



SMC Ranking

★ ★ ★ ☆ ☆ (3/5)

Issue Highlights

Industry	Financial
Total Issue (Shares) - Offer for sale	38,987,081
Net Offer to the Public	38987081
Employee Reservation Portion	200,000
Issue Size (Rs. Cr.)	2152-2160
Price Band (Rs.)	552-554
Offer Date	29-Sep-20
Close Date	1-Oct-20
Face Value	10
Lot Size	27

Issue Composition

	In shares
Offer for sale	38,987,081
QIB	19,393,541
NIB	5,818,062
Retail	13,575,478
Employee Reservation Portion	200000

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	0.00%	0.00%
QIB	100.00%	84.55%
NIB	0.00%	4.59%
Retail	0.00%	10.71%
Employee Reservation Portion		0.16%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The objects of the Offer are

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

Book Running Lead Manager

- 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

Name of the registrar

- KFin Technologies Private Limited

About the Company

Incorporated in 2002, 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 30 June 2020. The company manages the domestic mutual funds of UTI Mutual Fund, provides portfolio management services (PMS) to institutional clients and high net worth individuals (HNIs), and manages retirement funds, offshore funds and alternative investment funds. UTI AMC's total QAAUM for domestic mutual funds was INR1,336.3 billion, while Other AUM was INR8,493.9 billion as of 30 June 2020. With 10.9 million live folios as of 31 March 2020, its client base accounted for 12.2% of the 89.7 million folios that are managed by the Indian mutual fund industry.

Strength

Well-positioned to capitalise on favourable industry dynamics, including the under penetration of mutual fund products: The company has the highest proportion of its monthly average AUM as of June 30, 2020 attributable to B30 cities of the top ten asset management companies in India as of June 30, 2020. CRISIL notes that there is a particularly low penetration of mutual fund products in B30 cities; as of March 31, 2020 the Indian mutual fund industry's AUM attributable to B30 cities was only 12.6% of total industry AUM. The company believes that its size and diverse client base coupled with its strong product portfolio and, particularly in B30 cities, extensive distribution network and widely recognized brand, position it to capitalise on future growth in the Indian mutual fund industry.

Pure-play independent asset manager with strong brand recognition and diverse portfolio of funds and services: UTI brand was amongst the top five preferred industry brands in the Nielsen Mutual Fund Studies for December 2015 to January 2016 and September 2017. The Company 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 Domestic Mutual Fund QAAUM as of June 30, 2020. Company offers a diverse portfolio of domestic funds, including equity, hybrid, income, liquid and money market funds, as well as portfolio management services, retirement solutions, and offshore and alternative investment funds.

Multiple distribution channels with wide reach and broad and stable client base: It has a comprehensive multi-channel distribution network with both in-house capabilities and external distribution channels. Its wide-spread distribution network in India gives it access to its investors located in 697 districts (out of 722 districts in total), including remote areas, and reinforces its strong presence in small and medium towns, cities and villages. As of 30 June 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 Independent Financial Advisors (IFA) channel includes approximately 53,000 IFAs as of 30 June 2020. 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, were managed by the Indian mutual fund industry. Individual domestic clients (including clients investing through systematic transactions) represented 43.8% and Institutional clients represent 54.5% of Domestic Mutual Fund Closing AUM and nearly 100% of the AUM of PMS business as of June 30, 2020.

Long-term track record of product innovation, consistent and stable investment performance and AUM growth: Many of the company's 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, according to

CRISIL (the UTI Mastershare Unit Scheme), and first tax saving cum insurance fund (the UTI ULIP). Schemes representing 92.3% of the closing AUM invested as of June 30, 2020 in six core equity strategies have outperformed their respective benchmark indices (by an average of 1.3% per annum, weighted by AUM as of June 30, 2020). From March 31, 2018 to March 31, 2020, the QAAUM of domestic equity mutual funds increased at a CAGR of 17.6% (largely due to inflows into passive schemes). Company's Other AUM grew at a CAGR of 101.1% over the same period, primarily due to our appointment to manage ₹3,282.8 billion of additional assets for the EPFO and increased by a further ₹213.1 billion in the three-month period ended June 30, 2020. The Company's SIP AUM has grown at a CAGR of 3.3% from March 31, 2018 to March 31, 2020, and continued to increase by a further ₹21.2 billion in the three-month period ended June 30, 2020, despite the COVID-19 pandemic.

Established position in retirement solutions through product innovation and large retirement fund mandates: The company has developed particular strengths in managing retirement funds for beneficiaries right across the socioeconomic spectrum. In its domestic mutual funds business, according to CRISIL it manages the largest income tax -notified fund in the retirement. The Company is one of two fund managers appointed to manage the EPFO corpus, and have also been appointed as a fund manager for CMPFO, ESIC and NSDF. These appointments resulted in strong growth in PMS AUM, which totalled ₹1,158.5 billion, ₹1,332.7 billion and ₹6,890.6 billion as of March 31, 2018, 2019 and 2020, respectively, representing a CAGR of 143.9% over the relevant period; as of June 30, 2020.

