

October 15, 2024

RESULT REPORT Q2 FY25 | Sector: Asset Managers

# HDFC Asset Management

## Ability to rationalize commissions a positive

### Our view – Commission rationalisation aids revenue yield improvement

**Revenue Yield** - Revenue yield evolved positively on sequential basis: HDFC AMC has rationalised the commissions paid to distributors on 12-13 equity schemes on 1<sup>st</sup> August 2024. This had a positive impact on revenue yield in 2Q and some more benefits are expected to flow in 3Q. The share of Equity QAAUM in total QAAUM has also improved. These factors have led to a 1bp QoQ improvement in revenue yield in 2Q.

**Operating Expenses** – Operating expenses growth largely contained: The employee cost for 2Q was down -5.1% QoQ, driven lower due to absence of employee engagement expense. The other operating cost for 2Q has increased by 28.2% YoY, driven largely by incremental CSR related expense and higher KYC expense on account of higher unique customer addition.

We maintain 'ADD' rating on HDFCAMC with a revised price target of Rs 5050: We value HDFCAMC at 44x FY26 P/E, with the implied P/B being 12.9x.

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

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

- **Revenue:** Revenue from operations at Rs 8,872mn was up 14.4%/38.0% QoQ/YoY, leading/lagging the growth in QAAUM of 13.0%/44.6% QoQ/YoY
- **Share of Equity in AUM:** Share of Equity in AUM (including Hybrid funds) at 65.7% was up 140 bps QoQ and 810 bps YoY
- **Share of B-30 in AUM:** Share of B-30 in AUM at 19.5% was up 10 bps QoQ and 130 bps YoY
- **Channel mix:** Share of Banks, MFDs, NDs and Direct channel was 13.3%, 35.1%, 25% and 26.6%, respectively in Equity QAAUM
- **Operating profit margin:** Operating profit margin for the quarter, at 79.4%, was up 261 bps QoQ and 437 bps YoY

### Exhibit 1: Result table

Rs. Mn	Q2 FY25	Q2 FY24	YoY	Q1 FY25	QoQ
Revenue from operation	8,872	6,431	38.0%	7,752	14.4%
As % of QAUM <sup>^</sup>	0.47%	0.49%	-2bps	0.46%	1bps
Fees and Commission Exp.	9	4	136.8%	9	0.0%
As % of revenues	0.1%	0.1%	4bps	0.1%	-1bps
Employee Benefit Expenses	957	929	3.0%	1,008	-5.1%
As % of revenues	10.8%	14.5%	-367bps	13.0%	-222bps
Other Expenses	866	675	28.2%	786	10.2%
As % of revenues	9.8%	10.5%	-74bps	10.1%	-38bps
Total Expenses	1,832	1,608	13.9%	1,803	1.6%
<b>Operating Profit</b>	<b>7,040</b>	<b>4,822</b>	<b>46.0%</b>	<b>5,949</b>	<b>18.3%</b>
As % of QAUM <sup>^</sup>	0.37%	0.37%	0bps	0.35%	2bps
As % of revenues	79.4%	75.0%	437bps	76.7%	261bps
Other Income	1,706	1,221	39.7%	1,731	-1.4%
Finance Cost	23	23	0.0%	23	-1.7%
Depreciation	137	130	5.5%	133	3.4%
Profit before Tax	8,587	5,891	45.8%	7,525	14.1%
Tax Expense	2,818	1,516	85.9%	1,485	89.8%
Tax Rate	32.8%	25.7%	709bps	19.7%	1308bps
<b>Profit After Tax</b>	<b>5,769</b>	<b>4,376</b>	<b>31.8%</b>	<b>6,040</b>	<b>-4.5%</b>
As % of QAUM <sup>^</sup>	0.3%	0.3%	-3bps	0.4%	-6bps
As % of revenues	65.0%	68.0%	-302bps	77.9%	-1289bps

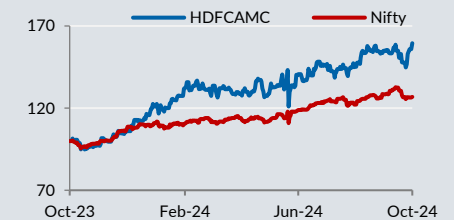
Source: Company, YES Sec-Research, <sup>^</sup>Annualised

