

21 April 2024

India | Equity Research | Q4FY24 results review

HDFC Asset Management Company

Asset Management Companies

Industry tailwinds and strong business footing could push multiple higher

HDFC AMC reported 24-quarter high core EBITDA of INR 5.34bn in Q4FY24 driven by 8.6% end-to-end equity AUM growth in the same period. Consistent fund performance across segments has led to superior business metrics such as gain in equity market share, unique investor share and SIP flow market share in equity segment across channels. Our current estimates consider ~18%/15% end to end AUM growth in FY25E/FY26E and 4bps drop in yields between FY24-26E. The prospect of declining yields with AUM growth remains a risk due to telescopic pricing, fresh flows, regulation and competition. However, increasing systematic flows could mitigate the impact of declining yields through increase in equity mix, while superlative all-round performance/position could lead to increase in multiples. Maintain **ADD**.

Maintain ADD with a revised TP of INR 4,000

Our valuations are based on 40x FY26E (35x earlier) core EPS of INR 90.5 and cash of INR 380 per share, which leads us to a revised target price of INR 4,000 (earlier: INR 3,829). Key assumptions: 1) 18%/15% growth in AUM (end to end) in FY25/FY26E. 2) 4bps cumulative decline in yields between FY24 and FY26. 3) Total cost CAGR of 11.9% between FY24-FY26E. This would put opex at 10.1bps of AUM vs. 11.5bps as of FY24. However, Q4FY24 opex had already reached 10.2bps of AUM. This translates into 16.2%/13.9% CAGR in core EBITDA/core PAT between FY24-26E. Upside potential exists basis strong years like FY24 (40% end to end AUM growth for HDFC AMC in FY24), better flows on the back of improved fund performance, invigorated HDFC Bank channel post-merger and growth in systematic investments. Downside risk could stem from any regulatory cut in TERs.

Rationale for increase in multiple

Key points: 1) Increasing systematic flows could ensure increasing equity mix which can mitigate yield drop impact 2) continuous gain in equity market share 3) Best combination in terms of high equity mix and low cost 4) Strong fund performance 5) Increasing incremental unique investor and systematic share and 6) increasing dividend payout.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	21,668	25,844	30,943	34,444
EBITDA	16,173	19,574	24,030	26,436
Net Profit	14,234	19,427	21,619	22,904
Core PAT	11,830	14,882	17,505	19,314
EPS (INR)	66.7	91.0	101.3	107.3
P/E (x)	55.6	40.7	36.6	34.6
Core EPS (INR)	55.5	69.7	82.0	90.5
Core PE (x)	61.7	48.3	40.9	36.8
Dividend Yield	1.3	1.9	2.2	2.3
RoE (%)	24.5	29.5	29.7	29.6

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Market Data

Market Cap (INR)	792bn
Market Cap (USD)	9,491mn
Bloomberg Code	HDFCAMC IN
Reuters Code	HDFA BO
52-week Range (INR)	4,067 / 1,728
Free Float (%)	47.0
ADTV-3M (mn) (USD)	22.3

Price Performance (%)	3m	6m	12m
Absolute	6.6	29.4	109.7
Relative to Sensex	4.3	17.6	87.2

Previous Reports

15-01-2024: [Q3FY24 results review](#)

13-10-2023: [Q2FY24 results review](#)

Increasing systematic flows could ensure increasing equity mix, and thus, potentially mitigate yield drop impact

HDFC AMC reported average 10.6% growth in Systematic Transfer Plans (STP and SIP) over the last 11 quarters (vs. industry growth of ~7%) and 15.8% for last three quarters (vs. industry growth of ~10%). Consequently, SIP flow market share expanded from 12.3% in Q4FY23 to 15.3% in Q4FY24. Continuation of this momentum, along with MTM growth in equity, could increase the equity mix considerably to assuage any extraordinary drop in yields. SIP AUM has increased from INR 1.3bn in Q3FY24 to INR 1.4bn in Q4FY24, representing SIP AUM market share of 13%, as on Mar'24. Within SIP AUM, 37% AUM pertains to actively managed equity-oriented, in line with industry.

Gaining market share in equity-oriented AUM for last seven quarters

HDFC AMC is gaining equity-oriented market share for the last seven quarters, from 11.5% in Q2FY23 to 12.8% in Q4FY24. On a QoQ-basis, overall AAUM market share increased marginally to 11.3% in Q4FY24. Actively managed equity-oriented AUM saw a 20bps increase in market share to 12.7%, while debt/liquid AAUM saw an improvement of 20/10bps to 13.4/11.6% in Q4FY24.

