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India | Equity Research | Q1FY24 results review

HDFC Asset Management Company

Asset Management Companies

Earnings to remain under pressure from dipping yields despite improved business performance

HDFC AMC reported an EBITDA of INR 4.3bn, up 4% QoQ (highest in last 21 quarters wherein the average EBITDA was ~INR 4bn). There is strong improvement in fund performance which has led to superior business metrics such as gain in equity market share, unique investor share, and gain in flow market share in equity segment across channels. Higher AUM accretion from parent channel post-merger is also an available tailwind. We have increased our valuation multiple from 25x to 30x core EPS in line with these positive trends along with expected lower regulatory impact on TERs. However, post the 43% stock price rally since Apr'23, there is limited upside the considering the constant lag in revenue growth compared to AUM growth. The lag is due to telescopic pricing, fresh flows and other factors like regulation and competition. Downgrade to **HOLD** (from **Add**).

Downgrade to HOLD (from Add); valuations and key assumptions

Our valuations are based on 30x FY25E (earlier 25x) core EPS of INR 74 (earlier: INR 61) and cash of INR 339 per share to arrive at a revised target price of INR 2,550 (earlier: INR 1,865). Our key assumptions include: 1) 26%/15% growth in AUM between Mar'23 and Mar'25; 2) 3bps cumulative annual decline in yields in FY24E/FY25E; 3) total cost CAGR of 7% between FY23-FY25E. This translates into 16%/15% CAGR in core EBITDA / core PAT. Our higher AUM growth expectation in FY24E is driven by possibly strong capital markets as seen in the 8% QoQ AUM growth for HDFC AMC in Q1FY24, better flow on the back of improved fund performance and invigorated HDFC Bank channel post-merger.

Channel share has improved along with fund performance; reinvigorated HDFC Bank channel to aid growth

Good traction on the performance front has helped the company gain market share in the flows spread across all the channels of distribution. HDFC Bank channel share in the AMC AUM is ~6/8% for aggregate/equity segments while HDFC AMC has 30% mix in terms of total MF AUM distributed by HDFC Bank. As of Jun'23, in terms of total AUM HDFC Bank's share stood at 5.8%

Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	21,154	21,668	23,979	28,017
EBITDA	15,999	16,173	17,993	21,751
Net Profit	13,931	14,234	16,206	19,449
Core PAT	11,544	11,829	12,838	15,709
EPS (Rs)	65.3	66.7	75.9	91.1
P/E (x)	38.3	37.5	32.9	27.4
Core EPS (INR)	54.1	55.5	60.2	73.6
Core PE (INR)	41.3	39.9	36.4	29.4
Dividend Yield	1.7	1.9	2.1	2.5
ROE (%)	27.0	24.5	25.5	28.0

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Market Data

Market Cap (INR)	533bn
Market Cap (USD)	6,517mn
Bloomberg Code	HDFCAMC IN
Reuters Code	HDFC BO
52-week Range (INR)	2,589 /1,590
Free Float (%)	37.0
ADTV-3M (mn) (USD)	28

Price Performance (%)	3m	6m	12m
Absolute	43.7	30.3	34.6
Relative to Sensex	11.3	9.8	19.9

ESG Disclosure	2021	2022	Change
ESG score	37.5	39.1	1.5
Environment	3.2	6.3	3.1
Social	30.7	32.2	1.5
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

26-04-2023: [Q4FY23 results review](#)

25-01-2023: [Q3FY23 results review](#)

Q1FY24 EBITDA is at a 21-quarter high

Q1FY24 AAUM increased 8% QoQ driven by sharp 8% increase in equity AUM and 6/8% QoQ growth in debt/liquid AAUM. Passive AAUM increased 18% QoQ in Q1FY24. Yields softened by 0.8bps QoQ in Q1FY24 on account of new flows and telescopic pricing. Total operating expenses rose 12% QoQ to INR 1.46bn due to increase in business-related and tech-related expenses. Core EBITDA came in at INR 4.3bn, up 4% QoQ, while core PAT was up 14% QoQ on account of lower effective tax rate (lower deferred tax expenses, which was on account of reclassification of certain investments from short term to long term). Other income rose sharply on the back of sharp M2M movement in the investment book (equity as well as debt). Broadly, the equity AUM is currently yielding 68-69bps, which can change based on the inflows received, churn of old AUM and telescopic pricing change in the event of sharp growth in AUM. Management also highlighted that the competitive intensity has been lower in the past couple of quarters resulting in better yields in recent NFOs.

