

July 25, 2023

Q1FY24 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	2800		2100	
Revenue (Rs. m)	24,703	26,907	23,531	25,364
% Chng.	5.0	6.1		
Opex (Rs. m)	6,785	7,059	6,706	6,903
% Chng.	1.2	2.2		
EPS (Rs.)	63.6	70.4	60	65
% Chng.	6.5	7.5		

Key Financials - Standalone

Y/e Mar	2022	2023	2024E	2025E
Revenue (Rs m)	21,154	21,668	24,703	26,907
Opex	5,779	6,120	6,785	7,059
Employee	3,122	3,127	3,507	3,526
Others	2,657	2,993	3,277	3,533
Core Inc. (Rs m)	15,375	15,549	17,918	19,848
PAT (Rs mn)	13,931	14,239	16,721	18,165
Core PAT (Rs m)	11,545	11,836	13,564	15,025
Core EPS (Rs.)	54.1	55.5	63.6	70.4
Gr. (%)	8.6	2.5	14.6	10.8
AAuM (Rs bn)	4,337	4,348	5,013	5,646
Gr. (%)	12.9	0.2	15.3	12.6
RoAAuM (bps)*	0.3	0.3	0.3	0.3
RoE (%)*	27.6	25.6	28.0	30.1
P/Core EPS (x)	38.6	26.9	34.5	30.8

Key Data

HDFC.BO | HDFCAMC IN

52-W High / Low	Rs.2,552 / Rs. 1,595
Sensex / Nifty	66,384 / 19,672
Market Cap	Rs.534.1 bn/ \$ 6.5 m
Shares Outstanding	213.5 m
3M Avg. Daily Value	Rs.2,304.9 m

Shareholding Pattern (%)

Promoter's	52.55
Foreign	12.99
Domestic Institution	22.31
Public & Others	12.15
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	23.9	29.1	34.3
Relative	18.5	19.2	16.0

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Equity market share continues to improve

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%.

We raise multiple for HDFCAMC from 27x to 35x (5-yr avg. of 40x) as core PAT is upgraded by 7.0% for FY24/25E, due to higher revenue given strong AuM growth in FY24E. Equity growth may outpace industry (+13% YTD) given (1) market share gains from healthy net flows led by superior performance and (2) concerns around TER impact on earnings have been allayed as SEBI will release a new consultative paper. HDFCAMC saw a mixed quarter; despite higher QAAuM growth, core income was a miss due to lower yields and higher opex. However, core profit was protected due to lower tax rate. Company remains top performer in 1-yr and 3-yr buckets while it also moved to rank-1 in the 5-yr bucket. Equity market share is rising and touched 11.9% (+13bps QoQ). Over FY23-25E, we see a core PAT CAGR of 12.7% (earlier 8.7%) with stable core income of 35-36bps. Stock is currently valued at 31x on FY25E core EPS. We raise TP from Rs2,100 to Rs2,800. Retain BUY.

- Core income miss due to higher staff cost:** Revenue was a bit lower at Rs5.74bn (PLe Rs5.80bn) while QAAuM was 1.1% higher to PLe. Annualized yields were a slight miss at 47bps (PLe 48bps). Opex too was tad higher at Rs1.6bn given ESOP cost of Rs109.7mn. Operating income at Rs4.1bn was lower by 5% of PLe resulting in operating yields at 34bps (PLe 35bps). Other income was ahead at Rs1.6bn (PLe Rs0.9bn) led by MTM gains in equity and debt investments due to favorable equity markets and fall in interest rates. Tax expense was lower with tax rate at 16.4% (PLe 23.5%) due to decrease in deferred tax expense as holding period of certain investments transitioned from short-term to long-term. Hence, core PAT was a beat Rs3.4bn (PLe Rs3.3bn). PAT was ahead at Rs4.8bn (PLe Rs4.0bn) due to higher other income.
- Market share continues enhance; equity share at 51.2%:** Led by superior 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 13bps to 11.9%. As of Jun'23, basis weighted average equity performance, HDFC AMC remains the top performing fund (rank 1) in the 1-yr and 3-yr bucket while in the 5-yr bucket it moved to rank-1. Due to strong performance, we expect the healthy momentum in net flows to sustain which should translate to more market share gains. As equity markets have performed well in Q1FY24 (YTD +13.3%), AuM growth could be healthy for FY24 (we see 22% growth) assuming no major macro headwinds and HDFC AMC should outpace industry equity AuM growth.
- Blended yields could moderate; ESOP cost to decline in FY25E:** Company suggested that there could be some moderation in equity yields as stock margins are higher than margins on fresh flows. Hence we are factoring a 4.4bps YoY decline in equity yields to 74.3bps for FY24E (vs 3.7bps fall in FY23). As per new ESOP plan total estimated cost of Rs550-600mn would be expensed as follows: 55% in FY24E, 30% in FY25E and balance thereafter. Considering ESOP cost under previous scheme, overall staff cost is expected to remain flat in FY25E (+12% YoY in FY24E). We see operating yields to range between 35-36bps in FY24/25E.

