

BUY

TP: Rs 2,310 | ▲ 18%

HDFC AMC

| NBFC

| 25 January 2023

Muted growth; raise to BUY on price correction

- Q3 net profit growth muted at 3% YoY owing to weak revenue pickup and higher operating expense
- Equity dominance continues at 53.8% of QAAUM; share of debt and liquid funds declined whereas ETF was stable
- Upgrade from HOLD to BUY post 8% correction over the last two weeks; TP unchanged at Rs 2,310

Muted growth: HDFC AMC reported subdued Q3FY23 net profit growth of 3% YoY to Rs 3.7bn, owing to low revenue growth (+2%) and higher operating expense (+8%). Other income rose 20% YoY, leading to better total income growth of 4%. QAAUM dipped 1% YoY to Rs 4.4tn with debt declining 27% and equity growing 15%. SIP AUM grew 21% YoY to Rs 848bn, of which ~77% has a tenure of >10Y.

Equity tilt continues: Equity constituted 53.8% of QAAUM at end-Q3 vs. 51.9% in Q2; the share of debt and liquid funds declined whereas ETF remained stable. The company generated 50bps of revenue yield, down 1% QoQ despite a higher equity component because the total expense ratio transitioned to a lower slab as three large funds crossed the Rs 50bn mark. The operating margin was stable at 35bps.

Market share maintained: HDFC AMC, the #3 player in the industry, has maintained 11% QAAUM market share for the past three quarters, after ceding ground to competitors over a prolonged period (~-270bps, FY20-9MFY23). Whereas the company gained share QoQ in the actively managed equity and liquid segments, this was offset by a decline in debt. In addition, it maintained 17% market share in unique customers. In Q3, the company launched a thematic 'Business Cycle Fund', which garnered AUM of Rs 2.3bn during the offer period. It also launched a debt index fund.

Raise to BUY on price correction: The stock is currently trading at 24x FY25E EPS, and we value it at an unchanged 28x FY25E EPS, 1SD below the long-term mean, translating to a TP of Rs 2,310. Over the last two weeks since we [initiated coverage on HDFC AMC](#), the stock price has fallen 8%. This raises the potential upside to our TP to 18%, prompting our upgrade from HOLD to BUY. The company has key moats in the form of its brand strength, large AUM base and retail-oriented strategy. Management is also focused on reclaiming market share through launches, though we believe this could be a long slog amid stiff competitive headwinds.

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Key changes

Target	Rating
◀ ▶	▲

Ticker/Price	HDFC AMC IN/Rs 1,964
Market cap	US\$ 5.1bn
Free float	13%
3M ADV	US\$ 6.8mn
52wk high/low	Rs 2,480/Rs 1,690
Promoter/FPI/DII	63%/12%/12%

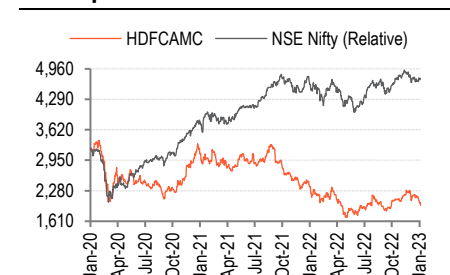
Source: NSE | Price as of 24 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Core PBT (Rs mn)	15,375	16,022	17,334
Core PBT (YoY)	9.8	4.2	8.2
Adj. net profit (Rs mn)	13,931	14,525	16,067
EPS (Rs)	65.3	68.0	75.3
Consensus EPS (Rs)	65.3	67.5	75.4
MCap/AAAUM (%)	9.7	9.1	8.3
ROAAAUM (bps)	32.2	31.4	32.0
ROE (%)	27.0	25.3	25.9
P/E (x)	30.1	28.9	26.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Profit and Loss account

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Revenue from Operations					
Asset Management Services	5,596	5,497	1.8	5,447	2.7
Other Income	1,034	862	19.9	1,042	(0.8)
Total Income	6,629	6,359	4.3	6,489	2.2
Expenses					
Fees and Commission Expenses	6	13	(51.6)	11	(43.0)
Employee Benefits Expenses	790	775	1.9	839	(5.8)
Other Expenses	669	565	18.3	552	21.1
Total Operating Expenses	1,465	1,352	8.3	1,402	4.5
EBITDA	5,165	5,006	3.2	5,088	1.5
Depreciation, Amortisation and Impairment	134	133	0.2	132	1.1
Finance Costs	24	22	11.2	24	(1.6)
Profit Before Tax	5,007	4,852	3.2	4,931	1.5
Tax Expense					
Current Tax	1,146	1,090	5.2	1,113	3.0
Deferred Tax Charge/(Credit)	167	164	1.8	177	(5.8)
Total Tax Expense	1,313	1,254	4.7	1,290	1.8
Profit After Tax	3,694	3,598	2.7	3,641	1.4

