

November 10, 2023

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	3,000		2,800	
Revenue (Rs. m)	25,289	27,716	25,289	27,716
% Chng.	-	-	-	-
Opex (Rs. m)	7,003	7,549	7,003	7,549
% Chng.	-	-	-	-
Core EPS (Rs.)	65.6	71.5	65.6	71.5
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Revenue (Rs m)	21,668	25,289	27,716	30,175
Opex	6,120	7,003	7,549	7,851
Employee	3,127	3,653	3,932	4,087
Others	2,993	3,351	3,617	3,764
Core Inc. (Rs m)	15,549	18,285	20,167	22,324
PAT (Rs mn)	14,239	17,416	18,420	20,295
Core PAT (Rs m)	11,836	14,007	15,267	16,899
Core EPS (Rs.)	55.5	65.6	71.5	79.2
Gr. (%)	2.5	18.3	9.0	10.7
AAuM (Rs bn)	4,348	5,235	5,922	6,587
Gr. (%)	0.2	20.4	13.1	11.2
Core RoAAuM (%)	0.3	0.3	0.3	0.3
Core RoE (%)	25.6	28.9	30.6	32.7
P/Core EPS (x)	26.1	37.4	34.0	30.4

Key Data

HDFC.BO | HDFCAMC IN

52-W High / Low	Rs. 2,930 / Rs. 1,595
Sensex / Nifty	64,832 / 19,395
Market Cap	Rs. 593.3bn / \$ 7,114.0m
Shares Outstanding	213.5m
3M Avg. Daily Value	Rs.2,166.9m

Shareholding Pattern (%)

Promoter's	52.55
Foreign	16.11
Domestic Institution	20.67
Public & Others	10.67
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	-	49.9	32.6
Relative	1.5	44.0	25.0

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Will remain a dominant player

Quick Pointers:

- With aggressive focus, share of HDFCB in equity distribution should enhance.
- Well entrenched distributor relationships should help preserve profitability.

HDFC AMC at its analyst meet sounded optimistic on growth potential of India's AMC space, drawing parallels to journey of US markets from 1980s to 2000s. India has ~570mn PAN cards, while unique investors are 40.4mn suggesting only 7% penetration. HDFC AMC will be a dominant player in this growth journey. Superior performance over the last ~3 years (1-yr bucket) has led to gains in equity market share which further improved to 12.3% (+31bps QoQ). Net flows will be boosted due to stronger distribution focus, as engagement with HDFCB has materially increased post-merger. A rise of ~10% in share of HDFCAMC sales by HDFCB could lead to a ~5% increase in AAuM and core profits. We see a core PAT CAGR of 12.6% over FY23-26E. Stock is trading at 32.2x; we maintain our multiple at 35x on Sep'25E core EPS (5-yr avg. of 40x) and keep TP unchanged at Rs3,000. Retain 'BUY'.

- Risk of passives disrupting the industry, not material:** As per the company, while growth in passive could supersede active management, active equities would continue to deliver superior returns which should attract healthy investor flows. For HDFC AMC, proportion of large-cap funds that have outperformed the benchmark are (1) 88% in 1-yr bucket (2) 72% in 3-yr segment (3) 96% in 5-yr bucket and (4) 95% in 10-yr segment. Moreover, while index funds seem easy to manage, risk management is tough. Active equity has underperformed passives in USA, since despite the AuM growing in size, fees have not been capped which range from 3-4%. In India, SEBI has capped TER.
- Share of HDFCB in net flows is enhancing:** Engagement with HDFCB has materially increased post-merger across segments like marketing, digital and tech departments and HDFC AMC has created a separate channel for HDFCB. All 230 branches of HDFC AMC are mapped to the bank and 9 HDFC AMC funds are on top priority for HDFCB. Payouts to the bank are competitive to other peer banks. While share of other channel partners has gone up over the last 5 years, incremental flows from HDFCB are growing well and hence share of HDFCB in equity distribution should enhance from 7.8%.
- Strong distributor relationships to ensure pass-thru of TER fall:** TER of several funds reduced from 2.25% to 1.25-1.75% with size increase. While TER fall translated to decline in distributor commissions, absolute commissions are materially higher. Company alluded to strong distributor relationships, which would help absorb any potential TER impact. After SEBI cut TER in 2019, 80-85% was passed on to distributors. However, between Q2FY20-24 TER decline for some funds (due to size) was not transmitted to distributors.
- Fintechs giving tough competition to traditional channels:** Fintech related AuM has crossed Rs1trn compared to Rs30bn in FY19. Fintech SIP has rapidly increased from 0.4mn in FY20 to 3.6mn in FY21 to 8.6mn now. In Sep'23, 3.7mn new SIPs were registered of which ~40% were from fintechs (60% of these from B-30). Fintechs profitably operate by (1) selling direct plans at low cost (2) selling MF schemes with superior performance (3) providing strong analytical capability and (4) interacting regularly with customers.