Key business parameters saw strong improvement:

1) Flow market share improved on account of improved scheme performance (top tier in most of the key categories) across channels; 2) HDFC AMC's market share in terms of unique investors remained stable in Q1FY24 on a sequential basis at 18% and grew 100bps YoY from 17% in Q1FY23. HDFC AMC had 7.1mn unique investors and 12.2mn live accounts in Q1FY24; 3) cost performance track record (8% CAGR between FY20-FY23) remains good; 4) four NFO launches were done in Q1FY24 including 3 index funds (HDFC NIFTY Midcap 150 Index Fund, HDFC NIFTY Smallcap 250 Index Fund, and HDFC S&P BSE 500 Index Fund) and 1 sectoral thematic fund (HDFC Defence Fund); 6) equity market share (improved by 23bps QoQ to 12.4%); debt market share however declined 32bps to 12.64% as of Jun'23 vs 12.96% in Mar'23 (based on AMFI classification); and (7) Systematic Transactions increased 10.4% QoQ in Q1FY24 to INR 18.9bn. The total SIP AUM as on Jun'23 stood at INR 1,002bn while the long tenure SIP book (over 5 years) stood at 86%

Key risks

Higher than anticipated TER dip could lead to earnings downgrade. Moderation in scheme performances could have a corresponding impact on flows and market share.

Exhibit 1: Q1FY24 result review

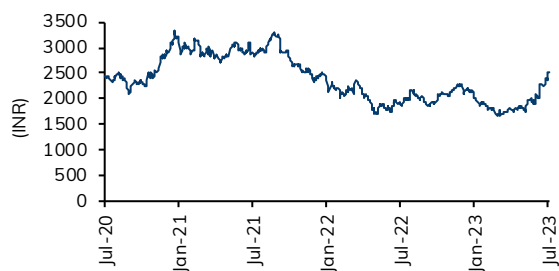
(INR Mn)	Q1FY24	Q1FY23	YoY %	Q4FY23	QoQ %
Average AUM (INR bn)	4,856	4,153	17%	4,497	8.0%
Revenue yields	47.33	50.23		48.12	
Equity Mix	0.0%	51.4%		55.8%	
Total Revenue from Operation	5,746	5,216	10%	5,410	6.2%
Other Income	1,580	113	1296%	969	63%
Total Revenue	7,326	5,329	37%	6,378	15%
Employee Expense	838	780	7%	719	16.6%
Fees and Commission Expenses	10	14	-30%	6	67.8%
Other Expense	612	525	17%	580	5.5%
Total Operating expense	1,460	1,319	11%	1,305	11.9%
EBITDA	4,286	3,897	10%	4,105	4%
Depn	129	135	-4%	133	-3%
Finance Cost	23	25	-6%	24	-2%
PBT	5,714	3,850	48%	4,918	1
PAT	3,762	3,436	9%	3,692	2%
Core PAT	2,721	3,334	-18%	2,964	-8.2%
EPS (INR)	17.6	16.1	9%	17.3	2%

Source: I-Sec research, Company data

Exhibit 2: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	62.8	62.8	52.6
Institutional investors	15.2	25.0	35.2
MFs and others	3.1	7.2	11.5
Insurance	0.0	10.3	10.5
FIs	12.1	7.5	13.2
Others	22.0	12.2	12.2

