

HDFC Asset Management Co. Ltd



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Business growth impacted owing to decline in debt & liquid funds

CMP INR 2,042	Target INR 2,318	Potential Upside 13.6%	Market Cap (INR Mn) INR 4,37,541	Recommendation ACCUMULATE	Sector Asset Management Services
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Result Highlights:

- QAAUM (Quarterly Average Assets Under Management) of INR 4,321 bn as on 31st March 2022, a growth of 4% YoY. The market share in QAAUM stood at 11.3% of the mutual fund industry.
- In Q4FY22, revenue growth stood at INR 5,163 Mn, a growth of 2.7% YoY, while declined 6.1% QoQ owing to sequential fall in AUM. For the full year FY22, the revenue was reported at INR 21,154 Mn, an increase of 14.2% YoY.
- The EBITDA during Q4FY22 stood at INR 3,935 Mn (excluding other income), was flat on YoY basis.
- PAT grew 8.7% YoY while de-grew 4.5% QoQ at INR 3,436 Mn. The YoY growth was on the back of higher other income at INR 647 Mn compared to INR 426 Mn in Q4FY22. The PAT for full year FY22 stood at INR 13,931 Mn, a growth of 5.1% YoY.

MARKET DATA

Shares outs (Mn)	213
Equity Cap (INR Mn)	55,300
Mkt Cap (INR Mn)	4,37,541
52 Wk H/L (INR)	3,365/1,985
Volume Avg (3m K)	354
Face Value (INR)	5
Bloomberg Code	HDFCAMC : IN

KEY FINANCIALS

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	20,033	18,525	21,154	22,855	25,403
EBITDA	15,722	14,645	15,999	17,372	19,310
PAT	12,624	13,262	13,931	15,015	16,483
EPS (INR)	59.2	62.3	65.4	70.4	77.3
EBITDA Margin	78.5%	79.1%	75.6%	76.0%	76.0%
NPM	63.0%	71.6%	65.9%	65.7%	64.9%

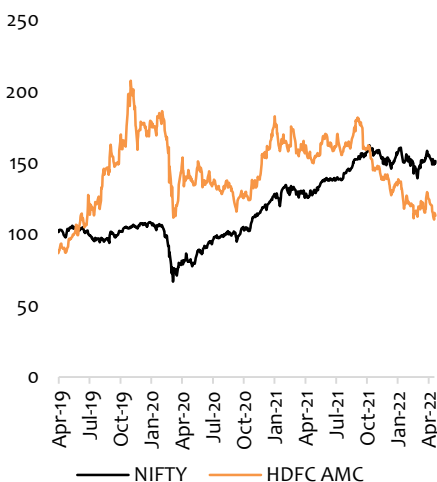
Source: Company, KRChoksey Research

Muted business performance with further loss of market share: HDFCAMC's revenue grew 2.7% YoY while declining 6.1% QoQ to INR 5,163 Mn in Q4FY22. The sequential fall reflected a moderation in AUM growth & pressure on the yields in Q4FY22 on QoQ basis at INR 4,312 Bn. The contribution of equity AUM improved to 51% in Q4FY22. The company has been focusing on increasing its equity-oriented AUM over the past few quarters. The AUM was impacted owing to lower growth in the debt and liquid funds segments. HDFCAMC has seen a significant outflow from the corporate investors leading to a drop in debt & liquid fund performance. As of 31st March 2022, the Actively Managed Equity-oriented AUM stood at INR 1,980 Bn. The company's market share in AUM declined further to 11.3% from 11.7% in Q3FY22 and 12.9% in Q4FY21. The company has been trying to regain its lost market share through new product filings and launches and by introducing new fund managers. We remain cautious about the company's falling market share with increased competitive intensity. We anticipate that the company will deliver a topline growth of 11% CAGR over FY21-24E, driven by the increasing share of equity and stable market performance.

