



HDFC Asset Management Co. Ltd.



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Equity segment drives AUM growth; Business outlook remains positive

CMP INR 3,436	Target INR 4,005	Potential Upside 16.6%	Market Cap (INR Mn) 7,38,868	Recommendation BUY	Sector Asset Management Services
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Result Highlights Q3FY24:

- QAAUM (Quarterly Average Assets Under Management) were at INR 5,515 Bn as of December 31, 2023, a growth of 24.0% YoY/ 5.1% QoQ. The equity-oriented AUM to non-equity-oriented AUM ratio stood at 61:39 as of December 31, 2023, compared to the industry ratio of 53:47.
- In Q3FY24, revenue stood at INR 6,713 Mn, an increase of 20.0% YoY/ 4.4% QoQ, despite a slight dip in yields. A resilient growth in AUM led to an increase in revenues. 9MFY24's revenues grew by 16.2% YoY to INR 18,889 Mn.
- The EBITDA for Q3FY24 was reported at INR 5,114 Mn (excluding other income), which grew by 23.8% YoY/ 6.0% QoQ with margins of 76.2%. Higher revenues and flat operating expenses during the quarter drove the sequential growth. In 9MFY24, EBITDA stood at 14,222 Mn, a jump of 17.8% YoY with 75.3% margins (+103 bps YoY).
- Net profit for Q3FY24 grew by 32.6% YoY/11.9% QoQ to INR 4,897 Mn, led by a robust operating performance during the quarter. For 9MFY24, net profit grew 34.1% YoY to INR 14,048 Mn on the back of 17.8% operating profit growth and higher other income.

MARKET DATA

Shares outs (Mn)	213
Equity Cap (INR Mn)	65,150
Mkt Cap (INR Mn)	7,38,868
52 Wk H/L (INR)	3,560/ 1,590
Volume Avg (3m K)	648
Face Value (INR)	5
Bloomberg Code	HDFCAMC : IN

KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	21,154	21,668	25,922	29,610	32,069
EBITDA	15,999	16,179	19,597	22,800	24,437
PAT	13,931	14,239	18,574	20,975	22,525
EPS (INR)	65.4	66.7	87.0	98.3	105.5
EBITDA Margin	75.6%	74.7%	75.6%	77.0%	76.2%
NPM	65.9%	65.7%	71.7%	70.8%	70.2%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	73129
NIFTY	22032

Strong AUM growth led by the equity segment; overall market share remained stable sequentially while equity AUM saw improvement: As of December 31, 2023, the QAAUM stood at INR 5,515 Bn, reflecting 24.0% YoY/ 5.1% QoQ growth owing to the optimism seen in the capital markets over the past few quarters. The Company's unique investor base stood at 8.7 Mn as against 42.0 Mn unique investors in the industry. Thus, this represents a 20.6% share of HDFCAMC amongst its peers, indicating that over one in every five investors has chosen HDFC Mutual Fund as one of their investment choices. The equity-oriented fund QAAUM stood at INR 3,166 Bn, a growth of 39.5% YoY/ 10.7% QoQ. The equity mix reported an improvement from 53.8% as of December 31, 2022, to 60.6% as of December 31, 2023 (vs. 57.6% as of September 30, 2023). The mix has been better compared to the overall industry, where the equity mix for the industry stood at 52.5%. The closing AUM for debt funds, which includes debt index funds, saw a modest uptick of 0.1% QoQ, reaching INR 1.34 Tn. Its quarterly average asset mix reflects a continued tilt towards equities. The Company's market share in overall QAAUM was stable at 11.2% during the quarter, while the market share, excluding ETFs, stood at 12.5% as of December 31, 2023. The Company believes that it has been witnessing a gradual gain in market share across all segments. HDFC AMC has recently added 24 new branches in the B-30 cities, which has helped to take the total number of branches to 253 as of December 31, 2023. Thus, the rationale behind the addition is the opportunities that the Company sees, which will support overall business growth and further improve the Company's penetration. On the distribution channel side, HDFC Bank's share in equity AUM has seen a decline from 8.4% to 7.7%, which is not on the back of lower sales through the Bank but owing to faster growth in the other channels, especially the direct channel with a 24.3% share.

