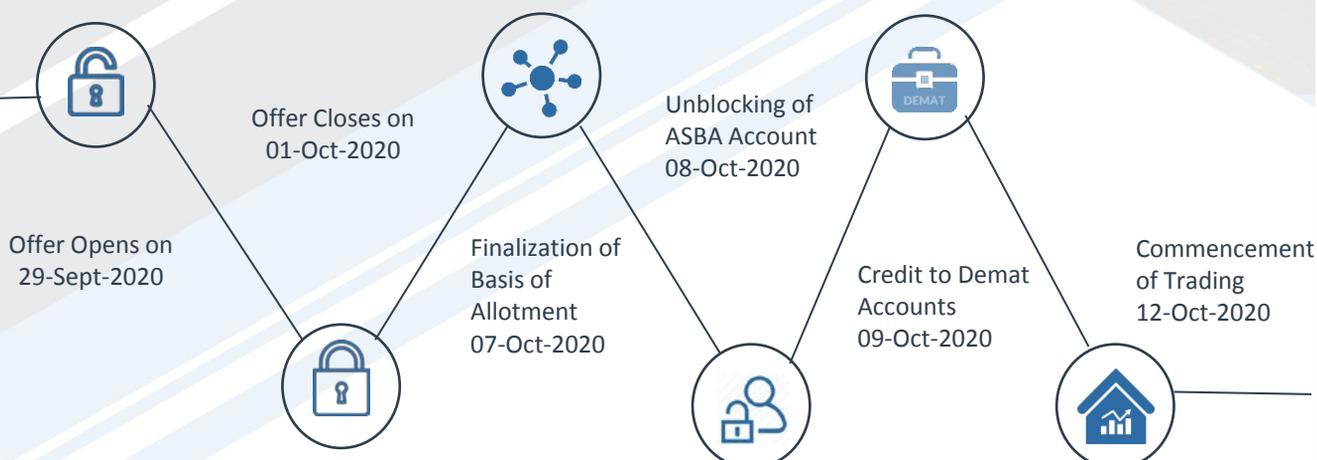
- UTI AMC is coming up with an IPO with 38.99mn shares (fresh issue: nil; OFS shares: 38.99mn shares) in offering. The offer represents around 30.75% of its post issue paid-up equity shares of the company. Total IPO size is Rs. 21,520.9 - 21,598.8mn.
- The issue will open on 29th Sept. 2020 and close on 1st Oct. 2020.
- The issue is through book building process with a price band of Rs. 552 - 554 per share.
- The issue consists of only OFS portion. As a result, the company will not receive any proceeds from it.
- 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.
- UTI AMC is a professionally managed company and does not have any identifiable promoter. Public holding will remain 100% both pre and post-IPO.

Pre and post issue shareholding pattern (%)

| | Pre Issue | Post Issue (at higher price band) |
|---------------------------|-----------|-----------------------------------|
| Promoter & Promoter Group | 00.00% | 00.00% |
| Public | 100.00% | 100.00% |

Source: Choice Equity Broking

Indicative IPO process time line:



Company introduction:

As of 30th Jun. 2020, **UTI AMC** is the second largest asset management company in India in terms of total AUM (asset under management) and the eighth largest AMC (asset management company) in India in terms of mutual fund QAAUM. Among the top-10 AMCs, the company also had the largest share of its monthly average AUM attributable to B30 cities. UTI AMC caters to a diverse group of individual and institutional investors through a wide variety of funds and services. It manages the domestic mutual funds of UTI Mutual Fund, provides PMS to institutional clients and HNI, manage retirement funds, offshore funds and AIF.

UTI AMC had total QAAUM of Rs. 1,336.3bn, while its other AUM was Rs. 8,493.9bn at the end of Jun. 2020. With 10.9mn live folios as of 31st Mar. 2020, its client base accounts for 12.2% of the approximately 89.7mn folios that are managed by the Indian mutual fund industry.

The company's history and track record in the mutual fund industry, strong brand recognition, distribution reach, performance and client relationships provide a platform for future growth. The company and its predecessor (Unit Trust of India) have been active in the asset management industry for more than 55 years, having established the first mutual fund in India. UTI AMC is a professionally managed company led by its Board of Directors and a dedicated and experienced management team. Its four sponsors are the State Bank of India, Life Insurance Corporation of India, Punjab National Bank and Bank of Baroda, each of which has the Government of India as a majority shareholder. T. Rowe Price Group, Inc., a global AMC, through its subsidiary T. Rowe Price International Ltd. (TRP) is the other major shareholder. Cumulatively, these five shareholders have a pre-ipo stake of 98.96% in UTI AMC. Post-IPO, the stake will decline to 68.21%.

