

BUY

TP: Rs 3,000 | ▲ 20%

**HDFC ASSET
MANAGEMENT COMPANY**

Diversified Financials | 23 July 2020

Equity flows remain subdued

HDFC Asset Management (HDFCAMC) reported a ~Rs 400bn sequential AUM increase in Q1FY21, largely due to the MTM effect. The company was able to maintain overall market share at ~15%. We expect cost control to continue over FY21-FY23 and forecast EBITDA margins/core PBT margins of ~77%/75% during this period. Given that the high-yielding equity business is likely to see subdued growth, we cut FY21/FY22 EPS estimates by 6%/5%. Rolling valuations over, we arrive at a Jun'21 TP of Rs 3,000 (Rs 3,040 earlier). **BUY.**

Shubhramshu Mishra
research@bobcaps.in

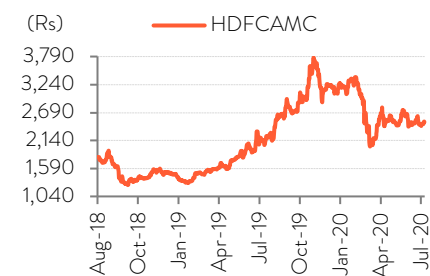
AUM growth driven by MTM increase and liquid fund flow: AUM (end of period) increased ~Rs 400bn QoQ in Q1FY21 – management attributed this growth primarily to the mark-to-market (MTM) effect and higher liquid fund flows. HDFCAMC has largely maintained its pricing; the decline in Q1 income (-11% YoY) was driven by lower margins due to credit risk fund outflow. Market share has been maintained at ~15% overall and 15% in the equity segment.

Ticker/Price	HDFCAMC IN/Rs
	2,495
Market cap	US\$ 7.1bn
Shares o/s	213mn
3M ADV	US\$ 15.5mn
52wk high/low	Rs 3,844/Rs 1,962
Promoter/FPI/DII	74%/11%/3%

Source: NSE

Despite opex control margins contract slightly: Despite strong opex control EBITDA margins contracted ~100bp YoY to 77% in Q1. Core PBT margins also declined by ~250bp YoY to 73%. We expect sustained cost control initiatives to support EBITDA and core PBT margins of ~77% and ~75% respectively over FY21-FY23.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: In our view, growth in the high-yielding equity business will be muted over FY21-FY22 due to the impact of Covid-19. We thus lower FY21/FY22 earnings estimates by 6%/5% each. The company earns fees on the legacy book as well as on flows and has a lower investor churn compared to the industry, which should help it tide over the current challenging environment.

KEY FINANCIALS

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Core PBT (Rs mn)	11,931	15,129	15,233	17,897	20,686
Core PBT (YoY)	26.2	26.8	0.7	17.5	15.6
Adj. net profit (Rs mn)	9,306	12,624	12,521	14,627	16,862
EPS (Rs)	43.8	59.3	58.8	68.7	79.2
P/E (x)	57.0	42.1	42.4	36.3	31.5
MCap/AAAUM (%)	16.5	14.2	13.0	11.4	9.9
RoAAAUM (in bp)	28.8	33.9	30.7	31.3	31.5
ROE (%)	35.0	35.6	29.4	31.0	32.6

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Total income	4,913	5,528	(11.1)	4,496	9.3
Operating Expenses	950	1,110	(14.4)	1,066	(10.9)
EBITDA	3,165	3,934	(19.6)	3,695	(14.3)
Core PBT	3,006	3,816	(21.2)	3,561	(15.6)
Other income	798	484	65.1	(265)	(401.1)
PBT	3,804	4,299	(11.5)	3,296	15.4
Tax	780	1,381	(43.5)	797	(2.2)
Net Profit	3,024	2,918	3.6	2,498	21.0

