

October 12, 2023

RESULT REPORT Q2 FY24 | Sector: Asset Managers

HDFC Asset Management

Market rally improves outcomes for now

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

- **Revenue:** Revenue from operations at Rs 6,431mn was up 11.9%/18.1% QoQ/YoY, compared with growth in QAAUM of 8%/22% QoQ/YoY
- **Share of Equity in AUM:** Share of Equity in AUM (including Hybrid funds) at 57.6% was up 340 bps QoQ and 570 bps YoY
- **Share of B-30 in AUM:** Share of B-30 in AUM at 18.2% was up 100 bps QoQ and 70 bps YoY
- **Channel mix:** Share of Banks, MFDs, NDs and Direct channel was 13.1%, 38.6%, 24.6% and 23.7%, respectively in Equity QAAUM
- **Operating profit margin:** Operating profit margin for the quarter, at 75.0%, was up 40 bps QoQ and 72 bps YoY

Our view – Market rally improves outcomes for now

The calculated overall revenue yield has risen ~2 bps QoQ to 49 bps, driven by favourable changes in segment mix: The share of equity funds has risen 340 bps QoQ to 57.6%. The yield in the equity business was 68 bps in the sequentially previous quarter whereas this has declined to 67 bps in 2Q. The reasons for decline in yield include flow yield being lower than book yield and increased AUM causing funds to move past TER slab thresholds.

Last quarter, net inflows into debt funds were positive but were concentrated at the short-end: The debt fund market share has improved on QoQ basis but, optically, declined on YoY basis. The YoY decline is on account of not participating in debt index funds and one should not read too much into this.

We maintain 'NEUTRAL' rating on HDFCAMC with a revised price target of Rs 2,900: We value HDFCAMC at 33x FY25 P/E, with the implied P/B being 10.1x.

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

Exhibit 1: Result table

Rs. Mn	Q2 FY24	Q2 FY23	YoY	Q1 FY24	QoQ
Revenue from operation	6,431	5,447	18.1%	5,745	11.9%
As % of QAUM^	0.49%	0.51%	-2bps	0.47%	2bps
Fees and Commission Exp.	4	11	-64.5%	10	-61.6%
As % of revenues	0.1%	0.2%	-14bps	0.2%	-11bps
Employee Benefit Expenses	929	839	10.8%	838	10.9%
As % of revenues	14.5%	15.4%	-94bps	14.6%	-13bps
Other Expenses	675	552	22.3%	612	10.3%
As % of revenues	10.5%	10.1%	36bps	10.7%	-15bps
Total Expenses	1,608	1,402	14.8%	1,460	10.2%
Operating Profit	4,822	4,046	19.2%	4,286	12.5%
As % of QAUM^	0.37%	0.38%	-1bps	0.35%	1bps
As % of revenues	75.0%	74.3%	72bps	74.6%	40bps
Other Income	1,221	1,042	17.2%	1,580	-22.7%
Finance Cost	23	24	-6.6%	23	-3.0%
Depreciation	130	132	-1.8%	129	0.6%
Profit before Tax	5,891	4,931	19.5%	5,714	3.1%
Tax Expense	1,516	1,290	17.5%	939	61.5%
Tax Rate	25.7%	26.2%	-43bps	16.4%	930bps
Profit After Tax	4,376	3,641	20.2%	4,775	-8.4%
As % of QAUM^	0.3%	0.3%	-1bps	0.4%	-6bps
As % of revenues	68.0%	66.8%	119bps	83.1%	-1507bps

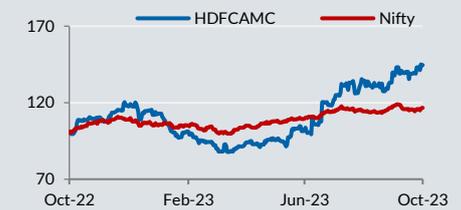
Source: Company, YES Sec-Research, ^Annualised

Recommendation	: NEUTRAL
Current price	: Rs 2,755
Target price	: Rs 2,900
Potential return	: 5%

Stock data (as on October 12, 2023)

Nifty	19,794
52 Week h/l (Rs)	2800 / 1590
Market cap (Rs/USD mn)	586483 / 7047
Outstanding Shares (mn)	213
6m Avg t/o (Rs mn):	1,518
Div yield (%):	1.8
Bloomberg code:	HDFCAMC IN
NSE code:	HDFCAMC

Stock performance



	1M	3M	1Y
Absolute return	4.7%	18.5%	43.1%

Shareholding pattern (As of Jun'23 end)

Promoter	52.6%
FII+DII	35.3%
Others	12.2%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	2,900	2,800