High equity mix and low cost is the best combination

HDFC AMC's equity AUM mix increased 270bps to 63% in Q4FY24, which is significantly higher than industry's equity mix of 54.3%. Operating expenses, as a percentage of AUM, have remained in the range of 11–12bps over the years (during Q4FY24, it was at 10.2bps).

Dividend payout shows increasing trend

HDFC AMC announced dividend of INR 70 per share for FY24. Over the years, the company has increased its dividend payout from 47% in FY20 to 77% in FY24.

Strong operational footing in terms of investor share

Unique investors for HDFC AMC increased from 8.7mn in Q3FY24 to 9.6mn in Q4FY24. Unique investor share for HDFC AMC increased from 21% in Q3FY24 to 22% in Q4FY24. Live accounts increased from 14.9mn to 16.6mn during the same period. During FY24, industry has added 6.9mn new incremental investors, of which ~43% share (3mn unique investors) is added by HDFC AMC. Individual investors increased from 14.75mn in Q3FY23 to 16.25mn in Q4FY24.

Fund performance remains strong

HDFC AMC's scheme performance has been strong in the industry over the last couple of years. Majority of its schemes rank in the top quartile for performance in their respective segments. In one-year period (as of Mar'24), AMCs have seen a reduction in percentage of AUM outperforming benchmark (for HDFC AMC, ~42% of AUM outperformed), while for three and five-year horizon, 86%/42% of AUM outperformed the benchmark (exhibit 11-13)

- HDFC Large and Mid-Cap Fund (AUM of INR 170bn) ranks sixth among 26 funds in large and mid-cap segment. Its performance has consistently improved over the last one year with the scheme giving 49.8% during the same period in Mar'24.
- HDFC Mid-Cap Opportunities Fund(G) (AUM of INR 597bn) ranks fifth among 29 funds in mid-cap segment. Its performance has been consistent over the last one year with the scheme giving 57.2% during the same period in Mar'24.

- HDFC Balanced Advantage Fund(G) (AUM of INR 793bn) ranks first amongst 18 funds in balanced advantage segment. Its performance has been consistent over the last one year with the scheme giving 39.6% during the same period in Mar'24.
- HDFC Focused 30 Fund-Reg(G) (AUM of INR 102bn) ranks sixth among 26 funds in the focused segment. Its performance has been consistent over the last one year with the scheme giving 40.9% during the same period in Mar'24.
- HDFC Flexi Cap Fund(G) (AUM of INR 503bn) ranks 11th among 34 funds in the large and mid-cap segment. This scheme has been consistent over the last one year with the scheme giving 43.2% during the same period in Mar'24.

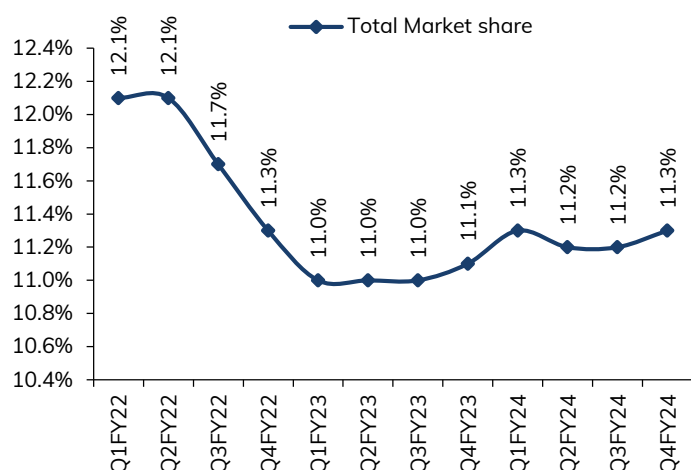
Q4FY24 Core EBITDA remains above INR 5bn mark; blended yields drop 3bps QoQ and YoY due to one-off adjustment

- Q4FY24 AAUM increased 11% QoQ to INR 6trn driven by a sharp 16% QoQ increase in equity AAUM. Debt AAUM increased 1% QoQ while liquid AAUM increased 8% QoQ. HDFC's passive AAUM increased 6% QoQ in Q4FY24.
- During the quarter, on blended basis, there was yield compression from 48.7bps in Q3FY24 to 45.3bps in Q4FY24. Management highlighted that it was because of year end one-off in distribution expenses estimate and same should get realigned in Q1FY25. Fall in TER of some direct scheme during the Q4FY24 have been reinstated at start of Apr'24.
- Yields on asset class for start of period Apr'24 is- on equity stand at ~59bps, for debt ~27bps to 28bps, and for liquid- 12 to 13bps. Based on that, assuming AUM and asset mix being constant, management expects 47bps revenue yield as of start of Q1FY25.
- Yield dilution will always be there because of telescopic pricing, However, focus will remain on increasing the AUM. Yield on flow business is in range of 50-60bps, compared to book yield of 59bps.
- Total operating expenses had a marginal decrease of 3% QoQ to INR 1.57bn. Core EBITDA/PAT were up 6%/10% QoQ. Effective tax rate was lower in Q4FY24 on account of deferred tax expenses due to reclassification of certain investments from short term to long term. Other income stood at INR 1.6bn, up 9% QoQ on the back of sharp M2M movement in investment book (equity as well as debt).

