

April 19, 2024

RESULT REPORT Q4 FY24 | Sector: Asset Managers

HDFC Asset Management

Most positives seem largely priced in

Our view – One-off adjustment negatively impacts revenue yield

Revenue yield evolved more negatively than usual on sequential basis due to a one-off adjustment: There was an under-estimation of commission on overall basis and hence, the expense ratio was adjusted for some schemes. Then, on 1st April, the TER was reinstated to a significant extent. The prevailing segmental yields as on 1st April imply overall blended yield will be back to 47 bps in 1Q compared with 45-46 bps in 4Q.

The company will do everything in its hands to capitalize on the opportunity of having HDFC Bank as its parent: HDFC AMC has appointed a dedicated resource for this purpose. The flow market share of the company on the HDFC Bank platform is much higher than the book market share. The book share on HDFC Bank platform is 25-30% but the flow share is much more.

We maintain 'NEUTRAL' rating on HDFCAMC with an unchanged price target of Rs 4000: We value HDFCAMC at 38x FY26 P/E, with the implied P/B being 10.3x.

(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 6,954mn was up 3.6%/28.6% QoQ/YoY, compared with growth in QAAUM of 11.1%/36.3% QoQ/YoY
- **Share of Equity in AUM:** Share of Equity in AUM (including Hybrid funds) at 63.0% was up 240 bps QoQ and 860 bps YoY
- **Share of B-30 in AUM:** Share of B-30 in AUM at 19.1% was up 30 bps QoQ and 130 bps YoY
- **Channel mix:** Share of Banks, MFDs, NDs and Direct channel was 13.1%, 37.0%, 24.9% and 25%, respectively in Equity QAAUM
- **Operating profit margin:** Operating profit margin for the quarter, at 77.5%, was up 136 bps QoQ and 165 bps YoY

Exhibit 1: Result table

Rs. Mn	Q4 FY24	Q4 FY23	YoY	Q3 FY24	QoQ
Revenue from operation	6,954	5,410	28.6%	6,713	3.6%
As % of QAUM^	0.45%	0.48%	-3bps	0.49%	-3bps
Fees and Commission Exp.	7	6	11.9%	5	46.7%
As % of revenues	0.1%	0.1%	-1bps	0.1%	3bps
Employee Benefit Expenses	864	719	20.3%	903	-4.3%
As % of revenues	12.4%	13.3%	-85bps	13.5%	-103bps
Other Expenses	691	580	19.2%	691	-0.1%
As % of revenues	9.9%	10.7%	-78bps	10.3%	-37bps
Total Expenses	1,562	1,304	19.8%	1,599	-2.3%
Operating Profit	5,393	4,106	31.4%	5,114	5.4%
As % of QAUM^	0.35%	0.37%	-1bps	0.37%	-2bps
As % of revenues	77.5%	75.9%	165bps	76.2%	136bps
Other Income	1,555	969	60.5%	1,424	9.1%
Finance Cost	23	24	-2.5%	22	7.4%
Depreciation	133	133	0.5%	131	1.8%
Profit before Tax	6,791	4,918	38.1%	6,386	6.3%
Tax Expense	1,380	1,156	19.4%	1,489	-7.3%
Tax Rate	20.3%	23.5%	-318bps	23.3%	-299bps
Profit After Tax	5,411	3,762	43.8%	4,897	10.5%
As % of QAUM^	0.4%	0.3%	2bps	0.4%	0bps
As % of revenues	77.8%	69.5%	826bps	72.9%	486bps

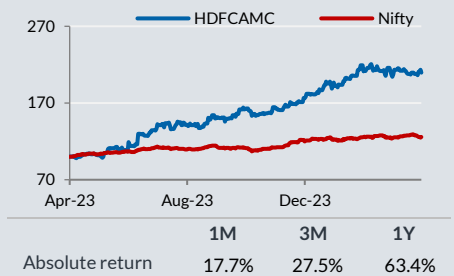
Source: Company, YES Sec-Research, ^Annualised

Recommendation	: NEUTRAL
Current price	: Rs 3,709
Target price	: Rs 4,000
Potential return	: +8%

Stock data (as on April 19, 2024)

Nifty	22,147
52 Week h/l (Rs)	4067 / 1728
Market cap (Rs/USD mn)	805347 / 9649
Outstanding Shares (mn)	213
6m Avg t/o (Rs mn):	1,839
Div yield (%):	1.3
Bloomberg code:	HDFCAMC IN
NSE code:	HDFCAMC

Stock performance



Shareholding pattern (As of Dec'23 end)

Promoter	52.6%
FII+DII	37.5%
Others	10.0%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	4000	4000