Source: Company, BOBCAPS Research

Fig 2 – Key performance indicators

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
AUM (Rs bn)					
QAAUM	4,448	4,471	(0.5)	4,293	3.6
Actively Managed Equity-oriented QAAUM	2,269	1,966	15.4	2,113	7.4
Debt - QAAUM	1,166	1,593	(26.8)	1,200	(2.8)
Liquid - QAAUM	760	704	8.0	741	2.6
Market share (%)					
QAAUM	11.0	11.7	(70bps)	11.0	0bps
Actively managed equity-oriented - QAAUM	11.7	11.6	10bps	11.5	20bps
Debt – QAAUM	13.5	14.6	(110bps)	13.7	(20bps)
Liquid - QAAUM	13.7	14.8	(110bps)	13.2	50bps
Others					
Number of Live Individual Accounts (mn)	10.7	9.5	12.3	10.3	3.5
Individual MAAUM (Rs bn)	3,014	2,623	14.9	2,858	5.5
Unique Investors (mn)	6.3	5.7	10.5	6.1	3.3
Systematic Transactions (Rs bn)	15.7	11.9	31.9	14.3	9.8
SIP AUM (Rs bn)	848	702	20.8	786	7.9
B-30 share in AUM (%)	17.6	15.6	200bps	17.5	10bps

Source: Company, BOBCAPS Research

Fig 3 – Margin indicators

Margins	Q3FY23	Q3FY22	YoY (bps)	Q2FY23	QoQ (bps)
EBITDA margin (%)	77.9	78.7	(82)	78.4	(49)
Net margin (%)	55.7	56.6	(85)	56.1	(39)
Revenue yield (bps)	50.3	49.2	114	50.8	(43)

Source: BOBCAPS Research

Valuation methodology

HDFC AMC is one of the biggest fund houses in India and enjoys considerable moats in the form of brand strength, pedigree and a large AUM base. However, the company has been unable to fend off competition, witnessing steep market share contraction (~-270bps, FY20-9MFY23) – the highest among listed peers. Management has reiterated its focus on recouping lost ground through new scheme launches. However, we expect any reversal of the AMC's weakened positioning to be a long slog amid sustained competitive headwinds.

The stock is currently trading at 24x FY25E EPS, and we value it at an unchanged 28x FY25E EPS, one standard deviation below the long-term mean, translating to a TP of Rs 2,310. Over the last two weeks since we initiated coverage on HDFC AMC, the stock price has fallen 8%. This raises the potential upside to our TP to 18%, prompting us to upgrade our rating from HOLD to BUY.

Key risks

- **Decline in AUM growth due to increased competition:** HDFC AMC has witnessed intense competitive pressure that has eroded market share over the past five years. Higher competition coupled with new entrants could dampen AUM growth and hurt revenue.
- **Prolonged weakness in equity markets:** Equity assets constitute a significant portion of the company's AUM. Thus, a decline in Indian equity markets would cause AUM to decline directly as the value of the underlying securities fall, and indirectly as securities investments become less attractive for investors, resulting in net outflows or redemptions. Any decrease in AUM will impact fees and hence net profit.
- **Regulatory risks:** AMCs are regulated by SEBI and could be adversely impacted in case of unfavourable policy changes.
 - In the event the regulator mandates a further decline in TER, yields could reduce further.
 - SEBI in Apr'22 had barred fund houses from floating new schemes till the industry complied with its direction to discontinue mutual fund investments by distributors and brokers from their pool accounts. The deadline for implementation of the new guideline was 1 Jul 2022. Thus, Q1FY23 didn't see any new fund offers.
- **Covid-like disruptions.** While Covid-related lockdowns are unlikely to be unduly harsh in future, we believe that any such lockdowns/disruptions due to any pandemic/virus mutations would be a risk to retail customer acquisition and could also result in higher redemptions.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Aditya Birla Sun Life AMC	ABSLAMC IN	1.6	443	488	HOLD
HDFC AMC	HDFCAMC IN	5.1	1,964	2,310	BUY
Nippon Life India AMC	NAM IN	1.9	244	347	BUY
UTI AMC	UTIAM IN	1.2	770	983	BUY

Source: BOBCAPS Research, NSE | Price as of 24 Jan 2023

Glossary

Glossary			
AUM	Assets Under Management	NFO	New Fund Offer
B30	Beyond the Top 30 cities	QAAUM	Quarterly Average Assets Under Management
ETF	Exchange Traded Funds	SIP	Systematic Investment Plan
MAAUM	Monthly Average Assets Under Management	T30	Top 30 cities
MF	Mutual Fund	TER	Total Expense Ratio

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Investment mgmt. fees	18,525	21,154	22,134	23,886	25,914
YoY (%)	(7.5)	14.2	4.6	7.9	8.5
Operating expenses	3,884	5,154	5,460	5,847	6,206
Core operating profits	14,641	15,999	16,674	18,039	19,708
Core operating profits growth (%)	(6.9)	9.3	4.2	8.2	9.3
Depreciation and Interest	644	625	651	704	824
Core PBT	13,997	15,375	16,022	17,334	18,884
Core PBT growth (%)	(7.5)	9.8	4.2	8.2	8.9
Other income	3,492	3,178	3,396	4,145	4,658
PBT	17,490	18,553	19,418	21,479	23,542
PBT growth (%)	5.8	6.1	4.7	10.6	9.6
Tax	4,232	4,622	4,893	5,413	5,933
Tax rate (%)	24.2	24.9	25.2	25.2	25.2
Reported PAT	13,258	13,931	14,525	16,067	17,610

