

HOLD

TP: Rs 2,814 | ▲ 2%

HDFC AMC

| NBFC

| 12 October 2023

Robust quarter but upside limited

- Higher equity share drove robust QAAUM growth of 22% YoY in Q2; topline growth strong at 18%
- Equity QAAUM market share has expanded; management focused on lifting HDFC Bank's low share in the mix
- TP raised to Rs 2,814 (vs. Rs 2,445) on a 5%/9% increase in FY24/FY25 PAT estimates and a higher target P/E of 30x; retain HOLD

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Strong set of numbers: HDFC AMC's AUM grew 22% YoY to Rs 5.2tn in Q2FY24, crossing the Rs 5tn mark for the first time, with actively managed equity funds growing at an even higher 35% YoY. Revenue/EBITDA at Rs 7.7bn/Rs 6bn increased 18%/19% YoY. Revenue included other income (MTM gains) of Rs 1.2bn. SIP AUM grew 41% YoY to Rs 1.1tn, of which 78% has a tenure of >10Y. Based on the Q2 print, we increase our AUM estimates by 3%/6% for FY24/FY25 and raise net profit forecasts by 5%/9%.

Equity market share improves: HDFC AMC had an 11.2% market share in QAAUM in Q2FY24 vs. 11% in Q2FY23 and actively managed equity QAAUM share moved up to 12.4% from 11.5%. Equity constituted 58% of QAAUM at end-Q2FY24 vs. 52% in Q2FY23. Debt QAAUM grew 14% YoY to Rs 1.4tn, but the company lost 40bps market share to 13.3%. Liquid QAAUM declined 7% YoY to Rs 686bn with a market share of 11.8% (vs. 13.2% in Q2FY23).

Yield compression not a concern: Owing to its growing AUM base, the revenue yield (calc.) declined ~2bps YoY to 49bps at end-Q2FY24, which is not a concern as absolute revenue is increasing. PAT yield (calc.) was stable at 33bps.

Focus on raising HDFC Bank's share: Direct channels contributed 40% of AUM in Q2 whereas MFDs contributed 29%. HDFC Bank, however, brought in only 5.9% of business vs. 10.3% in FY18, though management indicated that the bank's share in flows is higher than the book market share over the last couple of months.

Maintain HOLD: The stock is trading at 29.4x FY25E EPS. Apart from raising AUM and profit estimates, we also value the stock at a higher 30x FY25E P/E multiple (from 28.5x earlier) – a 10% discount to the long-term mean – translating to a revised TP of Rs 2,814 (vs. Rs 2,445). Our multiple upgrade stems from a gradual recouping of market share, new scheme launches and improved equity scheme performance. However, the low share of HDFC Bank in generating business, soft equity industry net flows and uncertainty on TER rules will likely remain a drag for a big player like HDFC AMC. We retain HOLD given mere 2% upside potential.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HDFCAMC IN/Rs 2,755
Market cap	US\$ 7.2bn
Free float	37%
3M ADV	US\$ 26.4mn
52wk high/low	Rs 2,800/Rs 1,590
Promoter/FPI/DII	63%/8%/18%

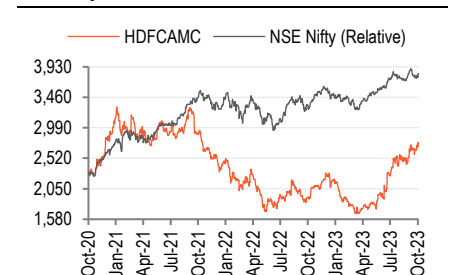
Source: NSE | Price as of 12 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	15,549	18,217	21,680
Core PBT (YoY)	1.1	17.2	19.0
Adj. net profit (Rs mn)	14,239	17,698	20,013
EPS (Rs)	66.7	82.9	93.8
Consensus EPS (Rs)	66.7	76.2	88.0
MCap/AAAUM (%)	13.1	10.9	9.4
ROAAAUM (bps)	31.7	32.8	31.9
ROE (%)	24.5	27.8	28.8
P/E (x)	41.3	33.2	29.4