The company has a national footprint and offers its schemes through a diverse range of distribution channels. As of 30th Jun. 2020, its distribution network includes 163 UTI Financial Centers (UFC), 257 Business Development Associates (BDA) and Chief Agents (CA), most of which are located in B30 cities. Moreover, its IFA channel includes approximately 53,000 Independent Financial Advisors (IFA). BDA and CA network are exclusively engaged with the company and primarily in B30 cities, thereby allowing it to efficiently & effectively develop, maintain and service relationships with the distributors and investors. UTI AMC's banks & distributors (B&D) channel involves distribution arrangements with domestic and foreign banks, as well as with national and regional distributors. Additionally, the company has a dedicated sales teams for institutional and public sector undertaking clients and also offer products directly through the UFCs, digital applications and website. The distribution channels is supported by 459 relationship managers (RM), who interact with clients and distributors and help generate new business and maintain the existing relationships. Investors are also able to directly invest in the company's mutual funds through mobile applications. UTI AMC also has offices in London, Dubai, Guernsey and Singapore, through which it services offshore and domestic mutual funds to offshore investors who seek to invest in India.

UTI AMC's clients include domestic individual investors (which represented 43.8% of the its total closing AUM of domestic mutual funds, as of 30th Jun. 2020), corporate & other institutional investors (which represented 45.4% of its domestic mutual fund closing AUM), and banks & other financial institutions (which represented 3.5% of its domestic mutual fund closing AUM. Trusts (5.7%) and non-resident Indians (1.7%) represented the remainder of domestic mutual fund closing AUM as of 30th Jun. 2020. The company manages 153 domestic mutual fund schemes, comprising equity, hybrid, income, liquid and money market funds. As of 30th Jun. 2020, its domestic mutual fund QAAUM was Rs. 1,336.3bn, which accounted for approximately 5.4%, or the eighth largest amount of the total QAAUM invested in all mutual funds in India.

Set forth below is the breakdown of its domestic mutual fund QAAUM by category of mutual funds:

| ₹ in billions, except percentages) | As of June 30, | | | | As of March 31, | | | | | |
|-------------------------------------|----------------|--------------|----------------|--------------|-----------------|--------------|----------------|--------------|----------------|--------------|
| | 2020 | | 2019 | | 2020 | | 2019 | | 2018 | |
| Category of Fund | QAAUM | % of Total | QAAUM | % of Total | QAAUM | % of Total | QAAUM | % of Total | QAAUM | % of Total |
| Active | 332.7 | 24.9% | 387.5 | 24.6% | 381.9 | 25.2% | 372.6 | 23.3% | 366.7 | 23.7% |
| Passive ⁽¹⁾ | 244.5 | 18.3% | 198.0 | 12.5% | 252.2 | 16.7% | 167.4 | 10.5% | 92.1 | 5.9% |
| Total Equity | 577.2 | 43.2% | 585.5 | 37.1% | 634.1 | 41.9% | 540 | 33.8% | 458.8 | 29.6% |
| Hybrid | 187.9 | 14.1% | 221.5 | 14.0% | 209.6 | 13.8% | 219.3 | 13.7% | 219.1 | 14.1% |
| Income | 193.3 | 14.5% | 318.3 | 20.2% | 213.5 | 14.1% | 391.9 | 24.5% | 487.5 | 31.5% |
| Liquid /Money Market ⁽²⁾ | 377.9 | 28.2% | 453.3 | 28.7% | 457.9 | 30.2% | 445.8 | 27.9% | 384.0 | 24.8% |
| Total | 1,336.3 | 100% | 1,578.7 | 100% | 1,515.1 | 100% | 1,596.9 | 100% | 1,549.4 | 100% |

Source: Company RHP

Company introduction (Contd...):

UTI AMC's investment philosophy endeavors to deliver investment outperformance against benchmarks and competitors, and its investment strategy is to have a balanced and well-diversified portfolio within each of the funds, which are subject to internal norms governing asset allocation, sectoral allocation and security selection. The company's domestic equity mutual fund management team includes 19 members, with an average of more than 11 years of experience, while its domestic fixed income mutual fund management team is composed of 13 members, with an average of over 12 years of experience. Many of its equity mutual funds have demonstrated strong performance through economic cycles. The company has a rigorous internal control structure with emphasis on risk management, internal audit systems and regulatory compliance.

