SBI Funds Management Ltd| IPO Note

QualSCORE
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The Elephant in the Room!

SBI Funds Management Limited (SBI AMC) stands apart from the broader IPO universe as a fundamentally high-quality business listing at an established stage of maturity. It is India's largest mutual fund manager by QAAUM, debt-free, consistently profitable, and operated by two institutionally credible promoters with deep strategic interest in the business. Revenue has compounded at approximately 27.7% over the last two fiscal years, PAT crossed ₹3,067 crore in FY26, EBITDA margins have expanded to 79%, and operating cash flows have grown every year without exception. These are not typical attributes of a mid-market IPO – they reflect a market-leading franchise in a structurally growing industry.

Key positives: #1 position by mutual fund QAAUM (₹12.51 Tr, 15.3% share); lowest operating expense ratio among the top 10 AMCs (0.08%); 16.21 million live SIPs with best-in-class persistency; SBI's unmatched distribution reach across 22,000+ branches and YONO's 100M+ users; Amundi's global capability enabling international mandates and UCITS products; and zero financial debt with strong free cash flow generation.

Points to remember: This is a 100% Offer for Sale – the company retains no proceeds. A pre-IPO dividend of ₹5,515 crore (exceeding FY26 annual profit) reduced the equity base and inflated FY26 RoNW, making it less representative of normalised earning power. The passive-heavy AUM mix (~32% of MF QAAUM vs. 9–15% for most peers) structurally caps blended yield. SEBI's new Base Expense Ratio framework, effective April 2026, compresses industry-wide fee caps by 10–15 basis points – the full earnings impact will surface only from FY27 results onwards. PMS & Advisory, the largest AUM segment, showed fee-yield compression in FY26 despite asset growth.

Valuation: At the price band of ₹545–₹574, the implied P/B is approximately 18.6-19.6 on FY26 EPS of ₹15.08. Listed peers trade at 31.6x-51.1x (composite: ~41.6x). The offer price therefore sits at a modest discount to the peer composite, which appears reasonable given SBIFM's lower-yield passive mix and the incoming BER headwind – while also reflecting a well-deserved premium for #1 market position, institutional parentage, and structural AUM growth. At ₹574, market capitalisation is approximately ₹1.17 lakh crore.

Recommendation – <u>SUBSCRIBE</u>

The valuation is fair and not aggressive. The business is best-in-class within a sector set for 16-18% CAGR through FY30 as mutual fund penetration deepens across India's population. Investors should view this as a long-term compounding opportunity rather than a listing-gains trade. SBI shareholders should utilise the dedicated reservation portion for better allotment probability. Risks to monitor: BER impact on FY27–FY28 earnings, passive-mix trajectory, and any changes in SBI's distribution support.

13 July, 2026

SUBSCRIBE

Company Data

IPO Date	July 14 – July 16, 2026
Listing Date	July 21, 2026 (tentative), on BSE & NSE
Issue Price Band	₹545 – ₹574 per share
Lot Size	26 shares – ₹14,924 at the upper band
Total Issue Size	₹11,692.91 crore (203,709,239 equity shares)
Fresh Issue	Nil – 100% Offer for Sale, company receives no proceeds
Offer for Sale	Up to 203,709,239 shares – SBI: 128,334,397 shares; Amundi India Holding: 75,374,842 shares
Total shares outstanding (pre & post issue)	2,036,827,612 shares (unchanged)
Shareholding Pre-Issue	SBI ≈ 61.73% · Amundi India Holding ≈ 36.26% (combined – 97.99%)
Shareholding Post-Issue	Combined promoter holding ≈ 88% (SBI ≈ 54-55%, Amundi ≈ 32-33%)
Post-IPO Mkt. Cap. at actual upper band ₹574	≈ **₹1,16,914 crore** (~₹1.17 lakh crore)
Post-IPO Mkt. Cap. at lower band ₹545	≈ ₹1,11,007 crore
Min Investment (Retail)	₹14,924 (1 lot = 26 shares at ₹574)
Max Investment (Retail)	₹1,93,972 (13 lots = 338 shares) – retail bids are capped just under SEBI's ₹2,00,000 ceiling for the RII category