Exhibit 1: PAT beat at Rs3.4bn led by lower tax rate

Financials (Rs m)	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)
Revenue	5,745	5,216	10.2	5,410	6.2
Total Expenses	1,612	1,479	9.0	1,460	10.4
Employees	838	780	7.4	719	16.6
Other expenses	774	699	10.7	742	4.4
Operating Income	4,133	3,737	10.6	3,949	4.7
Other Income	1,580	113	1,296.0	969	63.2
Profit before tax	5,714	3,850	48.4	4,918	16.2
Tax	939	708	32.6	1,156	(18.8)
Profit after tax	4,775	3,142	52.0	3,762	26.9
Core PAT	3,454	3,050	13.3	3,021	14.3
Profitability ratios (bps)					
Revenue yield	47.3	50.4	N.A.	48.1	(79)
Employee to AuM	6.9	7.5	(63)	6.4	51
Opex to AuM	12.5	13.2	(72)	14.0	N.A.
Core income/AuM	34.0	36.1	N.A.	35.1	N.A.
PAT/AuM	39.3	30.3	N.A.	33.5	N.A.
Core PAT/AuM	28.5	29.4	(99)	26.9	158
QAAuM (Rs. mn)					
Equity	1,665,554	1,294,276	28.7	1,541,155	8.1
Balanced	822,689	674,405	22.0	775,822	6.0
Debt	1,099,649	1,134,462	(3.1)	1,016,181	8.2
Liquid	930,648	824,762	12.8	877,932	6.0
ETF	91,142	47,667	91.2	75,763	20.3
Index	182,111	99,974	82.2	141,913	28.3
Arbitrage	54,372	67,260	(19.2)	58,323	(6.8)
FoF overseas	10,144	10,513	(3.5)	10,061	0.8

Source: Company, PL.

Revenue was slightly lower led by lower yield at 0.47% vs 0.48% in Q4FY23.

Operating expenses grew 9% YoY mainly due to ESOP expense.

Other income was better at Rs1.6bn. Lower tax rate lead to PAT beat at Rs3.5bn

Revenue yield declined to 47bps, while RoAAuM improved to 39.3bps

QAAuM growth of 17.2% YoY continues to be driven by equity (+28.7% YoY) and balanced (+22% YoY)

Key Q1FY24 Conference Call Highlights

Industry:

- **Industry QAAuM stood at Rs43.1trn** growing by 14% YoY. Actively managed equity oriented QAAuM stood at Rs20.6trn whereas equity index fund was at Rs0.6trn in Q1FY24.
- **Net flows of Rs198bn were from equity oriented assets in Q1FY24** of which Rs172bn was in actively managed equity and Rs26bn in index fund (13% of net flows).
- **Net flows in debt funds stood at Rs642bn QAAuM grew by 6% YoY Q1FY24 and was at ~Rs10trn.** Inflows in debt funds remained strong even after implication of tax changes. Liquid fund QAAuM grew 7% YoY while other categories saw healthy growth of 15% YoY.
- **SIP flows for the month of Jun'23 was Rs147bn** as against Rs123bn in Jun'22. Total SIP flows for the quarter were Rs432bn accounting for 37% of industry's gross active equity flows.
- **Industry recorded 38.3mn unique customers** at the end of FY23. Individual investors came in at 57% of the MAAUM for Mar'23. Portfolio of individual investors grew to Rs148mn vs Rs134mn last year.

