

Steady quarter; volatility impact priced in...

HDFC AMC reported a steady performance in the current scenario. Recovery in equities led to a revival in AUM. However, a decline in market share remains a drag. Recognition of full impact of volatility in Q1FY21 led to a decline in topline offset by lower opex and higher other income.

Industry AUM increased to ₹ 25.5 lakh crore as of June 2020 compared to ₹ 22.3 lakh crore as of March 2020, largely led by a pick-up in equity markets. Equity related AUM grew from ₹ 8.3 lakh crore in March 2020 to ₹ 9.8 lakh crore. However, proportion of equity AUM stayed broadly flat at 38%. Debt, liquid schemes saw healthy traction at ~4%, ~19% QoQ increase to ₹ 8.1 lakh crore, ₹ 4.9 lakh crore, respectively. SIP inflows dipped 8.1% QoQ to ₹ 7900 crore, though SIP accounts were a tad up 3.5% QoQ to ₹ 3.2 crore.

HDFC AMC's AUM recovered to ₹ 357500 crore, up 12% QoQ, amid recent upswing in equity markets. Equity AUM rose 17% QoQ (industry growth rate 18%) to ₹ 1.4 lakh crore. Non-equity AUM remained broadly flattish at ~₹ 2 lakh crore. HDFC AMC witnessed a market share dip of ~30 bps QoQ on an overall basis to 14%. Equity AUM market share also declined ~40 bps QoQ to 14.3%. In line with industry trend, SIP inflows witnessed a dip to ₹ 960 crore from ₹ 1130 crore in March 2020 and ₹ 1270 crore in June 2019.

The company continued to maintain its overall leadership in individual asset with market share of 15.7%. Proportion of AUM from direct source has been on the rise with ~980 bps YoY improvement to 49% in AUM and ~160 bps YoY to 19.3% in equity oriented AUM.

Recognition of full impact of volatility in equity markets resulted in 14% QoQ decline in top line to ₹ 411 crore. Accordingly, blended yields were down 11 bps YoY, 14 bps QoQ to ~45 bps. Lower opex and decline in tax outgo led to 4% YoY and 21% QoQ growth in earnings to ₹ 302 crore with earnings yield at ~34 bps of AUM.

Valuation & Outlook

Amid recent market uncertainty and heightened competition, the company witnessed continuous contraction of AUM market share from 16.2% in Q1FY20 to 14.3% in Q1FY21. Furthermore, the SIP book is also dwindling from its peak inflows since Q1FY20. As HDFC AMC is the market leader, a faster decline of market share compared to industry pace does not bode well. Thus, a market share revival remains the key focus area, going forward. However, as HDFC AMC has been able to build a strong brand franchise due to strong parentage and delivered consistent returns in the past, it deserves a premium valuation. Given business model with least credit risk, long term growth potential and strong fundamentals, we remain positive on the stock. Thus, we maintain our target price at ₹ 3000/share and **BUY** recommendation on the stock.



Particulars

	Amount
Market Capitalisation	₹53249 crore
AUM (Q1FY21)	₹357500 crore
Equity AUM (Q1FY21)	₹140800 crore
Networth (FY20)	₹4029 crore
52 week H/L	3844/1964
Face Value	₹5
DII Holding (%)	3.2
FII Holding (%)	10.7

Key Highlights

- AUM growth revived to ₹ 357500 crore
- Traction in SIP flow witnessed a dip to ₹ 960 crore
- Continue to remain positive given structural growth potential and strong fundamental
- Maintain BUY with unchanged target price of ₹ 3000/share

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Key Financial Summary

	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
Revenue from operation (₹crore)	1757	1915	2003	1928	2182	4%
PBT (₹crore)	1058	1375	1653	1625	1864	11%
Net Profit (₹crore)	711	931	1262	1241	1423	15%
EPS (₹)	34.5	43.9	59.2	58.2	66.8	
P/E (x)	72.3	56.9	42.1	42.8	37.4	
AUM/share (₹)	14232	15754	14976	16144	18604	
P/AUM (%)	17.5	15.8	16.7	15.5	13.4	
DPS (₹)	16.0	24.0	28.0	29.1	33.4	
RoE (%)	32.9	30.3	31.3	26.7	26.5	

