PL Capital
PRABHUDAS LILLADHER

HDFC Asset Management Company (HDFCAMC IN)

Rating: BUY | CMP: Rs3,865 | TP: Rs4,700

January 15, 2025

Q3FY25 Result Update

■ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		BUY	
Target Price	4,700		5,360	
Revenue (Rs. m)	40,057	45,275	40,057	45,275
% Chg	-	-		
Opex (Rs. m)	8,762	9,420	8,762	9,420
% Chg	-	-		
Core EPS (Rs.)	111.4	127.6	111.4	127.6
% Chg	-	-		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Revenue (Rs m)	25,844	35,272	40,057	45,275
Opex	6,842	7,759	8,762	9,420
Employee	3,535	3,857	4,375	4,645
Others	3,308	3,902	4,387	4,775
Core Income (Rs m)	19,001	27,512	31,295	35,855
PAT (Rs mn)	19,459	24,196	27,937	31,670
Core PAT (Rs m)	14,920	20,497	23,784	27,249
Core EPS (Rs.)	69.9	96.0	111.4	127.6
Gr. (%)	*26.0*	*37.4*	*16.0*	*14.6*
AAuM (Rs bn)	5,437	7,608	8,931	10,630
Gr. (%)	*25.1*	*39.9*	*17.4*	*19.0*
Core RoAAuM (%)	0.3	0.3	0.3	0.3
Core RoE (%)	29.6	36.4	37.1	37.1
P/Core EPS (x)	24.3	36.2	30.7	26.2

Key Data	**HDBK.BO | HDFCAMC IN**
52-W High / Low	Rs.4,862 / Rs.3,255
Sensex / Nifty	81,820 / 25,057
Market Cap	Rs.825.9bn/ $ 9,532.6m
Shares Outstanding	213.8m
3M Avg. Daily Value	Rs.2,146.5m

Shareholding Pattern (%)

Promoter's	52.48
Foreign	21.32
Domestic Institution	17.04
Public & Others	9.16
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(15.5)	(8.5)	9.6
Relative	(8.7)	(2.4)	5.1

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Weak equity markets could impact core earnings

Quick Pointers:

- Good quarter with beat on core income due to higher revenue and lower opex.
- Net flows remain positive but we trim multiple due to weak equity markets.

HDFC AMC saw a strong quarter as core income beat PLe by 5.1% due to (1) revenue being 2.1% higher led by better yields at 47.5bps (PLe 46.5bps) and (2) opex being 8.4% lower, driven by 14.4% QoQ fall in other opex. While equity share declined QoQ to 61.1% from 62.1%, equity yields were better led by commission rationalization and correction in equity markets. Equity performance within the 1-yr/3-yr buckets remains superior, which resulted in strong net flows' market share of 13.0% in 9MFY25. We raise core EPS for FY25E by 2.5% due to increase in blended yields. Closing equity AuM for the industry corrected by 5.2% over Sep-Dec'25 and equity markets continue to remain weak. Hence equity markets have a downward bias, and a further correction could lead to earnings downgrade for AMCs. Over FY25-27E we expect core PAT CAGR of 15% and stock is valued at 28.4x on Sep'26 core EPS. Due to weak equity markets, we trim multiple to 35x from 41x and cut TP to Rs4700 from Rs5,360. Retain 'BUY'.

- **Strong performance led by better revenue yields and lower opex:** QAAuM was in-line at Rs7874bn (+3.7% QoQ); while equity (incl. bal) at Rs4814bn grew by 2.2% QoQ. Revenue was better at Rs9.34bn (PLe Rs 9.15bn) led by higher revenue yields at 47.5bps (PLe 46.5bps). Opex was lower and fell by 6.0% QoQ to Rs1.9bn (PLe Rs2bn) due to other opex. Employee cost was Rs949mn (PLe Rs986mn) that included ESOP charge of Rs51mn; other expenses dropped by 14.4% QoQ Rs741mn (PLe Rs887mn). Hence, core income was a beat at Rs7.5bn (PLe Rs7.1bn) resulting in better operating yields at 38.0bps (PLe 36.1bps). Other income was ahead at Rs927mn (PLe Rs500mn) due to higher MTM gains. Tax rate normalized sequentially to 23.6% (PLe 25%) from 32.8%. Hence, core PAT yields came in at 29.0bps (PLe 27.1bps). PAT was 12.4% ahead of PLe at Rs6.4bn.

