

Market share gain; smooth transition is a key...

About the stock: HDFC AMC is among the largest and profitable mutual funds with an QAAUM of ~₹ 4.1 lakh crore as on June 2022.

- Market share as on Q1FY23 was at 11.1%.
- Strong distribution network with 228 branches and more than 80,000 empanelled distribution partners.

Q1FY23 Results: HDFC AMC reported steady quarter

- AUM down 2.7% YoY to ₹3.9 lakh crore; equity AUM down 4.1% QoQ
- Revenue from operation up 2.9% YoY and 1% QoQ to ₹ 521.6 crore
- Overall yields increased by ~1.5-2 bps QoQ at 53 bps
- PAT came in at ₹ 314 crore, supported by healthy operational performance. PAT as % of AUM at ~32 bps.

What should investors do? HDFC AMC's share price has grown over 13% since its listing in August 2018 and in past few months the price has corrected, that gives good entry opportunity.

- We maintain **BUY** rating on the stock

Target Price and Valuation: HDFC AMC has maintained fundamental strength with superior yields and profitability. With structural opportunity and gradual recovery in market share. However, confidence induce on sustained recovery, we revise our TP from ₹ 2400 to ₹ 2200, valuing HDFC AMC at ~27.5x FY24E EPS.

Key triggers for future price performance:

- Improved fund performance and healthy pipeline of new products to aid AUM growth
- Experience team, strong distribution and brand image to ensure no substantial impact on AUM on exit of Prashant Jain
- Reversal in market erosion trend remains positive, however, sustainability of trajectory to act as trigger
- Continued focus on opex and superior return ratios to keep premium valuations un-abated

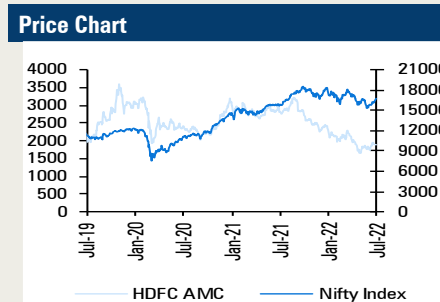
Alternate Stock Idea: Apart from HDFC AMC, in our coverage we like Nippon Life AMC.

- Nippon Life India AMC is among the largest asset managers in India. The company has a strong distribution network with 84300+ distributors.
- BUY with target price of ₹ 400



Particulars	Amount
Market Capitalisation	₹ 40536 crore
AUM	₹ 396600 crore
Networth	₹ 4959 crore
52 week H/L	3363/1690
Face Value	₹ 5

Shareholding pattern					
in %	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	73.9	68.9	68.8	68.8	68.8
DII	6.6	9.0	9.4	9.0	11.3
FII	9.1	7.6	10.5	10.4	7.3
Others	10.4	14.6	11.2	11.8	12.6



- ### Recent Event & key risk
- HDFC AMC witnessed market share gain of 30 bps QoQ
 - Key Risk:** i) Trend in market share, 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%	2274	2552	10%
PBT (₹ crore)	1375	1683	1763	1855	11%	1916	2236	10%
Net Profit (₹ crore)	931	1292	1340	1393	14%	1446	1677	10%
EPS (₹)	43.9	59.2	63.2	66.4		69.0	80.0	
P/E (x)	43.3	32.1	30.1	28.6		27.5	23.7	
AUM /share (₹)	15754	15224	18868	19444		21156	23737	
P/AUM (%)	12.1	12.5	10.1	9.8		9.0	8.0	
RoE (%)	30.3	32.1	28.1	25.2		23.9	25.1	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Steady quarter; market share decline trend got reversed

