

UTI Asset Management Company Limited

SSIS IPO GRADE 4.25/5 (Good Fundamentals)

28th September, 2020

Rating Overview

Incorporated as 'UTI Asset Management Company Private Limited', on November 14, 2002, UTI Asset Management Company Limited ("UTI AMC") is the 2nd largest Asset Management Company in India in terms of Total AUM and the 8th largest asset management company in India in terms of mutual fund QAAUM as of June 30, 2020.

UTI generates its revenue mainly from asset management activity primarily comprised of fee-based income such as management fees, marketing fees and Investor services fees, among others. For Q1FY21, UTI reported PAT of INR 1,011 million, up by 42.4% largely attributed to mark to market gain under treasury operations.

The company is well-positioned to capitalize on favorable industry dynamics, including the under penetration of mutual fund products. UTI is a pure-play independent asset manager with strong brand recognition and diverse portfolio of funds and services. This helps them in acquiring multiple distribution channels with wide reach and broad and stable client base. The long-term track record of product innovation, consistent and stable investment performance and AUM growth has developed a strong hold of UTI in the retirement solutions. The company has an experienced management and investment team supported by strong governance structures and human resources programs.

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 month period ended Jun-20, the company's revenues stood at ₹2,711 million and PAT was at ₹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.

Our overall fundamental rating of UTI AMC is good. The company holds a fair valuation post issue compared to its competitors and growth prospects. Investors can subscribe it for medium to long term share appreciation.

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.

Company Overview

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

The company 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, its total QAAUM for domestic mutual funds ('Domestic Mutual Fund QAAUM') was Rs. 1,336.3 billion, while another AUM was Rs. 8,493.9 billion. With 10.9 million Live Folios as of March 31, 2020, its client base accounts for 12.2% of the approximately 89.7 million folios that, according to CRISIL, are managed by the Indian mutual fund industry. UTIAMC'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.

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.

Company's 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 existing relationships. Investors are also able to directly invest in its mutual funds through mobile applications for customers. It also has offices in London, Dubai, Guernsey and Singapore, through which it markets 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 domestic mutual funds ('Domestic Mutual Fund Closing AUM') as of June 30, 2020), corporate and other institutional investors (which represented 45.4% of Domestic Mutual Fund Closing AUM as of June 30, 2020), and banks and other financial institutions (which represented 3.5% of Domestic Mutual Fund Closing AUM as of June 30, 2020). Trusts (5.7%) and non -resident Indians ('NRIs') (1.7%) represented the remainder of Domestic Mutual Fund Closing AUM as of June 30, 2020.

It manages 153 domestic mutual fund schemes, comprising equity, hybrid, income, liquid and money market funds as of June 30, 2020. Company's Domestic Mutual Fund QAAUM was Rs. 1,336.3 billion as of June 30, 2020, which accounted for approximately 5.4%, or the eighth largest amount, of the total QAAUM invested in all mutual funds in India as of June 30, 2020, according to CRISIL.

Fundamental Overview

On the financial performance front, for the last three fiscals, on a consolidated basis, UTI AMC has posted revenue/ net profits of Rs. 1162.75 cr. / Rs. 405.09 cr. (FY18), Rs. 1080.89 cr./ Rs. 347.93 cr. (FY19) and Rs. 890.96 cr. / Rs. 275.49 cr. (FY20). Thus it has shown declining trends in income. However, for the Q1 of FY21, the company has earned a net profit of Rs. 101.08 cr. on revenue of Rs. 271.07 cr.

For the last three fiscals, on a consolidated basis, UTI AMC has posted an average EPS of Rs. 24.83 and an average RoNW of 12.02%. The issue is priced at a P/BV of 2.48 based on its NAV of Rs. 223.60 as on June 30,, 2020 (based on upper price band).

If we attribute annualize latest earnings and attribute on fully diluted equity post issue, then asking price is at a P/E of around 17.37 against industry average P/E of 38.64. However, if we attribute FY20 earnings then the issue is at a P/E of 25.49. Thus prima facie issue is fully priced based on latest earnings.

As per offer documents, UTI AMC has shown HDFC AMC (market cap Rs. 44746 cr.) and Nippon Life AMC (market cap Rs. 15565 cr.) as its listed peers. They are currently trading at a P/Es of 35.19 and 35.08 respectively. (As on September 25, 2020 noon).

Summary of financial Information				
Particulars	For the year/period ended (Rs in Million)			
	30-Jun-20	31-Mar-20	31-Mar-19	31-Mar-18
Total Assets	32,634.28	31,549.18	30,132.63	29,192.52
Total Revenue	2,710.68	8,909.61	10,808.94	11,627.47
Profit After Tax	1,010.75	2,764.85	3,479.27	4,050.91

ISSUE DETAILS

For listing gains and to provide an exit to existing stakeholders, UTI AMC is coming out with a maiden IPO of an offer for sale of 38987081 shares of Rs. 10 each. The issue opens for subscription on September 29, 2020, and will close on October 01, 2020. The company has fixed the price band of Rs. 552 - Rs. 554 per share. Minimum application is to be made for 27 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. UTI AMC mulls mobilizing around Rs. 2152.09 cr. - Rs. 2159.88 cr. (based on lower and upper price band) through this IPO. Issue constitutes 30.75% of the post issue paid-up capital of the company.

The company has reserved 200000 shares for eligible employees. From the residual portion, it has reserved 50% for QIBs, 15% for HNIs and 35% for retail category.

Having issued initial equity at par, the company issued further equity in the price range of Rs. 200 to Rs. 260 between August 2015 and September 2015. It has also issued bonus shares in the ratio of 4 for 1 in December 2006 and 3 for 2 in December 2007.

The average cost of acquisition of shares by the promoters/ selling stakeholders ranging from Rs. 99.76 to Rs. 200.43 per share. Post issue, UTIAMC's current paid-up equity capital of Rs. 126.79 cr. will remain the same post-issue following secondary offer. With this issue, the company is looking for a market cap of Rs. 7024.01 cr. (based on upper price band). Current paid-up equity capital stands supported by free reserves of Rs.2708.14 cr. as on June 30, 2020.

The issue is jointly lead managed by Kotak Mahindra Capital Co. Ltd., Axis Capital Ltd., Citigroup Global Markets India Pvt. Ltd., DSP Merrill Lynch Ltd. (BofA Securities), ICICI Securities Ltd., JM Financial Ltd., and SBI Capital Markets Ltd. while KFin Technologies Pvt. Ltd. is the registrar to the issue.

Application Dates	Sep 29, 2020 – Oct 1, 2020
Issue Type	Book Built Issue IPO
Face Value	₹10 per equity share
IPO Price	₹552 to ₹554 per equity share
Market Lot	27 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹10 (Up to ₹2159.88 Cr)

Issue Timeline

Basis of Allotment Date	Oct 7, 2020
Initiation of Refunds	Oct 8, 2020
Credit of Shares to Demat Account	Oct 9, 2020
IPO Listing Date	Oct 12, 2020

Investment Strategy

UTI AMC has emerged as the second-largest AMC post revamp. According to management, they are back on track with its improved performance for FY21 Q1. The company is gearing to give the best services to its clients and investors with modern technology and research-based investments. Considering its financial performance so far, the issue appears fully priced. Investors may park their funds with a long term perspective.