Healthy operating performance and higher other income, supported by lower taxes, drive profitability: The revenues for Q3FY24 stood at INR 6,731 Mn, a growth of 20.0% YoY/ 4.4% QoQ, on the back of resilient AUM growth despite lower yields. The Company's blended yield reported a decline on a QoQ primarily led by equity yields. The equity yields for the quarter stood at 63 bps, as against 67 bps in Q2FY24. However, the yields on debt funds were at 27-28 bps. Some large funds, especially the Balanced Advantage Fund and Mid Cap Fund, experienced a decline in equity yields due to the TER decline. The management expects yields to remain under pressure in the coming quarters. However, healthy AUM growth will aid revenue growth. On the operating expense side, the employee cost has increased by 14.4% YoY, driven by an increase in the headcount. However, despite this, the cost-to-income ratio improved by 117 bps YoY to 21.5% on the back of higher operating income. The investment income for Q3FY24 stood at INR 1,424 Mn, growing by 37.8% YoY/ 16.6% QoQ, led by healthy MTM gains from positive market momentum. The tax rate was lower at ~23.0%, primarily due to the decrease in deferred tax charges in Q3FY24, attributed to the holding period of certain investments transitioning from short to long term.

SHARE HOLDING PATTERN (%)

Particulars	Dec-23	Sep-23	Jun-23
Promoters	52.6	52.6	52.6
FIIIs	18.0	13.0	13.0
DIIIs	19.4	22.3	22.3
Others	10.0	12.2	12.2
Total	100.0	100.0	100.0

14.0%

Revenue CAGR between FY23 and FY26E

16.5%

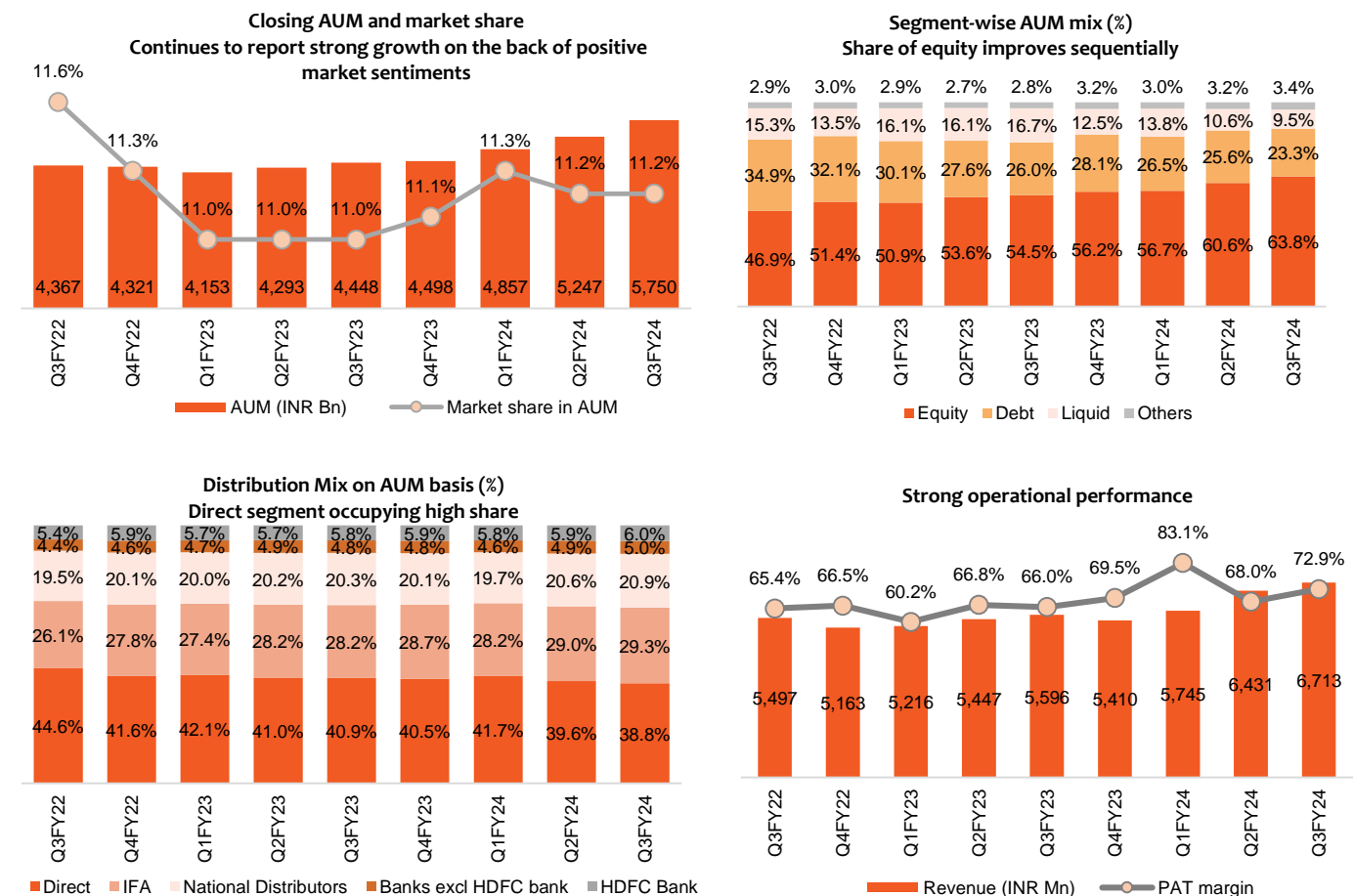
PAT CAGR between FY23 and FY26E

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Concall Highlights:

- As of December 31, 2023, the closing AUM for the industry has surpassed the significant milestone of INR 50 Tn, a notable 27.0% YoY increase. The NIFTY 50 Index exhibited a return of 20.0% plus over the last year, whereas the AUM of actively managed equity-oriented funds grew by 29.0%.
- The industry's equity and equity-oriented funds, as of December 31, 2023, constitute over 50.0% of the industry's AUM, reaching a QAAUM of INR 25.9 Tn.
- The upward momentum of systematic investment plans continued, and it witnessed inflows of INR 176 Bn for the industry in December 2023, compared to INR 136 Bn in December 2022. AUM through SIPs has reached a total of INR 10 Tn. SIPs contributed nearly 40.0% of the equity and equity-oriented AUM as of December 31, 2023.
- The industry's debt funds reported a QAAUM of INR 10.2 Tn for the quarter ended December 2023 as against INR 8.6 Tn as of December 31, 2022, a growth of 19.0%.
- The B-30 mutual funds' AAUM category remains robust, and the growth continues with its share in the overall MAAUM for November rising to 18.0%, an increase from 17.0% as compared to December 2022. This growth observed on an expanding basis underscores the significance of the acceptance of mutual funds even in B-30 markets. The contribution of B-30 markets to equity-oriented AUM is even higher. ~27.0% of equity-oriented AUM comes from B-30 markets for the overall industry.
- HDFCAMC inaugurated 24 new branches on January 02, 2024. Out of which, 22 are in B-30 cities. However, this takes the Company's branch network to 253, which includes 173 in B-30 and 18 in T-30. The Company continues to look for opportunities by expanding its physical infrastructure.
- The Company's penetration in the unique investor universe stood at ~21.0% for Q3FY24 which signifies that over one in every five investors has chosen HDFC Mutual Fund as one of their investment choices.
- HDFCAMC's systematic transactions continued to see healthy growth, with it processing 6.81 Mn transactions amounting to INR 26.3 Bn. The corresponding amount for Q3FY24 was INR 15.7 Bn which signifies an increase of INR 10.6 Bn for a single month.
- The effective tax rate for the quarter was low primarily due to a decrease in the deferred tax charge for the current quarter, mainly attributed to the holding period of certain investments transitioning from the short to the long term.

Valuation and view: HDFCAMC continued to report a strong performance in Q3FY24, led by healthy growth in revenues and higher other income, resulting in buoyant growth in net profit. AUM growth remained strong as of December 31, 2023, led by strong growth across all segments of equity-oriented funds. The growth in equity was primarily led by the positive momentum seen in SIP transaction volumes and capital market sentiments. HDFCAMC has seen marginal pressure on equity yields due to the revision of TER slabs. However, this was offset by the robust AUM growth during the quarter. We expect AUM to grow at a CAGR of 18.5% over FY23–26E driven by higher share of equity-oriented segment. In the near-term we expect equity yields could be decline further by ~5 bps, which will be majorly offset by volume i.e., AUM growth. The Company continues to see an improvement in the market share for the equity AUM at 12.6%. Thus, we expect this trend to see further upside gradually going ahead, given the diverse offerings and efforts witnessed on the branch expansion front. 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. The mutual fund industry benefits from a combination of tailwinds, including the growing importance of financial savings among Indian households, low MF penetration, rising investor awareness and education, robust distribution platforms, and transaction accessibility via digitization. HDFC AMC enjoys a strong brand name and has a wide distribution network, including the entire network of HDFC Bank, which contributes to its growth. We have introduced FY26E estimates and have rolled over our valuation accordingly. We expect Revenues/ EBITDA/ PAT to grow at 14.0%/14.7%/16.5% over FY23–26E. HDFCAMC shares are currently trading at a P/E of 39.5x/35.0x/32.6x on FY24E/FY25E/FY26E earnings. We are applying a P/E multiple of 38x on FY26E EPS of INR 105.5 to arrive at a target price of INR 4,005 per share (earlier INR 3,035), an upside of 16.6% over the CMP. We upgrade our rating from "ACCUMULATE" to "BUY" on the shares of HDFC AMC.



