

April 26, 2023

Q4FY23 Result Update

Key Financials - Standalone

Y/e Mar	2022	2023E	2024E	2025E
Revenue (Rs m)	21,154	21,668	23,531	25,364
Opex	5,779	6,120	6,706	6,903
Employee	3,122	3,127	3,474	3,461
Others	2,657	2,993	3,232	3,443
Core Inc. (Rs m)	15,375	15,549	16,825	18,460
PAT (Rs mn)	13,931	14,239	15,224	16,637
Core PAT (Rs m)	11,545	11,836	12,737	13,974
Core EPS (Rs.)	54.1	55.5	59.7	65.5
Gr. (%)	8.6	2.5	7.6	9.7
AAuM (Rs bn)	4,337	4,348	4,752	5,313
Gr. (%)	12.9	0.2	9.3	11.8
RoAAuM (bps)*	0.3	0.3	0.3	0.3
RoE (%)*	27.6	25.6	26.2	27.8
P/Core EPS (x)	38.6	28.7	24.5	22.0

*Core

Key Data

[HDFC.BO](#) | [HDFCAMC IN](#)

52-W High / Low	Rs.2,314 / Rs.1,595
Sensex / Nifty	60,131 / 17,769
Market Cap	Rs.4,600.9bn/ \$ 4.6m
Shares Outstanding	213.4m
3M Avg. Daily Value	Rs.968.8m

Shareholding Pattern (%)

Promoter's	62.77
Foreign	7.50
Domestic Institution	17.63
Public & Others	12.10
Promoter Pledge (Rs bn)	—

Stock Performance (%)

	1M	6M	12M
Absolute	6.5	-13.6	-14.7
Relative	1.8	-14.1	-17.9

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Remains a top performer

Quick Pointers:

- Core earnings in-line at Rs3.0bn; revenue miss was offset by lower opex.
- Equity market share enhanced by 28bps QoQ to 11.7%.

HDFCAMC saw a stable quarter with core income in-line at Rs3.0bn. Revenue miss led by drag of Rs120mn due to income being booked for 90 days (vs 92 days in Q3FY23), was offset by lower opex, protecting operating yields at 35bps (Q3FY23–36bps). As of Mar'23, HDFC AMC remains the top performer in 1-yr and 3-yr buckets. Superior equity performance has led to strong market share gains in net flows to 8.6% in FY23 (vs -6.9% in FY22). Hence, equity market share is rising and touched 11.8% (+28bps QoQ). Nomination committee has approved a fresh ESOP plan (1.05mn shares, cost of Rs550-600mn) and as per vesting schedule, total employee cost at Rs3.5bn should remain flat YoY in FY25E. HDFCAMC has a proven track record to preserve profitability and operating yields should sustain at 35bps in FY24/25E. Valuation is attractive at 22x on FY25E core EPS. Maintain multiple at 27x and TP of Rs2100. Retain BUY.

- Core income in-line as revenue miss offset by lower other opex:** QAAuM came in as expected at Rs4,497bn while revenue was lower at Rs5.4bn (PLe Rs5.6bn) leading to miss on annualized yields at 48bps (PLe 50bps). Revenue was a drag as income was booked for 90 days compared to 92 days in the previous quarter leading to a revenue loss of Rs120mn. Opex was a beat at Rs1.46bn (PLe Rs1.6bn); due to lower employee cost and other opex. Core income was a slight miss at Rs3.95bn (PLe 4.0bn) while operating yields were 35bps (PLe 36bps). Other income was ahead at Rs969mn (PLe 750mn) while tax rate was lower at 23.5% (PLe 25.2%) leading to PAT being ahead at Rs3.7bn (PLe Rs3.5bn). As envisaged, core PAT was Rs3.02bn (PLe Rs3.0bn).
- Market share continues to improve; equity share at 51.5%:** Driven by strong equity performance leading to market share gains in net sustainable equity flows, market share in equity+bal QAAuM has been enhancing post Q1FY23; it improved QoQ by 28bps to 11.7%. Also, market share in overall AuM (ex-ETF) increased by 2bps QoQ to 12.5%. As of Mar'23, basis weighted average performance, HDFC AMC remains the top performing fund in the 1-yr and 3-yr bucket while its rank improved to 2 in the 5-yr bucket. QAAUM rose by 1.1% QoQ mainly led by equity growth of 2.2%. Equity share slightly improved QoQ from 51.0% to 51.5% while that of debt reduced by 0.5% to 22.6%. During Q4FY23, two NFOs were launched viz. equity thematic fund (Rs3.4bn) and long duration debt fund (Rs0.9bn).
- Distributor payouts normalizing; ESOP cost to moderate in FY25E:** Elevated gross inflows in FY22 that had caused yield dilution for the AMC space has reversed and company suggested that distributor commissions are moderating. Nomination committee has approved fresh ESOP plan (1.05mn shares) with total estimated cost of Rs550-600mn which would be expensed as follows: 55% in FY24E, 30% in FY25E and balance thereafter. Also considering ESOP cost under previous scheme, overall staff cost is expected to remain flat in FY25E (+11% YoY in FY24E). Hence we see overall operating yields to remain stable at 35bps in FY24/25E.

