

## Market share erosion bottoming out; outlook improving

**About the stock:** HDFC AMC is among the largest and profitable mutual funds with an QAAUM of ~₹ 4.3 lakh crore as on March 2022.

- Market share as on Q4FY22 was at 10.8%
- Strong distribution network with 228 branches and over 75,000 empanelled distribution partners

**Q4FY22 Results:** HDFC AMC reported a soft quarter on an overall basis.

- Closing AUM up 3.1% YoY to ₹ 4.1 lakh crore; equity AUM up 1.4% QoQ
- Revenue from operation up 2.7% YoY but down 6.1% QoQ to ₹ 516 crore
- Overall yields remain broadly steady at 51 bps QoQ
- PAT came in at ₹ 343 crore, below estimate, on soft topline performance

**What should investors do?** HDFC AMC's share price has grown over 19% since its listing in August 2018 and in past few months the price has corrected as well that provides good entry opportunity especially with improving outlook.

- We upgrade our rating to **BUY** from Hold

**Target Price and Valuation:** HDFC AMC has maintained fundamental strength with superior yields and profitability. We value HDFC AMC at ~28.5x FY24E EPS and revise our target price from ₹ 2550 to ₹ 2400

### Key triggers for future price performance:

- Expected improving fund performance to attract more inflows
- Launch of new NFOs across various segments could aid AUM growth
- To command premium valuations on account of superior return ratios and expected rise in business growth
- Market share loss should bottom out and could witness some stability

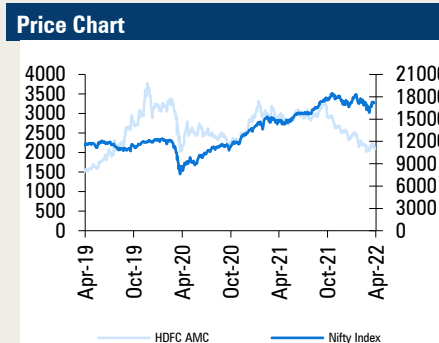
**Alternate Stock Idea:** Apart from HDFC AMC, in our coverage we like MCX.

- MCX is a leader in commodity derivative exchanges in India with over 96% market share in commodities future space as on FY21
- BUY with target price of ₹ 2000



Particulars	Amount
Market Capitalisation	₹ 44048 crore
AUM	₹ 407600 crore
Networth	₹ 5530 crore
52 week H/L	3363/1988
Face Value	₹ 5

Shareholding pattern	in %	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	73.9	73.9	68.9	68.8	68.8	68.8
DII	6.0	6.6	9.0	9.4	9.0	9.0
FII	9.4	9.1	7.6	10.5	10.4	10.4
Others	10.8	10.4	14.6	11.2	11.8	11.8



- Recent Event & key risk**
- AUM witnessed sequential decline of 6.7% to ₹ 4.1 lakh crore
  - Key Risk:** i) Continued fall in market share, ii) increasing competitive pricing pressure

**Research Analyst**

Kajal Gandhi  
kajal.gandhi@icicisecurities.com

Vishal Namolia  
vishal.namolia@icicisecurities.com

Sameer Sawant  
sameer.sawant@icicisecurities.com

### Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenue from operation (₹ crore)	1915	2003	1853	2115	3%	2452	2805	15%
PBT (₹ crore)	1375	1653	1749	1855	11%	2073	2385	13%
Net Profit (₹ crore)	931	1262	1326	1393	14%	1555	1789	13%
EPS (₹)	43.9	59.2	62.2	65.4		73.0	83.9	
P/E (x)	47.2	35.0	33.3	31.7		28.4	24.7	
AUM /share (₹)	15754	14976	18548	20980		23716	27130	
P/AUM (%)	13.2	13.8	11.2	9.9		8.7	7.6	
RoE (%)	30.3	31.3	27.8	25.2		24.9	25.4	