Application of Funds (%)

Company receives none of the proceeds; 100% goes to the two selling shareholders

Key Financial Data

(Rs . Crore)	**2024**	**2025**	**2026**
Revenue	2,691	3,598	4,389
EBIT	**1,946**	**2,735**	**3,428**
EBIT Margin%	*72%*	*76%*	*78%*
Net Profit	**2,073**	**2,540**	**3,067**
Net Profit Margin%	*77.04%*	*70.60%*	*69.88%*
EPS	**20.9**	**23.9**	**24.7**
Total Assets	**7107**	**8772**	**6420**
ROA	**31%**	**32%**	**40%**

Passive Product Mix – Scale That Comes With Lower Profitability

AUM Growth Concentrated in Lower-Fee Products

SBI FM has built one of the country's largest passive investment franchises, with ETFs and index funds accounting for nearly 32% of its mutual fund Quarterly Average Assets Under Management (QAAUM). This passive exposure is significantly higher than peers such as HDFC AMC (9.6%), Aditya Birla Sun Life AMC (8.4%) and ICICI Prudential AMC (14.9%), although it remains below UTI AMC (45.5%) and Nippon Life India AMC (36.0%). While this strengthens the company's market leadership in assets under management, it also creates a structurally different earnings profile.

Why Margins Are Structurally Lower

Passive investment products generate substantially lower management fees than actively managed equity funds. SBI FM's own disclosures highlight this impact clearly, with operating margins of 0.37% excluding passive products compared with only 0.27% after including them – a difference of 10 basis points entirely attributable to the passive business. Consequently, although the company enjoys the industry's largest mutual fund QAAUM, a sizeable portion of those assets contributes relatively little to profitability, limiting the operating leverage that investors might otherwise expect from such scale.

FY26 Pre-IPO Dividend – A One-Off Event That Distorted Return Ratios

Dividend-Led Reduction in Net Worth

Ahead of its IPO, SBI Funds Management (SBI FM) distributed an extraordinary dividend of approximately ₹55,171.77 million to its two shareholders during FY26, equivalent to nearly 1.8 times its annual net profit of ₹30,673.76 million. Since the payout exceeded the year's earnings, the company utilized accumulated reserves to fund the distribution. As a result, shareholders' equity declined significantly from ₹82,975.33 million in FY25 to ₹59,630.62 million in FY26, despite the business reporting higher profitability during the year.

This decline in net worth had a direct mathematical impact on Return on Net Worth (RoNW). Since RoNW is calculated by dividing profit by shareholders' equity, a lower equity base automatically pushes the ratio higher even if operational efficiency remains largely unchanged. Consequently, SBI FM reported a RoNW of 43.02% in FY26, substantially above FY24's 36.05% and FY25's 33.77%. The improvement therefore reflects capital structure changes rather than a sudden step-up in business quality, making the FY26 ratio less representative of the company's underlying earnings power.

SEBI's BER Framework – A Structural Reset for the AMC Industry

Regulatory Changes Alter Industry Economics

Effective from April 1, 2026, SEBI introduced a revised Base Expense Ratio (BER) framework that reduced Total Expense Ratio (TER) limits across most mutual fund categories by approximately 10–15 basis points. In addition, regulators eliminated the extra 5-basis-point TER previously permitted in place of exit loads. Since management fees are directly linked to TER limits, the new framework permanently reduces the maximum fees that AMCs can charge on their assets under management.

Why This Matters for SBI AMC?

