

July 16, 2024

Q1FY25 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	4,700		4,100	
Sales (Rs. m)	31,403	36,602	30,259	34,915
% Chng.	3.8	4.8		
EBITDA (Rs. m)	7,392	7,958	7,436	8,227
% Chng.	(0.6)	(3.3)		
EPS (Rs.)	86.6	103.3	82.3	96.3
% Chng.	5.2	7.3		

Key Financials - Company Type

Yle Mar	FY23	FY24	FY25E	FY26E
Revenue (Rs m)	21,668	25,844	31,403	36,602
Opex	6,120	6,842	7,392	7,958
Employee	3,127	3,535	3,685	3,905
Others	2,993	3,308	3,706	4,053
Core Income (Rs m)	15,549	19,001	24,011	28,643
PAT (Rs mn)	14,239	19,459	22,116	26,226
Core PAT (Rs m)	11,836	14,920	18,489	22,055
Core EPS (Rs.)	55.5	69.9	86.6	103.3
Gr. (%)	2.5	26.0	23.9	19.3
AAuM (Rs bn)	4,348	5,437	6,874	8,189
Gr. (%)	0.2	25.1	26.4	19.1
Core RoAAuM (%)	0.3	0.3	0.3	0.3
Core RoE (%)	25.6	29.6	32.9	34.8
P/Core EPS (x)	24.3	27.5	44.0	36.3

Key Data

IGAS.BO | IGAL IN

52-W High / Low	Rs.4,295 / Rs.2,356
Sensex / Nifty	80,664 / 24,586
Market Cap	Rs.897.5 bn/ \$ 10,737.7 m
Shares Outstanding	213.6 m
3M Avg. Daily Value	Rs.2,075.6 m

Shareholding Pattern (%)

Promoter's	52.52
Foreign	20.61
Domestic Institution	17.67
Public & Others	9.20
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.5	22.1	76.3
Relative	(0.3)	10.5	50.6

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HDFC Asset Management Company (HDFCAMC IN)

Rating: BUY | CMP: Rs4,196 | TP: Rs4,700

Core earnings further upgraded due to equity

Quick Pointers:

- Healthy equity growth led to better-than-expected revenue; opex was a drag.
- Equity market share further enhanced by 6bps QoQ to 12.85%.

HDFC AMC saw a good quarter as revenue was 1.5% higher to PLe owing to better-than-expected yields at 46.2bps (PLe 45.5bps) led by strong growth in equity QAAuM of 11.5% QoQ to Rs4.1trn. Core income saw a slight miss as opex escalated QoQ owing to (1) higher staff cost due to employee addition and engagement expenses, and (2) higher other opex led by costs related to the NFO, business, KYC, etc. Equity performance within the 1-year/3-year buckets remains best-in-class, which resulted in strong net flows' market share of 20% in FY24 (vs 8.6% in FY23). We raise the core EPS for FY25E/FY26E by 5%/7% due to upgrade in FY25E closing equity AuM for the industry from 13% earlier to 28% since equity growth from Mar-Jun'24 has been strong at 16.4%. Over FY24-26E, we see healthy core income CAGR of 22% (earlier 17%). We increase multiple to 41x from 39x and raise TP to Rs4,700 from Rs4,100. Retain 'BUY'.