Source: Company, Bloomberg, BOBCAPS Research

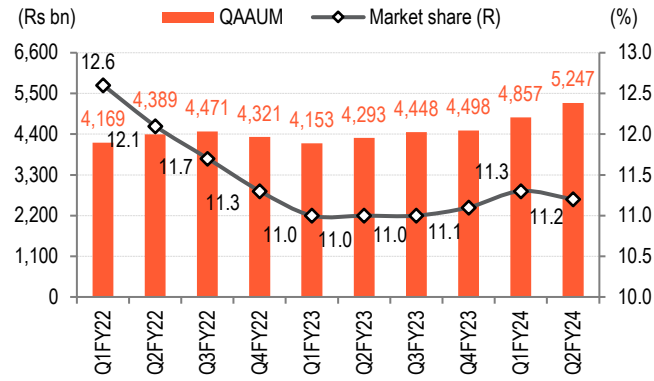
Stock performance



Source: NSE

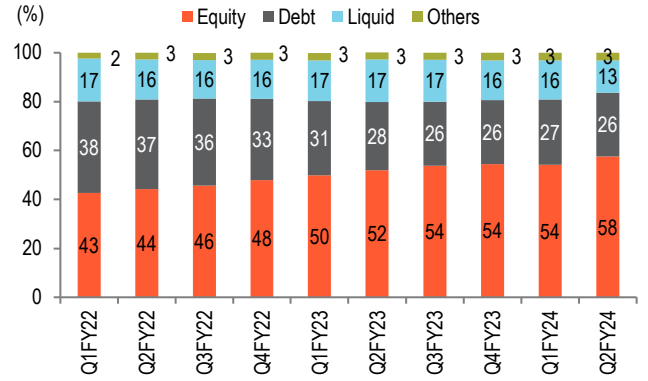


Fig 1 – Market share broadly stable in Q2FY24



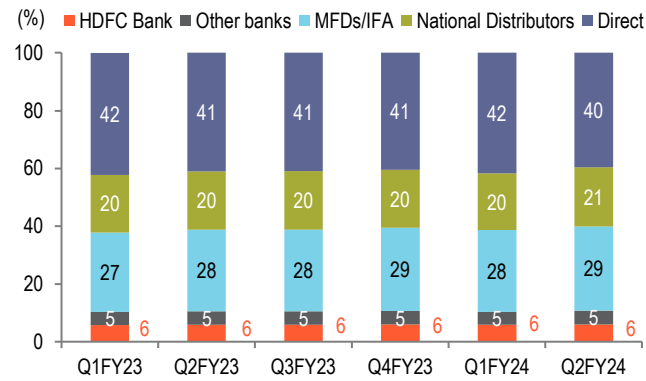
Source: Company, BOBCAPS Research

Fig 2 – Equity component increased to 58% at end-Q2



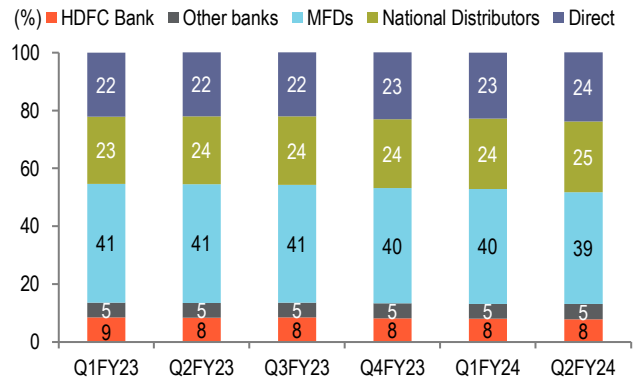
Source: Company, BOBCAPS Research / Note: AUM = QAAUM

Fig 3 – Direct channel plays an important role in QAAUM distribution mix



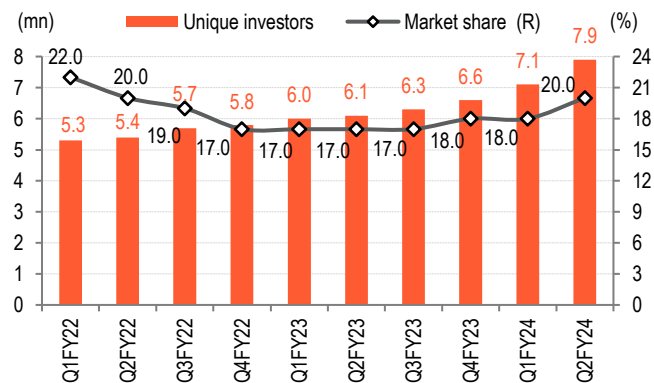
Source: Company, BOBCAPS Research | IFA: Independent Financial Advisor

