

Decent performance with marginal market share gain...

About the stock: HDFC AMC is among the largest and profitable mutual funds with an QAAUM of ~₹ 4.4 lakh crore as on December 2022.

- Market share as on Q3FY23 was at 11.2%
- Strong distribution network with 228 branches and over 75,000 empanelled distribution partners

Q3FY23 Results: Decent operational performance.

- AUM up 6.1% QoQ to ₹ 4.48 lakh crore; equity AUM up 8% QoQ
- Revenue from operation was flat YoY and grew 2.7% QoQ to ₹ 559 crore
- Overall yields remained steady QoQ at ~50 bps
- PAT came in at ₹ 369 crore, aided by other income. PAT as percentage of AUM was at ~33 bps

What should investors do? HDFC AMC's share price has corrected recently due to subdued industry AUM. We believe this gives a good entry opportunity to investors.

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

Target Price and Valuation: HDFC AMC continues to showcase relative operational strength. We cut our estimates amid anticipated reduction in yield led by reduction in total expense ratio (TER) and accretion in debt AUM. However, growth in AUM amid gain in market share to compensate for pressure on yield & drive earnings growth. Thus, we value the business at ~27x FY25E EPS and revise our target from ₹ 2600 to ₹ 2250.

Key triggers for future price performance:

- Opex likely to remain elevated in near term due to continued tech investments, business promotion activities, new launches. However, it will reflect in business growth gradually
- Healthy pipeline of new product launches to aid AUM growth and market share gain
- Experienced team, strong distribution network and scheme performance are positives in the long run

Alternate Stock Idea: Apart from HDFC AMC, 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



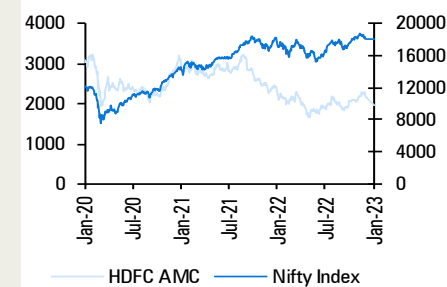
Particulars

	Amount
Market Capitalisation	₹ 41906 crore
AUM	₹ 448100 crore
Networth	₹ 5721 crore
52 week H/L	2479 /1690
Face Value	₹ 5

Shareholding pattern

in %	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	68.8	68.8	68.8	62.8	62.8
DII	9.4	9.0	11.3	12.3	13.4
FII	10.5	10.4	7.3	12.3	12.1
Others	11.2	11.8	12.6	12.6	11.7

Price Chart



Recent Event & key risk

- Market share gain of ~20 bps at ~11.2%

Key Risk: i) Delay in pick-up in debt inflow ii) Faster reduction in yields

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Pravin Mule
pravin.mule@icicisecurities.com

Key Financial Summary

₹ crore	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Revenue from operation (₹ crore)	2003	1853	2115	3%	2194	2423	2677	8%
PBT (₹ crore)	1683	1763	1855	11%	1891	2091	2332	8%
Net Profit (₹ crore)	1292	1340	1393	14%	1428	1568	1749	8%
EPS (₹)	59.2	63.2	66.4		68.1	74.8	83.4	
P/E (x)	33.1	31.1	29.5		28.8	26.2	23.5	
AUM /share (₹)	15224	18868	19444		21257	23961	27022	
P/AUM (%)	12.9	10.4	10.1		9.2	8.2	7.3	
RoE (%)	32.1	28.1	25.2		23.6	23.6	26.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Steady performance with ~20 bps market share gain

- Industry AUM increased 4% QoQ and 6% YoY to ₹ 39.9 lakh crore. In this, equity related AUM was up 15% YoY, 4.0% QoQ to ₹ 20.1 lakh crore. Proportion of equity AUM was at 50% vs. 47% YoY (QoQ steady). SIP inflows grew 5% QoQ and 20% YoY to ₹ 13600 crore
- HDFC AMC reported better than industry trend with sequential improvement of 6.1% in AUM at ₹ 4.48 lakh crore; equity AUM grew 7.7% QoQ, higher than industry trend. Debt segment particularly witnessed a de-growth in AUM of 23% YoY (on a QoQ basis was flat) vs. 17% YoY de-growth at industry level while liquid segment was largely steady QoQ
- HDFC AMC had witnessed a decline in market share in the past few quarters till the previous quarter. The market share has increased in Q3FY23 across segments excluding debt (30 bps fall in share QoQ). Overall share in total AUM was at 11.2% vs. 11% in Q2FY23
- With improvement in equity AUM, income from operations increased 2.7% QoQ while yields were steady QoQ to 0.50%. Other income registered growth of 19.9% YoY, which aided earnings. PAT came in at ₹ 369.4 crore (in line with our estimates) registering growth of 2.7% YoY and 1.4% QoQ. PAT as a percentage of AUM up 33 bps, led by decent operational performance
- For the industry, SIP flows up 5% QoQ at ₹ 13600 crore. Whereas HDFC AMC SIP flows witnessed an increase by ₹ 140 crore QoQ to ₹ 1570 crore

HDFC AMC - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	0.8	3.2	6.3
Social	23.7	30.7	32.2
Governance	78.6	78.6	78.6
Overall ESG Score	34.4	37.5	39.1

*Source: Bloomberg; ICICI Direct Research * score ranges from 0-100 with a high score indicating higher ESG disclosure*