Company Performance

- **Asset mix further shifted towards equity at 54.2%** of the total QAAUM, which is relatively better than the industry.
- **Company had 7.1mn unique investors** at the end of Q1FY24 and processed 5.03mn systematic transactions totaling to Rs18.9bn vs Rs17.1bn in Mar'23.
- In Q1FY24, company launched an equity oriented thematic sectoral fund i.e. HDFC Defence Fund which garnered healthy interest. Other upcoming products which are in pipeline are Transport and logistics funds and cancer care fund.

Financial Performance

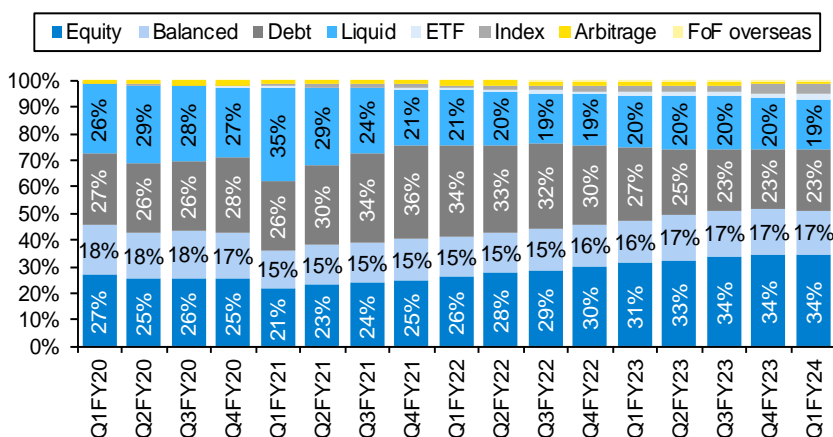
- **Revenue yields were tad lower at 0.47% vs 0.48% in Q1FY24.** Management said that there has been rationalization in yields in recent times as competitive intensity has eased. Yields are predominantly driven by equity oriented AuM where book margins is higher than flow margin, hence there could be some dilution in yields further.
- **Other income for the quarter was Rs1.6bn** majorly attributable to MTM gains in equity as well as debt oriented investments due to favorable market environment and fall in interest rates
- **Blended yields for the equity were ~68-69bps.** Yields on recently launched NFOs ranged between 90-110bps but such benefits are not available in larger funds

- **Employee cost increased sharply by 16.6% QoQ** mainly due to ESOP related expenses of Rs109.7mn. New employee additions were mainly at a junior level in sales and IT and management does not expect a significant impact due to employee addition.
- **Other expenses saw an uptick of 17% YoY** majorly attributed towards business promotion, CSR expense, IT infrastructure etc.
- **Effective tax rate reduced to 16.4%** for the quarter due to decrease in deferred tax expense mainly due to holding period of certain investments transitioning from short-term to long-term.

Outlook

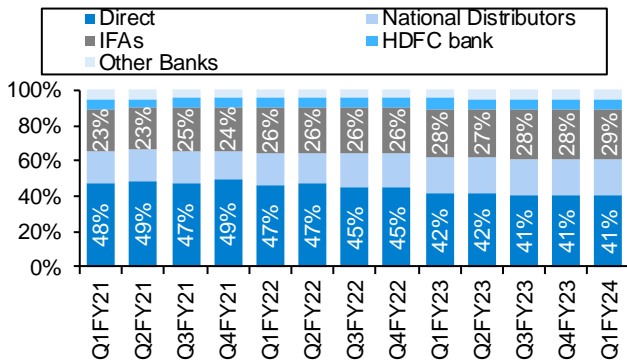
- With the change in control of the promoters from HDFC Ltd to HDFC bank, management is optimistic of the opportunity to tap the distribution channel of HDFC bank and gaining customer base. ~30% of HDFC bank’s mutual fund distribution goes to HDFC AMC.
- Regarding debt funds, management said positive flows in the industry were mainly in short-end funds. However, it believes that there could be more flows into longer duration funds once interest rates subside further.
- On the passive income side, company’s focus would be to scale up existing fund and later expand the product portfolio.
- Company has gained market share across all distribution channel and would strive to do so while ensuring profitability. Moreover, it expects share of distribution from bank to go up in near term.