Exhibit 1: Better other income and lower tax rate lead to PAT beat

Financials (Rs m)	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)
Revenue	5,410	5,163	4.8	5,596	(3.3)
Total Expenses	1,460	1,383	5.6	1,622	(10.0)
Employees	719	714	0.6	790	(9.0)
Other expenses	742	669	11.0	832	(10.9)
Operating Income	3,949	3,780	4.5	3,974	(0.6)
Other Income	969	647	49.8	1,034	(6.3)
Profit before tax	4,918	4,427	11.1	5,007	(1.8)
Tax	1,156	991	16.6	1,313	(12.0)
Profit after tax	3,762	3,436	9.5	3,694	1.8
Core PAT	3,021	2,934	3.0	2,931	3.1
Profitability ratios (bps)					
Revenue yield	48.1	47.9	20	50.3	(221)
Employee to AuM	6.4	6.6	(24)	7.1	(71)
Opex to AuM	6.6	6.2	39	7.5	(89)
Core income/AuM	35.1	35.1	4	35.7	(61)
PAT/AuM	33.5	31.9	157	33.2	24
Core PAT/AuM	26.9	27.2	(36)	26.4	50
QAAuM (Rs. mn)					
Equity	44,97,151	43,09,627	4.4	44,47,201	1.1
Equity	15,41,155	13,10,217	17.6	15,08,685	2.2
Balanced	7,75,822	6,70,140	15.8	7,60,236	2.1
Debt	10,16,181	13,02,350	(22.0)	10,25,615	(0.9)
Liquid	8,77,932	8,24,802	6.4	8,95,293	(1.9)
ETF	75,763	46,221	63.9	59,254	27.9
Index	1,41,913	87,270	62.6	1,28,692	10.3
Arbitrage	58,323	68,627	(15.0)	59,275	(1.6)
FoF overseas	10,061	11,681	(13.9)	10,151	(0.9)

Source: Company, PL.

Revenue was slightly lower led by lower yield at 0.48% vs 0.5% in Q3FY23.

Operating expenses declined by 10% YoY, although grew 5.6% QoQ.

Other income was better at Rs9.69bn

Lower tax rate lead to PAT beat at Rs3.7bn

Revenue yield declined to 48bps, while RoAAuM improved to 33.5bps

QAAuM growth of 4.4% YoY continues to driven by equity (+17.6% YoY) and balanced(+15.8% YoY)

Key Q4FY23 Conference Call Highlights

Industry:

- **Industry QAAuM stood at Rs40.5trn** growing by 6% YoY. Net flows of Rs1.8trn were from equity oriented assets of which RS1.6trn was in actively managed equity.
- In Q4FY23, industry collected ~Rs342bn via actively managed equity oriented NFOs which is about 21% of net flows in actively managed equity oriented funds.
- **Debt schemes including debt ETF have seen high outflows of Rs582bn** and post eliminating flows into debt index funds and ETFs, the number was much higher with outflows at Rs1.56trn. In liquid funds net outflows stood at Rs210bn.
- SIP flows for the month of Mar'23 was Rs143bn as against Rs123bn in Mar'23
- **Industry recorded 37.7mn unique customers** at the end of FY23. Individual investors came in at 58% of the MAAUM for Mar'23. Portfolio of individual investors grew to Rs145mn vs Rs129mn last year. In the quarter, industry collected approx. Rs342bn via actively managed equity oriented NFOs which is about 21% of net flows in actively managed equity oriented funds.

