

HOLD

TP: Rs 3,425 | ▼ 2%

HDFC AMC

| NBFC

| 11 January 2024

Ticks most boxes but upside potential limited

- Actively managed equity QAAUM grew 40% YoY, driving 24% AUM growth in Q3; topline growth strong at 23%
- Market share has expanded in terms of equity QAAUM but slipped in debt and liquid segments
- TP raised to Rs 3,425 (vs. Rs 3,150) on a 5% increase in our FY26 PAT estimates and a higher target P/E of 31x; retain HOLD

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Strong growth continues: HDFC AMC's AUM grew 24% YoY to Rs 5.5tn in Q3FY24 as actively managed equity fund assets increased by 40%. Revenue/EBITDA at Rs 8.1bn/Rs 6.5bn grew 23%/26% YoY. Revenue included other income (MTM gains) of Rs 1.4bn. SIP AUM climbed 52% YoY to Rs 1.3tn, of which 79% enjoy a long tenure of more than 10 years. Considering the dominance of equity in the mix and an 8% PAT beat over our forecast for Q3, we raise our AUM estimates by 4%/5%/6% for FY24/FY25/FY26 and net profit forecasts by 5%/0%/5%.

Mixed market share trends: HDFC AMC reported a stable 11.2% market share in QAAUM for Q3FY24 vs. 11% in Q3FY23 and an increase to 12.6% share in actively managed equity funds from 11.7%. Equity constituted 61% of QAAUM at end-Q3FY24 vs. 54% in the year-ago quarter. Debt QAAUM grew 16% YoY to Rs 1.4tn, but the company lost 30bps market share to 13.2%. Liquid QAAUM declined 18% YoY to Rs 625bn, taking market share to 11.5% from 13.7% in Q3FY23.

Yields stable: Operating revenue yield stood at 48bps of AAUM at end-9MFY24 vs. 49bps in FY23, with a stable operating margin of 35bps.

Focused on raising HDFC Bank's share: Direct channels contributed 39% of AUM in Q3 and MFDs 29%, whereas HDFC Bank brought in only 6% of business. On the equity side, the bank generated 7.7% of AUM vs. 8.4% a year ago. Management remains focused on engaging more with the parent to increase its share.

Maintain HOLD: The stock is trading at 31.7x FY26E EPS. Apart from raising AUM and profit estimates, we value the stock at a higher 31x FY26E P/E multiple (vs. 30x) – a 10% discount to the long-term mean – translating to a revised TP of Rs 3,425 (vs. Rs 3,150). Our multiple upgrade stems from a gradual recouping of overall market share, improved equity scheme performance and above-expected profitability. However, compression in liquid and debt AUM market share and lower originations from the parent remain concerns. Valuations too look high after a 30% stock rally since the end of September vs. 10% for the index. We thus retain our HOLD rating.

Key changes

Target	Rating
▲	◀▶

Ticker/Price	HDFCAMC IN/Rs 3,502
Market cap	US\$ 9.1bn
Free float	37%
3M ADV	US\$ 18.5mn
52wk high/low	Rs 3,543/Rs 1,590
Promoter/FPI/DII	63%/8%/18%

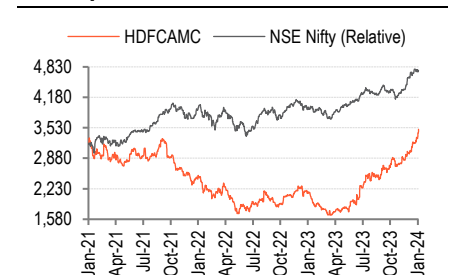
Source: NSE | Price as of 11 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	15,549	18,642	21,485
Core PBT (YoY)	1.1	19.9	15.3
Adj. net profit (Rs mn)	14,239	18,510	19,980
EPS (Rs)	66.7	86.7	93.6
Consensus EPS (Rs)	66.7	83.8	94.2
MCap/AAAUM (%)	16.6	13.3	11.4
ROAAAUM (bps)	31.7	33.0	30.5
ROE (%)	24.5	29.0	28.7
P/E (x)	52.5	40.4	37.4