Enhanced profitability driven by its size and product mix: The company strives to maintain and enhance profitability while it grows its business and AUM. The fees it is able to charge for equity and hybrid funds are generally higher than the fees charged for income and liquid and money market funds, and its QAAUM for equity and hybrid funds (excluding passive funds) as a percentage of Domestic Mutual Fund QAAUM were 24.9% and 14.1%, respectively, of its Domestic Mutual Fund QAAUM as of June 30, 2020; B30 cities contribute a significant percentage of its closing AUM for domestic active equity and hybrid funds, at 45.7% and 50.7%, respectively, as of June 30, 2020. Its size and broad distribution network, particularly in B30 cities, provides it with economies of scale, particularly in distribution, marketing, and back-office activities.

Strategies

Drive superior investment performance across its categories of funds: The company believes the most effective strategy for growing its businesses is to enable its clients to achieve their financial goals and the company follows a disciplined and rigorous investment process supported by in-house fundamental research, a data -based framework for portfolio construction and internal risk management processes. The company intends to invest in the human and organisational resources needed to increase the number of companies covered by its in-house research team and its fund strategies. This will enable it to launch new products and enable AUM growth.

Increase geographical reach and expand distribution channels: The company seeks to continue to develop its distribution network and increase its geographical reach through reinforcing and expanding its distribution channels by deepening its presence in T30 cities, where it believes there remain attractive growth opportunities, and expanding its reach into new markets. The company plans to further strengthen and deepen its relationship with its institutional and PSU clients, with a particular focus on developing relationships with small- and medium-sized institutional clients to expand its domestic mutual fund investor base.

Continue to develop PMS, offshore and alternative funds businesses: The company intends to use its track record with institutional mandates to manage superannuation funds (such as EPFO and CMPFO) to pursue other opportunities in its PMS business. The company plans to grow its offshore business by focusing on distribution partnerships, including co-branded and white-labelled funds, expanding its in-house distribution and client coverage capabilities, including through making further in-market hires overseas, and strengthening its relationships with wealth platforms and local banks.

Leverage technology and digitisation to enhance organisational efficiency and cost optimisation, improve customer acquisition and experience, and ensure data security: The company plans to leverage investments made in technology to drive business growth and improve

profitability across its business. It is implementing a comprehensive digital transformation program to build the efficacy, capacity, resilience and cost effectiveness of its organisation. This program involves multiple initiatives with respect to application modernisation, hybrid cloud architecture adoption, business process digitisation, enterprise data platform ad option and cyber security enhancement. The company continues to invest in data protection technologies to ensure that we are able to protect, detect, recover from and respond to cyber threats.

Continue to attract, retain and develop human capital: The success of the company depends on its team of employees and it is implementing a number of measures to further strengthen its workforce and improve employee motivation and development. The company will continue to provide employee compensation that is merit-based and benchmarked to its industry. The company will also Continue to pursue its strategy of external recruitment from the market, as well as merit -based internal promotions, with a particular focus on recruiting junior talent such as the 128 management trainees we hired in the fiscal year ended March 31, 2020. The company currently plans to hire approximately 55 management trainees, and 100 graduate trainees as entry -level executives for core sales roles, nationwide during the current fiscal year.

Risk Factors

- The market share of the company has declined consistently over the past years and may continue to do so, which could have an adverse impact on its business, financial condition and results of operations.
- The Concentration of the company is in its investment portfolio could have a material adverse effect on its business, financial condition and results of operations.
- Its investment performance, income and profitability may be materially adversely affected if it is unable to identify appropriate investment opportunities or if the investment strategy for any of its funds goes out of favour with its clients.
- The business of the company is subject to extensive regulation, including periodic inspections by SEBI and by the Pension Fund Regulatory and Development Authority (“PFRDA”).
- The company is dependent on the strength of its brand and reputation, and activities of third-party entities that are entitled to use the UTI brand may damage that brand and reputation, which may harm its business.

Peer comparison

Company	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Nippon Life Ind.	1168.98	446.15	7.28	34.55	5.94	42.35	10	251.55	15405.62
HDFC AMC	2081.99	1272.98	59.80	35.19	11.12	189.28	5	2104.15	44792.10
UTI AMC	854.97	276.49	21.81	25.40	2.53	218.74	10	554	7024.01

* FY20 Annualised financials are taken for valuation

Valuation

Considering the valuation at upper price band of Rs.554, EPS and P/E of FY2020 are Rs. 21.81 and 25.40 multiple respectively and at a lower price band of Rs. 552, P/E multiple is 25.31; at upper price band of Rs.554, book value and P/B of FY2020 are Rs.218.71 and 2.53multiple respectively and at a lower price band of Rs. 552, P/B multiple is 2.52. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Industry overview