Sequential improvement in margins: EBITDA for Q4FY22 stood at INR 3,935 Mn, which was flattish on a YoY basis, while it fell 5.1% QoQ due to lower revenues. EBITDA margins for the quarter stood at 76.2% against 78.8% in Q4FY21 and 75.4% in Q3FY22. EBITDA margins expansion sequentially was led by slightly lower operating expenses than the Q3FY22. Other income was higher by 51.6% YoY in Q4FY22 at INR 647 Mn on the back of the low base in Q4FY21. Thus, other income has seen a lot of volatility in the last two years but is expected to normalize. The higher other income and lower tax rate compared to previous quarters led to a jump in earnings. The PAT for Q4FY22 stood at INR 3,436 Mn, an increase of 8.7% YoY. We expect EBITDA/PAT to grow at 16.3%/7.5% CAGR over FY21-24E. We expect the company to see margins slightly pressured due to increased expenses on product development and marketing front in coming quarters.

Innovation & new product to be the key growth drivers: HDFCAMC will continue to focus on its new product pipeline providing innovative themes in thematic, passive, foreign funds and ETFs in the upcoming quarters. The company has been working on new avenues of growth, regaining its market share, and expanding its customer reach. The company has taken on various digital and automation initiatives to improve operational leverage.

SHARE PRICE PERFORMANCE

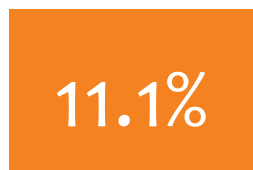


MARKET INFO

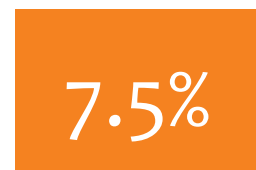
SENSEX	57,061
NIFTY	17,103

SHARE HOLDING PATTERN (%)

Particulars	Mar-22	Dec-21	Sept-21
Promoters	68.8	68.8	68.9
FIIIs	10.4	10.5	9.0
DIIIs	9.0	9.4	7.5
Others	11.8	11.2	14.6
Total	100.0	100.0	100.0



Revenue CAGR between FY21 and FY24E



PAT CAGR between FY21 and FY24E

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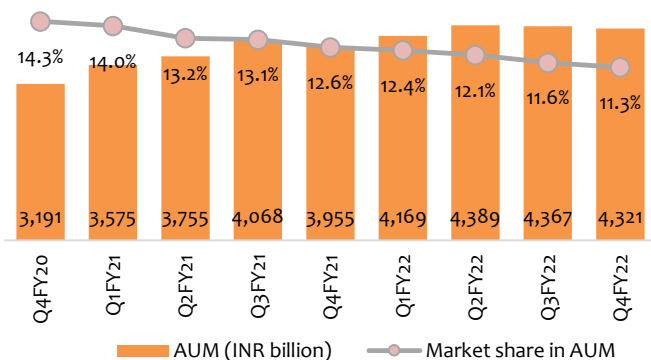
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Key Concall Highlights:

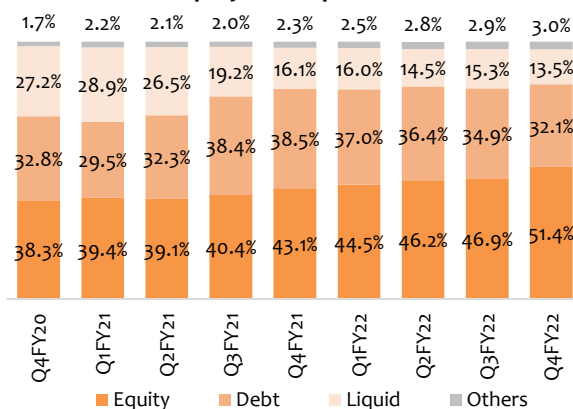
- (i) HDFCAMC to file a Category II AIF PPM with the regulator in the upcoming week. It would be fund of funds investing across the entire spectrum, right from the early feed stage, to late stage. It is also working on filing for a Category III AIF.
- (ii) The company is awaiting regulatory approvals for setting up its wholly-owned subsidiary in GIFT City.
- (iii) The digital nudges have resulted in reduction of redemption to the extent of 2.5% and on the other hand, its analytic based campaign have seen 2.5x more effective conversion rates.
- (iv) **“Connect”**, which is a new age digital marketing app for HDFCAMC’s partners to help leverage the power of digital marketing, has seen a substantial growth of 2x in its user base in FY22 and active weekly engagement rate of over 50%.
- (v) In terms of other expenses, HDFCAMC has seen an increase of 27% YoY in FY22. This can be attributed to low base effect due to lockdown during the last part of FY21.
- (vi) The company is investing further into technology and digital infrastructure in a calibrated manner.
- (vii) On the merger of HDF & HDFC Bank, HDFCAMC will become a subsidiary of HDFC Bank, and this will facilitate more efficient cross-selling of banking and financial services products that includes insurance and mutual funds.
- (viii) The company has 12 ETFs which has received approvals and are working on expanding this range further.

