HDFC Asset Management Company Limited

Annual Report Round Up- FY23

20th June 2023

KRChoksey | research

- The mutual fund (MF) industry had a decent year, with AUM crossing the INR 40 Tn milestone. This accomplishment highlights the industry's robust performance, showcasing nearly a doubling of AUM over the past five years.

- HDFCAMC has reported revenue growth of 4.3% CAGR over FY19–23, while its operating profits/Profit After Tax has seen growth of 10.2%/ 14.6% CAGR, respectively, over the same period. The AUM has also been growing at a healthy pace, with 8.4% CAGR growth over the last five years.

- HDFCAMC has continued to expand its robust 'phygital' delivery channels. Through its ConneKt app, HDFCAMC has been equipping its partners with their own digital office, including a website, digital marketing capabilities to reach out across channels, and robust reporting backed by high-quality content.

- HDFCAMC expects to remain steadfastly dominant in its actively managed funds, to deliver alpha (outperformance against the index) across the board. The company bolstered its active portfolio through strategic expansions and product introductions. HDFCAMC has introduced various passive products to cater to evolving market demands, amplifying its offerings to investors.

- The company has fortified its HDFC AMC Portfolio Management Services brand by introducing two innovative products, enabling it to serve its clients' needs better. HDFCAMC launched its Category II AIF fund of funds (HDFC AMC Select AIF FOF) in FY23 and announced its first close on March 31, 2023, with commitments adding up to INR 4,000 Mn. Simultaneously, it has set foot toward global outreach by establishing HDFC AMC International (IFSC) Limited. This strategic move allows better access to global institutions, opening up new markets for its products and services.

- With an AUM of INR 4.37 Tn, HDFCAMC has served a customer base of 6.6 Mn unique individuals with 11.4 Mn live accounts. Its quarterly average AUM asset mix composition, with 54% in equity-oriented funds and 46% in nonequity-oriented funds, remains favorably positioned compared to the industry's distribution of 49% and 51%, respectively. The total income for the company grew by 2.0% YoY in FY23 to INR 24,826 Mn, while its Profit After Tax (PAT) was at INR 14,239 Mn, a growth of 2.2% YoY.

- A dividend of INR 48/- per equity share has been recommended for FY23, subject to the approval of the members at this meeting and shall be dispatched or remitted commencing from the day after the AGM, i.e., June 27, 2023.

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- **HDFC Asset Management Company Ltd (HDFCAMC) is the investment manager to HDFC Mutual Fund. The company has reported an AUM growth of 7% in FY23 over FY22. HDFCAMC has a market share of 11.1% as on March 31, 2023.**
- In the next quarters, HDFCAMC will continue to focus on its new product pipeline, offering distinctive themes in thematic, passive, global funds, and ETFs. The company has been focusing on new growth opportunities, restoring market share, and broadening its customer base.
- The company's digital platform is expected to act as a marketing as well as distribution tool and boost the sales momentum.
- HDFCAMC's product mix is diversified and tailored according to the preferences of investors. The company's diverse range of savings and investment products enables it to effectively manage multiple market cycles while minimizing concentration risk in a particular asset class.
- The company has entered a broad distribution partnership to fuel the business growth momentum. A well-planned and robust distribution network, nationwide presence, and cutting-edge digital infrastructure contribute to HDFCAMC's growth.

Key Information

Sector	**NBFC**
M-Cap (INR Mn)	4,04,311
52-week H/L (INR)	2,315/1,590
Volume Avg (3m K)	564
CMP (INR)	**1,894**
Target Price (INR)	**1,970**
Upside (%)	**4.0%**
Recommendation	**ACCUMULATE**

Source: Company, KRChoksey Research

Shareholding Pattern (%)

Particulars	Mar-22	Mar-23
Promoters	68.8	62.8
FIIs	10.4	7.5
DIIs	9.0	17.6
Others	11.8	12.1
Total	100.0	100.0

Source: BSE

Equity-oriented schemes:

- Equity-oriented schemes constituted 56.2% of its total AUM as of March 31, 2023.
- As of March 31, 2023, The equity-oriented fund AUM stood at INR 2,455 Bn.
- Equity-oriented includes all solution-oriented schemes/ portfolios. The liquid consists of Liquid and Overnight funds. Others have Arbitrage funds, Exchange Traded Funds (ETF) and Funds of Funds (FoF).
- As of March 31, 2023, the total equity schemes stood at 29.
- The emphasis is on key drivers and calibrating risks, considering both quantitative (growth prospects, key variables, analysis of P&L statements, Balance Sheet and cash flows etc.) and qualitative (management quality, corporate governance, track record, competitive advantage, feedback from dealers, customers and experts, etc.) factors. At the same time, it aims to acquire businesses available at reasonable valuations and hold onto them for an extended time frame.
- HDFCAMC will remain firmly focused on fundamentals-led research and will continuously improve its understanding of the investment universe.