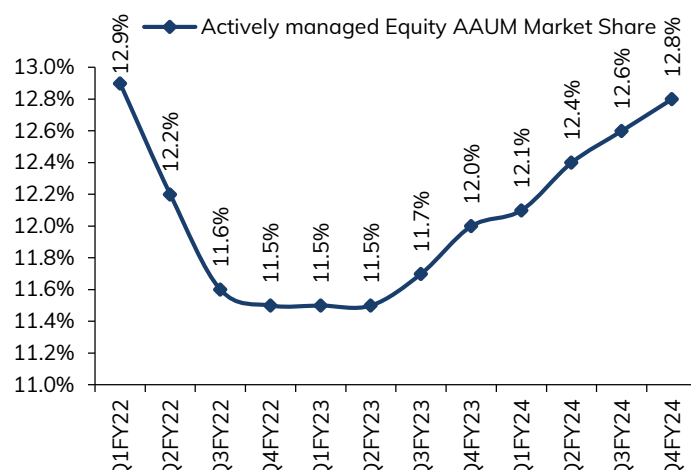
Exhibit 1: Q4FY24 result preview

(INR mn)	Q4FY24	Q4FY23	YoY %	Q3FY24	QoQ %
Average AUM	6,130	4,497	36%	5,514	11.2%
Revenue yields	45.38	48.12	-3 bps	48.70	-3 bps
Equity Mix	65.4%	55.8%	960 bps	62.8%	258 bps
Total Revenue from Operation	6,954	5,410	29%	6,713	3.6%
Other Income	1,558	969	61%	1,429	9%
Total Revenue	8,513	6,378	33%	8,142	5%
Employee Expense	867	719	21%	903	-4.0%
Fees and Commission Expenses	7	6	12%	5	46.7%
Other Expense	694	580	20%	711	-2.4%
Total Operating expense	1,568	1,305	20%	1,619	-3.2%
EBITDA	5,387	4,105	31%	5,095	6%
Depn	133	133	1%	131	2%
Finance Cost	23	24	-3%	22	7%
PBT	6,788	4,918	38%	6,371	7%
PAT	5,408	3,762	44%	4,882	11%
Core PAT	4,167	3,021	38%	3,787	10.0%
EPS (INR)	25.4	17.6	44%	22.9	11%

