

HOLD

TP: Rs 3,675 | ▼ 1%

HDFC AMC

| NBFC

| 20 April 2024

Another robust quarter but rich valuation caps upside

- Higher equity share drove strong overall QAAUM growth of 36% YoY in FY24; expansion in equity QAAUM market share a key positive
- PAT grew 44% YoY in Q4 on a solid topline base (+34% YoY); return ratios expand
- TP raised to Rs 3,675 (from Rs 3,425) on a higher target P/E of 33x (vs. 31x); retain HOLD

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Above estimates: HDFC AMC's QAAUM grew 36% YoY to Rs 6.1tn at end FY24 (vs. our estimate of Rs 5.6tn) with the equity segment growing at an even higher 58% YoY. SIP AUM grew 63% YoY to Rs 1.4tn, constituting 37% of actively managed equity AUM. Revenue/EBITDA at Rs 8.5bn/Rs 6.9bn increased 34%/37% YoY at end Q4. Revenue included other income (MTM gains) of Rs 1.6bn. PAT grew 44% YoY to Rs 5.4bn whereas core PAT grew 38% YoY to Rs 4.2bn (vs. our estimate of Rs3.6bn). Live accounts totalled 16.6mn as of Mar'24 and unique customers clocked in at 9.6mn with a higher market share (22% vs. 18% in Mar'23). Based on Q4 print, we increase our AUM estimates by 10% each in FY25/FY26 to Rs 7.2tn/Rs 8.4tn.

Equity market share improves: HDFC AMC had an 11.3% market share in QAAUM in FY24 vs. 11.1% in FY23 and actively managed equity QAAUM share moved up to 12.8% from 12.0%. Equity constituted 63% of QAAUM at end FY24 vs. 54% in FY23. Debt QAAUM grew 16% YoY to Rs 1.4tn, with a stable market share of 13.4%. Liquid QAAUM declined 8% YoY to Rs 674bn with a market share of 11.6% (13.1% in FY23).

Yield compression not a concern: Owing to its growing AUM base, the revenue yield (calc.) declined ~2bps YoY to 47bps at end FY24, which is not a concern as absolute revenue is increasing. Operating margin was stable at 35bps.

Return ratios improve: The ROAE expanded 500bps YoY to 29.5% (+225bps YoY excluding other income) at end FY24. The payout ratio increased to 77% in FY24 (72% in FY23), an increasing trend seen over the last few years.

Maintain HOLD: The stock is trading at 33x FY26E EPS. Apart from raising AUM estimates, we value the stock at a higher 33x FY26E P/E (31x earlier) – a 5% discount to the long-term mean – translating to a revised TP of Rs 3,675 (vs. Rs 3,425). Our multiple upgrade stems from a gradual recouping of market share, improved equity scheme performance and above-expected profitability. Valuations too look high after a 16% stock rally in CY24 (YTD) vs. 2% for the index. We thus retain our HOLD rating.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HDFC AMC IN/Rs 3,708
Market cap	US\$ 9.6bn
Free float	37%
3M ADV	US\$ 22.0mn
52wk high/low	Rs 4,067/Rs 1,728
Promoter/FPI/DII	63%/8%/18%

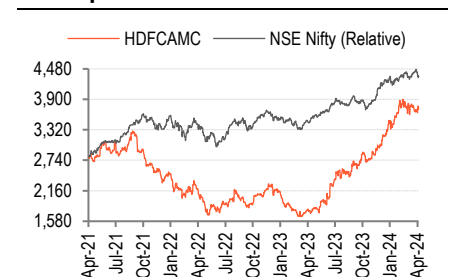
Source: NSE | Price as of 19 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Core PBT (Rs mn)	18,960	22,351	25,907
Core PBT (YoY)	21.9	17.9	15.9
Adj. net profit (Rs mn)	19,427	20,779	23,805
EPS (Rs)	90.9	97.2	111.4
Consensus EPS (Rs)	90.9	97.0	113.0
MCap/AAAUM (%)	12.9	11.0	9.4
ROAAAUM (bps)	31.7	28.8	28.3
ROE (%)	29.5	28.1	29.6
P/E (x)	40.8	38.1	33.3