UTI AMC's PMS business provides portfolio management services to institutional clients and HNIs. It provides discretionary PMS to the Employees' Provident Fund Organization, the Coal Mines Provident Fund Organization, the Employees' State Insurance Corporation, the National Skill Development Fund and to HNIs, non-discretionary PMS to Postal Life Insurance, and advisory PMS to various offshore and domestic accounts. As on 31st Oct. 2019, the company was approved to manage 55% of the total corpus of the Central Board of Trustees, EPF, accounting for Rs. 5,916.6bn, or 84.9% of its PMS AUM as of 30th Jun. 2020. UTI AMC's PMS AUM increased from Rs. 1,158.5bn in FY18 to Rs. 6,890.6bn in FY20, representing a CAGR of 143.9%, and to Rs. 6,970.5bn as of 30th Jun. 2020.

The company also manages retirement funds (in its retirement solutions business, which manages the National Pension System funds), offshore funds (including the Shinsei UTI India Fund, a co-branded fund with Shinsei Bank of Japan) and alternative investment funds. These other businesses (excluding the domestic mutual funds and PMS business) had an aggregate closing AUM of Rs. 1,523.4bn as of 30th Jun. 2020.

The following table sets forth the breakdown of the company's Other AUM (in absolute amounts and as a percentage of the total) by category of business:

| Category | As of June 30, | | | | As of March 31, | | | | | |
|------------------------------|----------------|-------------|----------------|-------------|-----------------|-------------|----------------|-------------|----------------|-------------|
| | 2020 | | 2019 | | 2020 | | 2019 | | 2018 | |
| | AUM | % of Total | AUM | % of Total | AUM | % of Total | AUM | % of Total | AUM | % of Total |
| PMS ⁽¹⁾ | 6,970.5 | 82.1% | 4,849.8 | 80.4% | 6890.6 | 83.2% | 1,332.7 | 55.6% | 1,158.5 | 56.6% |
| Retirement Solutions | 1,355.9 | 15.9% | 1,020.9 | 16.9% | 1,222.0 | 14.7% | 937.1 | 39.1% | 694.8 | 33.9% |
| Offshore Funds | 156.9 | 1.8% | 147.2 | 2.4% | 157.7 | 1.9% | 118.7 | 5.0% | 187.9 | 9.2% |
| Alternative Investment Funds | 10.6 | 0.1% | 9.7 | 0.2% | 10.5 | 0.1% | 8.3 | 0.4% | 7.0 | 0.3% |
| Total | 8,493.9 | 100% | 6,027.6 | 100% | 8,280.8 | 100% | 2,396.9 | 100% | 2,048.2 | 100% |

Source: Company RHP

Competition: Investment performance, distribution reach, quality of service, continuity of client relationships, brand recognition and business reputation are the principal competitive factors in the asset management industry. Fee competition also affects UTI AMC's business, as do compensation, administration, commissions and other expenses paid to intermediaries. Prospective clients typically base their decisions on the company's ability to generate returns that exceed a market index, and HNIs, corporate and other institutional investors, in particular, carefully consider pricing when selecting an asset manager. It face particularly intense competition in major metropolitan areas. UTI AMC's key competitors in the asset management industry include HDFC Asset Management Company Ltd., ICICI Prudential Asset Management Company Ltd., SBI Funds Management Pvt. Ltd., Aditya Birla Sun Life AMC Ltd., Nippon Life Asset Management Company Ltd. and Kotak Asset Management Company Ltd. In addition, the company competes with a large number of investment management firms, investment advisors, commercial banks, brokerage firms, broker-dealers & other financial institutions, and technology platforms. It also competes with other savings providers, such as insurance companies and banks. Bank deposits, small savings schemes and other savings products, life insurance and pension products are among the key products competing with the funds. For example, ULIPs provided by insurance companies vigorously compete with equity mutual funds, as some of these insurance plans may offer higher returns while also providing insurance coverage. Advertising and sales promotions also influence competition for sales.