- Industry AUM increased to ₹ 37.7 lakh crore from ₹ 33.2 lakh crore YoY, but declined compared to ₹ 38.4 lakh crore in Q4FY22. Equity related AUM was up 29% YoY and declined on QoQ basis to ₹17.5 lakh crore; led by recent correction in equities. Proportion of equity AUM stood at 46.4% as against 45.8% QoQ. SIP inflows stood flat on QoQ basis at ₹12300 crore.
- HDFC AMC reported better than industry trend with sequential decline of 2.7% in AUM at ₹3.9 lakh crore; equity AUM declined 4% QoQ, in-line with industry trend. Debt & liquid segment witnessed relatively better performance QoQ with 9% decline in debt segment (industry declined 10.5%) and liquid AUM picking up 16% vs 4.4% uptick in industry AUM.
- HDFC AMC had witnessed decline in market share in previous few quarters. However, in Q1FY23, the trend got reversed as they gained market share by ~30 bps QoQ at 11.1%. Equity AUM (actively managed) market share increased by ~10 bps to 11.5%, while market share in debt and liquid segment increased 30 bps and 130 bps QoQ.
- Despite decline in equity AUM, income from operations increased 1% QoQ; yields up ~2 bps to 0.53%. Other income de-grew 88.8% YoY/ 82.5% QoQ, due to rise in yields. PAT came in at ₹314.2 crore registering a de-growth of 9% YoY/ 8.5% QoQ, though PAT as a % of AUM remained flat at ~32 bps.
- For the industry, SIP flows was flat sequentially at ₹ 12300 crore. Whereas, HDFC AMC, SIP flows increased by ₹50 crore QoQ to ₹1280 crore, gaining a market share by ~40 bps at 10.4% in June 2022.

Q1FY23 Results: Earnings Conference Call highlights

- As Mr. Prashant Jain has given his resignation, the board has approved the appointment of Mr. Chirag Setalvad as head-equities and Mr. Shobhit Mehrotra as head-fixed income. Both of them will be reporting to Mr Navneet Munot (MD & CIO).
- There was a regulatory embargo at industry level on launch of any new products. HDFC AMC has approval for 9 ETFs though few of them require date extension. Expect launch all of these products by Q4FY23. 4 thematic funds are awaiting clearance. Also filed for MSCI emerging market fund.
- Rise in yields and correction in equities have impacted investment book and thus impacted other income. Tax expenses was lower in Q1FY23 due to reduction in deferred tax charge on account of MTM losses and also due to reversal of deferred tax liability.
- Improvement in yields was partially due to change in asset mix and some bit of rounding off. With higher inflow in long run, directional trend of yields should be southwards.
- Market share in gross flows is inching while redemption share is witnessing a decline. On equity legacy book yields are in mid 70s as of Jun'22
- The impact of merger would be neutral to positive as HDFC AMC will get access to a larger distribution network and greater value alignment

Peer comparison

Exhibit 1: ICICI Direct coverage universe (AMC)

Sector / Company	CMP			M Cap		EPS (₹)				P/E (x)			P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating	(₹ bn)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
HDFC AMC (HDFAMC)	1,900	2,400	Buy	405	63.2	66.4	69.0	80.0	30.1	28.6	27.5	23.7	8.3	7.2	6.6	6.0	28.1	25.2	23.9	25.1
Nippon AMC (RELNIP)	287	400	Buy	178	11.0	12.0	15.1	17.8	26.0	24.0	19.1	16.1	5.7	5.1	4.8	4.4	18.7	17.0	17.6	20.9

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22 YoY (%)	Q4FY22	QoQ (%)	Comments	
Revenue from operation	521.6	506.8	507.1	2.9	516.3	1.0	Moderate growth due to sluggish AUM trajectory
Revenue/AUM	0.53%	0.51%	0.48%	4 bps	0.51%	2 bps	Increase in yields despite moderate income
Other Income	11.3	63.0	100.9	-88.8	64.7	-82.5	
Net Total Income	532.9	569.8	608.0	-12.4	580.9	-8.3	Dented by lower other income
Staff cost	78.0	82.7	83.5	-6.6	71.4	9.2	
Other Operating Expenses	69.9	59.6	58.4	19.7	66.9	4.6	
Total Expense	147.9	142.3	141.9	4.3	138.3	7.0	
PBT	385.0	427.5	466.1	-17.4	442.7	-13.0	
Tax Outgo	70.8	104.7	120.7	-41.3	99.1	-28.6	
PAT	314.2	322.8	345.5	-9.0	343.6	-8.5	Healthy operational income supported PAT
Total AUM	3,96,600	3,97,453	4,18,700	-5.3	4,07,600	-2.7	In-line with industry trend