Valuation and view: HDFCAMC reported a weak performance in Q4FY22. AUM and topline for the quarter saw a sequential fall in the growth. However, we believe HDFCAMC is a strong retail brand with a unique investor base of 5.8 mn as of 31st March 2022. We expect the strong brand equity and distribution mix to aid in sustaining its premium valuation over its peers. The effort put by the company in terms of new product launches to re-gain market share and its initiatives on the digital front is expected to pan out by reflecting it in its earnings going ahead. HDFCAMC will sustain growth if the economy remains stable and retail investors continue to invest/save. We believe the merger of HDFC & HDFC Bank to support the cross-selling strategy and help to strengthen its market position. We remain optimistic about the industry performance with improvement in equity contribution, but we remain cautious about the ongoing erosion of HDFCAMC’s market share owing to the increasingly competitive scenario. We expect the premium valuation of AMC to continue owing to its strong brand equity. We expect Revenues/ EBITDA/ PAT to grow at 11.8%/9.2%/7.8% over FY21-24E. **HDFCAMC shares are currently trading at a P/E of 29.0x/26.4x on FY23E/FY24E earnings. We are applying a P/E multiple of 30x on FY24E EPS of INR 77.3 to arrive at a target price of INR 2,318 per share (previously INR 2,500), an upside of 13.6% over the CMP. We maintain our rating of “ACCUMULATE” on the shares of HDFC AMC.**

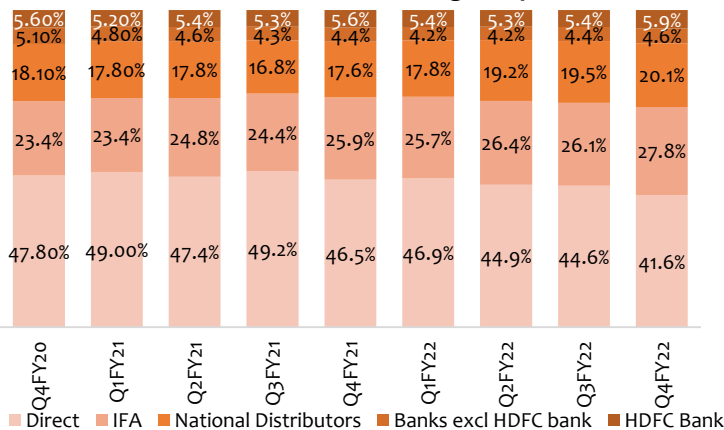
AUM and market share
Loses market share especially in account of equity funds



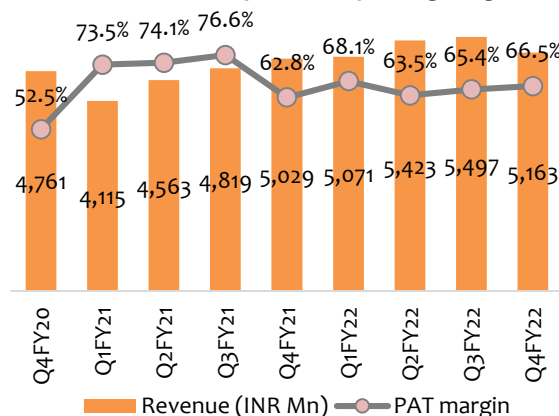
Segment-wise AUM mix (%)
Equity mix improved



