

**BUY**

TP: Rs 3,040 | ▲ 16%

**HDFC ASSET****MANAGEMENT COMPANY**

Diversified Financials

10 May 2020

## In-line results, FY21-FY22 equity flows to be subdued

HDFC Asset Management (HDFCAMC) reported a ~Rs 500bn sequential AUM decline in Q4FY20, largely due to the mark-to-market effect. The company was able to maintain overall market share at ~14%. We expect cost control to continue over FY21-FY22 and forecast EBITDA/core PBT margins of ~78%/75% during this period. We cut FY21-FY22 EPS estimates by 10% as the high-yielding equity business is likely to see subdued growth. Maintain BUY with a revised Mar'21 TP of Rs 3,040 (vs. Rs 3,470 earlier).

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**AUM decline driven by MTM loss:** AUM (end of period) saw a rundown of ~Rs 500bn on a sequential basis in Q4 – management attributed this decline primarily to the mark-to-market (MTM) effect and not redemptions. HDFCAMC has largely maintained its pricing; the decline in income (-18% YoY) was driven by MTM losses. Market share has been maintained at ~14% overall and 15% in the equity segment.

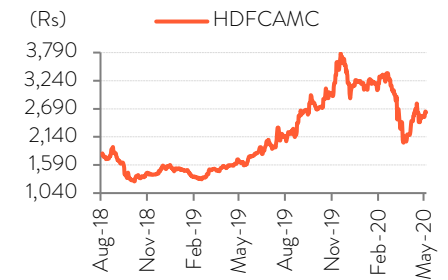
**Opex control leads to stable margins:** Strong opex control led to stable EBITDA margins of 78% in Q4. Core PBT margin also remained steady at 75%. We expect cost control initiatives to continue over FY21-FY22 and forecast EBITDA and core PBT margins at ~78% and 75% respectively during this period.

**Maintain BUY:** In our view, the high-yielding equity business will see subdued growth in FY21-FY22 due to the impact of Covid-19. We thus lower FY21-FY22 earnings estimates by 10% each. The company earns fees on the legacy book as well as on flows and has a lower investor churn as compared to industry.

Ticker/Price	HDFCAMC IN/ Rs 2,619
Market cap	US\$ 7.4bn
Shares o/s	213mn
3M ADV	US\$ 16.3mn
52wk high/low	Rs 3,844/Rs 1,962
Promoter/FPI/DII	80%/8%/1%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Core PBT (Rs mn)	9,452	11,931	15,129	16,087	18,593
Core PBT (YoY)	36.6	26.2	26.8	6.3	15.6
Adj. net profit (Rs mn)	7,113	9,306	12,624	13,160	15,119
EPS (Rs)	33.8	43.8	59.3	61.8	71.0
P/E (x)	77.5	59.8	44.2	42.4	36.9
MCap/AAAUM (%)	20.0	17.3	14.9	13.4	11.7
RoAAAUM (in bp)	25.6	28.8	33.9	31.6	31.7
ROE (%)	37.7	35.0	35.6	30.8	31.9

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>Total income</b>	<b>4,496</b>	<b>5,477</b>	<b>(17.9)</b>	<b>5,920</b>	<b>(24.0)</b>	<b>21,434</b>	<b>20,968</b>	<b>2.2</b>
Operating Expenses	1,066	1,297	(17.7)	1,133	(5.9)	4,310	7,092	(39.2)
<b>EBITDA</b>	<b>3,695</b>	<b>3,569</b>	<b>3.5</b>	<b>4,115</b>	<b>(10.2)</b>	<b>15,722</b>	<b>12,060</b>	<b>30.4</b>
<b>Core PBT</b>	<b>3,561</b>	<b>3,534</b>	<b>0.8</b>	<b>3,988</b>	<b>(10.7)</b>	<b>15,129</b>	<b>11,931</b>	<b>26.8</b>
Other income	(265)	612	(143.3)	673	(139.4)	1,402	1,816	(22.8)
<b>PBT</b>	<b>3,296</b>	<b>4,146</b>	<b>(20.5)</b>	<b>4,661</b>	<b>(29.3)</b>	<b>16,531</b>	<b>13,747</b>	<b>20.2</b>
Tax	797	1,384	(42.4)	1,135	(29.7)	3,906	4,441	(12.0)
<b>Net Profit</b>	<b>2,498</b>	<b>2,762</b>	<b>(9.5)</b>	<b>3,526</b>	<b>(29.1)</b>	<b>12,624</b>	<b>9,306</b>	<b>35.7</b>