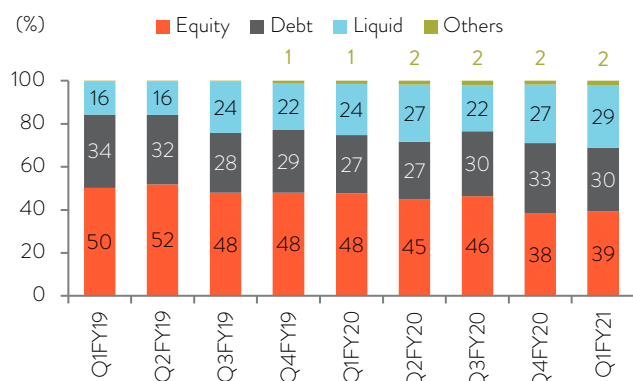
Source: Company, BOBCAPS Research

FIG 2 – ACTUAL VS. ESTIMATES

(Rs mn)	Q1FY21E	QFY21A	Variation (%)
Total income	5,668	4,913	(13.3)
YoY (%)	2.5	(11.1)	-
Operating Expenses	1,142	950	(16.8)
EBITDA	3,977	3,165	(20.4)
YoY (%)	1.1	(19.6)	-
Depreciation	128	137	7.5
Finance Costs	25	22	(12.0)
Core PBT	3,824	3,006	(21.4)
YoY (%)	0.2	(21.2)	-
Other income	550	798	45.1
PBT	4,374	3,804	(13.0)
YoY (%)	1.7	(11.5)	-
Tax	1,102	780	(29.2)
Tax Rate (%)	25.2	20.5	-
Net Profit	3,272	3,024	(7.6)
YoY (%)	12.1	3.6	-

