

January 11, 2024

RESULT REPORT Q3 FY24 | Sector: Asset Managers

HDFC Asset Management

Equity business remains strong for now

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

- **Revenue:** Revenue from operations at Rs 6,713mn was up 4.4%/20% QoQ/YoY, compared with growth in QAAUM of 5.1%/24% QoQ/YoY
- **Share of Equity in AUM:** Share of Equity in AUM (including Hybrid funds) at 60.6% was up 300 bps QoQ and 680 bps YoY
- **Share of B-30 in AUM:** Share of B-30 in AUM at 18.8% was up 60 bps QoQ and 120 bps YoY
- **Channel mix:** Share of Banks, MFDs, NDs and Direct channel was 13.1%, 37.8%, 24.8% and 24.3%, respectively in Equity QAAUM
- **Operating profit margin:** Operating profit margin for the quarter, at 76.2%, was up 119 bps QoQ and 235 bps YoY

Our view – Management sees significant potential in largecap equity

The company has gained almost 100 bps in equity fund market share over the past 12 months: The largecap category has not grown much and, based on relative valuation and on feedback, there is a lot of potential for growth here. The company has a top class product in the form of HDFC Top 100 in this category.

There is a loss in debt fund market share but that is not on account of underlying reasons: The company was a late entrant in debt index funds since it was waiting for regulatory clarity. Excluding the impact of this, the market share in debt mutual funds has been broadly flat. Furthermore, the group limit exposure to HDFC group may have been hit for certain institutional clients.

We maintain 'NEUTRAL' rating on HDFCAMC with a revised price target of Rs 3,700: We value HDFCAMC at 42x FY25 P/E, with the implied P/B being 12.9x.

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

Exhibit 1: Result table

Rs. Mn	Q3 FY24	Q3 FY23	YoY	Q2 FY24	QoQ
Revenue from operation	6,713	5,596	20.0%	6,431	4.4%
As % of QAUM^	0.49%	0.50%	-2bps	0.49%	0bps
Fees and Commission Exp.	5	6	-26.2%	4	18.4%
As % of revenues	0.1%	0.1%	-4bps	0.1%	1bps
Employee Benefit Expenses	903	790	14.4%	929	-2.8%
As % of revenues	13.5%	14.1%	-66bps	14.5%	-100bps
Other Expenses	691	669	3.4%	675	2.4%
As % of revenues	10.3%	11.9%	-165bps	10.5%	-20bps
Total Expenses	1,599	1,465	9.2%	1,608	-0.6%
Operating Profit	5,114	4,131	23.8%	4,822	6.0%
As % of QAUM^	0.37%	0.37%	0bps	0.37%	0bps
As % of revenues	76.2%	73.8%	235bps	75.0%	119bps
Other Income	1,424	1,034	37.8%	1,221	16.6%
Finance Cost	22	24	-9.6%	23	-4.8%
Depreciation	131	134	-2.2%	130	0.7%
Profit before Tax	6,386	5,007	27.5%	5,891	8.4%
Tax Expense	1,489	1,313	13.4%	1,516	-1.8%
Tax Rate	23.3%	26.2%	-291bps	25.7%	-241bps
Profit After Tax	4,897	3,694	32.6%	4,376	11.9%
As % of QAUM^	0.4%	0.3%	2bps	0.3%	2bps
As % of revenues	72.9%	66.0%	693bps	68.0%	491bps

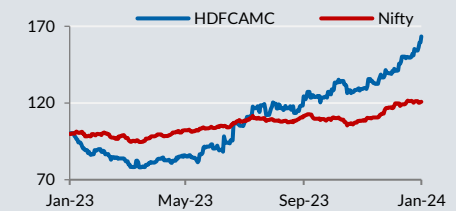
Source: Company, YES Sec-Research, ^Annualised

Recommendation	: NEUTRAL
Current price	: Rs 3,502
Target price	: Rs 3,700
Potential return	: +6%