KTAs for Analyst Meet

Industry:

- Management believes Indian MF industry is poised for strong growth, comparing Indian economy to where USA was in 1980s in terms of size of the economy, market cap and SIP share. Hence, they are positive about industry's future growth trajectory.
- The Investor awareness program launched by SEBI costed Rs10bn (2bps of the Industry AUM). It turned out to be a huge success leading to incremental flows across the industry.
- In the USA, expense ratios were never capped, resulting in global players charging ~3-4% of TER, leading to underperformance. In India, regulators were more stringent and capped expense ratios which protects investor interest.

Roadmap for growth

- HDFC AMC is a sizable player in the industry across segments by focusing on scale, improving profitability and enhancing quality.
- Company's focus is on investment, risk and product management. HDFC AMC aims to be customer-centric by offering range of products catering to the needs of all investors.
- The company prioritizes penetration in a rapidly growing market with 140mn Demat accounts in India.

Distribution channel and evolution of Fin-techs

- Fintechs as distribution partners are growing rapidly, with 40% of incremental SIPs coming from Fintechs, of which 60% are from B30 cities. Most of the Fintechs sell direct plans at a low cost and target is to scale up other products to increase profitability.
- Funds with highest flows are the ones with lowest commissions. While TER has declined with AuM growth, absolute commission paid to distributors have increased significantly over the years.
- In HDFC Balanced Advantage Fund, there was reduction in TER to the tune of ~20bps which was not passed on to distributors. As TERs decline, flow commissions do not fall at the same pace which impacts profitability for the short term. However, TER cut is gradually passed on to distributors.
- Bank's share in distribution mix declined due to the rapid growth in other distribution channels. All distribution channels would remain equally important for the company, with a focus on maintaining and building deep relations with all channel partners.

- With HDFCB becoming the parent company, management is optimistic about the opportunity to tap the bank distribution channel and would capitalize on HDFCB's customer base. 9 funds of HDFC AMC are on priority selling list for HDFC Bank. Payouts for bank are competitive to its peers and share of HDFC AMC in flows of HDFC Bank has been growing.

Product Range

- HDFC AMC has expanded its product portfolio across segments from 43 funds in Mar'21 to 84 funds in Sep'23. Company believes its product range is best in class and expansion is now complete.
- There is healthy pipeline of products in AIF with FOF of Rs8bn commitment from more than 350 family offices. There are 3 PMS products: 2 discretionary and 1 non-discretionary. Subsidiaries in GIFT city have also filed for 6 funds that are expected to launch outside India in Q3FY24.
- Weighted average AUM for large cap funds have outperformed the benchmark across various buckets. 88% of large cap funds in 1-yr bucket have outperformed, 72% in 3-yr bucket, 96% in 5-yr and 95% in 10-yr. Index funds seem easier to run, although risk management is not easy.
- Debt funds as a percentage of deposits have declined due to structural changes in taxation system, whereas the hybrid funds are proving to be a good alternative. There would be focus on increasing investor awareness about debt funds as the product range is good.