Fig 4 – Equity QAAUM largely dependent on mutual fund distributors (MFD)



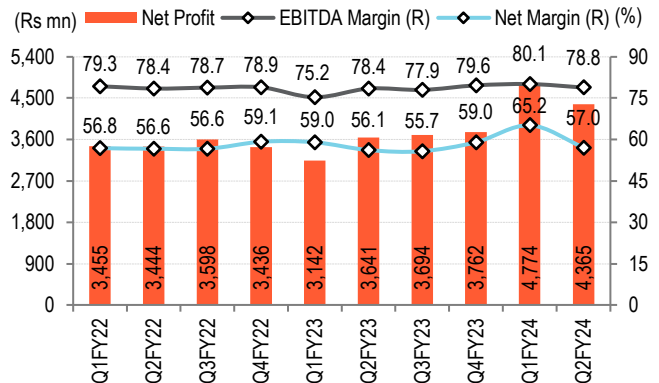
Source: Company, BOBCAPS Research

Fig 5 – Unique investor market share inching up



Source: Company, BOBCAPS Research

Fig 6 – PAT up 20% YoY



Source: Company, BOBCAPS Research

Fig 7 – Profit and Loss account

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue from Operations								
Asset Management Services	6,431	5,447	18.1	5,745	11.9	12,176	10,663	14.2
Other Income	1,223	1,042	17.3	1,581	(22.7)	2,804	1,155	142.7
Total Income	7,654	6,489	17.9	7,326	4.5	14,980	11,818	26.8
Expenses								
Fees and Commission Expenses	4	11	(64.5)	10	(61.6)	14	25	(44.5)
Employee Benefits Expenses	930	839	10.9	838	11.0	1,768	1,619	9.2
Other Expenses	686	552	24.2	613	11.8	1,299	1,077	20.6
Total Operating Expenses	1,620	1,402	15.6	1,461	10.9	3,081	2,721	13.3
EBITDA	6,034	5,088	18.6	5,865	2.9	11,899	9,098	30.8
Depreciation, Amortisation and Impairment	130	132	(1.7)	129	0.6	259	267	(3.1)
Finance Costs	23	24	(6.6)	23	(3.0)	46	49	(6.5)
Profit Before Tax	5,881	4,931	19.3	5,713	2.9	11,594	8,781	32.0
Tax Expense								
Current Tax	1,294	1,113	16.3	1,282	0.9	2,576	2,011	28.1
Deferred Tax Charge/(Credit)	222	177	25.3	(344)	(164.6)	(122)	(13)	829.8
Total Tax Expense	1,516	1,290	17.5	939	61.5	2,454	1,998	22.8
Profit After Tax	4,365	3,641	19.9	4,774	(8.6)	9,139	6,783	34.7

Source: Company, BOBCAPS Research

Fig 8 – Key performance indicators

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
AUM (Rs bn)								
QAAUM	5,247	4,293	22.2	4,857	8.0	5,247	4,293	22.2
Actively Managed Equity-oriented QAAUM	2,861	2,113	35.4	2,488	15.0	2,861	2,113	35.4
Debt - QAAUM	1,369	1,200	14.1	1,296	5.6	1,369	1,200	14.1
Liquid - QAAUM	686	741	(7.4)	774	(11.4)	686	741	(7.4)
Market share (%)								
QAAUM	11.2	11.0	20bps	11.1	10bps	11.2	11.0	20bps
Actively managed equity-oriented - QAAUM	12.4	11.5	90bps	12	40bps	12.4	11.5	90bps
Debt - QAAUM	13.3	13.7	(40bps)	13.3	0bps	13.3	13.7	(40bps)
Liquid - QAAUM	11.8	13.2	(140bps)	13.1	(130bps)	11.8	13.2	(140bps)
Others								
Number of Live Individual Accounts (mn)	13.5	10.3	30.6	12.1	11.8	13.5	10.3	30.6
Individual MAAUM (Rs bn)	3,542	2,858	23.9	3,328	6.4	3,542	2,858	23.9
Unique Investors (mn)	7.9	6.1	29.5	7.1	11.3	7.9	6.1	29.5
Systematic Transactions (Rs bn)	22.4	14.3	56.6	18.9	18.5	22.4	14.3	56.6
SIP AUM (Rs bn)	1,111	786	41.3	1002	10.9	1,111	786.0	41.3
B-30 share in AUM (%)	18.2	17.5	70bps	17.2	5.8	18.2	17.5	70bps