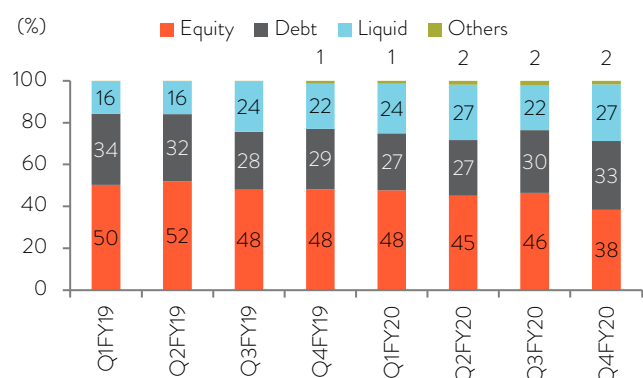
Source: Company, BOBCAPS Research

**FIG 2 – ACTUAL VS. ESTIMATES**

(Rs mn)	Q4FY20E	Q4FY20A	Variation (%)	FY20E	FY20A	Variation (%)
<b>Total income</b>	<b>5,200</b>	<b>4,496</b>	<b>(13.5)</b>	<b>22,138</b>	<b>21,434</b>	<b>(3.2)</b>
YoY (%)	(5.0)	(17.9)	-	5.6	2.2	-
Operating Expenses	1,249	1,066	(14.6)	4,582	4,310	(5.9)
<b>EBITDA</b>	<b>3,302</b>	<b>3,695</b>	<b>11.9</b>	<b>15,240</b>	<b>15,722</b>	<b>3.2</b>
YoY (%)	(7.5)	3.5	-	26.4	30.4	-
Depreciation	130	134	2.8	500	504	0.7
Finance Costs	0	0	NM	0	90	NM
<b>Core PBT</b>	<b>3,172</b>	<b>3,561</b>	<b>12.3</b>	<b>14,740</b>	<b>15,129</b>	<b>2.6</b>
YoY (%)	(10.3)	0.8	-	23.5	26.8	-
Other income	648	(265)	(140.9)	2,315	1,402	(39.5)
<b>PBT</b>	<b>3,821</b>	<b>3,296</b>	<b>(13.7)</b>	<b>17,056</b>	<b>16,531</b>	<b>(3.1)</b>
YoY (%)	(7.8)	(20.5)	-	24.1	20.2	-
Tax	1,070	797	(25.5)	4,179	3,906	(6.5)
Tax Rate (%)	28.0	24.2	-	24.5	23.6	-
<b>Net Profit</b>	<b>2,751</b>	<b>2,498</b>	<b>(9.2)</b>	<b>12,877</b>	<b>12,624</b>	<b>(2.0)</b>
YoY (%)	(0.4)	(9.5)	-	38.4	35.7	-

