

HDFC Asset Management Co. Ltd



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Other income boost profitability; Market share improves

CMP INR 2,535	Target INR 2,725	Potential Upside 7.5%	Market Cap (INR Mn) INR 5,41,145	Recommendation ACCUMULATE	Sector Asset Management Services
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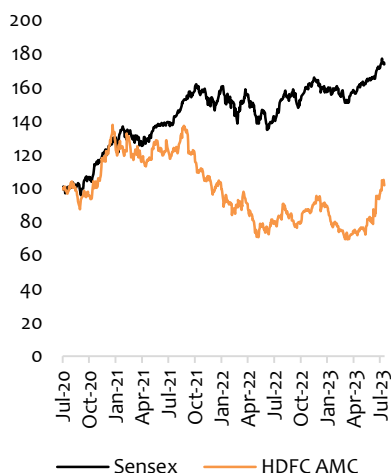
Result Highlights:

- QAAUM (Quarterly Average Assets Under Management) was at INR 4,857 Bn as of June 30, 2023, a growth of 17.0% YoY/ 2.5% QoQ. The market share in QAAUM stood at 11.3% of the mutual fund industry in this quarter, as against 11.1% in Q4FY23.
- In Q1FY24, revenue growth stood at INR 5,745 Mn, a growth of 10.2% YoY/ 6.2% QoQ.
- The EBITDA during Q1FY24 was reported at INR 4,286 Mn (excluding other income), which grew by 10.0% YoY/ 4.4% QoQ with margins at 74.6%.
- The cost-to-income ratio for the quarter stood at 22.0% as against 22.9% in Q4FY23 (vs. 27.8% in Q1FY23).
- Net profit for Q1FY24 grew by 52.0% YoY/ 26.9% QoQ at INR 4,775 Mn.

MARKET DATA

Shares outs (Mn)	213
Equity Cap (INR Mn)	70,140
Mkt Cap (INR Mn)	5,41,145
52 Wk H/L (INR)	2,589/1,590
Volume Avg (3m K)	788
Face Value (INR)	5
Bloomberg Code	HDFCAMC : IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	66,160
NIFTY	19,646

KEY FINANCIALS

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Revenue	18,525	21,154	21,668	23,644	26,891
EBITDA	14,645	15,999	16,179	17,568	20,115
PAT	13,262	13,931	14,239	15,875	18,186
EPS (INR)	62.3	65.4	66.8	74.4	85.2
EBITDA Margin	79.1%	75.6%	74.7%	74.3%	74.8%
NPM	71.6%	65.9%	65.7%	67.1%	67.6%

Source: Company, KRChoksey Research

Market share improves led by equity segment; Positive debt inflows support AUM growth: As of June 30, 2023, the QAAUM stood at INR 4,857 Bn, reflecting a growth of 17.0% YoY/ 8.0% QoQ led by strong inflows in the equity segment on account of positive market movement as well as improved performance of the funds across all categories. The equity-oriented fund AUM stood at INR 2,488 Bn, an increase of 26.4% YoY/ 7.4% QoQ, contributing 54.2% to the overall QAAUM. The broad mix remained stable sequentially for HDFCAMC. Debt funds reported healthy inflows during the quarter as the market shifted towards the debt fund segment post the budget announcement. Debt QAAUM stood at INR 1,296 Mn, a growth of 9.9% QoQ/ 2.2% YoY. The market share for debt funds reported a contraction from 13.6% in Q1FY23 to 13.2% in Q1FY24 (vs 13.3% in Q4FY23). The company's market share in overall AUM improved to 11.3% during the quarter. The market share, excluding ETFs, stood at 12.6% as of June 30, 2023. With an aggressive focus on new product launches, we expect HDFCAMC will continue to see further traction for its funds; at the same time, the HDFC Bank merger will benefit the company in terms of cross-selling and the bank's large customer base.