- **Fall in equity share more than offset by commission rationalization:** Equity share (incl. bal) declined to 61.1% (vs 62.1% in Q2'25) while that of liquid increased QoQ to 10.7% from 9.9%; debt was steady QoQ at 19.2%. Impact of telescopic pricing on equity AuM was not material during the quarter due to correction in equity markets. Despite fall in equity share QoQ blended yields surprised positively due to commission rationalization w.e.f. 1st Aug'24. Driven by superior equity performance leading to market share gains in net equity flows, market share in equity+bal QAAuM has been increasing post Q1FY23. Market share in equity+bal QAAuM improved by 38bps over FY24 to 9MFY25 to 12.8%. As of Dec'24, basis weighted avg. equity performance, HDFC AMC remains one of the top performing funds in the 1-yr /3-yr buckets.

- **Blended yields to sustain:** Blended yields, excluding impact of telescopic pricing, are expected to sustain at current levels. Other operating expenses were lower QoQ as the impact of CSR, business promotion and NFO expenses was taken in Q2FY25. Operating expenses are guided to grow annually by 12-15%. 25 new branches were added on 2nd Jan'25; however, branch addition would not materially impact operating expenses considering its smaller size and limited personnel requirement. Owing to softer AAuM growth, we are factoring opex CAGR of 10% over FY25-27E.

Exhibit 1: Strong quarter led by higher revenue yields and better cost management

Financials (Rs mn)	Q3FY25	Q3FY24	YoY gr. (%)	Q2FY25	QoQ gr. (%)	Q3FY25E	Est. beat/miss
Revenue	**9,344**	**6,713**	***39.2***	**8,872**	***5.3***	**9,154**	***2.1***
Total Expenses	**1,872**	**1,751**	***6.9***	**1,991**	***(6.0)***	**2,043**	***(8.4)***
Employees	949	903	*5.1*	957	*(0.8)*	986	*(3.8)*
Other expenses	922	848	*8.7*	1,035	*(10.8)*	1,056	*(12.7)*
Operating Income	**7,472**	**4,962**	***50.6***	**6,881**	***8.6***	**7,111**	***5.1***
Other Income	927	1,424	*(34.9)*	1,706	*(45.6)*	500	*85.5*
Profit before tax	**8,400**	**6,386**	***31.5***	**8,587**	***(2.2)***	**7,611**	***10.4***
Tax	1,985	1,489	*33.3*	2,818	*(29.6)*	1,903	*4.3*
Profit after tax	**6,415**	**4,897**	***31.0***	**5,769**	***11.2***	**5,709**	***12.4***
Core PAT	**5,706**	**3,805**	***50.0***	**4,623**	***23.4***	**5,334**	***7.0***
Profitability ratios (bps)							
Revenue yield	47.5	48.7	*(1.2)*	46.8	*0.7*	46.5	*97*
Employee to AuM	4.6	5.6	*(1.0)*	4.7	*(0.2)*	4.7	*(12)*
Opex to AuM	4.7	6.2	*(1.5)*	5.5	*(0.8)*	5.4	*(68)*
Core income/AuM	38.0	36.0	*2.0*	36.3	*1.7*	36.1	*184*
PAT/AuM	32.6	35.5	*(2.9)*	30.4	*2.2*	29.0	*359*
Core PAT/AuM	29.0	27.6	*1.4*	24.4	*4.6*	27.1	*190*
QAAuM (Rs mn)	7,873,645	5,513,799	*42.8*	7,589,755	*3.7*	7,874,328	*(0)*
Equity	3,317,577	2,096,053	*58.3*	3,236,851	*2.5*	3,318,151	*(0)*
Balanced	1,496,794	1,098,955	*36.2*	1,473,628	*1.6*	1,496,956	*(0)*
Debt	1,509,962	1,283,817	*17.6*	1,471,413	*2.6*	1,509,897	*0*
Liquid	842,852	624,392	*35.0*	753,957	*11.8*	842,803	*0*
ETF	153,725	102,316	*50.2*	137,139	*12.1*	153,726	*(0)*
Index	373,878	218,257	*71.3*	353,892	*5.6*	373,934	*(0)*
Arbitrage	166,097	79,047	*110.1*	150,439	*10.4*	166,099	*(0)*
FoF overseas	12,761	10,960	*16.4*	12,438	*2.6*	12,762	*(0)*

Source: Company, PL.

