

### Subscribe for Long Term

Issue Details	
Price Band (Rs)	Rs. 552 - 554
Face Value (Rs)	10
Issue Size (Rs)	2159.88Cr
Issue Type	Book Building
Minimum lot	27
Issue Opens	September 29, 2020
Issue Closes	October 01, 2020
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	October 07, 2020
Unblocking of Funds	October 08, 2020
Credit of shares to Demat Account	October 09, 2020
Listing on exchange	October 12, 2020

Other Detail	
Book Running Lead Managers	Kotak Mahindra Capital Company Limited, Axis Capital Limited, Citigroup Global Markets India Private Limited, DSP Merrill Lynch Limited, ICICI Securities Limited, JM Financial Limited, SBI Capital Markets Limited
Registrar	KFin Technologies Private Limited

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## UTI ASSET MANAGEMENT COMPANY LIMITED

### Company Background

Incorporated in 2002, UTI Asset Management Company Limited ("UTI AMC") is in the business of managing the domestic mutual funds of UTI Mutual Fund. It also provides portfolio management services (PMS) to institutional clients and high net worth individuals (HNIs), and manage retirement funds, offshore funds and alternative investment funds. It managed 153 domestic mutual fund schemes, comprising equity, hybrid, income, liquid and money market funds as of June 2020. UTI AMC's total QAAUM for domestic mutual funds was Rs 1,33,630 crore, while other AUM was Rs 8,49,390 crore. With 1.09 crore live folios as of March 2020, its client base accounts for 12.2 percent of the approximately 8.97 crore folios that, according to CRISIL, are managed by the Indian mutual fund industry.

### Issue Details

The offer comprises Offer for sale of up to 38,987,081 Equity shares.

### OFS Details

Offer of Sale by	
State Bank of India	10,459,949 Shares
Life Insurance Corporation	10,459,949 Shares
Bank of Baroda	10,459,949 Shares
Punjab National Bank	3,803,617 Shares
T Rowe Price International	3,803,617 Shares

(The offer shall constitute 30.75% of the fully diluted post-offer paid-up equity share capital)  
Source: Company RHP, ACMIIL Research

### Issue Objectives

- To achieve the benefits of listing the Equity Shares on the Stock Exchanges and
- The sale of up to 38,987,081 Equity Shares by the Selling Shareholders.

### IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size at Rs.552 (Rs.Cr)	Issue Size at Rs.554 (Rs.Cr)
<b>QIB</b>	50%	1,93,93,541	1,070.52	1074.40
<b>Non-Institutional</b>	15%	58,18,062	321.16	322.32
<b>Retail</b>	35%	1,35,75,478	749.37	752.08
<b>Employee</b>		2,00,000	11.04	11.08
<b>Total</b>		3,89,87,081	2,152.09	2159.88

Source: Company RHP, ACMIIL Research

### Outlook and Valuations

UTI Asset Management Company Ltd. (UTI AMC) is the second-largest asset management company in India in terms of Total AUM and the eighth largest asset management company in India in terms of mutual fund QAAUM as of June 30, 2020, according to CRISIL. The company is Well-positioned to capitalise on favorable industry dynamics, including the under-penetration of mutual fund products. At the upper price band of Rs.554/-, the stock trades at 25.7x its FY20 EPS of Rs.21.53/-. **We recommend to subscribe the issue from a long-term prospective.**

## Business Overview

UTI Asset Management Company ("UTI AMC") is the 2<sup>nd</sup> largest Asset Management Company in India in terms of Total AUM and the 8<sup>th</sup> largest asset management company in India in terms of mutual fund QAAUM as of June 30, 2020, according to CRISIL. As of June 30, 2020 it also had the largest share of the monthly average AUM attributable to B30 cities of the top 10 Indian asset management companies by QAAUM. UTI AMC caters to a diverse group of individual and institutional investors through a wide variety of funds and services. UTI AMC manages the domestic mutual funds of UTI Mutual Fund, provide portfolio management services ("PMS") to institutional clients and high net worth individuals ("HNIs"), and manage retirement funds, offshore funds and alternative investment funds. As of June 30, 2020, the total QAAUM for its domestic mutual funds ("Domestic Mutual Fund QAAUM") was ₹133,630 crore, while the Other AUM was ₹849,390 crore. With 1.09 crore Live Folios as of March 31, 2020, its client base accounts for 12.2% of the approximately 8.97 crore folios that are managed by the Indian mutual fund industry.