Exhibit 2: AuM Mix largely stable with Equity + Balanced at 51%



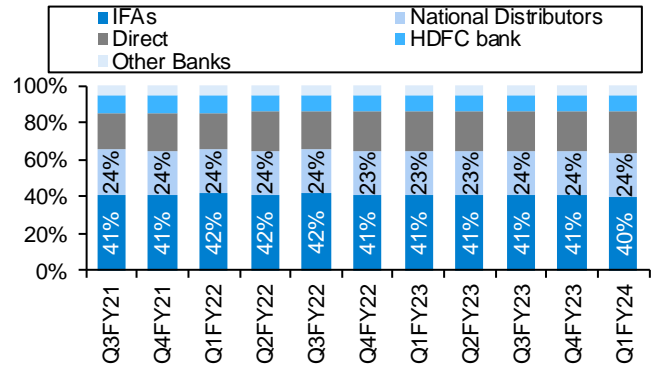
Source: Company, PL

Exhibit 3: Total distribution: Direct dominates at 41%



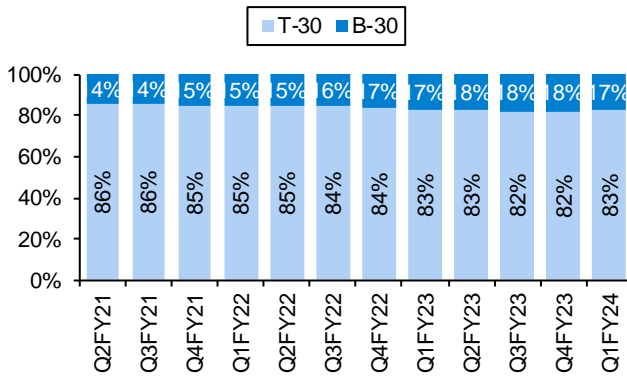
Source: Company, PL

Exhibit 4: Equity Distribution: IFAs dominate at 40%



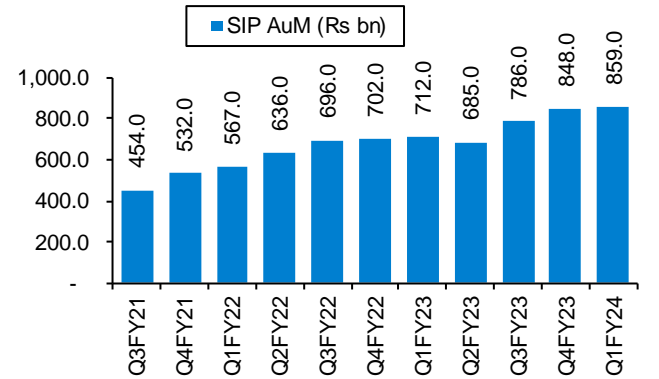
Source: Company, PL

Exhibit 5: T-30: B-30 mix inches up at 83:17



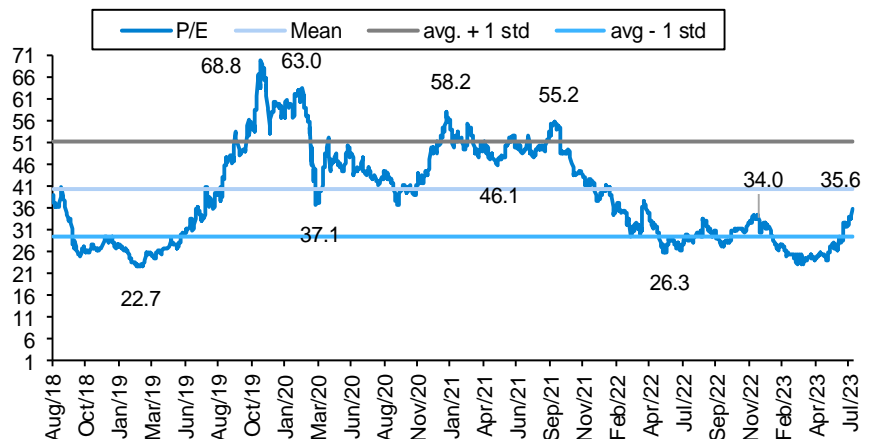
Source: Company, PL

Exhibit 6: SIP AuM continues to grow (+46%YoY/16%QoQ)



