

Market share slump continues to remain a dampener

HDFC AMC reported a mixed performance wherein muted operational performance was supported by one-off other income. AUM growth remained weak with a decline in market share.

Industry AUM increased to ₹ 26.9 lakh crore as of September 2020 compared to ₹ 24.5 lakh crore as of September 2019, largely led by a pick-up in non-equity inflows. Equity related AUM remained broadly flattish YoY at ₹ 10.4 lakh crore, leading to a decline in proportion of equity AUM to 39% against 43% in Q2FY20. SIP inflows dipped 6% YoY to ₹ 7800 crore though SIP accounts came in a tad higher by 17.2% YoY to 3.3 crore.

HDFC AMC's AUM de-grew 3.2% YoY to ₹ 354400 crore (flattish QoQ), mainly on account of decline in liquid AUM. Equity AUM declined 12.8% YoY (flattish industry growth rate) to ₹ 143700 crore. Non-equity AUM grew 4.6% YoY to ₹ 210700 crore, with inflow in debt AUM offsetting outflow in liquid schemes. **HDFC AMC witnessed a decline in market share from 14.9% in Q2FY20 to 13.2% in Q2FY21. Equity AUM market share also declined from 15.8% in Q2FY20 to 13.6% in Q2FY21.**

Decline in proportion of equity AUM coupled with reduction in credit fund AUM (that is better yield product) led to revenue from operation benign at ₹ 456 crore, down 8% YoY. Subsequently, yields contracted 3 bps YoY to 51 bps of closing AUM. Other income was up 123% YoY to ₹ 114 crore, due to one off unrealised gains in NCDs worth ₹ 55.8 crore in Q2FY21. Such higher other income coupled with lower opex led PBT to increase 8.3% YoY to ₹ 463 crore. However, earnings optically look down 8.2% YoY to ₹ 338 crore due to base effect last fiscal on opting for new tax regime.

In line with industry trend, SIP inflows saw a dip to ₹ 900 crore in September 2020 compared to ₹ 1280 crore in September 2019. Furthermore, SIP book market share also declined from ~15.4% in Q2FY20 to ~11.5% in Q2FY21 (market shares calculated).

Valuation & Outlook

Amid recent market uncertainty and heightened competition, contraction of AUM market share continued from 14.9% in Q2FY20 to 13.2% in Q2FY21. Going ahead, revival of market share remains the key focus area. Launch of new products and introduction of festival offer is adopted to accelerate AUM accretion. In addition, appointment of new fund managers and diversification in investment style is been undertaken. We remain positive on the strong brand franchise and efficient operational strength, however, would await clarity on AUM trend given launch of new products and diversification of investment style. Therefore, we downgrade the stock from BUY to **HOLD** with a revised target price of ₹ 2500 per share (earlier ₹ 3000).

Key Financial Summary

	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
Revenue from operation (₹crore)	1757	1915	2003	1853	2178	4%
PBT (₹crore)	1058	1375	1653	1697	1903	11%
Net Profit (₹crore)	711	931	1262	1264	1418	15%
EPS (₹)	34.5	43.9	59.2	59.3	66.5	
P/E (x)	72.3	56.9	42.1	42.0	37.5	
AUM /share (₹)	14232	15754	14976	16880	19451	
P/AUM (%)	17.5	15.8	16.7	14.8	12.8	
DPS (₹)	16.0	24.0	28.0	29.7	33.3	
RoE (%)	32.9	30.3	31.3	27.1	26.4	

Source: Company, ICICI Direct Research



Particulars

	Amount
Market Capitalisation	₹50210 crore
AUM (Q2FY21)	₹354400 crore
Equity AUM (Q2FY21)	₹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 muted at ₹ 354400 crore
- Traction in SIP flow sees dip to ₹ 900 crore
- Market share declined to 13.2% in Q2FY21
- Downgrade from BUY to HOLD with revised target price of ₹ 2500

