

CMP: ₹ 4048

Target: ₹ 5100 (26%)

Target Period: 12 months

BUY

January 16, 2025

## All-round healthy performance...

About the stock: HDFC AMC is among the largest and profitable mutual funds with an QAAUM of ~₹7.87 lakh crore as on December 2024. Higher presence in equity-oriented schemes & controlled expenses enable it to earn industry leading margins.

- QAAUM Market share as on Q3FY25 was at 11.5%
- Strong distribution network with 280 branches and over 95,000 empanelled distribution partners

Q3FY25 performance: HDFC AMC reported a healthy mix of result with improvement seen across AUM & yield while costs were kept under check. PAT grew 30.8% YoY to ₹641 cr despite other income declining 34.5% YoY, 54.4% QoQ to ₹93 cr owing to MTM impact on its investment book. Closing AUM grew 35% YoY, 1% QoQ to ₹7.8 tn as on Q3FY25 as it marginally improved market share from 11.5% to 11.6%. High yielding equity mix continues to maintain healthy proportion of 66.0% vs industry average of 58.7%. Overall, Revenue and EBITDA grew 39% YoY and 51% YoY resp. PAT as % of AUM is industry leading at 33 bps.

### Investment Rationale

- Consolidating market share despite its size and intensifying competition: HDFC AMC is maintaining its market share around 11.5% and at just below 13% in equity-oriented schemes. Granular customer base with individual assets market share maintained at ~13.2%, unique customer base share of ~24%, SIP market share of 13% suggests higher share in all the right business segments which makes it more profitable and sustainable. Focus on distribution in tier 2 & 3 cities and emphasis on business from HDFC Bank (contribution of 5.7% to AUM) is expected to aid AUM growth despite intensifying competition.
- Cost efficiencies, rationalization of commission aid profitability: Rationalization of distributor commission structure offset impact of telescopic pricing, thus aiding improvement in yields and showcases company's ability to maintain its margin. On the other hand, contained employee expense and operational efficiencies shall support earnings. Expect PAT to increase at 13.4% CAGR over FY25-27E.

### Rating and Target Price

- Multi-channel distribution alongwith the parent bank network, higher equity mix proportion, strong SIP flows & superior efficiency shall aid growth and profitability over long term. The stock remains a play on structural growth in Indian asset management industry with superior operational strength.
- Considering the asset light business model, superior parentage and long-term growth opportunity, we remain positive on the stock. However, the stock has witnessed pressure in past couple of months as equities turned volatile and is highly sensitive to same. We revise our target price to ₹5100 (from earlier ₹5500), valuing the stock at ~35x FY27E EPS. Maintain Buy.

### 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%	3516	3997	4494	32%
PBT (₹ crore)	1917	1871	2478	11%	3282	3726	4194	30%
Net Profit (₹ crore)	1455	1424	1946	12%	2445	2794	3146	27%
EPS (₹)	63.9	66.8	91.1		114.5	130.9	147.3	
P/E (x)	63.4	60.5	44.4		35.3	30.9	27.5	
AUM/share (₹)	18686	20502	28335		36433	41048	47184	
P/AUM (%)	21.7	19.7	14.3		11.1	9.9	8.6	
RoE (%)	26.3	23.3	27.5		32.0	33.7	34.9	

Source: Company, ICICI Direct Research



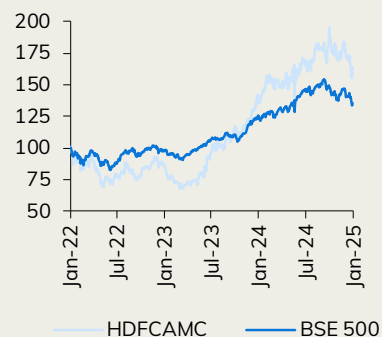
### Particulars

Particulars	Amount
Market Capitalisation	₹ 86,518.04
AUM	₹ 78740 crore
Net worth	₹ 6799 crore
52 week H/L	4864/3256
Face value	₹ 5

### Shareholding pattern

	Mar-24	Jun-24	Sep-24	Dec-24
Promoters	52.6	52.5	52.5	52.5
FII	20.0	20.6	21.6	21.3
DII	18.4	17.7	16.9	17.0
Public	9.1	9.2	9.0	9.2

### Price Chart



### Key risks

- Heightened volatility in equities
- Regulatory decline in TER

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## Concall highlights and outlook

