

HDFC Asset Management Co. Ltd



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Positive market trends drive business growth; Multiple tailwinds ahead

CMP INR 2,897	Target INR 3,035	Potential Upside 4.8%	Market Cap (INR Mn) INR 6,18,517	Recommendation ACCUMULATE	Sector Asset Management Services
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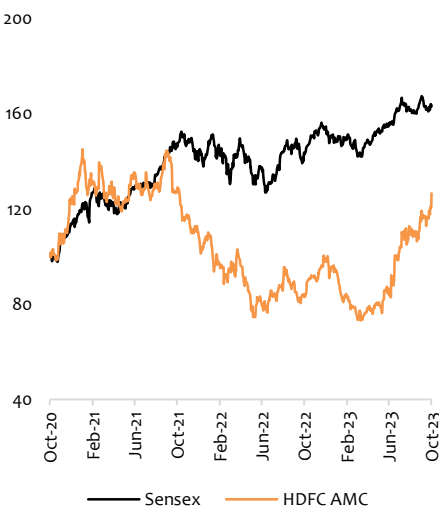
Result Highlights:

- QAAUM (Quarterly Average Assets Under Management) was at INR 5,247 Bn as of September 30, 2023, a growth of 22.2% YoY/ 3.0% QoQ.
- In Q2FY24, revenue stood at INR 6,431 Mn, an increase of 18.1% YoY/ 11.9% QoQ. H1FY24 revenues grew by 14.2% YoY to INR 12,176 Mn.
- The EBITDA during Q2FY24 was reported at INR 4,822 Mn (excluding other income), which grew by 19.2% YoY/ 12.5% QoQ with margins at 75.0%. In H1FY24, EBITDA stood at 9,108 Mn, a jump of 14.7% YoY with 74.8% margins (+32 bps YoY).
- Net profit for Q2FY24 grew by 20.2% YoY at INR 4,376 Mn, led by a healthy operating performance during the quarter. In H1FY24, Net Profit grew 34.9% YoY to INR 9,151 Mn.

MARKET DATA

Shares outs (Mn)	213
Equity Cap (INR Mn)	60,252
Mkt Cap (INR Mn)	6,18,517
52 Wk H/L (INR)	2,910/1,590
Volume Avg (3m K)	861
Face Value (INR)	5
Bloomberg Code	HDFCAMC : IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	66,428
NIFTY	19,812

KEY FINANCIALS

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Revenue	18,525	21,154	21,668	25,441	29,285
EBITDA	14,645	15,999	16,179	19,157	22,257
PAT	13,262	13,931	14,239	17,337	20,249
EPS (INR)	62.3	65.4	66.8	81.2	94.9
EBITDA Margin	79.1%	75.6%	74.7%	75.3%	76.0%
NPM	71.6%	65.9%	65.7%	68.1%	69.1%

Source: Company, KRChoksey Research

Significant improvement in equity share; Overall market share remains steady: As of September 30, 2023, the QAAUM stood at INR 5,247 Bn, reflecting a 22.2% YoY/ 3.0% QoQ growth led by positive market movement in the equity segment and good response for the newly launched funds during the quarter. The company's investor base has seen a healthy expansion by adding 1.8 Mn unique investors in September 2023, taking the base to 7.9 Mn unique investors. This reflects a strong focus on customer acquisition of HDFCAMC. The equity-oriented fund QAAUM stood at INR 2,861 Bn, a growth of 35.4% YoY/ 15.0% QoQ. The share of this fund improved from 51.9% as of September 30, 2022, to 57.6% as of September 30, 2023 (vs 54.2% as of June 30, 2023). The mix has been better compared to the overall industry, where the equity share stood at 51.0%. HDFCAMC's equity AUM has seen healthy growth, beating the overall industry performance during the quarter. Debt QAAUM stood at INR 1,396 Mn, a growth of 14.1% YoY/ 5.6% QoQ. The market share for debt funds saw a slight improvement sequentially from 13.2% to 13.3% in Q2FY24 (vs 13.7% in Q4FY23). The company's market share in overall AUM was stable at 11.2% during the quarter. The market share, excluding ETFs, stood at 12.5% as of September 30, 2023. HDFC AMC continued to focus on new product launches to expand its portfolio, especially in the sectoral thematic space. The merger with HDFC Bank has also significantly helped improve its customer base and is expected to grow further.