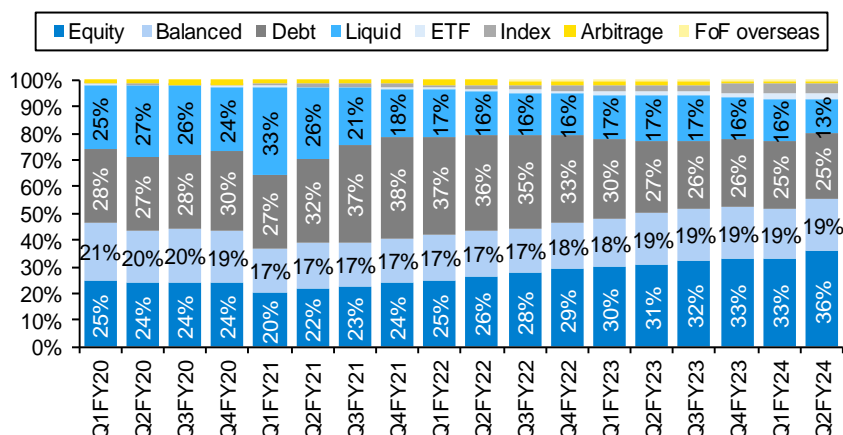
Scale benefits for Investors

- As per management, as funds grow in size, scale benefits are passed on to investors. With size, TER of some funds reduced from 2.25% to 1.25-1.75%.
- In our opinion, any revised guidelines would not materially impact profitability of the AMC industry, since a chunk of the TER cut would be passed on to distributors.
- Company has been witnessing higher flows in the HNI segment, led by superior returns in small and mid-cap funds. HNIs missed out on MF benefits and value creation and want to cash-in on the opportunities ahead.

Outlook

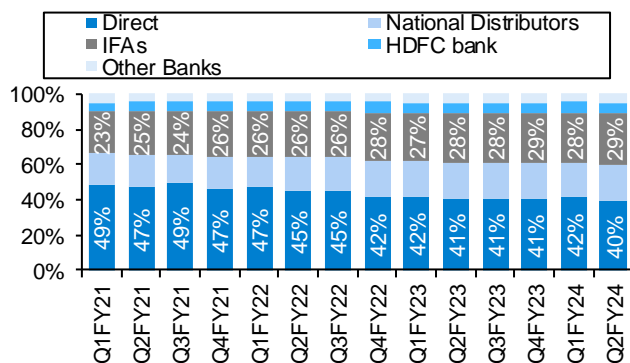
- Management suggested that the flow market share is higher than book market share across all distribution channels.
- In India, products across various segments have significant potential for growth. Growth in passive funds is anticipated to outpace that of actively managed funds, although active funds may continue to deliver superior returns.
- With Jio entering the industry, the customer base is expected to grow, resulting in higher flows for HDFC AMC as the products are not mutually exclusive and higher awareness will eventually help the company acquire more customers.