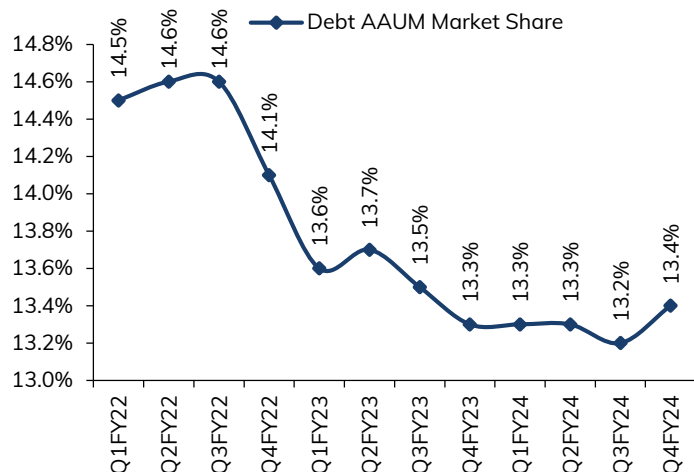
Source: I-Sec research, Company data

Exhibit 2: Total AUM market share movement

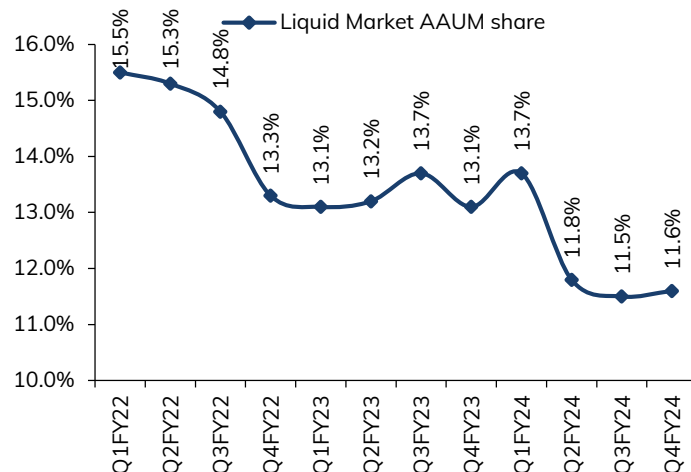
Source: I-Sec research, Company data

Exhibit 3: Equity market share has been continuously increasing

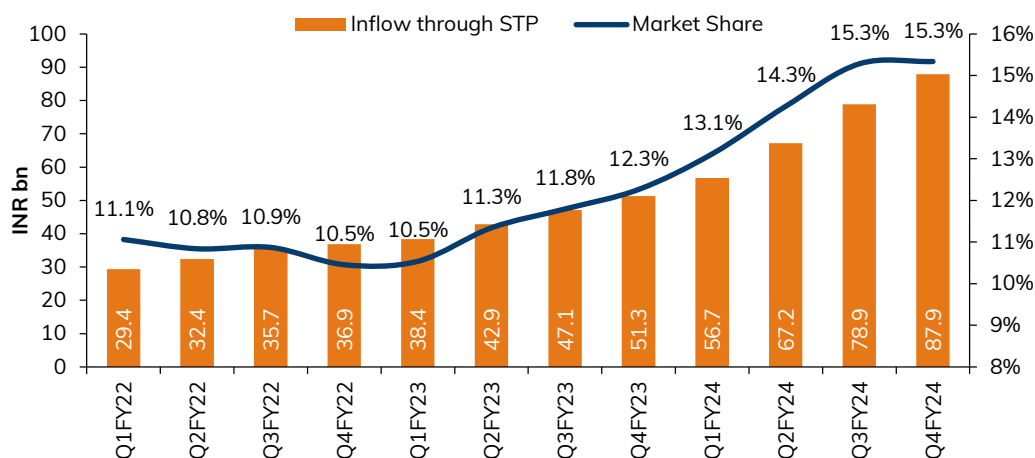
Source: I-Sec research, Company data

Exhibit 4: Debt AUM market share

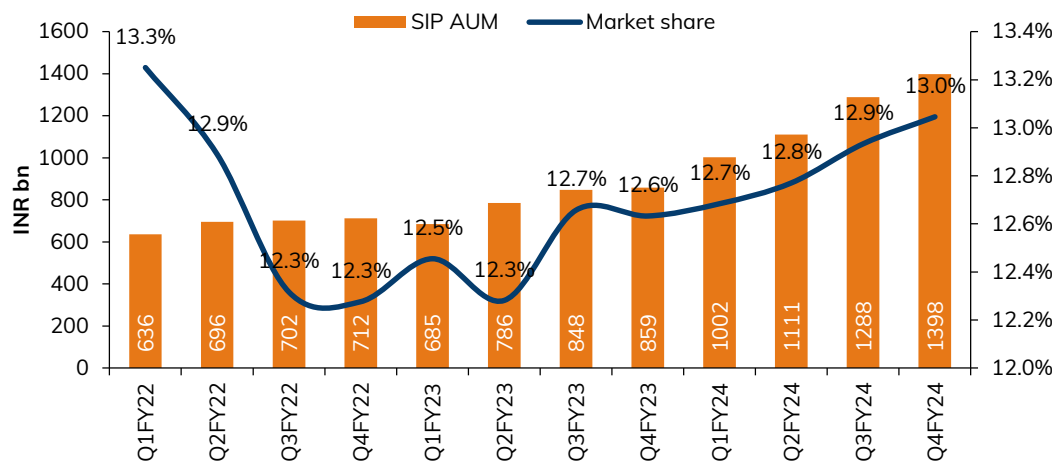
Source: I-Sec research, Company data

Exhibit 5: Liquid AUM market share

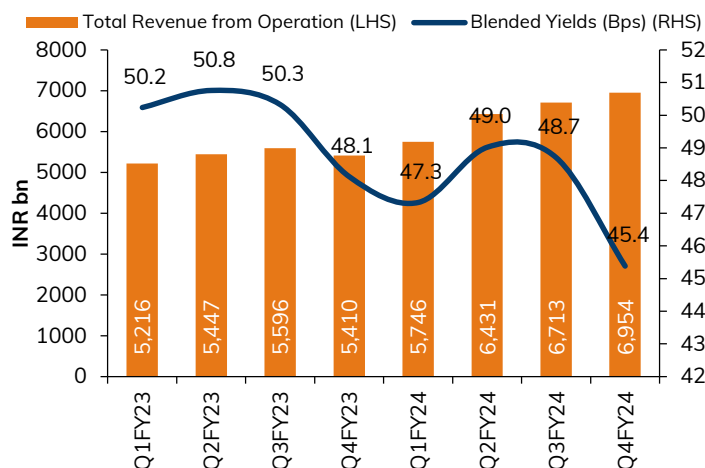
Source: I-Sec research, Company data