Financial Summary

Rs mn	FY24	FY25E	FY26E
Net Revenue	25,844	28,755	33,749
YoY Growth	19.3%	11.3%	17.4%
EBIDTA Margin	75.9%	76.4%	78.1%
PAT	19,459	19,282	22,700
YoY Growth	36.7%	-0.9%	17.7%
ROE	29.5%	26.2%	28.6%
EPS (Rs)	91.1	90.3	106.3
P/E (x)	40.7	41.1	34.9
BV (Rs)	331.6	356.9	386.7
P/BV (x)	11.2	10.4	9.6

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	NA	90.3	106.3
EPS (Old)	NA	88.5	104.4
% change	NA	2.1%	1.9%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Yield aspects

- **Yield decline due to one-off adjustment**
 - Revenue yield declined on sequential basis due to a one-off adjustment in TER.
 - The company tries to estimate distribution cost, which could go wrong.
 - The Regular TER is computed as per the SEBI formula and the Direct TER is reduced as per distribution commission, which is where the estimation comes into play.
 - There was an under-estimation of commission on overall basis and hence, the expense ratio was adjusted for some schemes.
 - Then, on 1st April, the TER was reinstated to a significant extent.
 - **Certain fund-wise details**
 - Smallcap Fund – Direct TER declined from 72 bps as of 31st December to 58 bps as of 31st March and was then reinstated to 63 bps as of 1st April.
 - Hybrid Debt Fund – Direct TER declined from 127 bps as of 31st December to 119 bps as of 31st March and was then reinstated to 124 bps as of 1st April.
 - Credit Risk Debt Fund – Direct TER declined from 97 bps as of 31st December to 91 bps as of 31st March and was then reinstated to 96 bps as of 1st April.
 - Transport and Logistics Fund – Direct TER increased 7 bps from 31st March to 1st April.
- **Segmental book yield as on 1st April**
 - Equity – 59 bps
 - Debt – 27-28 bps
 - Liquid – 12-13 bps
- **Near-term yield guidance**
 - The prevailing segmental yield as on 1st April imply overall blended yield will be back to 47 bps in 1Q compared with 45-46 bps in 4Q.
- **Competitive intensity**
 - The competitive intensity is stable in the market.
 - The distribution commission payout has not gone up and has remained the same for the past few quarters.
 - The one-off TER adjustment has nothing to do with any rise in distribution commission payouts.
- **Telescopic pricing**
 - Management stated that there is no escaping the impact of telescoping pricing on revenue yield.
 - **Specific examples**
 - Balanced Advantage Fund – AUM increased from Rs 520bn to Rs 800bn causing TER to decline by 13 bps.
 - Midcap Fund – AUM increased from Rs 350bn to Rs 600bn, causing TER to decline by 19 bps.
- **Operating profit yield**
 - Assuming revenue yield of 47 bps and cost to AUM of 12 bps, the operating profit yield would be 35 bps.
- **Equity flow yield**
 - The yield on equity assets is in the 50-60 bps range compared with the 59 bps book yield.

(Con call takeaways continue on the next page)

Operating expenses

- **ESOP cost**
 - The total cost of last year's ESOP grant was Rs 0.55bn.
 - As per the amortization schedule, this year the cost would be about Rs 0.47bn and next year it would be about Rs 0.2bn odd.
- **Branch expansion**
 - 24 branches have been added in early January with most in B30 locations.
- **Total expenses**
 - Total expenses as a percentage of AUM stood at 12 bps for FY24.
 - Total cost was up Rs 0.72bn for the year but, excluding the non-cash charge for ESOP, total cost increased by Rs 0.65bn, which translated to a rise of 11% YoY.

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.

Dividend policy

- The trend that one has seen in the past is that the Board has been forthcoming in increasing the payout ratio.

HDFC Bank sourcing

- The company will do everything in its hands to capitalize on the opportunity of having HDFC Bank as its parent and has appointed a dedicated resource for this purpose.
- The flow market share of the company on the HDFC Bank platform is much higher than the book market share.
- The book share on HDFC Bank platform is 25-30% but the flow share is much more.

Direct channel

- The share of direct channel was about 23% at the start of the year but this has increased to 28-30% now.

Debt business

- This has been third consecutive year of net outflows from debt funds.
- There is a new campaign "Fixed Income Sahi Hai".

ETF business

- The share of ETF in overall AUM is about 2%.

Unique investors

- The market share in incremental unique investors has been close to 40%.