Distribution Mix on AUM basis (%)
MFDs share increased during the quarter



Operations
Lower taxation expenses keeps margin high



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss A/c

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenue from operations	20,033	18,525	21,154	22,855	25,403
Total expenses	4,310	3,880	5,154	5,483	6,094
Employee benefit expenses	2,147	2,268	3,122	3,200	3,556
Other operating expenses	2,163	1,613	2,032	2,283	2,537
EBITDA	15,722	14,645	15,999	17,372	19,310
EBITDA Margin	78.5%	79.1%	75.6%	76.0%	76.0%
Depreciation	504	554	539	600	670
EBIT	15,219	14,091	15,461	16,772	18,640
EBIT Margin	76.0%	76.1%	73.1%	73.4%	73.4%
Other income	1,402	3,492	3,178	3,337	3,437
Finance cost	90	90	86	90	100
PBT	16,531	17,494	18,553	20,020	21,977
Tax	3,906	4,232	4,622	5,005	5,494
PAT	12,624	13,262	13,931	15,015	16,483
PAT margin	63.0%	71.6%	65.9%	65.7%	64.9%
EPS (INR)	59.2	62.3	65.4	70.4	77.3

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	12,848	10,851	12,537	16,046	17,305
Net Cash Flow from/(used in) Investing Activities	(9,276)	(4,827)	(5,080)	(8,860)	(9,434)
Net Cash Flow from Financing Activities	(3,316)	(6,276)	(7,455)	(7,166)	(7,859)
Net Inc/Dec in cash equivalents	257	(252)	2	20	12
Opening Balance	9	266	17	19	38
Closing Balance Cash and Cash Equivalents	266	14	19	38	51

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Cash and Cash Equivalents	266	17	19	38	51
Bank Balance	5	7	62	62	62
Trade Receivables	606	799	745	691	768
Other Receivables	40	39	60	46	51
Investments	39,445	47,532	55,702	64,222	73,278
Other Financial Assets	300	324	252	342	380
Total Financial Assets	40,661	48,717	56,840	65,401	74,589
Current Tax Assets (net)	324	313	306	369	410
Deferred Tax Assets (net)	217	0	0	0	0
Property, Plant and Equipment	1,414	1,369	1,222	1,372	1,522
Intangible Assets Under Development	46	12	5	32	32
Goodwill	60	60	60	60	60
Other Intangible Assets	93	103	69	80	80
Other Non-Financial Assets	271	373	302	309	344
Total Non-Financial Assets	2,425	2,230	1,964	2,223	2,449
Total Assets	43,086	50,947	58,804	67,624	77,038
Trade Payables	467	421	292	594	661
Other Financial Liabilities	1,784	1,879	1,896	2,035	2,262
Total Financial Liabilities	2,251	2,300	2,189	2,629	2,923
Current Tax Liabilities (net)	39	43	74	74	74
Provisions	73	79	118	118	118
Deferred Tax Liabilities (net)	0	321	753	753	753
Other Non-Financial Liabilities	431	442	370	491	546
Total Non-Financial Liabilities	542	885	1,315	1,436	1,491
Equity Share Capital	1,064	1,065	1,066	1,066	1,066
Other Equity	39,229	46,697	54,234	62,492	71,558
Total Equity	40,293	47,762	55,300	63,558	72,624
Total Liabilities and Equity	43,086	50,947	58,804	67,624	77,038

Source: Company, KRChoksey Research

Exhibit 5: Profitability Metrics

Key Ratios	FY20	FY21	FY22	FY23E	FY23E
EBITDA margin	78.5%	79.1%	75.6%	76.0%	76.0%
EBIT margin	76.0%	76.1%	73.1%	73.4%	73.4%
PAT margin	63.0%	71.6%	65.9%	65.7%	64.9%
Return on Assets	29.3%	26.0%	23.7%	22.1%	21.2%
Return on Equity	31.3%	27.8%	25.2%	23.6%	22.7%

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
30- Apr-22	2,042	2,318	ACCUMULATE	Buy	More than 15%
25-Jan-21	2,231	2,500	ACCUMULATE	Accumulate	5% – 15%
28-Oct-21	2,701	3,326	BUY	Hold	0 – 5%
31-Aug-21	3,064	3,200	HOLD	Reduce	-5% – 0
19-Jul-21	2,992	3,200	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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