

Volatile earnings priced in; preferred business model

HDFC AMC reported weak earnings with an uncertain outlook. Regressive AUM growth, amid Covid-19, arrested topline growth. Unrecognised NCD loss from Essel group worth ₹ 95 crore impacted other income and earnings.

Industry AUM declined to ₹ 22.3 lakh crore as of March 2020 vs. ₹ 26.5 lakh crore as of December 2019. Equity segment saw a decline of ~24% QoQ to ₹ 8.3 lakh crore, led by correction in markets, debt & liquid schemes saw ~7%, ~11% QoQ decline in AUM due to outflows during the quarter. SIP flows continued to remain consistent at ₹ 8600 crore in Q4FY20.

AUM growth slumped 7.2% YoY to ~₹ 3.2 lakh crore, led by broad based market correction. Steep correction in equity markets, higher AUM in midcap, small cap schemes led to ~29% QoQ fall to ₹ 1.2 lakh crore in equity AUM. However, HDFC AMC fared well on debt AUM remaining steady at ₹ 1.9 lakh crore despite industry witnessing outflows. This led to a decline in proportion of equity AUM at 38.3% in Q4FY20 vs. 48.1% in Q4FY19.

The company continued to maintain its overall leadership in individual asset with market share of 15%. Post continued increase in SIP from March 2014 to September 2019 reaching ~₹ 1200 crore, HDFC AMC saw a moderation in SIP at ₹ 1130 crore in March 2020.

Correction in equity market and increase in proportion of liquid funds (low fees generating) led to ~9% QoQ decline in revenue to ₹ 476 crore. Led by decline in AUM owing to correction in the end of the quarter, yield optically looks to increase ~3 bps QoQ to ~60 bps. Impairment of ₹ 95 crore related to exposure to Essel group NCD impacted topline. Accordingly, PAT declined 29% QoQ to ₹ 250 crore i.e. ~31 bps of closing AUM. Excluding non-recurring impairment, PAT would have been at ₹ 321 crore i.e. ~40 bps.

Valuation & Outlook

A steep correction in equity markets has impacted both AUM and earnings momentum. Near term outlook remains uncertain but structural changes, including increase in financial savings, remain positive. It is expected to maintain its leadership through healthy AUM growth. Focus on strong operating efficiency & higher proportion of equity AUM is seen aiding profitability. MTM decline led to schemes falling in low value slab, enabling higher TER cushioning declining revenue. HDFC AMC's business franchise is seen remaining strong with substantial market share of 14-15% and strong operational performance (39-40 bps). Hence, its strong positioning & superior earnings profile deserve premium valuations. Given elevated economic uncertainty, amid Covid-19, its business model is preferred involving least credit risk. Hence, we maintain our **BUY** rating on the stock with a target price of ₹ 3000 per share.



Particulars

	Amount
Market Capitalisation	₹55238 crore
AUM (Q4FY 20)	₹319100 crore
Equity AUM (Q4FY 20)	₹120000 crore
Net worth (Q4FY 20)	₹4029 crore
52 week H/L	3844/1450
Face Value	₹5
DII Holding (%)	1.4
FII Holding (%)	8

Key Highlights

- Steep correction in equities and loss from NCD exposure impacted earnings momentum
- Traction in SIP flow continued to dip at ₹ 1130 crore
- Maintain BUY with target price of ₹ 3000 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	2003	1987	2250	6%
PBT (₹crore)	1058	1375	1653	1641	1884	11%
Net Profit (₹crore)	711	931	1262	1253	1438	16%
EPS (₹)	34.5	43.9	59.2	58.8	67.5	
P/E (x)	75.3	59.3	43.9	44.2	38.5	
AUM/share (₹)	14232	15754	14976	16029	18466	
P/AUM (%)	18.3	16.5	17.4	16.2	14.1	
DPS (₹)	16.0	24.0	28.0	29.4	33.8	
RoE (%)	32.9	30.3	31.3	26.9	26.8	