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

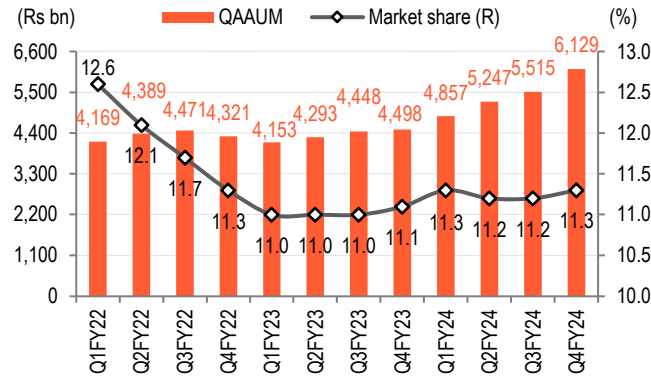
Stock performance



Source: NSE

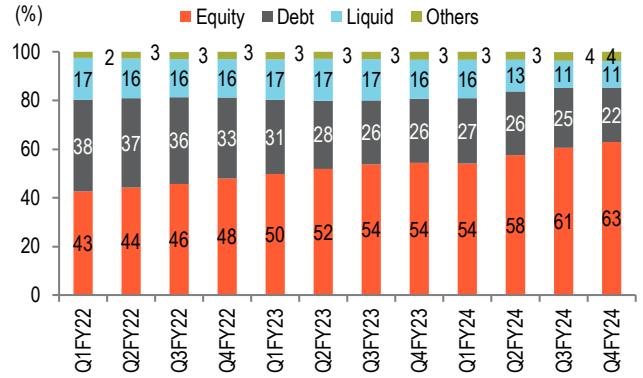


Fig 1 – Market share broadly stable in Q4FY24



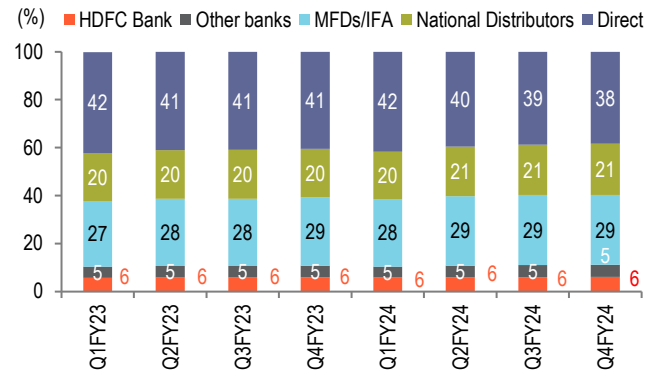
Source: Company, BOBCAPS Research

Fig 2 – Equity component increased to 63% at end-Q4



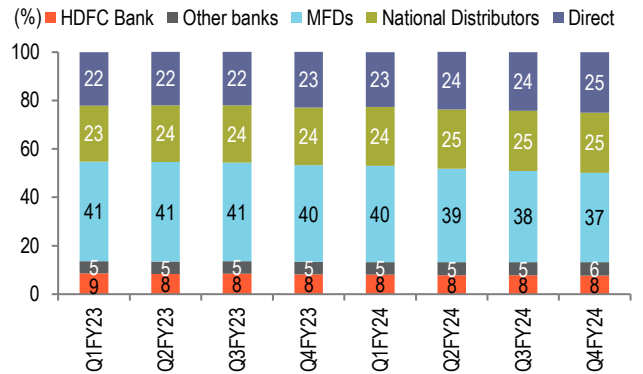
Source: Company, BOBCAPS Research / Note: AUM = QAAUM

