

Research Team

Issue Details

Issue Details	
Issue Size (Value in ₹ Million.)	21,599
Fresh Issue (No. of Shares. in Lakhs)	Nil
Offer for Sale (No. of Shares in Lakhs)	390
Bid/issue opens on	29-Sep-20
Bid/issue closes on	01-Oct-20
Face Value (₹)	10
Price Band (₹)	552 – 554
Minimum Lot (No of Shares)	27

Objects of the Issue

Fresh Issue: ₹Nil

Offer For Sale: ₹21,599 Million

- (a) State Bank of India: ₹5,795 Million
- (b) Life Insurance Corporation: ₹5795 Million
- (c) Bank of Baroda: ₹5795 Million
- (d) Punjab National Bank: ₹2107 Million
- (e) T. Rowe Price International Ltd: ₹2107 Million

Book Running Lead Manager
Kotak Mahindra Capital Company Ltd
Axis Capital Ltd
Citigroup Capital Markets India Pvt Ltd
DSP Merrill Lynch Ltd
ICICI Securities Ltd
JM Financial Ltd
SBI Capital Markets Ltd
Registrar to the Offer
Kfin Technologies Pvt. Ltd.

Capital Structure (No. Shares)	In Lakhs
Authorised Share Capital	2000
Subscribed & paid up Capital Pre-Issue	1268
Fresh Issue	0
Offer for Sale	390
Subscribed & Paid up capital after the offer	1268

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter Group	0	0
Public	100	100
Total	100	100

Financials

Particulars (₹ Million)	3M-FY21	FY20	FY19	FY18
Income	2,711	8,910	10,809	11,627
Exceptional Item	-	-	-	-
Profit Before Tax	1,232	3,454	4,912	5,454
Tax	221	690	1,433	1,403
Profit After Tax	1,006	2,730	3,528	3,642
NPM %	37.10	30.64	32.64	31.32
EPS	7.9	21.5	27.8	28.7
RoNW %		9.88	13.55	15.38

Source: Data and charts from company RHP document.

Company Description

UTI Asset Management Company Ltd. (UTI) established the first mutual fund in India and has been active in the asset management industry for more than 55 years.

UTI 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.

UTI has the largest share of monthly average AUM attributable to B30 cities of the top ten Indian asset management companies by QAAUM as of June 30, 2020.

UTI caters to a diverse group of individual and institutional investors through a wide variety of funds and services, managing 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.

UTI manages 153 domestic mutual fund schemes, comprising equity, hybrid, income, liquid and money market funds as of June 30, 2020.

UTI had 10.9 million Live Folios as of March 31, 2020, accounting for 12.2% of the approximately 89.7 million folios that, are managed by the Indian mutual fund industry.

The total QAAUM for domestic mutual funds was ₹1,336.3 billion, while Other AUM was ₹8,493.9 billion as of June 30, 2020,

UTI provides Discretionary PMS to the Employees' Provident Fund Organization (EPFO), the Coal Mines Provident Fund Organisation (CMPFO), the Employees' State Insurance Corporation (ESIC), The National Skill Development Fund (NSDF) and to HNIs, Non-Discretionary PMS to Postal Life Insurance (PLI), and Advisory PMS to various offshore and domestic accounts.

The company was approved to manage 55.0% of the total corpus on October 31, 2019 of the Central Board of Trustees, EPF (CBT, EPF), accounting for ₹5,916.6 billion, or 84.9% of PMS AUM as of June 30, 2020.

AUM for PMS business increased from ₹1,158.5 billion as of March 31, 2018 to ₹6,890.6 billion as of March 31, 2020, representing a CAGR of 143.9%, and to ₹6,970.5 billion as of June 30, 2020.

UTI also manages retirement funds which manages the National Pension System (NPS) funds, offshore funds (including the Shinsei UTI India Fund, a co-branded fund with Shinsei Bank of Japan) and alternative investment funds.

UTI has four direct subsidiaries as of June 30, 2020, being UTI Retirement Solutions Limited, UTI International Limited, UTI Capital Private Ltd and UTI Venture Funds Management Company Private Limited.

Valuation & Recommendation:

The company's revenues for financial year FY20 stood at ₹8,910 million and its profit after tax stood at ₹2,730 million. For the three months period ended Jun-20 the company's revenues stood at ₹2,711 million and PAT ₹1,006 million.

The company's IPO is priced at ~25.76x FY20 earnings at upper price band.

Though the company has underperformed its larger industry peers in recent past, UTI Asset Management Company Limited's IPO is priced relatively at a discount of about 30% at upper price band compared to its industry peers. Considering the future growth prospects for asset management industry and relative valuations we recommend **Subscribe (Long Term)** for the IPO.