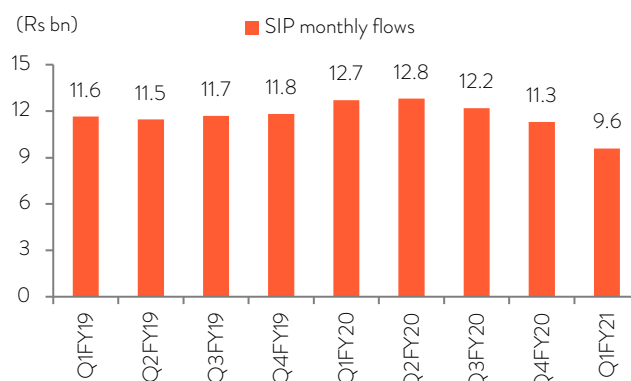
Source: Company, BOBCAPS Research

FIG 3 – EQUITY AUM GREW LARGELY DUE TO MTM



Source: Company, BOBCAPS Research

FIG 4 – MONTHLY SIP FLOWS DIPPED MARGINALLY



Source: Company, BOBCAPS Research

FIG 5 – DETAILED QUARTERLY PERFORMANCE

	FY19				FY20				FY21	Variation (%)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	QoQ	YoY
Profit and Loss (Rs mn)											
Total income	5,012	5,152	5,329	5,477	5,528	5,491	5,920	4,496	4,913	9.3	(11.1)
Operating Expenses	2,039	2,150	1,609	1,297	1,110	1,091	1,133	1,066	950	(10.9)	(14.4)
EBITDA	2,673	2,654	3,162	3,569	3,934	3,889	4,115	3,695	3,165	(14.3)	(19.6)
Depreciation	26	31	37	35	119	125	126	134	137	2.5	15.6
Finance Costs	0	0	0	0	0	0	0	0	22	NM	NM
Core PBT	2,647	2,623	3,125	3,534	3,816	3,765	3,988	3,561	3,006	(15.6)	(21.2)
Other income	299	349	559	612	484	511	673	(265)	798	(401.1)	65.1
PBT	2,946	2,972	3,683	4,146	4,299	4,275	4,661	3,296	3,804	15.4	(11.5)
Tax	894	913	1,250	1,384	1,381	593	1,135	797	780	(2.2)	(43.5)
Net Profit	2,053	2,059	2,433	2,762	2,918	3,682	3,526	2,498	3,024	21.0	3.6
Ratios (Calc, %)											
Cost to core income ratio	43.3	44.7	33.7	26.6	22.0	21.9	21.6	22.4	23.1	69bps	109bps
EBITDA Margin	56.7	55.3	66.3	73.4	78.0	78.1	78.4	77.6	76.9	(69bps)	(109bps)
Core PBT Margin	56.2	54.6	65.5	72.6	75.6	75.6	76.0	74.8	73.0	(175bps)	(261bps)
RoAAUM	0.27	0.27	0.29	0.32	0.32	0.39	0.37	0.27	0.34	7bps	2bps
AUM related											
Total AUM	3,011	2,926	3,291	3,439	3,567	3,662	3,693	3,191	3,575	12.0	0.2
Equity	1,512	1,519	1,580	1,654	1,701	1,652	1,712	1,222	1,409	15.3	(17.2)
Debt	1,027	945	915	997	967	970	1,110	1,047	1,055	0.8	9.1
Liquid	467	456	787	743	849	974	793	868	1,033	19.0	21.7
Others	6	6	10	45	50	66	77	54	79	45.0	57.5
Other details											
No of Branches	210	210	210	210	211	213	220	221	221	0	10
Empanelled distributors	65,000	65,000	75,000	75,000	75,000	80,000	70,000	70,000	65,000	(5,000)	(10,000)
SIP Monthly flows (Rs bn)	11.6	11.5	11.7	11.8	12.7	12.8	12.2	11.3	9.6	(15.0)	(24.4)
SIP transactions (mn)	3.4	3.2	3.4	3.4	3.4	3.5	3.4	3.3	3.1	(5.5)	(9.3)

Source: Company, BOBCAPS Research

Earnings call highlights

- Sustained large inflows into liquid funds
- Flows adding 5-6% to AUM; bulk of increase/decrease to book comes from MTM effect
- Debt and liquid segments form 29% of revenue.
- Credit risk funds saw high redemptions till April second week; post that redemptions tapered significantly and investor panic in the segment has fully subsided. AAA exposure at 35% from 25% earlier
- Industry seeing decline in SIP flows
- Board scouting for CEO successor
- Two new fund managers hired in equity segment; targeting to position new funds differently in coming quarters
- Looking at thematic funds and sector-biased funds in future – most segments permitted by SEBI already covered
- Enabling provision in multi-asset fund to invest in international securities
- Not looking at increasing payouts to distributors or decreasing expense ratios on equity schemes
- Senior employees have taken 25% salary cut
- CSR expense went up due to one-off donation of Rs 75mn to PM Cares Fund
- Open to acquisition that offers a strategic edge, but not actively pursuing any target
- Cash balance to grow on balance sheet

Valuation methodology

HDFCAMC is trading at 34.5x/29.9x FY22E/FY23E EPS for an estimated ROE of 31.0%/32.6%. We believe the company is a strong play on growing financial savings and the low-penetrated asset management business in India. In the wake of Covid-19, we do expect the high-yielding equity business to post subdued growth and thus cut FY21/FY22 EPS estimates by 6%/5%. However, the company earns on the legacy book as well as on flows. Lower investor churn as compared to industry and strong opex control should help HDFCAMC tide over the challenges.

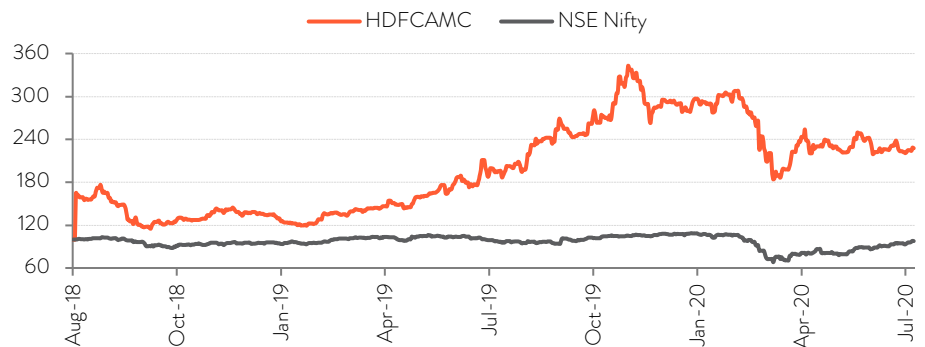
Market leadership, a trusted brand backed by a seasoned investment team, wide distribution reach, and rising share of high-yield avenues (equities, individual business, SIP book) should support average AUM/earnings growth of 13%/10% during FY20-FY23. Maintain BUY as we roll forward to a Jun'21 target price of Rs 3,000 (Rs 3,040 earlier), arrived at using a three-stage dividend discount model (DDM).