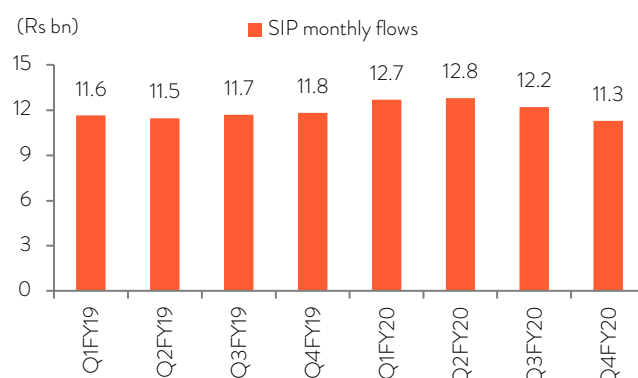
Source: BOBCAPS Research

**FIG 3 – EQUITY AUM DECLINED LARGELY DUE TO MTM AND NOT REDEMPTIONS**



Source: Company, BOBCAPS Research

**FIG 4 – SIP MONTHLY FLOWS LARGELY STABLE**



Source: Company, BOBCAPS Research

FIG 5 – DETAILED QUARTERLY PERFORMANCE

Particulars	FY19				FY20				Variation (%)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	QoQ	YoY
<b>Profit and Loss (Rs mn)</b>										
<b>Total income</b>	<b>5,012</b>	<b>5,152</b>	<b>5,329</b>	<b>5,477</b>	<b>5,528</b>	<b>5,491</b>	<b>5,920</b>	<b>4,496</b>	<b>(24.0)</b>	<b>(17.9)</b>
Operating Expenses	2,039	2,150	1,609	1,297	1,110	1,091	1,133	1,066	(5.9)	(17.7)
<b>EBITDA</b>	<b>2,673</b>	<b>2,654</b>	<b>3,162</b>	<b>3,569</b>	<b>3,934</b>	<b>3,889</b>	<b>4,115</b>	<b>3,695</b>	<b>(10.2)</b>	<b>3.5</b>
Depreciation	26	31	37	35	119	125	126	134	5.9	285.9
Finance Costs	0	0	0	0	0	0	0	0	NM	NM
<b>Core PBT</b>	<b>2,647</b>	<b>2,623</b>	<b>3,125</b>	<b>3,534</b>	<b>3,816</b>	<b>3,765</b>	<b>3,988</b>	<b>3,561</b>	<b>(10.7)</b>	<b>0.8</b>
Other income	299	349	559	612	484	511	673	(265)	(139.4)	(143.3)
<b>PBT</b>	<b>2,946</b>	<b>2,972</b>	<b>3,683</b>	<b>4,146</b>	<b>4,299</b>	<b>4,275</b>	<b>4,661</b>	<b>3,296</b>	<b>(29.3)</b>	<b>(20.5)</b>
Tax	894	913	1,250	1,384	1,381	593	1,135	797	(29.7)	(42.4)
<b>Net Profit</b>	<b>2,053</b>	<b>2,059</b>	<b>2,433</b>	<b>2,762</b>	<b>2,918</b>	<b>3,682</b>	<b>3,526</b>	<b>2,498</b>	<b>(29.1)</b>	<b>(9.5)</b>
<b>Ratios (Calc, %)</b>										
Cost to core income ratio	43.3	44.7	33.7	26.6	22.0	21.9	21.6	22.4	81bps	(425bps)
EBITDA Margin	56.7	55.3	66.3	73.4	78.0	78.1	78.4	77.6	(81bps)	425bps
Core PBT Margin	56.2	54.6	65.5	72.6	75.6	75.6	76.0	74.8	(121bps)	215bps
RoAAUM	0.27	0.27	0.29	0.32	0.32	0.39	0.37	0.27	(10bps)	(5bps)
<b>AUM related (Rs mn)</b>										
Total AUM	3,011	2,926	3,291	3,439	3,567	3,662	3,693	3,191	(13.6)	(7.2)
Equity	1,512	1,519	1,580	1,654	1,701	1,652	1,712	1,222	(28.6)	(26.1)
Debt	1,027	945	915	997	967	970	1,110	1,047	(5.7)	4.9
Liquid	467	456	787	743	849	974	793	868	9.4	16.8
Others	6	6	10	45	50	66	77	54	(30.0)	21.3
<b>Other details</b>										
No of Branches	210	210	210	210	211	213	220	221	1	11
Empanelled distributors	65,000	65,000	75,000	75,000	75,000	80,000	70,000	70,000	0	(5,000)
SIP monthly flows (Rs bn)	11.6	11.5	11.7	11.8	12.7	12.8	12.2	11.3	(7.4)	(4.4)
SIP transactions (mn)	3.4	3.2	3.4	3.4	3.4	3.5	3.4	3.3	(3.8)	(2.7)

Source: Company, BOBCAPS Research

## Earnings call highlights

- ~73% of revenue derived from equity AUM; will come off marginally in FY21
- Slight increase in TER due to fall in AUM
- Traction in SIP flows continues
- Customers being onboarded by digital means
- Old schemes have sticky customers with low churn despite market volatility
- Trail commission on flows lower than that on book, so margins will shrink slightly going forward
- Other opex increased in Q4 due to one-time settlement of Rs 90mn towards Essel NCD exposure fine by SEBI due to non-payment of interest to investors
- Cost levers for FY21 include lower discretionary spend and rationalisation of employee costs
- Will encourage more work from home going forward
- Broker commissions largely steady and not regularly renegotiated
- Equity proportion of Investment book on balance sheet totals Rs 1bn
- Open to inorganic expansion for any tactically accretive deal
- Dividend payout ratio to come off in FY21 to conserve cash

## Valuation methodology

HDFCAMC is trading at 42.4x/36.9x FY21E/FY22E EPS for an estimated ROE of 30.8%/31.9%. 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 10% each. 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 FY21-FY22. Maintain BUY with a revised Mar'21 target price of Rs 3,040 (Rs 3,470 earlier), arrived at using a three-stage dividend discount model (DDM).

