

HDFC Asset Management Co. Ltd



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Other income and better yields aid PAT

CMP INR 2,300	Target INR 3,020	Potential Upside 31%	Market Cap (INR Cr) INR 48,967	Recommendation BUY	Sector Asset Management Services
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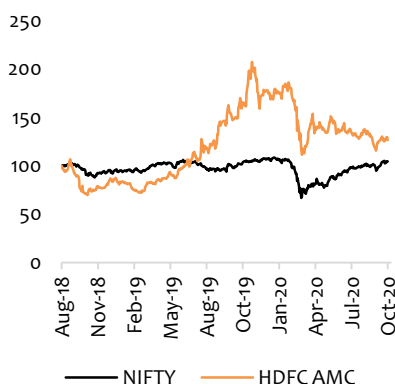
Result Highlights:

- AUM degrew 3.2% YoY/ 0.9% QoQ to INR 3,54,400 Cr – losing market share by 80 bps to 13.2%. It is on account of loss of share in equity AUM as it gained in debt.
- The no. of accounts fell 2% YoY to 9.21 million. Its unique investors were at 5.5 million down by 1 million sequentially (steady share).
- PAT grew 12% QoQ on better yields (Revenues grew 10.9% QoQ) and other incomes (16.1% QoQ/122.6% YoY) despite high opex. PAT of last year includes a one-time tax cost. Ex the same, PAT would have grown 1% YoY.

MARKET DATA

Shares outs (Cr)	21
Equity Cap (INR Cr)	4,080
Mkt Cap (INR Cr)	48,967
52 Wk H/L (INR)	3,844/1,962
Volume Avg (3m K)	335
Face Value (INR)	5
Bloomberg Code	HDFCAMC : IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	40,522
NIFTY	11,889

KEY FINANCIALS

INR Crore	FY 18	FY 19	FY 20	FY21E	FY22E
Revenue	1,757	1,915	2,003	1,984	2,268
EBITDA	955	1,206	1,572	1,575	1,808
PAT	711	931	1,262	1,306	1,495
EPS (INR)	34.5	43.8	59.2	61.4	70.2
EBITDA Margin	53.8%	62.3%	76.0%	76.6%	76.9%
NPM	40.5%	48.6%	63.0%	65.8%	65.9%

Source: Company, KRChoksey Research

Equity AUM growth remains weak, debt fares better: The AUM has degrown by 3.2% YoY/ 0.9% QoQ to INR 3,54,400 Cr. It has lost market share by 80 bps to 13.2% due to loss of share in equity AUM. It has, however, gained market share in gained in debt. Its lost share in actively Managed Equity, its mainstay. The AUM degrew 14% YoY/higher by 2% QoQ at INR 1,40,300 Cr – losing market share by 70 bps sequentially to 13.6%. This has been on account of weak fund performance amidst lesser share of ETFs. Liquid MF degrew 13% YoY/25% QoQ to INR 77,500 Cr losing market share 290 bps market share sequentially to 18%. However, it gained in debt funds rose 19% YoY/19% QoQ to INR 125,500 Cr gaining 70 bps in market share to 13.6%. We expect this trend to continue as strategies on the equity side have a gestation and debt funds are likely to grow commensurate to system debt.

New product launches in Equity may hold promise: It plans to launch new investment styles and funds to mitigate the stagnancy of weak performance. It hired 2 fund managers with distinctive investment styles and carved out 2 schemes and is expected to carve another in few quarters. For the fund of its size, it believes it cannot depend on strategies based on market cap alone and need differentiated investment strategies to hedge overall market movements.

Margins improve on better yields and other incomes: PAT grew 12% QoQ on better yields and other incomes even as operating costs fell. PAT of last year includes a one-time tax cost. Ex the same, PAT would have grown 1% YoY. PAT margin rose 62 bps QoQ to 74.1%. Yields improved sequentially on account of change in mix to debt. However share of the credit risk funds, a high margin product were lower. PAT margins also improved on account of savings in operating costs. It has plans to launch additional festive incentive for distributors which is likely to increase operating costs. Its other incomes rose strongly by 16.1% QoQ/122.6% YoY aided by MTM write up on bond.

SHARE HOLDING PATTERN (%)

Particulars	Sep-20	Jun-20	Mar-20
Promoters	73.93	73.95	79.61
FIIIs	8.79	10.70	8.00
DIIIs	1.75	2.05	1.40
Others	15.53	13.30	10.99
Total	100.00	100	100

6.4%

Revenue CAGR between FY20 and FY22E

8.8%

PAT CAGR between FY20 and FY22E

ANALYST

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Key Concall Highlights:

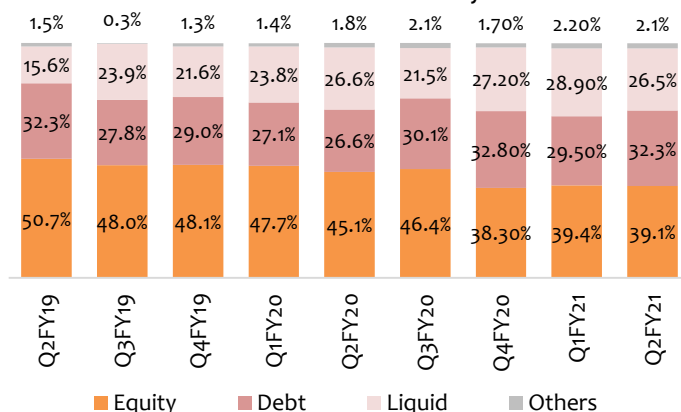
(i) Equity funds's market share fell due to fund performance. It is yet the largest manager of actively managed funds. The performance in large products has been soft. (ii) It has plans to launch new product based on style. For the fund of its size, it needs 7-9 investment styles not just defined by market cap. It plans to have 4-5 differentiated style to hedge the overall market performance. It has hired 2 Fund Managers with distinctive style. It has separated 2 funds and another fund will be separated over 2 quarters. There was a challenge around credit risk funds in the last quarter, that has abated. The AMC has caught up very well thereafter. In the liquid fund there was a dip due to the high base. After IIL&FS, there was flight to safety in liquid funds. The AMC is the biggest in the industry, having over INR 15,000 CR over the second player. (iii) Inflows have come in new funds. It has sought approval for new products. (iv) It is important for market to do well. Inflows for the overall size of the industry does not materially increase AUM as much as MTM does. (v) Yields have varied due to change in mix between debt and equity and lower share of credit risk fund in debt. (vi) It has launched festive commission offers for distributors. The aim is to manage interest of management, distribution and branding. (viii) The ETF flows are low as distributors returns is not lucrative and they do not further the product. Therefore, it has preference for the launch of thematic ETF. (ix) Other income includes INR 56 cr on NCD valuation.

Valuation and view:

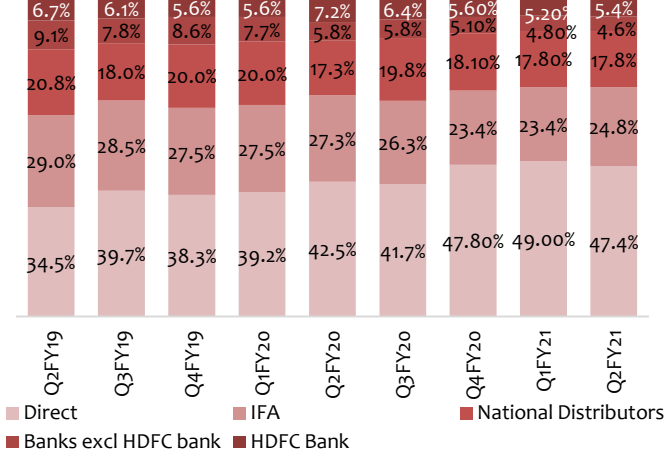
The AUM growth remained weak on account of weakness in equity funds. This has been on account of weak fund performance amidst lesser share of ETFs. It plans to launch new investment styles and fund to mitigate the stagnancy of weak performance in equities. It believes that MTM is a larger growth driver than inflows for the size. Debt funds rose in line with industry preference for debt. We expect this trend to continue as strategies on the equity side have a gestation and debt funds are likely to grow commensurate to system debt. The shift in mix is unlikely to have scope for material improvement in yields. But operating efficiencies is likely to remain beneficial. The market movement remains a risk. We like the market position (~14% of total industry AUM), diversified product portfolio, parentage, and strategies focused on digitization for improvement in operational efficiency.

We expect the premium valuation to continue owing to its parentage, and higher operational efficiency. We maintain our valuation of a P/E of 43x on FY22E EPS of INR 70.2 to arrive at a target price of INR 3,020 an upside of 31%. We reiterate our rating to a "BUY".

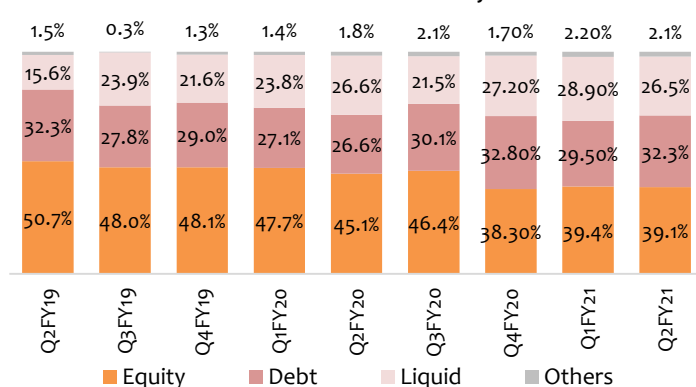
Segment-wise AUM mix (%)
Share of debt in line with industry