Q3FY25 Conference Call Highlights

Industry

- Industry witnessed highest-ever calendar year eq+bal flow assisted by higher unique investors, rise in MAAuM, and persistent SIP flows. Company strengthened its position as second largest player in B30 markets with a 12% market share of MAAuM.

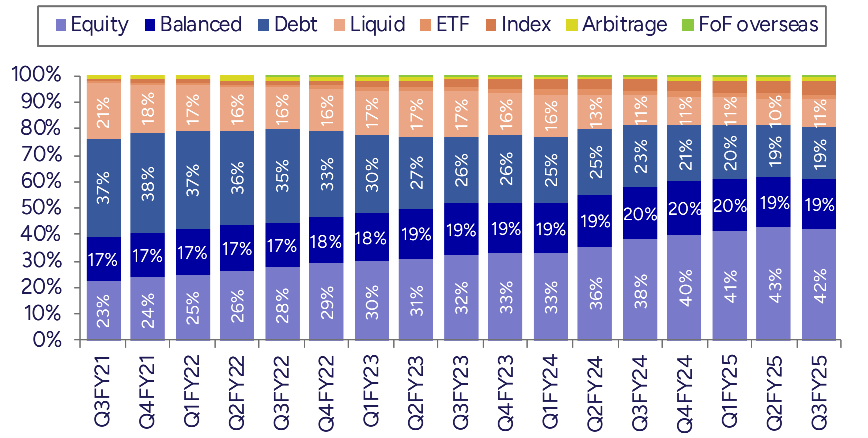
Company Performance

- **Revenue yields** improved basis 1) full impact of commission rationalization over the entire 3-month period, and 2) lag effect of this rationalization. These yields are expected to remain stable before considering the effect of telescopic pricing.
- **Blended yield for Q3FY25** was 58bps for equity, 28bps for debt and 12-13bps for liquid funds.
- **Other income** was lower due to volatility in the equity markets.
- **Other expenses** is guided to be looked at annual basis considering CSR, business promotion and NFO expenses. Further, branch expansion is not a bulky cost on other opex or staff costs. Opex is guided to grow at 12-15% on annual basis.
- **Operating margins** are expected to normalize owing to normalized MTM and AuM growth going forward.
- **Effective tax rate** was lower due to lower MTM gains. Anomaly in tax rate is generally owed to MTM and holding period changes.

Others

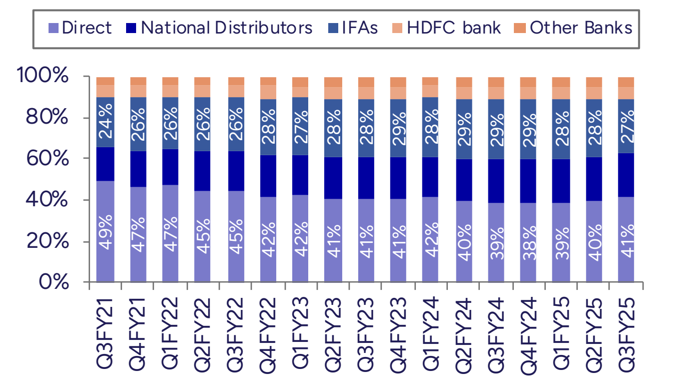
- 3 new funds are live in GIFT City with an AuM of $150mn with 2 new products expected to go live in Q4FY25.
- Systematic transactions include STP+SIPs. During Q3FY25, SIP in defense fund was ceased. Also, large ticket STP could also have an impact on systematic transactions.
- Company reiterated its commitment to maintaining a comprehensive product portfolio, with a current focus on increasing market share within existing products. If any opportunities arise, introduction of new products may be considered.
- Further, a new category of products may be introduced after final set of regulations are introduced by the regulator.
- 95% of transactions are processed digitally (vs 69% in FY20).
- Distribution through HDFC Bank channel has lots of opportunities considering geographical presence and client base. Share of MFDs has declined due to the shift from MFDs to National Distributors.