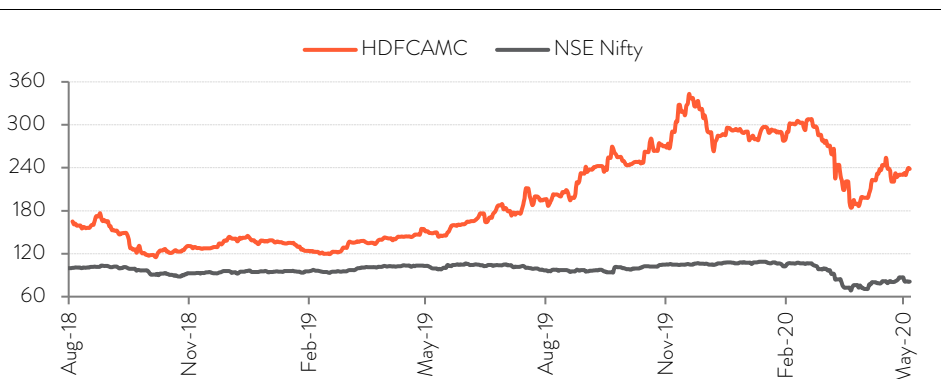
Our key assumptions are cost of equity of 12.8% (risk-free rate of 7.75% and beta of 1.1x), with average growth of ~25% in the five-year explicit period and terminal growth of 10%.

**FIG 6 – REVISED ESTIMATES**

(Rs bn)	Old		New		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>Total income</b>	<b>25</b>	<b>29</b>	<b>23</b>	<b>26</b>	<b>(8.3)</b>	<b>(9.3)</b>
Operating Expenses	5	6	5	5	(7.8)	(7.6)
<b>EBITDA</b>	<b>17</b>	<b>20</b>	<b>17</b>	<b>19</b>	<b>(2.7)</b>	<b>(3.4)</b>
<b>Core PBT</b>	<b>17</b>	<b>19</b>	<b>16</b>	<b>19</b>	<b>(3.4)</b>	<b>(4.0)</b>
Other income	3	3	2	2	(44.6)	(49.3)
<b>PBT</b>	<b>19</b>	<b>23</b>	<b>18</b>	<b>20</b>	<b>(9.2)</b>	<b>(10.4)</b>
Tax	5	6	4	5	(9.2)	(10.4)
<b>Net Profit</b>	<b>14</b>	<b>17</b>	<b>13</b>	<b>15</b>	<b>(9.2)</b>	<b>(10.4)</b>
<b>AAUM</b>	<b>4,203</b>	<b>4,839</b>	<b>4,166</b>	<b>4,776</b>	<b>(0.9)</b>	<b>(1.3)</b>
<b>RoAAUM (bps)</b>	<b>34</b>	<b>35</b>	<b>32</b>	<b>32</b>	<b>(289bps)</b>	<b>(321bps)</b>

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 AMC's (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 AMC's.
- 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)	FY18A	FY19A	FY20P	FY21E	FY22E
<b>Investment management fees</b>	<b>17,568</b>	<b>19,152</b>	<b>20,033</b>	<b>21,487</b>	<b>24,646</b>
YoY (%)	18.7	9.0	4.6	7.3	14.7
Operating expenses	8,022	7,092	4,310	4,800	5,453
Core operating profits	9,546	12,060	15,722	16,687	19,193
Core operating profits growth (%)	35.6	26.3	30.4	6.1	15.0
Depreciation and Interest	94	129	594	600	600
Core PBT	9,452	11,931	15,129	16,087	18,593
Core PBT growth (%)	36.6	26.2	26.8	6.3	15.6
Other income	1,130	1,816	1,402	1,507	1,620
PBT	10,582	13,747	16,531	17,594	20,213
PBT growth (%)	32.3	29.9	20.2	6.4	14.9
Tax	3,469	4,441	3,906	4,434	5,094
Tax rate (%)	32.8	32.3	23.6	25.2	25.2
<b>Reported PAT</b>	<b>7,113</b>	<b>9,306</b>	<b>12,624</b>	<b>13,160</b>	<b>15,119</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Equity capital	1,053	1,063	1,064	1,064	1,064
Reserves & surplus	21,486	29,644	39,229	44,070	48,722
Net worth	22,539	30,707	40,293	45,134	49,786
Borrowings	0	0	0	0	0
Other liabilities & provisions	2,182	1,530	2,793	3,631	4,721
<b>Total liabilities and equities</b>	<b>24,721</b>	<b>32,238</b>	<b>43,086</b>	<b>48,766</b>	<b>54,507</b>
Cash & bank balance	20,598	29,670	39,716	45,161	50,649
Fixed & Other assets	369	429	1,613	1,694	1,778
<b>Total assets</b>	<b>24,721</b>	<b>32,238</b>	<b>43,086</b>	<b>48,766</b>	<b>54,507</b>

### Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
EPS	33.8	43.8	59.3	61.8	71.0
Dividend per share	16.0	24.0	28.0	32.5	40.9
Book value per share	107.0	144.5	189.3	212.1	234.0