Recommendation	: ADD
Current price	: Rs 4,555
Target price	: Rs 5,050
Potential return	: +11%

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

Nifty	25,057
52 Week h/l (Rs)	4604 / 2691
Market cap (Rs/USD mn)	957439 / 11397
Outstanding Shares (mn)	214
6m Avg t/o (Rs mn):	1,995
Div yield (%):	1.6
Bloomberg code:	HDFCAMC IN
NSE code:	HDFCAMC

### Stock performance



	1M	3M	1Y
Absolute return	3.0%	8.5%	59.5%

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

Promoter	52.5%
FII+DII	38.3%
Others	9.2%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	5,050	4700

### Financial Summary

Rs mn	FY25E	FY26E	FY27E
Net Revenue	30,608	35,899	42,104
YoY Growth	18.4%	17.3%	17.3%
EBIDTA Margin	77.9%	79.4%	80.9%
PAT	20,649	24,304	28,638
YoY Growth	6.1%	17.7%	17.8%
ROE	28.0%	30.4%	32.8%
EPS (Rs)	96.7	113.8	134.1
P/E (x)	47.1	40.0	34.0
BV (Rs)	358.7	390.6	428.1
P/BV (x)	12.7	11.7	10.6

### Δ in earnings estimates

Rs.	FY25E	FY26E	FY27E
EPS (New)	96.7	113.8	134.1
EPS (Old)	93.0	109.5	131.0
% change	4.0%	4.0%	2.4%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### Yield aspects

- **Rationalization of Commissions**
  - The company has re-negotiated the commissions with distributors and the revised commissions have become effective from 1<sup>st</sup> August 2024.
  - The revision has happened for some 12-13 equity schemes of the Company.
  - Part of the benefit has flown in 2QFY25 and some more benefit is to flow in 3QFY25.
  - The revised rates will not be effective on funds taken before April 2019.
  - The revision of commission would help the company soften the impact of telescopic pricing on equity revenue yields.
- **Revenue Yield**
  - The revenue yield has increased sequentially by 1bp in 2QFY25.
  - The reason for the sequential increase in yield is both increase in share of equity QAAUM in total QAAUM and the positive impact due to rationalization of commissions.
- **Segmental Average book yield for the quarter**
  - Equity – 58 bps
  - Debt – 28 bps
  - Liquid – 12-13 bps
- **Exit yield for the quarter**
  - Equity – 58 bps

### Operating expenses

- **Total expenses**
  - Total expenses for 2QFY25 have gone up by 13.9% YoY and 1.6% QoQ.
  - **Employee Expense**
    - The employee cost for 2QFY25 has increased by 3% YoY but down -5.1% QoQ.
    - The key reasons for the QoQ decrease in employee cost was that the company had its employee engagement program related expenses in 1Q which is not repeated every quarter.
  - **Other Opex**
    - The other operating cost for 2QFY25 has increased by 28.2% YoY and 10.2% QoQ.
    - On absolute terms, other opex is up by Rs 191mn YoY in 2QFY25, of which Rs 62mn pertains to incremental CSR expense and Rs 25mn pertain to KYC expenses due to higher unique investor addition.

### Alternative Business

- **New Asset Class**
  - The company views the new proposed asset class as an additional opportunity.
- **Gift City Operations**
  - One of the Fund of Fund product will be live very soon.
  - The company will further launch 3 more Fund of Funds.
- **AIFs**
  - The company has recently closed VC-PE fund of fund with Rs 12bn commitment.

(Con call takeaways continue on the next page)

## Effective tax rate

- The effective tax rate for the quarter was at 32.8%, higher YoY and QoQ due to higher deferred tax.
- In August 2024, the rates at which capital gains were taxed have changed and indexation benefit has also been withdrawn while calculating long term capital gains on investments. Consequently, the Deferred Tax Liability recognised by the Company on fair value gains on its investments as on June 30, 2024 has increased by Rs. 697.5 mn thereby resulting in an additional charge on the Profit After Tax for 2QFY25.
- This is a one-off expense and all cumulative impact as of June 2024 has been accounted in 2QFY25.
- The corporate tax remains stable but future effective tax rate for the company will be influenced by MTM gains.