(Con call takeaways continue on the next page)

Key underlying business figures

- **Total AUM**
 - The total QAAUM for the AMC amounted to Rs. 6,129 bn, accounting for a market share of 11.3%
- **Equity AUM**
 - Active equity QAAUM was Rs 3,650 bn, accounting for a market share of 12.8%
- **Debt AUM**
 - The debt QAAUM is up 16% YoY.
 - The market share in debt mutual funds was 13.4% on QAAUM
- **Liquid fund AUM**
 - The market share in liquid funds was 11.6% on QAAUM
- **Individual investors**
 - Live Individual investors were at 16.25mn as of March 2024, up by 44% YoY
 - As of March 2024, Individual investor's share was 70.8% in total MAAUM, higher than industry average of 61%.
- **Unique investors**
 - Unique investors grew from 6.6mn as of March 2023 to 9.6mn as of March 2024
 - The market share in unique investors was 22% as of March 2024
- **Systematic transactions**
 - Transactions processed amounted to 7.74mn for March 2024
 - Quantum of transactions totaled to Rs 29.3bn for March 2024, up by around 71% YoY

Financial aspects

- **Revenue**
 - The revenue in FY24 was at Rs 25.8bn, up by 19% YoY
 - The revenue yield for the year was at 47bps, down from 49bps in FY23.
- **Operating Profit**
 - The operating profit in FY24 was Rs.19.0 bn, up 22% YoY
 - The operating profit to AUM margin for the year was at 35bps, flat YoY
- **Dividend**
 - The company has announced final dividend of Rs 70 per share, amounting to a dividend payout of 77%.

Exhibit 2: Other Business Parameters

Rs. Mn	Q4FY24	Q4FY23	YoY	Q3FY24	QoQ
Quarterly Average AUM	6,129,049	4,497,663	36.3%	5,515,205	11.1%
Market Share	11.3%	11.1%	20bps	11.2%	10bps
Systematic Transactions*	29,300	17,100	71.3%	26,300	11.4%
AUM Mix (Rs mn)					
Equity	3,861,301	2,446,729	57.8%	3,342,214	15.5%
Debt	1,366,778	1,178,388	16.0%	1,351,225	1.2%
Liquid	674,195	728,621	-7.5%	623,218	8.2%
Others	226,775	143,925	57.6%	198,547	14.2%
AUM Mix (% proportion)					
Equity	63.0%	54.4%	860bps	60.6%	240bps
Debt	22.3%	26.2%	-390bps	24.5%	-220bps
Liquid	11.0%	16.2%	-520bps	11.3%	-30bps
Others	3.7%	3.2%	50bps	3.5%	20bps
Channel Mix, Equity AUM (% proportion)					
Banks	13.1%	13.3%	-20bps	13.1%	0bps
HDFC Bank	7.6%	8.1%	-50bps	7.7%	-10bps
MFDs	37.0%	39.9%	-290bps	37.8%	-80bps
National Distributors	24.9%	23.8%	110bps	24.8%	10bps
Direct	25.0%	23.0%	200bps	24.3%	70bps
Geographical Spread					
T-30	80.9%	82.2%	-130bps	81.2%	-30bps
B-30	19.1%	17.8%	130bps	18.8%	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

Q4FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Revenue	6,954	7,450	(6.7)
EBITDA	5,393	5,675	(5.0)
PAT	5,411	5,086	6.4

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	75,122	81,478
Shareholder's Funds	55,300	61,084	70,791	76,190	82,546
Trade Payables	292	356	388	432	507
Other Current Liabilities	3,019	3,616	4,171	4,265	4,807
Short Term Provisions	192	310	226	226	226
Total Current Liabilities	3,503	4,281	4,785	4,923	5,540
Total Liabilities and Equity	58,804	65,365	75,576	81,113	88,085
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	76,759	82,480
Sundry Debtors	745	1,837	933	1,038	1,218
Cash and Bank	81	40	112	349	1,076
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	78,537	85,219
Total Assets	58,804	65,365	75,576	81,113	88,085

Source: Company, YES Sec – Research

Exhibit 5: Profit & Loss statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Operating Income	21,154	21,668	25,844	28,755	33,749
Fees and Commission	54	37	25	12	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
Operating Profit	15,999	16,179	19,615	21,980	26,363
Other Income	3,178	3,158	5,781	4,732	5,047
Depreciation	539	533	523	564	644
Finance Cost	86	97	91	91	91
Profit before Tax	18,553	18,706	24,782	26,057	30,676
Tax	4,622	4,467	5,323	6,775	7,976
Net Profit	13,931	14,239	19,459	19,282	22,700

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	26,057	30,676
Depreciation	539	533	523	564	644
Change in working cap	500	(565)	1,469	(53)	341
Tax paid	4,622	4,467	5,323	6,775	7,976
Others	2,565	1,789	5,191	0	0
Cash flow from operations	17,535	15,997	26,642	19,793	23,686
Capex	(350)	(704)	(518)	(814)	(894)
Change in investments	(8,170)	(5,089)	(11,109)	(4,859)	(5,720)
Others					
Cash flow from investments	(8,520)	(5,793)	(11,627)	(5,673)	(6,615)
Free cash flow	9,015	10,204	15,015	14,120	17,071
Equity raised/(repaid)	2	1	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl tax)	8,958	10,244	14,944	13,883	16,344
Others	0	0	0	0	0
Cash flow from financing	(8,956)	(10,243)	(14,943)	(13,883)	(16,344)
Net change in cash	59	(40)	72	237	727

