

HDFC Asset Management

Yield inches up while cost remains under control

Our view – Operating profit margin rises 244 bps on sequential basis

Revenue Yield - Revenue yield inched up on sequential basis: Overall calculated revenue yield has inched up 1 bp QoQ to 47 bps in 3Q, despite share of equity in total AUM declining 80 bps QoQ. While there was no incremental change to distributor commission payout, some of the impact of changes in 2Q spilled over into 3Q.

Operating Expenses - While expenses were under control for the quarter, management guided for reasonable growth for the same: The other operating expense for the quarter Rs 741mn, down by -14.4% QoQ but up by 7.2% YoY. Expenses for the quarter were lower due to lack of NFOs and lower CSR expenses. Management guides for overall cost to rise at 12-15%.

We maintain 'ADD' rating on HDFCAMC with a revised price target of Rs 4485: We value HDFCAMC at 39x FY26 P/E, with the implied P/B being 11.3x.

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

Other Highlights (See "Our View" above for elaboration and insight)

- **Revenue:** Revenue from operations at Rs 9,344mn was up 5.3%/39.2% QoQ/YoY, leading/lagging the growth in QAAUM of 3.8%/42.8% QoQ/YoY
- **Share of Equity in AUM:** Share of Equity in AUM (including Hybrid funds) at 64.9% was down -80 bps QoQ but up 430 bps YoY
- **Share of B-30 in AUM:** Share of B-30 in AUM at 19.3% was down -20 bps QoQ but up 50 bps YoY
- **Channel mix:** Share of Banks, MFDs, NDs and Direct channel was 13.1%, 34.4%, 25.4% and 27.1%, respectively in Equity QAAUM
- **Operating profit margin:** Operating profit margin for the quarter, at 81.8%, was up 244 bps QoQ and 562 bps YoY

Exhibit 1: Result table

Rs. Mn	Q3 FY25	Q3 FY24	YoY	Q2 FY25	QoQ
Revenue from operation	9,344	6,713	39.2%	8,872	5.3%
As % of QAUM^	0.47%	0.49%	-1bps	0.47%	1bps
Fees and Commission Exp.	11	5	133.3%	9	16.7%
As % of revenues	0.1%	0.1%	5bps	0.1%	1bps
Employee Benefit Expenses	949	903	5.1%	957	-0.8%
As % of revenues	10.2%	13.5%	-330bps	10.8%	-63bps
Other Expenses	741	691	7.2%	866	-14.4%
As % of revenues	7.9%	10.3%	-237bps	9.8%	-183bps
Total Expenses	1,701	1,599	6.3%	1,832	-7.2%
Operating Profit	7,643	5,114	49.4%	7,040	8.6%
As % of QAUM^	0.39%	0.37%	2bps	0.37%	2bps
As % of revenues	81.8%	76.2%	562bps	79.4%	244bps
Other Income	927	1,424	-34.9%	1,706	-45.6%
Finance Cost	22	22	3.2%	23	-1.8%
Depreciation	149	131	13.7%	137	8.5%
Profit before Tax	8,400	6,386	31.5%	8,587	-2.2%
Tax Expense	1,985	1,489	33.3%	2,818	-29.6%
Tax Rate	23.6%	23.3%	32bps	32.8%	-919bps
Profit After Tax	6,415	4,897	31.0%	5,769	11.2%
As % of QAUM^	0.3%	0.4%	-3bps	0.3%	2bps
As % of revenues	68.7%	72.9%	-430bps	65.0%	363bps

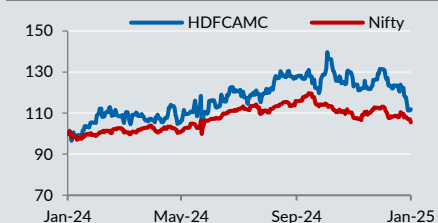
Source: Company, YES Sec-Research, ^Annualised

Recommendation	: ADD
Current price	: Rs 3,865
Target price	: Rs 4485
Potential return	: +16%

Stock data (as on January 14, 2025)