Source: Company, Bloomberg, BOBCAPS Research

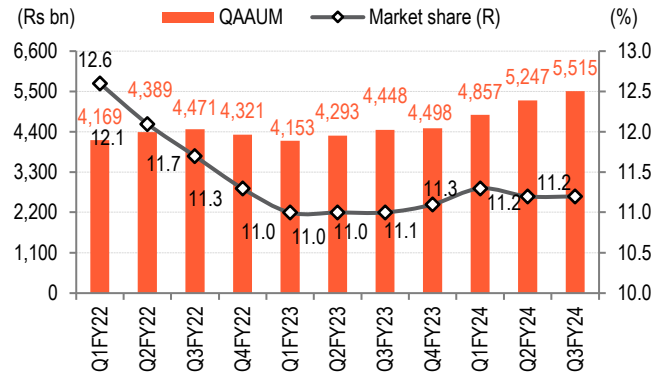
Stock performance



Source: NSE

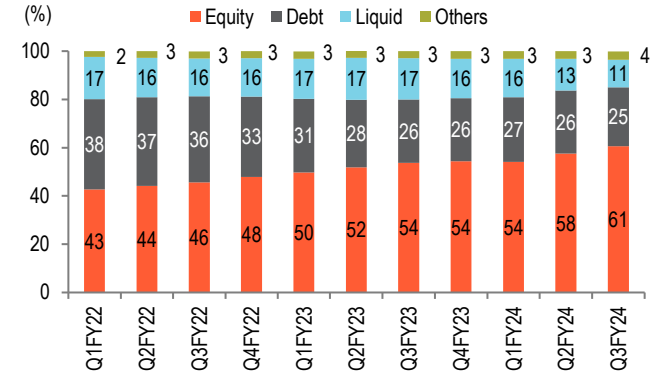


Fig 1 – Market share broadly stable in Q3FY24



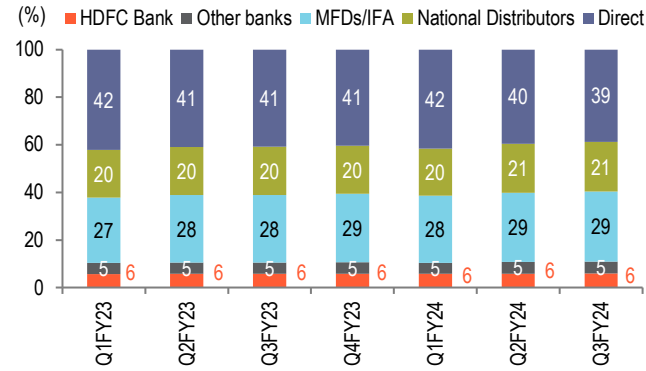
Source: Company, BOBCAPS Research

Fig 2 – Equity component increased to 61% at end-Q3



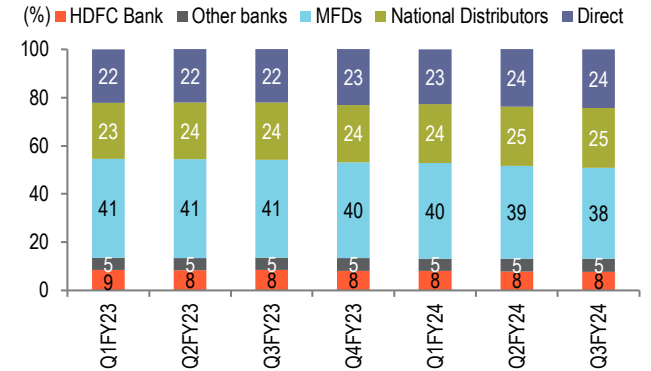
Source: Company, BOBCAPS Research / Note: AUM = QAAUM