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	28,755	33,749	NA	28,472	33,421	NA	1.0	1.0
Operating Profit	NA	21,980	26,363	NA	21,981	26,345	NA	(0.0)	0.1
Profit After Tax	NA	19,282	22,700	NA	18,880	22,279	NA	2.1	1.9

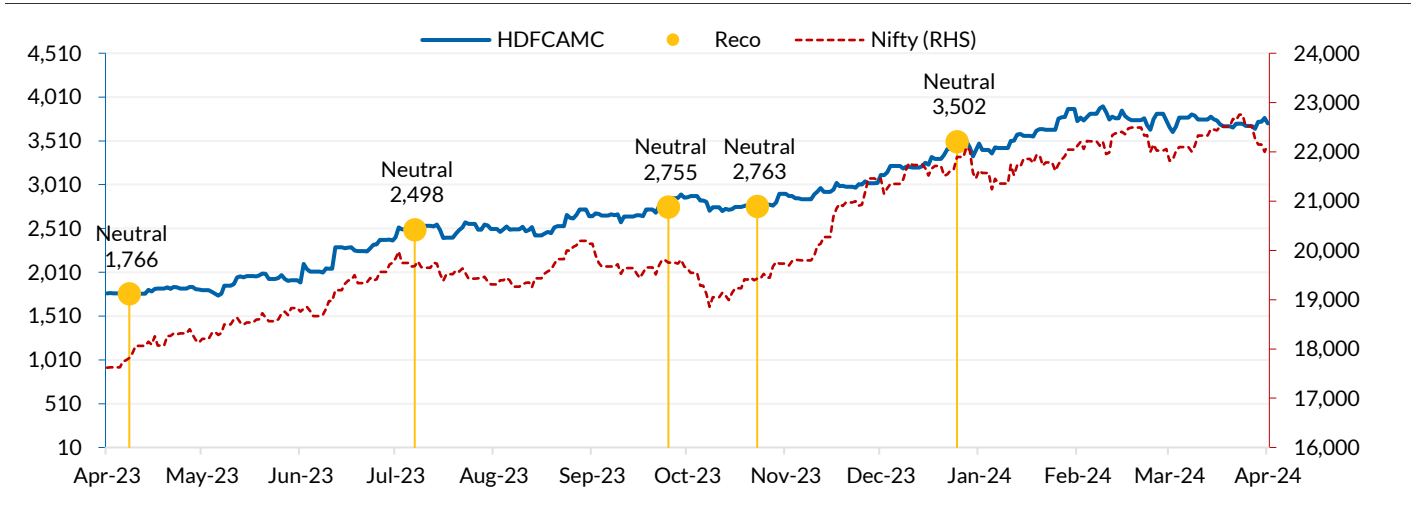
Source: Company, YES Sec – Research

Exhibit 8: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth ratios (%)					
AAUM	12.9%	0.2%	25.1%	14.4%	17.4%
Management Fees	14.3%	2.7%	19.1%	11.3%	17.4%
PMS & Advisory Fees	-6.9%	-50.3%	75.4%	10.0%	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%	5.1%	17.7%
Net profit	5.1%	2.2%	36.7%	-0.9%	17.7%
As a % of Avg AUM					
Investment Management Fees	0.48%	0.50%	0.47%	0.46%	0.46%
Staff Cost	0.07%	0.07%	0.07%	0.06%	0.06%
Other Expenses	0.05%	0.05%	0.05%	0.05%	0.04%
PBT	0.43%	0.43%	0.46%	0.42%	0.42%
Net profit	0.32%	0.33%	0.36%	0.31%	0.31%
Operating Ratios					
Operating Profit Margin	75.6%	74.7%	75.9%	76.4%	78.1%
PBT Margin	87.7%	86.3%	95.9%	90.6%	90.9%
PAT Margin	65.9%	65.7%	75.3%	67.1%	67.3%
ROE	27.0%	24.5%	29.5%	26.2%	28.6%
Dividend Payout Ratio	64.3%	71.9%	76.8%	72.0%	72.0%
Per share (Rs)					
EPS	65.3	66.7	91.1	90.3	106.3
Book Value	259.3	286.2	331.6	356.9	386.7
Valuation Ratios					
P/E (x)	56.8	55.6	40.7	41.1	34.9
P/BV (x)	14.3	13.0	11.2	10.4	9.6
Mcap to AUM	18.2%	18.2%	14.6%	12.7%	10.8%
Dividend Yield	1.1%	1.3%	1.9%	1.8%	2.1%

Source: Company, YES Sec – Research

Recommendation Tracker



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2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
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
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

Analyst Signature

Analyst Signature

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

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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