

29th September 2020

UTI ASSET MANAGEMENT COMPANY LIMITED- SUBSCRIBE

Investment Thesis

UTI ASSET MANAGEMENT COMPANY LIMITED is coming out with an initial public offering (IPO) on September 29, 2020. The Issue comprises of offer for sale of up to 38,987,081 equity shares by the Selling Shareholders. UTI AMC is the second largest asset management company (AMC) in terms of total AUM and eighth largest AMC in terms of mutual fund quarterly average AUM (QAAUM) as on June 30, 2020. As on June 2020, total QAAUM for domestic mutual funds was at Rs 1,33,630 crore while other AUM was at Rs 8,49,390 crore. UTI AMC manages mutual funds of UTI Mutual Fund and provides portfolio management services to institutional clients and HNIs. Furthermore, it also manages retirement funds, offshore funds and alternative investment funds. The company has been active in the AMC industry for over 55 years with its sponsors including State Bank of India, Life Insurance Corporation of India, Punjab National Bank, Bank of Baroda and T Rowe Price. UTI AMC provides discretionary PMS to Employees Provident Fund Organization (EPFO), Postal Life Insurance (PLI), National Skill Development Fund (NSDF) and advisory PMS to various offshore and domestic accounts. As on June 30, 2020, AUM for PMS business was at Rs 6,97,050 crore. UTI AMC has reported a heavy capital structure historically with low dividend payouts; however, as discussions with management propose that the board has decided to distribute a minimum of 50% of current year profits as dividend. Thus, with a rise in dividend payouts and lower capital load, overall return ratios are expected to see a rise. Management suggest that it has adopted various cost-control measures to bring in best-in-class operational efficiencies. Management is committed to focus on digitalization to bring in efficiency. UTI has a long history of delivering consistent and stable returns through cycles, driving AUM growth. Schemes representing ~92.3% of closing AUM invested in UTI's six core equity strategies have outperformed their respective benchmark indices for an average return of 9.6% per annum in 10-year period ended June 30, 2020. UTI AMC's operational profitability is lower due to high costs. capital-light/cash-generative nature of the AMC business, there is good scope for positive economies of scale if the company is able to grow its AUM, particularly individual-equity AUM, which is high-margin.

Financials

Key Financials (Rsmn)	FY17	FY18	FY19	FY20
Mutual Fund AUM	1,368	1,549	1,597	1,515
PMS AUM (Rs bn)	1,737	2,048	2,397	8,281
Net Revenue	10,349	11,501	10,505	8,550
EBITDA	5,422	5,687	4,982	3,493
PAT	3,952	4,051	3,479	2,765
ROE(%)	19.5	18.4	14	10.3

* At highest price band# Post listing

IPO Details

Issue Open Date	29 th September, 2020
Issue Close Date	1 st October, 2020
Price Band (Rs.)	552.0 to 554.0
Issue Size (Rs. bn)	21.60*
Issue Size (Shares)	38,987,081
Market Lot	27 Equity Share
Listing Exchanges	BSE/NSE
Face Value (Rs.)	10/-

* At highest price band

Key Details

Fresh Issue	N.A.
Offer for Sales	38,987,081 Equity Shares
Issue Type	100% Book Built Issue
Book Running Lead Manager	Kotak Mahindra Cap, Citigroup Global, DSP ML, ICICI Sec, JM Financial, SBI Capital Markets
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%

Key Business Highlights

- AUM of the Indian mutual fund industry has grown at a CAGR of 13% from Rs7.6trn in Mar'10 to Rs27.0trn as of Mar'20 against the backdrop of an expanding domestic economy, robust inflows and rising investor participation, particularly from individual investors. Over 4QFY15-1QFY21, aggregate industry AUM grew at a CAGR of 15%.UTI AMC is present in the entire range of asset management segments including Mutual funds, PMS funds, Retirement Solutions, Offshore Funds and Alternative Investment Funds. Non-mutual fund AUM at Rs 8.49 trn as of 1QFY21 is much larger than mutual fund AUM at Rs 1.34 trn. Non-mutual fund AUM, 82% contribution as of 1QFY21 is from PMS funds, which is primarily due to the mandate from the EPFO, which led to a jump in PMS funds AUM from Rs 1.33 trn in FY19 to Rs 6.97 trnas of 1QFY21.Retirement Solutions, Offshore Funds and Alternative Investment Funds contribute 16%, 1.8% and 0.1%, respectively to Non-mutual fund AUM, as of 1QFY21.As of June '20, UTI had the second highest market share by AUM in PMS services in India (at 44.7%), and the second highest market share by AUM in NPS funds (at 29.2%). As of Jun '20, UTI AMC manages the largest income tax-notified fund in the retirement fund category in India (the UTI Retirement Benefit Pension Fund), which had QAAUM of Rs26bn. This scheme includes a number of micro pensioners as investors.