Yields continued to fall sequentially; Earnings growth driven by higher other income for the quarter: The revenues for Q1FY24 stood at INR 5,745 Mn, an increase of 10.2% YoY/ 6.2% QoQ despite lower yields. The MF industry has seen higher growth momentum for low-yield product portfolios in Q1FY24. However, as per the company management, the yield dilution has moderated and will gradually lower the impact on the revenues going ahead. EBITDA for Q1FY24 reported a 10.0% YoY/ 4.6% QoQ growth at INR 4,286 Mn. EBITDA margins for Q1FY24 stood at 74.6% against 74.7% in Q1FY23 and 75.9% in Q4FY23. The operating expenses for the quarter were higher by 10.6% YoY/ 11.9% QoQ. The employee cost was higher on account of ESOP, amounting to INR 728 Mn, while the other operating expenses increased owing to higher general business-related expenses and technology spending. The cost-to-income ratio was 22.0% in Q1FY24 against 22.9% in Q4FY23. The investment income for Q1FY24 stood at INR 1,580 Mn, led by healthy MTM gains on equity and debt investments. The tax rate for the quarter stood lower at 16% because of the decrease in deferred tax charges, mainly attributed to the holding period of certain investments, transitioning from short-term to long-term. Thus, higher investment income & lower tax rate boosted earnings with a growth of 52.0% YoY/ 26.9% QoQ.

SHARE HOLDING PATTERN (%)

Particulars	Jun-23	Mar-23	Dec-22
Promoters	52.6	62.8	62.8
FIIIs	13.0	7.5	12.1
DIIIs	22.3	17.6	13.4
Others	12.2	12.1	11.7
Total	100.0	100.0	100.0

11.4%

Revenue CAGR between FY23 and FY25E

13.0%

PAT CAGR between FY23 and FY25E

ANALYST

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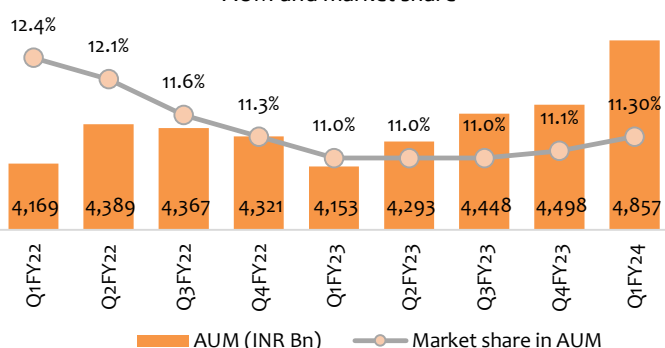
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Key Concall Highlights:

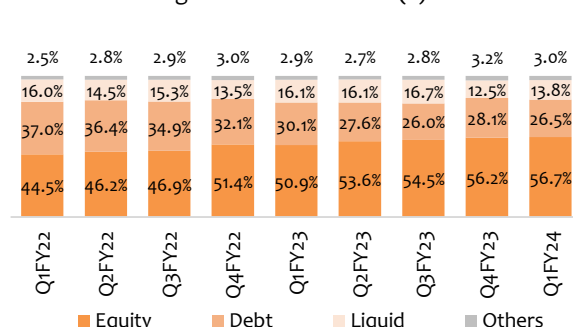
- In Q1FY24, the industry net flows into equity-oriented funds amounted INR 198 Bn. The break-up of this number is INR 172 Bn in actively managed equity-oriented funds, while the remaining INR 26 Bn came into equity-oriented index funds - approximately 13% of the net flows.
- Over the quarter, SIP flows totaled INR 432 Bn, which accounted for nearly 37% of the industry's gross active equity flows.
- Shifting focus to debt funds, inflows into debt funds remained strong for the industry even post the tax changes introduced in March. The quarter saw net flows into debt-oriented funds, including debt index funds and debt ETFs, amounting to INR 642 Bn. QAAUM of debt funds grew by 6% YoY to reach approximately INR 10 Tn. The QAAUM for liquid funds grew by 7% YoY.
- HDFCAMC's unique investor base grew to 7.1 Mn unique investors at the end of the quarter ending June 2023, a share of 18%.
- During the month of June 2023, HDFCAMC processed 5.03 Mn systematic transactions, amounting to INR 18.9 Bn.
- The company has expanded its product portfolio by launching an equity-oriented thematic/sectoral fund i.e., HDFC Defence fund. The new offering garnered healthy interest and further enriched its range of investment strategies. Furthermore, the company has continued to broaden its selection of passive strategies, reinforcing its dedication to be a one-stop shop for investment needs.
- The effective tax rate is lower, primarily due to decrease in deferred tax charge for the current quarter, mainly attributed to holding period of certain investments, transitioning from short-term to long-term.
- HDFCAMC is seeing some bit of rationalization in brokerages in market. The pressure that a huge number of NFOs created last year and year before last, that seems to be settling now.
- The company has launched two new NFOs during July month: a) transportation and logistics fund; and b) cancer cure fund.
- HDFCAMC has 30% share in the equity flows being generated by HDFC Bank.

