

Steady performance; market share to be watched...

About the stock: HDFC AMC is among the largest and profitable mutual funds with a AUM of ₹ 4.18 lakh crore as on June 2021.

- Market share as on Q1FY22 was at 12.4%
- Strong distribution network with 227 branches and over 70,000 empanelled distribution partners

Q1FY22 Results: HDFC AMC reported a soft quarter.

- AUM up 17% YoY, 5.9% QoQ to ₹ 4.18 lakh crore, equity AUM up 9% QoQ
- Revenue from operations flat QoQ at ₹ 507 crore; yields down 3 bps QoQ
- PAT up 9% QoQ (14.3% YoY) to ₹ 345 crore, primarily led by higher one-off other income at ₹ 101 crore

What should investors do? HDFC AMC share price has grown over 70% since its listing in August 2018.

- We maintain HOLD rating on the stock

Target Price and Valuation: We value HDFC AMC at ~43x FY23 EPS to arrive at a target price of ₹ 3150 per share.

Key triggers for future price performance:

- Strong brand franchise, distribution strength and operational capabilities
- Continued decline in market share is concerning; new product launches to aid AUM growth
- Competitive pressure & passive products to limit yield expansion
- Premium valuations to continue amid AUM growth & superior operational efficiency

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



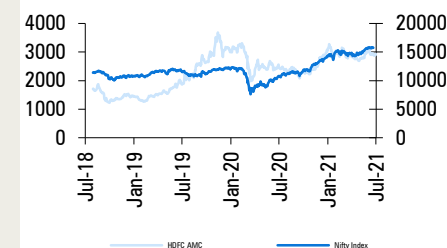
Particulars

	Amount
Market Capitalisation	₹ 65823 crore
AUM (Q1FY22)	₹ 418700 crore
Equity AUM (Q1FY22)	₹ 180500 crore
52 week H/L	3358/2071
Face Value	₹ 5
DII Holding (%)	6.3
FII Holding (%)	9.4

Shareholding pattern

in %	Jun-20	Dec-20	Mar-21	Jun-21
Promoter	74.0	73.9	73.9	73.9
DII	3.2	5.6	6.0	6.6
FII	10.7	9.1	9.4	9.1
Others	12.2	11.3	10.8	10.4

Price Chart



Recent Event & key risk

- AUM saw healthy sequential growth of 5.9% QoQ at ₹4.18 lakh crore
- Key Risk:** Continued fall in market share and increasing competitive pressure

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Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21	3 year CAGR (FY18-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenue from operation (₹ crore)	1757	1915	2003	1853	2%	2176	2492	16%
PBT (₹ crore)	1058	1375	1653	1749	18%	1847	2108	10%
Net Profit (₹ crore)	711	931	1262	1326	23%	1376	1571	9%
EPS (₹)	34.5	43.9	59.2	62.2		64.6	73.7	
P/E (x)	89.5	65.3	48.4	46.0		44.4	38.9	
AUM /share (₹)	14232	15754	14976	18548		21734	24410	
P/AUM (%)	21.7	18.2	19.1	15.4		13.2	11.7	
DPS (₹)	16.0	24.0	28.0	34.0		35.3	40.3	
RoE (%)	32.9	30.3	31.3	27.8		25.5	25.7	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Modest overall performance

- AUM growth of 17% YoY, 5.9% QoQ was led by 31% YoY and 9.1% uptick in equity AUM
- Contribution of equity AUM up from 42% to 43% QoQ
- HDFC AMC SIP flows moderated from ₹ 1040 crore in March 2021 to ₹ 980 crore in June 2021
- Launched banking sector fund & Fund of Fund in Q1FY22; further launches in foray including multi cap fund, thematic fund, sectoral fund and passive schemes. Total amount raised via NFO was at ₹ 2977 crore of which ₹ 1877 crore was for BFSI segment
- Despite a pick-up in AUM and increased equity contribution, yields decline 3 bps QoQ to 48 bps. Fall in yields was due to competitive pressure, business development expense related to NFO as well as increased size of schemes
- Other income jumped over 2x QoQ due to MTM gains and selling of some collaterals against Essel NCD
- There is no impact of Sebi's compensation rule for key personnel
- Continued focus on technology to enhance customer experience and aid business
- Expenses related to stock option to remain at current level in Q2FY22E and Q3FY22E, post which there should be a decline

Peer comparison (not necessarily financial, can be qualitative)

Exhibit 1: ICICI Direct coverage universe (AMC)

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HDFC AMC (HDFAMC)	3,089	3,150	Hold	658	62.2	64.6	73.7	49.6	47.8	41.9	13.8	12.2	10.8	27.8	25.5	25.7
Nippon AMC (RELNIP)	418	360	Hold	258	11.1	11.2	12.7	37.7	37.3	32.9	8.3	7.8	7.3	18.7	15.9	15.3