Debt-oriented schemes:

- The debt-oriented schemes constituted 28.1% of its total AUM as of March 31, 2023. Debt AUM stood at INR 1,226 Mn, a decline of 6.0% YoY.
- HDFCAMC's schemes invest in debt securities including government securities, non-convertible debentures, corporate bonds, asset-backed securities, money market instruments, etc. All investments are made in line with the respective Scheme Information Document (SID) and in permitted instruments.
- HDFCAMC aims to add value in fixed income investments by managing duration of portfolios driven by its medium to long-term view on interest rates, yield curve, etc.

Digital Initiatives:

- Introduced custom OneClick for Partners, Investors and Employees. Additionally, HDFC AMC has launched variety of experience enhancing services like eKYC, biometrics, multiple payment gateways, etc. to prioritize journey of new investor and simplify onboarding process.

- Refreshed website design and experience through thoughtful user journey.

- New Investor App launched with a new design, experience and added features. The app now has an improved dashboard for investors to better view their Asset Overview, Investment Baskets, Risk Profiling and Goal Planning.

- Started WhatsApp notifications for digital transactions done by its investors. HDFCAMC will continue to expand its interaction with clients on the popular messaging app, making it easier for its investors to receive account updates.

- Implemented and added personalization capabilities with Adobe Target.

- Improved engagement and lead generation across Digital Assets. A combination of user journey interventions and optimizations.

- The HDFCMF ConneKt app is made available even for MFD aspirants, with a fully featured NISM training module and preparatory quizzes. This will not only help expand its distribution network, but also bring fresh minds into the industry and to the countless unserved/underserved investors over time, that too with a 'Digital First' approach.

- Built a foundation layer for its analytics programme. HDFCAMC continues to see year-on-year higher conversions on its analytics-based campaigns.

- The company aims to use technology to its advantage to make the industry, and especially its organization, future-ready for scale. This also enables HDFCAMC to play the role in helping India meet its goal of becoming a paperless economy.

Global Economic Overview:

- The global economy and capital markets experienced a volatile FY 22-23. The global growth on the upside came as a surprise at the start of the year, supported by a rebound in services consumption and a lower-than-anticipated moderation in goods demand. However, broad-based inflationary pressures and sharp rise in energy prices following the outbreak of the Ukraine-Russia conflict impacted economic activity.
- To rein in inflation, the central banks of major economies aggressively raised policy rates and commenced quantitative tightening. Most governments also scaled back fiscal stimulus as economic activities normalized.
- Resilient demand, tight labor markets across major Advanced Economies (AEs), the Ukraine-Russia situation and the dynamic Zero COVID policy of China kept commodity prices and inflationary pressures elevated in the first half. However, as the year progressed, commodity prices corrected in view of a softening growth outlook, synchronized tight monetary policy response and scaling back of fiscal stimulus, thereby easing the inflation momentum. However, resilient demand conditions kept the inflation relatively elevated.
- Most industrial commodities ended FY23 lower YoY, and significantly below the peak witnessed during the year.
- Gold prices, which were range-bound for most part of the year, saw an increase in the last quarter due to a decline in the US yields, and uncertainty after the failure of a few banks in the US and Europe.
- Both equity and debt markets delivered negative returns in most major economies on account of the uncertainty about the inflation trajectory, falling global liquidity, slowing growth and the growing prospects of central banks keeping interest rates higher for longer.
- The United States' relative robust growth and tight monetary policy, along with its safe haven status, resulted in the US dollar strengthening against most other currencies during the year.
- UK pension funds faced turbulent times as yields rose sharply on announcement of unfunded fiscal stimulus; situation resolved as the measures were rolled back and Bank of England stepped in to calm the market.
- Bank of Japan (BoJ) relaxes the band of Yield Curve Control (YCC) from (+/-) 25 bps to (+/-) 50 bps with unchanged target at 0%.
- In India, capital gains from the sale of debt mutual fund units to be taxed as Short-Term Capital Gain (STCG); indexation benefit removed. Income from non-ULIP insurance policy with an aggregate premium over INR 5 Lakh p.a. made taxable as STCG.