Financial Summary

Rs mn	FY24E	FY25E	FY26E
Net Revenue	25,081	28,450	33,397
YoY Growth	15.8%	13.4%	17.4%
EBIDTA Margin	76.3%	77.2%	78.8%
PAT	16,634	18,861	22,259
YoY Growth	16.8%	13.4%	18.0%
ROE	26.2%	27.6%	30.0%
EPS (Rs)	77.9	88.4	104.3
P/E (x)	35.4	31.2	26.4
BV (Rs)	308.0	332.8	362.0
P/BV (x)	8.9	8.3	7.6

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	77.9	88.4	104.3
EPS (Old)	75.7	85.8	101.2
% change	3.0%	3.0%	3.0%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Yield aspects

- **Segment-wise on book yield**
 - Equity – 67 bps
 - Debt – 27-28 bps
 - Liquid – 12 bps
- **Incremental yield in equity business**
 - The yield in the recent NFOs has been 90-100 bps, which is also much healthier than a competitor, Bajaj AMC, which was at about 70 bps.
 - The incremental yield in the larger schemes has been 50-60 bps.
- **More on on-book yield of equity business**
 - The 67 bps mentioned earlier includes index funds.
 - However, the contribution of index funds is small at about Rs 150bn in a total of about Rs 3 trn.
 - **On-book yield of equity index funds**
 - The yield of the larger index funds is 12-13 bps.
 - The yield of the equalweight fund is 25 bps.
- **Decline in equity yield**
 - The yield in the equity business was 68 bps in the sequentially previous quarter.
 - The reasons for decline in yield includes flow yield being lower than book yield and increased AUM, up 35% YoY, causing funds to move past TER slab thresholds.

Debt fund business

- **Market share**
 - The debt fund market share has improved on QoQ basis but, optically, declined on YoY basis.
 - The YoY decline is on account of not participating in debt index funds and one should not read too much into this.
 - Excluding index funds, the market share has remained stable even on QoQ basis, at 14.5%.
- **Net inflows**
 - Net inflows have been weak in the fixed income funds over the last 2 years.
 - Last quarter, net inflows were positive but were concentrated at the short-end.
 - There is, however, a lot of potential both at the short-end as well as the long-end.
 - The share of fixed income funds as a percentage of bank deposits has only declined.

Operating expenses

- **Employee expenses**
 - Employee expenses are up 11% YoY.
 - **CAGR**
 - Employee expenses were Rs 570mn in the September 2019 quarter.
 - In September 2023 quarter, this was Rs 929mn, which, excluding non-cash ESOP cost, was Rs 798mn, implying a CAGR of 8%.
 - **ESOP cost**
 - ESOP cost is higher by Rs 20mn on QoQ basis.
 - The total ESOP cost is Rs 550mn, of which 60% is incurred in the first year, about 30% in the second and the remaining in the third.

(Con call takeaways continue on the next page)

- **Headcount**
 - The headcount has risen from 1250 as of March to 1439, currently.
 - The pace of headcount addition will slow going forward.
- **Non-employee expenses**
 - Non-employee expenses are up 22% YoY.
 - This was largely driven by general business-related expenses, New Fund Offer expenses, Trademark Licence Fees, CSR expenses and technology spend.
 - The additional spend has amounted to Rs 120mn.
- **Overall opex to AUM**
 - Overall opex to AUM has improved from 14 bps to 13 bps.

SIP business

- SIP flows have improved 56% YoY.
- This is driven by a variety of factors including improvement in performance, products getting approved across wealth managers and marketing initiatives.
- The share of equity and hybrid business in SIP flows is 90-95%.

Channel mix

- **Direct business**
 - The share of direct plans is 22-23%.
 - On flow basis, it is higher in the late 20s.
- **HDFC Bank**
 - There has been material improvement in engagement with HDFC Bank.
 - There is now a dedicated vertical to handle HDFC Bank.
 - The company's book market share in HDFC Bank is about 25-30%.
 - The market share is higher on flow basis.

TER regulation

- There is status quo as of now.
- In terms of passing on benefits from scale, stating the example of HDFC Balance Advantage Fund, the TER has declined about 33 bps in about 3 years to 1.45%.

Key underlying business figures

- **Total AUM**
 - The total QAAUM for the AMC amounted to Rs5,247bn, accounting for a market share of 11.2%.
- **Equity AUM**
 - Actively-managed equity oriented QAAUM was Rs 2,861 bn, accounting for a market share of 12.4%.
- **Debt AUM**
 - The debt QAAUM is up 14% YoY.
 - The market share in debt mutual funds was 13.3% on QAAUM.
- **Liquid fund AUM**
 - The market share in liquid funds was 11.8% on QAAUM.

