Q1FY25
HDFC Asset Management Co. Ltd.

Result Update

18th July 2024

HDFC Asset Management Co. Ltd.

Equity segment fueling growth; Resilient operating performance

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 4,088*	**INR 4,905**	**20.0%**	**8,73,323**	**BUY**	**Asset Mgmt Services**

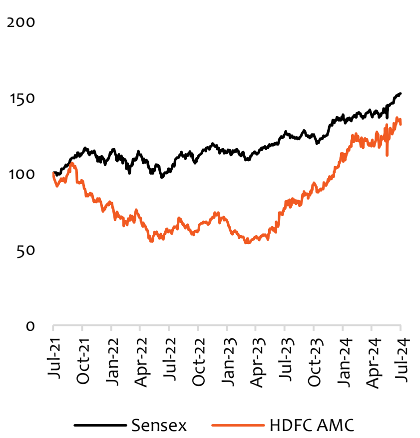
Result Highlights Q1FY25:

- In Q1FY25, revenue growth stood at INR 7,752 Mn, an increase of 34.9% YoY/ 11.5% QoQ, led by strong AUM growth and sequential improvement in blended yields. Revenues were in line with our estimates. EBITDA was reported at INR 5,949 Mn (excluding other income), which grew by 38.8% YoY/ 10.6% QoQ with margins of 76.7%. EBITDA margins expanded by 215 bps YoY, led by healthy revenues. EBITDA was 1.9% lower than our estimates slightly higher operating expenses.
- Net profit for Q1FY25 grew by 26.5% YoY/ 11.7% QoQ to INR 6,040 Mn, led by higher other income and a lower tax rate of 19.7%. Thus, these two factors resulted in a 5.6% higher net profit than our estimates.
- **We revised our EPS estimates upward for FY25E and FY26E by 4.6% and 7.1%, respectively, primarily driven by higher AUM growth. We are applying a P/E multiple of 40x (earlier 37x) on FY26E EPS of INR 122.7 to arrive at a target price of INR 4,905 per share (earlier INR 4,235), an upside of 20.0% over the CMP. We have maintained our "BUY" rating on the shares of HDFCAMC.**

MARKET DATA

Shares outs (Mn)	214
Net worth (INR Mn)	62,078
Mkt Cap (INR Mn)	8,73,323
52 Wk H/L (INR)	4,296/ 2,355
Volume Avg (3m K)	514
Face Value (INR)	5
Bloomberg Code	HDFCAMC : IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	80,717
NIFTY	24,613

KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	21,154	21,668	25,844	35,114	40,699
EBITDA	15,999	16,179	19,615	26,722	31,379
PAT	13,931	14,239	19,459	22,414	26,199
EPS (INR)	65.4	66.7	91.1	104.9	122.7
EBITDA Margin	75.6%	74.7%	75.9%	76.1%	77.1%
NPM	65.9%	65.7%	75.3%	63.8%	64.4%

Source: Company, KRChoksey Research

Equity segment still propelling substantial AUM growth:

- As of June 30, 2024, the average quarterly AUM was INR 714,000 Mn, representing a 38.3% YoY and 9.6% QoQ growth. This growth was primarily fueled by robust inflows into equity-oriented funds, bolstered by the recovery of debt and liquid funds.
- The Company continued to see healthy growth in its unique investor count. The total number of unique customers stood at 10.7 Mn, with 18.6 Mn live accounts. The increase in unique customers was 50.7% YoY/ 11.5% QoQ, with HDFCAMC penetration in Industry mutual funds at 22.8% as of June 30, 2024. In Q1FY25, HDFCAMC added 1.1 Mn unique investors vs. the industry addition of 2.3 Mn.
- The Company continues to hold the pole position for its market share in individual investor AUMs at 13.3% and second highest in terms of B-30 AUMs at 12.2%. The contribution of B-30 locations to its total monthly average AUM as of June 30, 2024, was 19.4%.
- The actively managed equity-oriented fund quarterly average AUM stood at INR 4,072 Bn, a growth of 63.7% YoY/ 11.6% QoQ. The equity mix reported an improvement from 54.2% as of June 30, 2023, to 64.3% as of June 30, 2024 (vs. 63.0% as of March 31, 2024). The mix continued to be better than the overall industry, where the equity mix for the industry stood at 55.6%.
- Management foresees a sustained high proportion of equity-oriented assets due to robust SIP flows.
- The SIP AUM for HDFCAMC continued to see healthy uptrend at 1,613 Bn, a growth of 61.0% YoY/ 15.4% QoQ, with the number of transactions as of June 30, 2024, at 8.76 Mn.
- HDFCAMC's overall quarterly average AUM market share improved marginally from 11.3% in Q1FY24 to 11.4% in Q1FY25. The equity-oriented market share has seen a healthy improvement of 80 bps YoY during the quarter, led by new launches and improved SIP flows into equity.