Source: ICICI Direct Research, Company

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Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20 YoY (%)		Q1FY21	QoQ (%)	Comments
Revenue from operation	456.3	497.9	498.0	-8.4	411.5	10.9	C hange in asset mix with decline in proportion of equity AUM impacted revenue momentum
Revenue/AUM	0.51%	0.53%	0.54%	12 bps	0.46%	3 bps	
Other Income	113.7	47.0	51.1	122.6	79.8	NA	Other income includes one-off gain of ₹56 crore from NCD exposure
Net Total Income	570.0	544.9	549.1	3.8	491.3	16.0	
Staff cost	53.5	53.4	57.8	-7.6	52.6	1.6	Cost control continued to remain a focus area
Other Operating Expense	53.6	65.3	63.7	-15.9	57.1	-6.2	
Total Expense	107.0	118.7	121.5	-12.0	109.7	-2.4	
PBT	463.0	426.1	427.5	8.3	381.6	21.3	Higher other income and cost control offset impact of revenue from operation
Tax Outgo	124.9	102.3	59.3	110.6	78.0	60.1	
PAT	338.1	323.9	368.2	-8.2	303.6	11.3	PAT growth optically lower led by tax base last year
Total AUM	3,54,400	3,75,774	3,66,200	-3.2	3,57,500	-0.9	AUM remained flattish YoY with decline in proportion of equity AUM

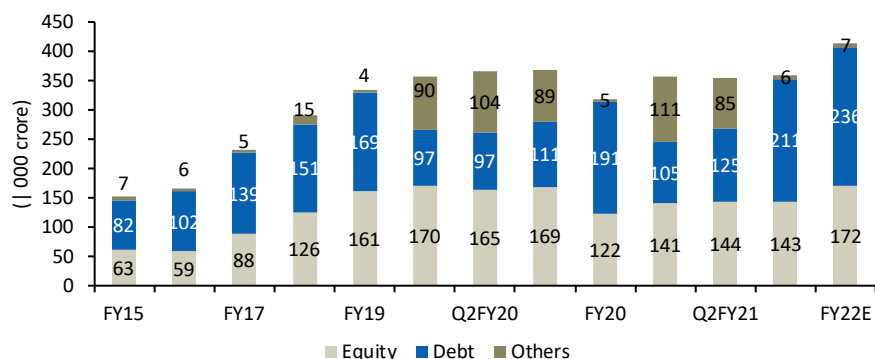
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Revenue from Operation	1,928	1,853	-3.9	2,182	2,178	-0.2
PBT	1,625.0	1,697.2	4.4	1,863.7	1,903.3	2.1
Revenue/AUM	0.55	0.50	-4 bps	0.54	0.51	-2 bps
PAT	1,240.9	1,264.4	1.9	1,423.3	1,418.0	-0.4
EPS (₹)	58.2	59.3	1.9	66.8	66.5	-0.4

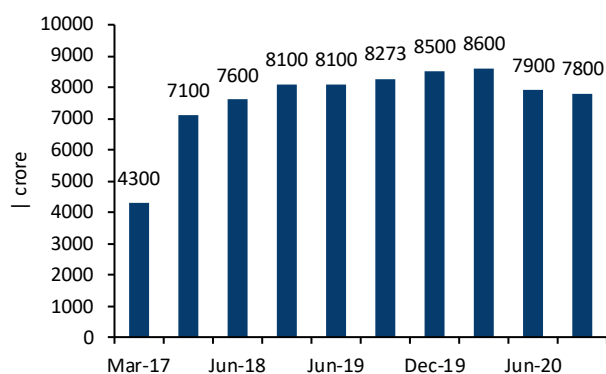
Source: Company, ICICI Direct Research

Exhibit 3: HDFC AMC witnesses muted AUM growth



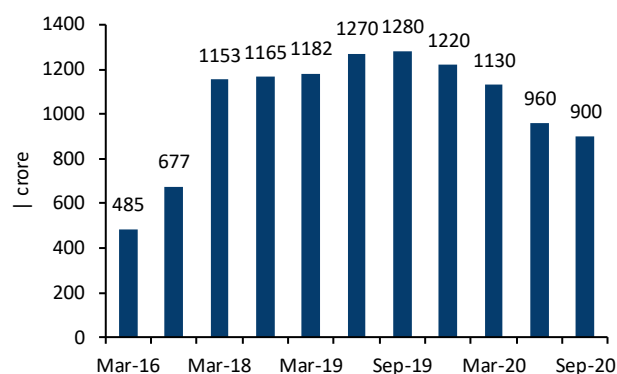
Source: Company, ICICI Direct Research

Exhibit 4: Dip in industry SIP flows (monthly)