Fig 3 – Direct channel plays an important role in QAAUM distribution mix



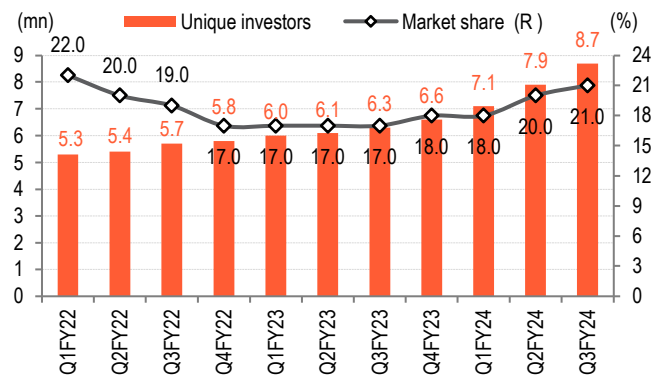
Source: Company, BOBCAPS Research | IFA: Independent Financial Advisor

Fig 4 – Equity QAAUM largely dependent on mutual fund distributors (MFD)



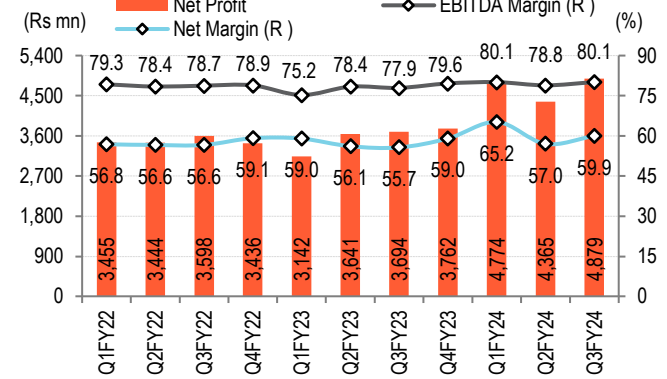
Source: Company, BOBCAPS Research

Fig 5 – Unique investor market share inching up



Source: Company, BOBCAPS Research

Fig 6 – PAT up 32% YoY in Q3



Source: Company, BOBCAPS Research

Fig 7 – Profit and Loss account

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue from Operations								
Asset Management Services	6,713	5,596	20.0	6,431	4.4	18,889	16,259	16.2
Other Income	1,429	1,034	38.2	1,223	16.8	4,232	2,189	93.3
Total Income	8,142	6,629	22.8	7,654	6.4	23,121	18,448	25.3
Expenses								
Fees and Commission Expenses	5	6	(26.2)	4	18.4	18	31	(40.9)
Employee Benefits Expenses	906	790	14.6	930	(2.7)	2,674	2,408	11.0
Other Expenses	711	669	6.3	686	3.6	2,010	1,746	15.1
Total Operating Expenses	1,621	1,465	10.7	1,620	0.1	4,702	4,185	12.4
EBITDA	6,521	5,165	26.3	6,034	8.1	18,419	14,263	29.1
Depreciation, Amortisation and Impairment	131	134	(2.1)	130	0.8	390	401	(2.8)
Finance Costs	22	24	(9.6)	23	(4.8)	68	73	(7.5)
Profit Before Tax	6,368	5,007	27.2	5,881	8.3	17,962	13,788	30.3
Tax Expense								
Current Tax	1,373	1,146	19.8	1,294	6.1	3,949	3,157	25.1
Deferred Tax Charge/(Credit)	116	167	(30.3)	222	(47.6)	(6)	154	(103.6)
Total Tax Expense	1,489	1,313	13.4	1,516	(1.8)	3,943	3,311	19.1
Profit After Tax	4,879	3,694	32.1	4,365	11.8	14,019	10,477	33.8