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20 YoY (%)		Q4FY20	QoQ (%)	Comments
Revenue from operation	411.5	499.3	504.4	-18.4	476.1	-13.6	Recognition of full impact of volatility impacted topline
Revenue/AUM	0.46%	0.56%	0.57%	12 bps	0.60%	3 bps	Decline in topline led to lower yields
Other Income	79.8	53.5	48.4	65.1	-26.5	NA	
Net Total Income	491.3	552.8	552.8	-11.1	449.6	9.3	
Staff cost	52.6	43.8	56.7	-7.2	43.2	21.9	
Other Operating Expenses	58.3	75.5	66.2	-11.8	76.0	-23.2	
Total Expense	110.9	119.2	122.8	-9.7	119.1	-6.9	
PBT	380.4	433.6	429.9	-11.5	330.5	15.1	PBT increased 15% QoQ on account of lower opex and higher other income
Tax Outgo	78.0	110.6	138.1	-43.5	79.7	-2.2	
PAT	302.4	323.0	291.8	3.6	250.8	20.6	PAT as percentage of AUM was at ~34 bps
Total AUM	357,500	356,655	356,700	0.2	319,100	12.0	AUM growth recovered sequentially largely led by recent upswing in equity markets.

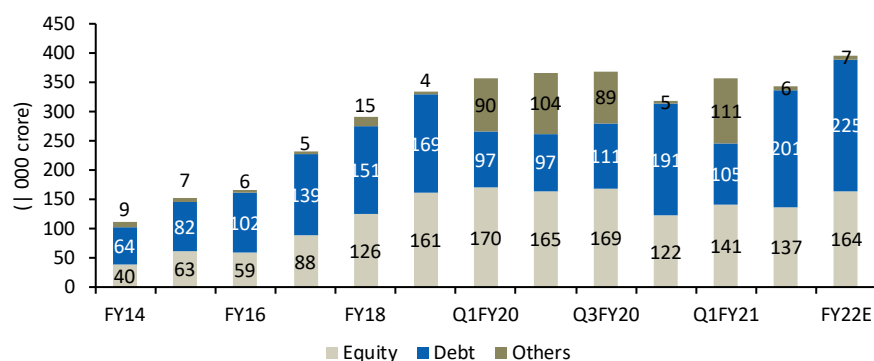
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Revenue from Operation	1,843	1,928	4.6	2,096	2,182	4.1
PBT	1,284.9	1,625.0	26.5	1,483.0	1,863.7	25.7
Revenue/AUM	0.50	0.55	5 bps	0.49	0.54	5 bps
PAT	869.8	1,240.9	42.7	1,003.9	1,423.3	41.8
EPS (₹)	41.0	58.2	42.0	47.3	66.8	41.1

