

RESEARCH

HDFC AMC | TARGET: Rs 2,814 | +2% | HOLD

Robust quarter but upside limited

CONSUMER DURABLES

Channel check: Festive season outlook mixed

Daily macro indicators

Indicator	10-Oct	11-Oct	Chg (%)
US 10Y yield (%)	4.65	4.56	(9bps)
India 10Y yield (%)	7.35	7.31	(4bps)
USD/INR	83.25	83.19	0.1
Brent Crude (US\$/bbl)	87.7	85.8	(2.1)
Dow	33,739	33,805	0.2
Hang Seng	17,665	17,893	1.3
Sensex	66,079	66,473	0.6
India FII (US\$ mn)	09-Oct	10-Oct	Chg (\$ mn)
FII-D	(58.5)	61.6	120.0
FII-E	92.8	(108.6)	(201.4)

Source: Bank of Baroda Economics Research

SUMMARY

HDFC AMC

- 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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CONSUMER DURABLES

- Dealers saw a pickup in sales of ACs and fans in Q2FY24 due to unusually dry weather; premiumisation continues
- Wires and cables remain in demand due to government's infrastructure push and private capex
- New exchange offers, discounts and flexible payment options on the menu this festive season as retailers seek to drum up sales

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HOLD
 TP: Rs 2,814 | ▲ 2%

HDFC AMC

| NBFC

| 12 October 2023

Robust quarter but upside limited

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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%.

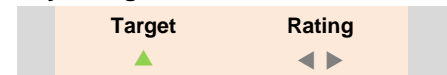
Equity market share improves: HDFC AMC had an 11.2% market share in QAAUM in Q2FY24 vs. 11% in Q2FY23 and actively managed equity QAAUM share moved up to 12.4% from 11.5%. Equity constituted 58% of QAAUM at end-Q2FY24 vs. 52% in Q2FY23. Debt QAAUM grew 14% YoY to Rs 1.4tn, but the company lost 40bps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



Ticker/Price	HDFC AMC 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%

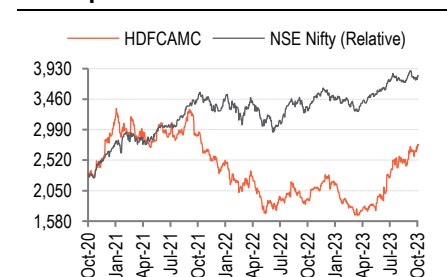
Source: NSE | Price as of 12 Oct 2023

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



 **CONSUMER DURABLES**

12 October 2023

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We interacted with several dealers of large appliances across various regions in India to assess the demand climate in Q2FY24. Key takeaways:

Outlook on festive demand mixed: Our channel checks with consumer durable dealers point to a mixed outlook for the current festive season. While dealers did indicate a pickup in sales of cooling products, they anticipate sluggish growth in other large appliances and hence have not stocked up on much inventory.

Summer products did better in Q2: The industry saw weak growth in Q1FY24 due to unseasonal rains across the country. However, dry weather conditions in some regions during Q2 – a seasonally weak quarter – have led to higher demand for cooling products such as air conditioners and fans. Our checks suggest that customers are now fully aware of the energy rating changes in fans, which is driving enquiries for new-rated and BLDC products. Per dealers, CROMPTON maintains its leadership in the economic fan category that commands 40% market share.

Sustained momentum in wires & cables: Domestic demand for wires & cables is likely to remain robust led by improving trends in capex and real estate. Dealers indicated strong volume growth during Q2, particularly for top brands such as Polycab, KEI and Finolex, though pricing fell due to a ~10% YoY correction in copper prices.

World Cup fever fuelling TV demand: Demand for televisions has risen as the Cricket World Cup is coinciding with the festive season. Big-screen TVs are seeing more traction than smaller screens, and our checks suggest that prices of older models have fallen 20%.

Kitchen appliances steady: Dealers expect high-single-digit growth in kitchen appliances this festive season. Butterfly has improved post-acquisition by CROMPTON.

Attractive offers to lift sales: Retailers have ramped up festive season offers on consumer products in a bid to boost sales, which include attractive exchange schemes, staggered payment options and deeper weekend discounts.



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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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