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity capital	1,065	1,066	1,066	1,066	1,066
Reserves & surplus	46,697	54,234	58,591	63,411	68,694
Net worth	47,762	55,300	59,658	64,478	69,761
Borrowings	0	0	0	0	0
Other liab. & provisions	3,185	3,503	3,584	3,721	3,900
Total liab. & equities	50,947	58,804	63,242	68,198	73,661
Cash & bank balance	47,556	55,783	60,505	65,286	70,671
Fixed & Other assets	3,078	2,714	2,737	2,912	2,990
Total assets	50,947	58,804	63,242	68,198	73,661

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS	62.2	65.3	68.0	75.3	82.5
Dividend per share	34.0	42.0	47.7	52.7	57.8
Book value per share	223.9	259.2	279.5	302.1	326.8

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
P/E	31.6	30.1	28.9	26.1	23.8
P/BV	8.8	7.6	7.0	6.5	6.0
Dividend yield (%)	1.7	2.1	2.4	2.7	2.9

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	44.6	49.0	47.9	47.5	46.9
Operating expenses	9.3	11.9	11.8	11.6	11.2
EBITDA	43.6	44.4	43.4	44.1	44.1
Depreciation and Others	1.5	1.4	1.4	1.4	1.5
Core PBT	33.7	35.6	34.7	34.5	34.2
Other income	8.4	7.4	7.3	8.2	8.4
PBT	42.1	42.9	42.0	42.7	42.6
Tax	10.2	10.7	10.6	10.8	10.7
ROAAAUM	31.9	32.2	31.4	32.0	31.9

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Investment mgmt. fees	(7.5)	14.2	4.6	7.9	8.5
Core operating profit	(6.9)	9.3	4.2	8.2	9.3
EPS	4.9	5.1	4.2	10.6	9.6
Profitability & Return ratios (%)					
Operating income to Total inc.	84.1	86.9	86.7	85.2	84.8
Cost to Core income ratio	21.0	24.4	24.7	24.5	23.9
EBITDA margin	82.4	78.8	78.6	79.1	79.7
Core PBT margin	63.6	63.2	62.8	61.8	61.8
PBT margin (on total inc.)	79.4	76.2	76.1	76.6	77.0
ROE	30.1	27.0	25.3	25.9	26.2
Dividend payout ratio	54.7	64.3	70.0	70.0	70.0

Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
AAAUM (Rs bn)	4,156	4,321	4,620	5,028	5,527
YoY Growth (%)	12.4	4.0	6.9	8.8	9.9
% of AAAUM					
Equity	40	46	49	51	52
Debt	38	33	28	26	25
Liquid	19	16	17	16	15
Others	3	5	6	7	8

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

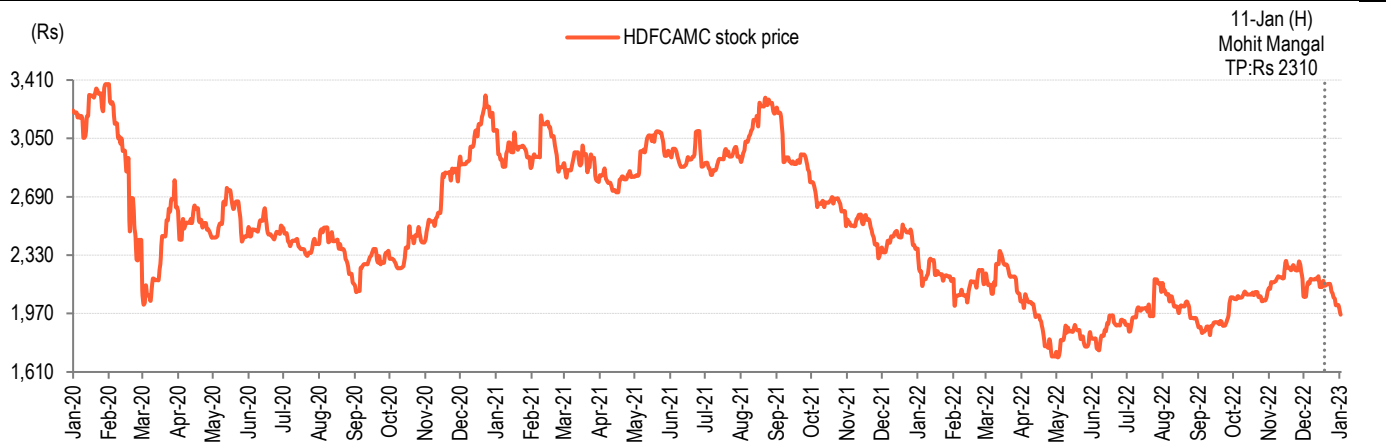
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): HDFC AMC (HDFCAMC IN)



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

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