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FIRST LIGHT

12 January 2024

RESEARCH

HDFC AMC | TARGET: Rs 3,425 | -2% | HOLD

Ticks most boxes but upside potential limited

BANKING | Q3FY24 PREVIEW

Expect healthy NII but modest margins

SUMMARY

HDFC AMC

- Actively managed equity QAAUM grew 40% YoY, driving 24% AUM growth in Q3; topline growth strong at 23%
- Market share has expanded in terms of equity QAAUM but slipped in debt and liquid segments
- TP raised to Rs 3,425 (vs. Rs 3,150) on a 5% increase in our FY26 PAT estimates and a higher target P/E of 31x; retain HOLD

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BANKING: Q3FY24 PREVIEW

- Healthy credit offtake reported in Q3, driven by retail and SME/MSME segments and supported by tick-up in wholesale loans
- Deposit mobilisation continues; however, rising costs of deposits, operations and credit likely to weigh on profitability
- HDFCB, KMB, IIB and SBIN remain our top picks

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Daily macro indicators

Indicator	9-Jan	10-Jan	Chg (%)
US 10Y yield (%)	4.01	4.03	1bps
India 10Y yield (%)	7.19	7.18	(1bps)
USD/INR	83.12	83.04	0.1
Brent Crude (US$/bbl)	77.6	76.8	(1.0)
Dow	37,525	37,696	0.5
Hang Seng	16,190	16,097	(0.6)
Sensex	71,386	71,658	0.4
India FII (US$ mn)	**8-Jan**	**9-Jan**	**Chg ($ mn)**
FII-D	11.7	173.4	161.7
FII-E	34.3	(64.6)	(98.9)

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

HOLD
TP: Rs 3,425 | ∀ 2%

HDFC AMC | NBFC | 11 January 2024

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Mohit Mangal
research@bobcaps.in

Strong growth continues: HDFC AMC's AUM grew 24% YoY to Rs 5.5tn in Q3FY24 as actively managed equity fund assets increased by 40%. Revenue/ EBITDA at Rs 8.1bn/Rs 6.5bn grew 23%/26% YoY. Revenue included other income (MTM gains) of Rs 1.4bn. SIP AUM climbed 52% YoY to Rs 1.3tn, of which 79% enjoy a long tenure of more than 10 years. Considering the dominance of equity in the mix and an 8% PAT beat over our forecast for Q3, we raise our AUM estimates by 4%/5%/6% for FY24/FY25/FY26 and net profit forecasts by 5%/0%/5%.

Mixed market share trends: HDFC AMC reported a stable 11.2% market share in QAAUM for Q3FY24 vs. 11% in Q3FY23 and an increase to 12.6% share in actively managed equity funds from 11.7%. Equity constituted 61% of QAAUM at end-Q3FY24 vs. 54% in the year-ago quarter. Debt QAAUM grew 16% YoY to Rs 1.4tn, but the company lost 30bps market share to 13.2%. Liquid QAAUM declined 18% YoY to Rs 625bn, taking market share to 11.5% from 13.7% in Q3FY23.

Yields stable: Operating revenue yield stood at 48bps of AAUM at end-9MFY24 vs. 49bps in FY23, with a stable operating margin of 35bps.

Focused on raising HDFC Bank's share: Direct channels contributed 39% of AUM in Q3 and MFDs 29%, whereas HDFC Bank brought in only 6% of business. On the equity side, the bank generated 7.7% of AUM vs. 8.4% a year ago. Management remains focused on engaging more with the parent to increase its share.