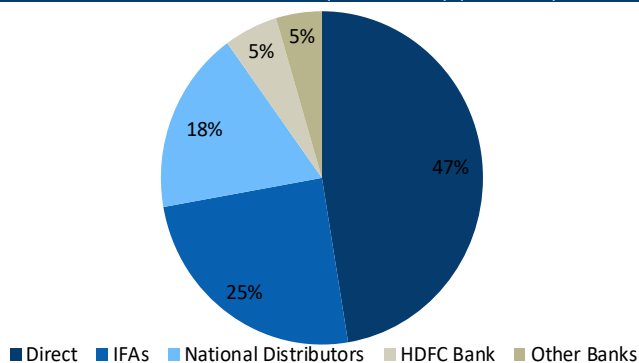
Source: AMFI, ICICI Direct Research, *- Monthly flows and not annualised

Exhibit 5: HDFC witnesses dip in SIP inflows



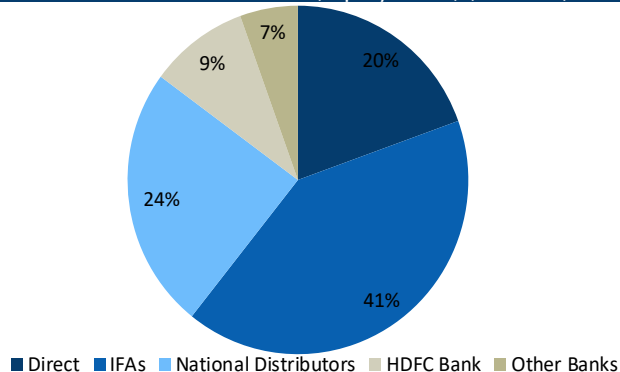
Source: AMFI, ICICI Direct Research, *- Monthly flows and not annualised

Exhibit 6: Distribution channel (total AUM) (Q2FY21)



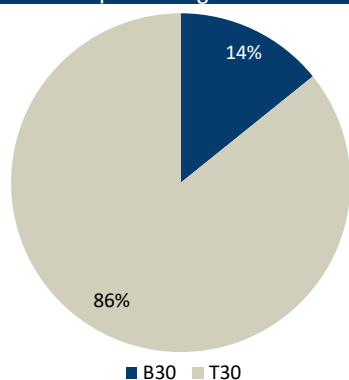
Source: Company, ICICI Direct Research

Exhibit 7: Distribution channel (equity AUM) (Q2FY21)



Source: Company, ICICI Direct Research

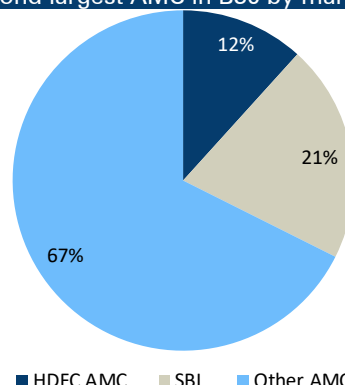
Exhibit 8: B30 AUM as percentage of total AUM



■ B30 ■ T30

Source: Company, ICICI Direct Research

Exhibit 9: Second largest AMC in B30 by market share



■ HDFC AMC ■ SBI ■ Other AMC

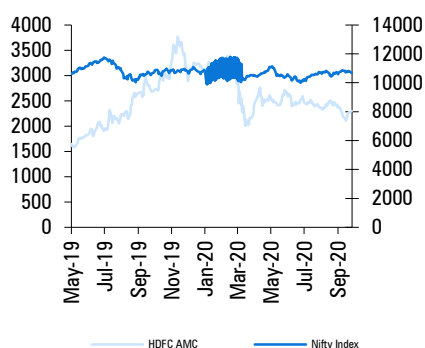
Source: Company, ICICI Direct Research

Exhibit 10: Shareholding Pattern

in %	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	82.7	79.7	79.6	74.0	73.9
D II	5.8	8.1	1.4	3.2	3.2
F II	1.7	0.9	8.0	10.7	10.7
Others	9.8	11.3	11.0	12.2	12.2