Source: Company, PL

Exhibit 7: HDFCAMC one-year forward P/Core EPS trades at 35.6x



Source: Company, PL

Financials

Exhibit 8: Quarterly Financials

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenue	5,071	5,423	5,497	5,163	5,216	5,447	5,596	5,410	5,745
Expenses	1,419	1,470	1,507	1,383	1,479	1,558	1,622	1,460	1,612
Employee	835	798	775	714	780	839	790	719	838
Others	449	536	599	534	564	587	699	609	645
Depreciation	135	136	133	134	135	132	134	133	129
Core Income	3,652	3,953	3,989	3,780	3,737	3,889	3,974	3,949	4,133
Other Income	1,009	661	862	647	113	1,042	1,034	969	1,580
PBT	4,661	4,614	4,852	4,427	3,850	4,931	5,007	4,918	5,714
Tax	1,207	1,170	1,254	991	708	1,290	1,313	1,156	939
PAT	3,455	3,444	3,598	3,436	3,142	3,641	3,694	3,762	4,775
Core PAT	2,707	2,951	2,958	2,934	3,050	2,872	2,931	3,021	3,454
QAAuM	4,169,535	4,389,238	4,458,524	4,309,627	4,142,806	4,281,979	4,447,201	4,497,151	4,856,309
Equity	26.1%	27.6%	28.9%	30.4%	31.2%	32.6%	33.9%	34.3%	34.3%
Balanced	15.2%	15.1%	15.2%	15.5%	16.3%	16.7%	17.1%	17.3%	16.9%
Debt	34.2%	33.2%	32.2%	30.2%	27.4%	24.9%	23.1%	22.6%	22.6%
Liquid	20.9%	19.9%	19.3%	19.1%	19.9%	20.4%	20.1%	19.5%	19.2%
ETF	0.9%	0.9%	1.0%	1.1%	1.2%	1.2%	1.3%	1.7%	1.9%
Index	1.2%	1.4%	1.7%	2.0%	2.4%	2.7%	2.9%	3.2%	3.7%
Arbitrage	1.5%	1.8%	1.7%	1.6%	1.6%	1.5%	1.3%	1.3%	1.1%
FoF overseas	0.0%	0.0%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%
Market share (%)	12.57	12.12	11.67	11.23	10.97	10.96	11.05	11.10	11.27
Equity	10.1	9.7	9.5	9.6	9.5	9.5	9.7	9.9	10.0
Balanced	22.5	20.9	18.5	17.6	17.6	17.8	18.2	18.6	19.1
Eq+Bal	12.7	12.0	11.4	11.3	11.3	11.3	11.5	11.8	11.9
Index	23.9	21.9	19.2	16.6	13.4	11.6	10.9	10.3	10.5
Debt	13.5	13.6	13.7	13.4	13.1	13.4	13.4	13.3	13.1
Liquid	18.6	18.6	18.0	16.0	15.6	15.6	16.2	15.8	16.5
ETF	1.2	1.1	1.1	1.1	1.1	1.1	1.2	1.5	1.7
QAAuM Growth (%)	0.4	5.3	1.6	-3.3	-3.9	3.4	3.9	1.1	8.0
Equity	5.0	11.5	6.3	1.6	-1.2	8.0	7.9	2.2	8.1
Balanced	0.7	4.5	1.9	-1.0	0.6	6.2	6.1	2.1	6.0
Eq+Bal	3.4	8.9	4.7	0.7	-0.6	7.4	7.3	2.1	7.4
Debt	-3.6	2.3	-1.3	-9.4	-12.9	-5.9	-3.9	-0.9	8.2
Liquid	-0.9	0.4	-1.7	-3.9	0.0	5.8	2.6	-1.9	6.0
ETF	13.2	9.8	8.4	7.9	3.1	8.0	15.1	27.9	20.3
Index	15.7	20.1	22.0	14.4	14.6	14.3	12.6	10.3	28.3
Arbitrage	15.4	24.9	-3.5	-10.9	-2.0	-6.6	-5.7	-1.6	-6.8
FoF overseas				2.6	-10.0	0.2	-3.6	-0.9	0.8
Dupont (bps)									
Revenue yield	48.6	49.4	49.3	47.9	50.4	50.9	50.3	48.1	47.3
Opex to AuM	13.6	13.4	13.5	12.8	14.3	14.6	14.6	13.0	13.3
Staff cost	8.0	7.3	7.0	6.6	7.5	7.8	7.1	6.4	6.9
Other opex	4.3	4.9	5.4	5.0	5.4	5.5	6.3	5.4	5.3
Depreciation	1.3	1.2	1.2	1.2	1.3	1.2	1.2	1.2	1.1
Core income/AuM	35.0	36.0	35.8	35.1	36.1	36.3	35.7	35.1	34.0
PAT/AuM	33.1	31.4	32.3	31.9	30.3	34.0	33.2	33.5	39.3
Core PAT/AuM	26.0	26.9	26.5	27.2	29.4	26.8	26.4	26.9	28.5
Profitability (%)									
Staff cost/revenue	16.5	14.7	14.1	13.8	15.0	15.4	14.1	13.3	14.6
Other opex/revenue	8.9	9.9	10.9	10.4	10.8	10.8	12.5	11.3	11.2
Core income/revenue	72.0	72.9	72.6	73.2	71.6	71.4	71.0	73.0	71.9
Tax rate	25.9	25.4	25.8	22.4	18.4	26.2	26.2	23.5	16.4
PAT margin	68.1	63.5	65.4	66.5	60.2	66.8	66.0	69.5	83.1
Core PAT margin	53.4	54.4	53.8	56.8	58.5	52.7	52.4	55.8	60.1

