

HDFC Asset Management Co. Ltd



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Lower yields impact profitability; Market share retained

CMP INR 1,738	Target INR 1,970	Potential Upside 13.3%	Market Cap (INR Mn) INR 3,70,943	Recommendation ACCUMULATE	Sector Asset Management Services
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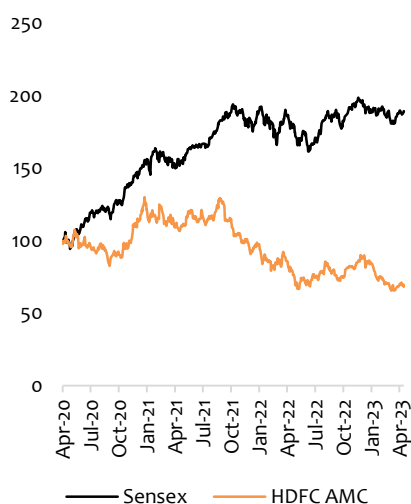
Result Highlights:

- QAAUM (Quarterly Average Assets Under Management) was at INR 4,498 Bn as of March 31, 2023, a growth of 4.1% YoY/ 0.4% QoQ. The market share in QAAUM stood at 11.1% of the mutual fund industry in this quarter, as against 11.0% in Q3FY23.
- In Q4FY23, revenue growth stood at INR 5,410 Mn, a growth of 4.8% YoY, but fell on a sequential basis by 3.3%. Revenues for the full FY23 grew by 2.4% YoY to INR 21,668 Mn.
- The EBITDA during Q4FY23 was reported at INR 4,106 Mn (excluding other income), which grew by 4.3% YoY with margins at 75.9%. For the full year FY23, the EBITDA stood at INR 16,179 Mn, a growth of 1.1% YoY.
- Net profit for Q4FY23 grew by 9.5% YoY/ 1.8% QoQ at INR 3,762 Mn, while for FY23 PAT grew by 2.2% at INR 14,239 Mn.

MARKET DATA

Shares outs (Mn)	213
Equity Cap (INR Mn)	61,084
Mkt Cap (INR Mn)	3,70,943
52 Wk H/L (INR)	2,315/ 1,590
Volume Avg (3m K)	521
Face Value (INR)	5
Bloomberg Code	HDFCAMC : IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	60,301
NIFTY	17,814

KEY FINANCIALS

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Revenue	18,525	21,154	21,668	23,406	25,241
EBITDA	14,645	15,999	16,179	17,509	18,881
PAT	13,262	13,931	14,239	15,319	16,484
EPS (INR)	62.3	65.4	66.8	71.8	77.2
EBITDA Margin	79.1%	75.6%	74.7%	74.8%	74.8%
NPM	71.6%	65.9%	65.7%	65.4%	65.3%

Source: Company, KRChoksey Research

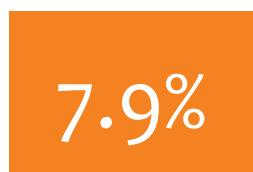
Debt fund AUM continues to see outflows; Market share stable: As of March 31, 2023, the QAAUM stood at INR 4,481 Bn, reflecting a growth of 4.4% YoY/ 0.4% QoQ led by healthy inflows in the equity-oriented funds. The equity-oriented fund AUM stood at INR 2,445 Bn, an increase of 18.2% YoY/ 2.2% QoQ, contributing 54.4% to the overall QAAUM. The share of debt in the overall AUM was stable QoQ at 26.2% in Q4FY23 but declined from 33.3% in Q4FY22. Debt funds continued to see outflows in-line with the industry trend during the quarter. Debt QAAUM stood at INR 1,179 Mn, a decline of 18.2% YoY. The market share for debt funds reported a contraction from 14.1% in Q4FY22 to 13.3% in Q4FY23. The company's market share in overall AUM remained stable at 11.1% during the quarter. The market share, excluding ETFs, stood at 12.5% as of March 31, 2023. We expect the company to deliver an AUM CAGR of 7.9% over FY23-25E led by shift in AUM mix and significant inflows from the new fund launches. We also believe HDFC Bank merger will benefit the company in terms of cross-selling which will aid in overall AUM growth and market share gain.