Exhibit 1: Equity + Bal share increased to ~55%/ liquid declined to ~13%



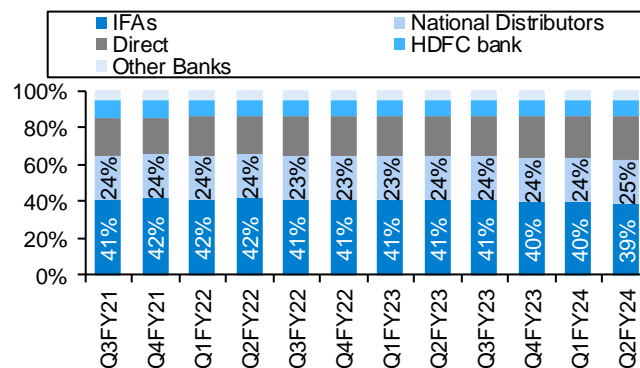
Source: Company, PL

Exhibit 2: Total distribution: Direct dominates at 40%



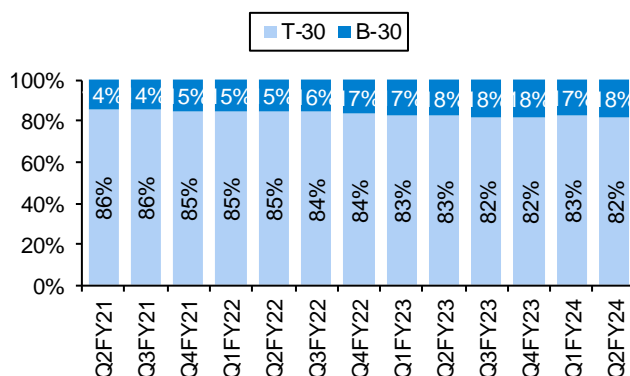
Source: Company, PL

Exhibit 3: Equity Distribution: IFAs dominate at 39%



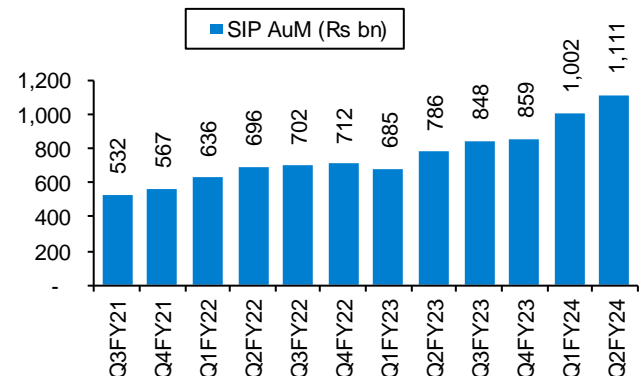
Source: Company, PL

Exhibit 4: T-30: B-30 mix declines to 82:18



Source: Company, PL

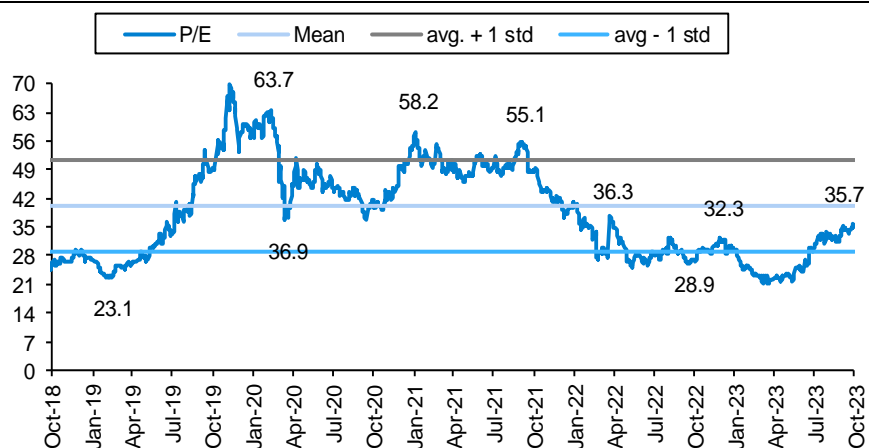
Exhibit 5: SIP AuM continues to grow (+41%YoY/11%QoQ)



Source: Company, PL



Exhibit 6: HDFC AMC one-year fwd. P/Core EPS trades at 35.7x (5-yr avg. 40x)