Exhibit 6: SIP inflow market share has been increasing for HDFC AMC

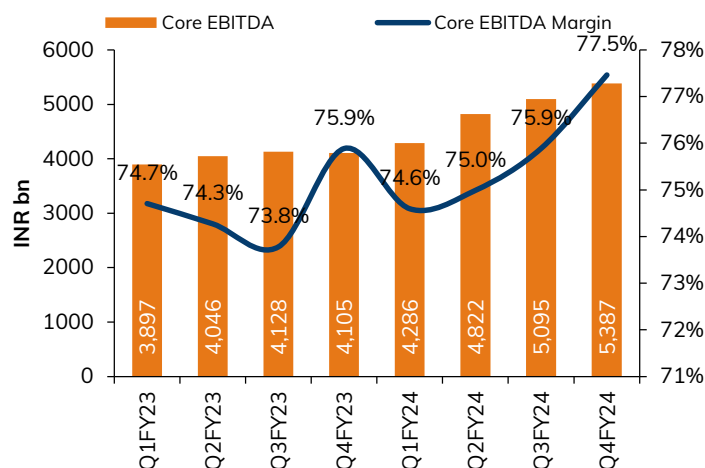
Source: I-Sec research, Company data; Note: Market share is calculated as STP given by company divided by SIP inflow given by AMFI

Exhibit 7: SIP AUM market share has been increasing

Source: I-Sec research, Company data

Exhibit 8: Blended yields have been decreasing with rising AAUM

Source: I-Sec research, Company data

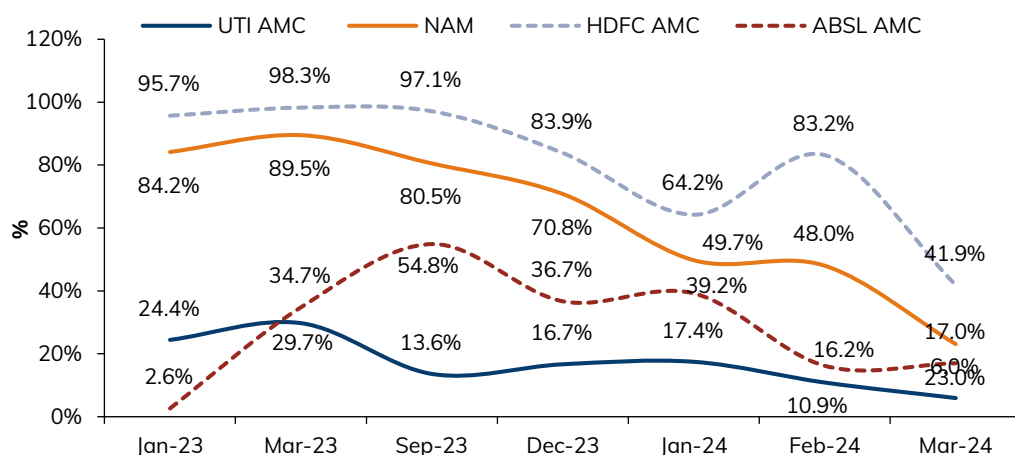
Exhibit 9: Core EBITDA remains above INR 5bn; margin improved further