The company face intense competition in attracting and retaining qualified employees, including fund managers, research analysts and sales persons. The ability to continue to compete effectively in its businesses depends in part on its ability to attract and retain such talent. A number of key competitors are part of diversified financial institutions and may have greater resources and offer a broader range of services than the company. The mutual fund industry in India is expected to attract a number of new entrants in the upcoming years due to favorable market conditions and the low barriers to entry. In the offshore business, UTI AMC competes with many well established international asset managers for opportunities to manage assets dedicated to India.

Company introduction (Contd...):

Financial performance: Over FY17-20, the mutual fund industry was marred by regulatory actions, adverse credit market, Covid-19 pandemic etc. These events cumulatively resulted to a fall in UTI AMC's mutual fund AUM and thus the corresponding management fees. During this period, the company witnessed 4% CAGR fall in the management fees (which is around an average 86% of the top-line during the period). Consequently, consolidated top-line declined by 9.1% CAGR over FY17-20 to Rs. 8,549.7mn. In Q1 FY21, management fees declined by 21.6% Y-o-Y (due to fall in AUM), while on the back of smart recovery in the equity market, net gain on fair value changes increased by 438% Y-o-Y. As a result, Q1 FY21 consolidated top-line improved by 11.6% Y-o-Y to Rs. 2,617.9mn. On TTM basis, top-line stood at Rs. 8,822.5mn.

Total operating expenditure increased by 1.3% CAGR (as compared to a fall in top-line) during FY17-20, thereby leading to a 19.7% CAGR fall in consolidated EBITDA to Rs. 3,492.7mn in FY20. EBITDA margin contracted by over 11ppts during the period to remain at 40.9% in FY20. During Q1 FY21, consolidated EBITDA increased by 15.4% Y-o-Y to Rs. 1,247mn - mainly on account of lower operating expenses. EBITDA margin improved by 157bps Y-o-Y to 47.6%. On TTM basis, consolidated EBITDA stood at Rs. 3,659.6mn with a margin of 41.5%.

Depreciation charge increased by 10.6% CAGR, while other income increased by 64.4% CAGR during FY17-20. Effective tax expenses declined by 25.8% CAGR, thereby leading to a 17.4% CAGR fall in consolidated PAT to Rs. 2,730.3mn in FY20. PAT margin contracted by 675bps during the period to stand at 31.9% in FY20. During Q1 FY21, PAT increased by 40.6% Y-o-Y with 791bps expansion in the PAT margin. On TTM basis, consolidated PAT stood at Rs. 3,020.5mn with a margin of 34.2%.

The company has consistently generated a positive operating cash flow over FY17-20, but it declined by 26.5% CAGR. Average operating cash flow during the period stood at Rs. 2,367mn. With fall in profitability, RoIC and RoE is in declining trend. RoIC contracted by 934bps, while RoE contracted by 988bps to be at 9% and 9.9%, respectively in FY20. It is a consistently paying dividend over FY17-20 with an average payout ratio of 16.7%.