SHARE HOLDING PATTERN (%)

Particulars	Jun-24	Mar-24	Dec-23
Promoters	52.2	52.6	52.6
FIIs	20.0	18.4	18.0
DIIs	17.7	20.0	19.4
Others	10.1	9.1	10.0
Total	100.0	100.0	100.0

*Based on Previous closing

25.5%

Revenue CAGR between FY24 and FY26E

16.0%

PAT CAGR between FY24 and FY26E

HDFC Asset Management Co. Ltd.

Sequential improvement in blended yields and strong AUM growth resulted in higher revenue growth for the quarter; Increase in employee expenses and higher spends on NFO led to higher Opex:

- The equity yields for the quarter stood at ~59 bps, debt at 28 bps while liquid fund at 12-13 bps.
- The blended yields for Q1FY25 saw a marginal improvement on QoQ basis at 46.2 bps as against 45.4 bps in Q4FY24 but continued to decline by 2 bps YoY. However, we expect the yields to normalize further, resulting in healthy revenue growth in coming quarters.
- EBITDA for the quarter reported a healthy growth despite an increase of 23.5% YoY/ 15.5% QoQ in operating expenses.
- The employee cost for Q1FY25 increased by 20.3% YoY/ 16.6% QoQ on account of annual increments in Q1 and increase on headcounts.
- The rise in other operating expenses is primarily due to an increase in general business-related costs, such as a New Fund Offer (NFO) expense and certain KYC-related expenses for mutual funds, as well as outsourced service costs. These are the main areas where expenditures have increased YoY. The Company expects the overall operating expenses to increase in the range of 12-15.0% annually.
- During Q1FY25, the investment income reached INR 1,731 Mn, marking a 9.5% YoY increase and an 11.3% QoQ increase. This growth was fueled by strong mark-to-market gains resulting from the positive momentum in the capital market.
- The lower effective tax rate of 19.7% during the quarter was mainly due to reduced deferred tax charges, primarily from certain investments transitioning from short-term to long-term holding periods.

Concall Highlights:

- The industry's AUM closed the quarter at INR 61 Tn, a sevenfold increase over the last 10 years.
- Actively managed equity-oriented funds for the industry saw net flows exceeding INR 1.0 Tn as of June 30, 2024, with INR 262 Bn of this amount contributed by 17 equity oriented NFOs.
- Debt oriented funds for the industry, including debt index funds, witnessed net inflows of INR 709 Bn for the quarter, marking a turnaround after three consecutive quarters of outflows. Additionally, debt ETFs saw net inflows of INR 20 Bn, bringing the total net new flows into debt to INR 729 Bn.
- Liquid funds for the industry also recorded an addition of INR 510 Bn during the quarter, again following three consecutive quarters of outflows. These flows in debt in liquid funds are similar to those seen in quarter ended June 2023. The following three quarters were net negative flows.
- Over the last three years, the debt and liquid fund categories have collectively witnessed outflows totaling about INR 2,650 Bn.
- Monthly SIP flows for the industry have continued their upward trend, INR 213 Bn for the month of June 2024. This quarter saw an addition of Mn unique customers.
- The asset mix has continued to tilt towards equity for HDFCAMC which stood at 64.3% on a quarterly average basis.
- The Company paid out a dividend of almost INR 15,000 Mn in June, which affected the balance sheet. The dividend payout ratio for FY24 was increased to 77.0%, up from 72.0% last year.
- The Company is always evaluating M&A opportunities that come its way. HDFCAMC has not done a deal in a while due to valuation and fit concerns, but it continues to explore all strategic options on the M&A front.
- HDFCAMC has recently launched an index fund in the beginning of Q1FY25. There may be a few new product launches, but the focus is on consolidating the Company's position in existing funds and aiming for top three positions across categories.
- The Company has added 57 products in the last three years, taking their total product tally to 100.
- HDFCAMC has received necessary approvals for the launch of funds in their GIFT City subsidiary and has started onboarding clients and distributors.
- HDFCAMC expects the general expenses to grow by 12.0-15.0% annually.