## HDFC Bank sourcing

- HDFC Bank holds a share of 6.0% in total AUM and 7.6% in total Equity-oriented AUM as of September 2024.
- The flow market share of the company on the HDFC Bank platform is much higher than the book share.

## Key underlying business figures

- **Total AUM**
  - The total QAAUM for the AMC amounted to Rs. 7,588 bn, accounting for a market share of 11.5%.
- **Equity AUM**
  - Actively-managed equity oriented QAAUM was Rs 4,676 bn, accounting for a market share of 12.9%.
- **Debt AUM**
  - The debt QAAUM is up 13% YoY.
  - The market share in debt mutual funds was 13.5% on QAAUM.
- **Liquid fund AUM**
  - The market share in liquid funds was 12.1% on QAAUM.
- **Individual investors**
  - Live Individual investors were at 20.64mn as of September 2024, up by 53% YoY.
  - As of September 2024, Individual investor's share was 71.4% in total MAAUM, higher than industry average of 61.9%.
- **Unique investors**
  - Unique investors grew from 7.9mn as of September 2023 to 11.8mn as of September 2024.
  - The market share in unique investors was 24% as of September 2024.
- **Systematic transactions**
  - Transactions processed amounted to 10.31mn for September 2024.
  - Quantum of transactions totaled to Rs 36.8bn for September 2024, up by around 64% YoY.

(Con call takeaways continue on the next page)

## Financial aspects

- Revenue
  - The revenue in 2QFY25 was at Rs 8.87bn, up by 38% YoY.
  - The revenue yield for the quarter was at 47bps, up 1bp QoQ.
- Operating Profit
  - The operating profit in 2QFY25 was Rs. 7.04 bn, up 46% YoY.
  - The operating profit to AUM margin for the quarter was at 37bps, flat YoY.

## Exhibit 2: Other Business Parameters

Rs. Mn	Q2FY25	Q2FY24	YoY	Q1FY25	QoQ
Quarterly Average AUM	7,587,980	5,247,396	44.6%	6,715,828	13.0%
Market Share	11.5%	11.2%	30bps	11.4%	10bps
Systematic Transactions*	36,800	22,400	64.3%	32,100	14.6%
<b>AUM Mix (Rs mn)</b>					
Equity	4,985,303	3,022,500	64.9%	4,318,277	15.4%
Debt	1,547,948	1,369,570	13.0%	1,430,471	8.2%
Liquid	751,210	687,409	9.3%	711,878	5.5%
Others	303,519	167,917	80.8%	255,201	18.9%
<b>AUM Mix (% proportion)</b>					
Equity	65.7%	57.6%	810bps	64.3%	140bps
Debt	20.4%	26.1%	-570bps	21.3%	-90bps
Liquid	9.9%	13.1%	-320bps	10.6%	-70bps
Others	4.0%	3.2%	80bps	3.8%	20bps
<b>Channel Mix, Equity AUM (% proportion)</b>					
Banks	13.3%	13.1%	20bps	13.4%	-10bps
HDFC Bank	7.6%	7.8%	-20bps	7.7%	-10bps
MFDs	35.1%	38.6%	-350bps	36.0%	-90bps
National Distributors	25.0%	24.6%	40bps	25.0%	0bps
Direct	26.6%	23.7%	290bps	25.6%	100bps
<b>Geographical Spread</b>					
T-30	80.5%	81.8%	-130bps	80.6%	-10bps
B-30	19.5%	18.2%	130bps	19.4%	10bps

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

Q2FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Revenue	8,872	8,706	1.9
EBITDA	7,040	6,703	5.0
PAT	5,769	5,951	(3.1)