Maintain HOLD: The stock is trading at 31.7x FY26E EPS. Apart from raising AUM and profit estimates, we value the stock at a higher 31x FY26E P/E multiple (vs. 30x) – a 10% discount to the long-term mean – translating to a revised TP of Rs 3,425 (vs. Rs 3,150). Our multiple upgrade stems from a gradual recouping of overall market share, improved equity scheme performance and above-expected profitability. However, compression in liquid and debt AUM market share and lower originations from the parent remain concerns. Valuations too look high after a 30% stock rally since the end of September vs. 10% for the index. We thus retain our HOLD rating.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	HDFCAMC IN/Rs 3,502
Market cap	US$ 9.1bn
Free float	37%
3M ADV	US$ 18.5mn
52wk high/low	Rs 3,543/Rs 1,590
Promoter/FPI/DII	63%/8%/18%

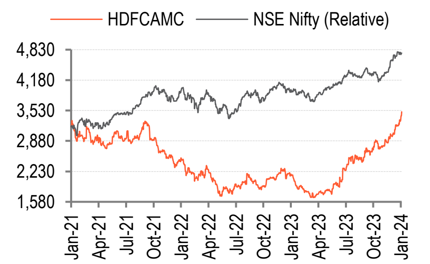
Source: NSE | Price as of 11 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	15,549	18,642	21,485
Core PBT (YoY)	1.1	19.9	15.3
Adj. net profit (Rs mn)	14,239	18,510	19,980
EPS (Rs)	66.7	86.7	93.6
Consensus EPS (Rs)	66.7	83.8	94.2
MCap/AAAUM (%)	16.6	13.3	11.4
ROAAAUM (bps)	31.7	33.0	30.5
ROE (%)	24.5	29.0	28.7
P/E (x)	52.5	40.4	37.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BANKING | Q3FY24 Preview | 11 January 2024

Expect healthy NII but modest margins

- **Healthy credit offtake reported in Q3, driven by retail and SME/MSME segments and supported by tick-up in wholesale loans**
- **Deposit mobilisation continues; however, rising costs of deposits, operations and credit likely to weigh on profitability**
- **HDFCB, KMB, IIB and SBIN remain our top picks**

Ajit Agrawal
research@bobcaps.in

Strong credit growth driven by retail and SME/MSME segments: According to RBI data, system credit grew 16% YoY for the fortnight ended Dec'23. Growth was fuelled by festive-led demand from the retail and SME/MSME segments, with support from a sequential uptick in wholesale lending. Retail credit grew 20% YoY, which we believe was led by the small business segment, auto and home loans, offset by some moderation in unsecured lending, especially small-ticket personal loans, following regulatory changes in risk weights. We continue to expect system credit growth of 16% for Q3FY24 and 15% for FY24.

Deposit mobilisation continues to rise: The industry witnessed further acceleration in deposits due to attractive rates, clocking 13.3% YoY growth during Q3 (vs. 12.9% in Q2). Growth was spurred by term deposits where banks continued to increase rates. We expect the trend to continue in Q4 as well unless the interest rate cycle reverses. CASA ratio is, thus, forecast to remain subdued.

Margins under strain from rising deposit costs: The steady increase in deposit rates, more specifically for term deposits, is likely to put NIM under pressure. However, banks' core focus on high-yield retail loans could alleviate some of the stress. We expect a further decline in aggregate margin for our coverage by 4-5bps QoQ after the 5-10bps contraction seen during Q2.

Slippages to remain in check: We believe stress addition would be under control while a steady rise in upgrades and recoveries improves overall asset quality. Credit costs could rise sequentially despite lower stress addition as banks are prudently opting for buffer provisioning, which should help them adopt the expected credit loss (ECL) framework. GNPA and NNPA are forecast to improve QoQ with stable-to-higher PCR and anticipate no major shocks from the restructured and SMA books.

Top picks: In our view, NII growth would remain healthy in Q3 supported by strong business growth, but elevated opex and higher credit cost are likely to remain a drag on profitability. We retain HDFCB (BUY, TP Rs 1,929), KMB (BUY, TP Rs 2,007), IIB (BUY, TP Rs 1,755) and SBIN (BUY, TP Rs 747) as our preferred picks in the sector.

Recommendation snapshot

Ticker	Price	Target	Rating
BANDHAN IN	233	276	BUY
FB IN	150	180	BUY
HDFCB IN	1,649	1,929	BUY
ICICIBC IN	991	1,090	BUY
IIB IN	1,658	1,755	BUY
KMB IN	1,823	2,007	BUY
RBK IN	295	258	HOLD
SBIN IN	620	747	BUY

Price & Target in Rupees | Price as of 11 Jan 2024

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Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
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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

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