HDFC Asset Management Company Limited

Issue Snapshot:

Issue Open: July 25 – July 27 2018

Price Band: Rs. 1095 – 1100

Issue Size: 25,457,555 Equity Shares (Comprises of Offer for sale of up to 8,592,970 Equity shares by HDFC Ltd and 16,864,585 Equity shares by Standard Life Investments.

Offer Size: Rs.2787.6 crs - 2800.3 crs

QIB	Upto	11,088,776 eq sh
Non Institutional	atleast	3,326,634 eq sh
Retail	atleast	7,762,145 eq sh
HDFC AMC Employee :	Upto	320,000, eq sh
HDFC Employee:	Upto	560,000, eq sh
HDFC Shareholders:	Upto	2,400,000, eq sh

Face Value: Rs 5

Book value: Rs 102.58 (March 31, 2018)

Bid size: - 13 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 106.0 cr

Post issue Equity: Rs. 106.0 cr

Listing: BSE & NSE

Book Running Lead Manager: Kotak Mahindra Capital Company Ltd, Axis Capital Ltd, DSP Merrill Lynch Ltd, Citigroup Global Markets India Private Ltd, CLSA India Pvt Ltd, HDFC Bank Ltd, ICICI Securities Ltd, IIFL Holdings Ltd, JM Financial Ltd, J.P. Morgan India Pvt Ltd, Morgan Stanley India Company Pvt Ltd, Nomura Financial Advisory and Securities (India) Pvt Ltd

Registrar to issue: Karvy Computershare Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	94.95	82.94
Public	5.05	17.06
Total	**100.0**	**100.0**

Source for this Note: RHP

Background & Operations:

HDFC Asset Management Company Ltd (HDFC AMC) has been the most profitable asset management company in India in terms of net profits since Fiscal 2013 with a total AUM of Rs2,919.85 billion as of March 31, 2018. Its profits has grown every year since the first full year of operations in Fiscal 2002 and has have been the largest asset management company in India in terms of equity-oriented AUM since the last quarter of Fiscal 2011 and has consistently been among the top two asset management companies in India in terms of total average AUM since the month of August 2008.

As of March 31, 2018, HDFC AMC's equity-oriented AUM and non-equity-oriented AUM constituted Rs1,497.13 billion and Rs1,422.73 billion, respectively, of its total AUM. Its actively managed equity-oriented AUM (which excludes index linked and arbitrage schemes) constituted Rs1,449.25 billion of total AUM as of March 31, 2018. Its AUM has grown at a compounded annual growth rate ("CAGR") of 25.5% between March 31, 2013 and March 31, 2018. Its proportion of equity-oriented AUM to total AUM was at 51.3%, which was higher than the industry average of 43.2%, as of March 31, 2018. As of March 31, 2018, its market share of total AUM was 13.7% and of actively managed equity-oriented AUM (which excludes index linked and arbitrage schemes) was 16.8% among all asset management companies in India. It has received several awards for its operations, such as the Equity Fund House of the year award for 2017 at the Outlook Money Awards in 2018.

HDFC AMC operates as a joint venture between Housing Development Finance Corporation Limited ("HDFC") and Standard Life Investments Limited ("SLI"). HDFC group has emerged as a recognized financial conglomerate in India, with presence in housing finance, banking, life and nonlife insurance, asset management, real estate funds and education finance. It offers a large suite of savings and investment products across asset classes, which provide income and wealth creation opportunities to its customers. As of March 31, 2018, it offered 133 schemes that were classified into 27 equity-oriented schemes, 98 debt schemes (including 72 fixed maturity plans ("FMPs")) and three liquid schemes, and five other schemes (including exchange-traded schemes and funds of fund schemes). This diversified product mix provides with the flexibility to operate successfully across various market cycles, cater to a wide range of customers from individuals to institutions, address market fluctuations, reduce concentration risk in a particular asset class and work with diverse sets of distribution partners which helps to expand its reach. It also provides portfolio management and segregated account services, including discretionary, non-discretionary and advisory services, to high net worth individuals ("HNIs"), family offices, domestic corporates, trusts, provident funds and domestic and global institutions.

HDFC AMC's diverse product offerings and services allows to reach out to a large segment of the Indian mutual fund market and develop a broad individual focussed customer base. Its diverse schemes target varying customer requirements and risk profiles, and has helped to attract a growing individual-focused customer base. Its offering of systematic transactions further enhances appeal to individual customers. A key element of the company's strategy is to promote a customer-centric culture that spans across all aspects of its business. As of March 31, 2018, HDFC AMC served customers in over 200 cities through its pan-India network of 209 branches (and a representative office in Dubai) and service centres of its registrar and transfer agent ("RTA"), which is supported by a strong and diversified network of over 65,000 empaneled distribution partners across India, consisting of independent financial advisors ("IFAs"), national distributors and banks. Its focus on technology has enriched customers' experience and has enhanced the productivity of employees and distributors. It offers its products and services through online portal, HDFC MF Online and mobile applications, both of which has become increasingly relevant to its business in recent years.

HDFC AMC offers a large suite of savings and investment products across asset classes, which provide income and wealth creation opportunities to its customers. As of March 31, 2018, it offered 133 schemes that were classified into 27 equity-oriented schemes, 98 debt schemes (including 72 fixed maturity plans (“FMPs”)), three liquid schemes, and five other schemes (including exchange-traded schemes and funds of fund schemes).

As of March 31, 2018, HDFC AMC managed AUM of Rs 64.74 billion as part of its portfolio management and segregated accounts services’ business. Additionally, as part of its portfolio management and segregated accounts services it provides non-binding investment advisory services to a fund which had an AUM of Rs 4.69 billion as of March 31, 2018 and is managed by Standard Life Investments Global SICAV. Its diverse product offerings and services allows the AMC to reach out to a large segment of the Indian mutual fund market and develop a broad individual focussed customer base. It had a total number of Live Accounts of 8.10 million as of March 31, 2018, and its Monthly Average AUM (“MAAUM”) from individual customers accounted for 62.2% of its MAAUM, compared to the industry average of 51.4%, for the same period, according to CRISIL

Objects of Issue:

The objects of the Offer is to achieve the benefits of listing the Equity Shares on the Stock Exchanges and to carry out the sale of Equity Shares offered for sale by the Selling Shareholders. Further, HDFC AMC expects that the listing of its Equity Shares will enhance visibility and brand image, and will provide a public market for Equity Shares in India. Company will not receive any proceeds from the Offer and all the proceeds from the Offer will be received by the Selling Shareholders, in proportion to the Equity Shares offered by the respective Selling Shareholders as part of the Offer.

Competitive Strengths

Consistent market leadership position in the Indian mutual fund industry: HDFC AMC has been a leader in the Indian mutual fund industry as demonstrated by its leading position across key industry metrics. It has been the most profitable asset management company in India in terms of net profits since Fiscal 2013. Its AUM has grown at a CAGR of 33.9% since Fiscal 2001 and has been the largest asset management company in India in terms of equity-oriented AUM since the last quarter of Fiscal 2011 and has consistently been among the top two asset management companies in India in terms of total average AUM since the month of August 2008. As of March 31, 2018, its market share of total AUM was 13.7% and of actively managed equity-oriented AUM (which excludes index linked and arbitrage schemes) was 16.8% among all asset management companies in India, as of March 31, 2018. Its leading industry and financial position provides HDFC AMC with a robust platform for growth and efficiencies of scale, and enhances capability of investing in the growth of its physical and digital infrastructure, which would further access to a larger customer base, and provide improved customer experience. This would also enable to maintain competitive advantage as a market leader in the event of competitive pricing pressures or cyclicality in its industry. The company has earned a reputation as an industry leader in quality and service excellence by staying relevant to its customers, and by providing them with need-based product solutions to meet their financial goals as well as continued support and engagement through various channels.

Trusted brand and strong parentage*:* HDFC AMC has a strong brand that its customers trust, as evidenced by its consistent leadership position in the Indian mutual fund industry. It has strong brand recall among Indian customers, which attribute, in part, to the strength of its brand and strong parentage. It benefit from the brand reputation of its promoters, HDFC and SLI. The company benefit from HDFC’s brand name as it gives a unique advantage of being a trusted provider of financial services, and SLI provides access to international best practices, for operations and risk management. HDFC group has emerged as a recognized financial conglomerate in India with presence in housing finance, banking, life and non-life insurance, asset management, real estate funds and education finance.

Strong investment performance supported by comprehensive investment philosophy and risk management:

Equity-oriented schemes

HDFC AMC’s consistent position as one of India’s leading asset management companies is driven by its comprehensive investment philosophy and investment performance. Equity-oriented schemes constituted 51.3% of its total AUM as of March 31, 2018. Its investment philosophy for equity-oriented investments is based on the belief that over time stock prices reflect their intrinsic values. It is medium to long-term investors in equity and its investments are driven by fundamental research with a medium to long-term view. Qualitative aspects of research focus on the company’s management quality and corporate governance, amongst other factors. long-term focus with an understanding of short-term factors, investment discipline, risk management and a team of talented individuals are key to a successful active fund management. As a result of this approach, the company has been able to deliver strong and consistent performance for its equity-Oriented schemes and view ourselves as the market leader for equity-oriented schemes.