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Company's Strengths

- **Well-positioned to capitalise on favourable industry dynamics, including the under penetration of mutual fund products.**
The Indian mutual fund industry is expected to continue to grow due to supportive industry dynamics and long-term structural drivers, including the increasing financialisation of household savings, increasing market penetration of mutual fund products, particularly in B30 cities, and favourable population and urbanisation trends.
- **Pure-play independent asset manager with strong brand recognition and diverse portfolio of funds and services.**
The 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.
- **Multiple distribution channels with wide reach and broad and stable client base.**
The company has a comprehensive multi-channel distribution network with both in-house capabilities and external distribution channels, reaching clients through a number of distribution channels, including IFAs, direct distribution, banks and distributors. IFA distribution channel comprises approximately 53,000 IFAs, while direct distribution channel includes internal sales teams for institutional and PSU clients and digital platforms.
- **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 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 ten years (including five with over 25 years of track record), including India's first equity-oriented fund, (the UTI Mastershare Unit Scheme), and first tax saving cum insurance fund (the UTI ULIP). UTI 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.
- **Established position in retirement solutions through product innovation and large retirement fund mandates.**
UTI has developed particular strengths in managing retirement funds for beneficiaries right across the socioeconomic spectrum. In its domestic mutual funds business, it managed the largest income tax -notified fund in the retirement fund category in India (the UTI Retirement Benefit Pension Fund), which as of June 30, 2020 had QAAUM of ₹ 26.0 billion.
- **Experienced management and investment teams supported by strong governance structures and human resources programs.**
UTI has a 42 -member investment team, with a total of 519 years of experience, across its domestic mutual fund, PMS, RSL and offshore businesses, including 19 members in domestic equity mutual fund management team, 13 members in domestic fixed income mutual fund management team, five members in PMS investment team, three members in RSL investment team, and two members in offshore fund management team.
- **Enhanced profitability driven by size and product mix.**
The client services are managed on an automated and integrated basis, which improves cost structure; company is implementing a digital transformation program to leverage technology to improve efficiency and optimise costs even further, including through the introduction of marketing automation and global investment management applications.

Company's Strategies

- Drive superior investment performance across its 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 digitisation to enhance organisational efficiency and cost optimisation, improve customer acquisition and experience, and ensure data security.
- Continue to attract, retain and develop human capital.

Key Risk Factors

- Income is largely dependent on the value and composition of assets under management.
- Underperformance of investment portfolio could lead to a loss of clients and reductions in assets under management.
- Decline in market share due to competition and performance.

Source: Data and charts from company RHP document.

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The following table sets forth the breakdown of Domestic Mutual Fund QAAUM (in absolute amounts and as a percentage of the total) by category of mutual funds:

Rs. In billions, except percentages Category of Fund	As of June 30 2020		2020		As of March 31 2019		2018	
	QAAUM	% of Total	QAAUM	% of Total	QAAUM	% of Total	QAAUM	% of Total
Active	332.7	24.9%	381.9	25.2%	372.6	23.3%	366.7	23.7%
Passive	244.5	18.3%	252.2	16.7%	167.4	10.5%	92.1	5.9%
Total Equity	577.2	43.2%	634.1	41.9%	540	33.8%	458.8	29.6%
Hybrid	187.9	14.1%	209.6	13.8%	219.3	13.7%	219.1	14.1%
Income	193.3	14.5%	213.5	14.1%	391.9	24.5%	487.5	31.5%
Liquid/ Money Market	377.9	28.2%	457.9	30.2%	445.8	27.9%	384	24.8%
Total	1336.3	100%	1515.1	100%	1596.9	100%	1549.4	100%

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

Rs. In billions, except percentages Category	As of June 30 2020		2020		As of March 31 2019		2018	
	AUM	% of Total	AUM	% of Total	AUM	% of Total	AUM	% of Total
PMS	6970.5	82.1%	6890.6	83.2%	1332.7	55.6%	1158.5	56.6%
Retirement Solutions	1335.9	15.9%	1222	14.7%	937.1	39.1%	694.8	33.9%
Offshore Funds	156.9	1.8%	157.7	1.90%	118.7	5.0%	187.9	9.2%
Alternative Investment Funds	10.6	0.1%	10.5	0.1%	8.3	0.5%	7.0	0.3%
Total	8493.9	100%	8280.8	100%	2396.9	100%	2048.2	100%

Industry Outlook

a) AUM Growth

The mutual fund QAAUM growth is expected to be near-flat for Fiscal 2021. After growing at a CAGR of approximately 18% between March 31, 2015 and March 31, 2020, from ₹11.9 to ₹27.0 trillion, respectively, the QAAUM as March 31, 2021 is expected to stay at approximately ₹27.0 trillion, mainly due to the effects of the COVID-19 pandemic.

In an environment in which the GDP growth is expected to be around 5%, and there is no clear visibility on corporate earnings growth or disposable income levels, fund flows into the mutual fund industry are likely to be limited and the capital markets returns are also expected to remain range-bound.