The share of mutual funds in overall household savings has increased steadily since Fiscal 2013 and stood at 2.9% as of Fiscal 2019. With the financial sector being particularly sensitive to improved economic conditions and given the expected changes in saving patterns, CRISIL expects an increase in the share of financial assets (direct and through mutual funds and insurance) in total financial savings. The RBI and several other key institutions of the Government of India have taken aggressive measures to alleviate financial market stress in the wake of the COVID-19 pandemic. Aggregate AUM of the Indian mutual fund industry have grown at a healthy pace over the past ten years, against the backdrop of an expanding domestic economy, robust inflows and rising investor participation, particularly from individual investors. Average AUM grew at a CAGR of 13% from ₹7.6 trillion as of March 31, 2010 to ₹27.0 trillion as of March 31, 2020. The mutual fund industry has seen growing participation from households in recent years as a result of growing awareness, financial inclusion, and improved access to banking channels. Between March 31, 2015 and March 31, 2020, the industry grew by 48 million folios to approximately 89.7 million folios, driven almost entirely by individual investors (retail and high net worth individuals or HNIs). These represented an approximate CAGR of 17% in accounts over the period and an increase in average ticket size from approximately ₹135,000 as of March 31, 2015 to approximately ₹168,000 as of March 31, 2019. Following the outbreak of the COVID-19 pandemic, the average ticket size of individual folios has decreased to ₹134,500 as of March 31, 2020.

Outlook

India is a large market and every AMC has enough scope to scale up their operations, despite the completion in the industry. In the past we have seen the two listed AMC have delivered very good returns and the restively attractive valuations of UTI AMC compared to the other two listed players makes it even more attractive. It won't be wrong to say that the Equity culture in India is still at a developing stage and UTI being one of the oldest AMC is likely to generate good returns for investors both from the medium term as well as long term.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	September 29, 2020
Bid/Offer Closing Date	October 1, 2020
Finalisation of Basis of Allotment with the Designated Stock Exchange	October 07, 2020
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	October 08, 2020
Credit of Equity Shares to depository accounts of Allottees	October 09, 2020
Commencement of trading of the Equity Shares on the Stock Exchanges	October 12, 2020

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-20 (6 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Total Operating Income	261.79	854.97	1,050.50
Total expenditure	137.10	505.70	585.91
Operating Profit	124.70	349.27	464.59
OPM%	47.63	40.85	44.23
Other Income	9.28	35.99	30.38
PBDIT	133.97	385.26	494.97
Depreciation	8.46	31.34	29.15
PBIT	125.52	353.92	465.82
Interest	2.29	8.48	8.19
PBT	123.22	345.45	457.63
Tax	22.15	68.96	143.31
Profit After Tax	101.08	276.49	314.32

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-20	As on 31-Mar-20	As on 31-Mar-19
Financial Assets			
Cash and cash equivalents	123.86	119.25	124.18
Receivables	0	0.00	0.00
Trade Receivables	42.09	45.62	27.55
Other Receivables	9.23	9.74	36.18
Loans	36.41	37.44	28.17
Investments	2457.39	2355.75	2261.37
Other Financial Assets	151.35	154.24	127.86
Total Financial Assets	2820.32	2722.04	2605.31
Non Financial Assets			
Current Tax Assets (Net)	50.06	46.11	32.06
Investment Property	10.60	10.73	11.25
Property, Plant and Equipments	247.11	250.39	252.94
Right of use assets	95.94	89.65	83.42
Capital work in progress	0.57	0.28	0.88
Intangible assets under development	1.91	0.76	0
Other Intangible Assets	10.45	11.80	3.61
Other Non Financial Assets	26.48	23.17	23.80
Total Non- Financial assets	443.11	432.88	407.96
Total assets	3263.42	3154.92	3013.26
Current liabilities			
Financial liabilities			
Trade payables	0.84	1.42	3.77
Other Payables	0.00	0.00	0.00
Total outstanding dues of micro enterprises and small enterprises	0.45	0.79	0.92
Total outstanding dues of creditors other than microenterprises and small enterprises	31.87	64.06	66.7
Other Financial Liabilities	178.22	175.58	159.39
Total current liabilities	211.40	241.80	230.79
Non Financial Liabilities			
Current Tax Liabilities	7.69	4.49	4.34
Provisions	129.81	83.09	91.61
Deferred Tax Liabilities	49.88	44.45	36.34
Other Non Financial liabilities	18.28	7.80	8.62
Total Non Financial Liabilities	205.66	139.84	140.91
Total liabilities	417.05	381.64	371.70
Asset-Liabilities	2846.37	2773.28	2641.57
Net worth represented by:			
Equity share capital	126.79	126.79	126.79
Other equity	2708.14	2635.71	2477.59
Non Controlling Interest	11.44	10.79	37.19
Total equity (Net Worth)	2846.37	2773.28	2641.57

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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