- Revenue beat, but slight miss on core income due to higher opex:** QAAuM was in-line at Rs6.72trn (+9.6% QoQ), while equity at Rs4.1trn grew by 11.5% QoQ. Revenue was higher at Rs7.75bn (PLe Rs7.64bn) led by the increase in revenue yields by 0.8bps QoQ to 46.2bps (PLe 45.5bps). Opex was higher at Rs1.96bn (PLe Rs1.79bn) due to higher staff cost and other opex. Employee cost was Rs1.0bn (PLe Rs893mn), while other opex was higher at Rs786mn (PLe Rs718mn). Core income was 1.2% below PLe at Rs5.79bn, resulting in operating yields at 34.5bps (PLe 34.9bps). Other income was ahead at Rs1.7bn (PLe Rs1.5bn). Tax rate was lower at 9.7% due to lesser deferred tax charge attributable to certain investments transitioning from short term to long term. Hence, core PAT yields were better at 27.7bps (PLe 26.9bps). PAT was 6.5% ahead of PLe at Rs6.0bn due to higher other income and lower tax.
- Equity share continues to improve:** While the management had guided that blended yields would normalize to 47bps in Q1FY25, 60% of equity AuM (incl. balanced) saw a change in TER threshold, due to strong equity market growth, causing headwinds to yields. However, this was partly offset by (1) increase in equity mix (incl. balanced) QoQ from 60.1% to 61.1%, and (2) 99bps/35bps QoQ fall in debt/liquid share to 20.1%/10.6%, partially protecting blended yields. Driven by superior equity performance leading to market share gains in net equity flows, market share in equity+bal and overall QAAuM has been enhancing post Q1FY23; it improved QoQ by 6bps/7bps to 12.85%/11.39% respectively. As of Jun'24 basis weighted average equity performance, HDFC AMC remains the top performing fund (rank 1) in the 1-yr and 3-yr bucket.
- Staff cost/other opex rose QoQ/YoY:** ESOP cost was Rs63mn for Q1FY25. Adjusting for the same, staff cost rose by Rs181mn or 23.6% QoQ/29.3% YoY on account of (1) increased headcount and branches (company has added 26 branches and 283 employees over the last 1 year), (2) employee engagement & training expenses, (3) valuation expenses related to gratuity and (3) leave encashment made in Q1FY25. Other opex increased by 13.8%/29.3% QoQ /YoY owing to costs relating to the manufacturing NFO, general business, trademark license fees, KYC and outsourced services cost. Including ESOP cost, the company expects overall opex to increase by 12-15% in FY25E.

Exhibit 1: PAT ahead at Rs6.0bn due to higher other income and lower taxes

Financials (Rs m)	Q1FY25	Q1FY24	YoY gr. (%)	Q4FY24	QoQ gr. (%)
Revenue	7,752	5,745	34.9	6,954	11.5
Total Expenses	1,959	1,612	21.5	1,718	14.0
Employees	945	731	29.3	765	23.6
Other expenses	951	774	22.8	854	11.4
Operating Income	5,794	4,133	40.2	5,236	10.6
Other Income	1,731	1,580	9.5	1,555	11.3
Profit before tax	7,525	5,714	31.7	6,791	10.8
Tax	1,485	939	58.2	1,380	7.6
Profit after tax	6,040	4,775	26.5	5,411	11.6
Core PAT	4,650	3,454	34.6	4,172	11.5
Profitability ratios (bps)					
Revenue yield	46.2	47.3	(115)	45.4	79
Employee to AuM	5.6	6.0	(39)	5.0	64
Opex to AuM	10.7	12.5	(174)	11.1	(36)
Core income/AuM	34.5	34.0	46	34.2	34
PAT/AuM	36.0	39.3	(336)	35.3	66
Core PAT/AuM	27.7	28.5	(76)	27.2	47
QAAuM (Rs. mn)					
Equity	2,765,098	1,591,471	73.7	2,443,425	13.2
Balanced	1,338,775	924,685	44.8	1,238,087	8.1
Debt	1,352,430	1,229,158	10.0	1,295,224	4.4
Liquid	714,908	773,226	(7.5)	673,955	6.1
ETF	122,684	91,142	34.6	110,303	11.2
Index	289,907	182,111	59.2	251,973	15.1
Arbitrage	120,179	54,372	121.0	104,950	14.5
FoF overseas	12,273	10,144	21.0	11,721	4.7

Source: Company, PL.

Revenue was higher than estimates due to higher revenue yields.

Operating expenses increased by 14% QoQ due to higher staff cost and other opex.

Other income was higher at Rs1.7bn due to higher MTM gains.

Revenue yield improved to 46.2bps, and RoAAuM increased to 36.0bps.

QAAuM growth of 38% YoY continues to be driven by equity (+74% YoY) and balanced (+45% YoY).

Q1FY25 Conference Call Highlights

Industry

- Industry witnessed a multi-fold increase in AuM in the last 10 years, coupled with Rs10trn added in the last 6 months. Actively managed equity funds had positive flows, while debt funds saw a turnaround after 3 months of outflows. Monthly SIP continued its upward trend.

