

Steady market share; other income boost PAT...

About the stock: HDFC AMC is among the largest and profitable mutual funds with an 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

Q2FY23 Results: Sequential growth in AUM with steady market share

- AUM up 6.5% QoQ to ₹ 4.2 lakh crore; equity AUM up 12.3% QoQ
- Revenue from operation was flat YoY and grew 4.4% QoQ to ₹ 544 crore
- Overall yields remained steady QoQ at 52 bps
- PAT came in at ₹ 364 crore, supported by healthy other income. PAT as percentage of AUM was at ~34 bps

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

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

Target Price and Valuation: HDFC AMC has maintained steady yields and market share despite volatility in capital markets. Sustained superior yields and market share remain positive. Maintain our TP at ₹ 2200, valuing HDFC AMC at ~27.8x FY24E EPS.

Key triggers for future price performance:

- Healthy pipeline of new product launches including passive funds and 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: 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 85500+ distributors
- BUY with target price of ₹ 330



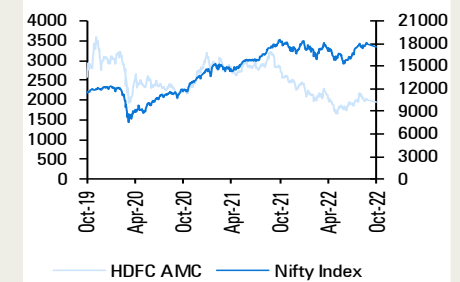
Particulars

| | Amount |
|-----------------------|----------------|
| Market Capitalisation | ₹ 41813 crore |
| AUM | ₹ 422200 crore |
| Networth | ₹ 5336 crore |
| 52 week H/L | 2951/1690 |
| 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 | 6.7 |
| FII | 7.6 | 10.5 | 10.4 | 7.3 | 12.3 |
| Others | 14.6 | 11.2 | 11.8 | 12.6 | 18.2 |

Price Chart



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% | 2261 | 2537 | 10% |
| PBT (₹ crore) | 1375 | 1683 | 1763 | 1855 | 11% | 1900 | 2215 | 9% |
| Net Profit (₹ crore) | 931 | 1292 | 1340 | 1393 | 14% | 1435 | 1661 | 9% |
| EPS (₹) | 43.9 | 59.2 | 63.2 | 66.4 | | 68.5 | 79.3 | |
| P/E (x) | 44.7 | 33.1 | 31.0 | 29.5 | | 28.6 | 24.7 | |
| AUM /share (₹) | 15754 | 15224 | 18868 | 19444 | | 21257 | 23849 | |
| P/AUM (%) | 12.4 | 12.9 | 10.4 | 10.1 | | 9.2 | 8.2 | |
| RoE (%) | 30.3 | 32.1 | 28.1 | 25.2 | | 23.7 | 24.9 | |

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Healthy sequential performance with steady market share

- Industry AUM increased to ₹ 39.1 lakh crore from ₹ 36.2 lakh crore YoY and ₹ 37.7 lakh crore QoQ. Equity related AUM was up 21.2% YoY and 8.0% QoQ to ₹ 18.9 lakh crore. Proportion of equity AUM was at 48.3% against 46.4% QoQ. SIP inflows grew both QoQ and YoY to ₹ 13000 crore
- HDFC AMC reported better than industry trend with sequential improvement of 6.5% in AUM at ₹ 4.22 lakh crore; equity AUM grew 12.3% QoQ, higher than industry trend. Debt segment particularly witnessed a de growth in AUM of 27% YoY (industry declined 20%) while liquid segment reported growth of 7% YoY (industry grew ~19% YoY)
- HDFC AMC had witnessed a decline in market share in the previous few quarters. However, on a sequential basis the market share remained stable at ~11%. Within equity and non-equity oriented segment also the market share was largely stable
- With improvement in equity AUM, income from operations increased 4.4% QoQ while yields declined 1 bps to 0.52%. Other income registered significant growth of 57.7% YoY and ~9x QoQ, which aided earnings. PAT came in at ₹ 364.1 crore (marginally higher than our estimates) registering a growth of 6% YoY and 16% QoQ. PAT as a % of AUM up 34.5 bps, led by better operational performance.
- For the industry, SIP flows was flat sequentially at ₹ 13000 crore. Whereas, HDFC AMC SIP flows witnessed an increase by ₹ 150 crore QoQ to ₹ 1430 crore, gaining a market share by ~60 bps at 11% in September 2022.

