

RESEARCH
HDFC AMC | Target: Rs 3,000 | +20% | BUY

Equity flows remain subdued

SUMMARY
HDFC AMC

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.

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TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	690
GAIL	Buy	150
Petronet LNG	Buy	305
Tech Mahindra	Buy	690

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,950
Chola Investment	Buy	200
Laurus Labs	Buy	630
Transport Corp	Buy	240
Mahanagar Gas	Sell	710

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.60	0bps	(11bps)	(145bps)
India 10Y yield (%)	5.81	(2bps)	(6bps)	(62bps)
USD/INR	74.76	0	1.7	(8.4)
Brent Crude (US\$/bbl)	44.29	(0.1)	2.8	(29.9)
Dow	27,006	0.6	3.8	(1.0)
Shanghai	3,333	0.4	12.4	14.0
Sensex	37,872	(0.2)	8.5	0.1
India FII (US\$ mn)	21 Jul	MTD	CYTD	FYTD
FII-D	(242.2)	(155.8)	(14,437.8)	(4,678.3)
FII-E	279.6	61.8	(2,379.7)	4,223.3

Source: Bank of Baroda Economics Research

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BUY

TP: Rs 3,000 | ▲ 20%

**HDFC ASSET
MANAGEMENT COMPANY**

Diversified Financials | 23 July 2020

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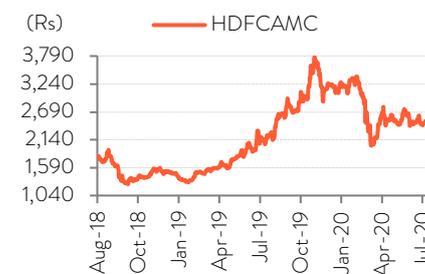
AUM growth driven by MTM increase and liquid fund flow: AUM (end of period) increased ~Rs 400bn QoQ in Q1FY21 – management attributed this growth primarily to the mark-to-market (MTM) effect and higher liquid fund flows. HDFCAMC has largely maintained its pricing; the decline in Q1 income (-11% YoY) 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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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)

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