

CMP: ₹ 4710

Target: ₹ 5500 (17%)

Target Period: 12 months

BUY

October 20, 2024

## Strong performance aided by favourable tailwind..

About the stock: HDFC AMC is among the largest and profitable mutual funds with an QAAUM of ~₹7.68 lakh crore as on September 2024. Market share as on Q2FY25 was at 11.5%

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- Strong distribution network with 255 branches and over 90,000 empanelled distribution partners

Q2FY25 performance: HDFC AMC reported a robust performance amid rising equities and steady market share. AUM grew 9% QoQ to ₹ 7.7 lakh crore, driven by growth in equity AUM (10% QoQ). SIP share remains robust at ~15% with AUM at ₹3680 crore in Sep'24. Revenue from operation increased 38% YoY (14% QoQ) to ₹ 887 crore, led by growth in AUM and revival in yield (~2 bps QoQ on closing AUM) at ~46 bps. Operating expense was kept under tight control with 12% YoY growth, however, higher tax outgo (one-off owing to change in capital gain tax and withdrawal of indexation benefit) resulted in 32% YoY growth in earnings at ₹ 577 crore (-4% QoQ). PBT as percentage of AUM has revived at ~45 bps, up ~2 bps.

### Investment Rationale

- Steady market share amid robust flows to aid revenue growth: Post gaining market share in the previous quarters, HDFC AMC has kept the same steady at ~11.5% with focus on equity AUM driven by sustained performance, robust SIP flows (market share at ~15%) and accretion in unique customer base (market share at ~24%). Focus on distribution in tier 2 & 3 cities, MTM gains, continued SIP inflow and emphasis on business from HDFC Bank (contribution of ~6% to AUM) is expected to aid AUM growth with further increase in share of equity AUM.
- Higher equity proportion, rationalization of commission & superior operational performance support profitability: Increase in proportion of equity AUM (+60 bps QoQ) and rationalization of selective rationalisation of commission structure offset impact of telescopic pricing, thus aiding improvement in yields. Effective from 1 Aug 2024, passing of impact of TER towards distribution channel is seen to slowdown the pace of fall in yields. Continued robust operational efficiency is expected to enable sustained growth in earnings. Expect PAT to increase at ~18% CAGR in FY25-27E.

### Rating and Target Price

- Improving equity mix, higher market share in robust SIP flows & superior efficiency is seen to aid profitability. Realignment of distribution structure is seen to limit pressure on yields. The stock remains a play on structural growth in Indian asset management industry with superior operational strength.
- Though the stock has witnessed an uptick in recent past, considering relatively higher business growth without any balance sheet risk, we remain positive on the stock. Thus, we revise our target price upwards to ₹5500 (from earlier ₹4700), valuing the stock at ~37x FY27E EPS. Upgrade the stock from Hold to Buy.



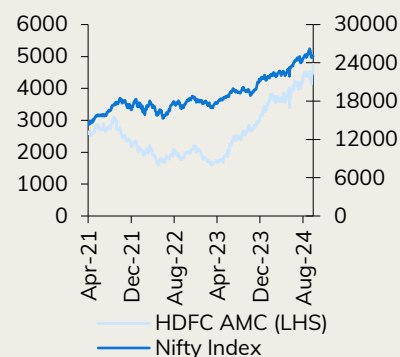
### Particulars

Particulars	Amount
Market Capitalisation	₹ 1,01,460.00
AUM	₹ 78600 crore
Net worth	₹ 6799 crore
52 week H/L	4864/2691
Face value	₹ 5

### Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	52.6	52.6	52.5	52.5
FII	18.0	20.0	20.6	21.6
DII	19.5	18.4	17.7	16.9
Public	10.0	9.1	9.2	9.0

### Price Chart



### Key risks

- Regulatory decline in TER
- Heightened volatility in equities

### Research Analyst

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### Key Financial Summary

₹ crore	FY22	FY23	FY24	3 year CAGR	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
Revenue from operation (₹ crore)	2115	2167	2584	12%	3411	3945	4514	32%
PBT (₹ crore)	1855	1871	2478	12%	3198	3661	4157	30%
Net Profit (₹ crore)	1393	1424	1946	13%	2399	2801	3180	28%
EPS (₹)	66.4	66.8	91.1		112.4	131.2	149.0	
P/E (x)	70.9	70.5	51.7		41.9	35.9	31.6	
AUM /share (₹)	19444	20502	28335		37664	43570	50446	
P/AUM (%)	24.2	23.0	16.6		12.5	10.8	9.3	
RoE (%)	25.2	23.5	29.5		33.5	35.9	37.2	