Exhibit 2: Equity + Bal share reduced to ~61%, liquid share improves to ~11%



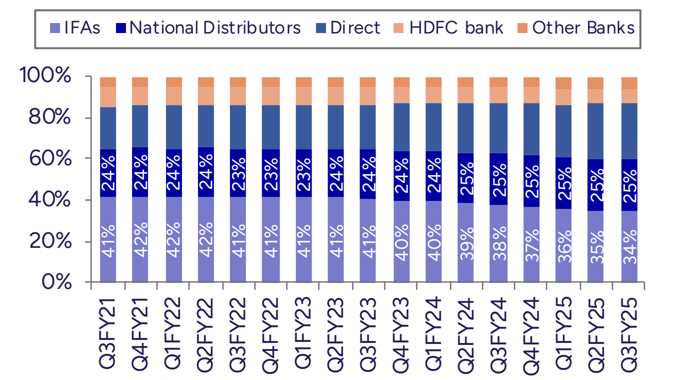
Source: Company, PL

Exhibit 3: Total distribution – Direct dominates at 41%



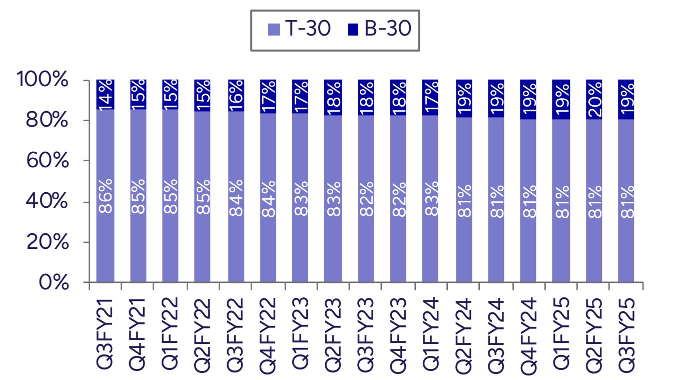
Source: Company, PL

Exhibit 4: Equity distribution – IFAs dominate at 34%



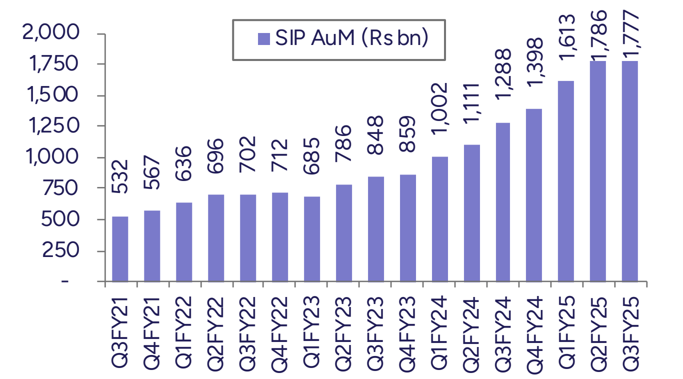
Source: Company, PL

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



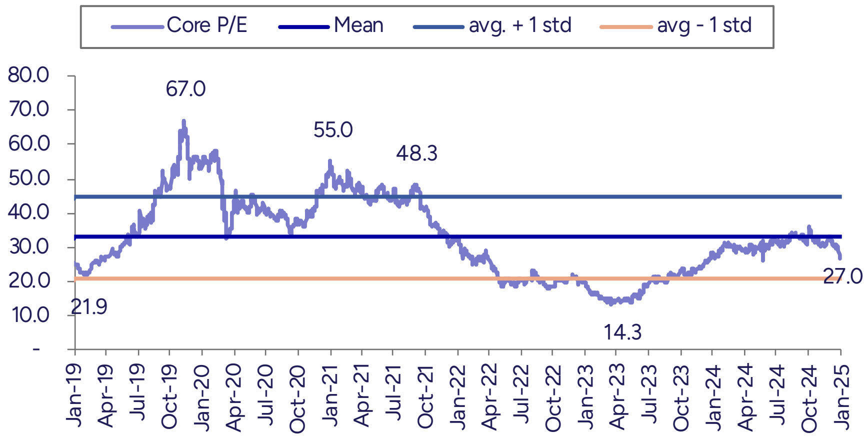
Source: Company, PL

Exhibit 6: SIP AuM grew by 38% YoY while remained flat QoQ



Source: Company, PL

Exhibit 7: HDFCAMC 2-yr fwd. P/Core EPS trades at 27.0x



Source: Company, PL

Financials

Exhibit 8: Quarterly Financials

Particulars (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Revenue	**5,596**	**5,410**	**5,745**	**6,431**	**6,713**	**6,954**	**7,752**	**8,872**	**9,344**
Expenses	**1,622**	**1,460**	**1,612**	**1,761**	**1,751**	**1,718**	**1,959**	**1,991**	**1,872**
Employee	680	639	731	798	774	765	945	899	898
Others	699	609	645	702	718	721	818	898	774
Depreciation	134	133	129	130	131	133	133	137	149
Core Income	**3,974**	**3,949**	**4,133**	**4,670**	**4,962**	**5,236**	**5,794**	**6,881**	**7,472**
Other Income	1,034	969	1,580	1,221	1,424	1,555	1,731	1,706	927
PBT	**5,007**	**4,918**	**5,714**	**5,891**	**6,386**	**6,791**	**7,525**	**8,587**	**8,400**
Tax	1,313	1,156	939	1,516	1,489	1,380	1,485	2,818	1,985
PAT	**3,694**	**3,762**	**4,775**	**4,376**	**4,897**	**5,411**	**6,040**	**5,769**	**6,415**
Core PAT	**2,931**	**3,021**	**3,454**	**3,468**	**3,805**	**4,172**	**4,650**	**4,623**	**5,706**
QAAuM	**4,447,201**	**4,497,151**	**4,856,309**	**5,247,903**	**5,513,799**	**6,129,639**	**6,716,253**	**7,589,755**	**7,873,645**
Equity	32.4%	32.7%	32.8%	35.7%	38.0%	39.9%	41.2%	42.6%	42.1%
Balanced	19.2%	19.4%	19.0%	19.4%	19.9%	20.2%	19.9%	19.4%	19.0%
Debt	25.5%	25.7%	25.3%	24.8%	23.3%	21.1%	20.1%	19.4%	19.2%
Liquid	17.1%	15.8%	15.9%	13.1%	11.3%	11.0%	10.6%	9.9%	10.7%