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



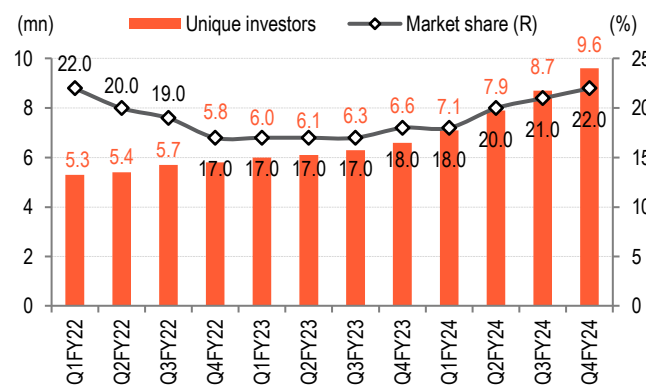
Source: Company, BOBCAPS Research | IFA: Independent Financial Advisor

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



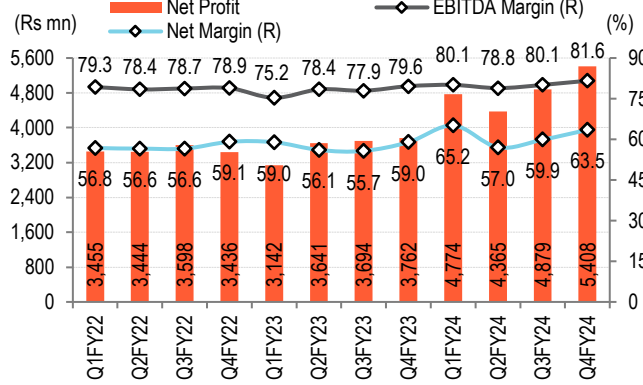
Source: Company, BOBCAPS Research

Fig 5 – Unique investor market share inching up



Source: Company, BOBCAPS Research

Fig 6 – PAT up 44% YoY in Q4



Source: Company, BOBCAPS Research

Fig 7 – Profit and Loss account

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue from Operations								
Asset Management Services	6,954	5,410	28.6	6,713	3.6	25,844	21,668	19.3
Other Income	1,558	969	60.9	1,429	9.1	5,790	3,158	83.4
Total Income	8,513	6,378	33.5	8,142	4.6	31,634	24,826	27.4
Expenses								
Fees and Commission Expenses	7	6	11.9	5	46.7	25	37	(32.6)
Employee Benefits Expenses	867	719	20.7	906	(4.2)	3,541	3,127	13.2
Other Expenses	694	580	19.7	711	(2.4)	2,704	2,326	16.3
Total Operating Expenses	1,568	1,304	20.2	1,621	(3.3)	6,270	5,489	14.2
EBITDA	6,945	5,074	36.9	6,521	6.5	25,364	19,336	31.2
Depreciation, Amortisation and Impairment	133	133	0.7	131	1.9	523	533	(1.9)
Finance Costs	23	24	(2.5)	22	7.4	91	97	(6.2)
Profit Before Tax	6,788	4,918	38.0	6,368	6.6	24,750	18,706	32.3
Tax Expense								
Current Tax	1,227	1,055	16.2	1,373	(10.6)	5,175	4,213	22.9
Deferred Tax Charge/(Credit)	153	101	52.6	116	31.9	148	254	(41.8)
Total Tax Expense	1,380	1,156	19.4	1,489	(7.3)	5,323	4,467	19.2
Profit After Tax	5,408	3,762	43.8	4,879	10.8	19,427	14,239	36.4

