

HDFC Asset Management Co. Ltd



HDFC Asset Management Co. Ltd. Earnings improved by higher other income; market share remains stable QoQ

CMP INR 2,038	Target INR 2,202	Potential Upside 8.0%	Market Cap (INR Mn) INR 434,733	Recommendation ACCUMULATE	Sector Asset Management Services
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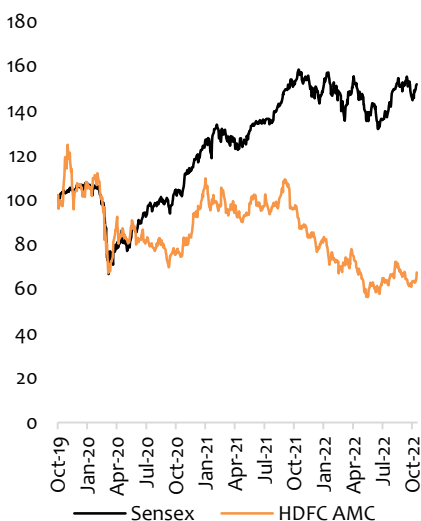
Result Highlights:

- QAAUM (Quarterly Average Assets Under Management) was at INR 4,293 Bn as of September 30, 2022, a growth of 3.4% QoQ, while declined by 2.2% YoY.
- In Q2FY23, revenue growth stood at INR 5,447 Mn, a growth of 4.4% QoQ. The revenues were flat on YoY basis. Revenues for H1FY23 grew by 1.6% YoY at INR 10,663 Mn.
- The EBITDA during Q2FY23 was reported at INR 4,046 Mn (excluding other income), an increase by 3.8% QoQ, while fell by 1.6% YoY. For H1FY23, the EBITDA stood at INR 7,942 Mn.
- Net Profit for Q2FY23 grew by 5.7% YoY/ 15.9% QoQ at INR 3,641 Mn. PAT for H1FY23 declined by 1.7% YoY at INR 6,783 Mn.

MARKET DATA

Shares outs (Mn)	213
Equity Cap (INR Mn)	62,084
Mkt Cap (INR Mn)	434,733
52 Wk H/L (INR)	2,953/1,690
Volume Avg (3m K)	414
Face Value (INR)	5
Bloomberg Code	HDFCAMC : IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	59,203
NIFTY	17,564

SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	62.8	68.8	68.8
FIIIs	12.3	7.3	10.4
DIIIs	12.3	11.3	9.0
Others	12.6	12.6	11.8
Total	100.0	100.0	100.0

KEY FINANCIALS

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	20,033	18,525	21,154	23,775	25,647
EBITDA	15,722	14,645	15,999	17,784	19,391
PAT	12,624	13,262	13,931	15,531	16,773
EPS (INR)	59.2	62.3	65.4	72.8	78.6
EBITDA Margin	78.5%	79.1%	75.6%	74.8%	75.6%
NPM	63.0%	71.6%	65.9%	65.3%	65.4%

Source: Company, KRChoksey Research

Sequential improvement in AUM growth: As of September 30, 2022, the AUM stood at INR 4,293 Bn, reflecting a 3.4% QoQ growth. On a YoY basis, the AUM growth continues to fall by 2.2%. The revenues for Q2FY23 stood at INR 5,447 Mn, an increase of 4.4% QoQ, while it was flat on a YoY basis. Despite the YoY decline in the AUM, revenues were flat for the quarter owing to improved yields led by increasing contributions from the equity-oriented funds. The equity AUM share improved from 46.2% as of September 30, 2021, to 53.6% as of September 30, 2022. HDFCAMC's equity-oriented AUM continued to exceed the industry mix. The company will continue to focus on the high-yielding AUM mix to strengthen its overall business growth. As of September 30, 2022, the Actively Managed Equity-oriented AUM stood at INR 2,113 Bn with a market share of 11.5%. The industry & HDFCAMC continues to see outflow in the debt funds. The company's market share in overall AUM saw sequential stability at 11.0% during Q2FY23. The company has been aggressively launching its new pipeline with a focus on innovation that aids meet the requirement of its existing customers and acquire new ones. We expect the company to deliver revenue growth of 10.1% CAGR over FY22-24E, driven by the increasing equity share, improving yields and reduced market volatility.

