

Steady operational performance; positives priced in

HDFC AMC reported a healthy set of numbers with traction in AUM and profitability. AUM growth came in at 12% YoY to ₹ 368900 crore, at a lower pace compared to the previous run rate, attributable to redemption from equity asset base. Share of equity asset in AUM was at 46.4% with non-equity at 53.6%. SIP inflow witnessed a marginal dip at ₹ 1220 crore in Q3FY20 compared to ₹ 1280 crore in Q2FY20.

The operational performance came in healthy in the quarter. Revenue from operation came in at ₹ 525 crore, up 10% YoY; with revenue yield reported at 57 bps. Other income came in healthy at ₹ 67 crore. Accordingly, total revenue was at ₹ 592 crore, up 11% YoY. Expenditure was contained at ~₹ 126 crore with employee expense of ₹ 57 crore. Accordingly, expense to AUM remained steady at 14 bps in Q3FY20 vs. 13 bps in Q2FY20. The company decided to shift to the lower tax regime. Accordingly, earnings saw 45% YoY growth to ₹ 353 crore.

Proportion of AUM from Direct channel has been on the rise with improvement of ~150 bps YoY to 41.7% in total AUM and ~90 bps to 18.6% in equity oriented AUM. HDFC AMC continued to hold unrecognised loss worth ~₹ 25 crore for NCD of Essel group.

Focus on B 30 region, future trajectory of SIP flow to be seen

HDFC AMC has been able to build a strong brand franchise due to strong parentage and consistent returns in the past with top funds witnessing continuous flows. The company has been focussing on B30 cities to garner higher market share, which is at 12.6%, second largest among peers. Going ahead, the company will focus on B30 cities with higher branch presence (144 in B30 cities out of 220). Healthy SIP flow led to increase in proportion of equity oriented AUM and garnered superior yield. In Q3FY20, a dip was seen in SIP flow. The trajectory of the same has to be seen ahead.

Valuation & Outlook

Migration to financial savings, strong distribution and consistent performance are expected to enable healthy AUM growth & maintain leadership. Strong operating efficiency and higher proportion of equity AUM would aid profitability. Focus on B30 cities would remain a catalyst to garner sustainable growth in individual AUM. Overall, the business franchise continues to remain strong with substantial market share and a strong operational performance. Given HDFC AMC's strong positioning and superior earnings profile, the business deserves a premium valuation. At the current price, the positives seems to be priced in. Therefore, we maintain our target price of ₹ 3040 per share with a **HOLD** rating on the stock.



Particulars	Amount
Market Capitalisation	₹ 67871 crore
AUM (Q3FY20)	₹ 368900 crore
Equity AUM (Q2FY20)	₹ 169400 crore
Networth (Q3FY20)	₹ 3413 crore
52 week H/L	3140/1302
Face Value	₹ 5
DII Holding (%)	0.91
FII Holding (%)	8.14

Key Highlights

- Operational performance continued to remain healthy
- Traction in SIP flow witnessed a dip at ₹ 1220 crore
- Maintain HOLD with unchanged target price of ₹ 3040 per share

Source: ICICI Direct Research, Company

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Key Financial Summary

	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenue from operation (₹ crore)	1757	1915	2110	2383	2693	12%
PBT (₹ crore)	1058	1375	1785	2015	2275	18%
Net Profit (₹ crore)	711	931	1357	1531	1729	23%
EPS (₹)	34.5	43.9	64.0	72.2	81.5	
P/E (x)	92.1	72.5	49.7	44.1	39.0	
AUM /share (₹)	14232	15754	18059	20751	23865	
P/AUM (%)	22.3	20.2	17.6	15.3	13.3	
DPS (₹)	16.0	24.0	38.4	43.3	48.9	
RoE (%)	32.9	30.3	37.5	36.2	35.2	

Exhibit 1: Variance Analysis

	Q3FY20	Q3FY20E	Q3FY19 YoY (%)	Q2FY20	QoQ (%)	Comments
Revenue from operation	524.7	518.4	477.1 10.0	498.0	5.4	
Revenue/AUM	0.57%	0.53%	0.58% 12 bps	0.54%	3 bps	Sequential improvement of equity assets in AUM led to improvement in yields by 3 bps QoQ
Other Income	67.3	54.2	55.9 20.4	51.1	31.7	
Net Total Income	592.0	572.6	532.9 11.1	549.1	7.8	
Staff cost	57.1	61.3	50.5 12.9	57.8	-1.3	
Other Operating Expenses	68.9	66.8	114.1 -39.6	63.7	8.2	
Total Expense	126.0	128.1	164.6 -23.5	121.5	3.6	
PBT	466.0	444.4	368.3 26.5	427.5	9.0	PBT as percentage of closing AUM remained steady at ~51 bps
Tax Outgo	113.5	113.3	125.0 -9.2	59.3	91.4	
PAT	352.6	331.1	243.3 44.9	368.2	-4.3	
Total AUM	368,900	388,338	329,100 12.1	366,200	0.7	AUM growth contracted QoQ led by higher redemptions and slow growth of SIP book. Overall market share in AUM was at 14.3%