Debt schemes

HDFC AMC’s investment philosophy for fixed income investments is based on its objective of delivering optimal risk adjusted returns across its schemes, with a particular focus on safety, liquidity and returns. Its fixed income schemes constituted 48.5% of its total AUM as of march 31, 2018. Its fixed income schemes invest in securities including corporate bonds, municipal bonds, mortgage-backed securities, assetbacked securities, real estate investment trusts, infrastructure investment trusts and money market instruments. It also evaluate global and local macroeconomic variables such as growth, inflation, currency and liquidity. Its fund managers endeavor to add value by adjusting portfolio durations based on their views of interest rates and the shape of the yield curve, choosing relatively undervalued credits and constructing well-diversified portfolios. The risk management function is an integral part of its investment process. Investment and risk management team is responsible for conducting pre-trade and post-trade monitoring. It continuously enhance its investment risk management capabilities to ensure regulatory and market compliance, and develop techniques to continue tracking its portfolios.

Superior and diversified product mix distributed through a multi-channel distribution network: HDFC AMC offers a wide range of investment schemes across asset classes catering to various risk return profiles, many of which has recorded strong and consistent performance compared to industry benchmarks. Its diversified product mix, which includes 27 equity-oriented schemes, 98 debt schemes (including 72 FMPs), three liquid schemes, and five other schemes (including exchange-traded and funds of fund schemes), enables it to operate through various market cycles, cater to specific customer requirements and reduce concentration risk. It offers equity-oriented schemes based on market capitalization and asset class mix, as well as thematic, tax saving, goal-based, arbitrage and index schemes. Schemes based on market capitalization include multi-cap, large-cap, midcap and small-cap schemes, while those based on asset classes include equity-oriented hybrid schemes with a mix of equity and debt instruments. Its debt schemes cater to different risk return profiles of customers. They include liquid schemes, ultra-short term debt scheme, short and medium term schemes, income schemes, gilt schemes and FMPs. Overall, it typically exercise discipline in launching new schemes and prefer to focus on growing its existing schemes. The company offers its customers access to its products and services through an extensive multi-channel sales and distribution network comprising banks, national distributors and IFAs. It has a strong online presence via digital platform for customers and distribution partners. It offers its services through online portal, HDFC MFOnline and its mobile applications. Through diverse range of product offerings, it is equipped to cater to a variety of customer requirements and risk profiles and that it is well positioned to continue to attract AUM from new and existing customers.

Focus on individual customers and customer centric approach: With an individual investor focused strategy, HDFC AMC has a customer base with a greater proportion of individual AUM in comparison to the overall Indian mutual fund industry. As of March 31, 2018, its MAAUM from individual customers accounted for 62.2% of its MAAUM compared to 51.4% in the mutual fund industry in India as a whole for the same period. With this trend towards greater individual investments in mutual funds, its significant individual customer base and leadership remains a key strength. Individual customers tend to favor equity-oriented schemes, which generally attracts higher investment management fees in comparison to non-equity oriented schemes and individual customers tend to have longer holding periods. Investments through systematic transactions have become a popular form of investing in the mutual funds as it offers customers the opportunity to invest smaller amounts over longer periods and helps mitigate the risk of market timing. The cornerstone of HDFC AMC's sales effort has been to build a strong pipeline of such systematic flows, which helps in providing steady and predictable flows to its AUM. In pursuit of this objective, the company has built a strong monthly flow of funds through systematic transactions. Its ability to attract and retain customers is broadly a result of its customer centric approach and service. It is committed to providing high quality customer service experience to its customers. It has established a large network of customer service centers across India to facilitate customer touch points and also offers additional customer services, such as multi-lingual account statements to cater to customers across India and other value-added services. HDFC AMC host investor education programs to educate prospective customers of the various investment products and has a dedicated distributor portal for its distribution partners.

Consistent profitable growth*:* HDFC AMC has been the most profitable asset management company in India in terms of net profits since Fiscal 2013. As equity-oriented schemes generally have a higher fee structure compared to non-equity-oriented schemes, its product mix helps to achieve higher profits. Further, As of March 31, 2018, its market share of total AUM was 13.8% and of actively managed equity-oriented AUM (which excludes index linked and arbitrage schemes) was 13.7% among all asset management companies in India. It has been the most profitable asset management company in India in terms of net profits and total revenue since Fiscal 2013 and had the highest share of net profits and total revenue of 18.8% and 13.5%, respectively, among asset management companies in India in Fiscal 2017. HDFC AMC has been able to maintain its strong financial position because of its consistent focus on customer centricity, cost management and continued focus on profitable growth. Its strong financial position in the industry provides with sustainable resources to continue to invest and fund future growth.

Experienced and stable management and investment teams*:* HDFC AMC is led by a management team with extensive experience in the asset management, banking and finance sectors with a proven track record of performance. The company has been in operation for over 17 years. Its senior management team has been with for an average of 13 years and has a total average work experience of 26 years. As a result, its senior management team brings a deep understanding of the market that enables to identify and take advantage of strategic opportunities and effectively respond to the changing landscape in India. Leadership team is committed to growing the business of HDFC's AMC, as demonstrated by its track record in delivering consistent business and financial results. It has a strong and stable investment team, which consisted of 269 employees as of March 31, 2018 with an average of nine years of work experience with the Company, and an average of 17 years of total experience. Its attrition rates are amongst the lowest in the industry.

Business Strategy:

Maintain strong investment performance*:* HDFC AMC's endeavour is to continue to deliver superior investment performance against benchmarks and peer groups over medium to long-term periods. It is medium to long-term investors and its investments are driven by fundamental research with a medium to long-term view. As part of investment discipline, the company align its investment strategy and asset allocation with the scheme's objective or mandate at all points of time. It avoid investing in assets where risks are not understood. As part of its long term focus, it construct portfolios based on medium to long-term fundamentals, analyse and understand short-term volatility, yet stay committed to medium to long-term prospects. It continue to focus on enhancing the quality of research in order to develop a more deep and incisive understanding of the businesses that it invest in. As part of risk management, it adopt continuous risk management processes that tracks adherence of respective portfolios characteristics with the scheme mandates. With respect to team approach coupled with talented individuals, HDFC AMC provides high operating freedom to individuals within predefined boundaries and will continue to support and encourage dialogue, exchange of views, sharing of information both internally and with external experts.

Expand reach and distribution channels*:* The AUM of the Indian mutual fund industry has grown at a CAGR of 24.9%, and the equity-oriented AUM that generally has a higher fee structure has grown at a CAGR of 37.3% from March 31, 2013 to March 31, 2018. It has expanded its physical presence from 141 branches as of March 31, 2014 to 210 branches as of March 31, 2018 and aims to continue expanding its physical footprint consistent with the growing opportunity. T-15 cities account for 81.2% of the industry MAAUM, having grown at a CAGR of 24.9% since March 2014. It has expanded its reach in T-15 cities, both in terms of branches and personnel. The company intends to continue using its investor education programs to promote awareness of mutual funds that should lead to increased penetration of mutual fund products. It also plans to continue complementing its wide distribution network with effective marketing campaigns to spread brand awareness and strengthen customer relationships. It is focused on expanding its distribution reach to attract global clientele. Its financial strength and superior profits track record provides a platform to continue investing in the expansion of its physical and digital reach.

Enhance product portfolio: HDFC AMC aims to offer need-based and customer-centric products that address the core needs of its diversified customer base. It typically exercise discipline in launching new funds and prefer to focus on growing its existing funds. However, HDFC AMC continuously seeks feedback from its investment team, distributor network and customers to cater to customer demands and market trends, which it utilize to adjust existing products or launch new products. As part of its product development strategy, it intends to continue developing products for its customers based on investment opportunities identified by its investment team and which complement its existing product suite. The company's product strategy also involves focusing on its systematic transaction offerings. It offers three broad types of systematic transactions, systematic investment plans, systematic transfer plans and systematic withdrawal advantage plans, which allow individual customers to systematically invest, transfer and withdraw assets into and from its schemes. It also plans to continue growing its portfolio management and segregated account services and provides portfolio management and segregated account services, including discretionary, non-discretionary and advisory services, to HNIs, family offices, domestic corporates, trusts, provident funds and domestic and global institutions. It has plans to launch an alternative investment fund ("AIF") as well. In this regard, it has received SEBI approval to operate as a Category II AIF and intends to seek SEBI approval to be recognized as a Category III AIF. It anticipate launching its AIF operations depending on viable market opportunities.