Strong sequential improvement in earnings led by other income: EBITDA for Q2FY23 witnessed a growth of 3.8% QoQ (de-grew by 1.6% QoQ). EBITDA margins for Q2FY23 stood at 74.3% against 75.8% in Q2FY22 and 74.7% in Q1FY23. We expect the margins to remain under pressure for FY23E owing to higher expenses on product development, marketing & digital initiatives in coming quarters. Other income was higher by 57.7% YoY in Q2FY23 at INR 1,042 Mn (INR 113 Mn in Q1FY23), led by market stability. Net profit for the quarter grew by 5.7% YoY/ 15.9% QoQ led by higher other income. The PAT for Q1FY23 stood at INR 3,142 Mn, a decline of 9.0% YoY and 8.5% QoQ.

Update on upcoming new launches: HDFCAMC plans to launch a thematic & business cycle fund in Q3FY23E, focusing on increasing its presence in the passive funds with new launches in this segment. As indicated in Q1FY23, HDFCAMC will continue to develop its new product pipeline, which offers innovative themes in thematic, passive, foreign funds and ETFs subject to the regulator's approvals. The company has several strategies live on the PMS side and has recently launched CAT-2 Alternative Investment Fund (AIF). In addition, HDFC has an ambitious plan for PMS and AIFs over the next several years.

10.1%

Revenue CAGR between FY22 and FY24E

9.7%

PAT CAGR between FY22 and FY24E

ANALYST

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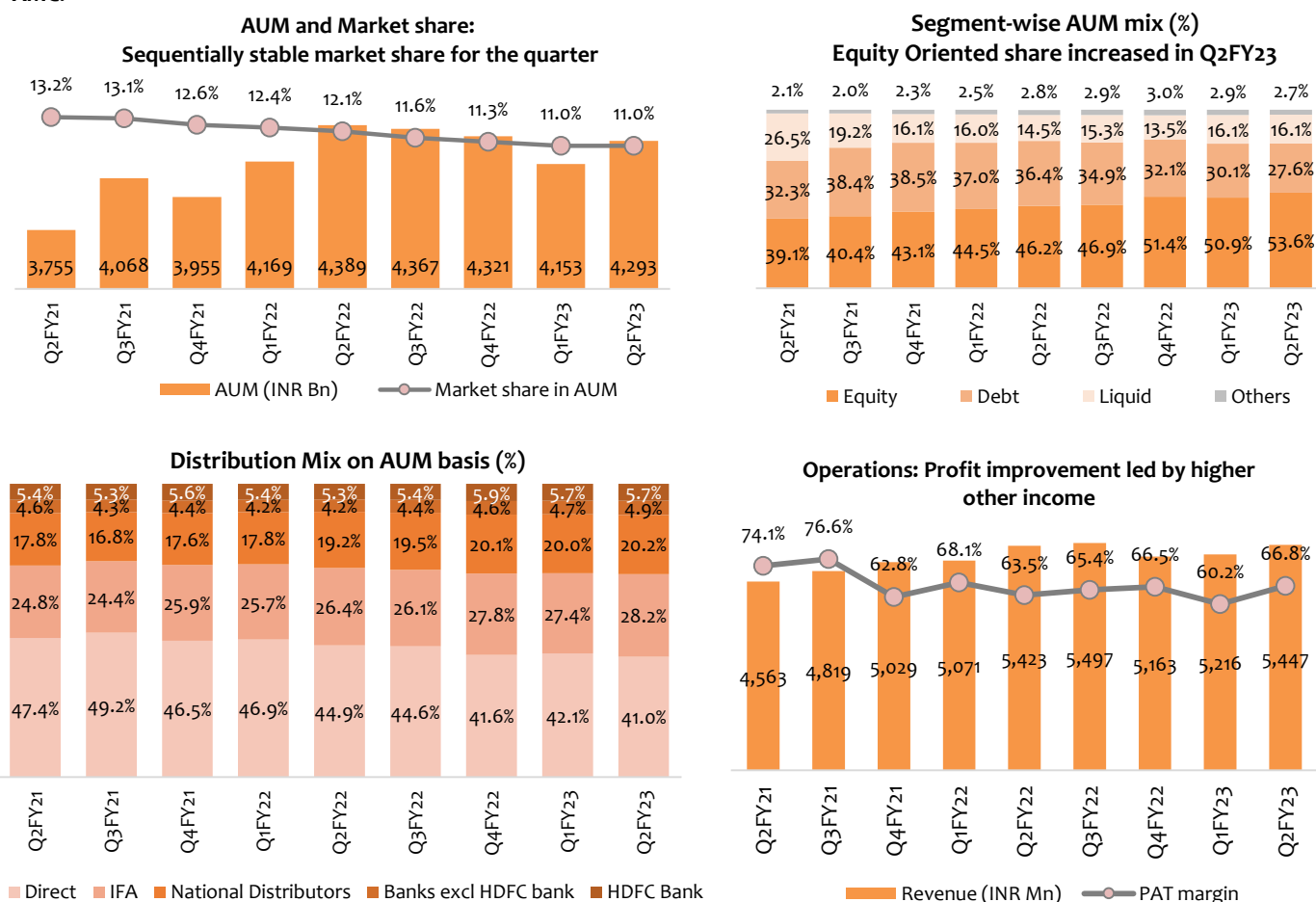
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Key Concall Highlights:

(i) Industry closed the quarter with an AUM of INR 38.4 Tn and equity AUM of INR 19.3 Tn. Quarterly equity net flows for the industry remain strong at INR 504 Bn. (ii) The MF industry continued to see outflows on the debt mutual fund front. Industry loss stood at INR 293 Bn in Q2FY23 against INR 1,178 Bn in Q1FY23. (iii) Industry-wise Liquid funds witnessed net inflows of INR 191 Bn, and others as a category, which is ETF, arbitrage, fund of fund investing overseas, saw inflows of INR 71 Bn. (iv) HDFCAMC's market share in average quarterly AUM on an overall basis and excluding ETF was 11.0% and 12.3%, respectively, which was more or less similar to Q1FY23. (v) The company has proposed to launch a thematic fund, a business cycle fund, in November 2022. (vi) The company enjoys a favourable asset mix compared to the industry and a favourable ratio in terms of AUM from individual to non-individual investors. (vii) HDFCAMC is in the process of expanding its product range on the passive side. In Q2FY23, it launched six ETFs, including a silver ETF. It has closed two more smart beta ETFs during the quarter. (viii) The equity proportion in the overall AUM has increased, resulting in margin improvement. (ix) In terms of actively managed equity-oriented AUM, the company's market share stood at 11.5%, the same as the quarter ended June 2022, despite a flurry of NFOs. (x) HDFCAMC is heavily invested in digital, technology & marketing to ensure it captures the industry opportunity.

Valuation and view: HDFCAMC's results for Q2FY23 indicated signs of improvement across the financial metrics. AUM continued to decline YoY but improved sequentially, driven by an improved mix with a stronger focus on equity-oriented funds. As a result, the quarter's yields improved due to an increased equity share in the mix. With a 53.6% equity mix, the company has outperformed the industry in terms of the AUM mix. HDFCAMC continues to focus on the launch of new funds to recapture market share. The market share for the quarter ended was stable after falling in the previous few quarters due to rising competitive intensity. HDFCAMC is working to strengthen its digital capabilities to reduce operating expenses and boost margins and earnings growth. The mutual fund industry benefits from a range of tailwinds, such as the increasing importance of financial savings among Indian households, the under penetration of MFs, growing investor awareness and education, robust distribution platforms, and the accessibility of transactions through digitization. HDFCAMC has a significant opportunity for growth owing to its strong pedigree and a well-diversified product mix. We expect that the merger of HDFC and HDFC Bank will strengthen its market position through cross-selling and acquiring new customers. We will continue to monitor market share trends in the coming quarters. We expect Revenues/ EBITDA/ PAT to grow at 10.1%/10.1%/9.7% over FY22-24E. **HDFCAMC shares are currently trading at a P/E of 27.3x/25.3x on FY23E/FY24E earnings. We are applying a P/E multiple of 28x on FY24E EPS of INR 78.6 to arrive at a target price of INR 2,202 per share (previously INR 2,100), an upside of 8.0% over the CMP. We maintain our rating of "ACCUMULATE" on the shares of HDFC AMC.**