Stock data (as on January 11, 2024)

Nifty	21,647
52 Week h/l (Rs)	3543 / 1590
Market cap (Rs/USD mn)	729880 / 8792
Outstanding Shares (mn)	213
6m Avg t/o (Rs mn):	1,705
Div yield (%):	1.7
Bloomberg code:	HDFCAMC IN
NSE code:	HDFCAMC

Stock performance



	1M	3M	1Y
Absolute return	17.7%	27.5%	63.4%

Shareholding pattern (As of Sept'23 end)

Promoter	52.6%
FII+DII	36.8%
Others	10.7%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	3700	3600

Financial Summary

Rs mn	FY24E	FY25E	FY26E
Net Revenue	25,432	28,472	33,421
YoY Growth	17.4%	12.0%	17.4%
EBIDTA Margin	76.6%	77.2%	78.8%
PAT	16,893	18,880	22,279
YoY Growth	18.6%	11.8%	18.0%
ROE	26.6%	27.6%	30.0%
EPS (Rs)	79.2	88.5	104.4
P/E (x)	44.2	39.6	33.5
BV (Rs)	308.4	333.1	362.4
P/BV (x)	11.4	10.5	9.7

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	79.2	88.5	104.4
EPS (Old)	77.9	88.4	104.3
% change	1.6%	0.1%	0.1%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Yield aspects

- The blended revenue yield for the quarter was 48 bps.
- Asset-class-wise yield
 - The equity fund yield was 63 bps.
 - The debt fund yield was 28-29 bps.
 - The liquid fund yield remained stable.
- Reason for yield decline
 - The yield has declined since large funds have undergone TER decline due to slab rules.
 - The HDFC Balanced Advantage Fund, which has an AUM of about Rs 730bn, has seen TER declining from 1.52% to 1.42% over the past 12 months.
 - The HDFC Midcap Fund, which has an AUM of about Rs 560bn, has seen TER declining from 1.63% to 1.47%.

Equity fund business

- Gain in market share
 - The company has gained almost 100 bps in equity fund market share over the past 12 months.
- Outlook
 - The largecap category has not grown much and, based on relative valuation and on feedback, there is a lot of potential for growth here.
 - The company has a top class product in the form of HDFC Top 100 in this category.

Debt fund business

- Loss in market share
 - The company was a late entrant in debt index funds since it was waiting for regulatory clarity.
 - Excluding the impact of this, the market share in debt mutual funds has been broadly flat.
 - Furthermore, the group limit exposure to HDFC group may have been hit for certain institutional clients.
 - There has been no change in strategy that has impacted market share negatively.

Distribution

- HDFC Bank channel
 - The share of HDFC Bank in total AUM has declined from 8.4% to 7.7% on YoY basis.
 - This is not on account of HDFC Bank not selling enough of the company's products but due to other channels growing faster.
 - Furthermore, there has also been an MTM impact.
 - The market share in HDFC Bank flow is higher than in stock.
- Direct channel
 - One of the key contributors to the delta in AUM are direct plans.
 - The share of direct channels is 23% on book but this share is in the late 20s on flow basis.

(Con call takeaways continue on the next page)

- **Branch addition**
 - The company has opened 24 new branches on 2nd January 2024.
 - Including these branches, the total branch count for HDFC AMC is 253 branches, of which 173 branches are in B-30 cities.

Product launches

- Management stated that they are confident about their product range (implying that there may not be any significant launches in the active equity category).

Alternate assets

- **Fund of Fund**
 - There was commitment of around Rs 8bn from 300 clients and the company hopes to raise more funds.
- **AIF**
 - The company has added 2 senior resources on the private credit side.
- **PMS**
 - 2 strategies have been launched under the PMS business.

Passive funds

- Active management is here to stay since the factoid that most active funds underperform the market index is misleading.
- This is because the aforementioned statement is based on the number of funds.
- When proportion of AUM is considered, a large proportion of industry active fund AUM outperforms the market index.