Company Performance

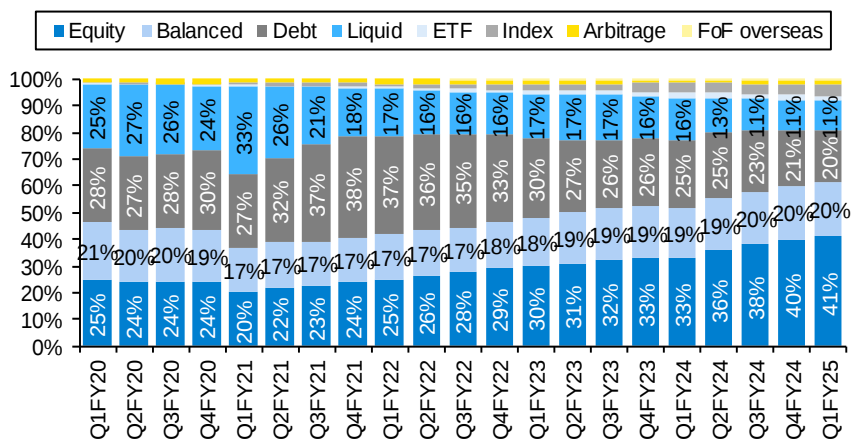
- Revenue yields** have fallen in comparison to Q3FY24 (as Q4FY24 saw a one-off) due to 1) telescopic pricing impact (having an impact of 2-3bps) and 2) the manufacturing NFO, that saw more-than-expected demand, leading to higher commission payouts than normal. These payouts are expected to normalize going ahead.
- Fall in yields** for similar amount of increase in AuM could be lower, which would positively impact revenue as well as profits. As per the company, its product basket is complete and the goal is to be among the top-3 players in each segment. Focus is on increasing digitalization and reducing the turnaround time.
- Blended yield for Q1FY25** was 59bps for equity, 28-29bps for debt and 12-13bps for liquid funds.
- Other income** grew due to higher MTM gains. Treasury surplus is invested in debt mutual funds.
- Staff expenses escalated** owing to (1) increased headcount and branches, (2) training expenses and valuation expenses related to gratuity and (3) leave encashment made in Q1FY25. Variable pay-out for the year is accounted on pro-rata basis, impacting each quarter.
- Rise in other opex** was largely pertaining to the manufacturing NFO.
- Overall expenses are guided to grow at 12-15%** on annual basis.
- Effective tax rate** was lower primarily due to decreased deferred tax charge attributable to a change in the holding period of certain investments from short-term to long term. However, on annual basis, it is expected to normalize.

Others

- Branches** are expected to break even quickly considering the growth in AuM and continued opportunities to tap the market. Operations of HDFC Bank are independent, but are supportive towards initiatives of HDFC AMC.
- AuM growth** is expected to sustain due to increased focus on education, awareness and product sales, while small households are yet to participate.
- Increase in equity+bal was on account of market trends. However, the company continues to focus on the sale of all products. Debt funds may see an inflow due to likelihood of rate cut expectations.

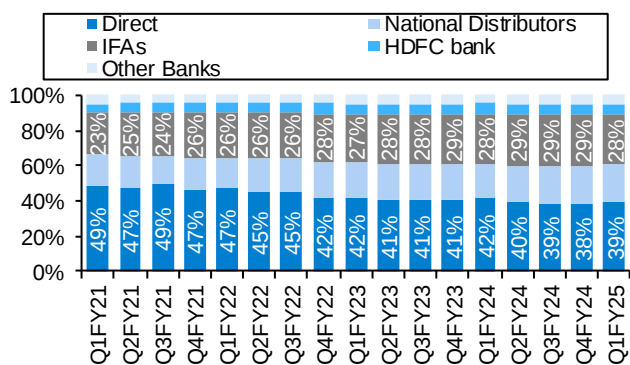
- Distribution channel mix is dynamic considering the shift of MFDs to NDs due to the merger. The manufacturing NFO saw a similar distribution mix.
- **Fintech platforms** contribute to more than half of incremental SIP.
- Alternative business is progressing with its latest launch of FoF. 4-5 institutional clients and 400 individual clients have been onboarded. Focus is on improving the PMS business too.
- Approval has been received for the launch of funds in GIFT City and the company has started onboarding clients and distributors.