Source: Company, BOBCAPS Research

Fig 8 – Key performance indicators

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
AUM (Rs bn)								
QAAUM	6,129	4,498	36.3	5,515	11.1	6,129	4,498	36.3
Actively Managed Equity-oriented QAAUM	3,650	2,317	57.5	3,166	15.3	3,650	2,317	57.5
Debt – QAAUM	1,368	1,179	16.0	1,353	1.1	1,368	1,179	16.0
Liquid – QAAUM	674	730	(7.7)	625	7.8	674	730	(7.7)
Market share (%)								
QAAUM	11.3	11.1	20bps	11.2	10bps	11.3	11.1	20bps
Actively managed equity-oriented – QAAUM	12.8	12.0	80bps	12.6	20bps	12.8	12.0	80bps
Debt – QAAUM	13.4	13.3	10bps	13.2	20bps	13.4	13.3	10bps
Liquid – QAAUM	11.6	13.1	(150bps)	11.5	10bps	11.6	13.1	(150bps)
Others								
Number of Live Individual Accounts (mn)	16.6	11.3	47.3	14.8	12.5	16.6	11.3	47.3
Individual MAAUM (Rs bn)	4,415	2,992	47.6	4,070	8.5	4,415	2,992	47.6
Unique Investors (mn)	9.6	6.6	45.5	8.7	10.3	9.6	6.6	45.5
Systematic Transactions (Rs bn)	29.3	17.1	71.3	26.3	11.4	96.9	59.9	61.8
SIP AUM (Rs bn)	1,398	859	62.7	1,288	8.5	1,398	859	62.7
B-30 share in AUM (%)	19.1	17.8	130bps	18.8	30bps	19.1	17.8	130bps

Source: Company, BOBCAPS Research

Fig 9 – Margin indicators

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
EBITDA margin (%)	81.6	79.6	203bps	80.1	149bps	80.2	77.9	229bps
Net margin (%)	63.5	59.0	455bps	59.9	361bps	61.4	57.4	405bps
Revenue yield (bps)	45.4	48.1	(3bps)	48.7	(3bps)	47.4	49.7	(2bps)

Source: BOBCAPS Research

Earnings call takeaways

Key highlights

- Industry QAAUM grew 34% YoY to Rs 54.1tn at end FY24, with 48% growth in equity-oriented funds to Rs 29.4tn. SIP AUM reached Rs 10.7tn which means that 35%+ of equity and equity-oriented AUM is now contributed through systematic plans. Equity net flows grew from Rs 1.8tn in FY23 to Rs 2.6tn in FY24.
- HDFC AMC's QAAUM (quarterly average assets under management) grew 36% YoY to Rs 6.1tn of which equity QAAUM (63% of the total) grew 58% YoY to Rs 3.9tn. The actively-managed equity QAAUM too grew 58% YoY to Rs 3.7tn.
- HDFC AMC's revenue from asset management operations grew at a strong 29% YoY to Rs 6.9bn in Q4FY24. Owing to MTM gains, other income increased 61% YoY and 9% QoQ to Rs 1.6bn. Employee costs increased 21% YoY to Rs 867mn, while other costs increased 20% to Rs 694mn. The operating profit margin was stable at 35bps of AUM. With core PAT rising 38% YoY to Rs 4.2bn, PAT increased 44% YoY to Rs 5.4bn.
- HDFC AMC's revenue from operations grew 19% YoY to Rs25.8bn whereas PAT grew 36% YoY to Rs19.4bn at end FY24.
- The ratio of equity-oriented and non-equity oriented QAAUM was 63:37 at end-FY24, compared to the industry ratio of 54:46. HDFC AMC's actively managed equity QAAUM market share was at 12.8% and overall market share at 11.3%.
- Live accounts totalled 16.6mn as of Mar'24 and unique customers clocked in at 9.6mn out of 44.6mn for the industry, giving the company a 22% market share.
- HDFC AMC announced a dividend of Rs 70 per share for FY24 with a dividend payout ratio of 77%.
- The company will launch a manufacturing fund in the last week of April and is also exploring the possibility of launching themed funds in the future.