Company Performance

- **Asset mix further shifted towards equity at 54.4%** of the total QAAUM, which is relatively better than the industry.
- **Company had 6.6mn unique investors** at the end of Q4FY23 and processed 13.4mn systematic transactions totaling to Rs50.4bn vs Rs44.5bn in Dec'22.
- In Q4FY23, two new equity oriented thematic sectoral funds and one long duration debt fund were launched which saw healthy interest.
- **Company launched its first AIF FoF in Mar'23 with commitment of Rs4bn.** Management also suggested their intention to raise further funds and have healthy pipeline.
- In terms of recent amendment in tax laws on debt mutual funds, management believes that flows might not be materially impacted as tax implication arises only on redemption, debt MF offer liquidity and flexibility in terms of par redemption and moving across the credit curve, NPA from debt MF have been negligible.
- HDFC AMC gained market share in equity as well as on SIP side out of the unique investors grown to 6.6mn, 1/3rd unique investors choose HDFC AMC. Although it lost market share on the debt segment majorly because the management was little late to launch debt index fund as they were waiting for clarity from regulators. However, management believes they have been able to cover lost ground

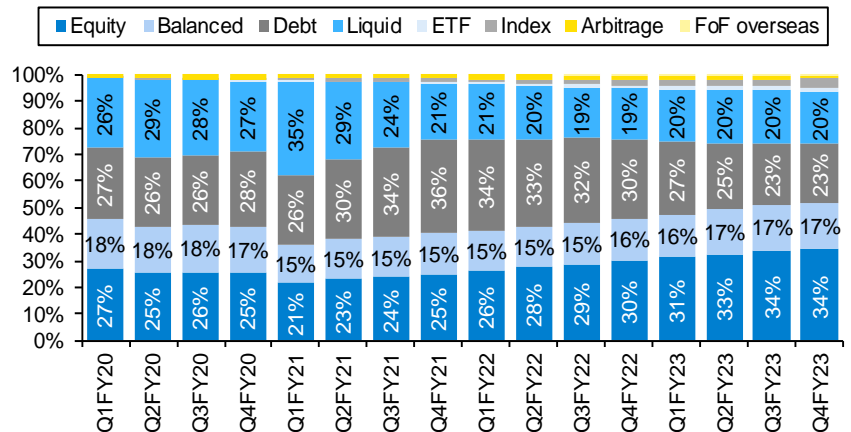
Financial Performance

- **Revenue yields were tad lower at 0.48% vs 0.50% in Q3FY23** majorly because the quarter had 90 days as against 92 days in the any other previous quarter. Revenue/per day amounts to Rs60.8mn, quarter being short of 2 days resulted in revenue loss of Rs120mn. Also, unabsorbed cost of B-30, which was debited during this quarter had an impact of 1bps, some of it could also be attributed to product mix change.
- New flows usually result in some yield dilution and pace of dilution was rapid in FY22. Gross flows as a % of beginning AuM was 55%, In the current year, the same is in early 20s, which provides some buffer
- AMC yields for the equity stood at 70bps, 27bps on debt and 12 to 13 bps on liquid.
- NRC has approved ESOP plan, whereby 1.05mn shares would be offered to employees at closing price as of 24thMar'23. An estimated cost (non-cash charge) of Rs550mn - Rs600mn out of which 55% would be accounted for in the FY24, 30% in the following financial year and balance in the year thereafter. There will be further debit of Rs180mn from existing ESOPs
- **Other expenses saw an uptick of 11% YoY** majorly attributed towards business promotion, travel, IT infrastructure etc. the company also believes that they will be able to maintain the opex at 14bps as major expenses are already carried out.
- RoEs have come down from 35% to 25% due to base effect and extra cash on balance sheet, declining margins have not had a direct impact. Though RoEs have trended downwards payouts have increased.
- Repricing of the back book is dependent multiple variables like where the AuM is flowing out to high cost areas and also depends on MTM.