Source: Company, BOBCAPS Research

Fig 8 – Key performance indicators

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
AUM (Rs bn)								
QAAUM	5,515	4,448	24.0	5,247	5.1	5,515	4,448	24.0
Actively Managed Equity-oriented QAAUM	3,166	2,269	39.5	2,861	10.7	3,166	2,269	39.5
Debt - QAAUM	1,353	1,166	16.0	1,369	(1.2)	1,353	1,166	16.0
Liquid - QAAUM	625	760	(17.8)	686	(8.9)	625	760	(17.8)
Market share (%)								
QAAUM	11.2	11.0	20bps	11.3	(10bps)	11.2	11.0	20bps
Actively managed equity-oriented - QAAUM	12.6	11.7	90bps	12.1	50bps	12.6	11.7	90bps
Debt - QAAUM	13.2	13.5	(30bps)	13.2	0bps	13.2	13.5	(30bps)
Liquid - QAAUM	11.5	13.7	(220bps)	13.7	(220bps)	11.5	13.7	(220bps)
Others								
Number of Live Individual Accounts (mn)	14.8	10.7	38.2	13.5	9.5	14.8	10.7	38.2
Individual MAAUM (Rs bn)	3,808	3,014	26.3	3,680	3.5	3,808	3,014	26.3
Unique Investors (mn)	8.7	6.3	38.1	7.9	10.1	8.7	6.3	38.1
Systematic Transactions (Rs bn)	26.3	15.7	67.5	22.4	17.4	67.6	42.8	57.9
SIP AUM (Rs bn)	1,288	848	51.9	1,111	15.9	1,288	848	51.9
B-30 share in AUM (%)	18.8	17.6	120bps	18.2	60bps	18.8	17.6	120bps

Source: Company, BOBCAPS Research

Fig 9 – Margin indicators

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
EBITDA margin (%)	80.1	77.9	218bps	78.8	126bps	79.7	77.3	235bps
Net margin (%)	59.9	55.7	421bps	57.0	289bps	60.6	56.8	384bps
Revenue yield on QAAUM (bps)	49	50	(2bps)	49	(0bps)	46	49	(3bps)

Source: BOBCAPS Research

Earnings call takeaways

Industry highlights

- Industry QAAUM grew 22% YoY to Rs 49tn at end-Q3FY24, with 30% growth in equity-oriented funds to Rs 25.9tn. SIP AUM reached Rs 10tn which means that close to 40% of equity and equity-oriented AUM is now contributed through systematic plans.
- Net flows into equity-oriented funds amounted to Rs 733bn at end-Q3FY24. Industry SIP flows stood at Rs 176bn in Dec'23 compared to Rs 136bn in Dec'22.
- QAAUM of debt funds increased to Rs 10.2tn in Q3FY24, up from Rs 8.6tn in Q3FY23.
- The share of B30 cities in overall MAAUM and equity MAAUM remained steady at 18% and 27% respectively at end-Nov'23, per available data.

Business highlights

- HDFC AMC's revenue from asset management operations grew at a strong 20% YoY to Rs 6.7bn in Q3FY24. Owing to MTM gains, other income increased 38% YoY and 17% QoQ to Rs 1.4bn.
- Employee expenses rose 15% YoY to Rs 906mn and other expenses were up 6% to Rs 711mn.
- PAT grew 32% YoY to Rs 4.9bn on revenue of Rs 8.1bn (+23% YoY) and operating profit margin stood at 35bps of AUM.
- The effective tax rate was low at 23.8% for Q3 primarily due to a decrease in deferred tax charge for the quarter, mainly attributed to the holding period of certain investments transitioning from short to long term.
- The ratio of equity-oriented and non-equity oriented QAAUM was 61:39 at end-Q3FY24, compared to the industry ratio of 53:47. HDFC AMC's actively managed equity QAAUM market share was at 12.6% and overall market share at 11.2%.
- As of Nov'23, 70% of the company's total MAAUM was contributed by individual investors as compared to 59.2% for the industry.
- Live accounts totalled 14.8mn as of December and unique customers clocked in at 8.7mn out of 42mn for the industry, giving the company 21% market share.