Invest in digital platforms to effectively leverage the growing digital space*:* HDFC AMC's vision is to be a leader in the effective use of technology to meet the changing needs of its customers, employees and key distribution partners. Digital transformation is strategic and integral to its business, as it redefines standards in terms of meeting customer expectations and reducing costs. It aim to progress towards a digital model to meet customers' requirements by personalizing offerings, facilitating easy onboarding, ease in transacting and access to other relevant data through digital platform. Through these initiatives, HJDFC AMC expects its customer's user experience to improve, which will enable to build customer loyalty. technology is expected to play a pivotal role in the Indian financial services sector. Digital distribution will continue to be a growing trend in the Indian mutual fund industry, and that the use of smartphones and mobile devices will become a preferred medium for product, scheme subscription and information dissemination. Maintaining a superior digital infrastructure will therefore continue to be a key contributor to the growth of business. It plans to explore using data analytics, especially using behavioural analysis tools for predictive analytics and deploying the same for improved customer servicing and cross/up selling. The company endeavours to continue making targeted investments in areas such as mobility platforms, data science and other analytics, cognitive automation and cloud computing. It also aims to provide seamless connectivity with all its key distribution channels in order to drive synergies of financial planning, efficient distribution, order processing and servicing. These initiatives will be instrumental in decreasing costs while bringing in efficiencies at the same time. It intend to continue developing its transactions portal, HDFC MF Online and its website.

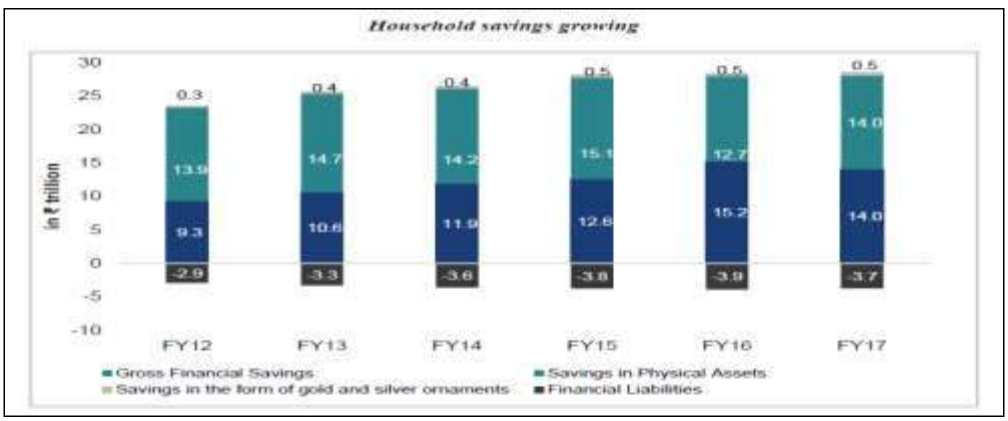
Industry:

Macroeconomic Overview

The Indian economy grew at a compounded annual growth rate ("**CAGR**") of 6.9% (Gross Domestic Product ("**GDP**") at constant Fiscal 2012 prices) between Fiscals 2012 and 2017, driven by consumption, even as investment – the other growth engine – remained sluggish. Growth between Fiscals 2012 and 2013 was tepid as income growth was slow, and inflation and interest rates were high, but picked up from Fiscal 2014 with the improvement in industrial activity, lower crude oil prices, fall in inflation, and supportive government policies. However, Fiscal 2017 saw it come off, because of demonetisation, dwindling private investment and slower global growth. India is one of the fastest-growing economies in the world, with growth rate higher than many emerging and developed economies. Over the past three years, the economy has witnessed a gradual improvement on the macroeconomic front, supported by prudent Fiscal and monetary policies, targeted towards improving the growth-inflation mix. CRISIL Research expects the pace of economic growth to pick up in the medium term, as structural reforms, such as GST and the Bankruptcy Code, which are aimed at de-clogging the economy and raising the trend rate of growth, respectively, begin to have an impact. Assuming the monetary and Fiscal policies remain prudent, these reforms could lead to efficiency gains and improve the prospects for sustainable high growth in years to come. Improving macroeconomic environment (softer interest rates and stable inflation), urbanisation, rising middle class, and business-friendly government reforms will drive growth in the long term. As per the IMF, the Indian economy is projected to log 7.6% CAGR in the next five Fiscals.

Strong growth foreseen in household financial savings

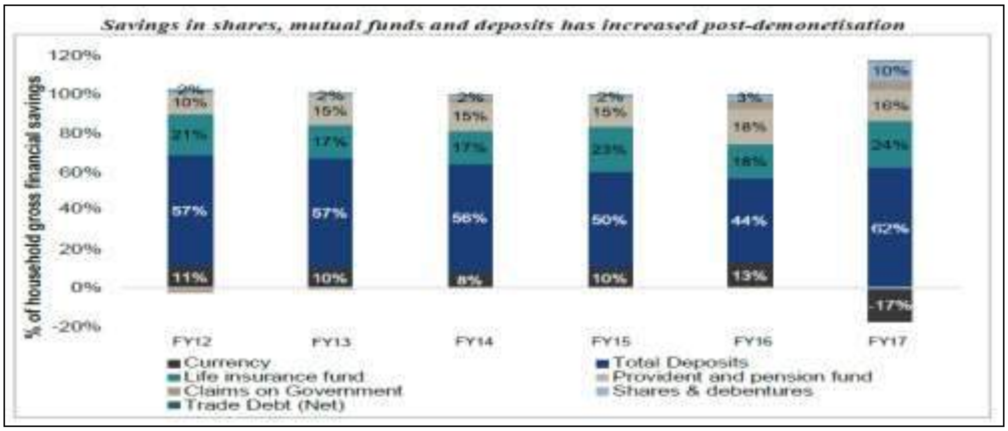
India has historically been and is expected to remain a savings economy. The gross domestic savings rate (as a percentage of GDP) is higher than those of major economies such as the US, the UK, France, Japan and Germany. As of 2016, India's gross domestic savings rate stood at 29%, compared with the global average of 25%. Household savings in India has witnessed a growth from Rs20.7 trillion in Fiscal 2012 to Rs24.8 trillion in Fiscal 2017, although its share as a percentage of GDP remained subdued during the period. The past two years have seen a quantum spurt in investments into capital markets, with the household allocation to shares and debentures increasing from 2% in Fiscal 2015 to 10% in Fiscal 2017 as well as a sharp increase in the mutual fund assets under management (**"AUM"**). For the period March 2014 to March 2018, the individual investors' AUM grew at a CAGR of 31.2% to Rs11.7 trillion. In Fiscal 2019 CRISIL Research expects CPI inflation to further fall and average 4.6%. Over the long term, too, the RBI is committed to keep inflation low and range-bound. Lower inflation gives an impetus to overall savings, as people can save more. CRISIL Research expects financial savings to increase with the government's strong stance against black money and diminishing attractiveness of real estate and gold, along with improvement in financial education among households and measures taken towards financial inclusion.



Source: MOSPI, CRISIL Research; total might not add to 100% due to rounding off

Capital market products gaining traction

Traditionally, the highest allocation of financial assets has been to deposits (banking and non-banking), and was 62% of household gross financial savings in Fiscal 2017. However, the past two years have seen a quantum spurt in investments into capital markets, with the household allocation to shares and debentures increasing from 2% in Fiscal 2015 to 10% in Fiscal 2017. This can be partly attributed to the declining interest rates and growing equity markets. In the recent years, it has also witnessed a sharp increase in the mutual fund assets under management ("AUM") attributable to individual investors, including retail and high net-worth individuals ("HNIs"). It grew at a CAGR of 31.2% from Rs3.9 trillion as of March 2014 to Rs11.7 trillion as of March 2018. Also, with lower currency in the market and high digitalisation post-demonetisation, the share of currency declined drastically in Fiscal 2017 and investments in capital markets and deposits increased. CRISIL Research expects financial savings to increase with the government's strong stance against black money and diminishing attractiveness of real estate and gold, along with improvement in financial education among households and measures taken towards financial inclusion.



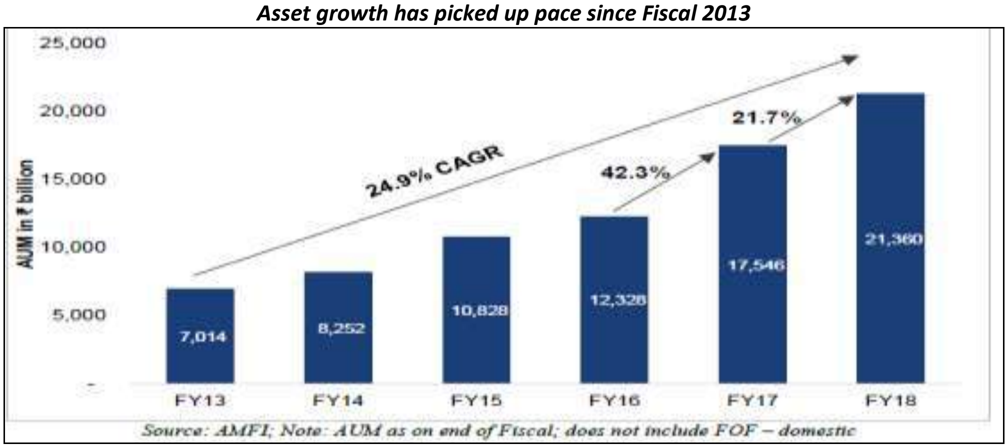
Current scenario

Robust AUM growth since Fiscal 2013, due to the rising individual investors' participation and equity market

The mutual fund industry's AUM grew at a CAGR of 24.9% from Rs7 trillion as of March 2013 to Rs21.4 trillion as of March 2018, supported by strong investor inflows. During the past five fiscals, the industry witnessed a net inflow of Rs9.1 trillion. Fiscals 2017 and 2018 have been remarkable for the industry, attracting around 68% of the Rs9.1 trillion net inflow, with equities leading the charge. Equity-oriented funds (including balanced and excluding exchange traded funds ("ETFs")) attracted 60% of the total net inflows in Fiscals 2017 and 2018. Supported by these strong inflows, growing participation from individual investors and rising equities, the industry's assets surged 42.3% in Fiscal 2017 and 21.7% in Fiscal 2018, catapulting above the milestone figure of Rs21 trillion.