Source: Company, BOBCAPS Research

Fig 9 – Margin indicators

Margins	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
EBITDA margin (%)	78.8	78.4	0bps	80.1	(1bps)	79.4	77.0	2bps
Net margin (%)	57.0	56.1	1bps	65.2	(8bps)	61.0	57.4	4bps
Revenue yield (bps)	49.0	50.8	(2bps)	47.3	2bps	48.2	50.5	(2bps)

Source: BOBCAPS Research

Earnings call takeaways

Industry highlights

- Industry QAAUM grew 20% YoY to Rs 47tn at end-Q2FY24. QAAUM for actively managed equity-oriented funds stood at Rs 23.1tn, rising 26% YoY.
- Net flows into equity-oriented funds amounted to Rs 651bn at end-Q2FY24. Industry SIP flows stood at Rs 160bn in Sep'23 compared to Rs 130bn in Sep'22. Over the quarter, SIP flows totalled Rs 471bn, constituting 27% of the industry's gross equity flows.
- QAAUM of debt funds increased to Rs 10.3tn in Q2FY24, up from Rs 8.8tn in Q2FY23.
- The share of B30 in overall MAAUM and equity MAAUM remained steady at 17% and 27% respectively at end-Aug'23, per available data.

Business highlights

- HDFC AMC's revenue from asset management operations grew at a strong 18% YoY to Rs 6.4bn in Q2FY24. Owing to MTM gains, other income increased YoY to Rs 1.2bn (vs. Rs 1bn in Q2FY23), while seeing a sequential drop of 23%.
- Employee expenses rose 11% YoY to Rs 930mn. Excluding ESOPs, expenses stood at Rs 798mn, which implies an 8% CAGR over the pre-Covid figure of Rs 570mn.
- Other expenses climbed 24% YoY to Rs 686mn owing to general business expenses (such as travel), NFO costs, technology and CSR expenses.
- PAT grew 20% YoY to Rs 4.4bn on revenue of Rs 7.7bn (+18% YoY).
- Operating profit margin stood at 35bps of AUM for the quarter, whereas operating revenue margin stood at 49bps. Operating expenses were at 14bps and PAT yield at 33bps.
- The ratio of equity-oriented and non-equity oriented QAAUM was 58:42 at end-Q2FY24, compared to the industry ratio of 51:49. Actively managed equity QAAUM market share was at 12.4% with overall market share at 11.2%.
- As of Aug'23, 67.5% of the company's total MAAUM was contributed by individual investors compared to 57.8% for the industry.
- Live accounts totalled 13.5mn as on September and unique customers clocked in at 7.9mn out of 40.4mn for the industry, a market share of 19.6%.

Debt funds

- Fixed income products attract higher flows in an environment of flat-to-declining interest rates, which led to positive inflows in Q2FY24 versus net outflows over the last two financial years when rates were rising.
- Per management, most of the money has come at the short end of the yield curve, and it is hopeful of strong growth in debt funds over the next couple of years given

that fixed income AUM of the industry as a percentage of bank deposits has come down in the last 4-5 years.

Yields

- Equity (including index funds) yields on book stood at 67bps in Q2FY24 with yield on fresh flows at 50-60bps. NFOs by the company earned 90-100bps. The yield on debt funds stood at 27-28bps and on liquid schemes at 12bps.
- Index funds earn 12-13bps but have a lower weight in overall AUM.
- Though the company earns softer yield on fresh flows, the commission it pays to distributors also reduces.
- Although absolute revenue is rising, management expects pressure on margins to continue owing to the inverse relationship between AUM size and TER, as mandated by regulation.