Distribution

- Parent HDFC Bank is actively selling all of HDFC AMC's products, though its share in generating equity AUM fell from 8.4% in Q3FY23 to 7.7% in Q3FY24. However, fresh equity flows originated by HDFC Bank are outpacing its growth in the company's AUM book.
- Direct plans form ~24% of the equity book and contribute in the late-20s in terms of flows.

Yields

- Equity yield stood at 63bps in Q3FY24 and debt yield at 28-29bps.
- Although absolute revenue is rising, management expects the pressure on margins to continue due to the inverse relationship between AUM and TER, as mandated by regulation. For example, AUM for the HDFC Balanced Advantage Fund has risen to Rs 730bn (18-20% of equity AUM) at end Dec'23 from Rs 510bn in Dec'22, whereas TER over this period has fallen 10bps from 1.52% to 1.42%.

Opex

- Most of the company's operating expense is linked to people cost and is office-led which makes it more fixed in nature.
- The company has a network of 253 branches at end-Q3, of which 173 are in B30 cities. It opened 24 new branches during the quarter, including 22 in B30 cities, but sees a marginal impact on opex as B30 operating costs are low.

Others

- In alternative investment funds, the company has commitments to the tune of Rs 8bn from over 300 clients that include institutions, family offices and HNIs. To build newer lines of business within AIF, it has added two senior resources on the private credit side. In PMS, the company has launched two strategies.
- Employee count has increased from 1,439 in Q2FY24 to 1,498 in Q3FY24.

Valuation methodology

HDFC AMC is one of India’s largest fund houses and enjoys considerable moats in the form of brand equity, pedigree and a large AUM base. Considering the dominance of equity in the AUM mix and an 8% PAT beat in Q3FY24, we raise our AUM estimates by 4%/5%/6% for FY24/FY25/FY26 and net profit forecasts by 5%/0%/5%.

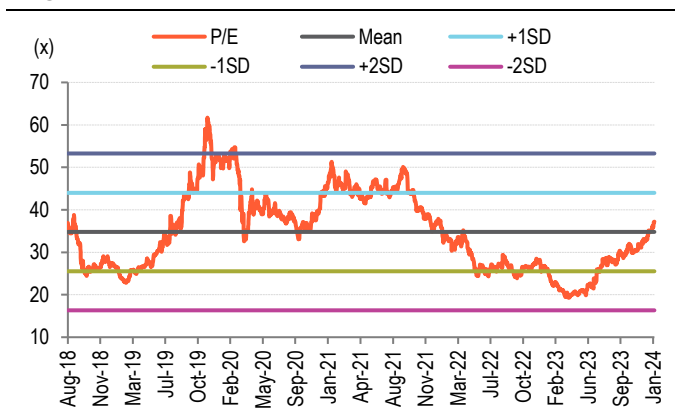
The stock is trading at 31.7x FY26E EPS. We now value it at 31x FY26E EPS (vs. 30x earlier) – a 10% discount to the long-term mean – and raise our TP to Rs 3,425 from Rs 3,150. Our multiple upgrade stems from a gradual recouping of overall market share, improved equity scheme performance and above-expected profitability. However, compression in liquid and debt AUM market share along with lower business from HDFC Bank remain concerns. Valuations too look high after a 30% stock rally since end-September vs. 10% for the index. Our TP carries 2% downside, leading us to retain HOLD.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Total Income	30,992	34,724	40,628	30,724	34,644	38,701	0.9	0.2	5.0
EBITDA	24,644	27,434	32,349	24,202	27,406	30,711	1.8	0.1	5.3
Profit After Tax (PAT)	18,510	19,980	23,571	17,698	20,013	22,408	4.6	(0.2)	5.2
AUM (Rs bn)	5,606	6,559	7,670	5,401	6,276	7,242	3.8	4.5	5.9
EBITDA Margin (%)	79.5	79.0	79.6	78.8	79.1	79.4	75bps	(10bps)	27bps
Net Margin (%)	59.7	57.5	58.0	57.6	57.8	57.9	212bps	(23bps)	12bps