UTI AMC 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. They are a professionally managed company led by its Board of Directors and a dedicated and experienced management team. For purposes of the SEBI Mutual Fund Regulations, its 4 sponsors are the State Bank of India ("SBI"), Life Insurance Corporation of India ("LIC"), Punjab National Bank ("PNB") and Bank of Baroda ("BOB") (collectively, the "Sponsors"), each of which has the GoI as a majority shareholder. T. Rowe Price Group, Inc., a global asset management company, is their other major shareholder (through its subsidiary T. Rowe Price International Ltd. ("TRP")).

UTI AMC has a national footprint and offers its schemes through a diverse range of distribution channels. As of June 30, 2020, its distribution network includes 163 UTI Financial Centres ("UFCs"), 257 Business Development Associates ("BDAs") and Chief Agents ("CAs") (40 of whom operate Official Points of Acceptance ("OPAs")) and 43 other OPAs, most of which are in each case located in B30 cities. Its IFAs channel includes approximately 53,000 Independent Financial Advisors ("IFAs") as of June 30, 2020. Its BDA and CA network distinguishes them from other asset management companies in India, as its BDAs and CAs, who are engaged by them on an exclusive basis primarily in B30 cities, allow them to efficiently and effectively develop, maintain and service its relationships with its distributors and investors. Their banks and distributors ("BND") channel involves distribution arrangements with domestic and foreign banks, as well as with national and regional distributors. In addition, they have dedicated sales teams for institutional and public sector undertaking ("PSU") clients and also offer products directly through its UFCs, digital applications and website. Its distribution channels are supported by 459 relationship managers ("RMs") (as of June 30, 2020), who interact with clients and distributors and help generate new business and maintain its existing relationships. UTI AMC also has offices in London, Dubai, Guernsey and Singapore, through which they market their offshore and domestic mutual funds to offshore investors who seek to invest in India.

Its clients include domestic individual investors (which represented 43.8% of the total closing AUM for their domestic mutual funds ("Domestic Mutual Fund Closing AUM") as of June 30, 2020), corporate and other institutional investors (which represented 45.4% of its Domestic Mutual Fund Closing AUM as of June 30, 2020), and banks and other financial institutions (which represented 3.5% of its Domestic Mutual Fund Closing AUM as of June 30, 2020). Trusts (5.7%) and non-resident Indians ("NRIs") (1.7%) represented the remainder of its Domestic Mutual Fund Closing AUM as of June 30, 2020.

## Investment Rationale

### **Pure-play independent asset manager with strong brand recognition and diverse portfolio of funds and services**

Company's brand is recognised nationwide for its strength and more than 55 years of heritage as a leading, and pioneering, participant in the mutual fund industry. They have built a reputation for service, integrity and innovative solutions. Its national footprint has allowed them to leverage the UTI name and establish UTI as a brand which is recognised across the country. The UTI brand was also amongst the top 5 preferred industry brands in the Nielsen Mutual Fund Studies for December 2015 to January 2016 and September 2017. Its pan-India presence and recognition generates and supports investor confidence in its ability to provide consistent quality services wherever located, and also helps them recruit and retain skilled professionals.

### **Long-term track record of product innovation, consistent and stable investment performance and AUM growth**

As one of the pioneers of the Indian mutual fund industry, UTI AMC has a long history of introducing and supporting products and solutions that deliver consistent and stable returns through the cycle, driving AUM growth. Many of its open-ended funds were the first in their category in India or have been established for more than 10 years (including 5 with over 25 years of track record), including India's first equity-oriented fund, according to CRISIL (the UTI Mastershare Unit Scheme), and first tax saving cum insurance fund (the UTI ULIP). It also manages the largest dividend yield fund (the UTI Dividend Yield Fund) and the largest non-ETF index fund (the UTI Nifty Index Fund) in India as of June 30, 2020, according to CRISIL.