## Key takeaways of recent quarter & conference call highlights

### Q4FY22 Results: Modest overall performance

- Industry AUM increased to ₹ 38.4 lakh crore from ₹ 32.1 lakh crore YoY and ₹ 38.2 lakh crore in the previous quarter. Equity related AUM was up 39% YoY and 2% QoQ to ₹ 17.6 lakh crore. Proportion of equity AUM was at 46% against 45% QoQ. Debt schemes witnessed an outflow declining ~7% YoY and 6% QoQ. SIP inflows witnessed continued pick up from ₹ 11300 crore to ₹ 12300 crore QoQ
- HDFC AMC saw slower than industry growth as its AUM was up 3.1% YoY and down 6.7% QoQ to ₹ 4.1 lakh crore with equity AUM rising 21% YoY thereby forming 49% of total AUM. Debt and liquid segment witnessed AUM decline of 14% YoY each and now together form 46% of total AUM
- HDFC AMC continued to witness a decline in market share from 12.6% at the beginning of the fiscal to 10.8% by March 2022. Equity AUM (actively managed) market share also declined from 12.9% in March 2021 to 11.4% in December 2021 and further to 11.3% by March 2022 while debt segment saw market share decline of 100 bps sequentially to 13.8%
- Total income from operations increased 2.7% YoY to ₹ 516 crore mainly due to sluggish AUM trajectory. Revenue to AUM increased slightly to 51 bps from 50 bps QoQ as equity proportion increased. Other income declined 25% QoQ to ₹ 64.7 crore and was below our estimate. PAT, thus, came in at ₹ 343 crore, up 8.7% YoY but lower than our estimate of ₹ 362 crore, primarily led by lower than anticipated AUM
- For the industry, SIP flows increased to ₹ 12300 crore compared to ₹ 11300 crore sequentially. HDFC AMC SIP flows witnessed an increase to ₹ 1230 crore from ₹ 1190 crore QoQ, though market share in SIP declined from 10.5% in December 2021 to 10% in March 2022

### Q4FY22 Results: Earnings Conference Call highlights

- Unique investors increased from 53 lakh to 58 lakh
- Launched eight NFOs during FY22
- Plan to come out with more NFOs in AIF side. Got approval to launch nine more ETF and three more to be added
- Filed for defence fund, MNC fund and business cycle fund
- Hope to build international business post setting up subsidiary in GIFT city
- Other expenses up 27% YoY due to low base, more fund launches and rise in marketing activities
- To introduce PMS services in next few quarters, started talks with partners
- Drop in TER due to rise in AUM of the schemes led to some pressure on margins
- Drop in net revenue also due to increased brokerages

## Peer comparison

Exhibit 1: ICICI Direct coverage universe (AMC)

Sector / Company	CMP		Rating	M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)			FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HDFC AMC (HDFAMC)	2,072	2,400	Buy	441	66.7	75.8	87.4	34.7	30.5	23.7	9.1	8.0	6.3	26.2	26.3	26.6
MXC	1,378	2,000	BUY	70	28.9	43.6	51.6	47.7	31.6	26.7	4.8	4.5	3.9	10.0	14.4	14.5

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue from operation	516.3	552.2	502.9	2.7	549.7	-6.1	Sequential decline due to lower AUM
Revenue/AUM	0.51%	0.50%	0.51%	0 bps	0.50%	0 bps	Increase in equity proportion led to increased yield
Other Income	64.7	89.6	42.6	51.6	86.2	-25.0	
Net Total Income	580.9	641.9	545.6	6.5	635.9	-8.6	
Staff cost	71.4	82.4	63.8	11.9	77.5	-7.8	
Other Operating Expenses	66.9	76.5	58.7	13.8	73.3	-8.7	Cost control measures aid grip on Opex
Total Expense	138.3	158.9	122.6	12.8	150.7	-8.3	
PBT	442.7	483.0	423.0	4.6	485.2	-8.8	
Tax Outgo	99.1	120.7	106.9	-7.3	125.4	-21.0	
PAT	343.6	362.2	316.1	8.7	359.8	-4.5	PAT below our estimate as top-line slows
Total AUM	4,07,600	4,42,660	3,95,500	3.1	4,36,700	-6.7	Higher outflows from debt segment leads to fall in AUM