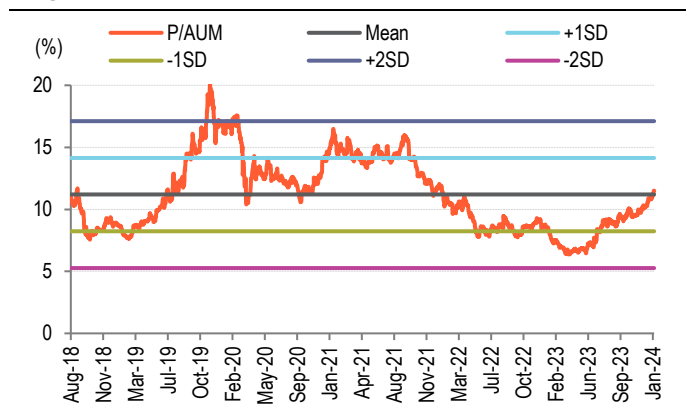
Source: BOBCAPS Research

Fig 11 – 1Y fwd P/E band



Source: Bloomberg, BOBCAPS Research

Fig 12 – 1Y fwd P/AUM band



Source: Bloomberg, BOBCAPS Research

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:** AMC's are regulated by SEBI and could be adversely impacted in case of unfavourable policy changes. For instance, if the regulator mandates a further cut in TER, yields could reduce further.
- **Covid-like disruptions:** While Covid-related lockdowns are unlikely to be unduly harsh in future, we believe that any 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	1.7	478	497	HOLD
HDFC AMC	HDFCAMC IN	9.1	3,502	3,425	HOLD
Nippon Life India AMC	NAM IN	3.8	500	513	BUY
UTI AMC	UTIAM IN	1.4	890	920	HOLD

Source: BOBCAPS Research, NSE | Price as of 11 Jan 2024

Glossary

Glossary			
AUM	Assets Under Management	MF	Mutual Fund
AAAUM	Average Annual Assets Under Management	MTM	Mark to Market
B30	Beyond the Top 30 cities	ND	National Distributor
CSR	Corporate Social Responsibility	NFO	New Fund Offer
ETF	Exchange Traded Fund	QAAUM	Quarterly Average Assets Under Management
IFA	Investment Financial Advisor	SIP	Systematic Investment Plan
MAAUM	Monthly Average Assets Under Management	TER	Total Expense Ratio
MFD	Mutual Fund Distributor		

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Investment mgmt. fees	21,154	21,668	25,595	29,498	34,833
YoY (%)	14.2	2.4	18.1	15.2	18.1
Operating expenses	5,154	5,489	6,348	7,291	8,279
Core operating profits	15,999	16,179	19,247	22,207	26,554
Core operating profits growth (%)	9.3	1.1	19.0	15.4	19.6
Depreciation and Interest	625	630	605	722	837
Core PBT	15,375	15,549	18,642	21,485	25,717
Core PBT growth (%)	9.8	1.1	19.9	15.3	19.7
Other income	3,178	3,158	5,397	5,226	5,795
PBT	18,553	18,706	24,039	26,711	31,513
PBT growth (%)	6.1	0.8	28.5	11.1	18.0
Tax	4,622	4,467	5,529	6,731	7,941
Tax rate (%)	24.9	23.9	23.0	25.2	25.2
Reported PAT	13,931	14,239	18,510	19,980	23,571

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity capital	1,066	1,067	1,067	1,067	1,067
Reserves & surplus	54,234	60,017	65,570	71,564	78,635
Net worth	55,300	61,084	66,637	72,631	79,702
Borrowings	0	0	0	0	0
Other liab. & provisions	3,503	4,281	5,799	7,283	8,806
Total liab. & equities	58,804	65,365	72,436	79,914	88,509
Cash & bank balance	55,783	60,832	68,957	76,513	84,845
Fixed & Other assets	2,714	4,229	3,479	3,401	3,663
Total assets	58,804	65,365	72,436	79,914	88,509