Their track record of product innovation and consistent and stable investment performance has contributed to its AUM growth. From March 31, 2018 to March 31, 2020, the QAAUM of its domestic equity mutual funds increased at a CAGR of 17.6%. The Other AUM grew at a CAGR of 101.1% over the same period, primarily due to its appointment to manage ₹328,280 crore of additional assets for the EPFO and increased by a further ₹21,310 crore in the 3 month period ended June 30, 2020

### Experienced management and investment teams supported by strong governance structures and human resources programs.

UTI AMC is a professionally managed asset management company led by its Board of Directors and a dedicated and experienced senior management team. The market knowledge and depth of its senior management team enables it to identify and capitalise on strategic opportunities and changing industry, macroeconomic and regulatory dynamics in India. The organisation, including its Board of Directors and senior management team, operates within strong governance structures, including audit, risk management and nomination and remuneration board committees and internal audit, risk management and compliance policies and procedures.

It has a 42 member investment team, with a total of 519 years of experience with them, across its domestic mutual fund, PMS, RSL and offshore businesses, including 19 members in its domestic equity mutual fund management team, 13 members in its domestic fixed income mutual fund management team, 5 members in its PMS investment team, 3 members in its RSL investment team, and 2 members in its offshore fund management team.

### Enhanced profitability driven by the size and product mix.

UTI AMC strives to maintain and enhance profitability while they grow its business and AUM. The fees they are able to charge for equity and hybrid funds are generally higher than the fees charged for income and liquid and money market funds. Its client services are managed on an automated and integrated basis, which improves its cost structure; they are implementing a digital transformation program to leverage technology to improve efficiency and optimise its costs even further, including through the introduction of marketing automation and global investment management applications. The total expenses as a percentage of total income equalled 53.1%, 54.5% and 61.2% in the fiscal years ended March 31, 2018, 2019 and 2020, respectively. Total expenses as a percentage of total income equalled 54.5% and 56.2% for the 3 month period ended June 30, 2020 and June 30, 2019, respectively.

### Risk and Concern

- Company's investment management agreements and other business commitments may generally be terminated by the counterparties on little or no notice, making their future client and income base unpredictable
- Reductions of the expense limits prescribed under SEBI regulations may impact the profitability and cause them to decrease marketing and other efforts on behalf of the funds.
- The business is subject to extensive regulation, including periodic inspections by SEBI and by the Pension Fund Regulatory and Development Authority ("PFRDA"), and their non-compliance with existing regulations or SEBI's or PFRDA's observations or their failure or delay to obtain, maintain or renew regulatory approvals could expose them to penalties and restrictions
- The Company, Subsidiaries and Directors are subject to litigation risks and are involved in a number of legal proceedings that, if determined against them, could adversely impact the reputation and may have an adverse effect on the business, results of operations and financial condition.
- The recent outbreak of the novel coronavirus could have a significant effect on operations, and could negatively impact the business, revenues, financial condition and results of operations.

### Peer Comparison (as on 31st March 2020)

Company	Face Value	EPS(Basic)	RONW (%)	NAV (per share)	P/E times
UTI AMC Ltd.	10	21.53	9.88%	217.88	25.73
HDFC AMC Ltd.	5	59.37	31.33%	189.34	36.54
Nippon Life India Asset Management Limited	10	6.78	16.03%	42.36	40.75

Source: Company RHP, ACMIIL Research

Source for UTI AMC: Based on the Restated Financial Information for the year ended March 31, 2020.

### Notes:

1. Basic EPS and Diluted EPS refer to the Basic EPS and Diluted EPS sourced from the annual reports of the respective company for the year ended March 31, 2020, except for Company in which case it is sourced from Restated Financial Information.
2. P/E Ratio has been computed based on the closing market price of equity shares available on NSE on September 21, 2020, divided by the Diluted EPS provided under Note 1 above.
3. RoNW is computed as profit after tax (after removing profit attributable to non-controlling interest, if applicable) divided by closing net worth. Net worth has been computed as sum of equity share capital and other equity as on March 31, 2020.
4. NAV is computed as the closing net worth divided by the number of equity shares outstanding as on March 31, 2020.

