

# HDFC Asset Management Co. Ltd



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**Pricing pressure & increased expenses impacts operating margins**

CMP <b>INR 2,231</b>	Target <b>INR 2,500</b>	Potential Upside <b>12.0%</b>	Market Cap (INR Mn) <b>INR 4,78,200</b>	Recommendation <b>ACCUMULATE</b>	Sector <b>Asset Management Services</b>
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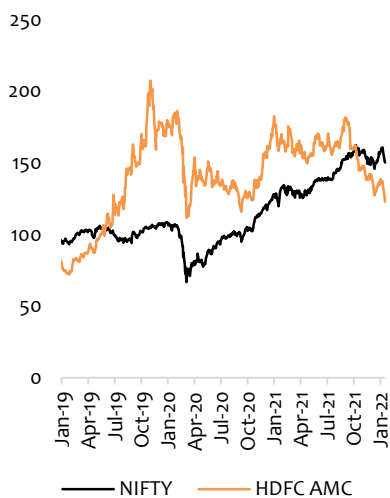
## Result Highlights:

- QAAUM of INR 4,367 bn as of December 31, 2021, a growth of 7% YoY. The market share in QAAUM stood at 11.6% of the mutual fund industry. The ratio of equity-oriented AUM and non-equity-oriented AUM is 47:53, similar/equal to the industry ratio of 47:53 in Q3FY22.
- In Q3FY22, revenue growth stood at INR 5,497 Mn, a growth of 14.1% YoY and 1.4% QoQ
- The EBITDA during Q3FY22 stood at INR 4,144 Mn (excluding other income), a growth of 36.2% YoY but a sequential fall of 3% on the back of higher expenses.
- PAT de-grew 2.6% YoY while grew 4.5% QoQ to INR 3,598 mn. The YoY fall was due to higher tax rate compared to Q3FY21.

## MARKET DATA

Shares outs (Mn)	213
Equity Cap (INR Mn)	51,009
Mkt Cap (INR Mn)	4,78,200
52 Wk H/L (INR)	3,365/2,171
Volume Avg (3m K)	294
Face Value (INR)	5
Bloomberg Code	HDFCAMC : IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	57,858
NIFTY	17,278

## KEY FINANCIALS

INR Mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	20,033	18,525	21,709	23,918	25,910
EBITDA	15,722	14,645	16,175	17,583	19,047
PAT	12,624	13,262	14,197	15,522	16,634
EPS (INR)	59.2	62.3	66.7	72.9	78.1
EBITDA Margin	78.5%	79.1%	74.5%	73.5%	73.5%
NPM	63.0%	71.6%	65.4%	64.9%	64.2%

Source: Company, KRChoksey Research

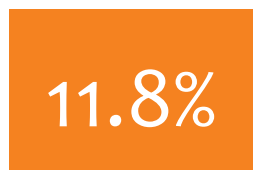
**Decent set of numbers with improving product mix:** HDFC AMC's revenue grew 14.1% YoY/ 1.4% QoQ to INR 5,497 Mn in Q3FY22. Due to yield stability and a more remunerative mix, revenues grew with a higher share of equity AUM. The contribution of equity AUM improved to 47% in Q3FY22 from ~40% in Q3FY21. The increase in equity contribution resulted from strong market performance, boosting revenue. The quarter saw some pressure from the pricing perspective leading to some loss from revenue front. The overall AUM grew 7% YoY but was slightly lower by 0.5% on a sequential basis at INR 4,367 Mn. Actively Managed Equity-oriented AUM grew by 23% YoY at INR 1,967 bn, driven by healthy performance in equity markets in Q3FY22. The company's market share in Closing AUM declined further to 11.4% from 11.8% in Q2FY22 and 13.4% in Q3FY21. We remain optimistic about the positive MF flows trend and expect it to continue in the following quarters. The company has been trying to regain its lost market share through new product filings and launches and introducing new fund managers. We anticipate that the company will deliver a stable topline growth on the back of increasing share of equity and improving the market performance.

**Higher Opex led to lower operation margins:** EBITDA for Q3FY22 rose by 7.4% YoY while was flattish on a sequential basis at INR 4,144 Mn. EBITDA margins for the quarter stood at 75.4% against 80.1% in Q3FY21 and 75.8% in Q2FY22. Despite decent revenue growth, EBITDA margins fell due to higher employee costs and increased marketing expenses due to new launches, which resulted in a decline in margins. Other income was lower by 23.7% YoY in Q3FY22 at INR 862 Mn on the back of the high base of one-off incomes in Q3FY21. Thus, other income has seen a lot of volatility in the last two years but is expected to normalize going forward. The lower other income and higher tax rate led to a decline in earnings. The PAT for Q3FY22 stood at INR 3,598 Mn, a decline of 2.6% YoY. We expect EBITDA/PAT to grow at 9.2%/7.8% CAGR over FY21-24E. We expect company to see margin pressure on the back of increasing expenses on product development and marketing front in coming quarters.

