

Modest performance; pricing pressure persistent...

About the stock: HDFC AMC is among the largest and profitable mutual funds with an AUM of ~₹ 4.4 lakh crore as on December 2021.

- Market share as on Q3FY22 was at 11.6%
- Strong distribution network with 227 branches and over 70,000 empanelled distribution partners

Q3FY22 Results: HDFC AMC reported a modest quarter.

- AUM up 7.4% YoY, 0.2% QoQ to ₹ 4.4 lakh crore; equity AUM up 1.2% QoQ
- Revenue from operation up 1.4% QoQ to ₹ 550 crore; yield flattish at 50 bps
- PAT improved on sequential basis while it declined 2.5% YoY to ₹ 360 crore

What should investors do? HDFC AMC's share price has grown over 29% since its listing in August 2018.

- We maintain HOLD rating on the stock

Target Price and Valuation: Given concerns on declining market share, we value HDFC AMC at ~29x FY24E EPS and revise our target price from ₹ 3000 to ₹ 2550

Key triggers for future price performance:

- Strong brand franchise, distribution strength and operational capabilities
- Continued competitive pressure & passive products to limit yield expansion
- New launch in pipeline. However, continued decline in market share remains a concern
- Premium valuations to continue amid 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



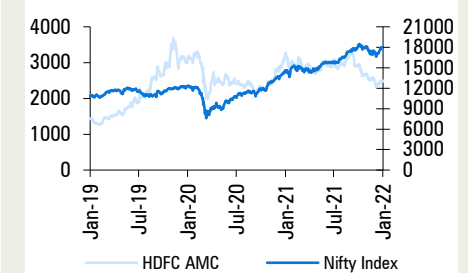
Particulars

	Amount
Market Capitalisation	₹ 48192 crore
AUM (Q3FY22)	₹ 436700 crore
Networth (Q3FY22)	₹ 51683 crore
52 week H/L	3363/2236
Face Value	₹ 5

Shareholding pattern

in %	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	73.9	73.9	73.9	68.9	68.8
DII	5.6	6.0	6.6	9.0	9.4
FII	9.1	9.4	9.1	7.6	10.5
Others	11.3	10.8	10.4	14.6	11.2

Price Chart



Recent Event & key risk

- AUM witnessed a growth of 7.4% YoY at ₹ 4.37 lakh crore
- Key Risk:** i) Reversal in market share, ii) increasing competitive pricing pressure

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Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21	3 year CAGR (FY18-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Revenue from operation (₹ crore)	1757	1915	2003	1853	2%	2160	2505	2866	16%
PBT (₹ crore)	1058	1375	1653	1749	18%	1907	2155	2483	12%
Net Profit (₹ crore)	711	931	1262	1326	23%	1421	1616	1862	12%
EPS (₹)	34.5	43.9	59.2	62.2		66.7	75.8	87.4	
P/E (x)	65.5	51.5	38.1	36.3		33.9	29.8	25.9	
AUM /share (₹)	14232	15754	14976	18548		20980	23980	27422	
P/AUM (%)	15.9	14.3	15.1	12.2		10.8	9.4	8.2	
RoE (%)	32.9	30.3	31.3	27.8		26.2	26.3	26.6	

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results: Modest overall performance

- HDFC AMC's AUM saw muted growth of 0.2% QoQ to ₹ 436700 crore (7.4% YoY); ~1.5% QoQ rise in equity AUM to ₹ 196700 crore, and now forms 46.9% of overall AUM
- Debt AUM declined 4% QoQ to ₹ 152400 crore; forming 34.9% of AUM
- HDFC AMC continued to witness decline in market share from 12.4% in Q1FY22 to 11.9% in Q2FY22 and further to 11.6% in Q3FY22. Equity AUM (actively managed) market share also declined from 12.6% in Q1FY22 to 11.8% in Q2FY22 and to 11.4% in Q3FY22
- HDFC AMC SIP flows witnessed an increase from ₹ 1080 crore in Q2FY22 to ₹ 1190 crore in Q3FY22.

Q3FY22 Results: Earnings Conference Call highlights

- Launched two NFOs in the quarter - Multicap fund (AUM of ₹ 4353 crore as on December 31, 2021) and Nifty Next 50 fund
- HDFC AMC has strategy is to be relevant player on passive side and dominant player on active side
- The company has got approval for nine ETF. Looking to launch debt and silver ETF. Further, it plans to launch sectoral, ETF, index and thematic funds in coming months. Have few funds in pipeline in thematic category
- AUM for fintech industry is at ₹ 55000 crore, of which ₹ 45000 crore is in equity AUM. 60 lakhs SIP have been opened by fintech players in 9MFY22
- Dilution in margin in NFO seen due to intense pricing pressure
- HDFC AMC plans to enter alternative funds and will further launch category two funds and has filled permission with Sebi to launch category 3 fund
- HDFC AMC plans to launch a subsidiary in Gift City named HDFC AMC IFSC, which will act as investment manager to the schemes launched under Alternative Investment Funds
- Opex to revenue is expected to be around at the same level of which 1 bps is from ESOPs. The ratio is expected to decline after a year or two
- Total live accounts were at 96 lakh as on December 31, 2021. Unique customers as identified by PAN or PEKRN are now at 57 lakh as on December 31, 2021 compared to 3.06 crore for the industry
- In PMS, one large client booked profits, which is further reflected in AUM
- HDFC AMC plans to add more manpower on technology, products as well as in marketing side
- The company does not want to miss out on strategic opportunities. It, however, does not want to chase scale at the cost of profitability

Peer comparison

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)	2,260	2,550	Hold	482	62.2	66.7	75.8	36.3	33.9	29.8	10.1	8.9	7.8	27.8	26.2	26.3
Nippon AMC (RELNIP)	335	485	Buy	208	11.0	13.6	13.8	30.4	24.6	24.3	6.7	6.2	5.8	18.7	18.7	16.0
Computer Age Management Sr	2,651	3,500	Buy	130	30.2	27.7	35.3	11.1	12.1	9.5	3.6	3.6	3.0	32.8	29.9	31.4

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 and increasing competitive pricing pressure. Therefore, we maintain our HOLD rating on the stock with a revised target price of ₹ 2550/share.