SIP

- The company's SIP flows grew 56% YoY to Rs 22.4bn helped by a variety of reasons, including an improvement in fund performance and a focus on multiple distribution channels to improve flows.
- The share of equity and hybrid in SIPs is 90%+.

Others

- In Q2FY24, HDFC AMC launched a non-cyclical consumer fund, transportation and logistics fund, technology fund, and pharmaceutical and healthcare fund. It also introduced the HDFC Nifty 1D Rate Liquid ETF.
- Direct plans formed ~23% of equity AUM at end Q2 but the share of flows was in the high '20s.
- The company is focussed on improving the share of HDFC Bank in the distribution mix and has a dedicated vertical for the same. Although the bank has been maintaining an open architecture approach as a distributor, its share in flows is higher than the book market share for the last couple of months.
- On the equity side, the average holding period for a unique investor is about three years for the industry with the company indicating that it scores better than the industry average.
- The number of employees increased from 1,323 in Q1FY24 to 1,439 in Q2FY24.

Valuation methodology

HDFC AMC is one of India’s largest fund houses and enjoys considerable moats in the form of brand equity, pedigree and a large AUM base. Following an above-estimated Q2FY24 print, we raise our AUM estimates by 3%/6% for FY24/FY25 and net profit forecasts by 5%/9%. The company is trading at 29.4x FY25E EPS. We now value the stock at 30x FY25E EPS (vs. 28.5x earlier) – a 10% discount to the long-term mean – and raise our TP to Rs 2,814 from Rs 2,445.

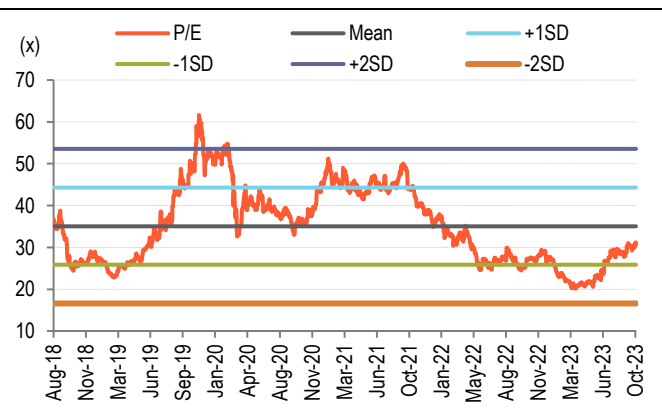
Our multiple upgrade stems from a gradual recouping of market share, new scheme launches and improved equity scheme performance. However, the low share of HDFC Bank in generating business (5.9% of QAAUM in H1FY24 vs. 10.3% in FY18) and soft industry equity net flows (Rs 1.6tn for TTM ending Sep’23 vs. Rs 3tn in the year-ago period) will likely remain a drag on growth for a big player like HDFC AMC. SEBI’s avowed intent to regulate fees charged to mutual fund investors also remains an overhang on the sector. We retain HOLD given mere 2% upside potential.

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	30,724	34,644	29,628	32,164	3.7	7.7
EBITDA	24,202	27,406	23,215	25,224	4.3	8.7
Profit After Tax (PAT)	17,698	20,013	16,825	18,299	5.2	9.4
AUM	5,401	6,276	5,248	5,927	2.9	5.9
EBITDA Margin (%)	78.8	79.1	78.4	78.4	42bps	69bps
Net Margin (%)	57.6	57.8	56.8	56.9	82bps	88bps