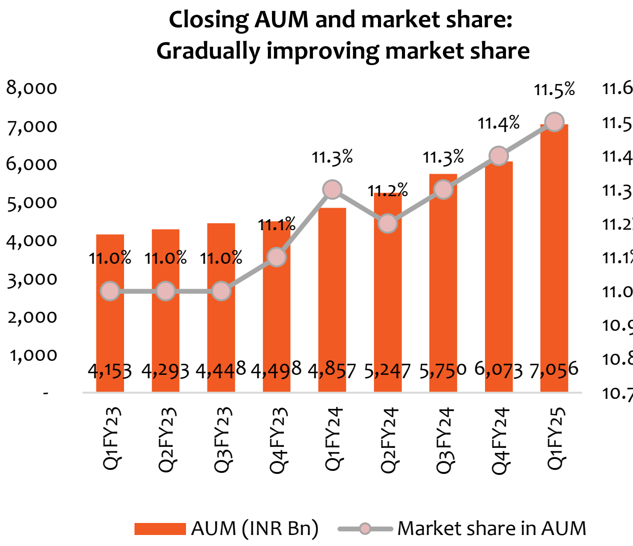
Valuation and view:

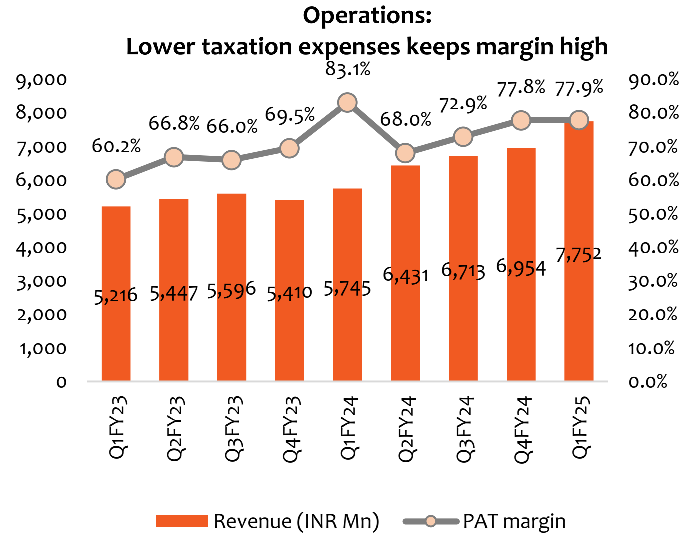
HDFCAMC has delivered strong performance in Q1FY25 driven by robust business growth momentum. The capital market optimism and increasing SIP inflows have bolstered the overall AUM for the Company, with a continued focus on equity-oriented products. HDFCAMC remains committed to innovation and new product launches to align with customer preferences. Sequential improvement in yields has led to core revenue growth, reflecting the company's positive trajectory.

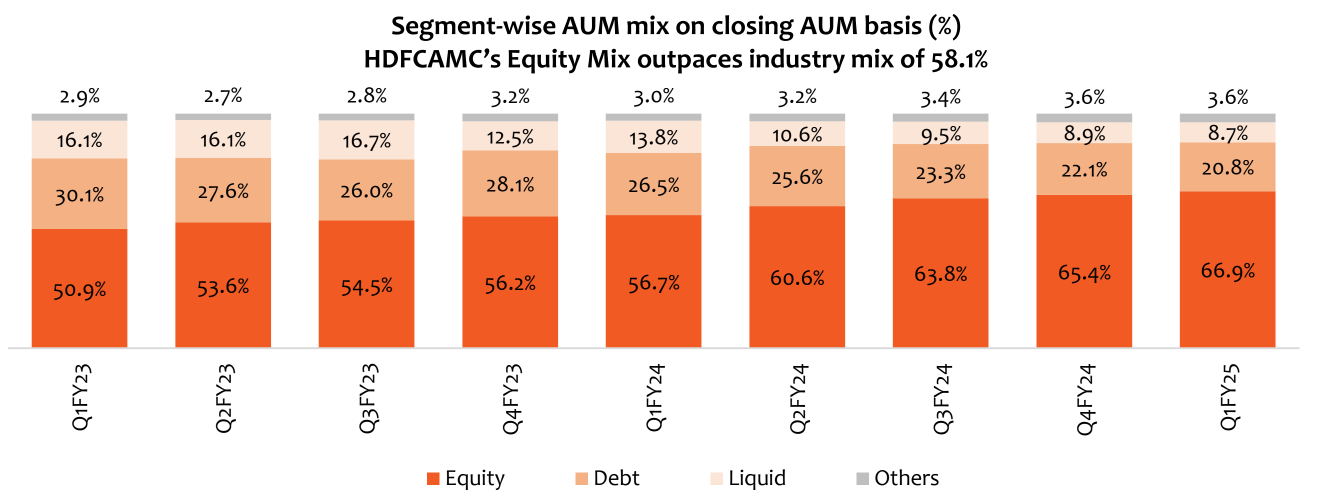
With the mutual fund industry set for expansion due to factors such as the rising significance of financial savings among Indian households, untapped potential in mutual funds, growing investor awareness and education, strong distribution platforms, and the ease of digital transactions, HDFCAMC aims to capitalize on the opportunities within India's asset management sector.