Yields

- There has been one offs that led to yield compression. Underestimation of commissions led to the reversal of expense ratios as on 31 Mar. However, it increased subsequently with effect from 1 Apr. For example, the Small Cap Fund's direct planned total expense ratio (TER) decreased from 72bps on 31 Dec 2023 to 58bps on 31 Mar 2024, and subsequently increased to 63bps on 1 Apr 2024. In the case of Hybrid Debt Fund, direct planned TER decreased to 119bps on 31 Mar 2024 from 127bps on 31 Dec 2023, and subsequently increased to 124bps on 1 Apr.
- Yield compression is due to telescopic pricing of AUM. For example, the Balanced Advantage Fund's AUM increased to Rs800bn, from Rs520bn, resulting in a TER reduction of 13bps.
- Management fees on equity stand at 59bps for equity, 27-28bps for debt and 12-13bps for liquid as of 1 Apr 2024.

- The equity flow margin is 50-60bps, lower than the book margin of 59bps.

Distribution

- The company is actively seeking higher collaboration with the parent HDFC Bank, though its share in generating equity AUM fell to 7.6% in FY24 from 8.1% in FY23. However, HDFC Bank's flow share is higher than the book.
- Direct plans form ~25% of the equity book.

Opex

- Operating expenses was 12bps of AAUM in FY24, down from 14bps in FY23. However, the company is not shy of investment. It opened 24 branches whereas employee count increased by 228 to 1,509 in FY24. The recruitment was largely due to sales people on the ground as part of the expansion plan. In addition, the company has been building capacities in alternatives, technology and digital and client services.

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. Some of the key points to highlight are:

- AUM growth solid:** The #3 player in the industry (based on overall AUM) registered 36% YoY growth in AUM at end FY24 to Rs6.1tn (vs. our estimate of Rs5.6tn) driven by healthy flows and MTM gains. The equity AUM has grown higher with 58% YoY growth and maintained its #2 position in this category. The market share based on overall AUM grew 20bps YoY whereas it grew 80 bps YoY in equity terms at end FY24. However, there was 150bps YoY compression in the market share in the liquid AUM category.
- Revenue growth strong:** The total revenue grew 27% YoY to Rs 31.6bn at end FY24 whereas the core revenue increased 19% YoY. PAT grew 36% YoY to Rs 19.4bn whereas the core PAT increased 26% YoY. Even in Q4, the core PAT grew 38% YoY.
- Return ratios expand:** ROAE expanded 500bps YoY to 29.4% at end FY24. Even on core PAT (excluding other income) the ROAE expanded 225bps YoY.

The company's results exceeded our estimates for Q4. Thus, we raise our AUM estimates by 10% each for FY25/FY26 and net profit forecasts by 4%/1%.

The company is trading at 33x FY26E EPS. Baking in the Q4 print, we now value the stock higher at 33x FY26E EPS (31x earlier) – a 5% discount to the long-term mean – and raise our TP to Rs 3,675 from Rs 3,425.

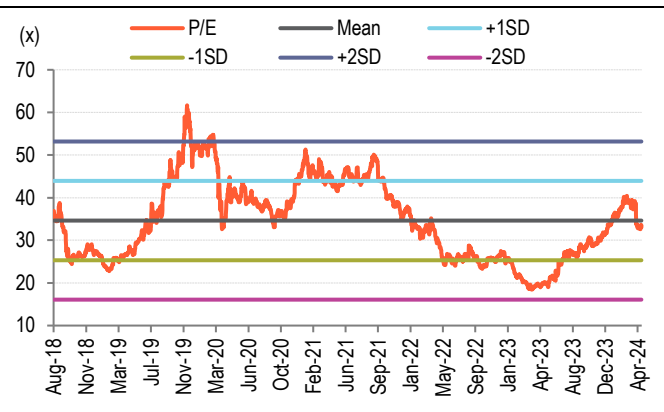
Our multiple upgrade stems from a gradual recouping of market share, new scheme launches, improved equity scheme performance and above-expected profitability. We believe the company can improve its share of business from HDFC Bank and replicate the increase in equity segment market share into the debt and liquid segments. Valuations too look high after a 16% stock rally in CY24 (YTD) vs. 2% for the index. Our TP carries 1% downside, leading us to retain HOLD.