Valuation and view: HDFCAMC reported a healthy performance during the quarter, led by providing traction in AUM and higher other income. AUM growth reported an encouraging pick-up in the trend led by equity-oriented funds performing relatively better than the industry. HDFCAMC continued to expand its product portfolio by launching thematic funds in the equity segment. On the distribution channel front, post-merger with HDFC Bank, the company sees tremendous growth opportunities, considering the pace at which the bank has been increasing. Thus, the current share of HDFC Bank is around 5.9% which will see further expansion in upcoming quarters. As of June 30, 2023, HDFCAMC reported an improvement in the market share at 11.3% and maintained its leadership positions in India. HDFCAMC continued to spend on technology and other business-related expenses. We are revising our estimates upwards, given the improving trends of inflows in the mutual fund industry. We are optimistic about the company's growth, led by its product mix and expanding market share. We expect Revenues/ EBITDA/ PAT to grow at 11.4%/11.5%/13.0% over FY23-25E. **HDFCAMC shares are currently trading at a P/E of 34.07x/29.7x on FY24E/FY25E earnings. We are applying a P/E multiple of 25.5x on FY25E EPS of INR 85.2 to arrive at a target price of INR 2,725 per share (earlier INR 1,970), an upside of 7.5% over the CMP. We maintain our rating of "ACCUMULATE" on the shares of HDFC AMC.**

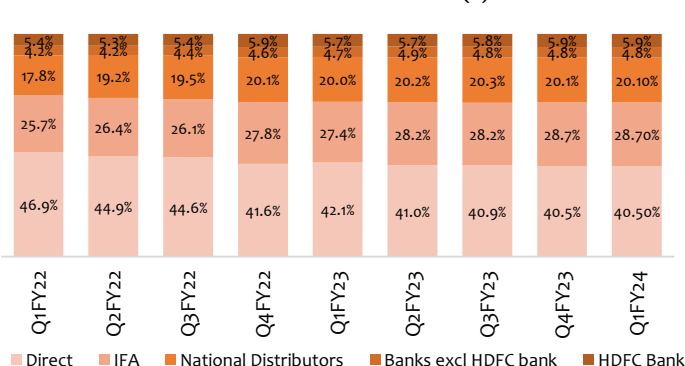
AUM and market share



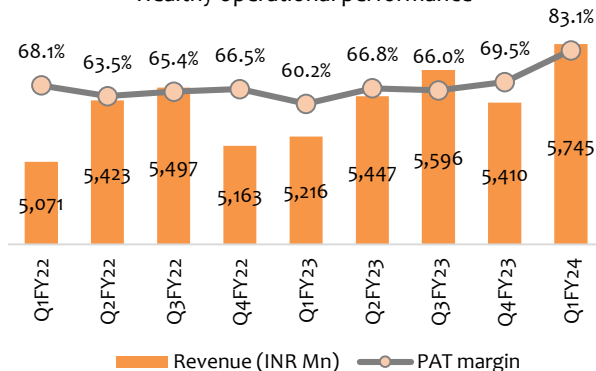
Segment-wise AUM mix (%)