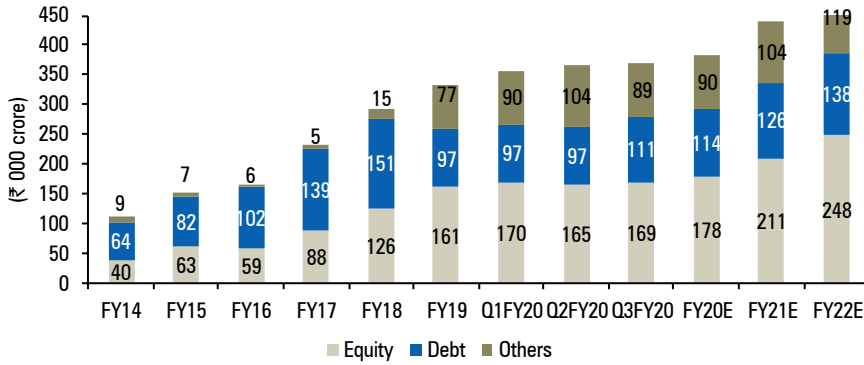
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			FY22E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue from Operation	2,114	2,110	-0.2	2,407	2,383	-1.0	2,693
PBT	1,751.2	1,785.1	1.9	2,001.7	2,014.8	0.7	2,275.0
Revenue/AUM	0.54	0.53	0 bps	0.53	0.52	0 bps	0.51
PAT	1,304.7	1,356.7	4.0	1,491.3	1,531.3	2.7	1,729.0
EPS(₹)	61.5	64.0	4.0	70.3	72.2	2.7	81.5

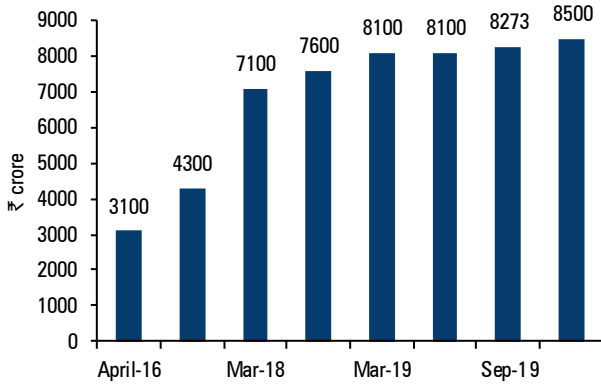
Source: Company, ICICI Direct Research

Exhibit 3: HDFC AMC growth remains healthy relative to industry



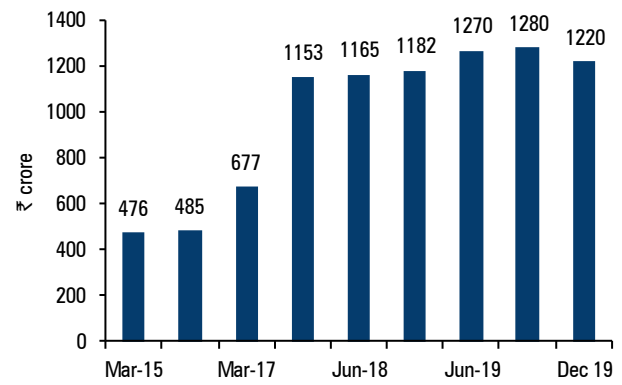
Source: Company, ICICI Direct Research

Exhibit 4: Stable industry SIP flows (monthly)



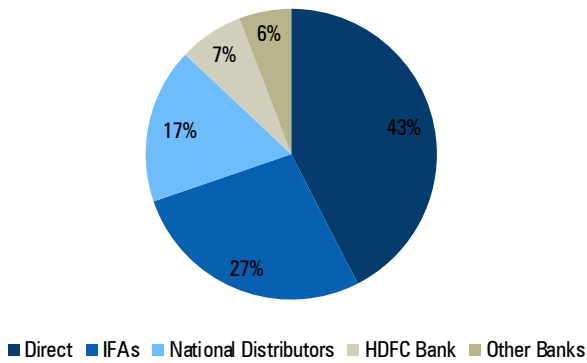
Source: AMFI, ICICI Direct Research, *- Monthly flows and not annualised