Source: Company, YES Sec – Research

## ANNUAL FINANCIALS

### Exhibit 4: Balance sheet statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	1,067	1,067	1,067	1,067	1,067
Total Reserves	60,017	69,723	75,505	82,310	90,329
Shareholder's Funds	61,084	70,791	76,572	83,378	91,396
Trade Payables	356	388	459	539	632
Other Current Liabilities	3,616	4,171	4,569	5,174	5,890
Short Term Provisions	310	226	226	226	226
Total Current Liabilities	4,281	4,785	5,255	5,939	6,748
<b>Total Liabilities and Equity</b>	<b>65,365</b>	<b>75,576</b>	<b>81,827</b>	<b>89,316</b>	<b>98,144</b>
Net Block	1,505	1,513	1,763	2,013	2,263
Intangible Assets	21	9	9	9	9
Non Current Investments	0	0	0	0	0
Long Term Loans & Advances	0	0	0	0	0
Other Non Current Assets	732	766	804	844	886
Total Non-Current Assets	2,259	2,287	2,576	2,866	3,158
Currents Investments	60,792	71,900	77,104	83,228	90,445
Sundry Debtors	1,837	933	1,105	1,296	1,520
Cash and Bank	40	112	652	1,481	2,512
Other Current Assets	312	212	233	256	282
Short Term Loans and Advances	126	132	158	190	228
Total Current Assets	63,107	73,288	79,251	86,451	94,986
<b>Total Assets</b>	<b>65,365</b>	<b>75,576</b>	<b>81,827</b>	<b>89,316</b>	<b>98,144</b>

Source: Company, YES Sec – Research

### Exhibit 5: Profit & Loss statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Operating Income</b>	<b>21,668</b>	<b>25,844</b>	<b>30,608</b>	<b>35,899</b>	<b>42,104</b>
Fees and Commission	37	25	14	16	19
Employee Expense	3,127	3,535	3,853	4,199	4,577
Other Expenses	2,326	2,670	2,910	3,172	3,457
Total Expenses	5,489	6,229	6,776	7,387	8,053
<b>Operating Profit</b>	<b>16,179</b>	<b>19,615</b>	<b>23,831</b>	<b>28,512</b>	<b>34,050</b>
Other Income	3,158	5,781	4,728	5,066	5,464
Depreciation	533	523	564	644	724
Finance Cost	97	91	91	91	91
Profit before Tax	18,706	24,782	27,904	32,843	38,700
Tax	4,467	5,323	7,255	8,539	10,062
<b>Net Profit</b>	<b>14,239</b>	<b>19,459</b>	<b>20,649</b>	<b>24,304</b>	<b>28,638</b>

Source: Company, YES Sec – Research

## Exhibit 6: Cash flow statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	18,706	24,782	27,904	32,843	38,700
Depreciation	533	523	564	644	724
Finance Cost	97	91	91	91	91
Other Income	(2,722)	(5,273)	(4,728)	(5,066)	(5,464)
Change in working cap	(1,020)	1,374	212	398	480
Tax paid	(4,102)	(5,297)	(7,255)	(8,539)	(10,062)
<b>Cash flow from operations</b>	<b>11,493</b>	<b>16,200</b>	<b>16,788</b>	<b>20,371</b>	<b>24,468</b>
Capex	(140)	(185)	(814)	(894)	(974)
investments	(2,398)	(5,636)	(5,204)	(6,125)	(7,217)
Others	356	353	4,728	5,066	5,464
<b>Cash flow from investments</b>	<b>(2,182)</b>	<b>(5,467)</b>	<b>(1,290)</b>	<b>(1,953)</b>	<b>(2,727)</b>
Interest Expenses	(97)	(91)	(91)	(91)	(91)
Dividend (incl tax)	(8,959)	(10,247)	(14,867)	(17,499)	(20,619)
Others	(244)	(324)	0	0	0
<b>Cash flow from financing</b>	<b>(9,299)</b>	<b>(10,662)</b>	<b>(14,958)</b>	<b>(17,590)</b>	<b>(20,710)</b>
<b>Net change in cash</b>	<b>13</b>	<b>71</b>	<b>540</b>	<b>829</b>	<b>1,032</b>

Source: Company, YES Sec – Research

## Exhibit 7: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	30,608	35,899	42,104	29,533	34,649	41,237	3.6	3.6	2.1
Operating Profit	23,831	28,512	34,050	22,758	27,263	33,184	4.7	4.6	2.6
Profit After Tax	20,649	24,304	28,638	19,855	23,370	27,976	4.0	4.0	2.4