Source: Company, PL



Exhibit 9: Summary Financials (Rs mn)

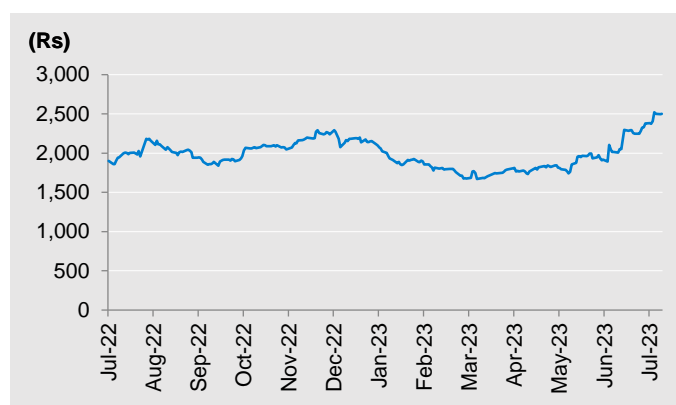
Particulars	FY22	FY23	FY24E	FY25E	Particulars	FY22	FY23	FY24E	FY25E
Profit & Loss					Balance Sheet				
Revenue	21,154	21,668	24,703	26,907	Net Worth	55,300	61,084	65,599	70,322
Investment mgmt.	21032	21608	24560	26759	Capital (FV Rs5)	1,066	1,067	1,067	1,067
PMS / Advisory	121	60	142	147	Reserves	54,234	60,017	64,532	69,255
Expenses	5,779	6,120	6,785	7,059	Employee benefit	690	731	877	1,052
Employee	3,122	3,127	3,507	3,526	Others	3,152	4,139	4,538	4,975
Others	2,119	2,460	2,707	2,964	Total Liabilities	59,143	65,954	71,013	76,350
Depreciation	539	533	570	569	Cash and Bank	81	40	40	40
Core Income	15,375	15,549	17,918	19,848	Investment	55,702	60,792	65,428	70,302
Other Income	3,178	3,158	4,170	4,148	Fixed assets	1,356	1,526	1,602	1,683
PBT	18,553	18,706	22,088	23,996	Others	2,004	3,596	3,943	4,325
Tax	4,622	4,467	5,367	5,831	Total Assets	59,143	65,954	71,013	76,350
PAT	13,931	14,239	16,721	18,165	AuM Data				
Core PAT	11,545	11,836	13,564	15,025	AAuM	4,337,496	4,347,546	5,012,730	5,646,140
Dividend	8,958	10,244	12,207	13,443	Equity	1,225,036	1,435,439	1,782,652	1,999,747
Growth ratios (%)					Balanced	661,757	731,680	843,422	944,633
Revenue	14.2	2.4	14.0	8.9	Debt	1,405,303	1,060,846	1,186,335	1,352,422
Opex	27.6	5.9	10.9	4.0	Liquid	856,603	867,586	874,057	970,204
Employee	37.7	0.2	12.2	0.5	ETF	41,151	58,539	75,930	101,142
Others	24.2	16.1	10.1	9.5	Index	69,539	121,215	188,457	205,889
Core income	9.8	1.1	15.2	10.8	Arb & FoF	78,108	72,239	61,876	72,103
PAT	5.1	2.2	17.4	8.6	Mix				
Core PAT	8.8	2.5	14.6	10.8	Equity	28.2	33.0	35.6	35.4
DuPont analysis (%)					Balanced	15.3	16.8	16.8	16.7
Revenue	0.49	0.50	0.49	0.48	Debt	32.4	24.4	23.7	24.0
Expenses	0.13	0.14	0.14	0.13	Liquid	19.7	20.0	17.4	17.2
Employee	0.07	0.07	0.07	0.06	ETF	0.9	1.3	1.5	1.8
Others	0.05	0.06	0.05	0.05	Index	1.6	2.8	3.8	3.6