Source: Company, PL

Financials

Exhibit 7: Quarterly Financials

Particulars (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Revenue	5,423	5,497	5,163	5,216	5,447	5,596	5,410	5,745	6,431
Expenses	1,470	1,507	1,383	1,479	1,558	1,622	1,460	1,612	1,761
Employee	798	775	714	780	839	790	719	731	798
Others	536	599	534	564	587	699	609	645	702
Depreciation	136	133	134	135	132	134	133	129	130
Core Income	3,953	3,989	3,780	3,737	3,889	3,974	3,949	4,133	4,670
Other Income	661	862	647	113	1,042	1,034	969	1,580	1,221
PBT	4,614	4,852	4,427	3,850	4,931	5,007	4,918	5,714	5,891
Tax	1,170	1,254	991	708	1,290	1,313	1,156	939	1,516
PAT	3,444	3,598	3,436	3,142	3,641	3,694	3,762	4,775	4,376
Core PAT	2,951	2,958	2,934	3,050	2,872	2,931	3,021	3,454	3,468
QAAuM	43,89,238	44,69,904	43,21,336	41,53,319	42,92,511	44,47,201	44,97,151	48,56,309	52,47,903
Equity	26.4%	27.5%	28.9%	29.7%	31.1%	32.4%	32.7%	32.8%	35.7%
Balanced	16.9%	17.0%	17.5%	18.4%	18.8%	19.2%	19.4%	19.0%	19.4%
Debt	36.1%	35.0%	32.7%	29.9%	27.3%	25.5%	25.7%	25.3%	24.8%
Liquid	16.4%	15.7%	15.9%	16.6%	17.2%	17.1%	15.8%	15.9%	13.1%
ETF	0.9%	1.0%	1.1%	1.1%	1.2%	1.3%	1.7%	1.9%	1.8%
Index	1.4%	1.7%	2.0%	2.4%	2.7%	2.9%	3.2%	3.7%	3.8%
Arbitrage	1.8%	1.7%	1.6%	1.6%	1.5%	1.3%	1.3%	1.1%	1.2%
FoF overseas	0.0%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%
Market share (%)	12.1	11.7	11.3	11.0	11.0	11.0	11.1	11.3	11.2
Equity	9.5	9.3	9.3	9.3	9.3	9.4	9.7	9.8	10.2
Balanced	21.5	19.3	18.5	18.5	18.6	19.0	19.4	19.9	20.3
Eq+Bal	12.2	11.6	11.5	11.4	11.4	11.6	11.9	12.0	12.3
Debt	14.8	14.9	14.6	14.3	14.7	14.8	15.1	14.7	14.7
Liquid	15.3	14.7	13.3	13.1	13.2	13.7	12.8	13.7	11.9
ETF	1.1	1.1	1.1	1.1	1.1	1.2	1.5	1.7	1.7
Index	21.9	19.2	16.6	13.4	11.6	10.9	10.3	10.5	11.2
QAAuM Growth (%)	5.3	1.8	-3.3	-3.9	3.4	3.6	1.1	8.0	8.1
Equity	11.4	6.1	1.5	-1.4	8.1	8.1	2.2	8.1	17.6
Balanced	5.1	2.6	-0.6	0.7	5.9	5.9	1.9	6.0	10.1
Eq+Bal	8.9	4.7	0.7	-0.6	7.3	7.3	2.1	7.3	14.9
Debt	2.7	-1.1	-9.7	-12.2	-5.5	-3.3	1.8	6.5	5.8
Liquid	-0.9	-2.3	-2.5	0.8	7.0	2.6	-6.1	8.5	-11.4
ETF	9.8	8.4	7.9	3.1	8.0	15.1	27.9	20.3	6.3
Index	20.1	22.0	14.4	14.6	14.3	12.6	10.3	28.3	10.5
Arbitrage	24.9	-3.5	-10.9	-2.0	-6.6	-5.7	-1.6	-6.8	16.0
FoF overseas			2.6	-10.0	0.2	-3.6	-0.9	0.8	0.0
Dupont (bps)									
Revenue yield	49.4	49.2	47.8	50.2	50.8	50.3	48.1	47.3	49.0
Opex to AuM	13.4	13.5	12.8	14.2	14.5	14.6	13.0	13.3	13.4
Staff cost	7.3	6.9	6.6	7.5	7.8	7.1	6.4	6.0	6.1
Other opex	4.9	5.4	4.9	5.4	5.5	6.3	5.4	5.3	5.3
Depreciation	1.2	1.2	1.2	1.3	1.2	1.2	1.2	1.1	1.0
Core income/AuM	36.0	35.7	35.0	36.0	36.2	35.7	35.1	34.0	35.6
PAT/AuM	31.4	32.2	31.8	30.3	33.9	33.2	33.5	39.3	33.4
Core PAT/AuM	26.9	26.5	27.2	29.4	26.8	26.4	26.9	28.5	26.4
Profitability (%)									
Staff cost/revenue	14.7	14.1	13.8	15.0	15.4	14.1	13.3	12.7	12.4
Other opex/revenue	9.9	10.9	10.4	10.8	10.8	12.5	11.3	11.2	10.9
Core income/revenue	72.9	72.6	73.2	71.6	71.4	71.0	73.0	71.9	72.6
Tax rate	25.4	25.8	22.4	18.4	26.2	26.2	23.5	16.4	25.7
PAT margin	63.5	65.4	66.5	60.2	66.8	66.0	69.5	83.1	68.0
Core PAT margin	54.4	53.8	56.8	58.5	52.7	52.4	55.8	60.1	53.9