Exhibit 2: Equity + Bal share increased to ~61%/ liquid stable at ~11%



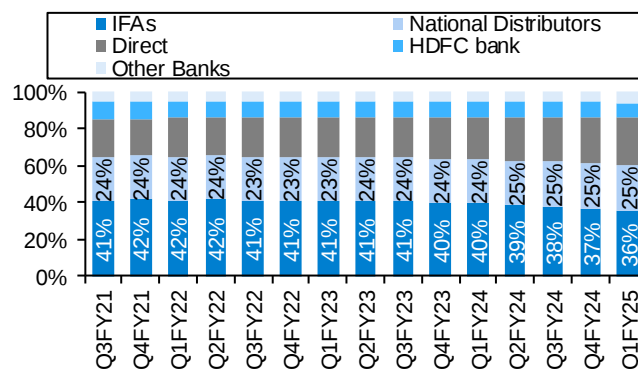
Source: Company, PL

Exhibit 3: Total distribution – Direct dominates at 39%



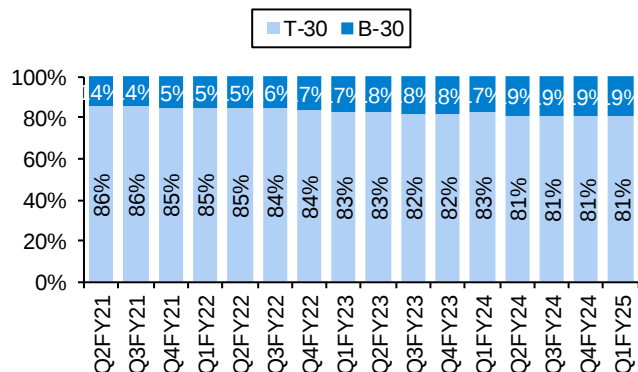
Source: Company, PL

Exhibit 4: Equity distribution – IFAs dominate at 36%



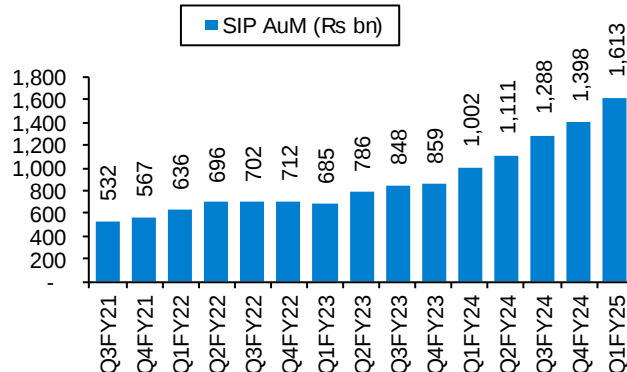
Source: Company, PL

Exhibit 5: T-30:B-30 mix stable at 81:19



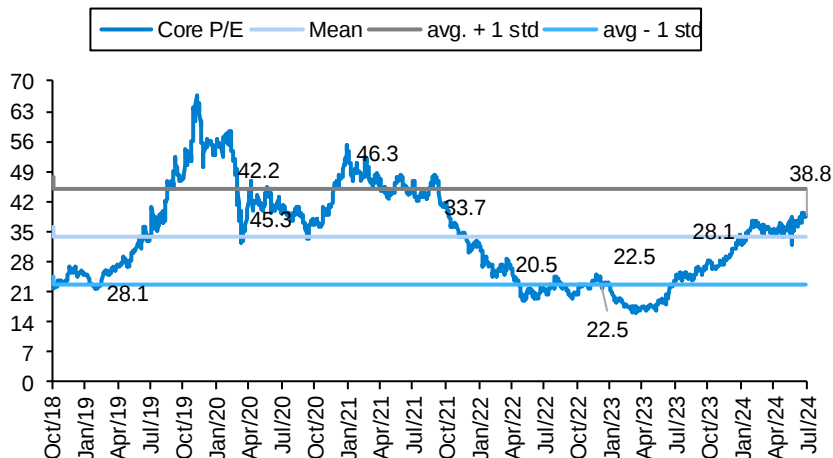
Source: Company, PL

Exhibit 6: SIP AuM continues to grow (+61% YoY/15% QoQ)