Improved yields led to better operating performance: The revenues for Q2FY24 stood at INR 6,431 Mn, a growth of 18.1% YoY/ 11.9% QoQ, led by strong AUM growth & significant improvement in the yields. The Company's yield improvement was on account of higher contribution from the equity segment. EBITDA (excluding other income) for Q2FY24 reported a 19.2% YoY/ 12.5% QoQ growth at INR 4,822 Mn. EBITDA margins for Q2FY24 stood at 75.0% against 74.3% in Q2FY23 (vs. 74.6% in Q1FY24), primarily led by operating leverage due to higher yields. The operating expenses for the quarter were higher by 14.8% YoY/ 10.2% QoQ on account of higher investment in manpower and new product development. Cost-to-income ratio was 23.0% in Q2FY24 against 24.0% in Q2FY23 (vs 22.0% in Q1FY24). The investment income for Q2FY24 stood at INR 1,221 Mn, growing by 17.2% YoY, led by healthy MTM gains from positive market momentum. The tax rate for the quarter has been rationalized after reporting a lower tax rate in Q1FY24 due to an increase in deferred tax charges. The higher operating performance has supported the earnings with growth of 20.2% YoY. However, sequentially fell by 8.4% owing to QoQ fall in the other income.

SHARE HOLDING PATTERN (%)

Particulars	Sep-23	Jun-23	Mar-23
Promoters	52.6	52.6	62.8
FIIIs	13.0	13.0	7.5
DIIIs	22.3	22.3	17.6
Others	12.2	12.2	12.1
Total	100.0	100.0	100.0

16.3%

Revenue CAGR between FY23 and FY25E

19.3%

PAT CAGR between FY23 and FY25E

ANALYST

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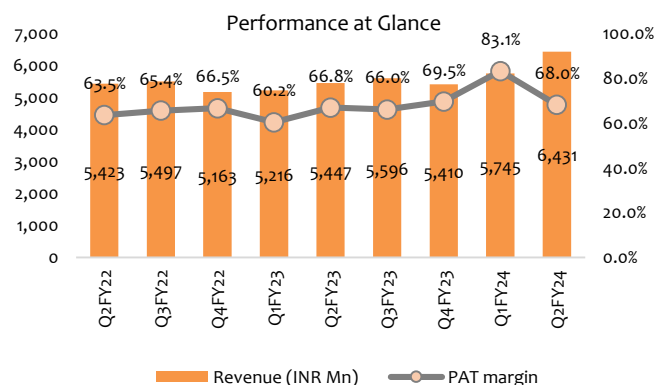
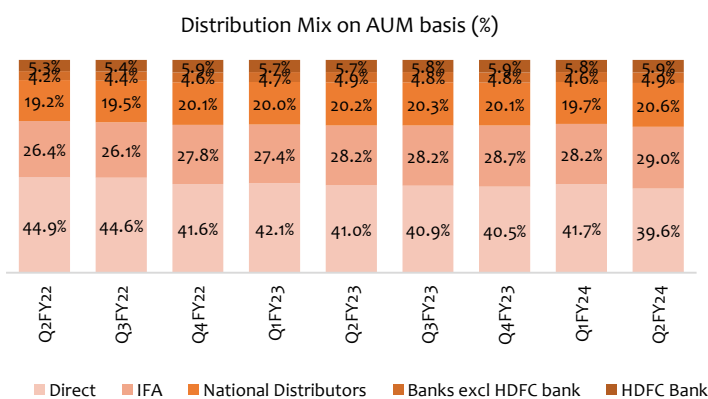
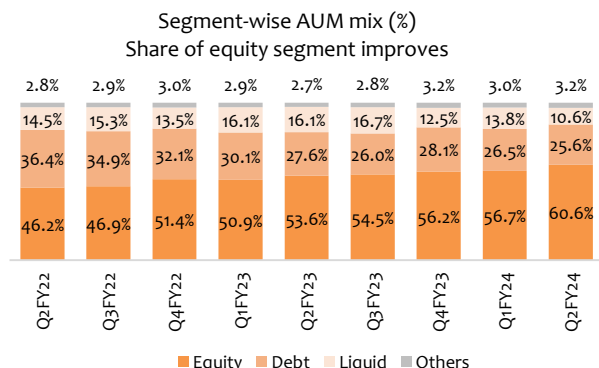
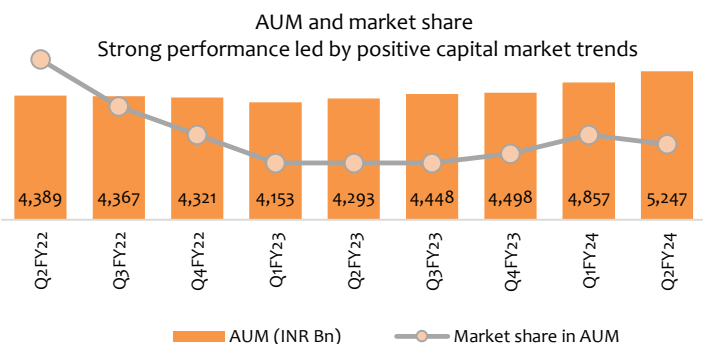
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HDFC Asset Management Co. Ltd.