| Consolidated financial snapshot (Rs. mn) | FY17 | FY18 | FY19 | FY20 | Q1 FY20 | Q1 FY21 | TTM | CAGR (%) | Y-o-Y (%, Annual) | Y-o-Y (%, Quarterly) |
|---|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|---------------|----------------------|-------------------------|
| Interest income | 54.0 | 67.5 | 140.5 | 177.9 | 37.5 | 34.2 | 174.7 | 81.5% | 26.6% | -8.6% |
| Dividend income | 2.5 | 5.7 | 4.9 | 2.5 | 0.3 | 0.1 | 2.4 | -0.2% | -48.5% | -57.1% |
| Rental income | 15.5 | 102.6 | 62.5 | 75.2 | 14.4 | 24.4 | 85.1 | 120.5% | 20.2% | 69.1% |
| Net gain on fair value changes | 1,028.4 | (225.1) | 931.7 | (86.6) | 167.5 | 901.2 | 647.1 | | -109.3% | 438.1% |
| Sale of services | 8,544.3 | 9,668.6 | 8,906.3 | 7,878.9 | 2,038.4 | 1,597.8 | 7,438.3 | -4.0% | -11.5% | -21.6% |
| Others - Net gain/loss on sale of investments | 704.7 | 1,881.2 | 459.2 | 501.9 | 87.1 | 60.2 | 474.9 | -15.6% | 9.3% | -30.9% |
| Revenue from operations | 10,349.3 | 11,500.5 | 10,505.1 | 8,549.7 | 2,345.1 | 2,617.9 | 8,822.5 | -9.1% | -18.6% | 11.6% |
| EBITDA | 5,421.6 | 5,686.9 | 4,982.0 | 3,492.7 | 1,080.1 | 1,247.0 | 3,659.6 | -19.7% | -29.9% | 15.4% |
| Reported PAT | 4,003.1 | 3,642.1 | 3,528.3 | 2,730.3 | 715.3 | 1,005.5 | 3,020.5 | -17.4% | -22.6% | 40.6% |
| Restated adjusted EPS | 31.6 | 28.7 | 27.8 | 21.5 | 5.6 | 7.9 | 23.8 | -17.4% | -22.6% | 40.6% |
| Cash flow from operating activities | 3,608.1 | 2,685.6 | 1,227.1 | 1,947.2 | 425.5 | 151.4 | 1,673.1 | -26.5% | 58.7% | -64.4% |
| NOPLAT | 3,907.0 | 3,828.7 | 3,345.8 | 2,494.5 | 696.7 | 1,006.1 | 2,800.7 | -20.1% | -25.4% | 44.4% |
| FCF | | 766.1 | 1,358.3 | 1,388.2 | | | | | 2.2% | |
| RoIC (%) | 18.3% | 15.7% | 12.7% | 9.0% | 2.6% | 3.5% | 9.8% | (934) bps | (367) bps | 94 bps |
| Revenue growth rate (%) | | 11.1% | -8.7% | -18.6% | | 11.6% | | | (996) bps | |
| EBITDA growth rate (%) | | 4.9% | -12.4% | -29.9% | | 15.4% | | | (1,750) bps | |
| EBITDA margin (%) | 52.4% | 49.4% | 47.4% | 40.9% | 46.1% | 47.6% | 41.5% | (1,153) bps | (657) bps | 157 bps |
| EBIT growth rate (%) | | 4.8% | -13.4% | -32.2% | | 16.5% | | | (1,885) bps | |
| EBIT margin (%) | 49.9% | 47.1% | 44.7% | 37.2% | 42.5% | 44.4% | 37.9% | (1,273) bps | (746) bps | 187 bps |
| Restated adjusted PAT growth rate (%) | | -9.0% | -3.1% | -22.6% | | 40.6% | | | (1,949) bps | |
| Restated adjusted PAT margin (%) | 38.7% | 31.7% | 33.6% | 31.9% | 30.5% | 38.4% | 34.2% | (675) bps | (165) bps | 791 bps |
| Fixed asset turnover ratio (x) | 2.7 | 3.1 | 3.0 | 2.4 | | | 2.4 | -6.5% | -21.2% | |
| Total asset turnover ratio (x) | 0.4 | 0.4 | 0.3 | 0.3 | | | 0.3 | -19.0% | -22.3% | |
| RoE (%) | 19.8% | 15.4% | 13.5% | 9.9% | | | 10.7% | (988) bps | (366) bps | |
| RoA (%) | 16.0% | 12.5% | 11.7% | 8.7% | | | 9.3% | (734) bps | (306) bps | |

Source: Choice Equity Broking



Competitive strengths:

- Well-positioned to capitalize on favorable industry dynamics, including the under penetration of mutual fund products
- Pure-play independent asset manager with strong brand recognition and diverse portfolio of funds and services
- Multiple distribution channels with wide reach and broad & stable client base
- Long-term track record of product innovation, consistent and stable investment performance and AUM growth
- Established position in retirement solutions through product innovation and large retirement fund mandates
- Experienced management and investment teams supported by strong governance structures and human resources programs
- Enhanced profitability driven by size and product mix

Business strategy:

- Drive superior investment performance across the categories of funds
- Increase geographical reach and expand distribution channels
- Actively pursue additional partnership opportunities
- Continue to develop PMS, offshore and alternative funds businesses
- Leverage technology and digitization to enhance organizational efficiency & cost optimization, improve customer acquisition & experience and ensure data security
- Continue to attract, retain and develop human capital



Risk and concerns:

- Continued subdued economic growth post Covid-19 pandemic
- Decline in global & domestic equity markets and delayed recovery
- Changes in interest rates and defaults
- Unfavorable composition of AUM
- Intense competition
- Unfavorable regulation

Financial statements:

Consolidated profit and loss statement (Rs. mn)

| | FY17 | FY18 | FY19 | FY20 | Q1 FY20 | Q1 FY21 | TTM | CAGR over FY17 - 20 (%) | Annual growth over FY19 (%) | Quarterly growth (%) |
|---|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|-------------------------------|-----------------------------------|----------------------------|
| Revenue from operations | 10,349.3 | 11,500.5 | 10,505.1 | 8,549.7 | 2,345.1 | 2,617.9 | 8,822.5 | -9.1% | -18.6% | 11.6% |
| Fees and commission expense | (5.7) | (17.9) | (21.1) | (29.1) | (6.4) | (6.7) | (29.4) | 125.2% | 38.0% | 4.2% |
| Impairment on financial instruments | 0.0 | (19.0) | | | | | | | | |
| Employee benefit expenses | (2,865.8) | (3,207.6) | (3,066.5) | (3,398.6) | (888.3) | (980.4) | (3,490.7) | 8.9% | 10.8% | 10.4% |
| Other expenses | (2,056.2) | (2,569.1) | (2,435.5) | (1,629.3) | (370.3) | (383.9) | (1,642.9) | -11.0% | -33.1% | 3.7% |
| EBITDA | 5,421.6 | 5,686.9 | 4,982.0 | 3,492.7 | 1,080.1 | 1,247.0 | 3,659.6 | -19.7% | -29.9% | 15.4% |
| Depreciation, amortization and impairment | (256.1) | (272.5) | (291.5) | (313.4) | (82.7) | (84.6) | (315.3) | 10.6% | 7.5% | 2.2% |
| EBIT | 5,165.5 | 5,414.4 | 4,690.5 | 3,179.3 | 997.4 | 1,162.4 | 3,344.3 | -21.5% | -32.2% | 16.5% |
| Finance cost | (93.4) | (87.1) | (81.9) | (84.8) | (20.5) | (22.9) | (87.2) | -4.7% | 3.5% | 11.6% |
| Other income | 133.2 | 127.0 | 303.9 | 359.9 | 87.5 | 92.8 | 365.2 | 64.4% | 18.4% | 6.0% |
| PBT | 5,205.3 | 5,454.3 | 4,912.5 | 3,454.5 | 1,064.4 | 1,232.2 | 3,622.3 | -18.5% | -29.7% | 15.8% |
| Tax expenses | (1,253.1) | (1,403.4) | (1,433.2) | (689.6) | (354.6) | (221.5) | (556.5) | -25.8% | -51.9% | -37.5% |
| PAT before minority interest | 3,952.2 | 4,050.9 | 3,479.3 | 2,764.9 | 709.8 | 1,010.8 | 3,065.9 | -16.4% | -20.5% | 42.4% |
| Minority interest | 50.9 | (408.9) | 49.0 | (34.6) | 5.6 | (5.2) | (45.3) | | -170.5% | -193.9% |
| Reported PAT | 4,003.1 | 3,642.1 | 3,528.3 | 2,730.3 | 715.3 | 1,005.5 | 3,020.5 | -17.4% | -22.6% | 40.6% |

Consolidated balance sheet statement (Rs. mn)