Outlook

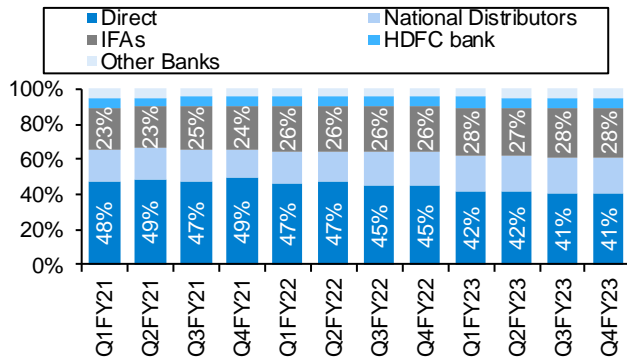
- With the change in control of the promoters from HDFC Ltd to HDFC bank, management is confident of further wallet share gain from cross selling through HDFC Bank
- Management also suggested there would be few NFOs although not high ticket ones. Focus would be to expand the portfolio on sectoral thematic side.
- On the AIF front, company's focus would be to scale up existing fund and later expand the product portfolio.
- Management is focused on building capabilities across the board with two new launch strategies in PMS and optimistic on the debt side opportunities.
- GIFT City subsidiary, company would launch products in about 2 quarters for global investors and widening investment opportunities for domestic investors invest globally, aim is to capture all opportunities available and on market development.

Exhibit 2: AuM Mix largely stable with Equity + Balanced at 52%



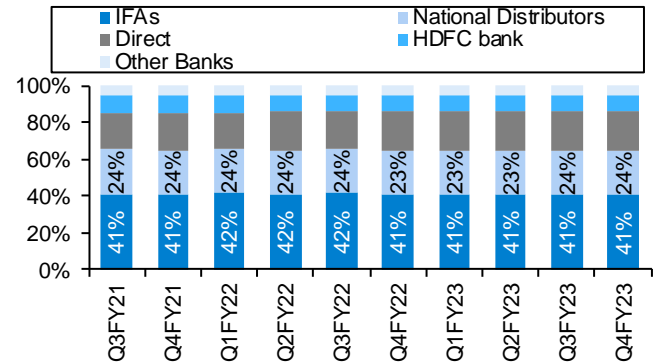
Source: Company, PL

Exhibit 3: Total distribution: Direct dominates at 41%



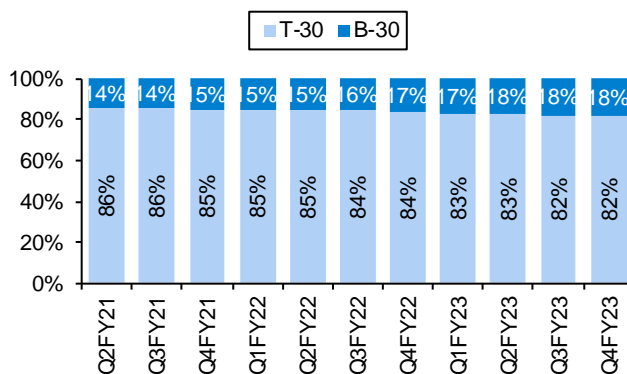
Source: Company, PL

Exhibit 4: Equity Distribution: IFAs dominate at 41%



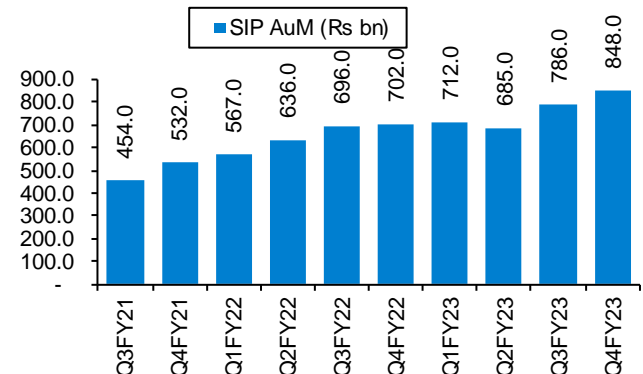
Source: Company, PL

Exhibit 5: T-30: B-30 mix remains at 82:18

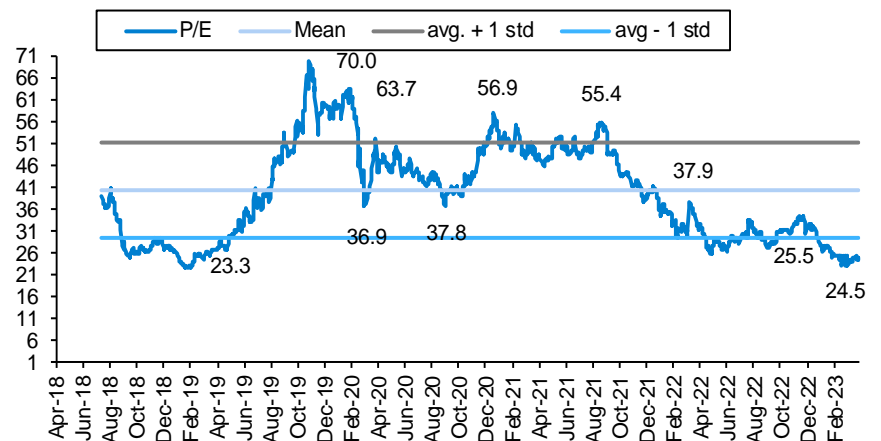


Source: Company, PL

Exhibit 6: SIP AuM continues to grow(+20.6%YoY/1.3%QoQ)