Unlike company-specific risks, this regulatory change affects the entire mutual fund industry. However, because SBI FM earns revenue primarily as a percentage of AUM, the reduction in fee caps directly compresses management fee yields even if assets continue growing at historical rates. Importantly, FY26 financial statements do not yet reflect a full-year impact of the revised framework, as the new regulations became effective only from the beginning of FY27. The real earnings impact will therefore become visible only in the company's first few post-listing quarterly results.

PMS & Advisory – Massive Scale With Limited Earnings Contribution

Largest AUM Segment, Smallest Revenue Driver

Portfolio Management Services (PMS) and Advisory constitute SBI FM's largest business by assets, accounting for approximately ₹16,878.99 billion out of the company's total ₹29,461.05 billion AUM. Despite representing well over half of total assets, the segment generated only ₹1,549.96 million in revenue during FY26, which was actually 3.11% lower than the previous year's ₹1,599.70 million even as segment AUM expanded by around 9%.

Why Revenue Growth Remained Weak

The primary reason lies in the nature of the client base. PMS and Advisory mandates largely consist of institutional accounts such as provident funds and pension-related portfolios, which are managed at substantially lower fee rates than retail mutual funds. During FY26, the effective fee yield on these assets compressed even further, resulting in declining revenue despite higher AUM. In contrast, virtually all of SBI FM's overall revenue growth was driven by its mutual fund business, where management fees increased by over 23%.

SBI's Distribution Ecosystem – A Competitive Advantage That Is Difficult to Replicate

An Embedded Nationwide Distribution Platform

SBI FM benefits from one of the strongest distribution ecosystems in India's asset management industry. Its products are distributed through 95 banking partners, including State Bank of India, while also enjoying direct integration with SBI's YONO digital banking platform and the company's own InvesTap application. Although nearly 57.68% of monthly average mutual fund AUM is sourced through external distributors, the SBI network provides a significant customer acquisition advantage that few independent AMCs can match.

Why This Creates a Durable Competitive Moat

Distribution remains one of the most valuable competitive advantages in the mutual fund industry because building nationwide investor reach requires years of investment and trusted customer relationships. This extensive banking network has enabled SBI FM to maintain the largest B-30 (Beyond Top-30 Cities) AUM share among India's top ten AMCs. As mutual fund penetration continues to expand across the country and retail SIP participation grows over the coming years, SBI FM is well positioned to capture a disproportionate share of incremental inflows through its embedded banking ecosystem.

Margin trend and operating leverage

% of total income	FY24	FY25	FY26
Employee benefits expense	10.75%	9.94%	8.86%
Total expenses	21.96%	20.57%	19.50%
Net margin (PAT)	60.50%	59.98%	61.65%

One segment-level nuance worth flagging: Portfolio Management & Advisory fee income fell 3.11% year-on-year in FY26 (₹1,599.70 million to ₹1,549.96 million) even though PMS & Advisory QAAUM grew roughly 9% over the same period – indicating fee-yield compression in this segment. All of FY26's revenue growth came from mutual fund management fees (up 23.17%), not from PMS/Advisory, which is the Company's largest AUM bucket by size but a minor revenue contributor.

AUM Profile and Margin Drivers

AUM metric (₹ billion)	FY25	FY26
Total Mutual Fund QAAUM	10,729.49	12,509.98
Equity-oriented QAAUM	4,947.75	5,782.77
Passives (ETF / Index) QAAUM	3,416.86	4,055.26
Passives as % of MF QAAUM	31.8%	32.4%
PMS & Advisory QAAUM	15,489.86	16,878.99
Total QAAUM (all businesses)	26,275.83 (approx.)	29,461.05
Operating margin (blended)	0.25%	0.27%
Operating margin (ex-passives)	0.35%	0.37%