Source: Company, ICICI Direct Research

## Concall highlights and outlook

- As of Sep 2024, market share in AUM stood steady at 11.5%. 71.4% of company’s total monthly average AUM is contributed by individual investors compared to 62% for the industry
- As of Sep 2024, ratio of equity and non-equity oriented QAAUM stood at 65:35, compared to industry ratio of 57:43
- Strong growth in SIP accounts, with over 10 million active accounts as of September 2024. Market share from systematic transactions exceeds overall book market share.
- Positive net flows witnessed in debt funds after a period of decline, with an increase in long-duration products as well as short-term liquidity solutions.
- HDFC AMC has launched a Category II fund of funds with ₹1,200 crore commitments. Further, plan to introduce more products, including private credit in upcoming quarters are underway.
- Equity yield for Q2FY25 was at ~58bps, debt ~28bps and liquid at ~12– 13bps
- Erosion of ~18-19 bps in weighted average TER, on the back of increase in size of funds, was been absorbed by HDFC AMC to maintain partnerships. Rationalization to commissions has been undertaken from August 2024 which is expected to aid stability to yields.
- CSR, KYC and continued investment in technology and compliance led to increase in opex. Employee expense includes non-cash charge of ₹5.8 crore related to amortised cost of outstanding employee stock options.
- In Q2FY25, HDFC AMC witnessed a one-off increase in deferred tax liability to the tune of ₹ 69.75 crore, on the back of change in capital gains tax rate and withdrawal of indexation benefits. Tax adjustment on investment till June 2024 has been recognized and MTM gains will reflect new capital gains tax rates moving forward.
- Management sees opportunity in regulatory announcement in lieu of introduction of new asset class with more flexibility suitable for high-risk reward investors. Expect well laid out principles and regulations, currently await final set of regulations and TER structure.

### Exhibit 1: Variance Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Revenue from operation	887.2	643.1	38.0	775.2	14.4	Strong AUM growth with broadly steady market share
Revenue/AUM	0.46%	0.49%	-3 bps	0.44%	2 bps	Rise in equity mix led to revival in yields
Other Income	170.6	122.2	39.6	173.1	-1.4	
Net Total Income	1,057.8	765.3	38.2	948.3	11.5	
Staff cost	95.7	92.9	3.0	100.8	-5.1	
Other Operating Expenses	103.5	83.2	24.3	95.1	8.8	
Total Expense	199.1	176.1	13.1	195.9	1.7	
PBT	858.7	589.2	45.7	752.5	14.1	Healthy growth in revenue coupled with control on opex
Tax Outgo	281.8	151.6	85.9	148.5	89.8	Change in capital gain tax & withdrawal of indexation benefit led to higher tax outgo
PAT	576.9	437.6	31.8	604.0	-4.5	Robust core PBT impacted by higher tax outgo
Total AUM	7,68,600	5,22,900	47.0	7,05,600	8.9	Market share maintained at 11.5%

## Financial Summary

### Exhibit 2: Profit and loss statement ₹ crore

(₹ crore)	FY23	FY24	FY25E	FY26E	FY27E
Revenue from Operations	2,166.8	2,584.4	3,410.5	3,945.4	4,514.3
Growth (%)	2.4%	19.3%	32.0%	15.7%	14.4%
Other Income	315.8	578.1	580.0	600.0	630.0
Total Revenue	2,482.6	3,162.4	3,990.5	4,545.4	5,144.3
Employee Benefit Expenses	312.7	353.5	407.4	457.6	513.2
Depreciation & Amortization Expense	53.3	52.3	54.9	57.6	60.5
Other Expenses (incl fees)	232.7	267.0	330.1	369.2	413.3
Total Expenses	612.1	684.3	792.4	884.4	987.0
Profit Before Tax	1,870.5	2,478.2	3,198.1	3,661.0	4,157.3
Taxes	446.7	532.3	799.5	860.3	977.0
Profit After Tax	1,423.8	1,945.8	2,398.6	2,800.7	3,180.3
EPS (₹)	66.8	91.1	112.4	131.2	149.0

Source: Company, ICICI Direct Research

### Exhibit 3: Key ratios

	FY23	FY24	FY25E	FY26E	FY27E
<b>Valuation</b>					
No of Equity shares (crore)	21.3	21.3	21.3	21.3	21.3
EPS	66.8	91.1	112.4	131.2	149.0
DPS	48.0	70.0	86.3	100.8	114.4
BVPS	284.2	309.3	335.4	365.8	400.4
P/E	70.5	51.7	41.9	35.9	31.6
P/BV	16.6	15.2	14.0	12.9	11.8
<b>Operating Ratios (%)</b>					
Rev/AUM	0.49	0.43	0.42	0.42	0.42
EBITDA/AUM	0.35	0.31	0.33	0.33	0.33
PAT/AUM	0.32	0.32	0.30	0.30	0.29
<b>Return Ratios (%)</b>					
RoNW	23.5%	29.5%	33.5%	35.9%	37.2%
RoCE	22.0%	27.4%	30.9%	32.8%	33.8%

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet ₹ crore

(₹ crore)	FY23	FY24	FY25E	FY26E	FY27E
<b>Sources of Funds</b>					
Share capital	106.6	106.6	106.6	106.6	106.6
Reserves and surplus	5947.3	6495.9	7052.5	7702.3	8440.3
Total Shareholders funds	6053.9	6602.5	7159.1	7808.9	8546.9
Total Non-Current Liabilities	171.0	222.2	288.9	375.6	488.3
Total Current Liabilities	245.1	274.5	307.4	344.3	385.6
Total	6469.9	7099.2	7755.4	8528.8	9420.7
<b>Applications of Funds</b>					
Property, plant and equipment	132.0	142.5	153.9	166.2	179.5
Intangible assets	11.9	10.9	9.9	8.9	7.9
Intangible asset under development	0.5	0.5	0.5	0.5	0.5
Investments	5997.4	6581.1	7300.7	8140.9	9095.0
Long term loans and advances	30.2	30.2	30.2	30.2	30.2
Total Current Assets and Others	298.1	334.0	260.2	182.1	107.7
Total Assets	6469.9	7099.2	7755.4	8528.8	9420.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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