Source: Company, PL

Exhibit 7: HDFCAMC 2-yr fwd. P/Core EPS trades at 38.8x



Source: Company, PL

Financials

Exhibit 8: Quarterly Financials

Particulars (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Revenue	5,216	5,447	5,596	5,410	5,745	6,431	6,713	6,954	7,752
Expenses	1,479	1,558	1,622	1,460	1,612	1,761	1,751	1,718	1,959
Employee	780	839	790	719	731	798	774	765	945
Others	564	587	699	609	645	702	718	721	818
Depreciation	135	132	134	133	129	130	131	133	133
Core Income	3,737	3,889	3,974	3,949	4,133	4,670	4,962	5,236	5,794
Other Income	113	1,042	1,034	969	1,580	1,221	1,424	1,555	1,731
PBT	3,850	4,931	5,007	4,918	5,714	5,891	6,386	6,791	7,525
Tax	708	1,290	1,313	1,156	939	1,516	1,489	1,380	1,485
PAT	3,142	3,641	3,694	3,762	4,775	4,376	4,897	5,411	6,040
Core PAT	3,050	2,872	2,931	3,021	3,454	3,468	3,805	4,172	4,650
QAAuM	4,153,319	4,292,511	4,447,201	4,497,151	4,856,309	5,247,903	5,513,799	6,129,639	6,716,253
Equity	29.7%	31.1%	32.4%	32.7%	32.8%	35.7%	38.0%	39.9%	41.2%
Balanced	18.4%	18.8%	19.2%	19.4%	19.0%	19.4%	19.9%	20.2%	19.9%
Debt	29.9%	27.3%	25.5%	25.7%	25.3%	24.8%	23.3%	21.1%	20.1%
Liquid	16.6%	17.2%	17.1%	15.8%	15.9%	13.1%	11.3%	11.0%	10.6%
ETF	1.1%	1.2%	1.3%	1.7%	1.9%	1.8%	1.9%	1.8%	1.8%
Index	2.4%	2.7%	2.9%	3.2%	3.7%	3.8%	4.0%	4.1%	4.3%
Arbitrage	1.6%	1.5%	1.3%	1.3%	1.1%	1.2%	1.4%	1.7%	1.8%
FoF overseas	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Market share (%)	11.0	11.0	11.0	11.1	11.3	11.2	11.2	11.3	11.4
Equity	9.3	9.3	9.4	9.7	9.8	10.2	10.5	10.7	10.9
Balanced	18.5	18.6	19.0	19.4	19.9	20.3	20.4	20.7	20.5
Eq+Bal	11.4	11.4	11.6	11.9	12.0	12.3	12.6	12.8	12.9
Debt	14.3	14.7	14.8	15.1	14.7	14.7	14.5	14.7	14.5
Liquid	13.1	13.2	13.7	12.8	13.7	11.9	11.5	11.6	12.0
ETF	1.1	1.1	1.2	1.5	1.7	1.7	1.7	1.7	1.7
Index	13.4	11.6	10.9	10.3	10.5	11.2	11.5	12.2	12.7
QAAuM Growth (%)	-3.9	3.4	3.6	1.1	8.0	8.1	5.1	11.2	9.6
Equity	-1.4	8.1	8.1	2.2	8.1	17.6	12.0	16.6	13.2
Balanced	0.7	5.9	5.9	1.9	6.0	10.1	7.9	12.7	8.1
Eq+Bal	-0.6	7.3	7.3	2.1	7.3	14.9	10.5	15.2	11.5
Debt	-12.2	-5.5	-3.3	1.8	6.5	5.8	-1.3	0.9	4.4
Liquid	0.8	7.0	2.6	-6.1	8.5	-11.4	-8.9	7.9	6.1
ETF	3.1	8.0	15.1	27.9	20.3	6.3	5.6	7.8	11.2
Index	14.6	14.3	12.6	10.3	28.3	10.5	8.5	15.4	15.1
Arbitrage	-2.0	-6.6	-5.7	-1.6	-6.8	16.0	25.3	32.8	14.5
FoF overseas	-10.0	0.2	-3.6	-0.9	0.8	0.0	8.0	6.9	4.7
Dupont (bps)									
Revenue yield	50.2	50.8	50.3	48.1	47.3	49.0	48.7	45.4	46.2
Opex to AuM	14.2	14.5	14.6	13.0	13.3	13.4	12.7	11.2	11.7
Staff cost	7.5	7.8	7.1	6.4	6.0	6.1	5.6	5.0	5.6
Other opex	5.4	5.5	6.3	5.4	5.3	5.3	5.2	4.7	4.9
Depreciation	1.3	1.2	1.2	1.2	1.1	1.0	0.9	0.9	0.8
Core income/AuM	36.0	36.2	35.7	35.1	34.0	35.6	36.0	34.2	34.5
PAT/AuM	30.3	33.9	33.2	33.5	39.3	33.4	35.5	35.3	36.0
Core PAT/AuM	29.4	26.8	26.4	26.9	28.5	26.4	27.6	27.2	27.7
Profitability (%)									
Staff cost/revenue	15.0	15.4	14.1	13.3	12.7	12.4	11.5	11.0	12.2
Other opex/revenue	10.8	10.8	12.5	11.3	11.2	10.9	10.7	10.4	10.6
Core income/revenue	71.6	71.4	71.0	73.0	71.9	72.6	73.9	75.3	74.7
Tax rate	18.4	26.2	26.2	23.5	16.4	25.7	23.3	20.3	19.7
PAT margin	60.2	66.8	66.0	69.5	83.1	68.0	72.9	77.8	77.9
Core PAT margin	58.5	52.7	52.4	55.8	60.1	53.9	56.7	60.0	60.0

