

CMP: ₹ 4088

Target: ₹ 4700 (15%)

Target Period: 12 months

BUY

July 17, 2024

## Continued equity momentum remains key...

About the stock: HDFC AMC is among the largest and profitable mutual funds with an QAAUM of ~₹6.71 lakh crore as on June 2024. Consistent superior operating performance led to relatively better valuation

- Market share as on Q1FY25 was at ~11.5%
- Strong distribution network with 255 branches and over 85,000 empanelled distribution partners

Q1FY25 performance: HDFC AMC reported a robust set of numbers amid rising equities and gain in market share. AUM growth reported at 16% QoQ to ₹ 7.05 lakh crore, driven by growth in equity AUM (18% QoQ). Revenue from operation increased 34.9% YoY and 11.5% QoQ to ₹ 775 crore. Blended yields saw a minor contraction of 2 bps QoQ on closing AUM at 44 bps, owing to cut in TER with higher AUM. PAT came in at ₹ 604 crore, aided by strong operational performance. PAT as percentage of AUM was steady at ~34 bps.

### Investment Rationale

- Market share gain amid robust flows to aid revenue growth: HDFC AMC has consistently gained market share (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 23%). Focus on distribution in tier 2 & 3 cities (opened 24 new branches in B30 locations in last few quarters), MTM gains, continued SIP inflow and emphasis on business from HDFC Bank (employed dedicated team for channel business) is expected to aid AUM growth with further increase in share of equity AUM.
- Higher equity proportion and superior operational performance support profitability: Addition of manpower (in distribution) and recent NFO led to an increase of 21.5% YoY in opex. Going ahead, investment in distribution capabilities and technology is seen to keep opex at current level. Increase in proportion of equity AUM is expected to mitigate pressure of TER cuts resulting in overall sustained performance. Expect PAT to increase at ~15% CAGR in FY25-26E.

### Rating and Target Price

- Buoyant equities, improved performance & SIP inflows led to strong growth in AUM. Focus on strengthening distribution, customer accretion and performance is expected to drive AUM traction. Realignment of distribution structure to share impact of TER cut could act a catalyst in near term, limiting pressure of declining yield on bottom-line.
- Valuing the stock at ~39x FY26E EPS, we assign a target of ₹4700, and recommend a Buy rating on the stock.



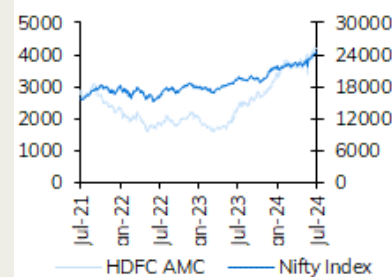
#### Particulars

Particulars	Amount
Market Capitalisation	₹ 87308 crore
AUM	₹ 705000 crore
Networth	₹ 6208 crore
52 week H/L	4298 / 2360
Face Value	₹ 5

#### Shareholding pattern

in %	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	68.8	62.8	62.8	62.8	52.5
DII	11.3	12.3	13.4	6.0	20.6
FII	7.3	12.3	12.1	7.5	17.7
Others	12.6	12.6	11.7	23.7	9.2

#### Price Chart



#### Key risks

- Regulatory decline in TER
- Heightened volatility in equities

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### Key Financial Summary

₹ crore	FY21	FY22	FY23	FY24	3 year			2 year CAGR (FY24-26E)
					CAGR (FY21-24)	FY25E	FY26E	
Revenue from operation (₹ crore)	1853	2115	2167	2584	12%	3236	3696	20%
PBT (₹ crore)	1763	1855	1871	2478	12%	3024	3374	17%
Net Profit (₹ crore)	1340	1393	1424	1946	13%	2314	2581	15%
EPS (₹)	63.2	66.4	66.8	91.1		108.4	120.9	
P/E (x)	64.7	61.5	61.2	44.8		37.7	33.8	
AUM /share (₹)	18868	19444	20502	28335		35906	41495	
P/AUM (%)	21.7	21.0	19.9	14.4		11.4	9.9	
RoE (%)	28.1	25.2	23.3	27.5		30.4	31.4	

Source: Company, ICICI Direct Research

## Concall highlights and Outlook

- As of June 2024, market share in individual monthly average AUM stood at 13.3%. 71% of company's total monthly average AUM is contributed by individual investors compared to 61% for the industry
- Benefit from higher proportion of equity AUM was offset by decline in TER owing to crossing of defined thresholds.
- Continued SIP flows and MTM gains could result in further increase in proportion of equity AUM
- As of June 2024, ratio of equity and non-equity oriented QAAUM stood at 64:36, compared to industry ratio of 56:44
- Equity yield for Q1FY25 was at ~59bps, debt ~28bps and liquid at ~12–13bps
- Employee addition in distribution resulted in higher expenses and NFO related expense led to increase in other opex
- In CY24, opened 24 branches taking total branch count at 255. Out of total branches, 175 branches are located in B30 locations.
- Dedicated desk to enhance business from HDFC Bank partnership. Focus on B30 locations to continue with opening of new branches and strengthening distribution capacity.
- Commission structure could be re-aligned to arrest impact of decline in yields. However, implementation depends on market dynamics and competition.