The AUM of equity-oriented funds grew at a CAGR of 37.3% from Rs1.9 trillion as of March 2013 to Rs9.2 trillion as of March 2018, faster than the debt segment's 14.6% CAGR during the same period. The ETF segment also saw robust growth, because of recent move by the Employees' Provident Fund Organisation ("EPFO") to invest a portion (currently 15%) of the corpus in equities. The AUM of liquid/money-market funds too grew at a rapid pace of 29.1%, supported by corporate investments and stable returns. Strong growth of the mutual fund industry can largely be attributed to higher financial savings combined with growing investor awareness of such products. CRISIL Research believes the structural reforms, coupled with the formalisation of the economy and growing financial inclusion, would encourage more investors to have mutual funds in their financial savings basket.

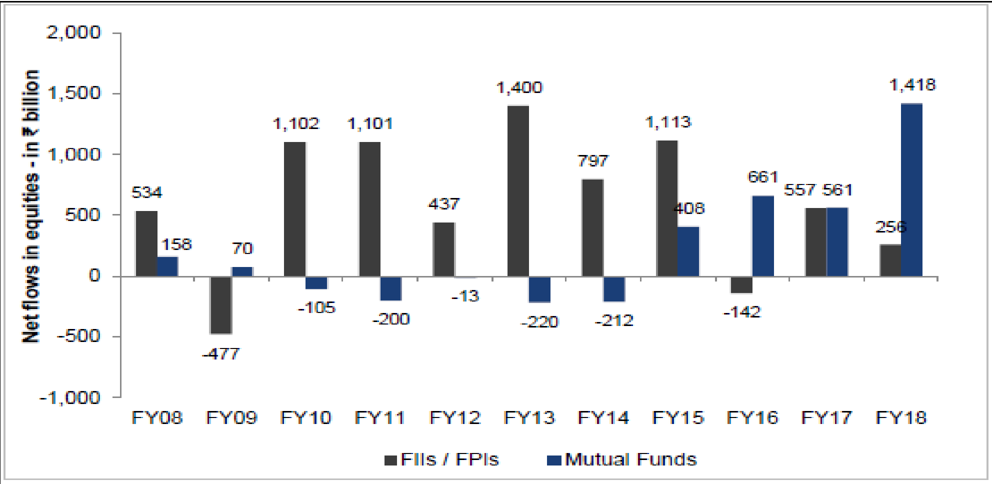
Asset growth has picked up pace since Fiscal 2013



Mutual funds have emerged as a strong counterweight to foreign institutional investors ("FIIs")

Historically, Indian financial markets, especially equities, used to mirror the movement of fund flows from FIIs/foreign portfolio investors ("FPIs"). However, the FII/FPI flows have also been a major source of volatility in the market. This trend has started to change of late. The strong inflows into equity mutual funds during the recent years have emerged as a stabilising factor. For instance, in Fiscal 2016, while FIIs/FPIs sold equities worth Rs142 billion (net), mutual funds were net buyers (worth Rs661 billion). In Fiscal 2018, net investment of FIIs/FPIs in equities was Rs256 billion vs mutual funds' Rs1.4 trillion.

Mutual funds filling in for foreign peers



Source: SEBI, National Securities Depositary Limited ("NSDL")

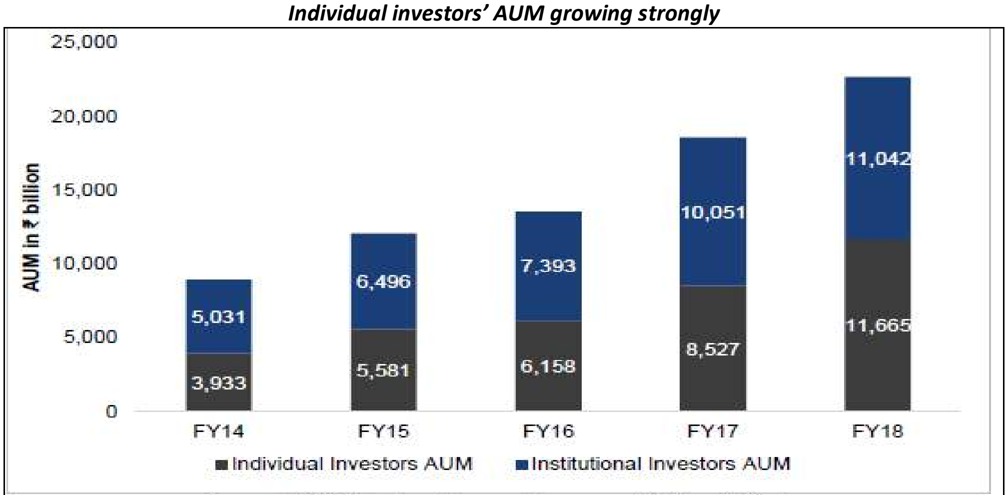
Systematic Investment Plans ("SIPs") book size has doubled since April 2016

Systematic wealth accumulation has gained significance in the recent months, especially among individual investors. The total number of SIPs constituted around 41% and 26% of the total equity fund flows (including balanced and excluding ETFs) in Fiscals 2017 and 2018, respectively. The SIP book size increased from Rs31.2 billion as of April 2016 to a whopping Rs71.2 billion as of March 2018. This is a huge positive for the mutual fund industry, as SIPs aid in building a healthy long-term asset base.

Investor profile of the industry

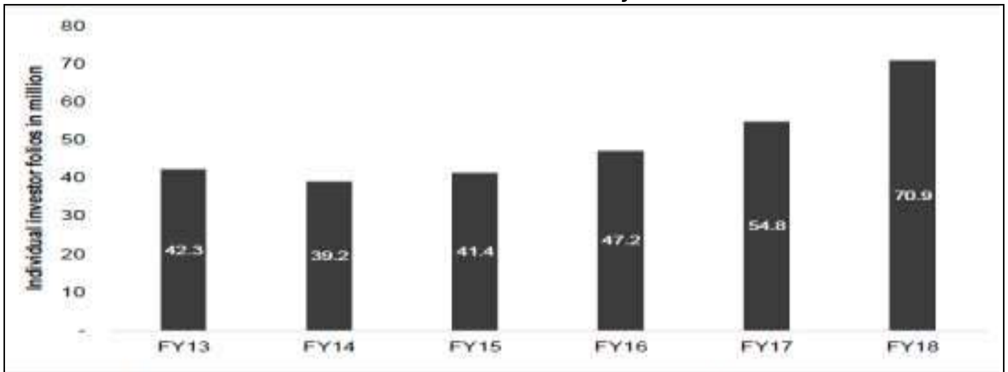
Historically, the majority of the industry's assets were held by institutional investors, mainly by corporates. Banks/financial institutions ("FIs") and FIIs/FPIs had a meagre share. However, the share of institutional investments gradually decreased to 49% as of Fiscal 2018 from 56% in Fiscal 2014. On the other hand, a recent surge in investments of individual investors has aided the growth in their share of AUM, which stands at Rs.11.7 trillion as of March 2018. AUM attributable to individual investors has witnessed the fastest growth among investor categories. They grew at a CAGR of 31.2% from March 2014 to March 2018. A healthy growth resulted in an increase in its share of the overall pie from 44% to 51% during the period.