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	23,775	25,647
Total expenses	4,310	3,880	5,154	5,990	6,257
Employee benefit expenses	2,147	2,268	3,122	3,519	3,719
Other operating expenses	2,163	1,613	2,032	2,472	2,538
EBITDA	15,722	14,645	15,999	17,784	19,391
EBITDA Margin	78.5%	79.1%	75.6%	74.8%	75.6%
Depreciation	504	554	539	533	593
EBIT	15,219	14,091	15,461	17,252	18,798
EBIT Margin	76.0%	76.1%	73.1%	72.6%	73.3%
Other income	1,402	3,492	3,178	3,274	3,372
Finance cost	90	90	86	90	100
PBT	16,531	17,494	18,553	20,435	22,070
Tax	3,906	4,232	4,622	4,904	5,297
PAT	12,624	13,262	13,931	15,531	16,773
PAT margin	63.0%	71.6%	65.9%	65.3%	65.4%
EPS (INR)	59.2	62.3	65.4	72.8	78.6

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	12,848	10,497	12,537	16,599	17,794
Net Cash Flow from/(used in) Investing Activities	(9,276)	(4,827)	(5,080)	(9,062)	(9,648)
Net Cash Flow from Financing Activities	(3,316)	(5,920)	(7,455)	(7,522)	(8,141)
Net Inc/Dec in cash equivalents	257	(249)	2	15	5
Opening Balance	9	266	17	19	34
Closing Balance Cash and Cash Equivalents	266	17	19	34	39

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	34	39
Bank Balance	5	7	62	62	62
Trade Receivables	606	799	745	951	1,026
Other Receivables	40	39	60	67	73
Investments	39,445	47,532	55,702	64,615	74,113
Other Financial Assets	300	324	252	283	306
Total Financial Assets	40,661	48,717	56,840	66,012	75,618
Current Tax Assets (net)	324	313	306	344	371
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	339	366
Total Non-Financial Assets	2,425	2,230	1,964	2,228	2,432
Total Assets	43,086	50,947	58,804	68,239	78,049
Trade Payables	467	421	292	599	626
Other Financial Liabilities	1,784	1,879	1,896	2,259	2,770
Total Financial Liabilities	2,251	2,300	2,189	2,858	3,396
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	594	641
Total Non-Financial Liabilities	542	885	1,315	1,539	1,586
Equity Share Capital	1,064	1,065	1,066	1,066	1,066
Other Equity	39,229	46,697	54,234	62,776	72,001
Total Equity	40,293	47,762	55,300	63,842	73,067
Total Liabilities and Equity	43,086	50,947	58,804	68,239	78,049

Source: Company, KRChoksey Research

Exhibit 5: Profitability Metrics

Key Ratios	FY20	FY21	FY22	FY23E	FY24E
EBITDA margin	79.1%	75.6%	75.6%	74.8%	75.6%
EBIT margin	76.1%	73.1%	73.1%	72.6%	73.3%
PAT margin	71.6%	65.9%	65.9%	65.3%	65.4%
Return on Assets	26.0%	23.7%	23.7%	22.8%	21.5%
Return on Equity	27.8%	25.2%	25.2%	24.3%	23.0%

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
20-Oct-22	2,038	2,202	ACCUMULATE	Buy	More than 15%
25-Jul-22	1,902	2,100	ACCUMULATE	Accumulate	5% – 15%
29-Apr-22	2,042	2,318	ACCUMULATE	Hold	0 – 5%
25-Jan-21	2,231	2,500	ACCUMULATE	Reduce	-5% – 0
28-Oct-21	2,701	3,326	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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