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Total Income	35,908	40,935	34,724	40,628	3.4	0.8
EBITDA	28,483	32,634	27,434	32,349	3.8	0.9
Profit After Tax (PAT)	20,779	23,805	19,980	23,571	4.0	1.0
AUM	7,219	8,406	6,559	7,670	10.1	9.6
EBITDA Margin (%)	79.3	79.7	79.0	79.6	32bps	10bps
Net Margin (%)	57.9	58.2	57.5	58.0	33bps	14bps

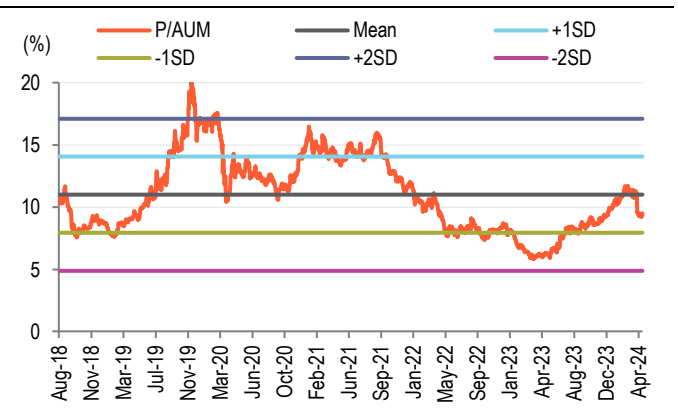
Source: BOBCAPS Research

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:** AMCs are regulated by the Securities and Exchange Board of India 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	1.8	504	500	HOLD
HDFC AMC	HDFCAMC IN	9.6	3,708	3,675	HOLD
Nippon Life India AMC	NAM IN	4.3	561	580	HOLD
UTI AMC	UTIAM IN	1.4	900	909	HOLD

Source: BOBCAPS Research, NSE | Price as of 19 Apr 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	FY24P	FY25E	FY26E
Investment mgmt. fees	21,154	21,668	25,844	30,480	35,016
YoY (%)	14.2	2.4	19.3	17.9	14.9
Operating expenses	5,154	5,489	6,270	7,425	8,301
Core operating profits	15,999	16,179	19,574	23,055	26,716
Core operating profits growth (%)	9.3	1.1	21.0	17.8	15.9
Depreciation and Interest	625	630	614	703	809
Core PBT	15,375	15,549	18,960	22,351	25,907
Core PBT growth (%)	9.8	1.1	21.9	17.9	15.9
Other income	3,178	3,158	5,790	5,429	5,919
PBT	18,553	18,706	24,750	27,780	31,825
PBT growth (%)	6.1	0.8	32.3	12.2	14.6
Tax	4,622	4,467	5,323	7,001	8,020
Tax rate (%)	24.9	23.9	21.5	25.2	25.2
Reported PAT	13,931	14,239	19,427	20,779	23,805

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Equity capital	1,066	1,067	1,067	1,067	1,067
Reserves & surplus	54,234	60,017	69,683	75,917	83,058
Net worth	55,300	61,084	70,750	76,984	84,125
Borrowings	0	0	0	0	0
Other liab. & provisions	3,503	4,281	4,788	6,484	7,817
Total liab. & equities	58,804	65,365	75,539	83,467	91,942
Cash & bank balance	55,783	60,832	71,961	79,756	88,008
Fixed & Other assets	2,714	4,229	3,267	3,711	3,934
Total assets	58,804	65,365	75,539	83,467	91,942

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
EPS	65.3	66.7	90.9	97.2	111.4
Dividend per share	42.0	48.0	70.0	68.1	78.1
Book value per share	259.2	286.3	331.0	360.2	393.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
P/E	56.8	55.6	40.8	38.1	33.3
P/BV	14.3	13.0	11.2	10.3	9.4
Dividend yield (%)	1.1	1.3	1.9	1.8	2.1