Key Concall Highlights:

- For the industry, the Quarterly Average Assets Under Management (QAAUM) continued its impressive growth, reaching INR 47 Tn, marking a ~20.0% YoY increase. Actively managed equity-oriented funds are getting nearer to the 50.0% mark of the total AUM with QAAUM of INR 23.1 Tn, a notable uptick from INR 18.4 Tn recorded a year ago, signifying 26.0% YoY growth. Debt funds displayed healthy interest, with QAAUM surging to INR 10.3 Tn as of September 30, 2023, up from INR 8.8 Tn as of March 31, 2023.
- HDFCAMC's market share demonstrated positive momentum with an overall QAAUM market share of 11.2% while excluding ETF, the market share was 12.5% as of September 30, 2023.
- The quarterly average asset mix continued its tilt towards equity, with equity-oriented funds now constituting 58.0% of its AUM, significantly higher than that of the industry at 51%.
- HDFCAMC's unique investor base continued to expand, reaching 7.9 Mn unique investors as of September 30, 2023, against 40.4 Mn for the industry. According to the management, this suggests that nearly one out of every five investors have reposed their faith in HDFC Mutual Fund.
- The Company has further expanded its product portfolio, especially in the sectoral thematic space. During the quarter, HDFCAMC launched a non-cyclical consumer fund, transportation and logistics fund, technology fund and pharma and healthcare fund. It has also launched the NIFTY 1D Rate Liquid ETF.
- HDFCAMC's wholly-owned subsidiary in Gift City has secured all the necessary approvals and licenses. It has filed documents, and the plan is to launch first set of funds in Q3FY24E, subject to necessary regulatory approvals.
- The effective tax rate was rationalized in Q2FY24. In Q1FY24, it was lower, primarily due to an increase in deferred tax charges attributed to holding certain period investments and transitioning from short-term to long-term.
- HDFCAMC is seeing material improvement in its engagement with HDFC Bank, and it will continue to work on strengthening it further. HDFC Bank is a formidable distribution machine, and HDFCAMC is expected to increase its efforts to capitalize on it.

Valuation and view: HDFCAMC reported a strong performance during the quarter, with significant growth in AUM, higher yields, and a strategic focus on expanding its product offerings and distribution channels through the merger with HDFC Bank. AUM growth was on the back of an improved share of equity-oriented products, which also helped in a significant jump in the overall yields of the Company. HDFCAMC expanded its product portfolio by launching thematic funds in the equity segment. This expansion likely aimed to cater to the evolving investment preferences of its customers. Post-merger with HDFC Bank, HDFCAMC saw significant growth opportunities. The Company's market share in HDFC Bank's book increased considerably, from 5.9% in the previous quarter (Q1FY24) to 25.0-30.0% in Q2FY24. The Company aims to increase its market share to around 50-60%, bringing it closer to its industry peers. 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, synergies from the merger and expanding market share. We expect Revenues/ EBITDA/ PAT to grow at 16.3%/17.3%/19.3% over FY23-25E. **HDFCAMC shares are currently trading at a P/E of 35.4x/30.3x on FY24E/FY25E earnings. We are applying a P/E multiple of 32x on FY25E EPS of INR 94.9 to arrive at a target price of INR 3,035 per share (earlier INR 2,725), an upside of 4.8% over the CMP. We maintain our rating of "ACCUMULATE" on the shares of HDFC AMC.**



