

July 15, 2024

**RESULT REPORT Q1 FY25** | Sector: Asset Managers

# HDFC Asset Management

## Equity market momentum remains key driver

### Our view – Revenue yield on comparable basis inches lower

**Revenue Yield** - Revenue yield on a comparable basis evolved negatively: Due to one-offs, the 4Q revenue yield was subdued for HDFC AMC and hence 3Q yield is more comparable, where the revenue yield was 48bps. Hence, on a comparable basis, yield has declined in 1Q due to the launch of a largish NFO and the usual telescopic pricing.

**Operating Expenses** – Operating expenses growth to remain elevated: The employee cost for 1Q has increased by 20% YoY, driven by increase in headcount, annual increments and additional spends on building alternatives business. The other operating cost for 1Q has increased by 28% YoY, driven by an increase in general business, new NFO during the quarter, KYC related expenses and outsourcing expenses. The management has guided that the total opex would grow by 12-15% YoY in FY25.

We maintain 'ADD' rating on HDFCAMC with a revised price target of Rs 4750: We value HDFCAMC at 43x FY26 P/E, with the implied P/B being 12.2x.

*(See Comprehensive con call takeaways on page 2 for significant incremental colour.)*

### Result Highlights (See "Our View" above for elaboration and insight)

- **Revenue:** Revenue from operations at Rs 7,752mn was up 11.5%/34.9% QoQ/YoY, leading/lagging the growth in QAAUM of 9.6%/38.3% QoQ/YoY
- **Share of Equity in AUM:** Share of Equity in AUM (including Hybrid funds) at 64.3% was up 130 bps QoQ and 1010 bps YoY
- **Share of B-30 in AUM:** Share of B-30 in AUM at 19.4% was up 30 bps QoQ and 220 bps YoY
- **Channel mix:** Share of Banks, MFDs, NDs and Direct channel was 13.4%, 36.0%, 25% and 25.6%, respectively in Equity QAAUM
- **Operating profit margin:** Operating profit margin for the quarter, at 76.7%, was down -80 bps QoQ but up 215 bps YoY

### Exhibit 1: Result table

Rs. Mn	Q1 FY25	Q1 FY24	YoY	Q4 FY24	QoQ
Revenue from operation	7,752	5,745	34.9%	6,954	11.5%
As % of QAUM^	0.46%	0.47%	-1bps	0.45%	1bps
Fees and Commission Exp.	9	10	-9.1%	7	36.4%
As % of revenues	0.1%	0.2%	-6bps	0.1%	2bps
Employee Benefit Expenses	1,008	838	20.3%	864	16.6%
As % of revenues	13.0%	14.6%	-158bps	12.4%	58bps
Other Expenses	786	612	28.4%	691	13.8%
As % of revenues	10.1%	10.7%	-51bps	9.9%	21bps
Total Expenses	1,803	1,460	23.5%	1,562	15.5%
<b>Operating Profit</b>	<b>5,949</b>	<b>4,286</b>	<b>38.8%</b>	<b>5,393</b>	<b>10.3%</b>
As % of QAUM^	0.35%	0.35%	0bps	0.35%	0bps
As % of revenues	76.7%	74.6%	215bps	77.5%	-80bps
Other Income	1,731	1,580	9.5%	1,555	11.3%
Finance Cost	23	23	-1.3%	23	-0.4%
Depreciation	133	129	2.7%	133	-0.5%
Profit before Tax	7,525	5,714	31.7%	6,791	10.8%
Tax Expense	1,485	939	58.2%	1,380	7.6%
Tax Rate	19.7%	16.4%	331bps	20.3%	-59bps
<b>Profit After Tax</b>	<b>6,040</b>	<b>4,775</b>	<b>26.5%</b>	<b>5,411</b>	<b>11.6%</b>
As % of QAUM^	0.4%	0.4%	-3bps	0.4%	1bps
As % of revenues	77.9%	83.1%	-520bps	77.8%	10bps

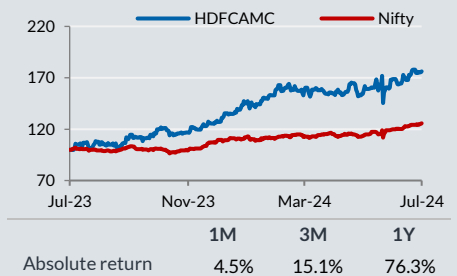
Source: Company, YES Sec-Research, ^ Annualised