Depreciation	0.01	0.01	0.01	0.01	Arb & FoF	1.8	1.7	1.2	1.3
Core Income	0.35	0.36	0.36	0.35	Growth				
Other Income	0.07	0.07	0.08	0.07	Overall	12.9	0.2	15.3	12.6
PBT	0.43	0.43	0.44	0.43	Equity	36.6	17.2	24.2	12.2
Tax	0.11	0.10	0.11	0.10	Balanced	14.4	10.6	15.3	12.0
PAT (RoAAuM)	0.32	0.33	0.33	0.32	Debt	16.3	-24.5	11.8	14.0
Core RoAAuM	0.27	0.27	0.27	0.27	Liquid	-17.9	1.3	0.7	11.0
ROE	27.0	24.5	26.4	26.7	ETF	66.3	42.3	29.7	33.2
Core RoE	27.6	25.6	28.0	30.1	Index	97.4	74.3	55.5	9.3
Other Ratios (%)					Valuations				
Staff cost/revenue	14.8	14.4	14.2	13.1	EPS	65.3	66.7	78.3	85.1
Other opex/revenue	10.0	11.4	11.0	11.0	Core EPS	54.1	55.5	63.6	70.4
Core Income/revenue	72.7	71.8	72.5	73.8	CPS	261.5	285.0	306.8	329.6
Other Income/revenue	15.0	14.6	16.9	15.4	DPS	42.0	48.0	57.2	63.0
Yield on Investments	6.0	5.3	6.5	6.0	Dividend yield	1.8	2.4	2.3	2.5
Effective tax rate	24.9	23.9	24.3	24.3	BVPS	259	286	307	330
PAT margin	65.9	65.7	67.7	67.5	P/B	8.4	6.5	8.1	7.6
Core PAT margin	54.9	54.8	55.2	56.1	P/E	36.0	25.5	31.9	29.3
Dividend payout (%)	64.3	71.9	73.0	74.0	P/core EPS	38.6	26.9	34.5	30.8

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
3	26-Apr-23	BUY	2,100	1,766

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,560	1,538
2	Axis Bank	BUY	1,140	981
3	Bank of Baroda	BUY	235	205
4	Can Fin Homes	BUY	950	831
5	City Union Bank	Accumulate	160	131
6	DCB Bank	BUY	150	129
7	Federal Bank	BUY	175	127
8	HDFC	BUY	3,200	2,862
9	HDFC Asset Management Company	BUY	2,100	2,260
10	HDFC Bank	BUY	2,025	1,679
11	ICICI Bank	BUY	1,180	997
12	IDFC First Bank	UR	-	54
13	IndusInd Bank	BUY	1,530	1,390
14	Kotak Mahindra Bank	BUY	2,250	1,970
15	LIC Housing Finance	Hold	410	398
16	Punjab National Bank	UR	-	47
17	State Bank of India	BUY	770	593
18	UTI Asset Management Company	BUY	830	811

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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