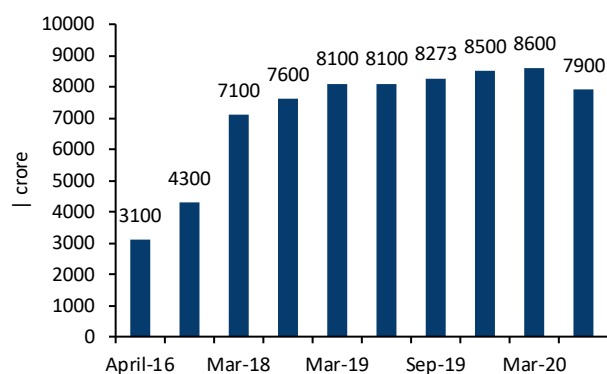
Source: Company, ICICI Direct Research

Exhibit 3: HDFC AMC growth witnesses moderation



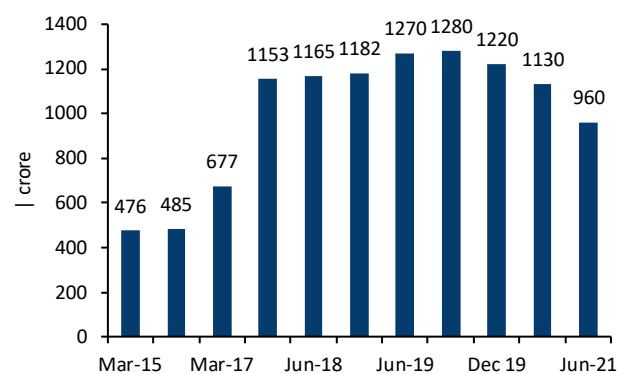
Source: Company, ICICI Direct Research

Exhibit 4: Dip in industry SIP flows (monthly)



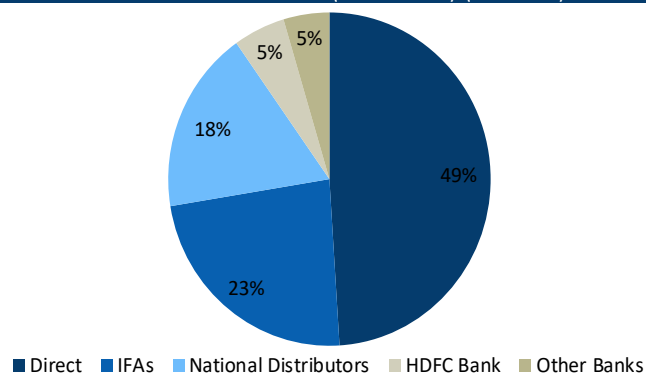
Source: AMFI, ICICI Direct Research, *- Monthly flows and not annualised

Exhibit 5: HDFC witnesses dip in SIP inflows



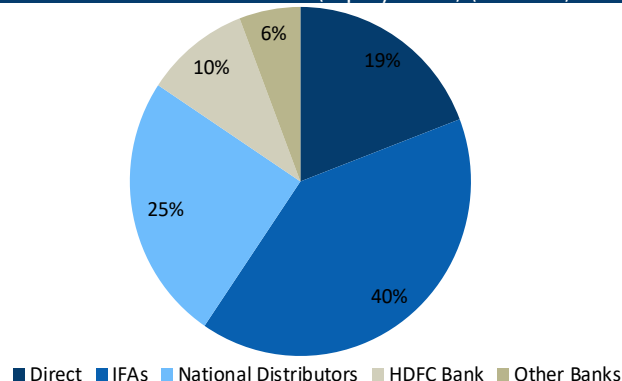
Source: AMFI, ICICI Direct Research, *- Monthly flows and not annualised

Exhibit 6: Distribution channel (total AUM) (Q1FY21)



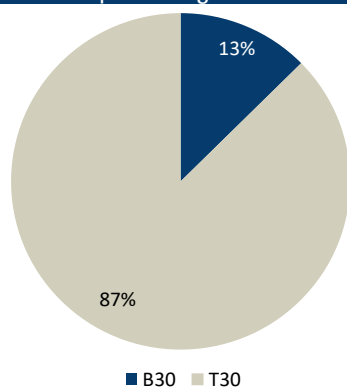
Source: Company, ICICI Direct Research

Exhibit 7: Distribution channel (equity AUM) (Q1FY21)