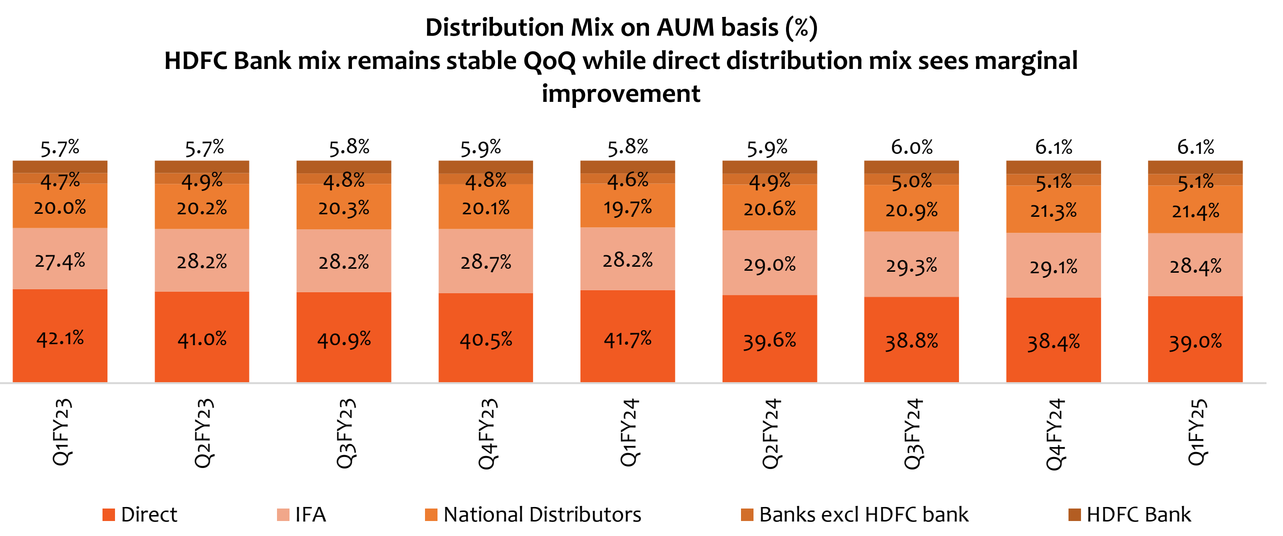
We expect AUM to grow at a CAGR of 20.7% over FY24–26E, driven by a higher share of the equity-oriented segment. We revise our EPS upwards for FY25E/ FY26E by 4.6%/ 7.1%, respectively, primarily led by healthy growth in AUM with focus on expansion of product basket and distribution channels. We expect Revenues/ EBITDA/ PAT to grow at 25.5%/ 26.5%/ 16.0% over FY24-26E. HDFCAMC shares are currently trading at a P/E of 39.0x/ 33.3x on FY25E/ FY26E earnings. Since our last update, the stock has seen an appreciation of 12.1%. We have increased our P/E multiple to 40x (earlier 37x) on FY26E EPS of INR 122.7, given the Company's market positioning and ongoing improvement in the Company's market share. Thus, we have arrived at a target price of INR 4,905 per share (earlier INR 4,235), implying an upside of 20.0% over the CMP. We reiterate our "BUY" rating on HDFCAMC shares.

HDFC Asset Management Co. Ltd.