Source: Company, ICICI Direct Research

We remain positive on the strong brand franchise and efficient operational strength but have near term concerns over losing market share. Therefore, we maintain our HOLD rating on the stock with a revised target price of ₹ 3150/share.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue from operation	507.1	524.4	411.5	23.2	502.9	0.8	
Revenue/AUM	0.48%	0.50%	0.46%	2 bps	0.51%	- 3 bps	Fall in yields due to competitive pressures, higher scheme expenses
Other Income	100.9	45.2	79.8	26.4	42.6	136.7	Sharp jump due to MTM gains and sale of collateral
Net Total Income	608.0	569.6	491.3	23.7	545.6	11.4	
Staff cost	83.5	67.7	52.6	58.6	63.8	30.8	Increased cost due to Esops, additional business development expense and salary hikes
Other Operating Expenses	58.4	61.5	58.3	0.1	58.7	-0.5	
Total Expense	141.9	129.2	110.9	27.9	122.6	15.8	
PBT	466.1	440.4	380.4	22.5	423.0	10.2	
Tax Outgo	120.7	110.1	78.0	54.7	106.9	12.8	
PAT	345.5	330.3	302.4	14.3	316.1	9.3	Boosted by other income
Total AUM	418,700	419,509	357,500	17.1	395,500	5.9	Driven by equity AUM growth of 9.1% QoQ

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Revenue from Operation	2,267	2,176	-4.0	2,546.0	2,492	-2.1
PBT	1,964.7	1,847.2	-6.0	2,206.1	2,108.4	-4.4
Revenue/AUM	0.49	0.46	-3 bps	0.49	0.47	-2 bps
PAT	1,463.7	1,376.2	-6.0	1,643.5	1,570.7	-4.4
EPS(₹)	68.7	64.6	-6.0	77.1	73.7	-4.4

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit & Loss Statement

(₹ crores)	FY19	FY20	FY21	FY22E	FY23E
Revenue from Operations	1,915.2	2,003.3	1,852.5	2,176.3	2,492.4
Growth (%)	9.0%	4.6%	-7.5%	17.5%	14.5%
Other Income	181.6	139.9	349.2	240.6	204.6
Total Revenue	2,096.8	2,143.1	2,201.7	2,416.8	2,697.0
Employee Benefit Expenses	206.3	214.7	226.8	319.5	318.7
Depreciation & Amortization Expense	12.9	50.4	55.4	55.4	55.4
Other Expenses (incl fees)	503.0	225.1	170.6	194.7	214.4
Total Expenses	722.1	490.2	452.8	569.6	588.6
Profit Before Tax	1,374.7	1,652.9	1,749.0	1,847.2	2,108.4
Taxes	444.1	390.6	423.2	471.0	537.6
Profit After Tax	930.6	1,262.3	1,325.8	1,376.2	1,570.7
EPS (₹)	43.9	59.2	62.2	64.6	73.7

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet

(₹ crores)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share capital	106.3	106.4	106.5	106.5	106.5
Reserves and surplus	2964.4	3922.9	4669.7	5293.9	6006.3
Total Shareholders funds	3070.7	4029.3	4776.2	5400.3	6112.7
Total Non-Current Liabilities					
	4.6	3.9	4.3	4.8	5.3
Total Current Liabilities					
	148.4	275.4	314.2	345.6	380.2
Total	3223.8	4308.6	5094.7	5750.7	6498.2
Applications of Funds					
Property, plant and equipment	25.6	141.4	136.9	150.5	165.6
Intangible assets	14.1	15.3	16.4	17.4	18.4
Intangible asset under development	3.2	4.6	1.2	1.2	1.2
Investments*	2935.0	3944.5	4753.3	5262.4	5843.6
Long term loans and advances	47.9	27.1	37.3	37.3	37.3
Deferred tax assets (net)	0.0	21.7	0.0	0.0	0.0
Total Current Assets and Others	198.0	154.0	149.8	281.9	432.1
Total Assets	3223.8	4308.6	5094.7	5750.7	6498.2

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No of Equity shares (crore)	21.2	21.3	21.3	21.3	21.3
EPS	43.9	59.2	62.2	64.6	73.7
DPS	24.0	28.0	34.0	35.3	40.3
BVPS	144.8	189.1	224.2	253.4	286.9
P/E	70.4	52.1	49.6	47.8	41.9
P/BV	21.3	16.3	13.8	12.2	10.8
Operating Ratios (%)					
Rev/AUM	0.56	0.61	0.46	0.46	0.47
EBITDA/AUM	0.35	0.48	0.36	0.35	0.37
PAT/AUM	0.27	0.39	0.33	0.29	0.29
Return Ratios (%)					
RoNW	30.3%	31.3%	27.8%	25.5%	25.7%
ROCE	28.9%	29.3%	26.0%	23.9%	24.2%

Source: Company, ICICI Direct Research

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Buy: >15%

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Sell: <-15%



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