Source: Bloomberg, I-Sec research

Exhibit 3: Price chart

Source: Bloomberg, I-Sec research

Financial summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	21,154	21,668	23,979	28,017
Operating Expenses	5,154	5,496	5,986	6,266
EBITDA	15,999	16,173	17,993	21,751
EBITDA Margin (%)	0.8	0.7	0.8	0.8
Depreciation & Amortization	539	533	739	652
EBIT	15,461	15,639	17,253	21,099
Interest expenditure	86	97	97	97
Other Non-operating Income	-	-	-	-
Recurring PBT	18,553	18,700	21,657	26,002
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	4,622	4,467	5,451	6,552
PAT	13,931	14,234	16,206	19,449
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	13,931	14,234	16,206	19,449
Core PAT	11,545	11,830	12,838	15,709

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	1,138	2,341	2,755	2,879
of which cash & cash eqv.	81	70	301	222
Total Current Liabilities & Provisions	3,503	4,283	4,301	4,320
Net Current Assets	(2,366)	(1,942)	(1,546)	(1,441)
Investments	55,702	60,762	65,948	72,172
Net Fixed Assets	1,356	1,526	1,087	935
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	302	428	471	518
Other assets	306	305	305	305
Deferred Tax assets	-	-	-	-
Total Assets	55,300	61,078	66,264	72,488
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	1,066	1,067	1,067	1,067
Reserves & Surplus	54,234	60,011	65,197	71,421
Total Net Worth	55,300	61,078	66,264	72,488
Minority Interest	-	-	-	-
Total Liabilities	55,300	61,078	66,264	72,488

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	12,537	15,433	16,736	19,871
Working Capital Changes	7	(386)	(209)	(230)
Capital Commitments	(102)	(140)	(300)	(500)
Free Cashflow	12,640	15,573	17,036	20,371
Other investing cashflow	(4,978)	(5,060)	(5,186)	(6,224)
Cashflow from Investing Activities	(5,080)	(5,200)	(5,486)	(6,724)
Issue of Share Capital	214	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(7,244)	(10,244)	(11,020)	(13,226)
Others	-	-	-	-
Cash flow from Financing Activities	(7,455)	(10,244)	(11,020)	(13,226)
Chg. in Cash & Bank balance	2	(10)	230	(78)
Closing cash & balance	2	(10)	230	(78)

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
EPS(Basic Recurring)	65.3	66.7	75.9	91.1
Core EPS	54.1	55.5	60.2	73.6
Dividend per share (DPS)	42.0	48.0	51.6	62.0
Book Value per share	259.3	286.2	310.5	339.6
Growth Ratio (%)				
AAUM	13.1	0.5	15.7	19.1
Total Revenue	14.2	2.4	10.7	16.8
EBITDA	9.3	1.1	11.3	20.9
Recurring Net Income	5.1	2.2	13.9	20.0
Core PAT	8.8	2.5	8.5	22.4
Valuation Ratios (x)				
P/E	38.3	37.5	32.9	27.4
P/BV	9.6	8.7	8.1	7.4
Core P/E	41.3	39.9	36.4	29.4
MCap to AUM	12.0	11.9	10.3	8.7
Operating Ratios (%)				
Investment management fees/total Income	85.0	85.2	82.2	83.0
Operating expenses/total income	21.2	22.1	21.0	19.0
Employee expenses/operating expenses	60.6	56.9	57.2	55.9
Core PBT margin (of total income)	63.2	62.6	60.2	63.6
PAT margin (of total income)	57.3	57.3	56.9	58.9
Tax rate	24.9	23.9	25.2	25.2
Payout ratio	64.3	72.0	68.0	68.0
% of MF AUM (bps)				
Revenue	47.7	48.6	46.5	45.6
Operating expenses	11.9	12.6	11.9	10.4
Operating margins	35.8	36.0	34.6	35.2
PAT	32.1	32.7	32.2	32.4
Core PAT	26.6	27.2	25.5	26.1
ROE	27.0	24.5	25.5	28.0

Source Company data, I-Sec research

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