Source: Company, YES Sec – Research

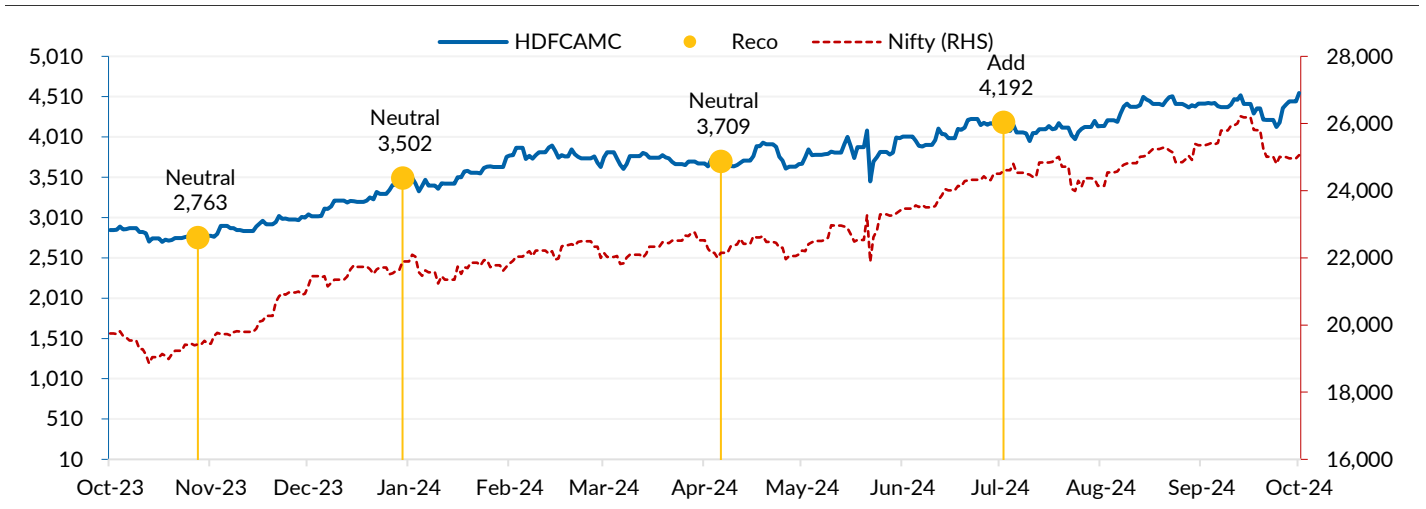
## Exhibit 8: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth ratios (%)</b>					
AAUM	0.2%	25.1%	25.6%	17.7%	17.8%
Management Fees	2.7%	19.4%	18.2%	17.3%	17.3%
PMS & Advisory Fees	-50.3%	-37.4%	208.1%	10.0%	10.0%
Staff Cost	0.2%	13.0%	9.0%	9.0%	9.0%
Total Operating Expenses	6.5%	13.5%	8.8%	9.0%	9.0%
Profit Before Tax	0.8%	32.5%	12.6%	17.7%	17.8%
Net profit	2.2%	36.7%	6.1%	17.7%	17.8%
<b>As a % of Avg AUM</b>					
Investment Management Fees	0.50%	0.47%	0.45%	0.45%	0.44%
Staff Cost	0.07%	0.07%	0.06%	0.05%	0.05%
Other Expenses	0.05%	0.05%	0.04%	0.04%	0.04%
PBT	0.43%	0.46%	0.41%	0.41%	0.41%
Net profit	0.33%	0.36%	0.30%	0.30%	0.30%
<b>Operating Ratios</b>					
Operating Profit Margin	74.7%	75.9%	77.9%	79.4%	80.9%
PBT Margin	86.3%	95.9%	91.2%	91.5%	91.9%
PAT Margin	65.7%	75.3%	67.5%	67.7%	68.0%
ROE	24.5%	29.5%	28.0%	30.4%	32.8%
Dividend Payout Ratio	71.9%	76.8%	72.0%	72.0%	72.0%
<b>Per share (Rs)</b>					
EPS	66.7	91.1	96.7	113.8	134.1
Book Value	286.2	331.6	358.7	390.6	428.1
<b>Valuation Ratios</b>					
P/E (x)	68.3	50.0	47.1	40.0	34.0
P/BV (x)	15.9	13.7	12.7	11.7	10.6
Mcap to AUM	22.4%	17.9%	14.2%	12.1%	10.3%
Dividend Yield	1.1%	1.5%	1.5%	1.8%	2.1%

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/AIF3/20-21/0818 | 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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1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
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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
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
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Lead 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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