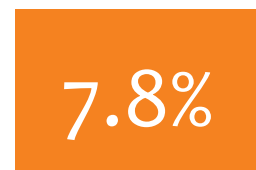
**New Launches and digital initiatives remain the key:** HDFCAMC will focus on newer & innovative launches in thematic, passive, foreign funds and ETFs in the upcoming quarters. The company is continuously looking for new avenues of growth, market expansion, and new product launches. In addition, HDFC is working on several digital and automation initiatives to improve operational leverage.

## SHARE HOLDING PATTERN (%)

Particulars	Dec-21	Sept-21	Jun-21
Promoters	68.8	68.9	73.9
FIIIs	10.5	9.0	9.1
DIIs	9.4	7.5	6.8
Others	11.2	14.6	10.1
Total	100.0	100.0	100.0



Revenue CAGR between FY21 and FY24E



PAT CAGR between FY21 and FY24E

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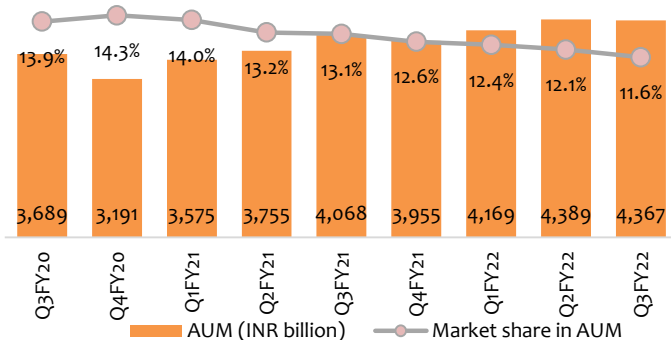
## Key Concall Highlights:

- (i) In Q3FY22, HDFCAMC launched two new funds in its portfolio which includes HDFC Multicap fund and HDFC Nifty next 50 Fund. The company proposes to launch few more funds in thematic, sectoral, and ETFs in coming quarters. HDFC AMC is also exploring passive funds.
- (ii) HDFCAMC plans to set up a wholly-owned subsidiary in the GIFT city in the name of IFSC, which will be responsible for launching new alternative investment funds in the coming quarter to cater to the international investors. The company expects to go live with the subsidiary during FY23E, subject to regulatory approvals.
- (iii) The gross flows into equity-oriented funds in 9MFY22 has added up to INR 4,273 bn i.e., 33.3% of the equity AUM at the start of the financial year.
- (iv) The company is expanding its product bouquet, which led to an increase in expenses during the quarter. The increase in costs was also due to the rise in business development expenditure which will see normalization from next quarter. A grant of ESOP was made to certain employees in Feb-21. This is included in the employee expense under pro-rata amortization under the Indian accounting system. This is a non-cash charge.
- (v) The employee cost has increased during the quarter as the company has resumed its practice of annual increments in FY22E.

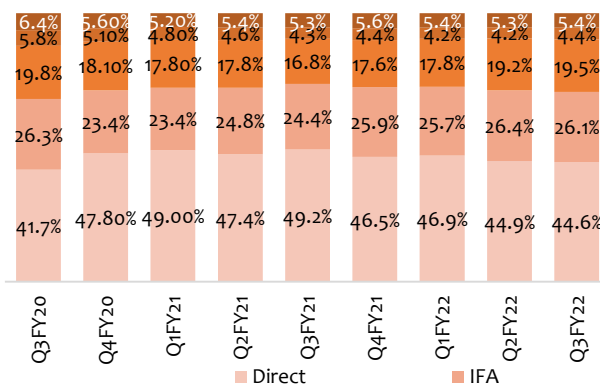
**Valuation and view:** HDFC AMC reported a decent performance in Q3FY22. AUM and topline for the quarter saw sequentially muted growth. However, we believe HDFC AMC is a strong retail brand with a unique investor base of 5.4 mn as of 31st December 2021. We expect the strong brand equity and distribution 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 to improve its earnings going ahead. HDFC AMC will sustain growth if the economy remains stable and retail investors continue to invest/save. We remain optimistic about the industry performance with improvement in equity contribution, but we are cautious about the ongoing erosion of HDFCAMC’s market share, though 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 33.5x/30.6x/28.6x on FY22E/23E/24E earnings. We are applying a reduced P/E multiple of 32x (earlier 39x) on FY24E EPS of INR 78.12 to arrive at a target price of INR 2,500 per share (previously INR 3,326), an upside of 12.0% over the CMP. We are reducing our target multiple as we are cautious about the ongoing erosion of the company’s market share; as a result, we revise our rating to “ACCUMULATE” (previously BUY) on the shares of HDFC AMC.**

