

Better performance to drive market share, valuation...

About the stock: HDFC AMC is among the largest and profitable mutual funds with a QAAUM of ~₹ 4.2 lakh crore as on September 2022.

- Market share as on Q2FY23 was at ~11%
- Strong distribution network with 228 branches and more than 80,000 empanelled distribution partners

Key Highlights

- Increasing awareness, digital adoption & product launches to drive continued shift towards financial assets and equity as an asset class. HDFC AMC is well placed to benefit given strong distribution, brand name & superior fundamentals
- Healthy performance in equity schemes from Q2FY22 onwards was expected to drive inflows with a lag. In H1FY23, erosion in market share was arrested. Since then, a gradual uptick was seen in market share. Further, market share gain should be visible from Q3FY23 onwards (in November-December 2022, equity AUM grew faster at 11% vs. industry growth of 8% while traction in hybrid AUM continued to be faster by ~500 bps to 7%)

What should investors do? HDFC AMC's share price has remained flattish in the past one year led by subdued industry AUM, volatility in market share of HDFC AMC.

- We upgrade the stock from HOLD to **BUY**

Target Price and Valuation: Anticipated improvement in market share on the back of healthy scheme performance and superior earnings trajectory makes us positive on the stock. Rolling our estimates, we value the business at ~32x FY25E EPS and revise our target from ₹ 2200 to ₹ 2600.

Key triggers for future price performance:

- Healthy pipeline of new product launches including passive funds coupled with steady SIP momentum to aid AUM growth
- Experienced team, strong distribution network and scheme performance gives confidence on sustainable performance in the long run
- Tech investments, business promotion activities, new launches to keep opex elevated in the near term but should reflect in business growth

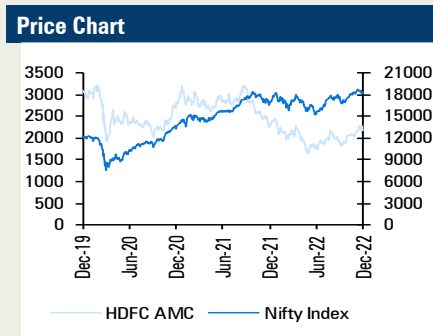
Alternate Stock Idea: Besides HDFC AMC, in our coverage we like Nippon Life AMC.

- Nippon Life India AMC is among the largest asset managers in India. The company has a strong distribution network with 85500+ distributors
- BUY with a target price of ₹ 300



Particulars	Amount
Market Capitalisation	₹ 46508 crore
AUM	₹ 422200 crore
Networth	₹ 5336 crore
52 week H/L	2535 /1690
Face Value	₹ 5

Shareholding pattern					
in %	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	68.9	68.8	68.8	68.8	62.8
DII	9.0	9.4	9.0	11.3	12.3
FII	7.6	10.5	10.4	7.3	12.3
Others	14.6	11.2	11.8	12.6	12.6



Recent Event & key risk

- Market share steady at ~11%
- Key Risk:** i) Elevated redemption in non-SIP AUM ii) Increase in competitive intensity

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Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenue from operation (₹ crore)	1915	2003	1853	2115	3%	2238	2462	8%
PBT (₹ crore)	1375	1683	1763	1855	11%	1839	2084	6%
Net Profit (₹ crore)	931	1292	1340	1393	14%	1388	1563	6%
EPS (₹)	43.9	59.2	63.2	66.4		66.2	74.6	
P/E (x)	49.7	36.8	34.5	32.8		32.9	29.2	
AUM /share (₹)	15754	15224	18868	19444		21257	23849	
P/AUM (%)	13.8	14.3	11.6	11.2		10.3	9.1	
RoE (%)	30.3	32.1	28.1	25.2		23.0	23.6	

Financial Summary

Exhibit 1: Profit & Loss Statement

(₹ crores)	FY21	FY22	FY23E	FY24E	FY25E
Revenue from Operations	1,852.5	2,115.4	2,238.4	2,461.9	2,707.6
Growth (%)	-7.5%	14.2%	5.8%	10.0%	10.0%
Other Income	349.2	318.0	214.2	290.0	292.0
Total Revenue	2,201.7	2,433.4	2,452.6	2,751.9	2,999.6
Employee Benefit Expenses	226.8	312.2	338.1	368.2	386.6
Depreciation & Amortization Expense	55.4	53.8	56.5	59.3	62.3
Other Expenses (incl fees)	156.4	198.2	219.2	240.1	264.9
Total Expenses	438.5	578.2	613.8	667.6	713.8
Profit Before Tax	1,763.2	1,855.2	1,838.8	2,084.3	2,285.8
Taxes	423.2	462.2	450.5	521.1	571.4
Profit After Tax	1,340.0	1,393.0	1,388.3	1,563.2	1,714.3
EPS (₹)	63.2	66.4	66.2	74.6	81.8

Source: Company, ICICI Direct Research

Exhibit 2: Balance Sheet

(₹ crores)	FY21	FY22	FY23E	FY24E	FY25E
Sources of Funds					
Share capital	106.5	106.6	106.6	106.6	106.6
Reserves and surplus	4669.7	5423.4	5934.2	6509.4	6509.4
Total Shareholders funds	4776.2	5530.0	6040.8	6616.0	6616.0
Total Non-Current Liabilities					
	4.3	7.4	9.6	12.5	16.2
Total Current Liabilities					
	314.2	343.0	380.7	426.4	477.5
Total	5094.7	5880.4	6431.1	7054.8	7109.8
Applications of Funds					
Property, plant and equipment	136.9	122.2	140.5	154.6	170.0
Intangible assets	16.4	12.9	7.9	8.9	9.9
Intangible asset under development	1.2	0.5	0.5	0.5	0.5
Investments*	4753.3	5570.2	6083.9	6662.3	7296.6
Long term loans and advances	37.3	30.2	30.2	30.2	30.2
Deferred tax assets (net)	0.0	0.0	0.0	0.0	0.0
Total Current Assets and Others	149.8	144.4	168.2	198.4	-397.4
Total Assets	5094.7	5880.4	6431.1	7054.8	7109.8

Source: Company, ICICI Direct Research

Exhibit 3: Key Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Valuation					
No of Equity shares (crore)	21.0	21.0	21.0	21.0	21.0
EPS	63.2	66.4	66.2	74.6	81.8
DPS	34.0	42.0	41.9	47.1	51.7
BVPS	227.9	263.8	288.2	315.6	315.6
P/E	34.5	32.8	32.9	29.2	26.7
P/BV	9.6	8.3	7.6	6.9	6.9
Operating Ratios (%)					
Rev/AUM	0.46	0.51	0.49	0.48	0.47
EBITDA/AUM	0.35	0.37	0.37	0.36	0.36
PAT/AUM	0.33	0.33	0.30	0.31	0.30
Return Ratios (%)					
RoNW	28.1%	25.2%	23.0%	23.6%	25.9%
ROCE	26.3%	23.7%	21.6%	22.2%	24.1%

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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