Source: Company, PL

Exhibit 8: Summary Financials (Rs mn)

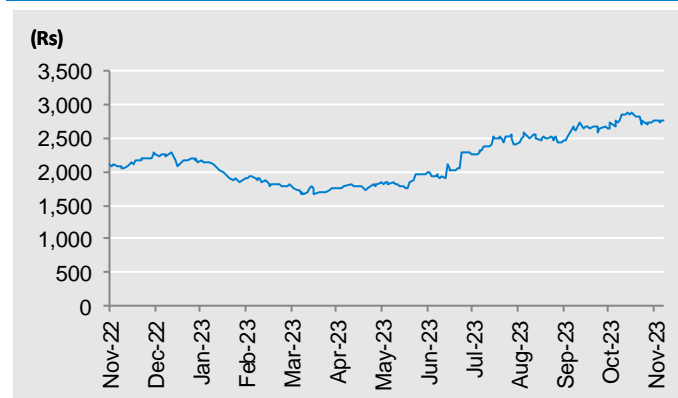
Particulars	FY23	FY24E	FY25E	FY26E	Particulars	FY23	FY24E	FY25E	FY26E
Profit & Loss					Balance Sheet				
Revenue	21,668	25,289	27,716	30,175	Net Worth	61,084	65,787	70,576	75,853
Investment mgmt.	21608	25213	27633	30085	Capital (FV Rs5)	1,067	1,067	1,067	1,067
PMS / Advisory	60	76	83	90	Reserves	60,017	64,720	69,509	74,786
Expenses	6,120	7,003	7,549	7,851	Employee benefit	731	877	1,052	1,262
Employee	3,127	3,653	3,932	4,087	Others	4,139	4,538	4,975	5,456
Others	2,460	2,816	3,056	3,175	Total Liabilities	65,954	71,201	76,603	82,571
Depreciation	533	534	561	589	Cash and Bank	40	40	40	40
Core Income	15,549	18,285	20,167	22,324	Investment	60,792	65,615	70,556	76,021
Other Income	3,158	4,451	4,165	4,486	Fixed assets	1,526	1,602	1,683	1,767
PBT	18,706	22,736	24,333	26,810	Others	3,596	3,943	4,325	4,743
Tax	4,467	5,320	5,913	6,515	Total Assets	65,954	71,201	76,603	82,571
PAT	14,239	17,416	18,420	20,295	AuM Data				
Core PAT	11,836	14,007	15,267	16,899	AAuM	43,47,546	52,35,039	59,22,098	65,86,663
Dividend	10,244	12,714	13,631	15,019	Equity	13,69,580	18,82,527	22,27,300	24,98,999
Growth ratios (%)					Balanced	8,24,645	10,23,061	11,79,041	13,07,094
Revenue	2.4	16.7	9.6	8.9	Debt	11,75,816	12,44,716	13,51,406	15,08,169
Opex	5.9	14.4	7.8	4.0	Liquid	7,25,511	7,35,551	7,71,993	8,30,047
Employee	0.2	16.8	7.7	3.9	ETF	58,539	74,784	90,027	99,519
Others	16.1	14.5	8.5	3.9	Index	1,21,215	2,03,208	2,24,306	2,48,492
Core income	1.1	17.6	10.3	10.7	Arb & FoF	72,239	71,192	78,025	94,343
PAT	2.2	22.3	5.8	10.2	Mix				
Core PAT	2.5	18.3	9.0	10.7	Equity	31.5	36.0	37.6	37.9
DuPont analysis (%)					Balanced	19.0	19.5	19.9	19.8
Revenue	0.50	0.48	0.47	0.46	Debt	27.0	23.8	22.8	22.9
Expenses	0.14	0.13	0.13	0.12	Liquid	16.7	14.1	13.0	12.6
Employee	0.07	0.07	0.07	0.06	ETF	1.3	1.4	1.5	1.5
Others	0.06	0.05	0.05	0.05	Index	2.8	3.9	3.8	3.8