Source: I-Sec research, Company data

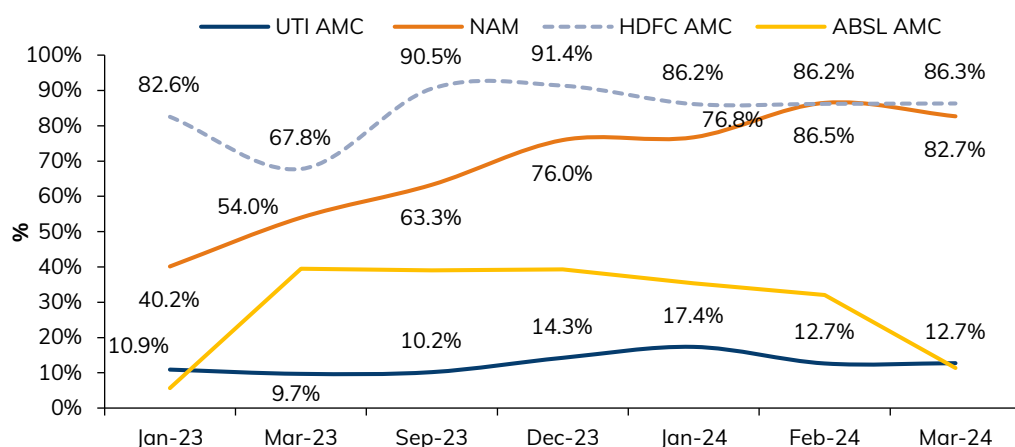
Exhibit 10: HDFC AMC scheme performance

Type	Fund	AUM (INR bn)	Return (1-Yr)	Number of Funds (as on Mar'24)	Rank - Mar-24	Rank - Feb-24	Rank - Jan-24	Rank - Dec-23	Rank - Sep'23	Rank - Feb-23
Equity Linked Savings Scheme	HDFC TaxSaver(G)	139	45.6	40	6	6	8	6	5	1
Flexi Cap Fund	HDFC Flexi Cap Fund(G)	503	43.2	34	11	11	14	13	2	1
Focused Fund	HDFC Focused 30 Fund(G)	102	40.9	26	6	8	8	8	14	1
Large & Mid Cap	HDFC Large and Mid Cap Fund-Reg(G)	170	49.8	26	6	5	4	2	2	6
Mid Cap Fund	HDFC Mid-Cap Opportunities Fund(G)	597	57.2	29	5	4	5	4	1	2
Large Cap	HDFC Top 100 Fund(G)	321	39.3	30	8	7	5	2	2	2
Multi Cap	HDFC Multi Cap Fund-Reg(G)	122	49.1	19	8	5	5	2	1	2
Balance Advantage	HDFC Balanced Advantage Fund(G)	793	39.6	18	1	1	1	1	1	1

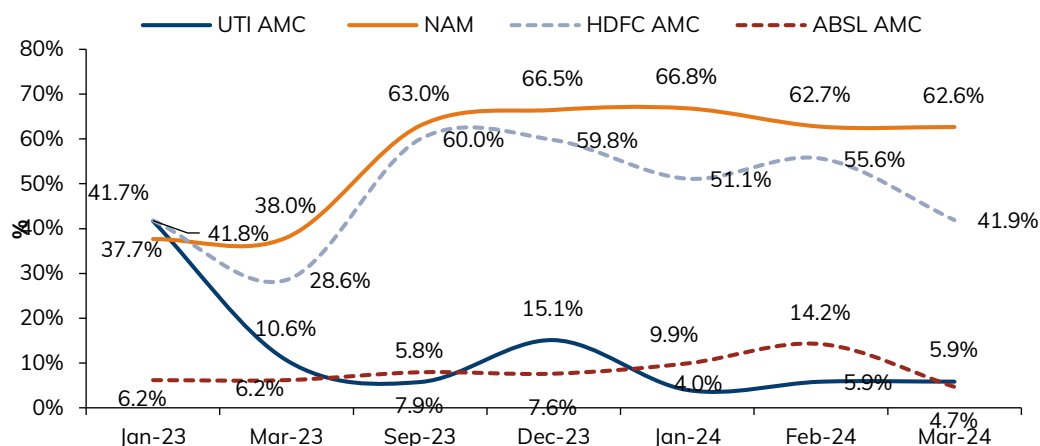
Source: ASMF, Company data, I-Sec research