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY22A	FY23A	FY24P	FY25E	FY26E
Operating income	49.0	48.2	42.2	42.2	41.7
Operating expenses	11.9	12.2	10.2	10.3	9.9
EBITDA	42.0	42.6	31.5	35.1	33.9
Depreciation and Others	1.4	1.4	1.0	1.0	1.0
Core PBT	35.6	34.6	30.9	31.0	30.8
Other income	7.4	7.0	9.4	7.5	7.0
PBT	42.9	41.6	40.4	38.5	37.9
Tax	10.7	9.9	8.7	9.7	9.5
ROAAAUM	32.2	31.7	31.7	28.8	28.3

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Investment mgmt. fees	14.2	2.4	19.3	17.9	14.9
Core operating profit	9.3	1.1	21.0	17.8	15.9
EPS	4.9	5.1	2.2	36.2	7.0
Profitability & Return ratios (%)					
Operating income to Total inc.	86.9	87.3	81.7	84.9	85.5
Cost to Core income ratio	24.4	25.3	24.3	24.4	23.7
EBITDA margin	78.8	77.9	80.2	79.3	79.7
Core PBT margin	63.2	62.6	59.9	62.2	63.3
PBT margin (on total inc.)	76.2	75.3	78.2	77.4	77.7
ROE	27.0	24.5	29.5	28.1	29.6
Dividend payout ratio	64.3	71.9	77.0	70.0	70.0

Annual Average AUM

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
AAAUM (Rs bn)	4,321	4,498	6,129	7,219	8,406
YoY Growth (%)	4.0	4.1	36.3	17.8	16.4
% of AAAUM					
Equity	46	52	60	62	64
Debt	33	26	22	21	20
Liquid	16	16	11	10	9
Others	5	6	7	8	8

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

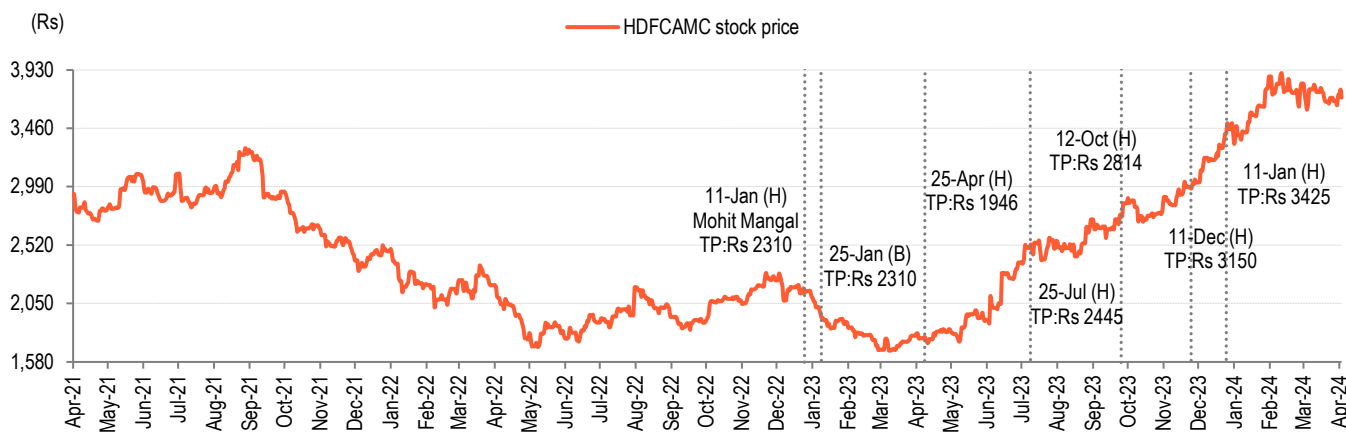
HOLD – Expected return from -6% to +15%

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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