Exhibit 5: HDFC witnesses marginal dip in SIP



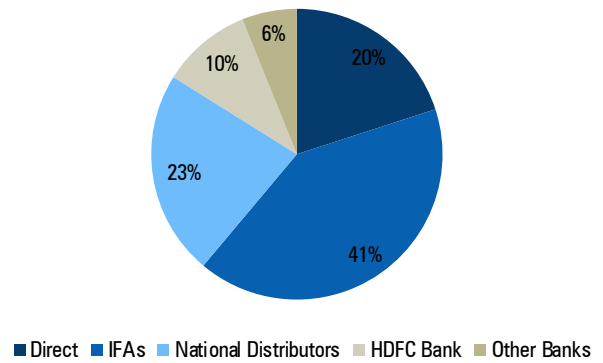
Source: AMFI, ICICI Direct Research, *- Monthly flows and not annualised

Exhibit 6: Distribution channel (total AUM) (Q3FY20)



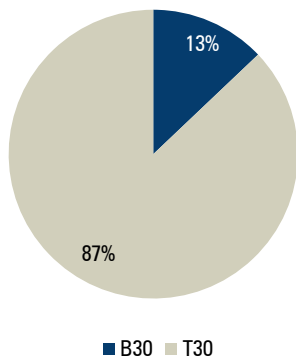
Source: Company, ICICI Direct Research

Exhibit 7: Distribution channel (equity AUM) (Q3FY20)



Source: Company, ICICI Direct Research

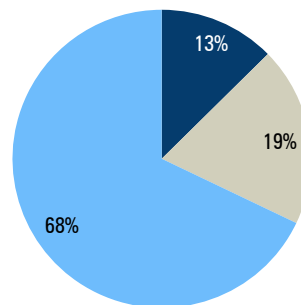
Exhibit 8: B30 AUM as percentage of total AUM



■ B30 ■ T30

Source: Company, ICICI Direct Research

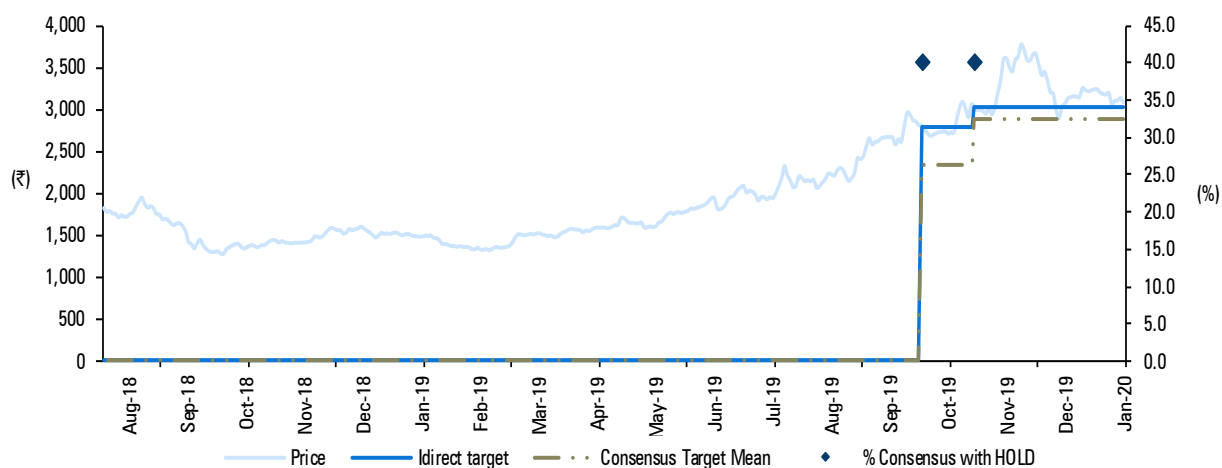
Exhibit 9: Second largest AMC in B30 by market share



■ HDFC AMC ■ SBI ■ Other AMC

Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	HOUSING DEVELOPMENT	30-Jun-19	52.76	112.2	0.0
2	STANDARD LIFE ABERDE	5-Dec-19	26.91	57.2	-6.4
3	CAPITAL GROUP COMPAN	31-Dec-19	0.80	1.7	-2.1
4	BLACKROCK	16-Jan-20	0.60	1.3	0.0
5	VANGUARD GROUP	31-Dec-19	0.60	1.3	0.2
6	KKR INDIA FINANCIAL	13-Jul-18	0.59	1.3	0.0
7	Barve Milind	13-Jul-18	0.49	1.0	1.0
8	JAIN PRASHANT	13-Jul-18	0.42	0.9	0.9
9	WILLIAM BLAIR	30-Nov-19	0.31	0.7	0.2
10	TATA ASSET MANAGEMEN	31-Dec-19	0.20	0.4	0.4

Source: Bloomberg, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	82.77	82.72	82.71	82.70	79.67
FII	3.90	4.17	4.73	5.78	8.14
DII	2.20	2.21	2.27	1.68	0.91
Others	11.13	10.90	10.29	9.84	11.28

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 13: Profit & Loss Statement

