

Aditya Birla Sun Life AMC Ltd.

SSIS IPO GRADE 2.5/5 (Below Average)

27th September, 2021

Rating Overview

The Indian mutual fund industry is on a high growth path led by financialisation of savings, increased awareness of mutual fund product offerings particularly amongst retail investors and high under penetration. Aditya Birla AMC is well positioned to capture this long-term opportunity in this space.

Further, buoyancy in the equity market and robust recovery from the pandemic is likely to augur well for the industry as a whole. Given Aditya Birla AMC's robust AUM growth, increasing customer base and footprint in B-30 cities, it is expected to see continued traction in profitability. Additionally, its dominance in fixed income products (debt ~41% of AUM) through economies of scale also augurs well for the company. Another factor which is likely to help it in increase its revenue yields is its growth in equity AUM. Its equity AUM mix has grown ~14% through March 2016 to June 2021 to ~38% in June 2021.

The extent of COVID-19's effect on its business and operations cannot be predicted. Its revenue and profitability is primarily dependent on the composition of the AUMs and its value and any change in AUMs may impact its profitability. Any underperformance of investment products/schemes may lead to a loss of investors and reduction in AUM.

ABSL benefits from the strong track record, reputation and experience of its Promoters, ABCL (an Aditya Birla group company) and Sun Life AMC, and their respective affiliates, which have enabled ABSL to build a brand that its customers trust and that has a strong recall. Aditya Birla group is a multi-national conglomerate and, over the last seven decades, has grown to become one of India's largest and most respected corporate groups.

Our overall rating of Aditya Birla Sun Life AMC is below average fundamentals given its market position, asset quality and product scalability. The ask price is high and the stock market never likes to appreciate an offer for sale. You can treat it as a long term investment with a decent chance to be a multibagger in a decade.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

Business Overview

The Aditya Birla group is a multi-national conglomerate and, over the last seven decades, has grown to become one of India's largest and most respected corporate groups. ABSLAMC is from this group going public.

Aditya Birla Sun Life AMC Ltd. (ABSLAMC) is ranked as the largest non-bank affiliated AMC in India by QAAUM since March 31, 2018, and among the four largest AMCs in India by QAAUM since September 30, 2011, according to the CRISIL Report. ABSLAMC managed a total AUM of Rs. 2,936.42 billion under its suite of a mutual fund (excluding domestic FoFs), portfolio management services, offshore and real estate offerings, as of June 30, 2021. The company believes it has achieved this leadership position through a focus on consistent investment performance, extensive distribution network, brand, experienced management team and superior customer service.

Since its inception in 1994, it has established a geographically diversified Pan-India distribution presence covering 284 locations spread over 27 states and six union territories. It managed 118 schemes comprising 37 equity schemes (including, among others, diversified, tax saving, hybrid and sector schemes), 68 debt schemes (including, among others, ultra-short-duration, short-duration and fixed-maturity schemes), two liquid schemes, five ETFs and six domestic FoFs, as of June 30, 2021.

ABSLAMC's flagship schemes include Aditya Birla Sun Life Frontline Equity Fund and Aditya Birla Sun Life Corporate Bond Fund, both of which have grown to become leading funds in India under its management. The total QAAUM (excluding domestic FoFs) has grown over the years and was Rs. 2,754.54 billion, Rs. 2,692.78 billion, Rs. 2,475.22 billion and Rs. 2,464.80 billion as of June 30, 2021, and March 31, 2021, 2020 and 2019, respectively. In addition, it provides portfolio management services, offshore and real estate offerings and managed a total AUM of Rs. 115.15 billion as part of such services, as of June 30, 2021.

It has maintained a market-leading position in B-30 penetration over the years, which has further contributed to the growth of the individual investor base as well as improvement in profitability. Its systematic transactions have achieved similar growth, with number of outstanding SIPs more than tripling from 0.86 million as of March 31, 2016, to 2.80 million as of June 30, 2021.