**AUM and market share**

Market share continues to decline further

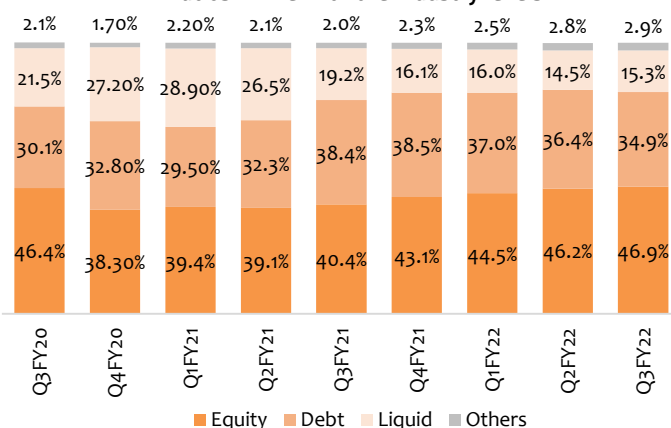


**Distribution Mix on AUM basis (%)**



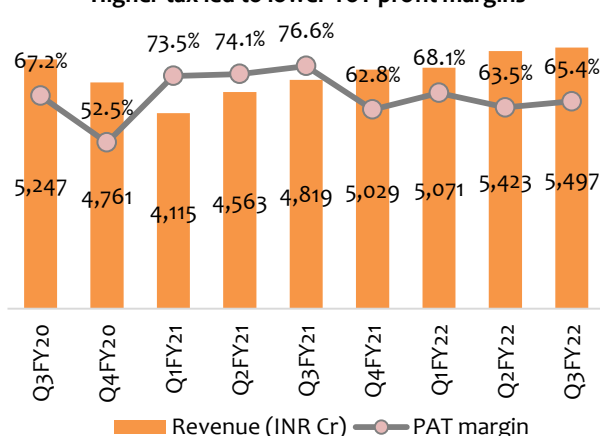
**Segment-wise AUM mix (%)**

Ratios in line with the industry levels



**Operations**

Higher tax led to lower YoY profit margins



Source: Company, KRChoksey Research

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## KEY FINANCIALS

### Exhibit 1: Profit & Loss A/c

INR Mn	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenue from operations</b>	<b>20,033</b>	<b>18,525</b>	<b>21,709</b>	<b>23,918</b>	<b>25,910</b>
Total expenses	4,310	3,880	5,534	6,336	6,863
Employee benefit expenses	2,147	2,268	3,148	3,349	3,627
Other operating expenses	2,163	1,613	2,386	2,987	3,236
<b>EBITDA</b>	<b>15,722</b>	<b>14,645</b>	<b>16,175</b>	<b>17,583</b>	<b>19,047</b>
EBITDA Margin	78.5%	79.1%	74.5%	73.5%	73.5%
Depreciation	504	554	566	647	733
<b>EBIT</b>	<b>15,219</b>	<b>14,091</b>	<b>15,609</b>	<b>16,936</b>	<b>18,313</b>
EBIT Margin	76.0%	76.1%	71.9%	70.8%	70.7%
Other income	1,402	3,492	3,667	3,850	3,966
Finance cost	90	90	90	90	100
<b>PBT</b>	<b>16,531</b>	<b>17,494</b>	<b>19,186</b>	<b>20,696</b>	<b>22,179</b>
Tax	3,906	4,232	4,988	5,174	5,545
<b>PAT</b>	<b>12,624</b>	<b>13,262</b>	<b>14,197</b>	<b>15,522</b>	<b>16,634</b>
PAT margin	63.0%	71.6%	65.4%	64.9%	64.2%
<b>EPS (INR)</b>	<b>59.2</b>	<b>62.3</b>	<b>66.7</b>	<b>72.9</b>	<b>78.1</b>