Q2FY23 Results: Earnings Conference Call highlights

- Industry trend - On a sequential basis, equity net flows at the industry level continued to remain strong. NFOs contribution was to the tune of ₹ 10400 crore. Debt schemes continued to witness net outflows mainly due to rising interest rate. All remaining schemes saw inflows during the quarter. AUM of B-30 contributed 17%
- For HDFC AMC, market share across schemes largely remained steady on a QoQ basis. Change in asset mix kept margins steady
- Total 75% of flows are from SIP, which indicates that lump sum flows are coming down due to volatility. Equity ownership by retail investors has seen significant traction
- HDFC AMC plans to launch thematic fund, business cycle fund in November 2022. Also, the company is looking to expand its products range on the passive side. During the quarter, six ETFs were launched. Received approvals to launch various debt schemes
- During the quarter, there was an inflow in debt ETF and debt index funds
- Expenses as percentage of AUM was at 13-14 bps. Tech spends, business promotion, various initiatives, etc, activities will keep opex higher. Esop expenses in the current year are about ₹ 40 crore
- Across all distribution channels, the company is gaining market share on a YoY basis
- Liquid and debt ETF market is ₹ 68000 crore out of which one AMC, which manages "Bharat bond ETF" has about ₹ 50000 crore size
- Continues to working on building international business and PMS/AIF; more updates likely in upcoming quarters

Peer comparison

Exhibit 1: ICICI Direct coverage universe (AMC)

| Sector / Company | CMP | | | M Cap (₹ bn) | EPS (₹) | | | | P/E (x) | | | | P/ABV (x) | | | | RoE (%) | | | |
|---------------------|-------|-------|--------|-----------------|---------|-------|-------|-------|---------|-------|-------|-------|-----------|-------|-------|-------|---------|-------|-------|-------|
| | (₹) | TP(₹) | Rating | | FY21 | FY22E | FY23E | FY24E | FY21 | FY22E | FY23E | FY24E | FY21 | FY22E | FY23E | FY24E | FY21 | FY22E | FY23E | FY24E |
| HDFC AMC (HDFAMC) | 1,960 | 2,200 | Hold | 418 | 63.2 | 66.4 | 68.5 | 79.3 | 31.0 | 29.5 | 28.6 | 24.7 | 8.6 | 7.4 | 6.8 | 6.2 | 28.1 | 25.2 | 23.7 | 24.9 |
| Nippon AMC (RELNIP) | 269 | 330 | Buy | 169 | 11.0 | 12.0 | 11.9 | 14.5 | 24.4 | 22.5 | 22.7 | 18.5 | 5.3 | 4.8 | 4.5 | 4.3 | 18.7 | 17.0 | 14.4 | 17.7 |

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

| | Q2FY23 | Q2FY23E | Q2FY22 YoY (%) | Q1FY23 | QoQ (%) | Comments | |
|--------------------------|---------|---------|----------------|--------|---------|----------|--|
| Revenue from operation | 544.7 | 534.1 | 542.3 | 0.4 | 521.6 | 4.4 | QoQ performance healthy led by uptick in AUM |
| Revenue/AUM | 0.52% | 0.52% | 0.50% | 2 bps | 0.53% | -1 bps | Increase in equity proportion kept yields steady |
| Other Income | 104.2 | 51.9 | 66.1 | 57.7 | 11.3 | 820.6 | |
| Net Total Income | 648.9 | 586.0 | 608.4 | 6.7 | 532.9 | 21.8 | Aided by healthy other income |
| Staff cost | 83.9 | 72.7 | 79.8 | 5.0 | 78.0 | 7.5 | |
| Other Operating Expenses | 72.0 | 68.4 | 67.2 | 7.1 | 69.9 | 2.9 | |
| Total Expense | 155.8 | 141.1 | 147.0 | 6.0 | 147.9 | 5.3 | |
| PBT | 493.1 | 444.8 | 461.4 | 6.9 | 385.0 | 28.1 | |
| Tax Outgo | 129.0 | 109.0 | 117.0 | 10.3 | 70.8 | 82.2 | |
| PAT | 364.1 | 335.8 | 344.4 | 5.7 | 314.2 | 15.9 | Healthy topline aided earnings |
| Total AUM | 422,200 | 414,838 | 435,700 | -3.1 | 396,600 | 6.5 | Higher growth than industry trend |