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Revenue from operations	21,154	21,668	25,922	29,610	32,069
Total expenses	5,154	5,489	6,325	6,810	7,632
Employee benefit expenses	3,122	3,127	3,629	3,701	4,105
Other operating expenses	2,032	2,363	2,696	3,109	3,527
EBITDA	15,999	16,179	19,597	22,800	24,437
EBITDA Margin	75.6%	74.7%	75.6%	77.0%	76.2%
Depreciation	539	533	530	562	593
EBIT	15,461	15,645	19,067	22,238	23,844
EBIT Margin	73.1%	72.2%	73.6%	75.1%	74.4%
Other income	3,178	3,158	5,147	5,456	5,892
Finance cost	86	97	92	95	98
PBT	18,553	18,706	24,121	27,599	29,638
Tax	4,622	4,467	5,548	6,624	7,113
PAT	13,931	14,239	18,574	20,975	22,525
PAT margin	65.9%	65.7%	71.7%	70.8%	70.2%
EPS (INR)	65.4	66.7	87.0	98.3	105.5

Source: Company, KRChoksey Research

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Cash Generated From Operations	12,537	11,493	18,883	21,276	23,092
Net Cash Flow from/(used in) Investing Activities	(5,080)	(2,182)	(6,538)	(7,403)	(7,904)
Net Cash Flow from Financing Activities	(7,455)	(9,299)	(12,328)	(13,873)	(15,186)
Net Inc/Dec in cash equivalents	2	13	17	(0)	2
Opening Balance	17	19	31	48	47
Closing Balance Cash and Cash Equivalents	19	31	48	47	50

Source: Company, KRChoksey Research

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Exhibit 2: Balance Sheet

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash and Cash Equivalents	19	31	48	47	50
Bank Balance	62	9	9	9	9
Trade Receivables	745	1,837	2,074	2,369	2,566
Other Receivables	60	126	151	207	224
Investments	55,702	60,792	67,236	74,564	82,393
Other Financial Assets	252	312	373	592	641
Total Financial Assets	56,840	63,107	69,890	77,789	85,883
Current Tax Assets (net)	306	305	364	416	451
Deferred Tax Assets (net)	0	0	0	0	0
Property, Plant and Equipment	1,222	1,376	1,526	1,676	1,826
Intangible Assets Under Development	5	21	32	32	32
Goodwill	60	60	60	60	60
Other Intangible Assets	69	68	80	80	80
Other Non-Financial Assets	302	428	512	585	633
Total Non-Financial Assets	1,964	2,259	2,574	2,849	3,082
Total Assets	58,804	65,365	72,464	80,638	88,966
Trade Payables	292	356	379	409	458
Other Financial Liabilities	1,896	2,063	2,333	2,665	2,886
Total Financial Liabilities	2,189	2,419	2,712	3,073	3,344
Current Tax Liabilities (net)	74	184	184	184	184
Provisions	118	126	126	126	126
Deferred Tax Liabilities (net)	753	1,008	1,008	1,008	1,008
Other Non-Financial Liabilities	370	545	518	592	641
Total Non-Financial Liabilities	1,315	1,863	1,836	1,909	1,959
Equity Share Capital	1,066	1,067	1,067	1,067	1,067
Other Equity	54,234	60,017	66,849	74,588	82,596
Total Equity	55,300	61,084	67,916	75,655	83,663
Total Liabilities and Equity	58,804	65,365	72,464	80,638	88,966

Source: Company, KRChoksey Research

Key Ratios	FY22	FY23	FY24E	FY25E	FY26E
EBITDA margin	75.6%	74.7%	75.6%	77.0%	76.2%
EBIT margin	73.1%	72.2%	73.6%	75.1%	74.4%
PAT margin	65.9%	65.7%	71.7%	70.8%	70.2%
Return on Assets	23.7%	21.8%	25.6%	26.0%	25.3%
Return on Equity	25.2%	23.3%	27.3%	27.7%	26.9%

Source: Company, KRChoksey Research

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Date	CMP (INR)	TP (INR)	Recommendation
16-Jan-24	3,436	4,005	BUY
13-Oct-23	2,852	3,035	ACCUMULATE
28-Jul-23	2,535	2,725	ACCUMULATE
26-Apr-23	1,738	1,970	ACCUMULATE
27-Jan-23	1,934	2,202	ACCUMULATE
20-Oct-22	2,038	2,202	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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KRChoksey Shares and Securities Pvt. Ltd.

CIN-U67120MH1997PTC180958

Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060

Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058

Phone: 91-22-66535000

Compliance Officer: Varsha Shinde

Email: varsha.shinde@krchoksey.com

ANALYST

Unnati Jadhav, research5@krchoksey.com, +91-22-6696 5420

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Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com