Indian Economic Overview:

- India's Gross Domestic Product (GDP) growth normalized in 9MFY23, owing to a broad-based, post-pandemic recovery led by private consumption and investment activity. Government consumption fell marginally (9MFY22: 4.4%) due to benign spending by both central and state governments. Resilient domestic demand and a slowdown in global trade resulted in import growth outpacing exports.
- On the Gross Value Added (GVA) side, agriculture continued to grow at a steady pace, while pick up in hospitality and trade services supported growth in services.
- Manufacturing activity decelerated sharply partly due to high base and softening trade exports, while growth in construction activities normalized.
- Going forward, India's growth is likely to be supported by resilience in private consumption along with a pickup in private capex. Government spending is likely to be directed towards capex, while growth in revenue expenditure is expected to stay benign.
- India's Current Account Deficit (CAD) widened significantly in 9MFY23 as higher oil and Non-Oil Non-Gold (NONG) imports negatively impacted trade deficit, partially offset by a significant improvement in invisible exports.
- Capital flows declined on the back of lower loans (External Commercial Borrowings (ECB) and trade credit) as interest rates hardened globally. Further, the one-off receipt of Special Drawing Rights (SDRs) from the IMF (~USD 18 Bn) which boosted capital flows in FY22 was also missing in the current year. This was partially offset by an increase in banking capital.
- India's balance of payments is likely to improve sequentially in FY24E. Further, comfortable foreign exchange reserves with the RBI should keep the Indian rupee stable.
- For FY23, the central government remains on track to achieve the revised estimate (RE) target of 6.4% of fiscal deficit. Revenue growth remained robust, driven by buoyant direct tax and GST collections, partially offset by higher state transfers. For FY24E, the fiscal deficit target of 5.9% appears achievable, unless economic growth surprises significantly on the downside.
- In FY23, the Average Consumer Price Index (CPI) inflation increased by ~120 bps to 6.7% YoY, primarily driven by higher prices for food items such as cereals, milk, spices and vegetables. Given the favorable base, correction in commodity prices, softness in domestic growth, and tighter monetary conditions, inflation is expected to decelerate in FY24E.

Equity Market Overview:

- Indian equities ended FY23 flat YoY, caught between two conflicting forces. Relatively strong domestic growth, robust corporate earnings, optimistic growth outlook, large inflows into domestic institutional investors supported equities. However, accelerated monetary tightening by major central banks, volatility in commodity prices, large Foreign Portfolio Investment (FPI) selling, etc. weighed it down.
- Midcaps performed largely in line with large caps, but small caps underperformed. Among the key sectors, Capital goods, FMCG, Auto, and Banking outperformed while IT, Metals, Power, Healthcare, and Oil & Gas underperformed.
- The performance of major global equity indices was mixed with European equities performing better than the US and Asian markets.
- FPIs sold equities worth USD 6.3 Bn in FY23, compared to net selling of USD 17.1 Bn in FY22. This was more than offset by DII buying (mainly insurance and mutual funds). DIIs bought equities of USD 32.2 Bn, compared with the USD 29.5 Bn bought in FY22.
- As on March 31, 2023, the NIFTY 50 was trading at ~18.9x FY24E and ~16.3x FY25E earnings. The valuation multiples have moderated from their recent peak and are now close to their historical averages.
- India's market cap-to-GDP (CY23E) stood at ~85%, off its peak and within the historical range of past decade (70-100%).
- The gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 earnings yield* has also narrowed from its peak [*Earnings yield = 1/ (one year forward P/E)]. Thus, market valuations are still above historical average but have corrected from their peak.
- HDFCAMC remains positive on equities over the medium-to-long-term considering the resilient domestic growth outlook, robust corporate profitability, growth-supportive policies, etc. Accelerated monetary policy tightening, a sharp slowdown in global growth, persistent inflation, a slowdown in earnings growth, a delay in recovery in the rural sector, etc. are key near-term risks.