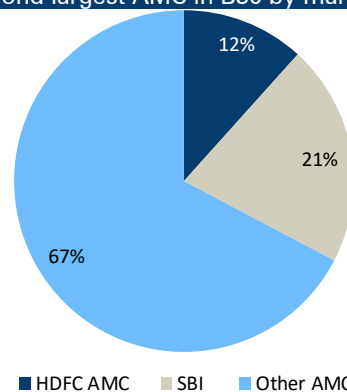
Source: Company, ICICI Direct Research

Exhibit 8: B30 AUM as percentage of total AUM



Source: Company, ICICI Direct Research

Exhibit 9: Second largest AMC in B30 by market share



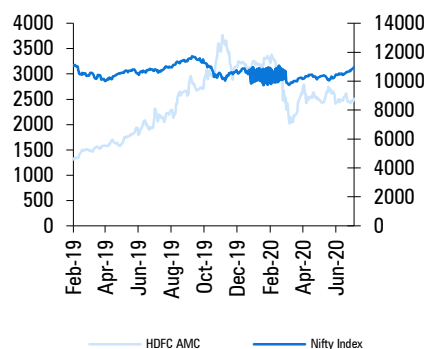
Source: Company, ICICI Direct Research

Exhibit 1: Shareholding Pattern

in %	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	82.7	82.7	79.7	79.6	74.0
D II	4.7	5.8	8.1	1.4	3.2
F II	2.3	1.7	0.9	8.0	10.7
Others	10.3	9.8	11.3	11.0	12.2

Source: Company, ICICI Direct Research

Exhibit 2: Price Chart



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: 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	1,927.8	2,182.5
Growth (%)	2.6%	18.7%	9.0%	4.6%	-3.8%	13.2%
Other Income	107.9	113.0	181.6	139.9	185.6	220.6
Total Revenue	1,587.9	1,869.8	2,096.8	2,143.1	2,113.4	2,403.0
Employee Benefit Expenses	157.6	186.1	206.3	214.7	210.2	234.0
Depreciation & Amortization Expe	12.0	9.4	12.9	50.4	50.4	50.4
Other Expenses (incl fees)	618.4	616.1	503.0	225.1	227.8	254.9
Total Expenses	787.9	811.5	722.1	490.2	488.5	539.3
Profit Before Tax	800.0	1,058.2	1,374.7	1,652.9	1,625.0	1,863.7
Taxes	249.5	346.9	444.1	390.6	384.0	440.5
Profit After Tax	550.4	711.3	930.6	1,262.3	1,240.9	1,423.3
EPS (₹)	27.1	34.5	43.9	59.2	58.2	66.8

Source: Company, ICICI Direct Research

Exhibit 4: 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	4543.3	5254.9
Total Shareholders funds	1422.9	2160.0	3070.7	4029.3	4649.7	5361.3
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 development	0.0	6.0	3.2	4.6	4.6	4.6
Investments*	168.8	639.5	2935.0	3944.5	4403.7	4930.3
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	335.2	535.1
Total Assets	1599.6	2370.6	3223.8	4308.6	4957.0	5699.3

Source: Company, ICICI Direct Research

Exhibit 5: 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	58.2	66.8
DPS	46.0	16.0	24.0	28.0	29.1	33.4
BVPS	69.9	104.8	144.8	189.1	218.2	251.6
P/E	92.2	72.3	56.9	42.1	42.8	37.4
P/BV	35.7	23.8	17.2	13.2	11.4	9.9
Operating Ratios (%)						
Rev/AUM	0.6	0.6	0.6	0.6	0.5	0.5
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	0.3
Return Ratios (%)						
RoNW	38.7%	32.9%	30.3%	31.3%	26.7%	26.5%
NAV per equity share	34.4%	30.0%	28.9%	29.3%	25.0%	25.0%

Source: Company, ICICI Direct Research

Exhibit 6: ICICI Direct coverage universe (BFSI)

Sector/Company	CMP			M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP (₹)	Rating	(₹Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E		
HDFC AMC	2,495	3,000	Buy	52,249	59.2	58.8	67.5	42.1	42.4	37.0	13.2	11.4	9.9	0.4	0.4	0.4	31.3	26.9	26.8		
Nippon AMC	284	364	Buy	17,396	6.7	8.8	10.9	42.2	32.4	26.1	6.5	6.2	5.8	0.2	0.2	0.2	15.5	19.0	22.1		

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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