Source: Company, BOBCAPS Research

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
P/E	77.5	59.8	44.2	42.4	36.9
P/BV	24.5	18.1	13.8	12.3	11.2
Dividend yield (%)	0.6	0.9	1.1	1.2	1.6

**DuPont Analysis (Bps of AAAUM)**

Y/E 31 Mar (bps of AAAUM)	FY18A	FY19A	FY20P	FY21E	FY22E
Operating income	63.2	59.4	53.7	51.6	51.6
Operating expenses	28.8	22.0	11.6	11.5	11.4
EBITDA	34.3	37.4	42.2	40.1	40.2
Depreciation and Others	0.3	0.4	1.6	1.4	1.3
Core PBT	34.0	37.0	40.6	38.6	38.9
Other income	4.1	5.6	3.8	3.6	3.4
PBT	38.0	42.6	44.3	42.2	42.3
Tax	12.5	13.8	10.5	10.6	10.7
ROAAAUM	25.6	28.8	33.9	31.6	31.7

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
<b>YoY growth (%)</b>					
Investment management fees	18.7	9.0	4.6	7.3	14.7
Core operating profit	35.6	26.3	30.4	6.1	15.0
EPS	23.6	29.6	35.5	4.2	14.9
<b>Profitability &amp; Return ratios (%)</b>					
Operating income to total income	94.0	91.3	93.5	93.4	93.8
Cost to Core income ratio	45.7	37.0	21.5	22.3	22.1
EBITDA margin	54.3	63.0	78.5	77.7	77.9
Core PBT margin	53.8	62.3	75.5	74.9	75.4
PBT margin (on total income)	56.6	65.6	77.1	76.5	77.0
ROE	37.7	35.0	35.6	30.8	31.9
Dividend payout ratio	57.0	66.1	47.2	63.2	69.2

**Annual Average AUM**

Y/E 31 Mar (Rs bn)	FY18A	FY19A	FY20P	FY21E	FY22E
AAAUM (Rs Bn)	2,781	3,226	3,729	4,166	4,776
YoY Growth (%)	28.6	16.0	15.6	11.7	14.6
<b>% of AAAUM</b>					
Equity	47.7	48.3	45.7	46.0	47.2
Debt	38.0	30.0	23.6	23.7	23.8
Liquid	14.1	21.5	30.0	29.6	28.4
Others	0.2	0.2	0.7	0.6	0.6

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

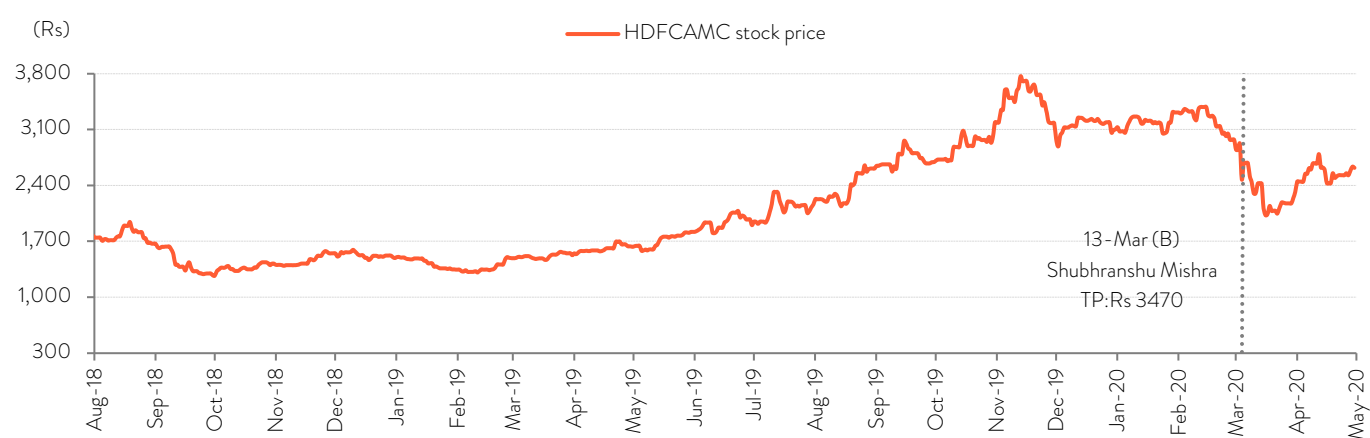
**ADD** – Expected return from >+5% to +15%

**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)

### HISTORICAL RATINGS AND TARGET PRICE: HDFC ASSET MANAGEMENT COMPANY (HDFCAMC IN)



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

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