Fixed Income market Overview:

- Indian as well as global fixed income markets faced a challenging FY23. Amid the synchronised tightening by major central banks (including RBI) and rising yields globally, India's G-sec yield curve shifted up, especially post the Union Budget FY24E, as the government announced borrowings exceeding market expectations.
- The rise in yields was further accentuated by the RBI's repo rate hike and Cash Reserve Ratio (CRR) increase announced in an unscheduled meeting in May 2022.
- To curb volatility in the Indian rupee and drain out excess liquidity, the Average interbank liquidity fell considerably, as the RBI sold the US Dollar and currency in circulation increased.
- Further, robust credit growth vis-à-vis deposit growth resulted in lower interbank liquidity.
- FPIs turned net sellers in FY23 with USD 0.3 Bn of debt, from being net buyers of USD 2.2 Bn in FY22.
- Credit markets were largely stable; credit spreads normalized as the supply of corporate bonds picked up during the second half.
- Going forward, several factors seem favorably placed for the fixed income markets. CPI has eased from the peak and is likely to ease further in view of softening momentum, lowering input price pressure, aided by the correction in global commodity prices. Further, growth is also likely to moderate, on the back of exports slowing, fiscal impulse declining and private consumption normalizing.
- Heightened geopolitical risks, elevated oil prices, tight liquidity and increase in issuance of state development loans (SDLs) in FY 23-24 are other important factors, which could keep the yields elevated. Overall, yields are likely to be range-bound with a downward bias.

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Mutual Fund Industry Performance:

- Assets Under Management as on March 31, 2023, increased by 5% to INR 39.42 Tn as against INR 37.57 Tn on March 31, 2022. Equity-oriented AUM witnessed a growth of 11% to INR 20.0 Tn, driven by increased net flows, while nonequity-oriented AUM came in at INR 19.42 Tn, almost flat as compared to last year.
- During FY23, the industry saw net inflows to the tune of INR 1.8 Tn in equity-oriented funds out of which INR 0.18 Tn came into equity-oriented index funds, while debt funds including debt-oriented index funds recorded outflows of INR 0.8 Tn, liquid funds saw outflows of INR 0.51 Tn and Others (including arbitrage funds, Exchange Traded Funds (ETFs) and Fund of Funds (FoF)) saw net inflows of INR 0.27 Tn.
- Annual Average AUM (AAAUM) for FY23 grew by 10% to INR 40 Tn from INR 36.5 Tn in FY22.
- The MF industry recorded a 13% increase in the number of folios to 145.7 Mn as on March 31, 2023, from 129.5 Mn as on March 31, 2022.
- Unique investors identified on PAN and PEKRN increased by 12% to 37.7 Mn as on March 31, 2023. The industry has added 74 Mn net new folios in last five years
- The MF industry witnessed 25.1 Mn new SIP registrations and annual SIP flows of INR 1,559.72 Bn in FY23, up 25% from FY22.
- Mutual fund AUM in India has recorded a CAGR of 13.0% over the past five years. The growth of the mutual fund industry showcases its ability to adapt to evolving investor preferences and market dynamics.
- The MAAUM of individual investors reached INR 23.3 Tn in March 2023, registering a CAGR of 14.8% since March 2018.
- Net inflows over the past five fiscal years have been INR 7.34 Tn, of which INR 4.98 Tn have flowed in active equity-oriented schemes.
- Monthly SIP flows more than doubled from INR 71,190 Mn for the month of March 2018 to INR 1,42,760 Mn in March 2023. SIP accounts as on March 31, 2023, were 63.6 Mn, up from 21.1 Mn on March 31, 2018.