- SBI FM's headline “Total QAAUM” of ₹29.5 trillion looks enormous, but nearly 57% of it (₹16.9 trillion) sits in the PMS & Advisory book, largely lower-fee institutional-style mandates that contribute only a small fraction of revenue. The metric that most directly drives the P&L is mutual fund QAAUM (₹12.5 trillion, the largest in the industry with a 15.3% share).
- Passive products – ETFs and index funds, including a large gold ETF franchise – make up roughly 32% of mutual fund QAAUM. This is a materially higher passive weighting than most peers (HDFC AMC ~9.6%, Aditya Birla ~8.4%, ICICI Prudential ~14.9%), and it is a structural drag on blended yield: operating margin excluding passives (0.37% in FY26) is meaningfully higher than the blended figure including passives (0.27%). A rising or falling passive mix going forward is one of the more important variables to track for margin trajectory.
- A related, industry-wide development: SEBI introduced a new Base Expense Ratio (BER) framework effective April 1, 2026, cutting fee caps by roughly 10-15 basis points across most scheme categories and removing the additional 5-bps TER previously allowed in lieu of exit loads. This is not specific to SBI FM, but it is a genuine near-term margin headwind across the sector that investors should factor into forward earnings expectations.

Valuation and Peer Comparison

The price band is not yet disclosed in this RHP. The table below reproduces the listed-peer comparison from the "Basis for Offer Price" section (peer prices as of early July 2026), which will be the reference points once SBI FM's own price band and implied P/B are announced.

Company	Revenue FY26 (₹ mn)	P/B (x)	ROA	NAV/share (₹)	Debt
SBI Funds Management	43,894.88	**19.6**	**40**	29.28	Nil
ICICI Prudential AMC	57,646.30	42.4	70	84.39	Nil
HDFC AMC	41,221.60	13.7	30	215.42	Nil
Nippon Life India AMC	27,087.40	17.6	31	73.01	Nil
Aditya Birla SL AMC	18,450.30	8.8	23	139.94	Nil
UTI AMC	16,980.50	3.5	10	350.50	Nil

SBI FM's implied P/B of ~18.6-19.6x sits mid-pack, cheaper than ICICI Prudential (~42.4x) and Nippon (~17.6x is actually below it, so more precisely: below ICICI Prudential and roughly in line with Nippon), but richer than HDFC AMC (~13.7x), Aditya Birla (~8.8x), and UTI (~3.5x). Book value in absolute terms is lowest among peers, but that's a share-count artifact, not a sign of weaker fundamentals. The P/B multiple broadly tracks each company's RoNW, and SBI FM's mid-pack P/B against its solid (if dividend-flattered) 43% RoNW suggests the offer is fairly priced on a book-value basis, not a bargain like UTI, but not stretched like ICICI Prudential either – reinforcing the P/E-based "reasonably priced, long-term Subscribe" view from the main report.

Key Risk Factors

Business and market risks

- Revenue is entirely tied to AUM levels; a market downturn or sustained redemption wave would reduce fee income immediately against a largely fixed cost base.
- Scheme and distributor concentration: the top 5 schemes account for 42.57% of MF QAAUM (top 10: 59.47%); the top 5 distributors account for 25.26% of MAAUM.
- A fresh SEBI Base Expense Ratio framework (effective April 1, 2026) reduces fee caps by 10–15 basis points across most scheme categories, a sector-wide margin headwind.
- Continued growth of low-fee passive products, both industry-wide and within SBI FM's own 32%-passive mix, structurally compresses blended yield.

Structural and governance risks

- The Company does not own the "SBI" brand; it operates under a licensable trademark arrangement with State Bank of India, creating a (low-probability) dependency risk.
- The Investment Management Agreement with the SBI Mutual Fund Trustee, the Company's entire revenue source – is terminable with notice or for cause, though this is a long-standing arrangement with no history of disruption.
- A GST demand of ₹1,319.30 million (tax plus penalty) is under litigation at the Appellate Tribunal stage – material in absolute terms but not existential relative to net worth of ₹59,630.62 million.
- This is a 100% Offer for Sale; the Company receives no proceeds, and existing shareholders extracted a very large pre-IPO dividend (₹55,171.77 million in FY26, exceeding that year's profit) shortly before listing.