(Con call takeaways continue on the next page)

- **Channel Mix**
 - The share of Equity QAAUM (including Hybrid) in total QAAUM was 57.6%, as compared to 50.6% for the industry.
- **Individual investors**
 - Live Individual investors were at 13.47mn as of September 2023.
 - As of August 2023, Individual investor's share was 68% in total MAAUM, higher than industry average of 58%.
- **Unique investors**
 - Unique investors grew from 6.1mn as of September 2022 to 7.9mn as of September 2023.
 - The market share in unique investors was 20% as of September 2023.
 - Over the last 1-year, industry added 4.4mn unique investors whereas HDFC AMC added 1.8mn unique investors.
- **Systematic transactions**
 - Transactions processed amounted to 5.86mn for September 2023.
 - Quantum of transactions totaled to Rs 22.4bn for September 2023, up by more than 50% YoY.

New Launches

- In 2QFY24, the company has launched Non-cyclical Consumer fund, Transportation and Logistics fund, Technology fund, Pharma and Healthcare fund and Nifty 1day rate Liquid ETF
- The company's wholly owned subsidiary in GIFT city has secured all approvals and licenses and plans to launch its funds in 3QFY24
- **HDFC Cancer Cure Fund**
 - The company has launched the HDFC Cancer Cure Fund and regard it a great innovation.
 - Rs 1.8bn has been raised from over 1600 clients.

Overall Financials

- **Revenue**
 - The revenue in 2QFY24 has risen 18% YoY and 12% QoQ.
- **Other Income**
 - The other income in 2QFY24 was Rs.1.22 bn, up 17% YoY but down -23 QoQ.
 - The healthy mark-to-market gain on the investment portfolio have driven other income.

Exhibit 2: Other Business Parameters

Rs. Mn	Q2FY24	Q2FY23	YoY	Q1FY24	QoQ
Quarterly Average AUM	5,247,396	4,292,706	22.2%	4,857,483	8.0%
Market Share	11.2%	11.0%	20bps	11.3%	-10bps
Systematic Transactions*	22,400	14,300	56.6%	18,900	18.5%
AUM Mix (Rs mn)					
Equity	3,022,500	2,227,915	35.7%	2,632,756	14.8%
Debt	1,369,570	1,201,958	13.9%	1,296,948	5.6%
Liquid	687,409	742,638	-7.4%	772,340	-11.0%
Others	167,917	120,196	39.7%	155,439	8.0%
AUM Mix (% proportion)					
Equity	57.6%	51.9%	570bps	54.2%	340bps
Debt	26.1%	28.0%	-190bps	26.7%	-60bps
Liquid	13.1%	17.3%	-420bps	15.9%	-280bps
Others	3.2%	2.9%	30bps	3.2%	0bps
Channel Mix, Equity AUM (% proportion)					
Banks	13.1%	13.4%	-30bps	13.1%	0bps
HDFC Bank	7.8%	8.3%	-50bps	8.0%	-20bps
MFDs	38.6%	41.1%	-250bps	39.8%	-120bps
National Distributors	24.6%	23.5%	110bps	24.4%	20bps
Direct	23.7%	22.0%	170bps	22.7%	100bps
Geographical Spread					
T-30	81.8%	82.5%	-70bps	82.8%	-100bps
B-30	18.2%	17.5%	70bps	17.2%	100bps

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

Q2FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Revenue	6,431	6,295	2.2
EBITDA	4,822	4,722	2.1
PAT	4,376	4,040	8.3

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	64,675	69,956	76,188
Shareholder's Funds	55,300	61,084	65,742	71,023	77,255
Trade Payables	292	356	412	467	549
Other Current Liabilities	3,019	3,616	3,667	4,047	4,567
Short Term Provisions	192	310	310	310	310
Total Current Liabilities	3,503	4,281	4,389	4,824	5,425
Total Liabilities and Equity	58,804	65,365	70,131	75,846	82,680
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	64,751	69,504	75,113
Sundry Debtors	745	1,837	2,127	2,412	2,832
Cash and Bank	81	40	258	588	1,035
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	67,585	73,013	79,556
Total Assets	58,804	65,365	70,131	75,846	82,680

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	25,081	28,450	33,397
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	7,075
Operating Profit	15,999	16,179	19,127	21,960	26,322
Other Income	3,178	3,158	4,010	4,267	4,576
Depreciation	539	533	562	642	722
Finance Cost	86	97	97	97	97
Profit before Tax	18,553	18,706	22,478	25,488	30,079
Tax	4,622	4,467	5,844	6,627	7,821
Net Profit	13,931	14,239	16,634	18,861	22,259