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- The increase in Revenue from Operations from INR 21,154 Mn in FY22 to INR 21,668 Mn in FY23 was mainly due to an increase in investment management fee by 2.74% from INR 21,032 MN in FY22 to INR 21,608 Mn in FY23. The said increase resulted from a higher component of Equity oriented schemes in the overall Annual Average AUM and a marginally higher total Annual Average AUM in FY23 compared to FY22. PMS and other advisory services fee have declined from INR 121 Mn in FY22 to INR 60 Mn in FY23.
- HDFCAMC's other income is primarily earned from its investments, which are generated from retained surpluses. Other income shows a minor decrease of 0.65% from INR 3,178 Mn in FY22 to INR 3,158 Mn in FY23. However, it could have been higher by 3.81% but was not realized due to the details explained herein. As of April 01, 2020, the company held certain Non-Convertible Debentures (NCDs) secured by a pledge of listed equity shares. These NCDs were classified as financial assets at fair value through profit and loss. Hence, any realized gain on their sale/changes in fair value was reflected under 'Other Income'. During FY21, the company invoked and sold most of the pledged shares. The balance of pledged shares were sold during FY22, resulting in a net gain amounting to INR 137 Mn.
- Fees and commissions comprised primarily commissions paid to distributors on selling its MF schemes, PMS and advisory mandates. Following SEBI guidelines, no commission on fresh sales of MF schemes was charged to the company. However, specific amounts paid in the past are still being amortized. The residual unamortized amount of such commissions is minuscule. The fees and commission expenses decreased from INR 54.1 Mn in FY22 to INR 36.8 Mn in FY23.
- The employee benefits expenses increased marginally due to the following reasons: a) An increase in salaries and allowances of employees, which were led by an increase in certain emoluments for employees in FY23; b) Under Employees Stock Option Scheme-2020 ('ESOS2020'), apart from stock options granted in the past year(s), the Nomination and Remuneration Committee (NRC) of the Board of Directors of the Company at its meeting held on July 21, 2022, had approved a further grant of 50,000 stock options representing 50,000 equity shares of INR 5 each, at a grant price of INR 1,921.70 per equity share (being the market price as defined in the applicable SEBI Regulations), to its eligible employees.
- Accordingly, the employee benefit expenses marginally increased by 0.15% from INR 3,122 Mn in FY22 to INR 3,127 Mn in FY23. However, excluding the above-mentioned non-cash charge towards employee stock options, the employee benefit expenses have increased by INR 237 Mn, i.e., 9.51%.

- Depreciation, Amortization and Impairment decreased from INR 539 Mn in FY22 to INR 533 Mn in FY23, primarily due to lower amortization charges on computer software. However, the depreciation charge on Right of Use Asset has increased similarly, which offsets the fall in amortization charge on computer software.
- The other expenses increased by 17.58% from INR 1,978 Mn in FY22 to INR 2,326 Mn in FY23 primarily due to increases in 'Advertisement, Publicity and Business Promotion expenses', 'Travel and Conveyance', 'Subscription and Membership Fees', 'Outsourced Services Cost', 'Corporate Social Responsibility Expense', and 'Software Expenses and Allied Services'. This rise in expenditure was due to a combined effect of a pickup in business activities in the current year compared to the previous year, coupled with other business & digital initiatives taken by the company.
- Advertisement, Publicity and Business Promotion expenses increased from INR 276 Mn in FY22 to INR 380 Mn in FY23. This incremental spend was in pursuit of continuous engagement with various stakeholders of the business.
- Under the Companies Act 2013 requirement, HDFCAMC's Corporate Social Responsibility expenses increased from INR 301 Mn in FY22 to INR 317 Mn in FY23.
- The total tax expenses declined by 3.35% to INR 4,467 Mn in FY23 from INR 4,622 Mn in FY22. The current tax charge increased to INR 4,213 Mn in FY23 from INR 4,190 Mn in FY22. the company's deferred tax charge decreased to INR 254 Mn in FY23 from INR 432 Mn in FY22, mainly on account of movement in 'fair value gains/losses and impairment on investments'. The effective tax rate, including deferred tax was at 23.88% and 24.91% for FY23 and FY22, respectively. HDFCAMC had elected to exercise the option of a lower tax rate provided under Section 115BAA of the Income-tax Act, 1961.
- As a result of the factors outlined above, Profit After Tax increased by 2.21% to INR 14,239 Mn in FY23 from INR 13,931 Mn in FY22.
- The Board of Directors have recommended a final dividend of INR 48 per equity share of Face Value of INR 5 each for FY23 compared to INR 42 per equity share for FY22. Accordingly, the Dividend payout ratio for FY23 would stand at 71.95%, up from 64.30% for FY22.