Our key assumptions remain unchanged as follows: cost of equity of 12.8% (risk-free rate of 7.75% and beta of 1.1x), with average growth of ~25% in the five-year explicit period and terminal growth of 10%.

FIG 6 – REVISED ESTIMATES

(Rs bn)	Old			New			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Total income	23	27	29	22	26	29	(4.8)	(4.0)	0.0
Operating Expenses	5	5	6	5	5	6	(0.4)	(0.9)	0.0
EBITDA	17	20	21	16	18	21	(6.4)	(5.2)	0.0
Core PBT	16	19	21	15	18	21	(6.7)	(5.3)	0.0
Other income	2	2	2	2	2	2	0.0	0.0	0.0
PBT	18	21	23	17	20	23	(6.1)	(4.9)	0.0
Tax	4	5	6	4	5	6	(6.1)	(4.9)	0.0
Net Profit	13	15	17	13	15	17	(6.1)	(4.9)	0.0
AAUM	4,166	4,776	5,357	4,073	4,669	5,357	(2.2)	(2.2)	0.0
RoAAUM (bps)	32	32	31	31	31	31	(126bps)	(88bps)	0bps

Source: BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- Loss of share in incremental equity flows due to growing competition from other bank-led AMCs (SBI AMC, Kotak AMC, Axis AMC) is a key risk.
- If the company's equity schemes underperform benchmark indices, individual investors especially HNIs could switch to other AMCs.
- Any conflict of interest with large IFAs looking to have their own MF products could lead to slower equity AAUM growth than expected.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Investment management fees	19,152	20,033	20,597	23,848	27,362
YoY (%)	9.0	4.6	2.8	15.8	14.7
Operating expenses	7,092	4,310	4,765	5,351	6,077
Core operating profits	12,060	15,722	15,833	18,497	21,286
Core operating profits growth (%)	26.3	30.4	0.7	16.8	15.1
Depreciation and Interest	129	594	600	600	600
Core PBT	11,931	15,129	15,233	17,897	20,686
Core PBT growth (%)	26.2	26.8	0.7	17.5	15.6
Other income	1,816	1,402	1,507	1,658	1,857
PBT	13,747	16,531	16,740	19,555	22,542
PBT growth (%)	29.9	20.2	1.3	16.8	15.3
Tax	4,441	3,906	4,218	4,928	5,681
Tax rate (%)	32.3	23.6	25.2	25.2	25.2
Reported PAT	9,306	12,624	12,521	14,627	16,862

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	1,063	1,064	1,064	1,064	1,064
Reserves & surplus	29,644	39,229	43,835	48,336	53,017
Net worth	30,707	40,293	44,899	49,400	54,081
Borrowings	0	0	0	0	0
Other liabilities & provisions	1,530	2,793	3,631	4,721	6,137
Total liabilities and equities	32,238	43,086	48,531	54,121	60,218
Cash & bank balance	29,670	39,716	44,926	50,262	56,084
Fixed & Other assets	429	1,613	1,694	1,778	1,867
Total assets	32,238	43,086	48,531	54,121	60,218

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	43.8	59.3	58.8	68.7	79.2
Dividend per share	24.0	28.0	30.9	39.5	47.5
Book value per share	144.5	189.3	211.0	232.1	254.1

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	57.0	42.1	42.4	36.3	31.5
P/BV	17.3	13.2	11.8	10.7	9.8
Dividend yield (%)	1.0	1.1	1.2	1.6	1.9

DuPont Analysis (Bps of AAAUM)