| | FY17 | FY18 | FY19 | FY20 | Q1 FY20 | Q1 FY21 | TTM | CAGR over FY17 - 20 (%) | Annual growth over FY19 (%) | Quarterly growth (%) |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------------------|-----------------------------------|----------------------------|
| Equity share capital | 1,267.9 | 1,267.9 | 1,267.9 | 1,267.9 | 1,267.9 | 1,267.9 | 1,267.9 | 0.0% | 0.0% | 0.0% |
| Other equity | 18,992.2 | 22,406.5 | 24,775.9 | 26,357.1 | 25,263.9 | 27,081.4 | 27,081.4 | 17.8% | 6.4% | 7.2% |
| Minority interest | 1,050.9 | 701.9 | 371.9 | 107.9 | 366.4 | 114.4 | 114.4 | -68.0% | -71.0% | -68.8% |
| Trade payables | 1,179.0 | 1,609.0 | 714.0 | 662.2 | 466.0 | 331.7 | 331.7 | -25.1% | -7.3% | -28.8% |
| Other financial liabilities | 1,585.1 | 1,543.9 | 1,593.9 | 1,755.8 | 1,647.7 | 1,782.2 | 1,782.2 | 5.2% | 10.2% | 8.2% |
| Provisions | 228.1 | 1,061.2 | 916.1 | 830.9 | 1,135.4 | 1,298.1 | 1,298.1 | 90.9% | -9.3% | 14.3% |
| Net current tax liabilities | 57.2 | 50.7 | 43.4 | 44.9 | 172.4 | 76.9 | 76.9 | -11.3% | 3.5% | -55.4% |
| Net deferred tax liabilities | 636.9 | 438.3 | 363.4 | 444.5 | 399.8 | 498.8 | 498.8 | -16.5% | 22.3% | 24.7% |
| Other non financial liabilities | 34.1 | 113.3 | 86.2 | 78.0 | 208.1 | 182.8 | 182.8 | 51.2% | -9.6% | -12.2% |
| Total liabilities | 25,031.2 | 29,192.5 | 30,132.6 | 31,549.2 | 30,927.5 | 32,634.2 | 32,634.2 | 12.3% | 4.7% | 5.5% |
| Property, plant and equipments | 2,638.9 | 2,585.5 | 2,529.4 | 2,503.9 | 2,510.7 | 2,471.1 | 2,471.1 | -2.6% | -1.0% | -1.6% |
| Other intangible assets | 14.9 | 24.9 | 36.1 | 118.0 | 31.1 | 104.5 | 104.5 | 181.4% | 226.6% | 235.8% |
| Capital work in progress | 1.0 | 22.9 | 8.8 | 2.8 | 24.3 | 5.7 | 5.7 | 67.7% | -67.7% | -76.5% |
| Intangible assets under development | 29.9 | 31.2 | | 7.6 | | 19.1 | 19.1 | -49.7% | | |
| Investment property | 122.9 | 117.7 | 112.5 | 107.3 | 111.2 | 106.0 | 106.0 | -6.6% | -4.6% | -4.7% |
| Right of use assets | 1,039.1 | 912.7 | 834.2 | 896.5 | 846.3 | 959.4 | 959.4 | -7.1% | 7.5% | 13.4% |
| Net current tax assets | 167.3 | 170.6 | 320.6 | 461.1 | 434.3 | 500.6 | 500.6 | 66.0% | 43.8% | 15.3% |
| Other non financial assets | 149.7 | 208.3 | 238.0 | 231.7 | 282.8 | 264.8 | 264.8 | 24.4% | -2.7% | -6.4% |
| Trade receivables | 587.7 | 549.2 | 637.3 | 553.6 | 767.3 | 513.2 | 513.2 | -2.9% | -13.1% | -33.1% |
| Investments | 18,001.9 | 21,788.5 | 22,613.7 | 23,557.5 | 23,185.5 | 24,573.9 | 24,573.9 | 14.4% | 4.2% | 6.0% |
| Cash and cash equivalents | 1,100.7 | 1,501.9 | 1,241.8 | 1,192.5 | 1,150.6 | 1,238.6 | 1,238.6 | 4.1% | -4.0% | 7.6% |
| Loans | 375.0 | 356.8 | 281.7 | 374.4 | 277.1 | 364.1 | 364.1 | -0.1% | 32.9% | 31.4% |
| Other financial assets | 802.2 | 922.3 | 1,278.6 | 1,542.4 | 1,306.3 | 1,513.5 | 1,513.5 | 38.7% | 20.6% | 15.9% |
| Total assets | 25,031.2 | 29,192.5 | 30,132.6 | 31,549.2 | 30,927.5 | 32,634.2 | 32,634.2 | 12.3% | 4.7% | 5.5% |

Source: Choice Equity Broking

Financial statements:

Consolidated cash flow statement (Rs. mn)