Balance sheet Analysis

- HDFCAMC's investment grew from INR 55,702 Mn in FY22 to INR 60,792 Mn in FY23. The increase in investments carried at fair value through Profit & Loss from INR 51,073 Mn in FY22 to INR 56,582 Mn in FY23 is due to the net investment in mutual fund schemes and fair value changes. The investments carried at amortized cost have decreased from INR 4,629 Mn in FY22 to INR 4,179 Mn in FY23, primarily due to the maturity of certain tax-free bonds. The Wholly Owned Subsidiary of HDFCAMC, namely 'HDFC AMC International (IFSC) Limited', with its principal place of business in Gujarat International Finance Tec-City (GIFT City), Gandhinagar, India, was incorporated on May 27, 2022. INR 30 Mn was invested in it during the reporting period.
- Non-Financial Assets have increased from INR 1,964 Mn in FY 22 to INR 2,259 Mn in FY23. This increase is primarily due to a) Increase in net book value of Property, Plant and Equipment from INR 1,222 Mn in FY22 to INR 1,376 Mn in FY23; b) Increase in Other Non-Financial Assets from INR 302 Mn in FY22 to INR 428 Mn in FY23.
- Financial Liabilities have increased from INR 2,189 Mn in FY22 to INR 2,419 Mn in FY23. This increase is primarily due to increase in Lease Liability balances.
- Non-Financial Liabilities have increased to INR 1,863 Mn in FY23 from INR 1,315 Mn in FY22. This is largely due to movement in net Deferred tax balances and Other Non-financial liabilities.
- Total Equity has increased mainly due to higher retained earnings. Retained earnings represent the surplus profits after the payment of dividends. Return on Average Net Worth decreased from 27.03% in FY22 to 24.47% in FY23. This is due to a higher % change in Average Net Worth as compared to % change in Profit After Tax. Average Net Worth has increased mainly due to growth in retained earnings.

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Update on Subsidiary & Amalgamation of HDFC (Holding Company); Stake sale by ARBDN Invt Management Ltd

- HDFCAMC had incorporated a wholly owned subsidiary company - HDFC AMC International (IFSC) Limited ("HDFC IFSC" or the "Fund Management Entity" or the "FME") in Gujarat International Finance Tec-City (Gift City), Gandhinagar, Gujarat on May 27, 2022, for providing investment management, advisory and related services.
- During the year, the FME has received an in-principle approval from International Financial Services Centres Authority ('IFSCA') for registration under Registered Fund Management Entity (Retail) category and is in process of fulfilling the requirements for obtaining a certificate of registration from IFSCA and pursuant to which the FME will commence its business operations with initial plans of managing funds which would primarily be feeders into certain domestic mutual fund schemes and/or ETFs in India.
- The Board at its meeting held on April 25, 2023, inter alia, approved the audited financial statements including the consolidated financial statements of the company for the financial year ended March 31, 2023, subject to approval of members of the company.
- In FY23, the composite scheme of amalgamation for the amalgamation of: (i) HDFC Investments Limited and HDFC Holdings Limited, wholly-owned subsidiaries of Housing Development Finance Corporation Limited ("HDFC Limited") with and into HDFC Limited; and (ii) HDFC Limited with and into HDFC Bank Limited under Sections 230 to 232 of the Companies Act, 2013, was filed with Hon'ble National Company Law Tribunal, Mumbai Bench, Mumbai.
- On March 17, 2023, Final Order was passed by NCLT sanctioning the said Scheme. Basis the above, the company has made final application to SEBI for change in control of the Company/ change in co-sponsor(s)/promoter under SEBI (Mutual Funds) Regulations, 1996, SEBI (Portfolio Manager) Regulations, 2020 and SEBI (Alternative Investment Funds) Regulations, 2012, as applicable.
- During the year, HDFCAMC was in receipt of letter from abrdn Investment Management Ltd, one of the promoters holding 10.21% of the paid-up share capital of the company, intimating their intention to sell the entire stake in the Company subject to applicable SEBI (Mutual Funds) Regulations, 1996 ("SEBI MF Regulations"). In this connection, SEBI had granted its approval permitting abrdn to reduce its shareholding in the company to less than 10%, subject to the company complying with the requirements specified under SEBI MF Regulations. The company has complied with the above requirements and abrdn can reduce its stake in the company thereby ceasing to be the co-sponsor of HDFC Mutual Fund.

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Strategic Priorities

- HDFCAMC endeavors to be a one-stop shop for all investment needs, ranging from a diverse selection of mutual funds, including both actively managed and passive options, to portfolio management services and alternative investment opportunities. Th company will continuously assess market opportunities, identify gaps in the product offering, and develop investment solutions to meet the changing needs of investors.
- It will set industry benchmarks around performance along with building an inclusive ecosystem of information, knowledge and platforms.
- Customers are at the core of everything that the company does, and it wants to keep progressing in its journey from client service to client delight.
- HDFCAMC aims to enhance its distribution footprint and leverage technology to boost accessibility and attract new investors. It will continue its investments in advanced digital platforms, data analytics and automation.
- Adopt best-in-class corporate governance practices and risk management process.
- The company will focus on attracting and retaining top talent, providing ongoing training and development opportunities, and foster a culture of innovation and collaboration.
- It will demonstrate its commitment to including environmental, social and governance (ESG) factors in decision-making and ownership.