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Revenue from Operation	2,505	2,452	-2.1	2,865.7	2,805	-2.1
PBT	2,154.8	2,073.0	-3.8	2,483.0	2,384.7	-4.0
Revenue/AUM	0.48	0.47	0 bps	0.48	0.47	0 bps
PAT	1,616.1	1,554.8	-3.8	1,862.3	1,788.5	-4.0
EPS(₹)	75.8	73.0	-3.8	87.4	83.9	-4.0

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 4: Profit & Loss Statement

(₹ crores)	FY20	FY21	FY22	FY23E	FY24E
Revenue from Operations	2,003.3	1,852.5	2,115.4	2,451.9	2,805.0
Growth (%)	4.6%	-7.5%	14.2%	15.9%	14.4%
Other Income	139.9	349.2	317.8	234.6	236.7
Total Revenue	2,143.1	2,201.7	2,433.2	2,686.5	3,041.8
Employee Benefit Expenses	214.7	226.8	312.2	345.2	365.9
Depreciation & Amortization Expense	50.4	55.4	53.9	55.4	55.4
Other Expenses (incl fees)	225.1	170.6	211.9	212.9	235.7
Total Expenses	490.2	452.8	577.9	613.5	657.1
Profit Before Tax	1,652.9	1,749.0	1,855.3	2,073.0	2,384.7
Taxes	390.6	423.2	462.2	518.3	596.2
Profit After Tax	1,262.3	1,325.8	1,393.1	1,554.8	1,788.5
EPS (₹)	59.2	62.2	65.4	73.0	83.9

Source: Company, ICICI Direct Research

### Exhibit 5: Balance Sheet

(₹ crores)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Share capital	106.4	106.5	106.6	106.6	106.6
Reserves and surplus	3922.9	4669.7	5423.4	6128.6	6939.7
Total Shareholders funds	4029.3	4776.2	5530.0	6235.2	7046.4
Total Non-Current Liabilities					
	3.9	4.3	7.4	8.1	8.9
Total Current Liabilities					
	275.4	314.2	343.0	377.3	415.0
Total	4308.6	5094.7	5880.4	6620.6	7470.3
Applications of Funds					
Property, plant and equipment	141.4	136.9	122.2	134.4	147.8
Intangible assets	15.3	16.4	12.9	13.9	14.9
Intangible asset under development	4.6	1.2	0.5	0.5	0.5
Investments*	3944.5	4753.3	5570.2	6145.5	6807.2
Long term loans and advances	27.1	37.3	30.2	30.2	30.2
Deferred tax assets (net)	21.7	0.0	0.0	0.0	0.0
Total Current Assets and Others	154.0	149.8	144.4	296.1	469.6
Total Assets	4308.6	5094.7	5880.4	6620.6	7470.3

Source: Company, ICICI Direct Research

### Exhibit 6: Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No of Equity shares (crore)	21.3	21.3	21.3	21.3	21.3
EPS	59.2	62.2	65.4	73.0	83.9
DPS	28.0	34.0	36.0	39.9	45.9
BVPS	189.1	224.2	259.5	292.6	330.7
P/E	35.0	33.3	31.7	28.4	24.7
P/BV	11.0	9.2	8.0	7.1	6.3
Operating Ratios (%)					
Rev/AUM	0.61	0.46	0.47	0.47	0.47
EBITDA/AUM	0.48	0.36	0.36	0.37	0.37
PAT/AUM	0.39	0.33	0.31	0.30	0.30
Return Ratios (%)					
RoNW	31.3%	27.8%	25.2%	24.9%	25.4%
ROCE	29.3%	26.0%	23.7%	23.5%	23.9%

Source: Company, ICICI Direct Research

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Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

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