### Exhibit 1: Variance Analysis

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Revenue from operation	775.2	574.5	34.9	695.4	11.5	Strong AUM growth with marginal increase in market share
Revenue/AUM	0.44%	0.46%	-2 bps	0.46%	-2 bps	TER cut led to decline in yields
Other Income	173.1	158.0	9.6	155.5	11.3	
Net Total Income	948.3	732.5	29.5	850.9	11.5	
Staff cost	100.8	83.8	20.3	86.4	16.6	Employee addition increased employee cost
Other Operating Expenses	95.1	77.4	22.8	85.4	11.4	NFO related expense led to higher opex
Total Expense	195.9	161.2	21.5	171.8	14.0	
PBT	752.5	571.3	31.7	679.1	10.8	
Tax Outgo	148.5	93.8	58.3	138.0	7.6	
PAT	604.0	477.5	26.5	541.1	11.6	Robust core PBT & marginal decline in tax rate led to increase in PAT
Total AUM	7,05,600	4,99,300	41.3	6,07,300	16.2	Market share gain of 10 bps QoQ, led by equity segment

## Financial Summary

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

(₹ crore)	FY23	FY24	FY25E	FY26E
Revenue from Operations	2,166.8	2,584.4	3,236.2	3,695.8
Growth (%)	2.4%	19.3%	25.2%	14.2%
Other Income	315.8	578.1	580.0	580.0
Total Revenue	2,482.6	3,162.4	3,816.2	4,275.8
Employee Benefit Expenses	312.7	353.5	407.4	475.2
Depreciation & Amortization Expense	53.3	52.3	54.9	57.6
Other Expenses (incl fees)	232.7	267.0	329.7	368.6
Total Expenses	612.1	684.3	792.0	901.4
Profit Before Tax	1,870.5	2,478.2	3,024.2	3,374.4
Taxes	446.7	532.3	710.7	793.0
Profit After Tax	1,423.8	1,945.8	2,313.5	2,581.4
EPS (₹)	66.8	91.1	108.4	120.9

Source: Company, ICICI Direct Research

### Exhibit 3: Key ratios

	FY23E	FY24E	FY25E	FY26E
<b>Valuation</b>				
No of Equity shares (crore)	21.3	21.3	21.3	21.3
EPS	66.8	91.1	108.4	120.9
DPS	48.0	70.0	83.2	92.9
BVPS	286.8	331.6	356.7	384.8
P/E	61.2	44.8	37.7	33.8
P/BV	14.3	12.3	11.5	10.6
<b>Operating Ratios (%)</b>				
Rev/AUM	0.49	0.43	0.42	0.42
EBITDA/AUM	0.35	0.31	0.32	0.32
PAT/AUM	0.32	0.32	0.30	0.29
<b>Return Ratios (%)</b>				
RoNW	23.3%	27.5%	30.4%	31.4%
RoCE	21.8%	25.7%	28.2%	29.0%

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet ₹ crore

(₹ crore)	FY23	FY24	FY25E	FY26E
<b>Sources of Funds</b>				
Share capital	106.7	106.7	106.7	106.7
Reserves and surplus	6001.7	6972.3	7509.2	8108.1
Total Shareholders funds	6108.4	7079.0	7615.9	8214.8
Total Non-Current Liabilities	186.3	232.9	302.8	393.6
Total Current Liabilities	241.9	245.6	275.1	308.1
Total	6536.6	7557.6	8193.7	8916.5
<b>Applications of Funds</b>				
Property, plant and equipment	137.6	136.3	147.2	159.0
Intangible assets	12.9	15.0	14.0	13.0
Intangible asset under development	2.1	0.9	0.9	0.9
Investments	6079.2	7190.0	7884.1	8658.5
Long term loans and advances	42.8	45.5	45.5	45.5
Total Current Assets and Others	262.1	169.8	102.0	39.6
Total Assets	6536.6	7557.6	8193.7	8916.5

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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