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Environment, Social, Governance Initiatives

- Environment, education, healthcare and sports are HDFCAMC's stated priorities for CSR, and the company is actively involved in many initiatives like #CancerCare and biodiversity park to name a few. With its legacy of investment knowledge and expertise, it is not only its business plan but its duty to bring financial literacy and financial independence to the masses.

- HDFCAMC's endeavor has been to encourage financial independence for every household, with a special focus on women, and for that it has introduced campaigns like '#BarniSeAzadi'. Its mega-investor awareness campaign, 'Zindagi Ke Liye SIP', a first-of-its-kind 360-degree outreach, resonated well with audiences far and wide.

- HDFCAMC has launched Investverse–a unique initiative to empower the next generation of investors with high-quality knowledge about the world of investing, delivered through its gamified learning app, MFBytes, in collaboration with NSE.

- HDFC AMC as part of its CSR Initiatives towards Environmental Sustainability has supported the development of "Biodiversity Park" for creation of an urban forest using the Akira Miyawaki technique and rejuvenation of waterbody. The project spreads over a 59,000 sq. ft area of the Kalina Campus of the University of Mumbai.

- The company has spent INR 316.8 Mn on the CSR ongoing as well as other than ongoing projects in FY23.

Valuation

The MF industry has witnessed approximately 6x growth in AUM in each of the last two decades. The MF industry's growth demonstrates its capacity to adapt to changing investor preferences and market conditions. The industry's ongoing efforts to increase awareness and understanding about the advantages of mutual funds have been key for improving investor participation. 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 is one of the best bets in India for capitalizing on the industry's long-term structural opportunity because of its pedigree and a well-diversified product mix.

HDFCAMC has made a significant advancement in strengthening its brand as an investment manager. 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 (unchanged), an upside of 4.0% over the CMP. We maintain our rating of "ACCUMULATE" on the shares of HDFC AMC.

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Exhibits: Quarterly Income Statement

Particulars (INR Mn)	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y	FY23	FY22	YoY
Revenue from Operations	**5,410**	**5,596**	**5,163**	**-3.3%**	**4.8%**	**21,668**	**21,154**	**2.4%**
Total Expenditure	**1,304**	**1,465**	**1,228**	**-11.0%**	**6.2%**	**5,489**	**5,154**	**6.5%**
Employee Benefit expenses	719	790	714	-9.0%	0.6%	3,127	3,122	0.2%
Other operating expenses	586	675	514	-13.2%	13.9%	2,363	2,032	16.3%
EBITDA	**4,106**	**4,131**	**3,935**	**-0.6%**	**4.3%**	**16,179**	**15,999**	**1.1%**
EBITDA Margin (%)	75.9%	73.8%	76.2%	*207 bps*	*-32 bps*	74.7%	75.6%	*-97 bps*
Depreciation	133	134	134	-0.9%	-1.2%	533	539	-0.9%
EBIT	**3,973**	**3,997**	**3,801**	**-0.6%**	**4.5%**	**15,645**	**15,461**	**1.2%**
Other Income	969	1,034	647	-6.3%	49.8%	3,158	3,178	-0.7%
Finance Cost	24	24	21	-0.4%	16.1%	97	86	12.2%
PBT	**4,918**	**5,007**	**4,427**	**-1.8%**	**11.1%**	**18,706**	**18,553**	**0.8%**
Tax	1,156	1,313	991	-12.0%	16.6%	4,467	4,622	-3.3%
PAT	**3,762**	**3,694**	**3,436**	**1.8%**	**9.5%**	**14,239**	**13,931**	**2.2%**
PAT Margin (%)	69.5%	66.0%	66.5%	*353 bps*	*300 bps*	65.7%	65.9%	*-14 bps*
EPS	**17.6**	**17.3**	**16.1**	**1.8%**	**9.4%**	**66.7**	**65.4**	**2.1%**

Source: Company, KRChoksey Research

Exhibit 1: Profit & Loss Statement (Standalone)

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**	**66.7**	**71.8**	**77.2**

Source: Company, KRChoksey Research

Exhibit 2: Balance Sheet (Standalone)

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 3: 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**

Exhibit 4: 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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