ETF	1.3%	1.7%	1.9%	1.8%	1.9%	1.8%	1.8%	1.8%	2.0%
Index	2.9%	3.2%	3.7%	3.8%	4.0%	4.1%	4.3%	4.7%	4.7%
Arbitrage	1.3%	1.3%	1.1%	1.2%	1.4%	1.7%	1.8%	2.0%	2.1%
FoF overseas	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Market share (%)	**11.0**	**11.1**	**11.3**	**11.2**	**11.2**	**11.3**	**11.4**	**11.5**	**11.5**
Equity	0.4	0.5	0.5	0.7	0.8	1.1	1.4	1.5	1.4
Balanced	6.2	6.2	6.1	6.0	5.8	5.6	5.3	5.0	4.8
Eq+Bal	3.2	3.1	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liquid	3.6	3.5	3.4	3.4	3.4	3.3	3.2	3.2	3.1
ETF	12.0	11.8	11.8	11.4	11.6	11.7	11.6	11.1	11.0
Index	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
QAAuM Growth (%)	**3.6**	**1.1**	**8.0**	**8.1**	**5.1**	**11.2**	**9.6**	**13.0**	**3.7**
Equity	8.1	2.2	8.1	17.6	12.0	16.6	13.2	17.1	2.5
Balanced	5.9	1.9	6.0	10.1	7.9	12.7	8.1	10.1	1.6
Eq+Bal	7.3	2.1	7.3	14.9	10.5	15.2	11.5	14.8	2.2
Debt	-3.3	1.8	6.5	5.8	-1.3	0.9	4.4	8.8	2.6
Liquid	2.6	-6.1	8.5	-11.4	-8.9	7.9	6.1	5.5	11.8
ETF	15.1	27.9	20.3	6.3	5.6	7.8	11.2	11.8	12.1
Index	12.6	10.3	28.3	10.5	8.5	15.4	15.1	22.1	5.6
Arbitrage	-5.7	-1.6	-6.8	16.0	25.3	32.8	14.5	25.2	10.4
FoF overseas	-3.6	-0.9	0.8	0.0	8.0	6.9	4.7	1.3	2.6
Dupont (bps)									
Revenue yield	50.3	48.1	47.3	49.0	48.7	45.4	46.2	46.8	47.5
Opex to AuM	14.6	13.0	13.3	13.4	12.7	11.2	11.7	10.5	9.5
Staff cost	6.1	5.7	6.0	6.1	5.6	5.0	5.6	4.7	4.6
Other opex	6.3	5.4	5.3	5.3	5.2	4.7	4.9	4.7	3.9
Depreciation	1.2	1.2	1.1	1.0	0.9	0.9	0.8	0.7	0.8
Core income/AuM	35.7	35.1	34.0	35.6	36.0	34.2	34.5	36.3	38.0
PAT/AuM	33.2	33.5	39.3	33.4	35.5	35.3	36.0	30.4	32.6
Core PAT/AuM	26.4	26.9	28.5	26.4	27.6	27.2	27.7	24.4	29.0
Profitability (%)									
Staff cost/revenue	12.2	11.8	12.7	12.4	11.5	11.0	12.2	10.1	9.6
Other opex/revenue	12.5	11.3	11.2	10.9	10.7	10.4	10.6	10.1	8.3
Core income/revenue	71.0	73.0	71.9	72.6	73.9	75.3	74.7	77.6	80.0
Tax rate	26.2	23.5	16.4	25.7	23.3	20.3	19.7	32.8	23.6
PAT margin	66.0	69.5	83.1	68.0	72.9	77.8	77.9	65.0	68.7
Core PAT margin	52.4	55.8	60.1	53.9	56.7	60.0	60.0	52.1	61.1