Distribution Mix on AUM basis (%)
Direct segment occupying high share

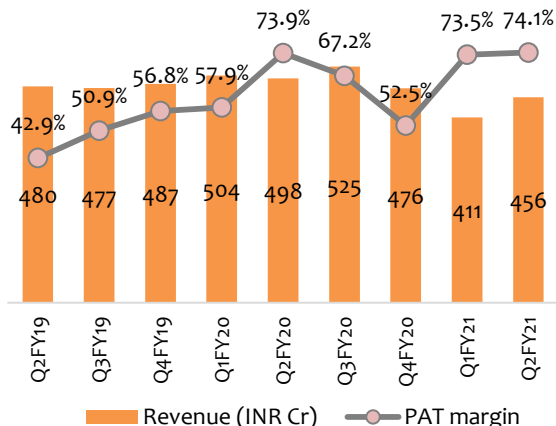


Segment-wise AUM mix (%)
Share of debt in line with industry



Source: Company, KRChoksey Research

Operations
Lower taxation expenses keeps margin high



ANALYST

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KEY FINANCIALS

Exhibit 1: Profit & Loss A/c

INR Crore	FY 18	FY 19	FY 20	FY21E	FY22E
Revenue from operations	1,757	1,915	2,003	1,984	2,268
Total expenses	802	709	431	409	460
Employee benefit expenses	186	206	215	210	238
Other operating expenses	616	503	216	198	222
EBITDA	955	1,206	1,572	1,575	1,808
EBITDA Margin	54%	63%	78%	79%	80%
Depreciation	9	13	50	55	64
EBIT	945	1,193	1,522	1,520	1,744
EBIT Margin	54%	62%	76%	77%	77%
Other income	113	182	140	230	253
Finance cost	0	0	9	9	5
PBT	1,058	1,375	1,653	1,741	1,993
Tax	347	444	391	435	498
PAT	711	931	1,262	1,306	1,495
PAT margin	40%	49%	63%	66%	66%
EPS (INR)	34.5	43.8	59.2	61.4	70.2

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Crore	FY 18	FY 19	FY 20	FY21E	FY22E
Net Cash Generated From Operations	618	894	1,285	1,383	1,574
Net Cash Flow from/(used in) Investing Activities	(633)	(777)	(928)	(559)	(481)
Net Cash Flow from Financing Activities	15	(119)	(332)	(616)	(705)
Net Inc/Dec in cash equivalents	1	(1)	26	207	387
Opening Balance	1	2	1	27	234
Closing Balance Cash and Cash Equivalents	2	1	27	234	621

Source: Company, KRChoksey Research

Exhibit 3: Key financial metrics

Key Ratios	FY 18	FY 19	FY 20	FY21E	FY22E
EBITDA margin	54.3%	63.0%	78.5%	79.4%	79.7%
EBIT margin	53.8%	62.3%	76.0%	76.6%	76.9%
PAT margin	40.5%	48.6%	63.0%	65.8%	65.9%
Return on Assets	28.8%	28.9%	29.3%	26.2%	25.7%
Return on Equity	31.6%	30.3%	31.3%	27.7%	27.1%

Source: Company, KRChoksey Research

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Exhibit 3: Balance Sheet

INR Crore	FY 18	FY 19	FY 20	FY21E	FY22E
Cash and Cash Equivalents	2	1	27	234	621
Bank Balance	0	31	0	0	0
Trade Receivables	90	83	61	60	69
Other Receivables	13	20	4	4	5
Investments	2,058	2,935	3,945	4,474	4,921
Other Financial Assets	22	28	30	30	34
Total Financial Assets	2,185	3,098	4,066	4,802	5,650
Total Non-Financial Assets	287	126	242	192	170
Total Assets	2,472	3,224	4,309	4,994	5,820
Trade Payables	112	47	47	44	50
Other Financial Liabilities	67	66	178	177	202
Total Financial Liabilities	178	113	225	221	252
Current Tax Liabilities (net)	3	2	4	4	4
Provisions	1	1	7	7	7
Deferred Tax Liabilities (net)	4	3	0	0	0
Other Non-Financial Liabilities	32	34	43	43	49
Total Non-Financial Liabilities	40	40	54	54	60
Equity Share Capital	105	106	106	106	106
Other Equity	2,149	2,964	3,923	4,612	5,402
Total Equity	2,254	3,071	4,029	4,719	5,508
Total Liabilities and Equity	2,472	3,224	4,309	4,994	5,820

Source: Company, KRChoksey Research

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HDFC Asset Management Co. Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-Oct-20	2,303	3,020	BUY	Buy	More than 15%
24-Jul-20	2,465	3,020	BUY	Accumulate	5% – 15%
4-Jul-20	2,544	2,970	BUY	Hold	0 – 5%
11-May-20	2,543	2,901	ACCUMULATE	Reduce	-5% – 0
22-Jan-20	3,172	3,348	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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