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

| (₹ Crore) | FY23E | | | FY24E | | |
|------------------------|---------|---------|----------|---------|---------|----------|
| | Old | New | % Change | Old | New | % Change |
| Revenue from Operation | 2,274 | 2,261 | -0.6 | 2,552.4 | 2,537 | -0.6 |
| PBT | 1,915.5 | 1,900.4 | -0.8 | 2,235.9 | 2,215.1 | -0.9 |
| Revenue/AUM | 0.50 | 0.50 | -1 bps | 0.50 | 0.50 | -1 bps |
| PAT | 1,446.2 | 1,434.8 | -0.8 | 1,676.9 | 1,661.3 | -0.9 |
| EPS(₹) | 69.0 | 68.5 | -0.8 | 80.0 | 79.3 | -0.9 |

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 | 2,260.7 | 2,536.9 |
| Growth (%) | 4.6% | -7.5% | 14.2% | 6.9% | 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 | 2,514.2 | 2,882.7 |
| Employee Benefit Expenses | 214.7 | 226.8 | 312.2 | 338.1 | 368.2 |
| 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 | 613.8 | 667.6 |
| Profit Before Tax | 1,682.7 | 1,763.2 | 1,855.2 | 1,900.4 | 2,215.1 |
| Taxes | 390.6 | 423.2 | 462.2 | 465.6 | 553.8 |
| Profit After Tax | 1,292.1 | 1,340.0 | 1,393.0 | 1,434.8 | 1,661.3 |
| EPS (₹) | 59.2 | 63.2 | 66.4 | 68.5 | 79.3 |

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 | 5951.3 | 6562.6 |
| Total Shareholders funds | 4029.3 | 4776.2 | 5530.0 | 6057.9 | 6669.2 |
| 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 | 6448.2 | 7108.0 |
| Applications of Funds | | | | | |
| Property, plant and equipment | 141.4 | 136.9 | 122.2 | 140.5 | 154.6 |
| Intangible assets | 15.3 | 16.4 | 12.9 | 7.9 | 8.9 |
| Intangible asset under development | 4.6 | 1.2 | 0.5 | 0.5 | 0.5 |
| Investments* | 3944.5 | 4753.3 | 5570.2 | 6101.1 | 6715.8 |
| 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 | 198.1 |
| Total Assets | 4308.6 | 5094.7 | 5880.4 | 6448.2 | 7108.0 |

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 | 68.5 | 79.3 |
| DPS | 28.0 | 34.0 | 42.0 | 43.3 | 50.1 |
| BVPS | 192.2 | 227.9 | 263.8 | 289.0 | 318.2 |
| P/E | 33.1 | 31.0 | 29.5 | 28.6 | 24.7 |
| P/BV | 10.2 | 8.6 | 7.4 | 6.8 | 6.2 |
| Operating Ratios (%) | | | | | |
| Rev/AUM | 0.61 | 0.46 | 0.51 | 0.50 | 0.50 |
| EBITDA/AUM | 0.47 | 0.35 | 0.37 | 0.37 | 0.38 |
| PAT/AUM | 0.38 | 0.33 | 0.33 | 0.31 | 0.32 |
| Return Ratios (%) | | | | | |
| RoNW | 32.1% | 28.1% | 25.2% | 23.7% | 24.9% |
| ROCE | 30.0% | 26.3% | 23.7% | 22.3% | 23.4% |

Source: Company, ICICI Direct Research

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