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Revenue from Operation	2,452	2,274	-7.3	2,805.0	2,552	-9.0
PBT	2,073.0	1,915.5	-7.6	2,384.7	2,235.9	-6.2
Revenue/AUM	0.47	0.50	3 bps	0.47	0.50	3 bps
PAT	1,554.8	1,446.2	-7.0	1,788.5	1,676.9	-6.2
EPS(₹)	73.0	69.0	-5.5	83.9	80.0	-4.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit & Loss Statement

(₹ crores)	FY20	FY21	FY22	FY23E	FY24E
Revenue from Operations	2,003.3	1,852.5	2,115.4	2,274.2	2,552.4
Growth (%)	4.6%	-7.5%	14.2%	7.5%	12.2%
Other Income	139.9	349.2	318.0	253.5	345.8
Total Revenue	2,143.1	2,201.7	2,433.4	2,527.7	2,898.2
Employee Benefit Expenses	214.7	226.8	312.2	336.5	362.9
Depreciation & Amortization Expense	50.4	55.4	53.8	56.5	59.3
Other Expenses (incl fees)	195.4	156.4	198.2	219.2	240.1
Total Expenses	460.4	438.5	578.2	612.2	662.4
Profit Before Tax	1,682.7	1,763.2	1,855.2	1,915.5	2,235.9
Taxes	390.6	423.2	462.2	469.3	559.0
Profit After Tax	1,292.1	1,340.0	1,393.0	1,446.2	1,676.9
EPS (₹)	59.2	63.2	66.4	69.0	80.0

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet

(₹ crores)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Share capital	106.4	106.5	106.6	106.6	106.6
Reserves and surplus	3922.9	4669.7	5423.4	5955.5	6572.5
Total Shareholders funds	4029.3	4776.2	5530.0	6062.2	6679.1
Liabilities					
Total Non-Current Liabilities	3.9	4.3	7.4	9.6	12.5
Total Current Liabilities	275.4	314.2	343.0	380.7	426.4
Total	4308.6	5094.7	5880.4	6452.4	7118.0
Applications of Funds					
Property, plant and equipment	141.4	136.9	122.2	134.4	147.8
Intangible assets	15.3	16.4	12.9	13.9	14.9
Intangible asset under development	4.6	1.2	0.5	0.5	0.5
Investments*	3944.5	4753.3	5570.2	6105.3	6725.8
Long term loans and advances	27.1	37.3	30.2	30.2	30.2
Deferred tax assets (net)	21.7	0.0	0.0	0.0	0.0
Total Current Assets and Others	154.0	149.8	144.4	168.1	198.8
Total Assets	4308.6	5094.7	5880.4	6452.4	7118.0

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No of Equity shares (crore)	21.0	21.0	21.0	21.0	21.0
EPS	59.2	63.2	66.4	69.0	80.0
DPS	28.0	34.0	42.0	43.6	50.6
BVPS	192.2	227.9	263.8	289.2	318.7
P/E	32.1	30.1	28.6	27.5	23.7
P/BV	9.9	8.3	7.2	6.6	6.0
Operating Ratios (%)					
Rev/AUM	0.61	0.46	0.51	0.50	0.50
EBITDA/AUM	0.47	0.35	0.37	0.38	0.38
PAT/AUM	0.38	0.33	0.33	0.32	0.33
Return Ratios (%)					
RoNW	32.1%	28.1%	25.2%	23.9%	25.1%
ROCE	30.0%	26.3%	23.7%	22.4%	23.6%

Source: Company, ICICI Direct Research

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