Source: Company, KRChoksey Research

ANALYST

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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	25,441	29,285
Total expenses	3,880	5,154	5,489	6,284	7,028
Employee benefit expenses	2,268	3,122	3,127	3,562	4,041
Other operating expenses	1,613	2,032	2,363	2,722	2,987
EBITDA	14,645	15,999	16,179	19,157	22,257
EBITDA Margin	79.1%	75.6%	74.7%	75.3%	76.0%
Depreciation	554	539	533	666	906
EBIT	14,091	15,461	15,645	18,491	21,351
EBIT Margin	76.1%	73.1%	72.2%	72.7%	72.9%
Other income	3,492	3,178	3,158	4,421	5,393
Finance cost	90	86	97	100	100
PBT	17,494	18,553	18,706	22,812	26,644
Tax	4,232	4,622	4,467	5,475	6,394
PAT	13,262	13,931	14,239	17,337	20,249
PAT margin	71.6%	65.9%	65.7%	68.1%	69.1%
EPS (INR)	62.3	65.4	66.8	81.2	94.9

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	17,791	20,909
Net Cash Flow from/(used in) Investing Activities	(4,827)	(5,080)	(2,182)	(10,756)	(9,721)
Net Cash Flow from Financing Activities	(5,920)	(7,455)	(9,299)	(6,935)	(11,137)
Net Inc/Dec in cash equivalents	(249)	2	13	101	51
Opening Balance	266	17	19	31	132
Closing Balance Cash and Cash Equivalents	17	19	31	132	183

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	132	183
Bank Balance	7	62	9	9	9
Trade Receivables	799	745	1,837	2,035	2,343
Other Receivables	39	60	126	148	205
Investments	47,532	55,702	60,792	70,731	79,396
Other Financial Assets	324	252	312	366	586
Total Financial Assets	48,717	56,840	63,107	73,421	82,721
Current Tax Assets (net)	313	306	305	358	412
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	502	578
Total Non-Financial Assets	2,230	1,964	2,259	2,558	2,838
Total Assets	50,947	58,804	65,365	75,979	85,559
Trade Payables	421	292	356	377	422
Other Financial Liabilities	1,879	1,896	2,063	2,290	2,636
Total Financial Liabilities	2,300	2,189	2,419	2,667	3,057
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	509	586
Total Non-Financial Liabilities	885	1,315	1,863	1,826	1,903
Equity Share Capital	1,065	1,066	1,067	1,067	1,067
Other Equity	46,697	54,234	60,017	70,419	79,531
Total Equity	47,762	55,300	61,084	71,486	80,598
Total Liabilities and Equity	50,947	58,804	65,365	75,979	85,559

Source: Company, KRChoksey Research

Exhibit 5: Profitability Metrics

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin	79.1%	75.6%	74.7%	75.3%	76.0%
EBIT margin	76.1%	73.1%	72.2%	72.7%	72.9%
PAT margin	71.6%	65.9%	65.7%	68.1%	69.1%
Return on Assets	26.0%	23.7%	21.8%	22.8%	23.7%
Return on Equity	27.8%	25.2%	23.3%	24.3%	25.1%

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
18-Oct-23	2,897	3,035	ACCUMULATE	Buy	More than 15%
28-Jul-23	2,535	2,725	ACCUMULATE	Accumulate	5% – 15%
26-Apr-23	1,738	1,970	ACCUMULATE	Hold	0 – 5%
27-Jan-23	1,934	2,202	ACCUMULATE	Reduce	-5% – 0
20-Oct-22	2,038	2,202	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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