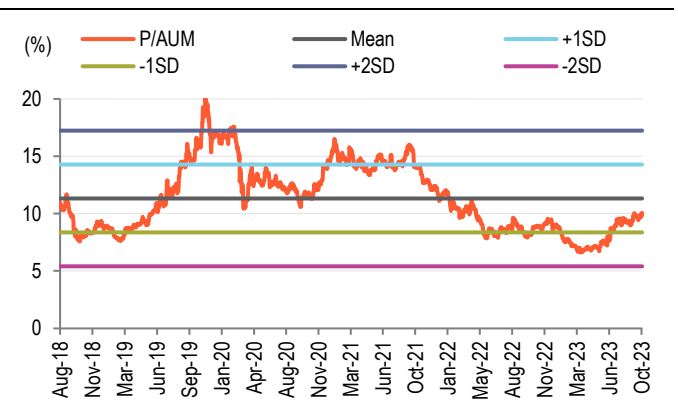
Source: BOBCAPS Research

Fig 11 – 1Y fwd P/E band



Source: Bloomberg, BOBCAPS Research

Fig 12 – 1Y fwd P/AUM band



Source: Bloomberg, BOBCAPS Research

Key risks

- **Decline in AUM growth due to increased competition:** HDFC AMC has witnessed intense competitive pressure that has eroded market share over the past five years. Higher competition coupled with new entrants could dampen AUM growth and hurt revenue.
- **Prolonged weakness in equity markets:** Equity assets constitute a significant portion of the company's AUM. Thus, a decline in Indian equity markets would cause AUM to decline directly as the value of the underlying securities fall, and indirectly as securities investments become less attractive for investors, resulting in net outflows or redemptions. Any decrease in AUM will impact fees and hence net profit.
- **Regulatory risks:** AMCs are regulated by SEBI and could be adversely impacted in case of unfavourable policy changes. For instance, if the regulator mandates a further cut in TER, yields could reduce further.
- **Covid-like disruptions:** While Covid-related lockdowns are unlikely to be unduly harsh in future, we believe that any lockdowns/disruptions due to any pandemic/virus mutations would be a risk to retail customer acquisition and could also result in higher redemptions.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Aditya Birla Sun Life AMC	ABSLAMC IN	1.6	444	425	HOLD
HDFC AMC	HDFCAMC IN	7.2	2,755	2,814	HOLD
UTI AMC	UTIAM IN	1.2	798	815	HOLD

Source: BOBCAPS Research, NSE | Price as of 12 Oct 2023

Glossary

Glossary	
AUM	Assets Under Management
AAAUM	Average Annual Assets Under Management
B30	Beyond the Top 30 cities
CSR	Corporate Social Responsibility
ETF	Exchange Traded Fund
IFA	Investment Financial Advisor
MAAUM	Monthly Average Assets Under Management
MFD	Mutual Fund Distributor
MF	Mutual Fund
MTM	Mark to Market
ND	National Distributor
NFO	New Fund Offer
QAAUM	Quarterly Average Assets Under Management
SIP	Systematic Investment Plan
TER	Total Expense Ratio

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Investment mgmt. fees	18,525	21,154	21,668	25,344	29,639
YoY (%)	(7.5)	14.2	2.4	17.0	16.9
Operating expenses	3,884	5,154	5,489	6,522	7,238
Core operating profits	14,641	15,999	16,179	18,822	22,402
Core operating profits growth (%)	(6.9)	9.3	1.1	16.3	19.0
Depreciation and Interest	644	625	630	605	722
Core PBT	13,997	15,375	15,549	18,217	21,680
Core PBT growth (%)	(7.5)	9.8	1.1	17.2	19.0
Other income	3,492	3,178	3,158	5,380	5,005
PBT	17,490	18,553	18,706	23,597	26,685
PBT growth (%)	5.8	6.1	0.8	26.1	13.1
Tax	4,232	4,622	4,467	5,899	6,671
Tax rate (%)	24.2	24.9	23.9	25.0	25.0
Reported PAT	13,258	13,931	14,239	17,698	20,013

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity capital	1,065	1,066	1,067	1,067	1,067
Reserves & surplus	46,697	54,234	60,017	65,326	71,330
Net worth	47,762	55,300	61,084	66,393	72,398
Borrowings	0	0	0	0	0
Other liab. & provisions	3,185	3,503	4,281	5,729	7,040
Total liab. & equities	50,947	58,804	65,365	72,123	79,437
Cash & bank balance	47,556	55,783	60,832	68,660	76,033
Fixed & Other assets	3,078	2,714	4,229	3,462	3,404
Total assets	50,947	58,804	65,365	72,123	79,437