Operational risks

- Standard technology, cybersecurity and AI/ML model-risk exposures for a digitally-dependent financial services business.
- The Company discloses it cannot trace certain very old corporate records (e.g., a 1992 filing), creating a low-probability tail risk of future regulatory action.

Strengths and Concerns at a Glance

Strengths
- Largest mutual fund manager in India by QAAUM and market share, with a durable scale advantage.
- Lowest operating expense ratio among the top 10 AMCs – genuine, multi-year cost efficiency.
- Consistent 20%+ revenue and profit growth for two straight years, with operating cash flow tracking profit closely.
- Debt-free, capital-light business model with no need for growth capital.
- Diversified franchise across mutual funds, PMS, AIFs and offshore advisory, with an international connection via Amundi.
- Industry tailwind: mutual fund industry QAAUM projected to grow 16–18% CAGR through FY30.

Concerns
- 100% Offer for Sale – no fresh capital raised; a very large pre-IPO dividend (>FY26 profit) reduced net worth just ahead of listing.
- Passive-heavy AUM mix (~32%) structurally caps blended margins relative to peers with more equity-heavy, individual-investor-led books.
- New SEBI Base Expense Ratio framework compresses fee caps industry-wide from April 2026.
- PMS & Advisory segment (the largest AUM bucket) showed fee-yield compression in FY26 despite AUM growth.
- Price band not yet announced – valuation attractiveness cannot be finalised from this RHP alone.

Peer Benchmark: SBI FM vs. ICICI Prudential AMC

ICICI Prudential AMC is a useful live comparison because it completed its own OFS-only IPO in December 2025 and has traded on the exchanges since – it is not a competing IPO but an already-listed reference point. ICICI Prudential AMC provides an important benchmark for evaluating SBI FM's listing potential. Following its 100% Offer for Sale IPO in December 2025 at ₹2,165 per share, the stock listed at ₹2,600, delivering a 20.09% listing gain. Over the following months, it appreciated further to around ₹3,150–3,300, resulting in a trailing valuation of approximately 48–49 times earnings compared with a peer valuation of roughly 32 times at the time of listing.

Metric	SBI Funds Management	ICICI Prudential AMC
Mutual fund QAAUM	₹12,509.98 bn (largest, 15.3% share)	₹10,147.6 bn (13.3% active share)
Passives as % of MF QAAUM	~32.4%	~14.9%
Operating margin (blended)	0.27%	0.36–0.37%
Return on equity / RoNW	43.02% (partly dividend-inflated)	82.8–86.8%
Approx. ROA (PAT / avg. total assets)	~32–40%	~65–67%
Debt	Nil	Nil
Offer structure	Both promoters (SBI & Amundi) sold pro-rata	Only Prudential sold; ICICI Bank retained its full 51% stake
Current market P/E (reference)	TBD at price band	~48–49x (post-listing, July 2026)

SBI FM is larger by mutual fund AUM and holds the industry's top market share, but ICICI Prudential AMC runs a richer-yielding mix – more individual investors, more equity exposure, and a much smaller passive drag – which shows up directly in higher margins, RoNW and ROA. ICICI Prudential's post-listing re-rating to a ~48–49x trailing P/E provides an important upper reference point: if SBI FM's price band implies a P/E anywhere near that level, the valuation would be demanding relative to SBI FM's lower-margin AUM mix, and the case for subscribing weakens accordingly.