Sequentially lower yields impact revenue growth in Q4FY23: The revenues for Q4FY23 stood at INR 5,410 Mn, an increase of 4.8% YoY but a decline of 3.3% QoQ led by a sequential fall in the average yields. The yields were lower as Q4FY23 had 90 days as compared to 92 days in Q3FY23 which is two days less. The revenue per day in Q3FY23 was INR 60.8 Mn. Thus, with two days less in this quarter, the loss in revenue was around INR 120 Mn, according to the company. Another reason for lower yields was the year-end adjustment, that added the unabsorbed cost of B-30 cities, which was debited at the fund level. And lastly, the change in the product mix also impacted yields, resulting in lower revenue growth. EBITDA for Q4FY23 witnessed a 4.3% YoY growth (almost flat QoQ) at INR 4,106 Mn. A sequential decline in operating expenses has offset the impact of lower revenues. EBITDA margins for Q4FY23 stood at 75.9% against 76.2% in Q4FY22 and 73.8% in Q3FY23. The cost-to-income ratio was 22.9% in Q4FY23 as against 24.5% in Q3FY23. On the margins front, the product mix and product launches will play an important role in the coming quarters under normalized circumstances with healthy inflows. Other income was higher by 49.8% YoY in Q4FY23 at INR 969 Mn (falling 6.3% QoQ). Net profit for the quarter grew by 9.5% YoY/ 1.8% QoQ led by lower expenses.

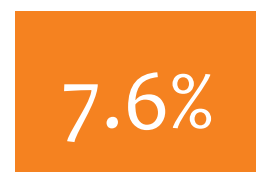
Update on new launches: With an aim to expand the product portfolio, HDFCAMC has launched two equity-oriented thematic sectoral funds and one long duration debt fund in Q4FY23. The company had also launched its first AIF FoF (Fund of Fund) with a commitment of INR 4 Bn which closed on March 31, 2023. The company expects further capital raise in this fund. We expect the product pipeline to remain healthy for the company which will support in growing the AUM and also gain market share.

SHARE HOLDING PATTERN (%)

Particulars	Mar-23	Dec-22	Sep-22
Promoters	62.8	62.8	62.8
FIIIs	7.5	12.1	12.3
DIIIs	17.6	13.4	12.3
Others	12.1	11.7	12.6
Total	100.0	100.0	100.0



Revenue CAGR between FY23 and FY25E



PAT CAGR between FY23 and FY25E

ANALYST

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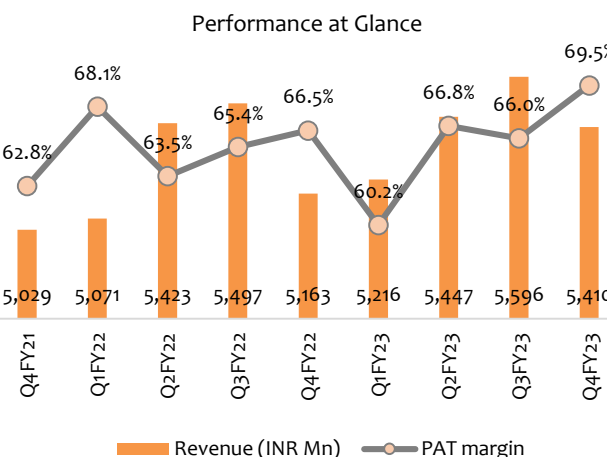
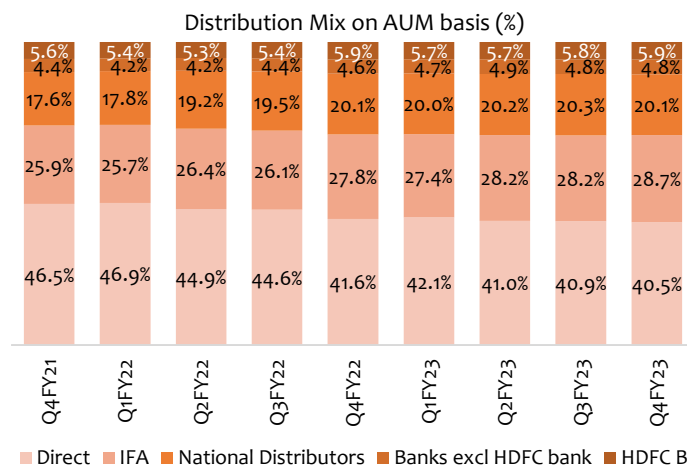
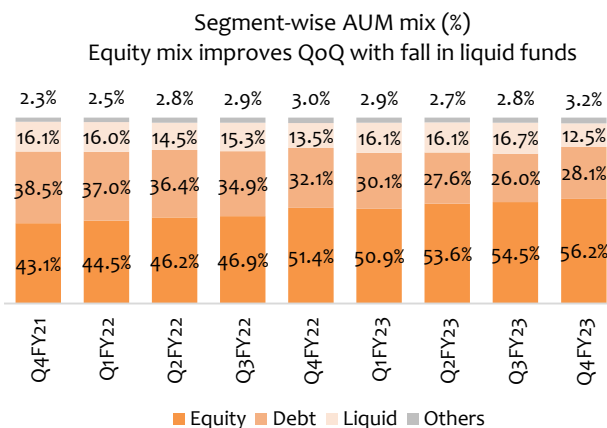
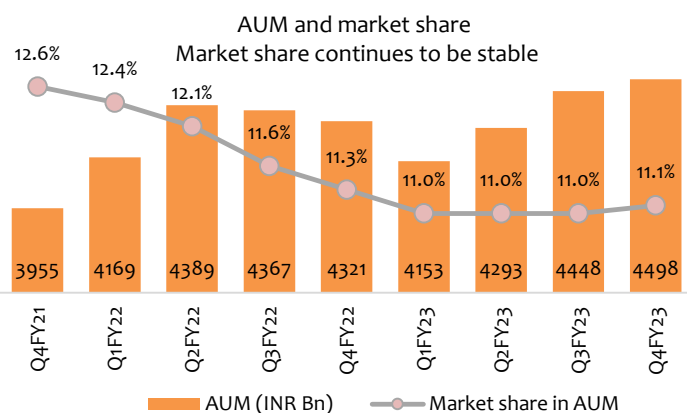
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Key Concall Highlights:

(i) In FY23, the industry collected approximately INR 342 Bn via actively managed equity-oriented NFOs, that is nearly 21% of the net flows into actively managed equity-oriented funds (ii) SIP flows for the industry continued their growth trajectory and came in at INR 143 Bn for month of March of 2023 vs INR 123 Bn for March of 2022. SIP flows for FY23 clocked INR 1.56 Tn, nearly 35.0% of industry's gross active equity flows. (iii) In FY23, debt funds, including debt index funds and debt ETF, saw outflow of INR 582 Bn for the industry, while the net outflows in liquid funds during the year were to the tune of INR 510 Bn. Others, which include ETF, arbitrage and FOF investing overseas, grew by 13.0% on a YoY basis. (iv) Industry recorded 37.7 Mn unique customers at the end of FY23. Individual investors came in at 58.0% of the monthly average AUM for March-23 and folio accounts for individual investors increased to 145 Mn from 129 Mn a year ago.(v) HDFCAMC's quarterly average liquid fund AUM market share stood at 13.1%. (vi) It has recorded 6.6 Mn unique investors at the end of Q4FY23. (vii) HDFCAMC launched two equity-oriented thematic sectoral funds, one long duration debt fund, which saw healthy interest, especially in end of March. (viii) The company has announced its first HDFC AMC select AIF FOF in March 2023, with commitments adding up to INR 4,000 Mn. The number is encouraging, especially in current market conditions. It will continue to raise further capital in this fund and have some healthy pipeline in place. (ix) In terms of other expenses, HDFCAMC has seen an increase of 18.0% YoY at INR 348 Mn, mainly attributed to expenses that the company had incurred for its business, promotion, travel, digital assets, IT infrastructure, amongst others. (x) HDFCAMC has recommended a dividend of INR 48 per share against INR 42 per share, translating into a payout ratio of 72% as against 64% last year. (xi) HDFCAMC will look at launching products, both for global investors who want to invest in India and at a later stage, even providing opportunities for domestic investors through the LRS route to invest globally, post completion of the set up of its subsidiary in GIFT City.