- QAAUM market share stood steady at 11.5% while actively managed equity AUM market share stood at 12.8%.
- Debt QAAUM market share declined 30 bps QoQ to 13.2% while market share in liquid segment improved 80 bps QoQ to 12.9%.
- Yields improved sequentially from 46.8% to 47.5% supported by full impact of distribution payout rationalisation and increase in proportion of direct channel from 39.8% of AUM in Q2FY25 to 41.4% as on Q3FY25. The company has rationalised rates in select schemes where TER has fallen at a very high pace.
- SIP AUM of the company stood at ₹1777 bn wherein its market share improved from 12.9% to 13% QoQ. Strong growth in SIP accounts, with ~11 mn active accounts as of December 2024.
- The company added 25 branches in the quarter, taking the total tally to 280. However, 95% of transactions were done in electronic mode during Q3FY25 vs 90% in FY24 and 81% in FY23.
- Expenses on an annual basis should grow in 12-13% range on normalised basis while it may increase to ~15% depending on markets. For Q3FY25, total expenses declined by 7.1% QoQ, up by 6.1% YoY to ₹172 cr. This quarter had no NFO offering or CSR related expense which kept overall expense under check.
- The company has strong product bouquet across the segments and doesn't see any major gap that needs to be filled. However, there is scope for improvement in market share in select product segments.
- Synergy benefits with parent bank shall play out over medium to long term. The bank has wide distribution network alongwith 100mn+ customers while the SIP done among them is just a tiny fraction. Similarly, synergies are being looked ahead in Gift city operations and alternative businesses.
- On new asset class i.e. Specialized Investment Fund, Management is awaiting final regulation from Sebi while it is working on set of products which may not necessarily be the complex one. The company has well set processes, distribution network, investment and risk managing capabilities which shall enable them to participate in any of such opportunities.

### Exhibit 1: Variance Analysis

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Comments
Revenue from operation	934.4	671.3	39.2	887.2	5.3	AUM growth of 35% YoY and improvement in yields supported revenue growth.
Revenue/AUM	0.48%	0.47%	1 bps	0.46%	2 bps	Yields inch higher on distribution payout rationalisation and increase in direct channel.
Other Income	92.7	142.9	-35.1	170.6	-45.6	Other income declined on account of MTM impact on its investment book.
Net Total Income	1,027.1	814.2	26.2	1,057.8	-2.9	
Staff cost	94.9	90.6	4.8	95.7	-0.8	
Other Operating Expenses	92.2	84.8	8.7	103.5	-10.8	Expenses on lower side as there were no NFO and CSR related spends.
Total Expense	187.2	175.4	6.7	199.1	-6.0	
PBT	840.0	638.8	31.5	858.7	-2.2	Healthy growth in revenue coupled with control on opex
Tax Outgo	198.5	148.9	33.3	281.8	-29.6	
PAT	641.5	489.9	30.9	576.9	11.2	
Total AUM	776,400	575,000	35.0	768,600	1.0	

## Financial Summary

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

(₹ crore)	FY24	FY25E	FY26E	FY27E
Revenue from Operations	2,584	3,516	3,997	4,494
Growth (%)	19.3%	36.1%	13.7%	12.4%
Other Income	578	543	597	669
Total Revenue	3,162	4,059	4,594	5,163
Growth (%)	27.4%	28.4%	13.2%	12.4%
Employee Benefit Expenses	353	390	441	495
Other Expenses (incl fees)	269	323	361	403
Total operating Expenses	623	713	801	898
EBITDA	1,961	2,803	3,196	3,596
Growth (%)	21.2%	42.9%	14.0%	12.5%
Depreciation & Amortization Expense	52	55	58	62
Interest expense	9	9	9	9
Profit Before Tax	2,478	3,282	3,726	4,194
Taxes	532	837	931	1,049
Profit After Tax	1,946	2,445	2,794	3,146
EPS (₹)	91.1	114.5	130.9	147.3

Source: Company, ICICI Direct Research

### Exhibit 3: Key ratios

	FY24	FY25E	FY26E	FY27E
<b>Valuation</b>				
No of Equity shares (crore)	21.3	21.3	21.3	21.3
EPS	91.1	114.5	130.9	147.3
DPS	70.0	88.0	100.5	113.2
BVPS	331.4	358.0	388.4	422.5
P/E	44.4	35.3	30.9	27.5
P/BV	12.2	11.3	10.4	9.6
<b>Growth Ratios (%)</b>				
AUM	38.5	28.9	12.7	15.0
Revenue from operations	19.3	36.1	13.7	12.4
EBITDA	21.2	42.9	14.0	12.5
PAT	36.7	25.6	14.3	12.6
<b>Operating Ratios (%)</b>				
EBITDA margin	75.9	79.7	80.0	80.0
PAT margin	61.5	60.2	60.8	60.9
Rev/AUM	0.43	0.45	0.45	0.44
EBITDA/AUM	0.32	0.36	0.36	0.35
PAT/AUM	0.32	0.31	0.32	0.31
<b>Return Ratios (%)</b>				
RoNW	27.5%	32.0%	33.7%	34.9%
RoCE	25.8%	30.0%	31.6%	32.6%

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet ₹ crore

(₹ crore)	FY24	FY25E	FY26E	FY27E
<b>Sources of Funds</b>				
Share capital	107	107	107	107
Reserves and surplus	6968	7536	8184	8914
Total Shareholders funds	7075	7642	8291	9021
Total financial Liabilities	246	258	281	312
Total Non Financial Liabilities	233	254	274	302
Total	7554	8154	8846	9635
<b>Applications of Funds</b>				
Property, plant and equipment	138	149	161	173
Goodwill	6	6	6	6
Intangible assets	9	8	7	6
Intangible asset under development	1	1	1	1
Investments	7156	7694	8309	9032
Long term loans and advances	21	21	21	21
Other non financial assets	46	51	57	64
Total Current Assets and Others	178	225	285	331
Total Assets	7554	8154	8846	9635

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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