Exhibit 11: % of schemes (AUM) outperforming 1-year benchmark

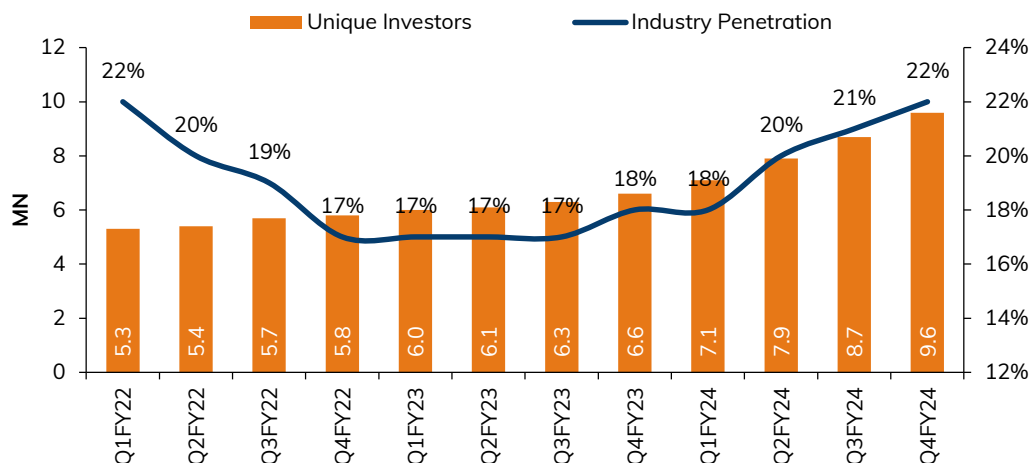
Source: I-Sec research, Company data

Exhibit 12: % of schemes (AUM) outperforming 3-year benchmark

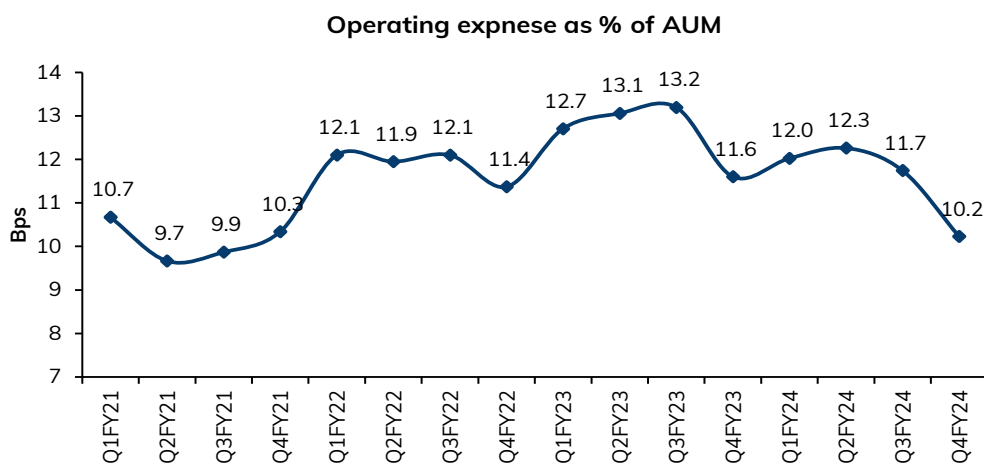
Source: I-Sec research, Company data

Exhibit 13: % of schemes (AUM) outperforming 5-year benchmark

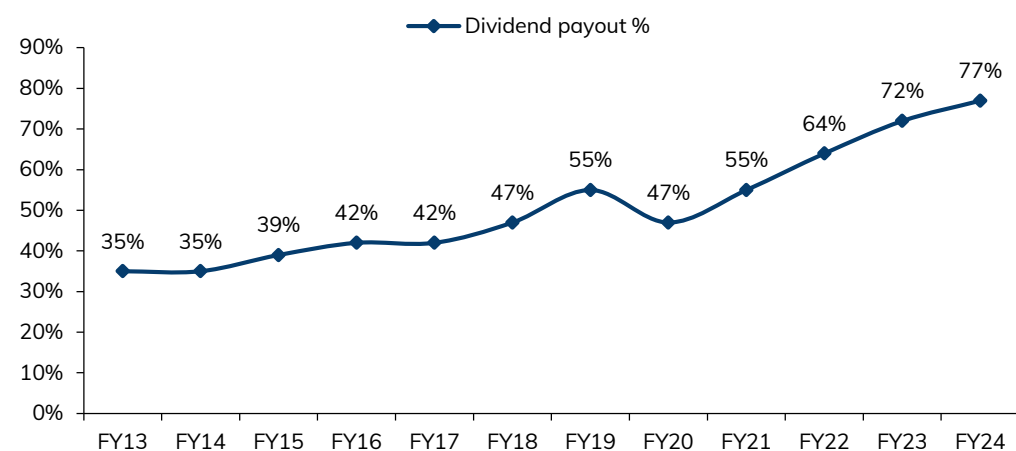
Source: I-Sec research, Company data

Exhibit 14: Unique investors and industry penetration for HDFC AMC

Source: I-Sec research, Company data

Exhibit 15: Operating expenses remained under 12–13bps over quarters

Source: I-Sec research, Company data

Exhibit 16: Dividend payout ratio

Source: I-Sec research, Company data

Exhibit 17: Distribution mix of HDFC AMC

INR bn	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Total AUM	4,166	4,128	4,363	4,572	4,452	5,119	5,336	5,744	6,238
Distribution Mix (%)									
Direct	41.60%	42.10%	41.00%	40.90%	40.50%	41.70%	39.60%	38.80%	38.40%
Banks	10.50%	10.40%	10.60%	10.60%	10.70%	10.40%	10.80%	11.00%	11.20%
MFDs	27.80%	27.40%	28.20%	28.20%	28.70%	28.20%	29.00%	29.30%	29.10%
National Distributors	20.10%	20.00%	20.20%	20.30%	20.10%	19.70%	20.60%	20.90%	21.30%
Distribution Mix									
Direct	1,733	1,738	1,789	1,870	1,803	2,135	2,113	2,229	2,395
Banks	437	429	463	485	476	532	576	632	699
MFDs	1,158	1,131	1,230	1,289	1,278	1,444	1,547	1,683	1,815
National Distributors	837	826	881	928	895	1,008	1,099	1,201	1,329