Valuation

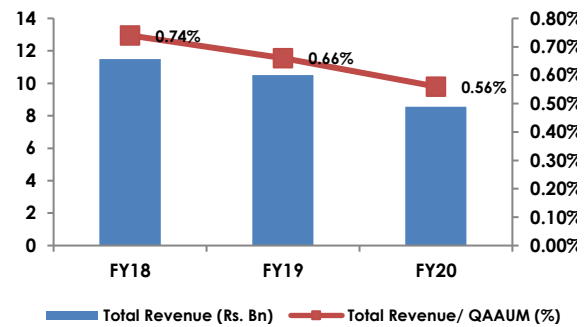
- As one of the pioneers of the Indian mutual fund industry, UTI AMC is a well-recognized brand and has a diversified product portfolio, which enables it to operate through varied market cycles, cater to the different requirements of customers, reduce concentration risks, and leverage core competencies at scale. It is a professionally managed asset management company, with a strong distribution network, having access to investors located in 697 districts (out of 722 districts in total), including remote areas. While the company's operational profitability is lower compared to its peers due to high costs, there is good scope for positive economies of scale if the company is able to grow its AUM, particularly individual-equity AUM, which is a high-margin business.
- Favorable macro tailwinds combined with a reputed brand name augur well for UTI AMC to deliver sustainable growth and profitability. While the company's average RoE of 13% over FY18-20 is lower compared to its peers (19% for Nippon India and 36% for HDFC AMC), it is already factored in the valuations for the offer price. On the valuation front, at the upper price band of Rs 554 per share, the company's P/Bv stands at 2.5x, which is way lower compared to 6.3x of Nippon Life India AMC and 11.2x of HDFC AMC. The market cap to mutual fund AUM for UTI AMC would be 5.3% compared with 8.6% for Nippon Life India AMC and 12.6% for HDFC AMC. as well, they have huge business of PMS &NPS, which accounted for 41% of Q1FY21 revenue. We believe that the IPO price is after factoring lower ROE, high competition and uncertainties from pandemic. Considering all these factors, we recommend **'subscribe' to the issue both for listing gain as well as long-term investment purpose.**
- Objects of the offer:The upper price band, total issue size stands at Rs. 2,159.8cr. The issue consists of only offer for sale (OFS) from SBI, LIC, BoB, PNB and T. Rowe Price International Ltd(TRP) and the company will not receive any proceeds from this offer. The prime purpose of the issue is to achieve the benefits of listing shares on stock exchanges.

Risk & Concern

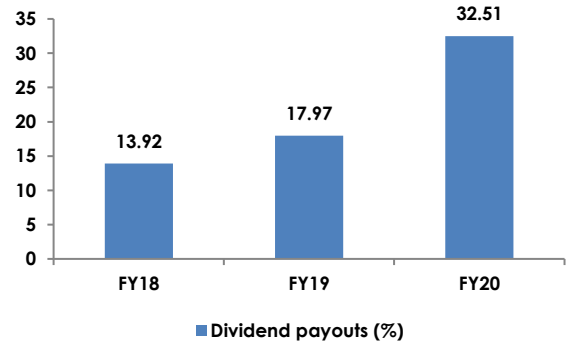
- High competition from private AMCs.
- Decline in market share consistently.
- Underperformance of investment portfolio may impact AUM

Graphs & Charts

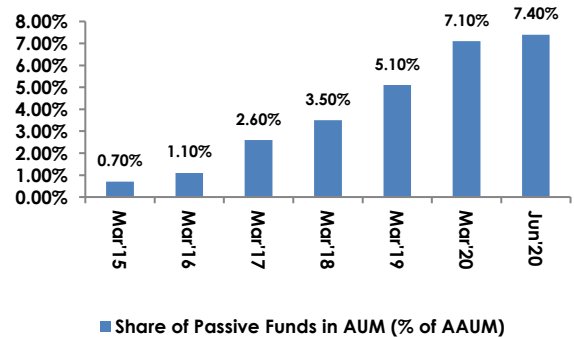
Relatively weak revenue yields



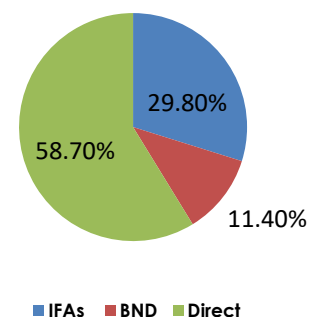
Dividend payouts have been increasing



Share of passive funds in AUM



Distribution network for UTI AMC(% of AUM)



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Disclosure:

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