Financial Performance

On the financial performance front, ABSLAMC has posted a total income/net profits of Rs. 1407.25 cr. / Rs. 446.80 cr. (FY19), Rs. 1234.77 cr. / Rs. 494.40 cr. (FY20) and Rs. 1205.84 cr. / Rs. 526.28 cr. (FY21). For the Q1 of FY 22 ended on June 30, 2021, it has posted a net profit of Rs. 154.94 cr. on a total income of Rs. 336.25 cr. compared to Rs. 97.35 cr. / Rs. 260.75 cr. respectively for the corresponding previous period. Thus it has been reporting growth in bottom lines despite declining top lines. This surge in profits is attributed to declining fees and commission expenses from time to time.

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It has posted an average EPS of Rs. 17.44 and an average RoNW of 34.05% for the last three fiscals. The issue is priced at a P/BV of 11.38 based on its NAV of Rs. 62.57 as of June 30, 2021. If we attribute annualized FY22

earnings on the post issue paid-up equity capital, then the asking price is at a P/E of 33.09, making it a fully priced offer.

Summary of financial Information (Restated Consolidated)			
Particulars	For the year/period ended (₹ in millions)		
	31-Mar-21	31-Mar-20	31-Mar-19
Total Assets	19,845.51	15,719.59	14,984.60
Total Revenue	12,058.41	12,347.68	14,072.50
Profit After Tax	5,262.80	4,944.02	4,467.99

Issue Details

To explore listing benefits and providing exit to some of its stakeholders, ABSLAMC is coming out with a maiden IPO by way of Offer for Sale (OFS) of 38880000 equity shares of Rs. 5 each with a price band of Rs. 695 - Rs. 712 per share. At the upper price band, the company mulls raising Rs. 2768.26 cr. The issue opens for subscription on September 29, 2021, and will close on October 01, 2021. Minimum application is to be made for 20 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. The issue constitutes 13.50% of the post issue paid-up capital of the company.

Having issued initial equity at par, the company raised further equity at Rs. 9.405 per share (based on Rs. 5 paid-up value) in May 1999 and has also issued bonus shares in the ratio of 7 for 1 in April 2021. The average cost of acquisition of shares by the promoters/selling stakeholders is Rs. 2.30 and Rs. 2.77 per share.

This being a pure OFS, the post issue paid-up equity capital of ABSLAMC remains the same at Rs. 144.00 cr. At the upper cap of the offer price, the company is looking for a market cap of Rs. 20505.60 cr.

The Book Running Lead Managers (BRLMs) to this issue are Kotak Mahindra Capital Co. Ltd., BoFA Securities India Ltd., Citigroup Global Markets India Pvt. Ltd., Axis Capital Ltd., HDFC Bank Ltd., ICICI Securities Ltd., IIFL Securities Ltd., JM Financial Ltd., Motilal Oswal Investment Advisors Ltd., SBI Capital Markets Ltd. and Yes Securities (India) Ltd. while KFin Technologies Pvt. Ltd. is the registrar to the issue.

Application Dates	Sep 29, 2021 – Oct 1, 2021
Issue Type	Book Built Issue IPO
Face Value	₹5 per equity share
IPO Price	₹695 to ₹712 per equity share
Market Lot	20 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹5 (Up to ₹2,768.26Cr)

Issue Timeline

Basis of Allotment Date	Oct 6, 2021
Initiation of Refunds	Oct 7, 2021
Credit of Shares to Demat Account	Oct 8, 2021
IPO Listing Date	Oct 11, 2021

Investment Strategy

This offer was eagerly awaited by investors across the board. Though it has been posting the growth for bottom lines, based on financial parameters, the issue is highly priced. With the rising investments in stock markets and increasing numbers of Demat accounts, this company is poised for bright prospects ahead. Investors may park fund in this issue with a long term perspective.