Source: Company, KRChoksey Research

HDFC Asset Management Co. Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY22	FY23	FY24	FY25E	FY26E
Revenue from operations	**21,154**	**21,668**	**25,844**	**35,114**	**40,699**
Total expenses	5,154	5,489	6,229	8,392	9,320
Employee benefit expenses	3,122	3,127	3,535	4,565	5,209
Other operating expenses	2,032	2,363	2,694	3,827	4,110
EBITDA	**15,999**	**16,179**	**19,615**	**26,722**	**31,379**
EBITDA Margin	75.6%	74.7%	75.9%	76.1%	77.1%
Depreciation	539	533	523	582	732
EBIT	**15,461**	**15,645**	**19,092**	**26,139**	**30,646**
EBIT Margin	*73.1%*	*72.2%*	*73.9%*	*74.4%*	*75.3%*
Other income	3,178	3,158	5,781	5,087	5,341
Finance cost	86	97	91	95	98
PBT	**18,553**	**18,706**	**24,782**	**31,131**	**35,890**
Tax	4,622	4,467	5,323	8,717	9,690
PAT	**13,931**	**14,239**	**19,459**	**22,414**	**26,199**
PAT margin	65.9%	65.7%	75.3%	63.8%	64.4%
EPS (INR)	**65.4**	**66.7**	**91.1**	**104.9**	**122.7**

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Mn	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	12,537	11,493	16,200	23,066	27,139
Net Cash Flow from/(used in) Investing Activities	(5,080)	(2,182)	(5,467)	(9,720)	(12,611)
Net Cash Flow from Financing Activities	(7,455)	(9,299)	(10,662)	(13,242)	(14,523)
Net Inc/Dec in cash equivalents	**2**	**13**	**71**	**104**	**5**
Opening Balance	17	19	31	102	206
Closing Balance Cash and Cash Equivalents	**19**	**31**	**102**	**206**	**211**

Source: Company, KRChoksey Research

HDFC Asset Management Co. Ltd.

Exhibit 3: Balance Sheet

INR Mn	FY22	FY23	FY24	FY25E	FY26E
Cash and Cash Equivalents	19	31	102	206	211
Bank Balance	62	9	10	10	10
Trade Receivables	745	1,837	933	1,229	1,424
Other Receivables	60	126	132	176	203
Investments	55,702	60,792	71,900	80,888	92,617
Other Financial Assets	252	312	212	702	814
Total Financial Assets	**56,840**	**63,107**	**73,288**	**83,211**	**95,279**
Current Tax Assets (net)	306	305	310	422	489
Deferred Tax Assets (net)	0	0	0	0	0
Property, Plant and Equipment	1,222	1,376	1,363	1,513	1,663
Intangible Assets Under Development	5	21	9	32	32
Goodwill	60	60	60	60	60
Other Intangible Assets	69	68	89	80	80
Other Non-Financial Assets	302	428	455	527	610
Total Non-Financial Assets	**1,964**	**2,259**	**2,287**	**2,634**	**2,935**
Total Assets	**58,804**	**65,365**	**75,576**	**85,845**	**98,214**
Trade Payables	292	356	388	462	513
Other Financial Liabilities	1,896	2,063	2,068	2,809	3,256
Total Financial Liabilities	**2,189**	**2,419**	**2,456**	**3,271**	**3,768**
Current Tax Liabilities (net)	74	184	63	63	63
Provisions	118	126	164	164	164
Deferred Tax Liabilities (net)	753	1,008	1,156	1,156	1,156
Other Non-Financial Liabilities	370	545	947	1,229	1,424
Total Non-Financial Liabilities	**1,315**	**1,863**	**2,329**	**2,611**	**2,806**
Equity Share Capital	1,066	1,067	1,067	1,067	1,067
Other Equity	54,234	60,017	69,723	78,896	90,572
Total Equity	**55,300**	**61,084**	**70,791**	**79,963**	**91,639**
Total Liabilities and Equity	**58,804**	**65,365**	**75,576**	**85,845**	**98,214**

Source: Company, KRChoksey Research

Exhibit 4: Key financial ratios

Key Ratios	FY22	FY23	FY24	FY25E	FY26E
EBITDA margin	75.6%	74.7%	75.9%	76.1%	77.1%
EBIT margin	73.1%	72.2%	73.9%	74.4%	75.3%
PAT margin	65.9%	65.7%	75.3%	63.8%	64.4%
Return on Assets	23.7%	21.8%	25.7%	26.1%	26.7%
Return on Equity	25.2%	23.3%	27.5%	28.0%	28.6%

Source: Company, KRChoksey Research

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

HDFC Asset Management Co. Ltd.

HDFC Asset Management Co. Ltd			
Date	**CMP (INR)**	**TP (INR)**	**Recommendation**
18-Jul-24	4,088	4,905	BUY
23-Apr-24	3,648	4,235	BUY
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

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-U67120MH1997PTC108958
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

UNNATI SACHIN JADHAV

Digitally signed by UNNATI SACHIN JADHAV
Date: 2024.07.18 11:45:58 +05'30'