Nifty	23,176
52 Week h/l (Rs)	4864 / 3256
Market cap (Rs/USD mn)	819661 / 9466
Outstanding Shares (mn)	214
6m Avg t/o (Rs mn):	2,097
Div yield (%):	1.8
Bloomberg code:	HDFCAMC IN
NSE code:	HDFCAMC

Stock performance



	1M	3M	1Y
Absolute return	-14.8%	-13.8%	11.9%

Shareholding pattern (As of Dec'24 end)

Promoter	52.5%
FII+DII	38.4%
Others	9.2%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	4485	4725

Financial Summary

Rs mn	FY25E	FY26E	FY27E
Net Revenue	35,114	38,411	42,563
YoY Growth	35.9%	9.4%	10.8%
EBIDTA Margin	79.3%	78.9%	78.7%
PAT	23,988	24,510	27,040
YoY Growth	23.3%	2.2%	10.3%
ROE	32.4%	30.3%	30.7%
EPS (Rs)	112.4	114.8	126.7
P/E (x)	34.4	33.7	30.5
BV (Rs)	363.1	395.2	430.7
P/BV (x)	10.6	9.8	9.0

Δ in earnings estimates

Rs.	FY25E	FY26E	FY27E
EPS (New)	112.4	114.8	126.7
EPS (Old)	98.9	114.7	135.3
% change	13.6%	0.1%	-6.4%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Revenue yield

- Segmental yield for the quarter
 - Equity – 58 bps
 - Debt – 28 bps
 - Liquid – 12-13 bps
- Distributor payouts
 - There is no incremental change to distributor payouts during 3Q and there was a one-time rationalisation effective 1st August 2024.
 - However, this tends to be effected with a bit of lag with direct TER going up in the middle of September and then again in the middle of October.
- Switch transactions
 - The company has been prudent and was paying the lower commission by and large on all NFOs for switch transactions even before SEBI put out a circular in this regard.
- Regulation
 - It is evident that telescopic pricing has an impact on TER and further regulatory intervention is not required to pass on scale benefits to investors.

Equity business

- New fund offerings
 - The company has the distinction of the largest thematic new fund offering in the form of Manufacturing Fund, when Rs 90bn was raised.
 - The company has a bouquet of thematic funds managed by the able Analyst team.
 - The company now has a best-in-class product bouquet across active and passive funds (implying little incremental need for thematic funds).
- Market share
 - There is scope for expanding market share in various categories, especially for products launched in the last 2 years.

New product category

- SEBI has approved new products categories and the management awaits final set of regulations in this regard.
- The company will have products in this space and the team is working on the same.

SIP business

- SIP closure to opening ratio is on the rise.
- Gross SIP openings remain healthy.
- The recent impact in SIP was due to stopping taking SIP in the Defence Fund, which was popular among some distributors.

Channel aspects

- HDFC Bank
 - HDFC Bank has more than 100mn customers and only a fraction have an SIP with HDFC AMC.

(Con call takeaways continue on the next page)

- The company sees tremendous potential for collaboration with HDFC Bank, especially given the bank is expanding its physical infrastructure at a healthy pace.
- **Own offices**
 - The company has opened 25 offices recently and 24 about a year back.
 - Thus, about 50 new points of presence have been added in about a year.
- **Direct channel**
 - The share of direct channel has been on the rise.
 - Firstly, this is a natural consequence of lower TER.
 - Secondly, fintechs bring in direct business which has nothing to do with commission.
- **MFDs**
 - MFD business has also been doing well but, in some cases, some MFDs have gotten reclassified as ND.

Effective tax rate

- While the corporate tax rate is 25%, a different tax rate gets applied for long-term and short-term gains.
- Hence, the quarterly tax rate varies between 23-24%.

