

## Steady performance; regulatory overhang weighs...

**About the stock:** HDFC AMC is among the largest and profitable mutual funds with an QAAUM of ~₹ 4.4 lakh crore as on March 2023.

- Market share as on Q4FY23 was at 11.1%
- Strong distribution network with 228 branches and over 75,000 empanelled distribution partners

**Q4FY23 Results:** Overall, the company reported a steady operational performance.

- AUM down 2.5% QoQ to ₹ 4.36 lakh crore; equity AUM flat QoQ
- Revenue from operation up 4.8% YoY and down 3.3% QoQ to ₹ 541 crore
- Blended yields remained steady QoQ at ~50 bps
- PAT came in at ₹ 376 crore, aided by steady core PBT. PAT as percentage of AUM was steady at ~34 bps

**What should investors do?** HDFC AMC's share price has underperformed owing to a subdued AUM trajectory and uncertainty related to revision in TER rates and structure. Anticipated change in regulations and a gradual decline in yields remain challenges. However, given the under penetration and increased acceptance as investment vehicle, we believe the recent correction in stock price provides a good entry opportunity to investors.

- Thus, we maintain our **BUY** rating on the stock

**Target Price and Valuation:** HDFC AMC continues to showcase relative operational strength. Going ahead, a pick-up in AUM momentum and gain in market share amid improved performance is seen compensating for pressure on yield & driving earnings growth. Thus, we value the business at ~25x FY25E EPS and revise our target price from ₹ 2250 to ₹ 2000.

**Key triggers for future price performance:**

- A better performance is expected to aid a gradual improvement in market share. New product launches should support AUM growth
- Continued strong SIP inflow (primarily in equity schemes) trend is expected to aid AUM growth and yields
- Investment in tech and business development along with focus on keeping opex in a tight range to aid earnings momentum

**Alternate Stock Idea:** Apart from HDFC AMC, we like MCX.

- MCX is the leader in commodity derivatives exchanges in India with ~96.8% market share in terms of commodity futures turnover
- BUY with a target price of ₹ 1700



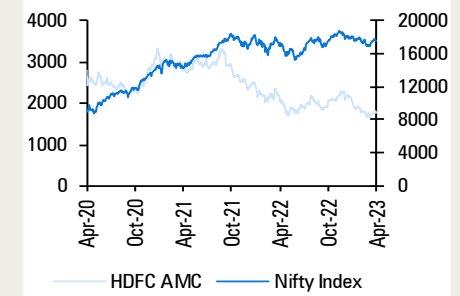
### Particulars

	Amount
Market Capitalisation	₹ 37688 crore
AUM	₹ 436700 crore
Networth	₹ 6108 crore
52 week H/L	2314 /1595
Face Value	₹ 5

### Shareholding pattern

in %	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	68.8	68.8	62.8	62.8	62.8
DII	9.0	11.3	12.3	13.4	6.0
FII	10.4	7.3	12.3	12.1	7.5
Others	11.8	12.6	12.6	11.7	23.7

### Price Chart



### Recent Event & key risk

- Market share in equity segment inched up ~10 bps QoQ

**Key Risk:** i) Regulatory risk may impact yields; ii) Weak scheme performance may impact market share

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### Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Revenue from operation (₹ crore)	2003	1853	2115	2167	3%	2412	2664	11%
PBT (₹ crore)	1683	1763	1855	1871	4%	2014	2244	10%
Net Profit (₹ crore)	1292	1340	1393	1424	3%	1521	1694	9%
EPS (₹)	59.2	63.2	66.4	67.9		72.5	80.8	
P/E (x)	29.7	27.8	26.5	25.9		24.3	21.8	
AUM /share (₹)	15224	18868	19444	20434		23849	26893	
P/AUM (%)	11.6	9.3	9.1	8.6		7.4	6.5	
RoE (%)	32.1	28.1	25.2	23.3		23.2	24.0	

## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results: Operationally steady quarter with stable margins