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	65.3	66.7	86.7	93.6	110.5
Dividend per share	42.0	48.0	60.7	65.6	77.3
Book value per share	259.2	286.3	312.3	340.4	373.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	53.6	52.5	40.4	37.4	31.7
P/BV	13.5	12.2	11.2	10.3	9.4
Dividend yield (%)	1.2	1.4	1.7	1.9	2.2

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	49.0	48.2	45.7	45.0	45.4
Operating expenses	11.9	12.2	11.3	11.1	10.8
EBITDA	42.0	42.6	34.5	37.6	35.8
Depreciation and Others	1.4	1.4	1.1	1.1	1.1
Core PBT	35.6	34.6	33.3	32.8	33.5
Other income	7.4	7.0	9.6	8.0	7.6
PBT	42.9	41.6	42.9	40.7	41.1
Tax	10.7	9.9	9.9	10.3	10.4
ROAAAUM	32.2	31.7	33.0	30.5	30.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Investment mgmt. fees	14.2	2.4	18.1	15.2	18.1
Core operating profit	9.3	1.1	19.0	15.4	19.6
EPS	4.9	5.1	2.2	30.0	7.9
Profitability & Return ratios (%)					
Operating income to Total inc.	86.9	87.3	82.6	84.9	85.7
Cost to Core income ratio	24.4	25.3	24.8	24.7	23.8
EBITDA margin	78.8	77.9	79.5	79.0	79.6
Core PBT margin	63.2	62.6	60.2	61.9	63.3
PBT margin (on total inc.)	76.2	75.3	77.6	76.9	77.6
ROE	27.0	24.5	29.0	28.7	30.9
Dividend payout ratio	64.3	71.9	70.0	70.0	70.0

Annual Average AUM

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
AAAUM (Rs bn)	4,321	4,498	5,606	6,559	7,670
YoY Growth (%)	4.0	4.1	24.6	17.0	17.0
% of AAAUM					
Equity	46	52	58	60	63
Debt	33	26	24	23	22
Liquid	16	16	12	11	9
Others	5	6	6	6	6

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

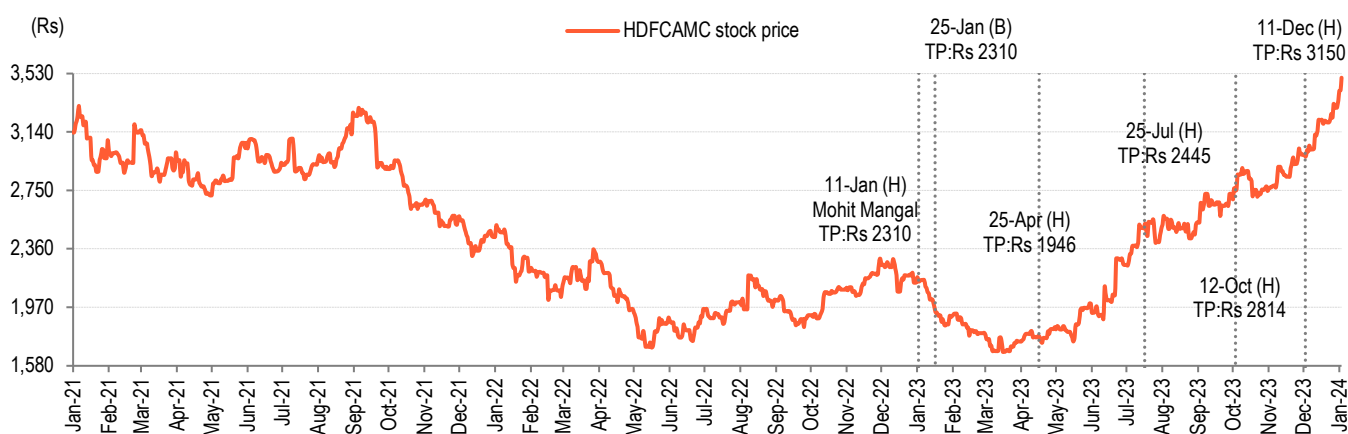
HOLD – Expected return from -6% to +15%

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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