Individual investors' AUM growing strongly



Source: AMFI; Note: based on monthly average AUM as of March

Growth in individual investor folios

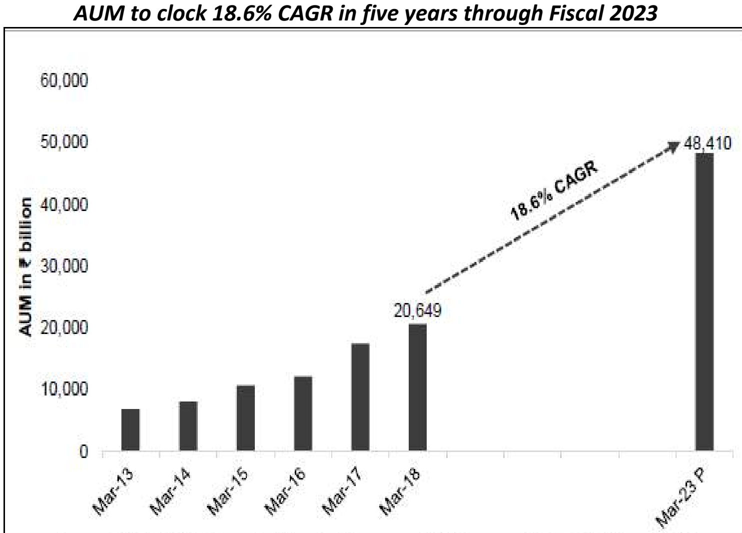


Source: AMFI, CRISIL Research Note: based on number of folios as on end of Fiscal

Industry Outlook

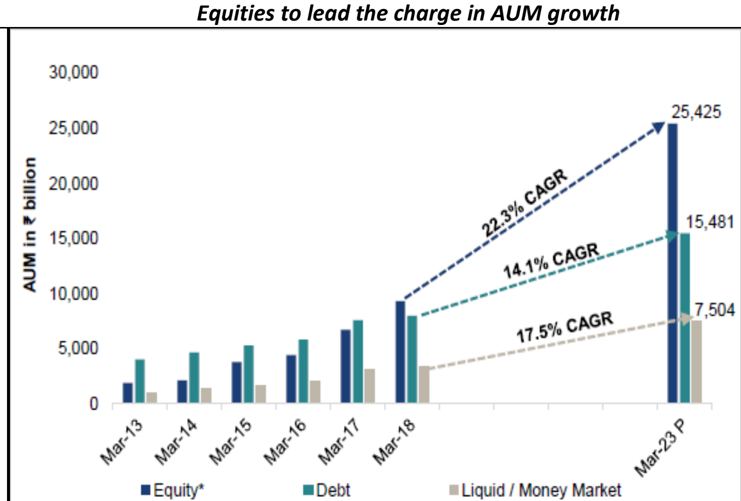
A pick-up in economic growth, growing investor base, higher disposable income and investable surplus, increasing financial savings and government schemes focusing on increasing awareness, ease of investing, digitalisation, and perception of mutual funds as long-term wealth creators, and increasing geographical penetration will be key facilitators of growth. The mutual fund industry's revenue is expected to grow at a CAGR of 25% to around Rs184 billion by Fiscal 2019. Commensurately, net profit is expected to grow to around Rs45 billion at a CAGR of 24.3% by Fiscal 2019. While the revenue growth will be driven by the growth in AUM, growing allocation to equity-oriented funds, which generally charge higher investment management fees (on actively managed equity funds) than other categories, will be a major contributor. In addition, revenue from other streams, including portfolio management services ("PMS"), alternative investment funds ("AIFs") and offshore advisory services, are also expected to grow at a healthy pace. AUM growth in the PMS and AIF verticals would be driven by the HNIs segment, given the growing appetite and preference for such high-ticket investments. Overall, the industry's profitability is expected to remain stable in the near term, supported by robust growth in AUM. It expects a gradual decrease in the percentage of investment management fees charged by fund houses to manage the AUM, primarily owing to higher competition and tighter regulations. Rising competition will also drive increased spending by AMCs on marketing related activities. However, these would be offset by an improvement in employee efficiency.

AUM to clock 18.6% CAGR in five years through Fiscal 2023



Source: AMFI, CRISIL Research; Note: P – Projection; AUM does not include Gold ETFs and FOF

Equities to lead the charge in AUM growth



Source: AMFI, CRISIL Research; Note: P – Projection; AUM does not include Gold ETFs and FOF; equity includes balanced and ETFs (other than gold ETFs)

Growth Drivers

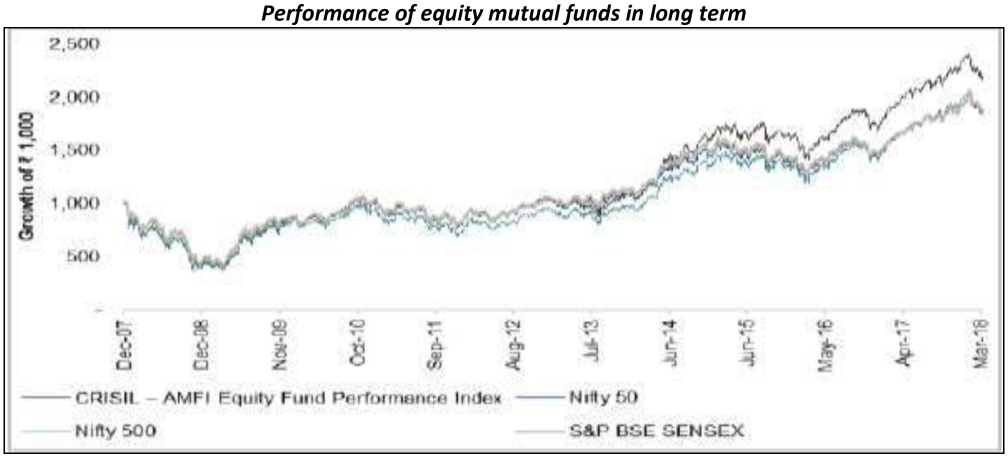
CRISIL Research's analysis shows that the industry's AUM will grow from Rs20.6 trillion (excluding gold ETFs and FOF) as of March 2018 to Rs48.4 trillion by March 2023, clocking a robust CAGR of 18.6%. The mutual fund industry's revenue is expected to grow at a CAGR of 25% to around Rs184 billion by Fiscal 2019. Commensurately, net profit is expected to grow to around Rs45 billion at a CAGR of 24.3% by Fiscal 2019.

Over the years, equity mutual funds have emerged as a favoured investment vehicle for long-term wealth creation. For e.g., Rs1,000 invested in equity funds (represented by the CRISIL-AMFI Equity Fund Performance Index) on December 31, 2007, would have grown to 2.2 times until March 28, 2018, compared with 1.9 times, 2 times and 1.9 times of the Nifty 50, Nifty 500 and S&P Bombay Stock Exchange ("BSE") Sensex indices, respectively, over the same time span.

The top 15 (“T-15”) cities held the majority of the mutual fund assets with a share of 81% as of March 2018. However, assets of beyond 15 (“B-15”) cities have grown faster at 32.3% CAGR compared with 24.9% for T-15 cities between March 2014 and March 2018. As of March 2018, the assets pertaining to B-15 cities stood at Rs4.3 trillion.

To boost awareness among investors, the SEBI has directed AMCs to annually set aside at least 2 bps of daily net assets for investor education and awareness initiatives. It has also allowed celebrity endorsements at the industry level to boost the awareness of mutual funds among investors. With the AUM from B-15 cities reaching 19% of the total AUM (as of December 2017), SEBI, in February 2018, has permitted the additional 30 bps total expense ratio to be charged in beyond 30 (“B-30”) cities instead of B-15 cities. These measures are expected to enhance participation from smaller towns. Retirement planning has a huge potential for getting tapped in India and, if channelled through mutual funds, can significantly improve penetration among greater number of Indian households.

Performance of equity mutual funds in long term



Technology to be a key enabler for growth

Technology is expected to play a pivotal role in taking the financial sector to the next level, by helping surmount the challenges stemming from India’s vast geography and the fact that physical footprints in smaller locations are commercially unviable.

Competitive Scenario

As of Fiscal 2018, the mutual fund industry comprised 41 players, of which, 25 are sponsored by private companies, seven each are sponsored by public and foreign institutions, and two are sponsored by financial institutions. ICICI Prudential Mutual Fund and HDFC Mutual Fund together had over a fourth of the industry’s AUM as of March 2018. The top five players, based on annual average AUM (“AAAUM”) each year, have shown a steady increase in share of AUMs, with their share increasing from 55% in Fiscal 2014 to 57% in Fiscal 2018. The AUM share of the next five AMCs stood at 24% as of March 2018. Overall, the top 10 AMCs had an asset base of Rs18.6 trillion (quarterly average AUM), implying 81% of the industry’s AUM.

The trend analysis of the market shares of top five players indicates that HDFC Mutual Fund, ICICI Prudential Mutual Fund and Reliance Mutual Fund have consistently maintained the top three positions during the past five Fiscals, with a combined share of around 37%. While Aditya Birla Sun Life Mutual Fund consistently stayed in the fourth position with around 10% share, SBI Mutual Fund replaced UTI Mutual Fund as the fifth largest fund house in Fiscal 2017.

Key Concerns

Adverse market fluctuations and/or adverse economic conditions could affect the business in many ways: HDFC AMC’s business, financial condition, results of operations, cash flows and business prospects are significantly affected by market fluctuations and general economic conditions, particularly macroeconomic conditions in India where it conduct most of its business and generate all of its revenue. Its business depends on consumer confidence in the overall economy, as well as overall economic growth rates, household savings rates and consumer attitudes towards financial savings, in particular, within India. Adverse economic conditions or adverse market fluctuations in India or globally may affect its results of operations, including in the following ways.

- Decrease in AUM and investment management and advisory fee
- Accelerated customer redemptions and withdrawals
- Decline in inflows through systematic transactions
- Adversely affect its portfolio management and segregated account business.

Any of these factors could have a material adverse effect on the business, results of operations, financial condition and business prospects.