Recommendation	: ADD
Current price	: Rs 4,192
Target price	: Rs 4,750
Potential return	: +13%

### Stock data (as on July 15, 2024)

Nifty	24,587
52 Week h/l (Rs)	4296 / 2219
Market cap (Rs/USD mn)	890399 / 10652
Outstanding Shares (mn)	214
6m Avg t/o (Rs mn):	1,703
Div yield (%):	1.7
Bloomberg code:	HDFCAMC IN
NSE code:	HDFCAMC

### Stock performance



### Shareholding pattern (As of Mar'24 end)

Promoter	52.6%
FII+DII	38.4%
Others	9.1%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	4750	4700

### Financial Summary

Rs mn	FY24	FY25E	FY26E
Net Revenue	25,844	29,533	34,649
YoY Growth	19.3%	14.3%	17.3%
EBIDTA Margin	75.9%	77.1%	78.7%
PAT	19,459	19,855	23,370
YoY Growth	36.7%	2.0%	17.7%
ROE	29.5%	27.0%	29.4%
EPS (Rs)	91.1	93.0	109.5
P/E (x)	46.1	45.1	38.3
BV (Rs)	331.6	357.6	388.3
P/BV (x)	12.7	11.7	10.8

### Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	NA	93.0	109.5
EPS (Old)	NA	90.3	106.3
% change	NA	3.0%	3.0%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### Yield aspects

- Due to one-offs in 4QFY24, the revenue yield in 1QFY25 is to be compared with the 3QFY24, where it was at 48bps.
- The revenue yield has declined from 3QFY24 level due to the launch of a largish NFO and the usual factor of telescopic pricing.
- The negative impact of the NFO was around 0.5bps on equity segment yield for 1QFY25.
- **Segmental Average book yield for the quarter**
  - Equity – Just short of 59 bps
  - Debt – 28 bps
  - Liquid – 12-13 bps
- **Flow yield**
  - The yield on equity assets is around late 40 bps to sometimes upward of 50bps.

### Operating expenses

- **Total expenses**
  - Total expenses for 1QFY25 have gone up by 23.5% YoY and 15.5% QoQ.
  - **Employee Expense**
    - The employee cost for 1QFY25 has increased by 20% YoY and 16.6% QoQ.
    - The key reasons for the YoY increase in employee cost are increase in headcount, annual increments, additional spends on building alternatives business and valuations of leave encashment & gratuity.
    - **ESOP cost**
      - The ESOP cost was Rs. 63mn in 1QFY25 vs Rs 110mn in 1QFY24.
    - **Guidance**
      - The employee cost is to grow by around 12-15% YoY.
  - **Other Opex**
    - The other operating cost for 1QFY25 has increased by 28% YoY and 13.8% QoQ.
    - The key reason for the increase in other opex was an increase in general business, new NFO during the quarter, KYC related expenses and outsourcing expenses.
    - The company also had a large employee engagement event in the quarter which typically use to happen in the second or third quarter.
    - **Branch expansion**
      - The company added 24 branches in January 2024 and don't have major plans to further expand branch network currently.
      - Most of the branches are in B30 cities.
      - The new branches are generally small in size with a capacity of 2-3 people
      - The breakeven for these new branches is also quick.
    - **Guidance**
      - The other opex is to grow by around 12-15% YoY.

### AUM Segment Aspects

- The contribution of Equity AUM in total AUM is now around 64% as against 54% YoY.

(Con call takeaways continue on the next page)

## SIPs

- More than 50% of the SIPs are contributed by the Fintech players for the MF Industry.
- The company has a very healthy share in incremental SIPs.

## Alternative Business

- The company has launched an FoF and it has crossed Rs 10bn in commitments.
- The company has seen participation from 4-5 institutional clients and 400 individual clients.

## Effective tax rate

- The effective tax rate for the quarter was lower due to the decrease in deferred tax charge mainly due to the holding period of certain investments transitioning from short-term to long-term.
- For the full year as a whole, the tax rate will be normalized.

## HDFC Bank sourcing

- HDFC Bank holds a share of 6.1% in total AUM and 7.7% in total Equity-oriented AUM as of June 2024.
- The flow market share of the company on the HDFC Bank platform is much higher than the book market share.