| Particulars (Rs. mn) | FY17 | FY18 | FY19 | FY20 | Q1 FY20 | Q1 FY21 | TTM | CAGR over FY17 - 20 (%) | Annual growth over FY19 (%) | Quarterly growth (%) |
|--|------------------|------------------|------------------|------------------|----------------|----------------|----------------|-------------------------|-----------------------------|----------------------|
| Cash flow before working capital changes | 3,750.2 | 4,014.1 | 3,726.1 | 3,118.2 | 860.3 | 227.9 | 2,485.8 | -8.8% | -16.3% | -73.5% |
| Change in working capital | 1,027.9 | 283.1 | (833.6) | (423.6) | (131.9) | 98.3 | (193.5) | | -49.2% | -174.5% |
| Cash flow from operating activities | 3,750.2 | 4,014.1 | 3,726.1 | 3,118.2 | 860.3 | 227.9 | 2,485.8 | -8.8% | -16.3% | -73.5% |
| Purchase of property, plant & equipment | (1,065.7) | (118.0) | (65.6) | (217.7) | (29.9) | (14.9) | (202.7) | -54.8% | 232.1% | -50.1% |
| Cash flow from investing activities | (2,630.1) | (1,537.9) | (257.8) | (1,058.6) | (397.4) | (162.2) | (823.4) | -36.6% | 310.6% | -59.2% |
| Cash flow from financing activities | (647.6) | (746.5) | (1,229.4) | (937.8) | (119.3) | 56.9 | (761.7) | 20.3% | -23.7% | -147.7% |
| Net cash flow | 330.4 | 401.3 | (260.1) | (49.3) | (91.2) | 46.0 | 88.0 | | -81.1% | -150.5% |
| Opening balance of cash and bank balances | 770.3 | 1,100.7 | 1,501.9 | 1,241.8 | 1,241.8 | 1,192.5 | 1,192.5 | 27.0% | -17.3% | -4.0% |
| Closing balance of cash and bank balances | 1,100.7 | 1,501.9 | 1,241.8 | 1,192.5 | 1,150.6 | 1,238.6 | 1,280.5 | 4.1% | -4.0% | 7.6% |

Consolidated financial ratios

| Particulars (Rs. mn) | FY17 | FY18 | FY19 | FY20 | Q1 FY20 | Q1 FY21 | TTM |
|--|--------|--------|--------|--------|---------|---------|--------|
| Revenue growth rate (%) | | 11.1% | -8.7% | -18.6% | | 11.6% | |
| EBITDA growth rate (%) | | 4.9% | -12.4% | -29.9% | | 15.4% | |
| EBITDA margin (%) | 52.4% | 49.4% | 47.4% | 40.9% | 46.1% | 47.6% | 41.5% |
| EBIT growth rate (%) | | 4.8% | -13.4% | -32.2% | | 16.5% | |
| EBIT margin (%) | 49.9% | 47.1% | 44.7% | 37.2% | 42.5% | 44.4% | 37.9% |
| PAT growth rate (%) | | -9.0% | -3.1% | -22.6% | | 40.6% | |
| PAT margin (%) | 38.7% | 31.7% | 33.6% | 31.9% | 30.5% | 38.4% | 34.2% |
| Turnover ratios | | | | | | | |
| Debtor days | 20.7 | 18.0 | 20.6 | 25.4 | 119.4 | 71.6 | 21.2 |
| Payable days | (41.6) | (44.2) | (40.4) | (29.4) | (72.5) | (46.2) | (13.7) |
| Cash conversion cycle | (20.9) | (26.2) | (19.7) | (4.0) | 46.9 | 25.3 | 7.5 |
| Fixed asset turnover ratio (x) | 2.7 | 3.1 | 3.0 | 2.4 | | | 2.4 |
| Total asset turnover ratio (x) | 0.4 | 0.4 | 0.3 | 0.3 | | | 0.3 |
| Return ratios | | | | | | | |
| RoE (%) | 19.8% | 15.4% | 13.5% | 9.9% | | | 10.7% |
| RoA (%) | 16.0% | 12.5% | 11.7% | 8.7% | | | 9.3% |
| Per share data | | | | | | | |
| Restated reported EPS (Rs.) | 31.6 | 28.7 | 27.8 | 21.5 | 5.6 | 7.9 | 23.8 |
| Restated DPS (Rs.) | 3.7 | 4.0 | 5.0 | 5.0 | | | 5.0 |
| Restated BVPS (Rs.) | 159.8 | 186.7 | 205.4 | 217.9 | 209.3 | 223.6 | 223.6 |
| Restated operating cash flow per share (Rs.) | 28.5 | 21.2 | 9.7 | 15.4 | 3.4 | 1.2 | 13.2 |
| Restated free cash flow per share (Rs.) | | 6.0 | 10.7 | 10.9 | | | |
| Dividend payout ratio | 11.7% | 13.9% | 18.0% | 23.2% | | | 21.0% |

Note: Ratios calculated on pre-issue data; Source: Company RHP

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