Source: I-Sec research, Company data

Exhibit 18: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	52.6	52.6	52.6
Institutional investors	36.8	37.8	37.8
MFs and others	10.6	11.7	10.9
Insurance	10.1	7.5	7.4
FII's	16.1	18.3	20.0
Others	10.6	9.9	9.6

Source: Bloomberg, I-Sec research

Exhibit 19: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 20: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	21,668	25,844	30,943	34,444
Operating Expenses	5,496	6,270	6,913	8,008
EBITDA	16,173	19,574	24,030	26,436
EBITDA Margin (%)	74.6	75.7	77.7	76.7
Depreciation & Amortization	533	523	537	524
EBIT	15,639	19,051	23,493	25,911
Interest expenditure	97	91	91	91
Other Non-operating Income	-	-	-	-
Recurring PBT	18,700	24,750	28,902	30,621
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	4,467	5,323	7,283	7,716
PAT	14,234	19,427	21,619	22,904
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	14,234	19,427	21,619	22,904
Net Income (Adjusted)	14,234	19,427	21,619	22,904

Source Company data, I-Sec research

Exhibit 21: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	2,341	1,676	1,688	2,082
of which cash & cash eqv.	70	400	305	582
Total Current Liabilities & Provisions	4,283	4,788	4,808	4,828
Net Current Assets	(1,942)	(3,112)	(3,120)	(2,746)
Investments	60,762	71,560	75,884	80,465
Net Fixed Assets	1,526	1,535	1,498	1,074
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	428	456	501	551
Other assets	305	311	311	311
Deferred Tax assets	-	-	-	-
Total Assets	61,078	70,750	75,074	79,655
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	1,067	1,067	1,067	1,067
Reserves & Surplus	60,011	69,683	74,006	78,587
Total Net Worth	61,078	70,750	75,074	79,655
Minority Interest	-	-	-	-
Total Liabilities	61,078	70,750	75,074	79,655

Source Company data, I-Sec research

Exhibit 22: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	11,494	16,147	22,024	23,282
Working Capital Changes	(1,014)	1,362	(133)	(147)
Capital Commitments	(140)	(190)	(500)	(100)
Free Cashflow	11,354	15,957	21,524	23,182
Other investing cashflow	(2,012)	(4,965)	(4,324)	(4,581)
Cashflow from Investing Activities	(2,152)	(5,155)	(4,824)	(4,681)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(9,299)	(10,662)	(17,295)	(18,323)
Others	-	-	-	-
Cash flow from Financing Activities	(9,299)	(10,662)	(17,295)	(18,323)
Chg. in Cash & Bank balance	43	330	(95)	277
Closing cash & balance	43	330	(95)	277

Source Company data, I-Sec research

Exhibit 23: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
EPS(Basic Recurring)	66.7	91.0	101.3	107.3
Core EPS	55.5	69.7	82.0	90.5
Dividend per share (DPS)	48.0	70.0	81.0	85.9
Book Value per share	286.2	331.5	351.8	373.2
Growth Ratio (%)				
AAUM	(1.7)	25.3	25.1	16.5
Total Revenue	2.4	19.3	19.7	11.3
EBITDA	1.1	21.0	22.8	10.0
Recurring Net Income	2.2	36.5	11.3	5.9
Core PAT	2.5	25.8	17.6	10.3
Valuation Ratios (x)				
P/E	55.6	40.7	36.6	34.6
P/BV	13.0	11.2	10.5	9.9
Core P/E	61.7	48.3	40.9	36.8
Mcap to AUM	18.1	14.5	11.6	9.9
Operating Ratios (%)				
Investment management fees/total income	87.0	81.5	84.7	87.6
Operating expenses/total income	22.1	19.8	19.0	20.4
Employee expenses/operating expenses	56.9	56.5	55.0	56.9
Core PBT margin (of total income)	62.6	59.9	64.2	65.8
PAT margin (of total income)	57.3	61.4	59.3	58.4
Tax rate	23.9	21.5	25.2	25.2
Payout ratio	72.0	76.9	80.0	80.0
% of MF AUM (bps)				
Revenue	49.8	47.4	45.4	43.4
Operating expenses	12.7	11.5	10.2	10.1
Operating margins	37.1	35.9	35.2	33.3
PAT	32.8	35.7	31.8	28.9
Core PAT	27.3	27.4	25.7	24.4
RoE (%)	24.5	29.5	29.7	29.6

Source Company data, I-Sec research

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