## Key underlying business figures

- **Total AUM**
  - The total QAAUM for the AMC amounted to Rs. 6,716 bn, accounting for a market share of 11.4%.
- **Equity AUM**
  - Actively-managed equity oriented QAAUM was Rs 4,072 bn, accounting for a market share of 12.9%.
- **Debt AUM**
  - The debt QAAUM is up 10% YoY.
  - The market share in debt mutual funds was 13.3% on QAAUM.
- **Liquid fund AUM**
  - The market share in liquid funds was 12.0% on QAAUM.
- **Individual investors**
  - Live Individual investors were at 18.53mn as of June 2024, up by 54% YoY.
  - As of June 2024, Individual investor's share was 71.4% in total MAAUM, higher than industry average of 61.1%.
- **Unique investors**
  - Unique investors grew from 7.1mn as of June 2023 to 10.7mn as of June 2024.
  - The market share in unique investors was 23% as of June 2024.
- **Systematic transactions**
  - Transactions processed amounted to 8.76mn for June 2024.
  - Quantum of transactions totaled to Rs 32.1bn for June 2024, up by around 70% YoY.

(Con call takeaways continue on the next page)

## Financial aspects

- Revenue
  - The revenue in 1QFY25 was at Rs 7.75bn, up by 35% YoY.
  - The revenue yield for the quarter was at 46bps, up 1bp QoQ.
- Operating Profit
  - The operating profit in 1QFY25 was Rs.5.95 bn, up 39% YoY.
  - The operating profit to AUM margin for the quarter was at 35bps, flat YoY.

## Exhibit 2: Other Business Parameters

Rs. Mn	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Quarterly Average AUM	6,715,828	4,857,483	38.3%	6,129,049	6,715,828
Market Share	11.4%	11.3%	10bps	11.3%	11.4%
Systematic Transactions*	32,100	18,900	69.8%	29,300	32,100
<b>AUM Mix (Rs mn)</b>					
Equity	4,318,277	2,632,756	64.0%	3,861,301	11.8%
Debt	1,430,471	1,296,948	10.3%	1,366,778	4.7%
Liquid	711,878	772,340	-7.8%	674,195	5.6%
Others	255,201	155,439	64.2%	226,775	12.5%
<b>AUM Mix (% proportion)</b>					
Equity	64.3%	54.2%	1010bps	63.0%	130bps
Debt	21.3%	26.7%	-540bps	22.3%	-100bps
Liquid	10.6%	15.9%	-530bps	11.0%	-40bps
Others	3.8%	3.2%	60bps	3.7%	10bps
<b>Channel Mix, Equity AUM (% proportion)</b>					
Banks	13.4%	13.1%	30bps	13.1%	30bps
HDFC Bank	7.7%	8.0%	-30bps	7.6%	10bps
MFDs	36.0%	39.8%	-380bps	37.0%	-100bps
National Distributors	25.0%	24.4%	60bps	24.9%	10bps
Direct	25.6%	22.7%	290bps	25.0%	60bps
<b>Geographical Spread</b>					
T-30	80.6%	82.8%	-220bps	80.9%	-30bps
B-30	19.4%	17.2%	220bps	19.1%	30bps

Source: Company, YES Sec – Research.\*Includes Systematic Investment Plan (SIP) and Systematic Transfer Plan (STP) and the data is for the last month of the quarter

## Exhibit 3: Quarterly Actuals Vs Estimates

Q1FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Revenue	7,752	7,687	0.9
EBITDA	5,949	5,957	(0.1)
PAT	6,040	5,662	6.7

Source: Company, YES Sec – Research

## ANNUAL FINANCIALS

### Exhibit 4: Balance sheet statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share Capital	1,066	1,067	1,067	1,067	1,067
Total Reserves	54,234	60,017	69,723	75,283	81,826
Shareholder's Funds	55,300	61,084	70,791	76,350	82,894
Trade Payables	292	356	388	443	520
Other Current Liabilities	3,019	3,616	4,171	4,406	4,978
Short Term Provisions	192	310	226	226	226
Total Current Liabilities	3,503	4,281	4,785	5,076	5,725
<b>Total Liabilities and Equity</b>	<b>58,804</b>	<b>65,365</b>	<b>75,576</b>	<b>81,426</b>	<b>88,618</b>
Net Block	1,351	1,505	1,513	1,763	2,013
Intangible Assets	5	21	9	9	9
Non Current Investments	0	0	0	0	0
Long Term Loans & Advances	0	0	0	0	0
Other Non Current Assets	608	732	766	804	844
Total Non-Current Assets	1,964	2,259	2,287	2,576	2,866
Currents Investments	55,702	60,792	71,900	76,904	82,793
Sundry Debtors	745	1,837	933	1,066	1,250
Cash and Bank	81	40	112	490	1,263
Other Current Assets	252	312	212	233	256
Short Term Loans and Advances	60	126	132	158	190
Total Current Assets	56,840	63,107	73,288	78,850	85,753
<b>Total Assets</b>	<b>58,804</b>	<b>65,365</b>	<b>75,576</b>	<b>81,426</b>	<b>88,618</b>