Key underlying business figures

- **Total AUM**
 - The total QAAUM for the AMC amounted to Rs. 5,515 bn, accounting for a market share of 11.2%
- **Equity AUM**
 - Actively-managed equity oriented QAAUM was Rs 3,166 bn, accounting for a market share of 12.6%
- **Debt AUM**
 - The debt QAAUM is up 16% YoY.
 - The market share in debt mutual funds was 13.2% on QAAUM
- **Liquid fund AUM**
 - The market share in liquid funds was 11.5% on QAAUM
- **Channel Mix**
 - The share of Equity QAAUM (including Hybrid) in total QAAUM was 60.6%, as compared to 53% for the industry

(Con call takeaways continue on the next page)

- **Individual investors**
 - Live Individual investors were at 14.75mn as of December 2023, up by 38% YoY
 - As of November 2023, Individual investor's share was 70% in total MAAUM, higher than industry average of 59.2%
- **Unique investors**
 - Unique investors grew from 6.3mn as of December 2022 to 8.7mn as of December 2023
 - The market share in unique investors was 21% as of December 2023
- **Systematic transactions**
 - Transactions processed amounted to 6.81mn for December 2023
 - Quantum of transactions totaled to Rs 26.3bn for December 2023, up by more than 67% YoY.

Financial aspects

- **Revenue**
 - The revenue in 3QFY24 has risen 20% YoY and 4.4% QoQ
- **Other Income**
 - The other income in 3QFY24 was Rs.1.42 bn, up 38% YoY and 17% QoQ.
 - The healthy mark-to-market gain on the investment portfolio have driven other income.
- **Operating Profit**
 - The operating profit (after deducting Finance and Depreciation cost) in 3QFY24 was Rs. 4.96 bn, up 25% YoY
 - The operating profit to AUM margin for the quarter was at 35bps
- **Tax rate**
 - The effective tax rate in 3QFY24 is lower primarily due to decrease in deferred tax charge, mainly attributed to the holding period of certain investments transitioning from short to the long-term.

Exhibit 2: Other Business Parameters

Rs. Mn	Q3FY24	Q3FY23	YoY	Q2FY24	QoQ
Quarterly Average AUM	5,515,205	4,447,963	24.0%	5,247,396	5.1%
Market Share	11.2%	11.0%	20bps	11.2%	0bps
Systematic Transactions*	26,300	15,700	67.5%	22,400	17.4%
AUM Mix (Rs mn)					
Equity	3,342,214	2,393,004	39.7%	3,022,500	10.6%
Debt	1,351,225	1,165,366	15.9%	1,369,570	-1.3%
Liquid	623,218	760,602	-18.1%	687,409	-9.3%
Others	198,547	128,991	53.9%	167,917	18.2%
AUM Mix (% proportion)					
Equity	60.6%	53.8%	680bps	57.6%	300bps
Debt	24.5%	26.2%	-170bps	26.1%	-160bps
Liquid	11.3%	17.1%	-580bps	13.1%	-180bps
Others	3.5%	2.9%	60bps	3.2%	30bps
Channel Mix, Equity AUM (% proportion)					
Banks	13.1%	13.5%	-40bps	13.1%	0bps
HDFC Bank	7.7%	8.4%	-70bps	7.8%	-10bps
MFDs	37.8%	40.8%	-300bps	38.6%	-80bps
National Distributors	24.8%	23.7%	110bps	24.6%	20bps
Direct	24.3%	22.0%	230bps	23.7%	60bps
Geographical Spread					
T-30	81.2%	82.4%	-120bps	81.8%	-60bps
B-30	18.8%	17.6%	120bps	18.2%	60bps

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

Q3FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Revenue	6,713	6,909	(2.8)
EBITDA	5,114	5,202	(1.7)
PAT	4,897	4,833	1.3

Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 4: Balance sheet statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	1,066	1,067	1,067	1,067	1,067
Total Reserves	54,234	60,017	64,747	70,034	76,272
Shareholder's Funds	55,300	61,084	65,814	71,101	77,339
Trade Payables	292	356	418	468	549
Other Current Liabilities	3,019	3,616	3,680	4,067	4,603
Short Term Provisions	192	310	310	310	310
Total Current Liabilities	3,503	4,281	4,407	4,844	5,462
Total Liabilities and Equity	58,804	65,365	70,221	75,945	82,800
Net Block	1,351	1,505	1,755	2,005	2,255
Intangible Assets	5	21	21	21	21
Non Current Investments	0	0	0	0	0
Long Term Loans & Advances	0	0	0	0	0
Other Non Current Assets	608	732	769	807	848
Total Non-Current Assets	1,964	2,259	2,545	2,834	3,124
Currents Investments	55,702	60,792	64,812	69,570	75,184
Sundry Debtors	745	1,837	2,157	2,414	2,834
Cash and Bank	81	40	257	618	1,081
Other Current Assets	252	312	312	343	377
Short Term Loans and Advances	60	126	138	166	199
Total Current Assets	56,840	63,107	67,676	73,111	79,677
Total Assets	58,804	65,365	70,221	75,945	82,800

Source: Company, YES Sec – Research

Exhibit 5: Profit & Loss statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Operating Income	21,154	21,668	25,432	28,472	33,421
Fees and Commission	54	37	11	12	14
Employee Expense	3,122	3,127	3,408	3,715	4,049
Other Expenses	1,978	2,326	2,535	2,763	3,012
Total Expenses	5,154	5,489	5,954	6,490	7,076
Operating Profit	15,999	16,179	19,478	21,981	26,345
Other Income	3,178	3,158	4,010	4,271	4,580
Depreciation	539	533	562	642	722
Finance Cost	86	97	97	97	97
Profit before Tax	18,553	18,706	22,829	25,514	30,107
Tax	4,622	4,467	5,935	6,634	7,828
Net Profit	13,931	14,239	16,893	18,880	22,279

Source: Company, YES Sec – Research

Exhibit 6: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	18,553	18,706	22,829	25,514	30,107
Depreciation	539	533	562	642	722
Change in working cap	500	(565)	(242)	82	90
Tax paid	4,622	4,467	5,935	6,634	7,828
Others	2,565	1,789	0	0	0
Cash flow from operations	17,535	15,997	17,212	19,604	23,091
Capex	(350)	(704)	(812)	(892)	(972)
Change in investments	(8,170)	(5,089)	(4,021)	(4,758)	(5,614)
Others					
Cash flow from investments	(8,520)	(5,793)	(4,832)	(5,649)	(6,586)
Free cash flow	9,015	10,204	12,380	13,954	16,505
Equity raised/(repaid)	2	1	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl tax)	8,958	10,244	12,163	13,594	16,041
Others	0	0	0	0	0
Cash flow from financing	(8,956)	(10,243)	(12,163)	(13,594)	(16,041)
Net change in cash	59	(40)	217	360	464

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	25,432	28,472	33,421	25,081	28,450	33,397	1.4	0.1	0.1
Operating Profit	19,478	21,981	26,345	19,127	21,960	26,322	1.8	0.1	0.1
Profit After Tax	16,893	18,880	22,279	16,634	18,861	22,259	1.6	0.1	0.1