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19 YoY (%)	Q3FY20	QoQ (%)	Comments	
Revenue from operation	476.1	471.4	486.5	-2.1	524.7	-9.3	Steep market correction impacted topline momentum
Revenue/AUM	0.60%	0.63%	0.57%	12 bps	0.57%	3 bps	With AUM declining at quarter end, yield looks higher
Other Income	-26.5	59.9	61.0	-143.5	67.3	-139.4	Total ₹ 95 crore MTM loss on exposure to NCD impacted other income
Net Total Income	449.6	531.3	547.5	-17.9	592.0	-24.0	
Staff cost	43.2	59.9	47.6	-9.4	57.1	-24.4	
Other Operating Expenses	76.9	72.5	85.3	-9.8	68.7	11.9	
Total Expense	120.1	132.4	132.9	-9.7	125.8	-4.6	
PBT	329.6	398.9	414.6	-20.5	466.2	-29.3	PBT as percentage of closing AUM declined to ~41 bps, led by decline in topline
Tax Outgo	79.7	101.7	138.4	-42.4	113.5	-29.7	
PAT	249.8	297.2	276.2	-9.5	352.7	-29.2	PAT as percentage of AUM declined to ~31 bps
Total AUM	319,100	299,325	343,900	-7.2	368,900	-13.5	AUM growth contracted QoQ led by steep correction in equities. Overall market share in AUM was at 14.3%

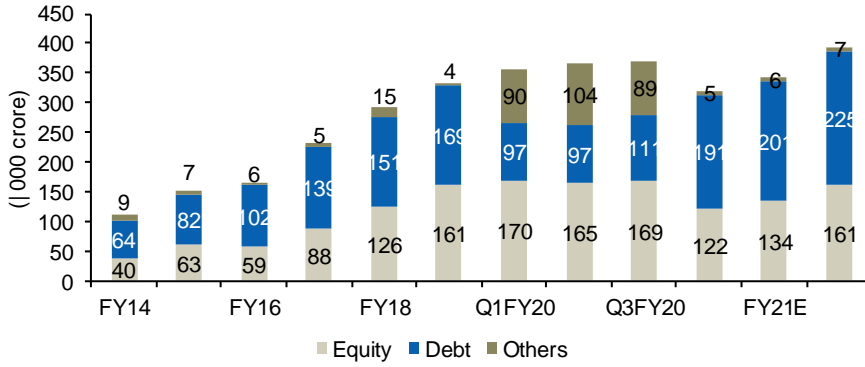
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Revenue from Operation	2,276	1,987	-12.7	2,569	2,250	-12.4
PBT	1,910.7	1,641.1	-14.1	2,154.7	1,883.6	-12.6
Revenue/AUM	0.52	0.57	5 bps	0.51	0.56	5 bps
PAT	1,452.1	1,253.2	-13.7	1,637.5	1,438.5	-12.2
EPS(₹)	68.5	58.8	-14.1	77.2	67.5	-12.5

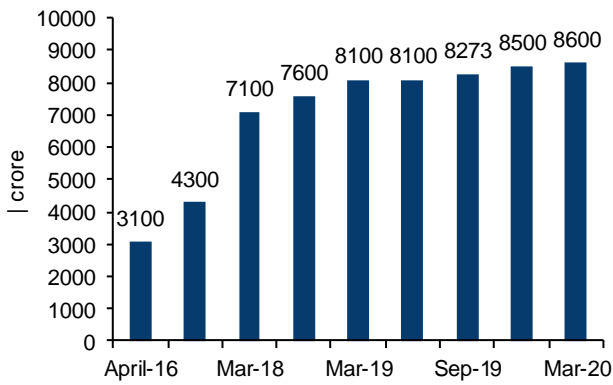
Source: Company, ICICI Direct Research

Exhibit 3: HDFC AMC growth remained healthy relative to industry



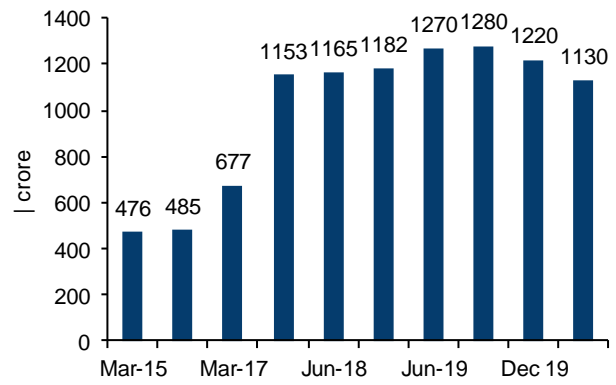
Source: Company, ICICI Direct Research

Exhibit 4: Stable industry SIP flows (monthly)