However, QAAUM is expected to grow at an 18% CAGR between March 31, 2021 and March 31, 2025, to total approximately ₹52 trillion as of March 31, 2025, driven by improved overall economic growth, a growing investor base, higher disposable income levels and investable household surplus, increases in aggregate household and financial savings, increases in geographical penetration as well as better awareness, ease of investing, digitalisation, and perception of mutual funds as long term wealth creators. CRISIL's forecasts assume a gradual pick up in corporate earnings, inflation rates within targets, stable political environment, consistent growth in mutual fund inflows and an approximate nominal GDP growth of 9% after Fiscal 2021.

b) Revenue and Profit Growth

The industry revenues is expected to grow at a CAGR of between 13% and 15%, from ₹161 billion in Fiscal 2019 to between ₹340 and ₹360 by Fiscal 2025, driven mainly by growth in AUM and incremental re-allocations of AUM from fixed income to equity-oriented funds (which usually charge higher investment management fees (on actively managed equity funds) than other categories). In addition, other revenue streams, including portfolio management services (PMS), alternative investment funds (AIF) and offshore advisory services, are expected to supplement core growth at a healthy pace, driven by a growing appetite for high-ticket investments in the high net worth individuals (HNI) segment.

Industry profitability is expected to improve and net profits to grow at a high CAGR of between 15% and 16% over the same period to total between ₹110 and ₹120 billion by Fiscal 2025, due in part to gradual decreases in the percentage of management fees as a result of higher competition and tighter TER regulations. Intensifying competition will also require increased marketing expenses, but may be partly offset by an improvement in employee efficiency and technological enhancements, which will eventually help increase profit margins.

Both revenue and profit after tax will stay impacted due to the COVID-19 pandemic and will witness a decrease in Fiscal 2021, after which they may grow at a steady pace, in line with the overall AUMs.

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c) Mutual Fund Penetration

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 percentage of GDP has grown from 4.3% as of Fiscal 2002 to approximately 11% as of Fiscal 2020, penetration levels remain well below those in other developed and fast-growing peers.

India's mutual fund penetration (AUM as a percentage of GDP) is significantly lower than the world average of 63% and also lower than many developed economies such as the US (120%), Canada (81%), France (80%) and the UK (67%) and key emerging economies such as Brazil (68%) and South Africa (48%).

The ratio of equity mutual fund AUM to GDP stands at 5% in India compared to 75% in the US, 55% in Canada, 40% in the UK, 27% in South Africa and 18% in Brazil.

d) Financial Inclusion, Investor Education and Regulatory Initiatives

Low mutual fund penetration levels in India are largely due to the lack of awareness about this investment vehicle. SEBI's investor awareness survey of 2015 showed that mutual funds/SIPs were used by only 10% of the respondents as investment and saving avenues.

The central Government launched the Pradhan Mantri Jan Dhan Yojana with an objective to broaden financial inclusion by bringing India's unbanked population into the formal banking sector. Under the scheme, there were as many as 397.1 million beneficiaries as of June 30, 2020, with deposits totalling ₹1,325 billion. Over time, these new banking customers are also expected to utilise other financial services options like investing in capital markets through mutual fund products.

e) Other Drivers

Technology is expected to play a pivotal role in taking the financial sector to the next level by helping overcome the challenges stemming from India's vast geography.

India's demographic structure, with a median age of 28 years, is also favourable for technological advancement in the sector. The younger population is expected to be able to use seamless technological platforms to meet their financial requirements. Increasing smartphone penetration and improved data speeds are expected to support digitalisation of the sector, which, in turn, should help AMCs lower their cost and improve overall efficiency. Service providers with better mobile and digital platforms will be better positioned to acquire new customers entering the industry.

Key Challenges

The Indian economy has faced its first contraction in more than four decades due to the impacts of the COVID-19 pandemic and associated governmental responses. The impact of this pandemic will likely widen India's fiscal deficits, which would exacerbate the structural risk factors that were visible even before the pandemic and make India's economy even more vulnerable to further downside risk and volatility.

Retail participation and inflows into mutual funds and other market-linked products are heavily influenced by market performance and sentiment. A prolonged downturn or ongoing volatility could result in further declines in aggregate demand for market-linked products and cause industry AUM to shift into relatively lower-risk assets.

Comparison of accounting ratios with listed industry peers

Name of Company	Face Value (Rs. Per Share)	Closing Price on September 21, 2020 (Rs. Per Share)	Total Income, for Financial Year 2020 (Rs. Million)	Basic EPS	Diluted EPS	NAV (Rs. Per Share)	P/E (Times)	RoNW (%)
UTI Asset Management Company Ltd	10	NA	8909.61	21.53	21.53	217.88	25.73 (at upper price band of Rs.554 per share)	9.88%
HDFC Asset Management Company Ltd	5	2164.30	21,434.30	59.24	189.34	36.54	36.54	31.33%
Nippon Life Asset Management Ltd	10	272.60	11,932.10	6.69	42.36	40.75	40.75	16.03%

Source: Data and charts from company RHP document.

Research Team

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