Source: Company, PL

Exhibit 7: HDFCAMC one-year forward P/Core EPS trades at 24.5x


Source: Company, PL

Financials

Exhibit 8: Quarterly Financials

Particulars (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	4,819	5,029	5,071	5,423	5,497	5,163	5,216	5,447	5,596
Expenses	1,123	1,226	1,419	1,470	1,507	1,383	1,479	1,558	1,622
Employee	569	638	835	798	775	714	780	839	790
Others	414	451	449	536	599	534	564	587	699
Depreciation	140	136	135	136	133	134	135	132	134
Core Income	3,696	3,804	3,652	3,953	3,989	3,780	3,737	3,889	3,974
Other Income	1,131	426	1,009	661	862	647	113	1,042	1,034
PBT	4,826	4,230	4,661	4,614	4,852	4,427	3,850	4,931	5,007
Tax	1,134	1,069	1,207	1,170	1,254	991	708	1,290	1,313
PAT	3,693	3,161	3,455	3,444	3,598	3,436	3,142	3,641	3,694
Core PAT	2,828	2,842	2,707	2,951	2,958	2,934	3,050	2,872	2,931
QAAuM	38,94,008	41,54,966	41,69,535	43,89,238	44,58,524	43,09,627	41,42,806	42,81,979	44,47,201
Equity	23.7%	24.9%	26.1%	27.6%	28.9%	30.4%	31.2%	32.6%	33.9%
Balanced	15.0%	15.2%	15.2%	15.1%	15.2%	15.5%	16.3%	16.7%	17.1%
Debt	34.1%	35.6%	34.2%	33.2%	32.2%	30.2%	27.4%	24.9%	23.1%
Liquid	24.2%	21.1%	20.9%	19.9%	19.3%	19.1%	19.9%	20.4%	20.1%
ETF	0.7%	0.8%	0.9%	0.9%	1.0%	1.1%	1.2%	1.2%	1.3%
Index	1.0%	1.1%	1.2%	1.4%	1.7%	2.0%	2.4%	2.7%	2.9%
Arbitrage	1.3%	1.3%	1.5%	1.8%	1.7%	1.6%	1.6%	1.5%	1.3%
FoF overseas	0.0%	0.0%	0.0%	0.0%	0.3%	0.3%	0.3%	0.2%	0.2%
Market share (%)	13.11	12.94	12.57	12.12	11.67	11.23	10.97	10.96	11.05
Equity	10.4	10.3	10.1	9.7	9.5	9.6	9.5	9.5	9.7
Balanced	23.8	23.6	22.5	20.9	18.5	17.6	17.6	17.8	18.2
Eq+Bal	13.3	13.1	12.7	12.0	11.4	11.3	11.3	11.3	11.5
Index	26.9	26.7	23.9	21.9	19.2	16.6	13.4	11.6	10.9
Debt	12.9	13.6	13.5	13.6	13.7	13.4	13.1	13.4	13.4
Liquid	19.7	19.1	18.6	18.6	18.0	16.0	15.6	15.6	16.2
ETF	1.1	1.1	1.2	1.1	1.1	1.1	1.1	1.1	1.2
QAAuM Growth (%)	3.7	6.7	0.4	5.3	1.6	-3.3	-3.9	3.4	3.9
Equity	6.4	12.5	5.0	11.5	6.3	1.6	-1.2	8.0	7.9
Balanced	2.3	8.0	0.7	4.5	1.9	-1.0	0.6	6.2	6.1
Eq+Bal	4.8	10.8	3.4	8.9	4.7	0.7	-0.6	7.4	7.3
Debt	19.7	11.1	-3.6	2.3	-1.3	-9.4	-12.9	-5.9	-3.9
Liquid	-13.8	-6.9	-0.9	0.4	-1.7	-3.9	0.0	5.8	2.6
ETF	16.7	16.1	13.2	9.8	8.4	7.9	3.1	8.0	15.1
Index	15.1	20.2	15.7	20.1	22.0	14.4	14.6	14.3	12.6
Arbitrage	-8.6	8.2	15.4	24.9	-3.5	-10.9	-2.0	-6.6	-5.7
FoF overseas						2.6	-10.0	0.2	-3.6
Dupont (bps)									
Revenue yield	49.5	48.4	48.6	49.4	49.3	47.9	50.4	50.9	50.3
Opex to AuM	11.5	11.8	13.6	13.4	13.5	12.8	14.3	14.6	14.6
Staff cost	5.8	6.1	8.0	7.3	7.0	6.6	7.5	7.8	7.1
Other opex	4.3	4.3	4.3	4.9	5.4	5.0	5.4	5.5	6.3
Depreciation	1.4	1.3	1.3	1.2	1.2	1.2	1.3	1.2	1.2
Core income/AuM	38.0	36.6	35.0	36.0	35.8	35.1	36.1	36.3	35.7
PAT/AuM	37.9	30.4	33.1	31.4	32.3	31.9	30.3	34.0	33.2
Core PAT/AuM	29.0	27.4	26.0	26.9	26.5	27.2	29.4	26.8	26.4
Profitability (%)									
Staff cost/revenue	11.8	12.7	16.5	14.7	14.1	13.8	15.0	15.4	14.1
Other opex/revenue	8.6	9.0	8.9	9.9	10.9	10.4	10.8	10.8	12.5
Core income/revenue	76.7	75.6	72.0	72.9	72.6	73.2	71.6	71.4	71.0
Tax rate	23.5	25.3	25.9	25.4	25.8	22.4	18.4	26.2	26.2
PAT margin	76.6	62.8	68.1	63.5	65.4	66.5	60.2	66.8	66.0
Core PAT margin	58.7	56.5	53.4	54.4	53.8	56.8	58.5	52.7	52.4