Source: Company, PL

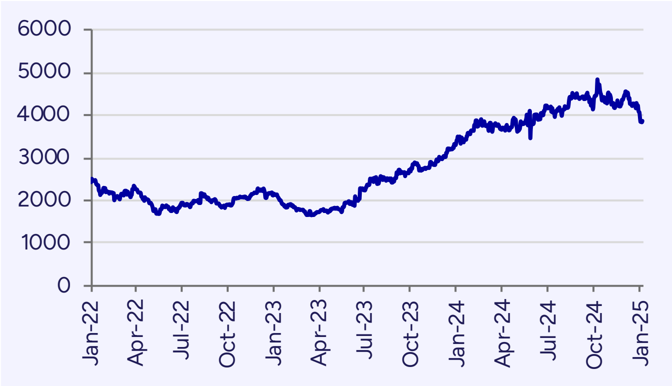
Exhibit 9: Summary Financials (Rs mn)

Particulars	FY24	FY25E	FY26E	FY27E
Profit & Loss				
Revenue	**25,844**	**35,272**	**40,057**	**45,275**
Investment mgmt.	25806	35219	39997	45207
PMS / Advisory	38	53	60	68
Expenses	**6,842**	**7,759**	**8,762**	**9,420**
Employee	3,535	3,857	4,375	4,645
Others	2,785	3,357	3,823	4,183
Depreciation	523	545	564	593
Core Income	**19,001**	**27,512**	**31,295**	**35,855**
Other Income	5,781	4,966	5,464	5,816
PBT	**24,782**	**32,478**	**36,759**	**41,671**
Tax	5,323	8,282	8,822	10,001
PAT	**19,459**	**24,196**	**27,937**	**31,670**
Core PAT	**14,920**	**20,497**	**23,784**	**27,249**
Dividend	**14,944**	**19,358**	**22,630**	**25,970**
Growth ratios (%)				
Revenue	**19.3**	**36.5**	**13.6**	**13.0**
Opex	**11.8**	**13.4**	**12.9**	**7.5**
Employee	13.0	9.1	13.4	6.2
Others	13.2	20.5	13.9	9.4
Core income	**22.2**	**44.8**	**13.7**	**14.6**
PAT	36.7	24.3	15.5	13.4
Core PAT	**26.1**	**37.4**	**16.0**	**14.6**
DuPont analysis (%)				
Revenue	**0.48**	**0.46**	**0.45**	**0.43**
Expenses	**0.13**	**0.10**	**0.10**	**0.09**
Employee	0.07	0.05	0.05	0.04
Others	0.05	0.04	0.04	0.04
Depreciation	0.01	0.01	0.01	0.01
Core Income	**0.349**	**0.362**	**0.350**	**0.337**
Other Income	0.11	0.07	0.06	0.05
PBT	**0.46**	**0.43**	**0.41**	**0.39**
Tax	0.10	0.11	0.10	0.09
PAT (RoAAuM)	**0.36**	**0.32**	**0.31**	**0.30**
Core RoAAuM	**0.27**	**0.27**	**0.27**	**0.26**
ROE	29.5	31.8	31.9	31.2
Core RoE	29.6	36.4	37.1	37.1
Other Ratios (%)				
Staff cost/revenue	13.7	10.9	10.9	10.3
Other opex/revenue	10.8	9.5	9.5	9.2
Core Income/revenue	**73.5**	**78.0**	**78.1**	**79.2**
Other Income/revenue	22.4	14.1	13.6	12.8
Yield on Investments	8.6	6.3	6.0	5.5
Effective tax rate	21.5	25.5	24.0	24.0
PAT margin	75.3	68.6	69.7	70.0
Core PAT margin	**57.8**	**58.2**	**59.5**	**60.3**
Dividend payout (%)	**76.8**	**80.0**	**81.0**	**82.0**