Source: Company, PL

Exhibit 9: Summary Financials (Rs mn)

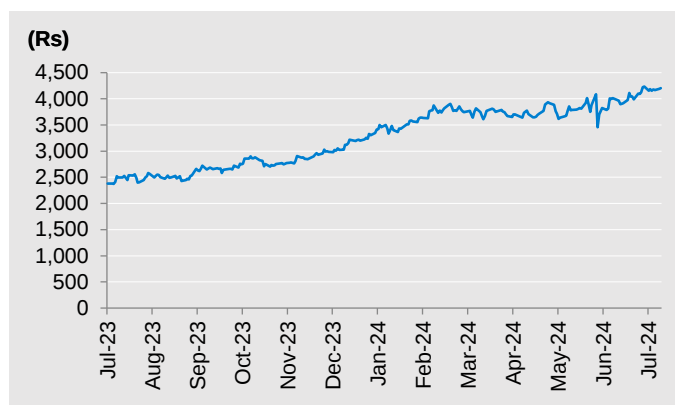
Particulars	FY23	FY24	FY25E	FY26E	Particulars	FY23	FY24	FY25E	FY26E
Profit & Loss					Balance Sheet				
Revenue	21,668	25,844	31,403	36,602	Net Worth	61,084	70,791	80,775	93,126
Investment mgmt.	21608	25771	31309	36492	Capital (FV Rs5)	1,067	1,067	1,067	1,067
PMS / Advisory	60	72	94	109	Reserves	60,017	69,723	79,708	92,059
Expenses	6,120	6,842	7,392	7,958	Employee benefit	731	0	992	1,191
Employee	3,127	3,535	3,685	3,905	Others	4,139	4,785	4,346	4,772
Others	2,460	2,785	3,169	3,489	Total Liabilities	65,954	75,576	86,113	99,088
Depreciation	533	523	537	564	Cash and Bank	40	112	112	112
Core Income	15,549	19,001	24,011	28,643	Investment	60,792	71,900	82,157	94,829
Other Income	3,158	5,781	4,711	5,416	Fixed assets	1,526	1,522	1,598	1,678
PBT	18,706	24,782	28,722	34,059	Others	3,596	2,042	2,246	2,471
Tax	4,467	5,323	6,606	7,834	Total Assets	65,954	75,576	86,113	99,088
PAT	14,239	19,459	22,116	26,226	AuM Data				
Core PAT	11,836	14,920	18,489	22,055	AAuM	43,47,546	54,36,912	68,74,135	81,89,031
Dividend	10,244	14,944	17,694	21,244	Equity	13,69,580	20,00,796	28,38,116	35,97,198
Growth ratios (%)					Balanced	8,24,645	10,70,055	13,86,608	16,39,566
Revenue	2.4	19.3	21.5	16.6	Debt	11,75,816	12,77,231	14,60,297	16,07,334
Opex	5.9	11.8	8.0	7.7	Liquid	7,25,511	6,89,164	6,56,097	7,04,211
Employee	0.2	13.0	4.3	6.0	ETF	58,539	1,00,170	1,37,404	1,67,808
Others	16.1	13.2	13.8	10.1	Index	1,21,215	2,13,393	2,89,776	3,55,341
Core income	1.1	22.2	26.4	19.3	Arb & FoF	72,239	86,102	1,05,837	1,17,572
PAT	2.2	36.7	13.7	18.6	Mix				
Core PAT	2.5	26.1	23.9	19.3	Equity	31.5	36.8	41.3	43.9
DuPont analysis (%)					Balanced	19.0	19.7	20.2	20.0
Revenue	0.50	0.48	0.46	0.45	Debt	27.0	23.5	21.2	19.6
Expenses	0.14	0.13	0.11	0.10	Liquid	16.7	12.7	9.5	8.6
Employee	0.07	0.07	0.05	0.05	ETF	1.3	1.8	2.0	2.0
Others	0.06	0.05	0.05	0.04	Index	2.8	3.9	4.2	4.3
Depreciation	0.01	0.01	0.01	0.01	Arb & FoF	1.7	1.6	1.5	1.4
Core Income	0.358	0.349	0.349	0.350	Growth				
Other Income	0.07	0.11	0.07	0.07	Overall	0.2	25.1	26.4	19.1
PBT	0.43	0.46	0.42	0.42	Equity	17.0	46.1	41.8	26.7
Tax	0.10	0.10	0.10	0.10	Balanced	11.1	29.8	29.6	18.2
PAT (RoAAuM)	0.33	0.36	0.32	0.32	Debt	-23.0	8.6	14.3	10.1
Core RoAAuM	0.27	0.27	0.27	0.27	Liquid	2.4	-5.0	-4.8	7.3
ROE	24.5	29.5	29.2	30.2	ETF	42.3	71.1	37.2	22.1
Core RoE	25.6	29.6	32.9	34.8	Index	74.3	76.0	35.8	22.6
Other Ratios (%)					Valuations				
Staff cost/revenue	14.4	13.7	11.7	10.7	EPS	66.7	91.2	103.6	122.8
Other opex/revenue	11.4	10.8	10.1	9.5	Core EPS	55.5	69.9	86.6	103.3
Core Income/revenue	71.8	73.5	76.5	78.3	CPS	285.0	337.3	385.4	444.7
Other Income/revenue	14.6	22.4	15.0	14.8	DPS	48.0	70.0	82.9	99.5
Yield on Investments	5.3	8.6	6.0	6.0	Dividend yield	2.4	2.6	2.0	2.4
Effective tax rate	23.9	21.5	23.0	23.0	BVPS	286	332	378	436
PAT margin	65.7	75.3	70.4	71.7	P/B	6.0	8.2	11.1	9.6
Core PAT margin	54.8	57.9	59.1	60.4	P/E	21.7	29.8	40.5	34.2
Dividend payout (%)	71.9	76.8	80.0	81.0	P/core EPS	24.3	29.1	44.0	36.3