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INCOME STATEMENT

Particulars	2024	2025	2026
Total revenue from operations	2,690.56	3,597.76	4,389.49
Total income from core activities	**2,691**	**3,598**	**4,389**
OPEX			
Scheme expenses	48.84	64.46	71.71
Employee benefits expenses	368.39	421.08	441.01
Other expenses	290.03	337.67	404.94
Total OPEX	**707.26**	**823.21**	**917.66**
EBITDA	**1,983.30**	**2,774.55**	**3,471.83**
EBITDA Margins%	*73.71%*	*77.12%*	*79.09%*
Depreciation and amortisation expense	37.49	40.00	43.84
EBIT	**1,946**	**2,735**	**3,427.99**
Interest Expense	7.71	8.60	9.12
EBT From Core	**1,938.10**	**2,725.94**	**3,418.87**
Total Gain/Loss from non-core	735.52	638.39	586.62
Share of profit / (loss) of associate	12.49	14.62	14.32
Total EBT	**2,686.11**	**3,378.96**	**4,019.81**
Taxes			
Current tax	550.74	770.49	984.66
Deferred tax	62.58	68.31	-32.23
Total Taxes	**613.32**	**838.81**	**952.44**
Tax %	**23%**	**25%**	**24%**
Net Profit for the year	**2,072.79**	**2,540.15**	**3,067.38**
PAT Margin	**77.04%**	**70.60%**	**69.88%**

CASHFLOW STATEMENT

Particulars	2024	2025	2026
Earnings Before Tax	2673.6	3364.3	4005.5
Adjustments	658.6	556.5	505.5
Change in Working Capital	-48.2	-41.6	12.8
Total Tax Paid	-528.6	-773.8	-1025.2
Cash flow from operating activities	**1438**	**1992**	**2488**
Net Capital Expenditure	-9.4	-119.5	-27.8
Other investing activities	-1295.5	-818.0	3002.3
Cash flow from investing activities	**-1305**	**-938**	**2974**
Dividend paid	-202.3	-1117.2	-5515.1
Other financing activities	70.7	74.2	57.3
Cash flow from financing activities	**-132**	**-1043**	**-5458**
Net Change in cash	**2**	**12**	**4**
Cash and cash equivalents at the beginning of the year	2.0	3.7	15.5
Cash and cash equivalents at end of the year	**4**	**15**	**20**

BALANCE SHEET

Particulars	2024	2025	2026
ASSETS			
Financial Assets			
Cash and cash equivalents	3.7	15.5	19.7
Bank Balance	54.7	76.9	88.7
Trade receivables	107.7	122.9	88.2
Loans	0.2	0.3	0.2
Investments	6602.9	8054.3	5632.9
Investments accounted for using equity method	42.6	57.2	71.5
Other financial assets	8.0	9.1	19.5
Total Non-Current Assets	**6819.8**	**8336.0**	**5920.7**
Non-Financial Assets			
Current tax assets (Net)	1.1	4.4	39.4
Property, plant and equipment	253.2	266.5	389.5
Capital work-in-progress		110.0	
Other intangible assets	5.9	3.4	1.5
Other non-financial assets	26.9	51.5	69.4
Total Current Assets	**287.1**	**435.8**	**499.8**
Total Assets	**7106.9**	**8771.9**	**6420.4**
EQUITY AND LIABILITIES			
Equity			
Equity Share Capital	50.6	50.8	203.7
Other Equity	6697.2	8246.7	5759.4
Total Equity	**6747.7**	**8297.5**	**5963.1**
Liabilities			
Financial Liabilities			
(a) Payables			
(I) Trade payables			
(i) Total outstanding dues of micro enterprises and small enterprises	0.5	2.5	3.3
(ii) Total outstanding dues of creditors other than micro enterprises and small enterprises	19.1	17.8	20.6
(b) Other financial liabilities	112.0	127.9	136.8
Total Non-Current Liabilites	**131.6**	**148.1**	**160.6**
Non-Financial Liabilities			
Current tax liabilities (Net)	0.0	0.1	0.1
Provisions	130.2	157.7	157.1
Deferred tax liabilities (Net)	74.3	139.7	105.5
Other non-financial liabilities	23.1	28.7	34.0
Total Current Liabilities	**227.6**	**326.2**	**296.7**
Total Equity and Liabilites	**7106.9**	**8771.9**	**6420.4**

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