(₹ crores)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenue from Operations	1,480.0	1,756.8	1,915.2	2,110.4	2,383.2	2,693.1
Growth (%)	2.6%	18.7%	9.0%	10.2%	12.9%	13.0%
Other Income	107.9	113.0	181.6	206.9	216.9	226.9
Total Revenue	1,587.9	1,869.8	2,096.8	2,317.3	2,600.1	2,919.9
Employee Benefit Expenses	157.6	186.1	206.3	229.5	250.2	272.7
Depreciation & Amortization Expense	12.0	9.4	12.9	50.0	50.0	50.0
Other Expenses (incl fees)	618.4	616.1	503.0	252.7	285.1	322.2
Total Expenses	787.9	811.5	722.1	532.2	585.3	644.9
Profit Before Tax	800.0	1,058.2	1,374.7	1,785.1	2,014.8	2,275.0
Taxes	249.5	346.9	444.1	428.4	483.6	546.0
Profit After Tax	550.4	711.3	930.6	1,356.7	1,531.3	1,729.0
EPS (₹)	27.1	34.5	43.9	64.0	72.2	81.5

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet

(₹ crores)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Sources of Funds						
Share capital	25.2	105.3	106.3	106.3	106.3	106.3
Reserves and surplus	1397.8	2054.7	2964.4	3507.1	4119.6	4811.2
Total Shareholders funds	1422.9	2160.0	3070.7	3613.4	4225.9	4917.5
Total Non-Current Liabilities						
	0.8	0.8	4.6	5.1	5.6	6.1
Total Current Liabilities						
	175.9	209.9	148.4	163.3	179.6	197.5
Total	1599.6	2370.6	3223.8	3781.7	4411.1	5121.2
Applications of Funds						
Property, plant and equipment	22.6	24.6	25.6	27.1	28.6	30.1
Intangible assets	8.5	8.2	14.1	14.1	15.1	16.1
Intangible asset under development	0.0	6.0	3.2	3.2	3.2	3.2
Investments*	168.8	639.5	2935.0	3301.3	3714.7	4181.5
Long term loans and advances	71.4	61.7	47.9	47.9	47.9	47.9
Deferred tax assets (net)	9.4	9.7	0.0	0.0	0.0	0.0
Total Current Assets and Others	1318.8	1620.9	198.0	388.2	601.6	842.3
Total Assets	1599.6	2370.6	3223.8	3781.7	4411.1	5121.2

Source: Company, ICICI Direct Research

Exhibit 15: Key Ratios

	FY17	FY18	FY19	FY20E	FY21E	FY22E
Valuation						
No of Equity shares (crore)	20.3	20.6	21.2	21.2	21.2	21.2
EPS	27.1	34.5	43.9	64.0	72.2	81.5
DPS	46.0	16.0	24.0	38.4	43.3	48.9
BVPS	69.9	104.8	144.8	170.3	199.2	231.8
P/E	117.6	92.1	72.5	49.7	44.1	39.0
P/BV	45.5	30.3	22.0	18.7	16.0	13.7
Operating Ratios (%)						
Rev/AUM	0.6	0.6	0.6	0.5	0.5	0.5
EBITDA/AUM	0.3	0.3	0.3	0.4	0.4	0.4
PAT/AUM	0.2	0.2	0.3	0.3	0.3	0.3
Return Ratios (%)						
RoNW	38.7%	32.9%	30.3%	37.5%	36.2%	35.2%
NAV per equity share	34.4%	30.0%	28.9%	35.9%	34.7%	33.8%

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
LIC Housing Finance (LICHF)	470	440	Hold	23,737	46.2	54.0	63.6	10.2	8.7	7.4	1.7	1.4	1.2	1.3	1.3	1.3	16.3	15.9	16.2
HDFC (HDFC)	2,477	2,200	Hold	428,253	57.5	73.6	75.8	43.1	33.7	32.7	6.8	6.2	5.8	2.3	2.6	2.3	16.4	19.2	18.3
Bajaj Finserv (BAFINS)	9,607	8,800	Hold	152,882	196.9	286.7	358.8	48.8	33.5	26.8	6.4	5.4	4.5	1.6	1.8	1.9	14.1	17.5	18.3
Bajaj Finance (BAJFI)	4,146	4,350	Hold	249,451	69.3	96.7	119.7	59.8	42.9	34.6	13.2	7.7	6.7	3.6	3.9	3.7	22.4	21.7	19.4
Mahindra & Mahindra Finar	353	425	Buy	21,832	25.3	28.6	37.8	14.0	12.3	9.4	2.8	2.8	2.2	2.6	2.5	2.9	15.2	14.9	16.7
HDFC AMC (HDFAMC)	3,020	3,040	Hold	64,000	43.9	64.0	72.2	68.8	47.2	41.8	20.9	17.7	15.2	0.3	0.4	0.3	30.3	37.5	36.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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