If investment products underperform, HDFC AMC's AUM could decline and adversely affect the revenues, reputation and brand: The performance of HDFC AMC's schemes is critical to retaining existing customers as well as attracting new customers, which is also an important factor in the growth of its AUM. The performance of its schemes also depends on the general market conditions and existing competition in the market. The investment strategies of its schemes may lead them to underperform their relevant benchmarks, or similar investment products provided by its competitors. Poor investment performance, either on an absolute or relative basis, could impair revenue. As revenue is largely dependent on the value and composition of AUM, any decrease in the value or composition of AUM will cause a decline in its revenue. While HDFC AMC seeks to deliver long-term value to its customers, volatility in the market may lead to underperformance of its schemes, which could adversely affect results of operations. Underperformance could also affect its ability to attract funds from new customers or fund inflows from existing customers may reduce and third-party financial intermediaries, advisors and consultants may rate its schemes and other investment products poorly, which may lead its existing customers to withdraw their funds or reduce asset inflows from the customers of these third party financial intermediaries. If revenues declines without a commensurate reduction in expenses, it may adversely affect the profits, results of operations and business. Underperformance of schemes may also negatively affect HDFC AMC's brand and reputation.

AUM may be constrained by the unavailability of appropriate investment opportunities or if HDFC AMC closes or discontinues some of its schemes, products and services*:* The ability of HDFC AMC's investment teams to deliver strong investment performance depends largely on their ability to identify appropriate investment opportunities for its customers. If the investment teams are unable to identify appropriate investment opportunities for its existing and new customers on a timely basis, the investment performance of the product or scheme could be adversely affected, which in turn will adversely affect its revenue and results of operations. Inability to continue to grow AUM, maintain overall growth levels while enhancing customer's product portfolio, or discontinue some of its investment products, may adversely affect its market position and profitability

Historical growth rates may not be indicative of future growth and if it do not manage growth effectively, its financial performance could be adversely affected*:* The investment performance HDFC AMC achieve for its customers varies over time and the variance can be wide. Its investment products has benefitted during some periods from investment opportunities, and positive economic and market conditions. In other periods, general economic and market conditions had negatively affected its investment opportunities and its returns. These negative conditions may occur again, and in the future, it may not be able to identify and invest in profitable investment opportunities within its current or future investment funds, which could adversely affect its revenue, results of operations and business prospects. The growth in its business is also dependent on the changing Indian macroeconomic conditions, savings rate and the Indian regulatory framework, which has resulted in increased wealth creation, savings and investments. This change in the Indian economy may not continue or could reverse, which could lead to a corresponding decrease or reversal of the growth of its business, including AUM, in the future.

Failure to continue with existing distribution relationships or to secure new distribution relationships may have a material adverse effect on competitiveness, financial condition and results of operations: As of March 31, 2018, HDFC AMC served customers in over 200 cities through pan-India network of 209 branches (and a representative office in Dubai) and service centres of its registrar and transfer agent ("RTA"), which is supported by a strong and diversified network of over 65,000 empaneled distribution partners across India, consisting of independent financial advisors ("IFAs"), national distributors and banks. As of March 31, 2018, IFAs, national distributors and banks generated 27.6%, 21.0%, and 17.3% of its total AUM, respectively, while the remaining 31.8% was invested in direct plans. In terms of equity-oriented AUM, IFAs, national distributors and banks generated 39.2%, 24.2%, 19.1% of equity-oriented AUM, respectively, while the remaining 17.5% was invested in direct plans, as of March 31, 2018. As these distribution channels become increasingly important in industry, any failure to secure new distribution relationships or maintain existing relationships, its competitiveness may be adversely affected. As many of HDFC AMC's distribution relationships are non-exclusive, its distributors may provide similar services to its competitors or prioritize its competitors' investment product over its products, which could have a material adverse impact on its revenue and results of operations. Its distribution partners may terminate their relationship with HDFC AMC on short notice, may offer similar products offered by its competitors to its customers and may promote its competitors' products. To the extent HDFC AMC is not able to maintain its existing distribution relationships or secure new distribution relationships, its financial condition and results of operations may be materially and adversely impacted.

If techniques for managing risk are ineffective, HDFC AMC may be exposed to material unanticipated losses: HDFC AMC is exposed to market risks such as, liquidity risk, interest rate risk, credit risk, operational risk and legal risks. The effectiveness of its risk management is limited by the quality and availability of data. Its schemes and other investment products carry its own risks. The company has established a system of risk management and internal controls consisting of an organizational risk management framework, policies, risk management system tools and procedures that it consider appropriate for its business operations, and continue to enhance these systems. However, in case of any limitations in its risk management system, such as internal controls, risk identification and evaluation, effectiveness of risk control and information communication, its risk management systems and mitigation strategies may not be adequate or effective to identify or mitigate its risk exposure in all market environments. Any future expansion and diversification in HDFC AMC's scheme or product offerings and investments will require it to continue to enhance its risk management and internal control capabilities. Its failure to timely adapt risk management and internal control policies and procedures to its developing business could have a material adverse effect on its business, financial condition, cash flows, results of operations and prospects.

Any concentration in investment portfolio could have a material adverse effect on business, financial condition and results of operations*:* Events or developments that has a negative effect on any particular industry, asset class, group of related industries, country or geographic region may have a greater negative effect on the investment portfolio of HDFC AMC's schemes and products to the extent that such portfolio are concentrated. These types of concentrations in the investment portfolios of its schemes and products could increase the risk that, in the event it experience a significant loss in any of these investments, its financial condition and results of operations would be materially and adversely affected. In particular, since the financial and mutual funds sector is significantly dependent on macroeconomic conditions, such concentration could have an adverse impact especially during periods of economic volatility. In addition, if HDFC AMC become subject to additional restrictions in future with regard to the asset classes that it is permitted to invest in, portfolio of its schemes and products may not be sufficiently diversified to mitigate the effects of potential concentration risk.

Dependent on the strength of brand and reputation, as well as the brand and reputation of other HDFC group entities and Standard Life Investments group companies*:* HDFC AMC's revenue, results of operation, business and prospects are, to a certain extent, dependent on the strength of its brand and reputation, as well as the brand and reputation of Promoters, HDFC Limited and Standard Life Investments and the group entities of HDFC and Standard Life Investments. While its brand is well recognised, it may be vulnerable to adverse market and customer perception, particularly in an industry where integrity, trust and customer confidence are paramount. HDFC AMC is exposed to the risk that litigation, misconduct, operational failure, negative publicity (including through social media channels) or press speculation could harm its brand and reputation. Its reputation could be affected adversely if its schemes, products or services do not perform as expected, whether or not the expectations are founded. HDFC AMC may also be exposed to adverse publicity relating to the investment industry as a whole. Further, negative publicity may result in greater regulatory scrutiny of its operations and of the industry generally. If it is unable to maintain its brand name and its reputation, or there is reputational harm to other HDFC or Standard Life Investments group entities, its business, financial condition and results of operations could be materially and adversely impacted.

HDFC AMC faces competition from other asset management companies, alternate investment funds and other companies providing portfolio management and segregated accounts services and from alternate investments products available in the market: The asset management industry is intensely competitive, with competition based on a variety of factors, including investment performance, investment management fee rates, continuity of investment, professionals and customer relationships, the quality of services provided to customers, reputation, continuity of selling arrangements with intermediaries, differentiated products, and alternate investment products such as bank deposits gold, real estate, insurance and retirement products such as unit linked insurance plans and the National Pension Savings Trust. Insurance companies' products may provide favorable taxation options to investors. Other financial companies are subject to different regulations in India, which may permit them to compete more effectively in the market for investment products. Increased competition may result in a decrease in HDFC AMC's AUM market share or force it to reduce its investment management fees, which could have an adverse impact on its results of operations, profitability and business prospects. Its failure to respond effectively to the competition from other asset management companies or offer better or different investment products to its customers could result in a decrease in its market share or cause a decline in AUM, which could have a material adverse effect on its business, financial condition, results of operations and prospects. HDFC AMC face competition from other asset management companies that offer exchange traded funds or ETFs, which may become more popular in the Indian mutual fund industry as it has gained momentum worldwide. If this trend continues in India, it may be required to offer ETFs to align its product offerings with other industry players. The revenue earned from ETFs may be substantially lower than the revenue earned from other schemes. Offering ETF products in future to cater to this competitive demand, could affect its business prospects and results of operations.

Business would suffer if it lose the services of key management and other personnel and it is unable to adequately replace them: HDFC AMC depends on the skills and expertise of its investment professionals and its success depends on its ability to retain key members of its investment teams, who possess substantial experience in investing and has been primarily responsible for the historically strong investment performance HDFC AMC has achieved. While it has experienced very few departures among its portfolio managers and its key management personnel, there can be no assurance that this stability will continue in the future. It cannot be assure that members of its management team of key employees/investment team will not leave the Company and join its competitors, and that it will be able to find suitable replacements for them, in a timely manner or at all. This could affect the company's operations resulting in decline in performance of business, or damage reputation and reduce the attractiveness of products to its customers. In addition, its investment professionals and senior sales and customer service personnel has direct contact with its customers and certain distributors. If such personnel were to leave, they may seek to solicit its customers after termination of their employment, and therefore the loss of these personnel could also create a risk that it lose certain of its AUM.