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	62.2	65.3	66.7	82.9	93.8
Dividend per share	34.0	42.0	48.0	58.1	65.7
Book value per share	223.9	259.2	286.3	311.1	339.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	44.3	42.2	41.3	33.2	29.4
P/BV	12.3	10.6	9.6	8.9	8.1
Dividend yield (%)	1.2	1.5	1.7	2.1	2.4

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23A	FY24E	FY25E
Operating income	44.6	49.0	48.2	46.9	47.2
Operating expenses	9.3	11.9	12.2	12.1	11.5
EBITDA	43.6	44.4	43.0	44.8	43.7
Depreciation and Others	1.5	1.4	1.4	1.1	1.1
Core PBT	33.7	35.6	34.6	33.7	34.5
Other income	8.4	7.4	7.0	10.0	8.0
PBT	42.1	42.9	41.6	43.7	42.5
Tax	10.2	10.7	9.9	10.9	10.6
ROAAAUM	31.9	32.2	31.7	32.8	31.9

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Investment mgmt. fees	(7.5)	14.2	2.4	17.0	16.9
Core operating profit	(6.9)	9.3	1.1	16.3	19.0
EPS	4.9	5.1	2.2	24.3	13.1
Profitability & Return ratios (%)					
Operating income to Total inc.	84.1	86.9	87.3	82.5	85.6
Cost to Core income ratio	21.0	24.4	25.3	25.7	24.4
EBITDA margin	82.4	78.8	77.9	78.8	79.1
Core PBT margin	63.6	63.2	62.6	59.3	62.6
PBT margin (on total inc.)	79.4	76.2	75.3	76.8	77.0
ROE	30.1	27.0	24.5	27.8	28.8
Dividend payout ratio	54.7	64.3	71.9	70.0	70.0

Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
AAAUM (Rs bn)	4,156	4,321	4,498	5,401	6,276
YoY Growth (%)	12.4	4.0	4.1	20.1	16.2
% of AAAUM					
Equity	40	46	52	56	58
Debt	38	33	26	25	24
Liquid	19	16	16	13	12
Others	3	5	6	6	7

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

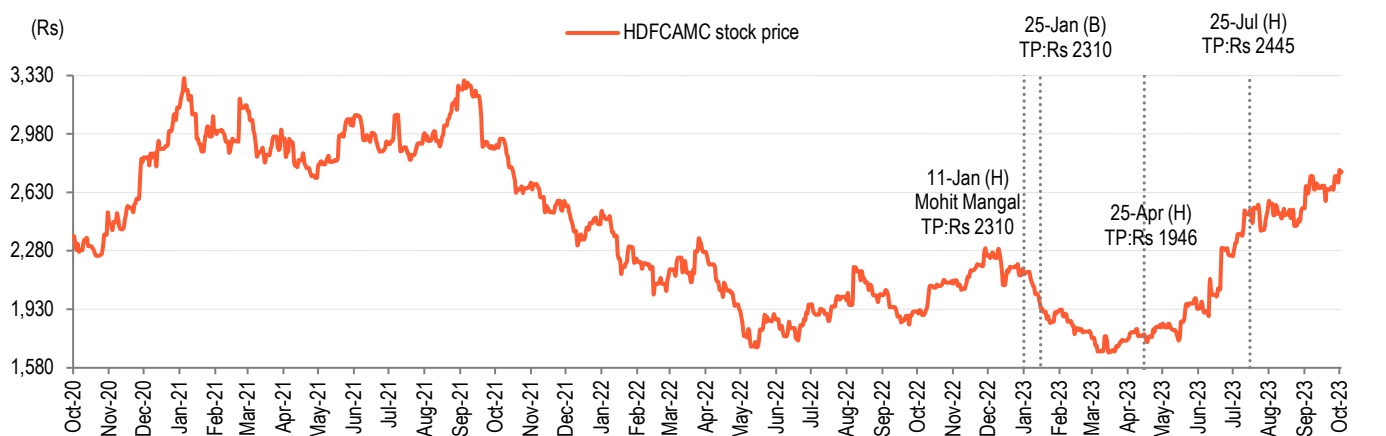
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): HDFC AMC (HDFCAMC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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