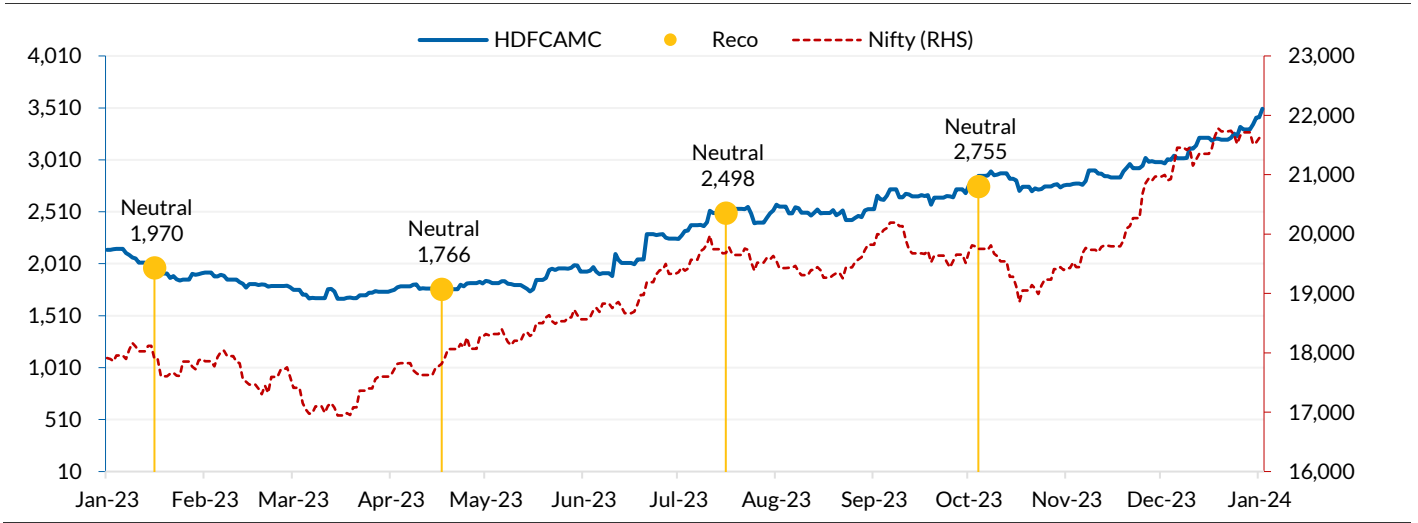
Source: Company, YES Sec – Research

Exhibit 8: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth ratios (%)					
AAUM	12.9%	0.2%	22.9%	14.5%	17.5%
Management Fees	14.3%	2.7%	17.3%	12.0%	17.4%
PMS & Advisory Fees	-6.9%	-50.3%	44.7%	10.0%	10.0%
Staff Cost	37.7%	0.2%	9.0%	9.0%	9.0%
Total Operating Expenses	32.7%	6.5%	8.5%	9.0%	9.0%
Profit Before Tax	6.1%	0.8%	22.0%	11.8%	18.0%
Net profit	5.1%	2.2%	18.6%	11.8%	18.0%
As a % of Avg AUM					
Investment Management Fees	0.48%	0.50%	0.47%	0.46%	0.46%
Staff Cost	0.07%	0.07%	0.06%	0.06%	0.06%
Other Expenses	0.05%	0.05%	0.05%	0.05%	0.04%
PBT	0.43%	0.43%	0.43%	0.42%	0.42%
Net profit	0.32%	0.33%	0.32%	0.31%	0.31%
Operating Ratios					
Operating Profit Margin	75.6%	74.7%	76.6%	77.2%	78.8%
PBT Margin	87.7%	86.3%	89.8%	89.6%	90.1%
PAT Margin	65.9%	65.7%	66.4%	66.3%	66.7%
ROE	27.0%	24.5%	26.6%	27.6%	30.0%
Dividend Payout Ratio	64.3%	71.9%	72.0%	72.0%	72.0%
Per share (Rs)					
EPS	65.3	66.7	79.2	88.5	104.4
Book Value	259.3	286.2	308.4	333.1	362.4
Valuation Ratios					
P/E (x)	53.6	52.5	44.2	39.6	33.5
P/BV (x)	13.5	12.2	11.4	10.5	9.7
Mcap to AUM	17.2%	17.2%	14.0%	12.2%	10.4%
Dividend Yield	1.2%	1.4%	1.6%	1.8%	2.1%

Source: Company, YES Sec – Research

Recommendation Tracker



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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

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

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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