Source: Company, YES Sec – Research

### Exhibit 5: Profit & Loss statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
<b>Operating Income</b>	<b>21,154</b>	<b>21,668</b>	<b>25,844</b>	<b>29,533</b>	<b>34,649</b>
Fees and Commission	54	37	25	13	15
Employee Expense	3,122	3,127	3,535	3,853	4,199
Other Expenses	1,978	2,326	2,670	2,910	3,172
Total Expenses	5,154	5,489	6,229	6,775	7,386
<b>Operating Profit</b>	<b>15,999</b>	<b>16,179</b>	<b>19,615</b>	<b>22,758</b>	<b>27,263</b>
Other Income	3,178	3,158	5,781	4,728	5,053
Depreciation	539	533	523	564	644
Finance Cost	86	97	91	91	91
Profit before Tax	18,553	18,706	24,782	26,831	31,581
Tax	4,622	4,467	5,323	6,976	8,211
<b>Net Profit</b>	<b>13,931</b>	<b>14,239</b>	<b>19,459</b>	<b>19,855</b>	<b>23,370</b>

Source: Company, YES Sec – Research

## Exhibit 6: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	18,553	18,706	24,782	26,831	31,581
Depreciation	539	533	523	564	644
Finance Cost	86	97	91	91	91
Other Income	(2,493)	(2,722)	(5,273)	(4,728)	(5,053)
Change in working cap	7	(1,020)	1,374	72	369
Tax paid	(4,154)	(4,102)	(5,297)	(6,976)	(8,211)
<b>Cash flow from operations</b>	<b>12,537</b>	<b>11,493</b>	<b>16,200</b>	<b>15,854</b>	<b>19,421</b>
Capex	(102)	(140)	(185)	(814)	(894)
investments	(5,451)	(2,398)	(5,636)	(5,003)	(5,889)
Others	473	356	353	4,728	5,053
<b>Cash flow from investments</b>	<b>(8,520)</b>	<b>(5,793)</b>	<b>(11,627)</b>	<b>(5,673)</b>	<b>(6,615)</b>
Interest Expenses	(86)	(97)	(91)	(91)	(91)
Dividend (incl tax)	(7,244)	(8,959)	(10,247)	(14,295)	(16,826)
Others	(125)	(244)	(324)	0	0
<b>Cash flow from financing</b>	<b>(7,455)</b>	<b>(9,299)</b>	<b>(10,662)</b>	<b>(14,386)</b>	<b>(16,917)</b>
<b>Net change in cash</b>	<b>2</b>	<b>13</b>	<b>71</b>	<b>378</b>	<b>774</b>

Source: Company, YES Sec – Research

## Exhibit 7: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	NA	29,533	34,649	NA	28,755	33,749	NA	2.7	2.7
Operating Profit	NA	22,758	27,263	NA	21,980	26,363	NA	3.5	3.4
Profit After Tax	NA	19,855	23,370	NA	19,282	22,700	NA	3.0	3.0