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	22,478	25,488	30,079
Depreciation	539	533	562	642	722
Change in working cap	500	(565)	(231)	52	74
Tax paid	4,622	4,467	5,844	6,627	7,821
Others	2,565	1,789	0	0	0
Cash flow from operations	17,535	15,997	16,965	19,554	23,054
Capex	(350)	(704)	(812)	(892)	(972)
Change in investments	(8,170)	(5,089)	(3,959)	(4,753)	(5,609)
Others					
Cash flow from investments	(8,520)	(5,793)	(4,770)	(5,645)	(6,581)
Free cash flow	9,015	10,204	12,194	13,910	16,474
Equity raised/(repaid)	2	1	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl tax)	8,958	10,244	11,977	13,580	16,026
Others	0	0	0	0	0
Cash flow from financing	(8,956)	(10,243)	(11,977)	(13,580)	(16,026)
Net change in cash	59	(40)	218	330	447

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	25,081	28,450	33,397	24,425	27,708	32,531	2.7	2.7	2.7
Operating Profit	19,127	21,960	26,322	18,471	21,218	25,456	3.6	3.5	3.4
Profit After Tax	16,634	18,861	22,259	16,149	18,307	21,606	3.0	3.0	3.0

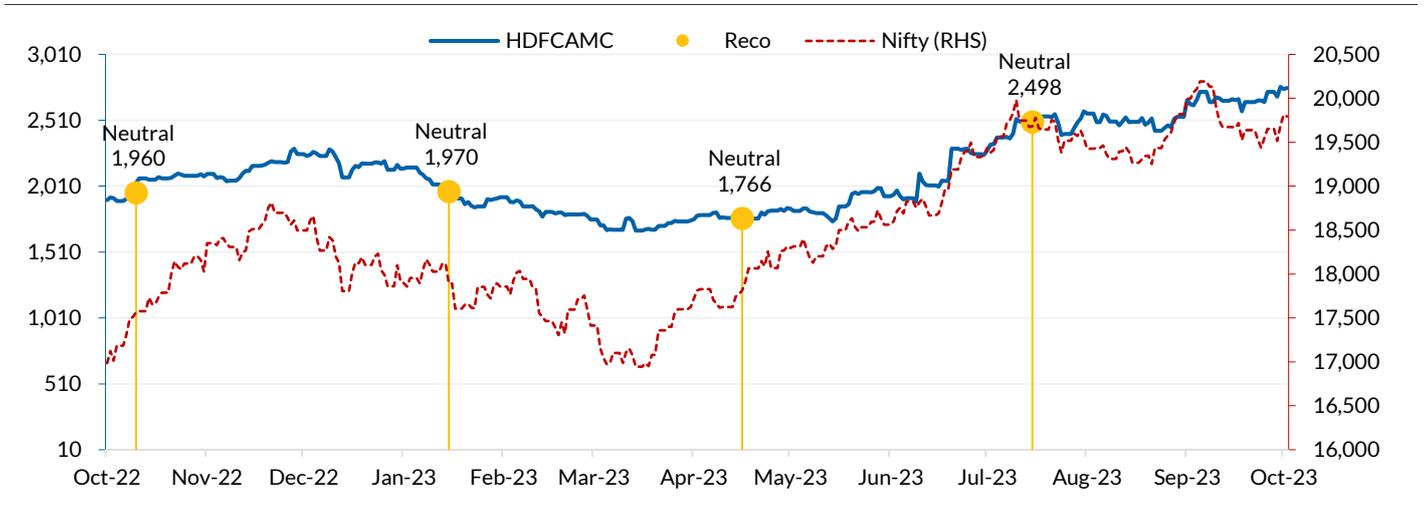
Source: Company, YES Sec – Research

Exhibit 8: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth ratios (%)					
AAUM	12.9%	0.2%	22.3%	14.3%	17.1%
Management Fees	14.3%	2.7%	15.7%	13.4%	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%	20.2%	13.4%	18.0%
Net profit	5.1%	2.2%	16.8%	13.4%	18.0%
As a % of Avg AUM					
Investment Management Fees	0.48%	0.50%	0.47%	0.47%	0.47%
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%	0.42%	0.42%	0.42%
Net profit	0.32%	0.33%	0.31%	0.31%	0.31%
Operating Ratios					
Operating Profit Margin	75.6%	74.7%	76.3%	77.2%	78.8%
PBT Margin	87.7%	86.3%	89.6%	89.6%	90.1%
PAT Margin	65.9%	65.7%	66.3%	66.3%	66.6%
ROE	27.0%	24.5%	26.2%	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	77.9	88.4	104.3
Book Value	259.3	286.2	308.0	332.8	362.0
Valuation Ratios					
P/E (x)	42.2	41.3	35.4	31.2	26.4
P/BV (x)	10.6	9.6	8.9	8.3	7.6
Mcap to AUM	13.5%	13.5%	11.1%	9.7%	8.3%
Dividend Yield	1.5%	1.7%	2.0%	2.3%	2.7%

Source: Company, YES Sec – Research

Recommendation Tracker



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Name of the Research Analyst : Shivaji Thapliyal, Siddharth Rajpurohit

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ADD: Upside between 10% to 20% over 12 months

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