The regulatory environment in which HDFC AMC operates is subject to change: The legislative and regulatory environment in which HDFC AMC operates has undergone significant changes in the recent past. Significant regulatory changes in its industry are likely to continue on a scale that exceeds the historical pace of regulatory change, which is likely to subject industry participants to additional, generally more stringent regulation. The requirements imposed by HDFC AMC's regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with it, and are not typically designed to protect its stockholders. Consequently, these regulations often serve to limit its activities and/or increase its costs, including through customer protection and market conduct requirements. New laws or regulations, or changes in the enforcement of existing laws or regulations, applicable to HDFC AMC and its customers may adversely affect its business. Its ability to function in this environment will depend on the ability to constantly monitor and promptly react to legislative and regulatory changes.

Required to prioritize the interests of customers, which could conflict with the interests of shareholders: In terms of the SEBI Mutual Fund Regulations, HDFC AMC is required to avoid conflicts of interest in managing the affairs of its mutual fund schemes and keep the interest of its customers paramount in all matters. Accordingly, in the event of any conflict arising between the interests of its shareholders and the interests of the customers, it has o prioritize the interests of its customers. Further, HDFC AMC may endeavor to safeguard the interests of its customers by acquiring certain non-performing / downgraded investments held by the schemes and by bearing the interest costs arising out of borrowings that may be availed of by its schemes to meet its redemption requirements. Acquisition of such investment by HDFC AMC or bearing such interest costs may not be in its best interest and or that of its Shareholders. It cannot be assured that, going forward, in the event that it is required to act in the best interests of its customers, such actions would not conflict with the interests of its shareholders, and that such actions would not have an adverse effect on the reputation, financial condition and results of operations.

Impact of changes to the regulations on the Total Expenses Ratio ("TER") for Schemes, could adversely impact the revenue, results of operations, business and prospects: Mutual Funds are permitted to charge certain operating expenses for managing a scheme that is, sales and marketing / advertising expenses, administrative expenses, transaction costs, investment management fees, registrar fees, custodian fees, audit fees, amongst others, as a percentage of the scheme's daily net assets. TER charged to the scheme is the cost of running and managing a scheme. All expenses incurred by a scheme are required to be managed by the asset management company within the limits specified under Regulation 52 of the SEBI (Mutual Funds) Regulations. In case of fund of funds, the total permissible expense including the weighted average charges levied by the underlying schemes is capped at 2.5% of daily net assets of the fund. Additionally, SEBI through the circular no. SEBI/HO/IMD/DF2/CIR/P/2018/15 dated February 2, 2018, restricted the asset management companies from charging additional expenses of up to 0.20 percent, in the daily average net assets of the schemes, in case of Mutual Fund schemes including close ended schemes, wherein exit load is not levied / not applicable. In view of the above circulars and proposed changes, if any, to the existing TER regulations could have an adverse impact on HDFC AMC's revenue, results of operations, business and prospects.

Reimbursement of expenses to the schemes of mutual funds exceeding the limits prescribed under SEBI Regulations which may reduce profitability and cause HDFC AMC's to decrease marketing and other efforts on behalf of the funds: Each mutual fund scheme has to provide and account for the expenses incurred by that particular fund. SEBI has prescribed certain categories of expenses that can be charged to mutual fund schemes by the asset management company as well as the maximum expenses a mutual fund scheme can incur, and has prohibited certain categories of expenses from being charged. In case of fund of funds, the total permissible expense including the weighted average charges levied by the underlying schemes has been capped at 2.5% of daily net assets of the fund. For index funds or exchange traded funds, the total expense limit, which includes the investment management fee, is capped at 1.5% of daily net assets of the fund. An asset management company may charge the fund with investment management and advisory fees, which should be fully disclosed in the fund offer document. Asset management companies may also charge the fund for recurring expenses, including marketing and selling expenses, brokerage and transaction costs, registrar services, trustee fees and expenses, audit and custodian fees, and expenses for investor communication and additional expenses as specified under the SEBI Mutual Fund Regulations from time to time. However, if the actual expenses incurred by the funds managed by HDFC AMC exceed the limits prescribed in the fund offer documents, it must reimburse such excess expenses. Additionally, any loss or damage or expenses incurred by the company or by any persons authorized by it needs to be borne by HDFC AMC and cannot be met out of the scheme's assets.

Any delay or failure to renew or maintain necessary regulatory approvals could adversely affect the business and operations: HDFC AMC requires certain approvals, licenses, registrations and permissions for operating its business. It has currently made applications to various governmental authorities in lieu of licenses and approvals that has expired. While it has procured all material approvals for its operations, it is in the process of renewing/procuring certain material approvals and licenses such as license. Further, every scheme that HDFC AMC operates is required to be filed with by SEBI for its final observations. The failure to obtain SEBI approvals or renew licenses required in relation to its business, may materially affect the company's ability to carry on or conduct business including regulatory sanctions, penalties and/or suspension. Further, any failure to obtain relevant licenses or to comply with the terms of any licenses that it is currently required to maintain, could subject it to penalties and restrict its ability to conduct certain lines of business.

HDFC AMC is subject to SEBI inspections and any adverse action taken could affect the business and operations*:* HDFC AMC is subject to regular scrutiny and supervision by SEBI, such as periodic inspections that may be conducted by SEBI. SEBI has the power to inspect its books from time to time to ascertain that it is in compliance with the applicable SEBI regulations, based on which, SEBI may take such action as it may deem fit, including under the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, which includes fines or sanctions and, in certain circumstances, could also lead to revocation of its license to function as an asset management company. Any non-compliance with regulatory guidelines and directions may result in regulatory actions which includes issuance of administrative/warnings/deficiency letters, fines or sanctions imposed by SEBI and in some circumstances could lead to revocation of HDFC AMC's license to function as an asset management company. Given the uncertainties and complexity of many of these regulatory actions, their outcome generally cannot be predicted with any reasonable degree of certainty. Accordingly, its provisions for regulatory actions may be inadequate. These and future examinations or proceedings by regulatory authorities may result in the imposition of penalties and/or sanctions, or issuance of negative reports or opinions, that could materially adversely affect its business, financial condition and results of operations.

Required to comply with certain obligations under SEBI (Mutual Funds) Regulations and other applicable SEBI Regulations: HDFC AMC is required to comply with certain obligations under SEBI (Mutual Funds) Regulations such as (i) refunding application money within a prescribed time, where such money is refundable, (ii) dispatching repurchase or redemption proceeds within a prescribed time period, (iii) conforming to the advertisement code provided under SEBI Mutual Fund Regulations and (iv) complying with the principles of fair valuation with respect to valuation of securities. In the event that HDFC AMC fails to comply with such obligations, it may be liable to pay interest for delayed refunds / redemption / dividend pay-outs or may be subject to action under SEBI Act and regulations thereunder, which may have an adverse impact on its business and reputation. HDFC AMC may have made delayed regulatory filings under the above regulations in the past and it cannot be assured that it will, going forward, be able to make the requisite regulatory filings within the required time period or at all or be liable to fines, penalties, sanctions as a consequence.

Weaknesses, disruptions, failures or infiltrations of, or inadequacies in, information technology systems and corresponding risk management strategies could have a material adverse effect on the business, financial position operations and prospects: HDFC AMC is dependent on the capacity and reliability of the communications, information and technology systems supporting its operations, whether developed, owned and operated by it or by third parties. The company is exposed to operational risks, such as trading, data entry or operational errors or interruptions of its financial, accounting, trading, compliance and other data processing systems, whether caused by the failure to prevent or mitigate data losses and other security breaches, or other cyber security threats or attacks, fire or other disaster and power or telecommunications failure, which could result in a disruption of its business, liability to customers, regulatory intervention, or reputational damage, and thus have a material adverse effect on the business. Given volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Its dependence on HDFC AMC's automated information technology systems to record and process transactions may further increase the risk that flaws in its technical system will result in losses that are difficult to detect. It may be unable to prevent or address, any disruption to the operation of its information technology system in a timely manner, or upgrade its information technology or communications systems. Any such failure could result in its inability to perform, or result in prolonged delays in the performance of, critical business and operational functions, the loss of key business information and customer data, or a failure to comply with regulatory requirements. Any such failure could also affect the risk management and customer service functions, resulting in a material adverse effect on its business, prospects, financial condition and results of operations. A failure of information technology or communications systems could damage the reputation and have a material adverse effect on its business, financial condition and results of operations.

Data privacy laws, rules and regulations could have a material adverse effect on the business, financial condition and results of operations*:* HDFC AMC is subject to data privacy laws, rules and regulations that regulate the use of customer data. Compliance with these laws, rules and regulations may restrict business activities, require it to incur increased expense and devote considerable time to compliance efforts. Applicable data privacy laws, rules and regulations could also adversely affect its distribution channels, such as direct distribution channel, and limit ability to use third-party firms in connection with customer data. Certain of HDFC AMC's corporate agency agreements include provisions providing for the sharing of customer data between it and its distribution partners, which is done in accordance with applicable laws, rules and regulations relating to data privacy. In the event of any change of such norms in the future, it may be unable to honour its obligations under these agreements, which may adversely affect the business. Data privacy laws, rules and regulations are also subject to change and may become more restrictive in the future. Changes or further restrictions in data privacy laws, rules and regulations could have a material adverse effect on the business, financial condition and results of operations.