Distribution Mix on AUM basis (%)



Healthy operational performance



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	23,644	26,891
Total expenses	3,880	5,154	5,489	6,076	6,776
Employee benefit expenses	2,268	3,122	3,127	3,428	3,899
Other operating expenses	1,613	2,032	2,363	2,648	2,877
EBITDA	14,645	15,999	16,179	17,568	20,115
EBITDA Margin	79.1%	75.6%	74.7%	74.3%	74.8%
Depreciation	554	539	533	527	624
EBIT	14,091	15,461	15,645	17,041	19,490
EBIT Margin	76.1%	73.1%	72.2%	72.1%	72.5%
Other income	3,492	3,178	3,158	3,947	4,539
Finance cost	90	86	97	100	100
PBT	17,494	18,553	18,706	20,888	23,929
Tax	4,232	4,622	4,467	5,013	5,743
PAT	13,262	13,931	14,239	15,875	18,186
PAT margin	71.6%	65.9%	65.7%	67.1%	67.6%
EPS (INR)	62.3	65.4	66.8	74.4	85.2

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	16,930	17,883
Net Cash Flow from/(used in) Investing Activities	(4,827)	(5,080)	(2,182)	(9,796)	(9,688)
Net Cash Flow from Financing Activities	(5,920)	(7,455)	(9,299)	(7,144)	(8,184)
Net Inc/Dec in cash equivalents	(249)	2	13	(10)	11
Opening Balance	266	17	19	31	22
Closing Balance Cash and Cash Equivalents	17	19	31	22	32

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	22	32
Bank Balance	7	62	9	9	9
Trade Receivables	799	745	1,837	1,182	2,151
Other Receivables	39	60	126	137	188
Investments	47,532	55,702	60,792	69,910	78,824
Other Financial Assets	324	252	312	340	538
Total Financial Assets	48,717	56,840	63,107	71,601	81,742
Current Tax Assets (net)	313	306	305	332	378
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	467	531
Total Non-Financial Assets	2,230	1,964	2,259	2,498	2,757
Total Assets	50,947	58,804	65,365	74,098	84,500
Trade Payables	421	292	356	365	407
Other Financial Liabilities	1,879	1,896	2,063	2,128	2,420
Total Financial Liabilities	2,300	2,189	2,419	2,493	2,827
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	473	538
Total Non-Financial Liabilities	885	1,315	1,863	1,790	1,855
Equity Share Capital	1,065	1,066	1,067	1,067	1,067
Other Equity	46,697	54,234	60,017	68,748	78,751
Total Equity	47,762	55,300	61,084	69,815	79,818
Total Liabilities and Equity	50,947	58,804	65,365	74,098	84,500

Source: Company, KRChoksey Research

Exhibit 5: Profitability Metrics

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin	79.1%	75.6%	74.7%	74.3%	74.8%
EBIT margin	76.1%	73.1%	72.2%	72.1%	72.5%
PAT margin	71.6%	65.9%	65.7%	67.1%	67.6%
Return on Assets	26.0%	23.7%	21.8%	21.4%	21.5%
Return on Equity	27.8%	25.2%	23.3%	22.7%	22.8%

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
31-Jul-23	2,535	2,725	ACCUMULATE	Buy	More than 15%
26-Apr-23	1,738	1,970	ACCUMULATE	Accumulate	5% – 15%
27-Jan-23	1,934	2,202	ACCUMULATE	Hold	0 – 5%
20-Oct-22	2,038	2,202	ACCUMULATE	Reduce	-5% – 0
25-Jul-22	1,902	2,100	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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