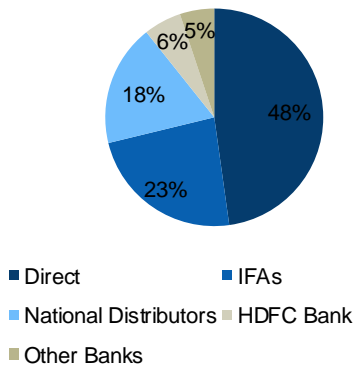
Source: AMFI, ICICI Direct Research, *- Monthly flows and not annualised

Exhibit 5: HDFC witnesses marginal dip in SIP



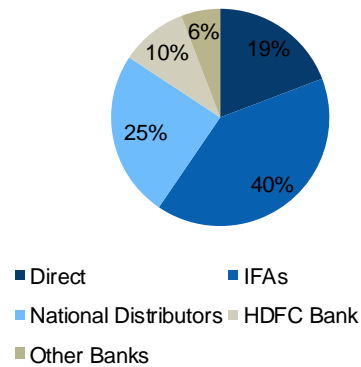
Source: AMFI, ICICI Direct Research, *- Monthly flows and not annualised

Exhibit 6: Distribution channel (total AUM) (Q4FY20)



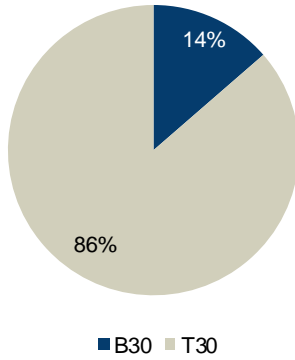
Source: Company, ICICI Direct Research

Exhibit 7: Distribution channel (equity AUM) (Q4FY20)



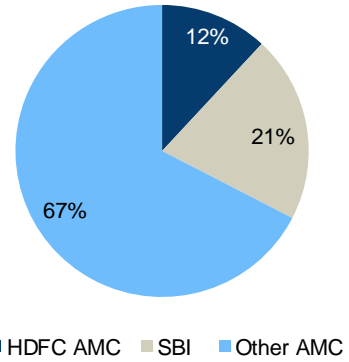
Source: Company, ICICI Direct Research

Exhibit 8: B30 AUM as percentage of total AUM



Source: Company, ICICI Direct Research

Exhibit 9: Second largest AMC in B30 by market share



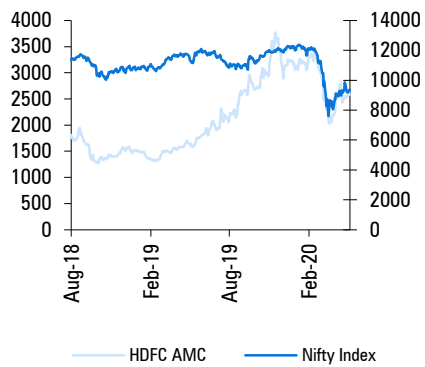
Source: Company, ICICI Direct Research

Exhibit 10: Shareholding Pattern

in %	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	82.7	82.7	82.7	79.7	79.6
DII	4.2	4.7	5.8	8.1	1.4
FII	2.2	2.3	1.7	0.9	8.0
Others	10.9	10.3	9.8	11.3	11.0

Source: Company, ICICI Direct Research

Exhibit 11: Price Chart



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit & Loss Statement

(₹crores)	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenue from Operations	1,480.0	1,756.8	1,915.2	2,003.3	1,986.6	2,249.7
Growth (%)	2.6%	18.7%	9.0%	4.6%	-0.8%	13.2%
Other Income	107.9	113.0	181.6	139.9	181.9	216.9
Total Revenue	1,587.9	1,869.8	2,096.8	2,143.1	2,168.4	2,466.6
Employee Benefit Expenses	157.6	186.1	206.3	214.7	232.2	258.4
Depreciation & Amortization Exp	12.0	9.4	12.9	50.4	50.4	50.4
Other Expenses (incl fees)	618.4	616.1	503.0	225.1	244.8	274.2
Total Expenses	787.9	811.5	722.1	490.2	527.4	583.0
Profit Before Tax	800.0	1,058.2	1,374.7	1,652.9	1,641.1	1,883.6
Taxes	249.5	346.9	444.1	390.6	387.8	445.2
Profit After Tax	550.4	711.3	930.6	1,262.3	1,253.2	1,438.5
EPS (₹)	27.1	34.5	43.9	59.2	58.8	67.5