The expansion of business outside of India raises regulatory risks which may adversely affect profit margins and may place additional demands on resources and employees: HDFC AMC is expanding its distribution effort into markets outside India. Customers outside India may be adversely affected by political, social and economic uncertainty in their respective home countries and regions, which could result in a decrease in the net customer cash flows that come from such customers. It does not have significant experience in operating outside India and may face additional competition from global players. The expansion has required and will continue to require HDFC AMC to incur a number of up-front expenses, including those associated with obtaining regulatory approvals and office space, as well as additional ongoing expenses, including those associated with leases, the employment of additional support staff and regulatory compliance. Further, HDFC AMC, or an employee or intermediaries acting on its behalf could fail to comply with applicable laws and regulations as interpreted by the relevant authorities and, given the complex nature of the risks, it may not always be possible for HDFC AMC to attain compliance with such laws and regulations. Failure to accurately interpret or comply with or obtain appropriate authorizations and/or exemptions under such laws or regulations could expose it to civil penalties, criminal penalties and other sanctions, including fines or other punitive actions. In addition, such violations could damage the business and/or its reputation. Such criminal or civil sanctions, penalties, other sanctions, and damage to its business and/or reputation could have a material adverse effect on the financial condition and results of operations.

HDFC AMC may be subject to pressures to reduce investment management fees or portfolio management fees or fees from advisory services, which could reduce the revenue and profitability*:* The fees for HDFC AMC's income and liquid funds has been considerably lower than the levels prescribed by SEBI. From time to time it encounter fee pressure in its dealings with high net worth individuals, corporate entities and other institutional investors in respect of the products. Asset management/advisory fees tend to be low for Government-sponsored business, institutional customers managed under the portfolio management services and/or investment management and advisory services. In order for HDFC AMC to maintain its fee structure in a competitive environment, it must be able to provide customers with superior investment returns and service that will encourage them to be willing to pay fees. HDFC AMC may not be able to maintain its current fee structure. Fee reductions on existing or future business would have an adverse impact on its income and profitability.

The mutual fund business in India may be adversely affected by changes to the present favourable tax regime*:* Any adverse development in fiscal laws, applicable to mutual fund companies, discontinuance of tax exemptions in relation to mutual fund income, dividend income, tax free bonds, change in applicability of minimum alternate tax rates and any discontinuance of tax benefits to customers on purchase of mutual fund products, may materially and adversely affect HDFC AMC's operations financial condition and future business prospects. Changes in tax laws/regulations, interpretations of such laws or regulations or failure to comply with procedures laid down under such laws/regulations may have a material adverse effect on its business, financial condition and operations. It cannot be predicted whether any tax laws or regulations impacting mutual fund products will be enacted, the nature and impact of the specific terms of any such laws or regulations would have a material adverse effect on its business, financial condition and operations.

HDFC AMC's operations are dependent on the performance of the Indian economy and securities market*:* The growth in HDFC AMC's business has been directly related to the growth in the Indian economy, specifically the growing GDP and growing household savings. There has been periods of slowdown in the economic growth of India or periods were inflation was high. Such economic growth is affected by various factors including domestic consumption and savings, balance of trade movements, namely export demand and movements in key imports (oil and oil products), global economic uncertainty and liquidity crisis, volatility in exchange currency rates, and annual rainfall, which affects agricultural production. Additionally, an increase in India's trade deficit, a downgrading in India's sovereign debt rating or a decline in India's foreign exchange reserves could negatively impact interest rates and liquidity, which could adversely impact the Indian economy and business. Although the Government has initiated several economic measures to curb the rise in inflation rates, it is unclear at this stage whether these measures will have the desired effect. A rise in inflation rates may adversely affect growth in the Indian economy and results of operations.

Difficult conditions in the global capital markets and the economy generally have affected and may continue to affect the business, prospects, financial condition and results of operations: The Indian economy may be affected by changes in Government policies, economic conditions, demographic trends, employment and income levels and interest rates, among other factors. In the past, economic developments outside India has adversely affected the markets in which HDFC AMC operates and its overall business. If there is a tightening of credit in financial markets globally, this could also affect the Indian market and debt could become significantly more expensive for the company. Any economic downturn could affect the overall sentiment of the market. HDFC AMC is unable to predict the likely duration and severity of any future disruption in financial markets and adverse economic conditions in India, the United States and other countries, which may cause material adverse impact to its business and operating results.

Financial instability in other countries may cause increased volatility in Indian financial markets: The Indian economy is influenced by economic and market conditions in other countries, including, but not limited to, the conditions in the United States, Europe and certain economies in Asia. Financial turmoil in Asia and elsewhere in the world in recent years has affected the Indian economy. Any worldwide financial instability may cause increased volatility in the Indian financial markets and, directly or indirectly, adversely affect the Indian economy and financial sector and its business. There are also concerns that a tightening of monetary policy in emerging markets and some developed markets will lead to a moderation in global growth. In particular, there are rising concerns of a possible slowdown in the Chinese economy, and China is one of India's major trading partners. Such factors might also result in a slowdown in India's export growth momentum.

Promoters may be subject to conflicts of interest because of their interests in other companies, which could have a material adverse effect on the business, financial condition, operations and prospects: One of HDFC AMC's Promoters, Standard Life Investments, is involved in the asset management business (including through its Promoter group entities and other members of its group). It is possible that some of its Promoters' affiliates may offer asset management products in some of its future geographical markets and compete with its line of business. Due to such conflicts of interest, HDFC AMC's Promoters may make decisions regarding its operations, financial structure or commercial transactions that may not be in it or its other shareholders' best interests. They may also enable a competitor to take advantage of a corporate opportunity at its expense. Such decisions could have a material adverse effect on the business, financial condition, results of operations and prospects.

Profit & Loss

Rs in million

Particulars	FY18	FY17	FY16	FY15
Revenue from operations	17597.5	14800.4	14425.5	10224.4
Other Income	1075.0	1078.8	518.0	418.4
Total Income	18672.5	15879.1	14943.4	10642.8
Total Expenditure	7932.9	7761.5	7750.3	4315.4
Employee benefits expense	1749.5	1575.5	1431.9	1275.1
Other expenses	6183.4	6185.9	6318.5	3040.3
PBIDT	10739.6	8117.7	7193.1	6327.4
PBDT	10739.6	8117.7	7193.1	6327.4
Depreciation	114.4	119.6	110.6	101.4
PBT	10625.2	7998.0	7082.5	6226.0
Tax (incl. DT & FBT)	3409.0	2495.6	2303.7	2071.0
Tax	3412.8	2450.2	2309.8	2075.7
Deferred Tax	-3.8	45.4	-6.1	-4.7
Reported PAT	7216.2	5502.5	4778.8	4155.0
EPS (Rs.)	34.3	109.3	95.0	82.3
Equity	1052.8	251.7	251.6	252.4
Face Value	5.0	5.0	5.0	5.0
OPM (%)	54.9	47.6	46.3	57.8
PATM (%)	41.0	37.2	33.1	40.6

Balance Sheet:

Rs in million

Particulars	FY18	FY17	FY16	FY15
Equity & Liabilities				
Shareholders Funds	**21599.7**	**14229.4**	**11512.2**	**11198.9**
Equity Share Capital	1052.8	251.7	251.6	252.4
Reserves and surplus	20546.9	13977.7	11260.6	10946.5
Non-Current Liabilities	**7.8**	**8.0**	**150.0**	**150.0**
Long-term provisions	7.8	8.0	150.0	150.0
Current Liabilities	**2139.7**	**1758.5**	**2565.0**	**1768.6**
Others	1156.8	960.6	1719.8	950.9
Other current liabilities	981.9	796.9	845.2	817.7
Short-term provisions	1.1	1.0	0.0	0.0
Total Equity & Liabilities	**23706.2**	**15995.9**	**14227.2**	**13117.5**
Assets				
Non-Current Assets	**7497.0**	**2807.7**	**3033.9**	**3840.5**
Property, Plant and Equipment	245.84	226.3	227.7	243.8
Intangible assets	82.1	85.5	83.9	94.2

Intangible Assets Under Development	59.6	24.2	11.0	1.0
Non-current investments	6395.4	1688.0	1598.6	1616.8
Deferred Tax Assets (Net)	97.3	93.5	138.9	132.8
Long-term loans and advances	616.7	690.2	973.8	1752.0
Current assets	**16209.2**	**13188.3**	**11193.3**	**9277.0**
Current investment	13110.2	10678.6	8259.3	4888.4
Trade Receivables	902.8	850.9	385.7	165.8
Cash and bank balances	20.7	12.7	9.8	25.7
Short-term loans and advances	2054.7	1627.5	1721.4	2487.5
Other Current Assets	120.9	18.5	817.2	1709.7
Total Assets	**23706.2**	**15995.9**	**14227.2**	**13117.5**

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: compliianceofficer@hdfcsec.com Phone: (022) 3045 3600

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