Depreciation	0.01	0.01	0.01	0.01	Arb & FoF	1.7	1.4	1.3	1.4
Core Income	0.358	0.349	0.341	0.339	Growth				
Other Income	0.07	0.09	0.07	0.07	Overall	0.2	20.4	13.1	11.2
PBT	0.43	0.43	0.41	0.41	Equity	17.0	37.5	18.3	12.2
Tax	0.10	0.10	0.10	0.10	Balanced	11.1	24.1	15.2	10.9
PAT (RoAAuM)	0.33	0.33	0.31	0.31	Debt	-23.0	5.9	8.6	11.6
Core RoAAuM	0.272	0.268	0.258	0.257	Liquid	2.4	1.4	5.0	7.5
ROE	24.5	27.5	27.0	27.7	ETF	42.3	27.7	20.4	10.5
Core RoE	25.6	28.9	30.6	32.7	Index	74.3	67.6	10.4	10.8
Other Ratios (%)					Valuations				
Staff cost/revenue	14.4	14.4	14.2	13.5	EPS	66.7	81.6	86.3	95.1
Other opex/revenue	11.4	11.1	11.0	10.5	Core EPS	55.5	65.6	71.5	79.2
Core Income/revenue	71.8	72.3	72.8	74.0	CPS	285.0	307.6	330.8	356.4
Other Income/revenue	14.6	17.6	15.0	14.9	DPS	48.0	59.6	63.9	70.4
Yield on Investments	5.3	6.9	6.0	6.0	Dividend yield	2.4	2.2	2.3	2.6
Effective tax rate	23.9	23.4	24.3	24.3	BVPS	286	308	331	355
PAT margin	65.7	68.9	66.5	67.3	P/B	6.5	9.0	8.4	7.8
Core PAT margin	54.8	55.6	55.2	56.2	P/E	24.5	33.8	32.0	29.0
Dividend payout (%)	71.9	73.0	74.0	74.0	P/core EPS	26.1	37.4	34.0	30.4

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
4	07-Jul-23	BUY	2,100	2,260
5	25-Jul-23	BUY	2,800	2,502
6	07-Oct-23	BUY	2,800	2,648
7	13-Oct-23	BUY	2,757	3,000

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,560	1,726
2	Axis Bank	BUY	1,250	980
3	Bank of Baroda	BUY	240	204
4	Can Fin Homes	BUY	900	763
5	City Union Bank	Accumulate	160	129
6	DCB Bank	BUY	160	115
7	Federal Bank	BUY	180	149
8	HDFC Asset Management Company	BUY	3,000	2,757
9	HDFC Bank	BUY	2,025	1,530
10	ICICI Bank	BUY	1,280	933
11	IndusInd Bank	BUY	1,620	1,420
12	Kotak Mahindra Bank	BUY	2,250	1,770
13	LIC Housing Finance	Hold	460	449
14	State Bank of India	BUY	770	578
15	UTI Asset Management Company	BUY	900	787

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



ANALYST CERTIFICATION

(Indian Clients)

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