Source: Company, PL

Exhibit 9: Summary Financials (Rs mn)

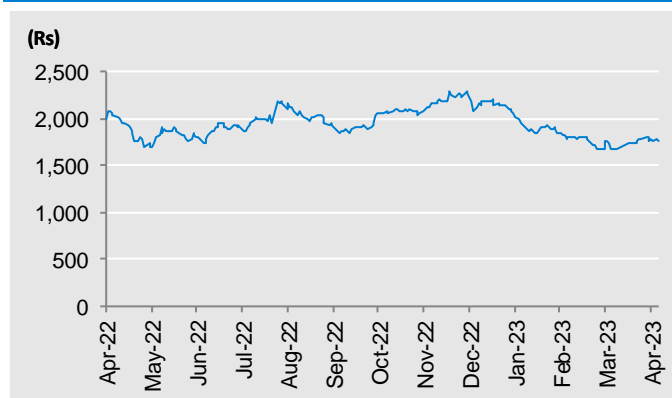
Particulars	FY22	FY23E	FY24E	FY25E	Particulars	FY22	FY23E	FY24E	FY25E
Profit & Loss					Balance Sheet				
Revenue	21,154	21,668	23,531	25,364	Net Worth	55,300	61,084	65,195	69,521
Investment mgmt.	21032	21538	23395	25225	Capital (FV Rs5)	1,066	1,067	1,067	1,067
PMS / Advisory	121	130	136	139	Reserves	54,234	60,017	64,128	68,453
Expenses	5,779	6,120	6,706	6,903	Employee benefit	690	670	804	965
Employee	3,122	3,127	3,474	3,461	Others	3,152	4,325	4,559	4,806
Others	2,119	2,460	2,661	2,874	Total Liabilities	59,143	66,079	70,557	75,292
Depreciation	539	533	570	569	Cash and Bank	81	40	40	40
Core Income	15,375	15,549	16,825	18,460	Investment	55,702	60,792	65,024	69,500
Other Income	3,178	3,158	3,286	3,517	Fixed assets	1,356	1,526	1,602	1,683
PBT	18,553	18,706	20,111	21,977	Others	2,004	3,721	3,907	4,102
Tax	4,622	4,467	4,887	5,340	Total Assets	59,143	66,079	70,574	75,325
PAT	13,931	14,239	15,224	16,637	AuM Data				
Core PAT	11,545	11,836	12,737	13,974	AAuM	43,37,496	43,47,546	47,51,864	53,12,651
Dividend	8,958	10,244	11,114	12,312	Equity	12,25,036	14,35,439	16,49,264	18,80,161
Growth ratios (%)					Balanced	6,61,757	7,31,680	7,93,980	8,45,458
Revenue	14.2	2.4	8.6	7.8	Debt	14,05,303	10,60,846	10,82,943	11,69,579
Opex	27.6	5.9	9.6	3.0	Liquid	8,56,603	8,67,586	8,88,656	9,86,409
Employee	37.7	0.2	11.1	-0.4	ETF	41,151	58,539	71,185	94,821
Others	24.2	16.1	8.2	8.0	Index	69,539	1,21,215	1,86,949	2,48,954
Core income	9.8	1.1	8.2	9.7	Arb & FoF	78,108	72,239	78,887	87,270
PAT	5.1	2.2	6.9	9.3	Mix				
Core PAT	8.8	2.5	7.6	9.7	Equity	28.2	33.0	34.7	35.4
DuPont analysis (%)					Balanced	15.3	16.8	16.7	15.9
Revenue	0.49	0.50	0.50	0.48	Debt	32.4	24.4	22.8	22.0
Expenses	0.13	0.14	0.14	0.13	Liquid	19.7	20.0	18.7	18.6
Employee	0.07	0.07	0.07	0.07	ETF	0.9	1.3	1.5	1.8
Others	0.05	0.06	0.06	0.05	Index	1.6	2.8	3.9	4.7