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21 YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue from operation	549.7	565.0	481.9 14.1	542.3	1.4	Topline growth led by uptick in AUM
Revenue/AUM	0.50%	0.49%	0.47% 0 bps	0.50% 0 bps		
Other Income	86.2	70.2	113.1 -23.7	66.1	30.5	
Net Total Income	635.9	635.2	594.9 6.9	608.4	4.5	
Staff cost	77.5	80.2	56.9 36.2	79.8	-3.0	Increased cost due to Esops, additional business development expense
Other Operating Expenses	73.3	68.3	55.4 32.2	67.2	9.0	
Total Expense	150.7	148.5	112.3 34.2	147.0	2.5	
PBT	485.2	486.7	482.6 0.5	461.4	5.2	
Tax Outgo	125.4	121.7	113.4 10.6	117.0	7.2	
PAT	359.8	365.0	369.3 -2.6	344.4	4.5	Lower other income and higher expense impacted PAT
Total AUM	436,700	463,198	406,800 7.4	435,700	0.2	Driven by growth in equity AUM

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue from Operation	2,233	2,160	-3.3	2,602.0	2,505	-3.7	2,866
PBT	1,915.1	1,907.0	-0.4	2,224.0	2,154.8	-3.1	2,483.0
Revenue/AUM	0.46	0.47	1 bps	0.47	0.48	1 bps	0.48
PAT	1,426.8	1,420.7	-0.4	1,656.9	1,616.1	-2.5	1,862.3
EPS(₹)	67.0	66.7	-0.4	77.8	75.8	-2.5	87.4

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit & Loss Statement

(₹ crores)	FY20	FY21	FY22E	FY23E	FY24E
Revenue from Operations	2,003.3	1,852.5	2,159.7	2,505.2	2,865.7
Growth (%)	4.6%	-7.5%	16.6%	16.0%	14.4%
Other Income	139.9	349.2	300.6	234.6	236.7
Total Revenue	2,143.1	2,201.7	2,460.3	2,739.8	3,102.4
Employee Benefit Expenses	214.7	226.8	319.5	332.3	345.6
Depreciation & Amortization Expense	50.4	55.4	55.4	55.4	55.4
Other Expenses (incl fees)	225.1	170.6	178.4	197.3	218.3
Total Expenses	490.2	452.8	553.3	585.0	619.4
Profit Before Tax	1,652.9	1,749.0	1,907.0	2,154.8	2,483.0
Taxes	390.6	423.2	486.3	538.7	620.8
Profit After Tax	1,262.3	1,325.8	1,420.7	1,616.1	1,862.3
EPS (₹)	59.2	62.2	66.7	75.8	87.4

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet

(₹ crores)	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Share capital	106.4	106.5	106.5	106.5	106.5
Reserves and surplus	3922.9	4669.7	5314.1	6047.0	6891.7
Total Shareholders funds	4029.3	4776.2	5420.5	6153.5	6998.1
Applications of Funds					
Property, plant and equipment	141.4	136.9	150.5	165.6	182.2
Intangible assets	15.3	16.4	17.4	18.4	19.4
Intangible asset under development	4.6	1.2	1.2	1.2	1.2
Investments*	3944.5	4753.3	5321.5	5919.5	6608.5
Long term loans and advances	27.1	37.3	37.3	37.3	37.3
Deferred tax assets (net)	21.7	0.0	0.0	0.0	0.0
Total Current Assets and Others	154.0	149.8	243.0	397.0	573.6
Total Assets	4308.6	5094.7	5770.9	6538.9	7422.1
Total Liabilities					
Total Non-Current Liabilities	3.9	4.3	4.8	5.3	5.8
Total Current Liabilities	275.4	314.2	345.6	380.2	418.2
Total	4308.6	5094.7	5770.9	6538.9	7422.1

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
Valuation					
No of Equity shares (crore)	21.3	21.3	21.3	21.3	21.3
EPS	59.2	62.2	66.7	75.8	87.4
DPS	28.0	34.0	36.4	41.4	47.8
BVPS	189.1	224.2	254.4	288.8	328.4
P/E	38.1	36.3	33.9	29.8	25.9
P/BV	12.0	10.1	8.9	7.8	6.9
Operating Ratios (%)					
Rev/AUM	0.61	0.46	0.47	0.48	0.48
EBITDA/AUM	0.48	0.36	0.36	0.38	0.38
PAT/AUM	0.39	0.33	0.31	0.31	0.31
Return Ratios (%)					
RoNW	31.3%	27.8%	26.2%	26.3%	26.6%
ROCE	29.3%	26.0%	24.6%	24.7%	25.1%

Source: Company, ICICI Direct Research

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Sell: <-15%



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