Y/E 31 Mar (bps of AAAUM)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income	59.4	53.7	50.6	51.1	51.1
Operating expenses	22.0	11.6	11.7	11.5	11.3
EBITDA	37.4	42.2	38.9	39.6	39.7
Depreciation and Others	0.4	1.6	1.5	1.3	1.1
Core PBT	37.0	40.6	37.4	38.3	38.6
Other income	5.6	3.8	3.7	3.6	3.5
PBT	42.6	44.3	41.1	41.9	42.1
Tax	13.8	10.5	10.4	10.6	10.6
ROAAAUM	28.8	33.9	30.7	31.3	31.5

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Investment management fees	9.0	4.6	2.8	15.8	14.7
Core operating profit	26.3	30.4	0.7	16.8	15.1
EPS	29.6	35.5	(0.8)	16.8	15.3
Profitability & Return ratios (%)					
Operating income to total income	91.3	93.5	93.2	93.5	93.6
Cost to Core income ratio	37.0	21.5	23.1	22.4	22.2
EBITDA margin	63.0	78.5	76.9	77.6	77.8
Core PBT margin	62.3	75.5	74.0	75.0	75.6
PBT margin (on total income)	65.6	77.1	75.7	76.7	77.1
ROE	35.0	35.6	29.4	31.0	32.6
Dividend payout ratio	66.1	47.2	63.2	69.2	72.2

Annual Average AUM

Y/E 31 Mar (Rs bn)	FY19A	FY20A	FY21E	FY22E	FY23E
AAAUM (Rs Bn)	3,226	3,729	4,073	4,669	5,357
YoY Growth (%)	16.0	15.6	9.2	14.6	14.7
% of AAAUM					
Equity	48.3	45.7	46.0	47.2	48.3
Debt	30.0	23.6	23.7	23.8	23.9
Liquid	21.5	30.0	29.6	28.4	27.2
Others	0.2	0.7	0.6	0.6	0.6

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

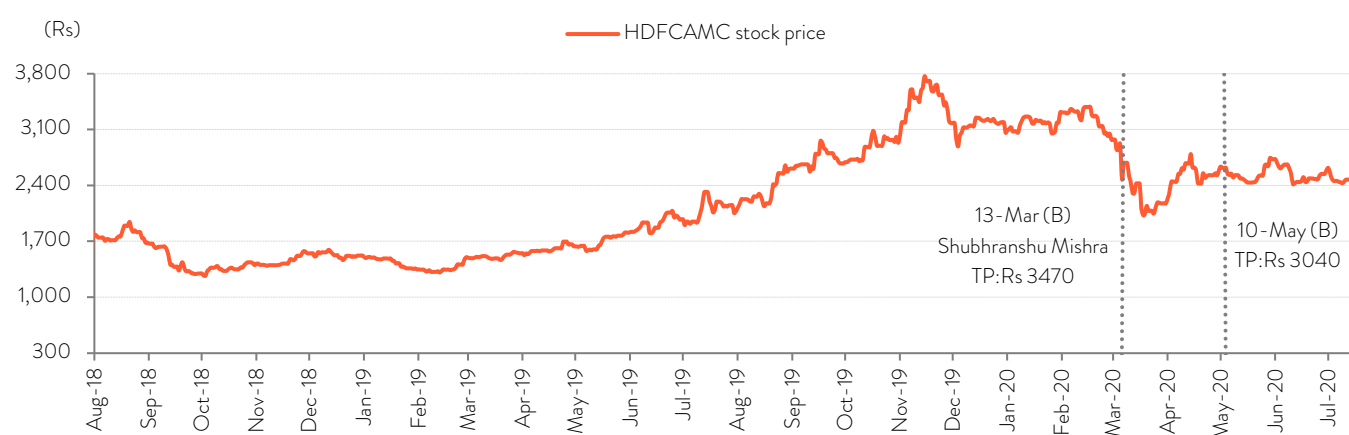
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): HDFC ASSET MANAGEMENT COMPANY (HDFCAMC IN)



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

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