Source: Company, ICICI Direct Research

Exhibit 11: Price Chart



— HDFC AMC — Nifty Index

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	1,853.4	2,177.6
Growth (%)	2.6%	18.7%	9.0%	4.6%	-7.5%	17.5%
Other Income	107.9	113.0	181.6	139.9	294.6	220.6
Total Revenue	1,587.9	1,869.8	2,096.8	2,143.1	2,147.9	2,398.2
Employee Benefit Expenses	157.6	186.1	206.3	214.7	214.6	238.9
Depreciation & Amortization Expe	12.0	9.4	12.9	50.4	55.4	55.4
Other Expenses (incl fees)	618.4	616.1	503.0	225.1	180.7	200.6
Total Expenses	787.9	811.5	722.1	490.2	450.8	494.9
Profit Before Tax	800.0	1,058.2	1,374.7	1,652.9	1,697.2	1,903.3
Taxes	249.5	346.9	444.1	390.6	432.8	485.4
Profit After Tax	550.4	711.3	930.6	1,262.3	1,264.4	1,418.0
EPS (₹)	27.1	34.5	43.9	59.2	59.3	66.5

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	4555.1	5264.1
Total Shareholders funds	1422.9	2160.0	3070.7	4029.3	4661.5	5370.5
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	4968.7	5708.5
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	4412.3	4937.0
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	338.2	537.5
Total Assets	1599.6	2370.6	3223.8	4308.6	4968.7	5708.5

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	59.3	66.5
DPS	46.0	16.0	24.0	28.0	29.7	33.3
BVPS	69.9	104.8	144.8	189.1	218.8	252.0
P/E	92.2	72.3	56.9	42.1	42.0	37.5
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	0.3	0.3
Return Ratios (%)						
RoNW	38.7%	32.9%	30.3%	31.3%	27.1%	26.4%
NAV per equity share	34.4%	30.0%	28.9%	29.3%	25.4%	24.8%

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)	1,947	1,770	Buy	3,49,323	103.1	42.5	57.5	18.9	45.8	33.9	3.9	3.3	3.2	3.6	1.4	1.7	21.7	8.0	9.7
Mahindra & Mahindra Financial	128	160	Hold	15,753	14.7	14.7	14.7	8.7	8.7	8.7	1.1	1.7	1.5	1.3	1.2	1.6	8.1	6.8	7.3
Bajaj Finserv (BAFINS)	5,983	7,000	Buy	93,801	269.7	249.3	300.4	22.2	24.0	19.9	3.0	2.6	2.3	1.9	1.4	1.3	15.3	11.6	12.4
Bajaj Finance (BAJFI)	3,233	3,850	Buy	1,94,831	89.5	68.7	95.4	36.1	41.1	33.9	6.1	5.7	5.1	2.8	1.8	2.2	20.2	12.1	14.8
LIC Housing Finance (LIC HF)	283	345	Buy	15,170	46.5	59.0	66.1	6.1	4.8	4.3	1.0	1.0	0.9	1.1	1.2	1.2	13.8	15.5	15.6
SBI Life Insurance (SBILIF)	826	1,000	Buy	82,624	14.2	16.2	19.8	58.0	51.0	41.6	3.1	2.7	2.4	0.8	0.8	0.9	14.6	14.5	15.6
HDFC AMC	2,317	2,500	Hold	50,210	59.2	58.8	67.5	39.1	39.4	34.3	12.3	10.6	9.2	0.4	0.4	0.4	31.3	26.9	26.8
Nippon AMC	270	364	Buy	16,854	6.7	8.8	10.9	40.1	30.8	24.8	6.2	5.9	5.5	0.2	0.2	0.2	15.5	19.0	22.1
MCX	1,730	1,800	Buy	8,825	46.4	39.7	47.8	37.3	43.6	36.2	6.5	6.2	5.8	8.7	7.0	7.8	17.4	14.3	16.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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