Source: Company, YES Sec – Research

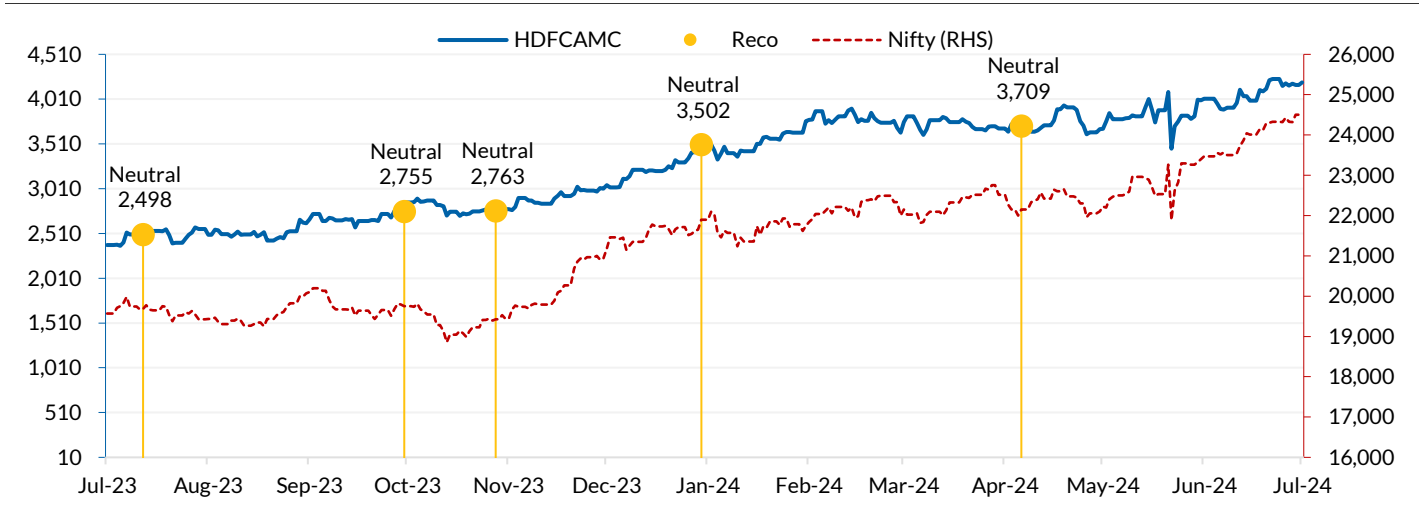
## Exhibit 8: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth ratios (%)</b>					
AAUM	12.9%	0.2%	25.1%	19.6%	17.6%
Management Fees	14.3%	2.7%	19.4%	14.0%	17.4%
PMS & Advisory Fees	-6.9%	-50.3%	-37.4%	208.1%	10.0%
Staff Cost	37.7%	0.2%	13.0%	9.0%	9.0%
Total Operating Expenses	32.7%	6.5%	13.5%	8.8%	9.0%
Profit Before Tax	6.1%	0.8%	32.5%	8.3%	17.7%
Net profit	5.1%	2.2%	36.7%	2.0%	17.7%
<b>As a % of Avg AUM</b>					
Investment Management Fees	0.48%	0.50%	0.47%	0.45%	0.45%
Staff Cost	0.07%	0.07%	0.07%	0.06%	0.05%
Other Expenses	0.05%	0.05%	0.05%	0.04%	0.04%
PBT	0.43%	0.43%	0.46%	0.41%	0.41%
Net profit	0.32%	0.33%	0.36%	0.31%	0.31%
<b>Operating Ratios</b>					
Operating Profit Margin	75.6%	74.7%	75.9%	77.1%	78.7%
PBT Margin	87.7%	86.3%	95.9%	90.8%	91.1%
PAT Margin	65.9%	65.7%	75.3%	67.2%	67.4%
ROE	27.0%	24.5%	29.5%	27.0%	29.4%
Dividend Payout Ratio	64.3%	71.9%	76.8%	72.0%	72.0%
<b>Per share (Rs)</b>					
EPS	65.3	66.7	91.1	93.0	109.5
Book Value	259.3	286.2	331.6	357.6	388.3
<b>Valuation Ratios</b>					
P/E (x)	64.2	62.9	46.1	45.1	38.3
P/BV (x)	16.2	14.7	12.7	11.7	10.8
Mcap to AUM	20.6%	20.6%	16.5%	13.8%	11.7%
Dividend Yield	1.0%	1.1%	1.7%	1.6%	1.9%

Source: Company, YES Sec – Research



## Recommendation Tracker



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**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL & NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF/3/20-21/0818 | AMFI ARN Code - 94338.

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## DISCLOSURE OF INTEREST

Name of the Research Analyst : Shivaji Thapliyal, Siddharth Rajpurohit, Suraj Singhania

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
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5	YSL has received any compensation from the subject company in the past twelve months	No
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Analyst Signature	Analyst Signature	Associate Signature
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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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