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet

(₹crores)	FY17	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds						
Share capital	25.2	105.3	106.3	106.4	106.4	106.4
Reserves and surplus	1397.8	2054.7	2964.4	3922.9	4549.5	5268.7
Total Shareholders funds	1422.9	2160.0	3070.7	4029.3	4655.9	5375.1
Liabilities						
Total Non-Current Liabilities	0.8	0.8	4.6	3.9	4.3	4.8
Total Current Liabilities	175.9	209.9	148.4	275.4	302.9	333.2
Total	1599.6	2370.6	3223.8	4308.6	4963.2	5713.1
Applications of Funds						
Property, plant and equipment	22.6	24.6	25.6	141.4	148.5	163.3
Intangible assets	8.5	8.2	14.1	15.3	16.3	17.3
Intangible asset under developme	0.0	6.0	3.2	4.6	4.6	4.6
Investments*	168.8	639.5	2935.0	3944.5	4408.2	4940.4
Long term loans and advances	71.4	61.7	47.9	27.1	27.1	27.1
Deferred tax assets (net)	9.4	9.7	0.0	21.7	21.7	21.7
Total Current Assets and Others	1318.8	1620.9	198.0	154.0	336.8	538.7
Total Assets	1599.6	2370.6	3223.8	4308.6	4963.2	5713.1

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E
Valuation						
No of Equity shares (crore)	20.3	20.6	21.2	21.3	21.3	21.3
EPS	27.1	34.5	43.9	59.2	58.8	67.5
DPS	46.0	16.0	24.0	28.0	29.4	33.8
BVPS	69.9	104.8	144.8	189.1	218.5	252.3
P/E	96.1	75.3	59.3	43.9	44.2	38.5
P/BV	37.2	24.8	18.0	13.7	11.9	10.3
Operating Ratios (%)						
Rev/AUM	0.6	0.6	0.6	0.6	0.6	0.6
EBITDA/AUM	0.3	0.3	0.3	0.5	0.4	0.4
PAT/AUM	0.2	0.2	0.3	0.4	0.4	0.4
Return Ratios (%)						
RoNW	38.7%	32.9%	30.3%	31.3%	26.9%	26.8%
NAV per equity share	34.4%	30.0%	28.9%	29.3%	25.3%	25.2%

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
HDFC (HDFC)	1,779	2,000	Buy	2,78,132	108.3	69.5	72.7	16.4	25.6	24.5	4.0	3.8	3.6	3.8	2.2	2.0	26.8	15.2	15.1
Mahindra & Mahindra Financial	158	190	Hold	9,254	20.6	25.9	35.2	7.7	6.1	4.5	1.4	1.3	1.0	1.6	1.7	2.2	11.0	12.3	14.4
Bajaj Finserv (BAFINS)	2,313	7,200	Buy	75,287	248.4	332.5	430.5	9.3	7.0	5.4	1.3	1.1	0.9	1.6	1.7	2.0	15.3	17.4	18.8
Bajaj Finance (BAJFI)	5,015	2,000	Hold	1,38,762	91.8	94.5	128.6	54.7	53.1	39.0	9.4	8.4	7.3	3.8	3.1	3.5	21.2	16.4	18.9
SBI Life Insurance (SBILIF)	718	800	Buy	75,462	13.1	16.1	19.2	54.8	44.7	37.5	2.7	2.3	2.0	0.8	0.8	0.7	15.5	16.5	17.1
HDFC AMC	2,600	3,000	Buy	55,238	59.2	58.8	67.5	43.9	44.2	38.5	13.7	11.9	10.3	0.4	0.4	0.4	31.3	26.9	26.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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