Particulars	FY24	FY25E	FY26E	FY27E
Balance Sheet				
Net Worth	**70,791**	**81,222**	**93,966**	**1,08,738**
Capital (FV Rs5)	1,067	1,067	1,067	1,067
Reserves	69,723	80,155	92,898	1,07,670
Employee benefit	827	992	1,191	1,429
Others	3,958	4,346	4,772	5,240
Total Liabilities	**75,576**	**86,560**	**99,928**	**1,15,406**
Cash and Bank	112	112	112	112
Investment	71,900	82,605	95,668	1,10,815
Fixed assets	1,522	1,598	1,678	1,762
Others	2,042	2,246	2,471	2,718
Total Assets	**75,576**	**86,560**	**99,928**	**1,15,406**
AuM Data				
AAuM	**54,36,912**	**76,08,178**	**89,31,309**	**1,06,29,575**
Equity	20,00,796	32,18,691	39,52,485	47,02,691
Balanced	10,70,055	14,76,334	17,66,542	20,56,329
Debt	12,77,231	14,78,541	16,67,824	19,12,454
Liquid	6,89,164	7,80,100	7,12,054	9,07,771
ETF	1,00,170	1,42,157	1,70,559	2,10,137
Index	2,13,393	3,48,317	4,72,793	6,21,431
Arb & FoF	86,102	1,64,037	1,89,052	2,18,762
Mix				
Equity	36.8	42.3	44.3	44.2
Balanced	19.7	19.4	19.8	19.3
Debt	23.5	19.4	18.7	18.0
Liquid	12.7	10.3	8.0	8.5
ETF	1.8	1.9	1.9	2.0
Index	3.9	4.6	5.3	5.8
Arb & FoF	1.6	2.2	2.1	2.1
Growth				
Overall	**25.1**	**39.9**	**17.4**	**19.0**
Equity	46.1	60.9	22.8	19.0
Balanced	29.8	38.0	19.7	16.4
Debt	8.6	15.8	12.8	14.7
Liquid	-5.0	13.2	-8.7	27.5
ETF	71.1	41.9	20.0	23.2
Index	76.0	63.2	35.7	31.4
Valuations				
EPS	**91.2**	**113.3**	**130.9**	**148.4**
Core EPS	**69.9**	**96.0**	**111.4**	**127.6**
CPS	337.3	387.5	448.7	519.6
DPS	70.0	90.7	106.0	121.7
Dividend yield	2.6	2.3	2.7	3.1
BVPS	332	380	440	509
P/B	8.2	10.2	8.8	7.6
P/E	29.8	34.1	29.5	26.1
P/core EPS	**24.3**	**36.2**	**30.7**	**26.2**

Source: Company, PL

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Nov-23	BUY	3,000	2,762
2	08-Jan-24	BUY	3,000	3,326
3	12-Jan-24	BUY	3,900	3,501
4	10-Apr-24	BUY	3,900	3,709
5	20-Apr-24	BUY	4,100	3,707
6	09-Jul-24	BUY	4,100	4,159
7	16-Jul-24	BUY	4,700	4,196
8	08-Oct-24	BUY	4,700	4,133
9	16-Oct-24	BUY	5,360	4,555
10	08-Jan-25	BUY	5,360	4,071

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	1,900	1,681
2	Axis Bank	BUY	1,530	1,068
3	Bank of Baroda	BUY	315	232
4	Can Fin Homes	BUY	1,000	705
5	City Union Bank	BUY	190	171
6	DCB Bank	BUY	155	117
7	Federal Bank	BUY	220	197
8	HDFC Asset Management Company	BUY	5,360	4,071
9	HDFC Bank	BUY	2,000	1,713
10	ICICI Bank	BUY	1,640	1,279
11	IndusInd Bank	BUY	1,500	984
12	Kotak Mahindra Bank	BUY	2,230	1,772
13	LIC Housing Finance	Hold	675	583
14	Nippon Life India Asset Management	BUY	820	722
15	State Bank of India	BUY	1,025	779
16	UTI Asset Management Company	BUY	1,320	1,296

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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