Q3FY23 Results: Earnings Conference Call highlights

- Operating revenue margin was at ~50 bps of AUM. Product margins on a standalone basis were steady QoQ. Current yield in portfolio had gone up in line with the rise in interest rates
- Employee cost is expected to increase by 10% in FY24E. The new product related expenses should come down
- Over a period of time, growth in AUM will compensate for margins and, hence, earnings should see a healthy uptick
- SIP book AUM was at ₹ 84800 crore, out of which ~77% is over 10 years tenure
- AUM mix: Equity – 54.5% and balance debt, liquid and others
- Launched HDFC thematic fund and received AUM of ₹ 2340 crore during the NFO. Also launched multiple debt index fund in Gift city
- Outflows in debt segment was a result of rise in interest rates on deposits and other investments. The management indicated a gradual reduction in outflows and further easing of pressure as interest rates peak out
- AUM above ₹ 5000 crore, dilute TER by 2-3 bps and during Q3FY23, three large funds crossed the mark of ₹ 5000 crore. Margins in the long term will be driven by asset mix coupled with flows coming in
- The company on-boarded two independent directors during Q3FY23
- Initiatives taken in AIF segment to result in market share gain gradually over the next three to five years

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
HDFC AMC (HDFAMC)	1,963	2,250	Buy	419	63.2	66.4	68.1	74.8	31.1	29.5	28.8	26.2	8.6	7.4	6.8	6.2	28.1	25.2	23.6	23.6
Nippon AMC (RELNIP)	244	300	Hold	156	11.0	12.0	11.7	13.0	22.1	20.4	20.8	18.8	4.9	4.4	4.1	3.9	18.7	17.0	14.3	15.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22 YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue from operation	559.6	573.8	549.7 1.8	544.7	2.7	Decent performance led by uptick in AUM trajectory
Revenue/AUM	0.50%	0.52%	0.50% 0 bps	0.52%	-2 bps	Led by steady equity:debt mix
Other Income	103.4	66.9	86.2 19.9	104.2	-0.8	
Net Total Income	662.9	640.7	635.9 4.3	648.9	2.2	Aided by healthy other income
Staff cost	79.0	85.2	77.5 1.9	83.9	-5.8	
Other Operating Expenses	83.2	75.7	73.3 13.6	72.0	15.7	
Total Expense	162.2	160.9	150.7 7.6	155.8	4.1	
PBT	500.7	479.8	485.2 3.2	493.1	1.5	
Tax Outgo	131.3	117.5	125.4 4.7	129.0	1.8	
PAT	369.4	362.2	359.8 2.7	364.1	1.4	Healthy topline aided earnings
Total AUM	4,48,100	4,45,704	4,36,700 2.6	4,22,200	6.1	Higher growth than industry trend

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue from Operation	2,261	2,194	-3.0	2,537.0	2,423	-4.5	2,677
PBT	1,900.4	1,891.0	-0.5	2,215.1	2,090.8	-5.6	2,331.9
Revenue/AUM	0.50	0.48	-2 bps	0.50	0.47	-3 bps	0.46
PAT	1,434.8	1,427.7	-0.5	1,661.3	1,568.1	-5.6	1,749.0
EPS(₹)	68.5	68.1		79.3	74.8		83.4

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit & Loss Statement

(₹ crores)	FY22	FY23E	FY24E	FY25E
Revenue from Operations	2,115.4	2,193.9	2,423.3	2,676.8
Growth (%)	14.2%	3.7%	10.5%	10.5%
Other Income	318.0	307.2	339.7	383.6
Total Revenue	2,433.4	2,501.1	2,762.9	3,060.4
Employee Benefit Expenses	312.2	323.7	352.5	370.1
Depreciation & Amortization Expense	53.8	56.5	59.3	62.3
Other Expenses (incl fees)	198.2	229.9	260.4	296.1
Total Expenses	578.2	610.1	672.1	728.4
Profit Before Tax	1,855.2	1,891.0	2,090.8	2,331.9
Taxes	462.2	463.3	522.7	583.0
Profit After Tax	1,393.0	1,427.7	1,568.1	1,749.0
EPS (₹)	66.4	68.1	74.8	83.4

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet

(₹ crores)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Share capital	106.6	106.6	106.6	106.6
Reserves and surplus	5423.4	5948.7	6525.6	6525.7
Total Shareholders funds	5530.0	6055.3	6632.3	6632.3
Total Non-Current Liabilities	7.4	9.6	12.5	16.2
Total Current Liabilities	343.0	380.7	426.4	477.5
Total	5880.4	6445.6	7071.1	7126.0
Applications of Funds				
Property, plant and equipment	122.2	140.5	154.6	170.0
Intangible assets	12.9	7.9	8.9	9.9
Intangible asset under development	0.5	0.5	0.5	0.5
Investments*	5570.2	6098.5	6678.7	7325.8
Long term loans and advances	30.2	30.2	30.2	30.2
Deferred tax assets (net)	0.0	0.0	0.0	0.0
Total Current Assets and Others	144.4	168.1	198.3	-410.3
Total Assets	5880.4	6445.6	7071.1	7126.0

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

	FY22	FY23E	FY24E	FY25E
Valuation				
No of Equity shares (crore)	21.0	21.0	21.0	21.0
EPS	66.4	68.1	74.8	83.4
DPS	42.0	43.1	47.3	52.7
BVPS	263.8	288.9	316.4	316.4
P/E	29.5	28.8	26.2	23.5
P/BV	7.4	6.8	6.2	6.2
Operating Ratios (%)				
Rev/AUM	0.51	0.48	0.47	0.46
EBITDA/AUM	0.37	0.36	0.35	0.35
PAT/AUM	0.33	0.31	0.30	0.30
Return Ratios (%)				
RoNW	25.2%	23.6%	23.6%	26.4%
ROCE	23.7%	22.1%	22.2%	24.5%

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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