- Industry AUM declined 1.3% QoQ but increased 4.8% YoY to ₹ 39.4 lakh crore. Sequential uptick of 7% in debt AUM amid a change in tax proposal was offset by a decline in liquid AUM while equity AUM witnessed a decline of 0.5% QoQ owing to a subdued market performance. Proportion of equity AUM was at 51% vs. 50% YoY (QoQ steady). SIP inflows grew 5.1% QoQ and 16.3% YoY to ₹ 14300 crore
- HDFC AMC reported a sequential decline of 2.5% in AUM at ₹ 4.37 lakh crore resulting in a 10 bps QoQ decline in market share at 11.1%. While debt AUM witnessed a sequential uptick of 5.1%, the same was offset by 26.6% QoQ decline in liquid schemes AUM
- The market share in the equity segment inched up 10 bps QoQ but liquid segment witnessed a decline of 210 bps in market share resulting in ~10 bps decline in overall market share at 11.1% in Q4FY23 (11.2% in Q3FY23)
- Steady equity AUM and strong inflow in debt schemes offset outflow from the liquid segment, thus leading to 3% QoQ decline in topline at ₹ 541 crore. Yield remained broadly steady at ~50 bps of closing AUM. Moderation in opex led to steady core PBT at ₹ 395 crore (₹ 397 crore in Q3FY23). Other income declined 6% sequentially to ₹ 97 crore
- PAT came in at ₹ 376 crore (in line with our estimates) registering growth of 9.5% YoY, 1.8% QoQ, led by steady core PBT and marginal decline in tax rate. PAT as a percentage of AUM stayed steady at ~34 bps (~33 bps in Q3FY23)
- For the industry, SIP flows were up 5.1% QoQ at ₹ 14300 crore. In contrast, HDFC AMC SIP flows witnessed an increase by ₹ 140 crore QoQ to ₹ 1710 crore

HDFC AMC - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	0.8	3.2	6.3
Social	23.7	30.7	32.2
Governance	78.6	78.6	78.6
<b>Overall ESG Score</b>	<b>34.4</b>	<b>37.5</b>	<b>39.1</b>

Source: Bloomberg; ICICI Direct Research \* score ranges from 0-100 with a high score indicating higher ESG disclosure

### Q4FY23 Results: Earnings Conference Call highlights

- Yields were lower in Q4FY23 due to lower working days (two days less), which impacted revenue by ~₹ 12 crore and year-end adjustments for unabsorbed cost for B30, which was debited at the fund level
- Segment wise yields – Equity: 70 bps, Debt: 27bps, Liquid – 13 bps
- Launched one equity thematic sectoral fund and one long duration debt fund. Closed HDFC AMC select AIF (₹ 400 crore)
- Higher opex was due to business promotion, travel, digital, IT infra expense
- The Esop plan has been approved where 10.5 lakh shares will be offered to eligible employees. Estimated non-cash charge over the next three years would be ₹ 55-60 crore out of which 55% will be accounted in FY24, 30% in FY25 and balance in FY26. Over and above this, the company have a debit of ₹ 18 crore from existing schemes
- Jump in trade receivable is due to change in periodicity of payment
- NFO as percentage of net sales in FY23 was lower than pace in FY22. NFOs in FY24 will not be much. Yields on non-NFOs are coming in better and the pace of yield dilution is expected to decline

## Peer comparison

Exhibit 1: ICICI Direct coverage universe (AMC)

Sector / Company	CMP		M Cap	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)				
	(₹)	TP(₹)		Rating	(₹ bn)	FY22E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E
HDFC AMC (HDFAMC)	1,765	2,050	Buy	376	66.4	67.9	72.5	80.8	26.6	26.0	24.3	21.8	6.7	6.1	5.6	5.2	25.2	23.3	23.2	24.0
Nippon AMC (RELNIP)	235	300	Hold	146	12.0	11.6	12.7	13.5	19.7	20.2	18.4	17.4	4.2	4.2	3.9	3.7	17.0	14.2	15.6	16.4
MCX	1386	1700	Buy	71	28.2	31.1	46.9	59.8	49.2	44.6	29.6	23.2	5.0	4.8	4.1	3.5	10.1	10.8	14.0	15.1