Source: Company, PL



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	BUY	2,100	1,751
2	26-Apr-23	BUY	2,100	1,766
3	07-Jul-23	BUY	2,100	2,260
4	25-Jul-23	BUY	2,800	2,502
5	07-Oct-23	BUY	2,800	2,648
6	13-Oct-23	BUY	2,757	3,000
7	10-Nov-23	BUY	2,762	3,000
8	8-Jan-24	BUY	3,326	3,000
9	12-Jan-24	BUY	3,900	3,501
10	10-Apr-24	BUY	3,900	3,709
11	20-Apr-24	BUY	4,100	3,707
12	9-Jul-24	BUY	4,100	4,159

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,720	1,800
2	Axis Bank	BUY	1,450	1,287
3	Bank of Baroda	BUY	290	274
4	Can Fin Homes	BUY	950	880
5	City Union Bank	Accumulate	170	170
6	DCB Bank	BUY	180	137
7	Federal Bank	BUY	195	186
8	HDFC Asset Management Company	BUY	4,100	4,159
9	HDFC Bank	BUY	2,000	1,648
10	ICICI Bank	BUY	1,450	1,233
11	IndusInd Bank	BUY	1,800	1,434
12	Kotak Mahindra Bank	BUY	2,100	1,853
13	LIC Housing Finance	Hold	660	771
14	Nippon Life India Asset Management	BUY	615	667
15	State Bank of India	BUY	910	860
16	UTI Asset Management Company	BUY	1,050	1,049

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



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