Source: Company, KRChoksey Research

### Exhibit 2: Cash Flow Statement

INR Mn	FY20	FY21	FY22E	FY23E	FY24E
Net Cash Generated From Operations	12,848	10,851	15,203	16,330	17,492
Net Cash Flow from/(used in) Investing Activities	(9,276)	(4,827)	(8,916)	(9,342)	(5,843)
Net Cash Flow from Financing Activities	(3,316)	(6,276)	(6,159)	(6,985)	(7,485)
<b>Net Inc/Dec in cash equivalents</b>	<b>257</b>	<b>(252)</b>	<b>128</b>	<b>3</b>	<b>4,163</b>
Opening Balance	9	266	14	142	145
<b>Closing Balance Cash and Cash Equivalents</b>	<b>266</b>	<b>14</b>	<b>142</b>	<b>145</b>	<b>4,308</b>

Source: Company, KRChoksey Research

## ANALYST

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## HDFC Asset Management Co. Ltd.

### Exhibit 4: Balance Sheet

INR Mn	FY20	FY21	FY22E	FY23E	FY24E
Cash and Cash Equivalents	266	14	142	145	4,308
Bank Balance	5	7	7	7	7
Trade Receivables	606	799	657	723	784
Other Receivables	40	39	43	48	52
Investments	39,445	47,532	56,125	65,111	70,569
Other Financial Assets	300	324	325	358	387
<b>Total Financial Assets</b>	<b>40,661</b>	<b>48,717</b>	<b>57,298</b>	<b>66,391</b>	<b>76,106</b>
Current Tax Assets (net)	324	313	351	386	419
Deferred Tax Assets (net)	217	0	0	0	0
Property, Plant and Equipment	1,414	1,369	898	608	260
Intangible Assets Under Development	46	12	32	32	32
Goodwill	60	60	60	60	60
Other Intangible Assets	93	103	80	80	80
Other Non-Financial Assets	271	373	294	324	351
<b>Total Non-Financial Assets</b>	<b>2,425</b>	<b>2,230</b>	<b>1,715</b>	<b>1,490</b>	<b>1,202</b>
<b>Total Assets</b>	<b>43,086</b>	<b>50,947</b>	<b>59,014</b>	<b>67,882</b>	<b>77,308</b>
Trade Payables	467	421	600	687	744
Other Financial Liabilities	1,784	1,879	1,933	2,130	2,307
<b>Total Financial Liabilities</b>	<b>2,251</b>	<b>2,300</b>	<b>2,533</b>	<b>2,817</b>	<b>3,051</b>
Current Tax Liabilities (net)	39	43	43	43	43
Provisions	73	79	79	79	79
Deferred Tax Liabilities (net)	0	321	321	321	321
Other Non-Financial Liabilities	431	442	467	514	557
<b>Total Non-Financial Liabilities</b>	<b>542</b>	<b>885</b>	<b>910</b>	<b>958</b>	<b>1,000</b>
Equity Share Capital	1,064	1,065	1,065	1,065	1,065
Other Equity	39,229	46,697	54,506	63,043	72,191
<b>Total Equity</b>	<b>40,293</b>	<b>47,762</b>	<b>55,571</b>	<b>64,108</b>	<b>73,256</b>
<b>Total Liabilities and Equity</b>	<b>43,086</b>	<b>50,947</b>	<b>59,014</b>	<b>67,882</b>	<b>77,308</b>

Source: Company, KRChoksey Research

### Exhibit 5: Profitability Metrics

Key Ratios	FY20	FY21	FY22E	FY23E	FY23E
EBITDA margin	78.5%	79.1%	74.5%	73.5%	73.5%
EBIT margin	76.0%	76.1%	71.9%	70.8%	70.7%
PAT margin	63.0%	71.6%	65.4%	64.9%	64.2%
Return on Assets	29.3%	26.0%	24.1%	22.9%	21.5%
Return on Equity	31.3%	27.8%	25.5%	24.2%	22.7%

Source: Company, KRChoksey Research

# HDFC Asset Management Co. Ltd.

HDFC Asset Management Co. Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-Jan-22	2,231	2,500	ACCUMULATE	Buy	More than 15%
28-Oct-21	2,701	3,326	BUY	Accumulate	5% – 15%
31-Aug-21	3,064	3,200	HOLD	Hold	0 – 5%
19-Jul-21	2,992	3,200	ACCUMULATE	Reduce	-5% – 0
11-May-20	2,543	2,901	ACCUMULATE	Sell	Less than – 5%

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