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q4FY23	Q4FY23E	Q4FY22 YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue from operation	541.0	583.5	516.3 4.8	559.6	-3.3	Steady AUM and asset mix led to subdued revenue
Revenue/AUM	0.50%	0.50%	0.51% -1 bps	0.50%	0 bps	Strong inflow in index debt segment offset outflow from liquid segment
Other Income	96.9	81.8	64.7 49.9	103.4	-6.3	
Net Total Income	637.8	665.3	580.9 9.8	662.9	-3.8	
Staff cost	71.9	82.4	71.4 0.6	79.0	-9.0	
Other Operating Expenses	74.2	79.9	66.9 11.0	83.2	-10.8	
Total Expense	146.1	162.2	138.3 5.6	162.2	-9.9	Moderation in opex led to steady core PBT
PBT	491.8	503.0	442.7 11.1	500.7	-1.8	
Tax Outgo	115.6	123.2	99.1 16.6	131.3	-12.0	
PAT	376.2	379.8	343.6 9.5	369.4	1.8	Steady core PBT & marginal decline in tax rate led to increase in PAT
Total AUM	436,700	467,267	407,600 7.1	448,100	-2.5	Market share down 10 bps QoQ; equity market share up ~10 bps

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Revenue from Operation	2,423	2,412	-0.5	2,676.8	2,664	-0.5
PBT	2,090.8	2,014.0	-3.7	2,331.9	2,243.8	-3.8
Revenue/AUM	0.47	0.47	0 bps	0.46	0.46	0 bps
PAT	1,568.1	1,520.6	-3.0	1,749.0	1,694.1	-3.1
EPS(₹)	74.8	72.5		83.4	80.8	

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 4: Profit & Loss Statement

(₹ crores)	FY22	FY23	FY24E	FY25E
Revenue from Operations	2,115.4	2,166.8	2,412.0	2,664.1
Growth (%)	14.2%	2.4%	11.3%	10.5%
Other Income	318.0	315.8	295.0	330.0
Total Revenue	2,433.4	2,482.6	2,707.0	2,994.1
Employee Benefit Expenses	312.2	312.7	376.6	395.4
Depreciation & Amortization Expense	53.8	53.3	56.0	58.8
Other Expenses (incl fees)	198.2	246.0	260.3	296.0
Total Expenses	578.2	612.0	692.9	750.3
Profit Before Tax	1,855.2	1,870.6	2,014.0	2,243.8
Taxes	462.2	446.7	493.4	549.7
Profit After Tax	1,393.0	1,423.9	1,520.6	1,694.1
EPS (₹)	66.4	67.9	72.5	80.8

Source: Company, ICICI Direct Research

### Exhibit 5: Balance Sheet

(₹ crores)	FY22	FY23	FY24E	FY25E
<b>Sources of Funds</b>				
Share capital	106.6	106.7	106.7	106.7
Reserves and surplus	5423.5	6001.7	6447.9	6945.0
Total Shareholders funds	5530.1	6108.4	6554.6	7051.7
Total Non-Current Liabilities	131.5	186.3	242.2	314.8
Total Current Liabilities	218.8	241.9	270.9	303.4
Total	5880.4	6536.6	7067.7	7670.0
<b>Applications of Funds</b>				
Property, plant and equipment	122.2	137.6	151.3	166.5
Intangible assets	12.9	12.9	13.9	14.9
Intangible asset under development	0.5	2.1	2.1	2.1
Investments*	5570.2	6079.2	6641.8	7268.6
Long term loans and advances	30.2	42.8	42.8	42.8
Deferred tax assets (net)	0.0	0.0	0.0	0.0
Total Current Assets and Others	144.4	262.1	215.8	175.1
Total Assets	5880.4	6536.6	7067.7	7670.0

Source: Company, ICICI Direct Research

### Exhibit 6: Key Ratios

	FY22	FY23E	FY24E	FY25E
<b>Valuation</b>				
No of Equity shares (crore)	21.0	21.0	21.0	21.0
EPS	66.4	67.9	72.5	80.8
DPS	42.0	48.0	51.3	57.1
BVPS	263.8	291.4	312.7	336.4
P/E	26.5	25.9	24.3	21.8
P/BV	6.7	6.0	5.6	5.2
<b>Operating Ratios (%)</b>				
Rev/AUM	0.51	0.49	0.47	0.46
EBITDA/AUM	0.37	0.37	0.35	0.34
PAT/AUM	0.33	0.32	0.30	0.29
<b>Return Ratios (%)</b>				
RoNW	25.2%	23.3%	23.2%	24.0%
ROCE	23.7%	21.8%	21.5%	22.1%

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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