Depreciation	0.01	0.01	0.01	0.01	Arb & FoF	1.8	1.7	1.7	1.6
Core Income	0.35	0.358	0.354	0.347	Growth				
Other Income	0.07	0.07	0.07	0.07	Overall	12.9	0.2	9.3	11.8
PBT	0.43	0.43	0.42	0.41	Equity	36.6	17.2	14.9	14.0
Tax	0.11	0.10	0.10	0.10	Balanced	14.4	10.6	8.5	6.5
PAT (RoAAuM)	0.32	0.33	0.32	0.31	Debt	16.3	-24.5	2.1	8.0
Core RoAAuM	0.266	0.272	0.268	0.263	Liquid	-17.9	1.3	2.4	11.0
ROE	27.0	24.5	24.1	24.7	ETF	66.3	42.3	21.6	33.2
Core RoE	27.6	25.6	26.2	27.8	Index	97.4	74.3	54.2	33.2
Other Ratios (%)					Valuations				
Staff cost/revenue	14.8	14.4	14.8	13.6	EPS	65.3	66.7	71.3	78.0
Other opex/revenue	10.0	11.4	11.3	11.3	Core EPS	54.1	55.5	59.7	65.5
Core Income/revenue	72.7	71.8	71.5	72.8	CPS	261.5	285.0	304.9	325.8
Other Income/revenue	15.0	14.6	14.0	13.9	DPS	42.0	48.0	52.1	57.7
Yield on Investments	6.0	5.3	5.1	5.1	Dividend yield	1.8	2.4	2.9	3.3
Effective tax rate	24.9	23.9	24.3	24.3	BVPS	259	286	305	326
PAT margin	65.9	65.7	64.7	65.6	P/B	8.4	6.5	5.8	5.4
Core PAT margin	54.9	55.0	54.4	55.4	P/E	36.0	28.0	24.8	22.7
Dividend payout (%)	64.3	71.9	73.0	74.0	P/core EPS	38.6	28.7	24.5	22.0

Source: Company, PL



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Mar-23	BUY	2,100	1,797
2	11-Apr-23	BUY	2,100	1,751

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,200	1,675
2	Axis Bank	BUY	1,100	846
3	Bank of Baroda	BUY	220	166
4	Can Fin Homes	BUY	700	581
5	City Union Bank	BUY	190	160
6	DCB Bank	BUY	150	114
7	Federal Bank	BUY	175	127
8	HDFC	BUY	3,000	2,722
9	HDFC Asset Management Company	BUY	2,100	1,751
10	HDFC Bank	BUY	1,925	1,672
11	ICICI Bank	BUY	1,130	886
12	IDFC First Bank	UR	-	54
13	IndusInd Bank	BUY	1,530	1,102
14	Kotak Mahindra Bank	BUY	2,100	1,757
15	LIC Housing Finance	Accumulate	410	333
16	Punjab National Bank	UR	-	47
17	Reliance Industries	BUY	2,822	2,349
18	State Bank of India	BUY	730	526
19	UTI Asset Management Company	BUY	830	666

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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