Valuation and view: Lower AUM growth and the impact of lower revenue yields on overall earnings were the main reasons for HDFCAMC's Q4FY23 results falling short of our expectations. On a YoY basis, AUM growth was decent, with equity-oriented funds leading the way and continued robust growth of 21.0% in systematic transactions. The yields were impacted owing to the year-end adjustments in the overall costs as well as fewer days compared to other quarters. With a 54.4% equity mix, the company has outpaced the industry in terms of the AUM mix. HDFCAMC continued to focus on new product development and promotion activities to mitigate the risk of increasing competitive intensity, regain market share, and support overall AUM growth in the coming quarters. As of March 31, 2023, HDFCAMC could maintain its market share at 11.1% and holding its top 3 leadership positions in India. HDFCAMC has been investing in digital assets, which it believes will help gain operational efficiencies in the coming quarters. The HDFC and HDFC Bank merger will bolster its market position through cross-selling, strategic partnerships, and new customer acquisition. In the near term, we remain cautious on the trends of the inflows and outflows, considering the market volatility, the removal of debt indexation, and the changes in the tax regulations. We expect Revenues/ EBITDA/ PAT to grow at 8.5%/8.2%/7.7% over FY22-25E. **HDFCAMC shares are currently trading at a P/E of 24.5x/22.8x on FY24E/FY25E earnings. We are applying a P/E multiple of 25.5x on FY25E EPS of INR 77.2 to arrive at a target price of INR 1,970 per share (earlier INR 2,202), an upside of 13.3% 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	FY21	FY22	FY23	FY24E	FY25E
Revenue from operations	18,525	21,154	21,668	23,406	25,241
Total expenses	3,880	5,154	5,489	5,898	6,360
Employee benefit expenses	2,268	3,122	3,127	3,394	3,660
Other operating expenses	1,613	2,032	2,363	2,504	2,700
EBITDA	14,645	15,999	16,179	17,509	18,881
EBITDA Margin	79.1%	75.6%	74.7%	74.8%	74.8%
Depreciation	554	539	533	567	672
EBIT	14,091	15,461	15,645	16,941	18,209
EBIT Margin	76.1%	73.1%	72.2%	72.4%	72.1%
Other income	3,492	3,178	3,158	3,315	3,581
Finance cost	90	86	97	100	100
PBT	17,494	18,553	18,706	20,157	21,690
Tax	4,232	4,622	4,467	4,838	5,205
PAT	13,262	13,931	14,239	15,319	16,484
PAT margin	71.6%	65.9%	65.7%	65.4%	65.3%
EPS (INR)	62.3	65.4	66.8	71.8	77.2

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	10,497	12,537	11,493	16,753	17,223
Net Cash Flow from/(used in) Investing Activities	(4,827)	(5,080)	(2,182)	(9,836)	(9,736)
Net Cash Flow from Financing Activities	(5,920)	(7,455)	(9,299)	(6,894)	(7,418)
Net Inc/Dec in cash equivalents	(249)	2	13	24	69
Opening Balance	266	17	19	31	55
Closing Balance Cash and Cash Equivalents	17	19	31	55	124

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Cash and Cash Equivalents	17	19	31	55	124
Bank Balance	7	62	9	9	9
Trade Receivables	799	745	1,837	1,170	1,262
Other Receivables	39	60	126	136	147
Investments	47,532	55,702	60,792	69,910	78,824
Other Financial Assets	324	252	312	337	363
Total Financial Assets	48,717	56,840	63,107	71,617	80,728
Current Tax Assets (net)	313	306	305	329	355
Deferred Tax Assets (net)	0	0	0	0	0
Property, Plant and Equipment	1,369	1,222	1,376	1,526	1,676
Intangible Assets Under Development	12	5	21	32	32
Goodwill	60	60	60	60	60
Other Intangible Assets	103	69	68	80	80
Other Non-Financial Assets	373	302	428	462	498
Total Non-Financial Assets	2,230	1,964	2,259	2,490	2,702
Total Assets	50,947	58,804	65,365	74,107	83,430
Trade Payables	421	292	356	354	382
Other Financial Liabilities	1,879	1,896	2,063	2,341	2,524
Total Financial Liabilities	2,300	2,189	2,419	2,695	2,906
Current Tax Liabilities (net)	43	74	184	184	184
Provisions	79	118	126	126	126
Deferred Tax Liabilities (net)	321	753	1,008	1,008	1,008
Other Non-Financial Liabilities	442	370	545	585	631
Total Non-Financial Liabilities	885	1,315	1,863	1,902	1,948
Equity Share Capital	1,065	1,066	1,067	1,067	1,067
Other Equity	46,697	54,234	60,017	68,443	77,509
Total Equity	47,762	55,300	61,084	69,510	78,576
Total Liabilities and Equity	50,947	58,804	65,365	74,107	83,430

Source: Company, KRChoksey Research

Exhibit 5: Profitability Metrics

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin	79.1%	75.6%	74.7%	74.8%	74.8%
EBIT margin	76.1%	73.1%	72.2%	72.4%	72.1%
PAT margin	71.6%	65.9%	65.7%	65.4%	65.3%
Return on Assets	26.0%	23.7%	21.8%	20.7%	19.8%
Return on Equity	27.8%	25.2%	23.3%	22.0%	21.0%

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
26-Apr-23	1,738	1,970	ACCUMULATE	Buy	More than 15%
27-Jan-23	1,934	2,202	ACCUMULATE	Accumulate	5% – 15%
20-Oct-22	2,038	2,202	ACCUMULATE	Hold	0 – 5%
25-Jul-22	1,902	2,100	ACCUMULATE	Reduce	-5% – 0
29-Apr-22	2,042	2,318	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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