Source RHP.



## Financials

### Income statement

Particulars ( Rs Mns)	FY18	FY19	FY20	Q1FY21
<b>Revenue from Operations</b>	11,501	10,505	8,550	2,618
<b>Less: Operating exp</b>				
Fees and Commission Expense	18	21	29	7
Impairment on Financial Instruments	19	-		
Employee Benefit expenses	3,208	3,067	3,399	980
Other expenses	2,569	2,436	1,629	384
Total Expenses	5,814	5,523	5,057	1,371
<b>EBITDA</b>	<b>5,687</b>	<b>4,982</b>	<b>3,493</b>	<b>1,247</b>
<b>EBITDA %</b>	<b>49.4%</b>	<b>47.4%</b>	<b>40.9%</b>	<b>47.6%</b>
Less : Dep & Amortization	273	291	313	85
EBIT	5,414	4,691	3,180	1,162
Add: other income	127	304	360	93
Less : Finance cost	87	82	85	23
PBT	5,454	4,912	3,455	1,232
Less : Tax	1,403	1,433	690	221
<b>Net Profit</b>	<b>4,051</b>	<b>3,479</b>	<b>2,765</b>	<b>1,010</b>
<b>PAT %</b>	35.2%	33.1%	32.3%	38.6%
<b>Diluted EPS (Rs)</b>	28.73	27.83	21.53	7.93

Source: Company RHP, ACMIIL Research

## Balance sheet

Particulars (Rs Mns)	FY18	FY19	FY20	Q1FY21
Share Capital	1,268	1,268	1,268	1,268
Other Equity	23,108	25,148	26,465	27,196
<b>Total Shareholders Fund</b>	<b>24,376</b>	<b>26,416</b>	<b>27,733</b>	<b>28,464</b>
<b>Financial Liabilities:</b>				
Trade Payables	111	38	14	8
Other Payables	1,498	676	648	323
Other Financial Liabilities	1,544	1,594	1,756	1,782
<b>Total Financial Liabilities</b>	<b>3,153</b>	<b>2,308</b>	<b>2,418</b>	<b>2,113</b>
<b>Non Financial Liabilities:</b>				
Current Tax Liabilities (Net)	50	43	45	77
Provisions	1,061	916	831	1,298
Deferred Tax Liabilities (Net)	438	363	445	499
Other Non Financial liabilities	113	86	78	183
<b>Total Current Liabilities</b>	<b>1,663</b>	<b>1,409</b>	<b>1,398</b>	<b>2,057</b>
<b>Total Liabilities</b>	<b>29,192</b>	<b>30,132</b>	<b>31,549</b>	<b>32,634</b>
<b>Assets</b>				
<b>Financial Assets</b>				
Cash and cash equivalents	1,502	1,242	1,193	1,239
Receivables	549	637	554	513
Loans	357	282	374	364
Investments	21,788	22,614	23,558	24,574
Other Financial Assets	922	1,279	1,542	1,513
<b>Total Financial Assets</b>	<b>25,119</b>	<b>26,053</b>	<b>27,220</b>	<b>28,203</b>
<b>Non Financial Asset</b>				
Current Tax Assets (Net)	171	321	461	501
Investment Property	118	112	107	106
Property, Plant and Equipments	2,586	2,529	2,504	2,471
Right of use assets	913	834	897	959
Capital work in progress	23	9	3	6
Other Intangible Assets	56	36	126	124
Other Non Financial Assets	208	237	231	264
Total Current Asset	4,074	4,079	4,329	4,431
<b>Total Asset</b>	<b>29,192</b>	<b>30,132</b>	<b>31,549</b>	<b>32,634</b>

Source: Company RHP, ACMIIL Research

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Informational Products	Recommendation Products
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# Asit C. Mehta

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