Key underlying business figures

- **Total AUM**
 - The total QAAUM for the AMC amounted to Rs. 7,874 bn, accounting for a market share of 11.5%
- **Equity AUM**
 - Actively-managed equity oriented QAAUM was Rs 4,782 bn, accounting for a market share of 12.8%
- **Debt AUM**
 - The debt QAAUM is up 17% YoY.
 - The market share in debt mutual funds was 13.2% on QAAUM
- **Liquid fund AUM**
 - The market share in liquid funds was 12.9% on QAAUM
- **Individual investors**
 - Live Individual investors were at 22.04mn as of December 2024, up by 49% YoY.
 - As of December 2024, Individual investor's share was 70.2% in total MAAUM, higher than industry average of 61.4%.
- **Unique investors**
 - Unique investors grew from 8.7mn as of December 2023 to 12.6mn as of December 2024
 - The market share in unique investors was 24% as of December 2024
- **Systematic transactions**
 - Transactions processed amounted to 11mn for December 2024
 - Quantum of transactions totaled to Rs 38.2bn for December 2024, up by around 45% YoY
 - The SIP AUM was at Rs 1,777bn as of December 2024

(Con call takeaways continue on the next page)

- **Digital transactions**
 - The share of digital transactions was 95% now as against 69% in FY20.

GIFT City Operations

- The company currently have 3 funds that are live under its GIFT city operations and the total AUM size was around USD 150mn.
- The company will make 2 more funds live in 4QFY25.

Financial aspects

- **Revenue**
 - The revenue in 3QFY25 was at Rs 9.34bn, up by 39% YoY.
- **Operating Expense**
 - **Other Operating Expense**
 - The other operating expense for the quarter Rs 741mn, down by -14.4% QoQ but up by 7.2% YoY.
 - The company has opened 25 new branches in January 2025 and the total branch count now is at 280.
 - Expenses for the quarter were lower due to lack of NFOs and lower CSR expenses.
 - **Employee expenses**
 - **ESOP cost**
 - ESOP cost was Rs 0.37bn in 9MFY24 and this has declined to Rs 0.17bn in 9MFY25.
 - Employee expenses are expected to have a reasonable increase, adjusted for ESOP cost.
 - Management guides for overall cost to rise at 12-15%.
- **Other income**
 - Other income was lower primarily due to equity MTM loss since the fund has to invest in its own equity schemes as per skin in the game circular.
- **Operating Profit**
 - The operating profit in 3QFY25 was Rs. 7.47 bn, up 51% YoY.
 - The operating profit to AUM margin for 9MFY25 was at 36bps and for 3QFY25 it was 37bps.
 - **Guidance**
 - The management expects that the current margin cannot be extrapolated as it looks better due to share rise in AUM, material part of which is led by MTM growth.

Exhibit 2: Other Business Parameters

Rs. Mn	Q3FY25	Q3FY24	YoY	Q2FY25	QoQ
Quarterly Average AUM	7,874,336	5,515,205	42.8%	7,587,980	3.8%
Market Share	11.5%	11.2%	30bps	11.5%	0bps
Systematic Transactions*	38,200	26,300	45.2%	36,800	3.8%
SIP AUM	1,777,000	1,288,000	38.0%	1,786,000	-0.5%
Equity AUM Market Share (Actively managed)	12.8%	12.6%	20bps	12.9%	-10bps
AUM Mix (Rs mn)					
Equity	5,110,444	3,342,214	52.9%	4,985,303	2.5%
Debt	1,590,616	1,351,225	17.7%	1,547,948	2.8%
Liquid	842,554	623,218	35.2%	751,210	12.2%
Others	330,722	198,547	66.6%	303,519	9.0%
AUM Mix (% proportion)					
Equity	64.9%	60.6%	430bps	65.7%	-80bps
Debt	20.2%	24.5%	-430bps	20.4%	-20bps
Liquid	10.7%	11.3%	-60bps	9.9%	80bps
Others	4.2%	3.5%	70bps	4.0%	20bps
Channel Mix, Equity AUM (% proportion)					
Banks	13.1%	13.1%	0bps	13.3%	-20bps
HDFC Bank	7.5%	7.7%	-20bps	7.6%	-10bps
MFDs	34.4%	37.8%	-340bps	35.1%	-70bps
National Distributors	25.4%	24.8%	60bps	25.0%	40bps
Direct	27.1%	24.3%	280bps	26.6%	50bps
Geographical Spread					
T-30	80.7%	81.2%	-50bps	80.5%	20bps
B-30	19.3%	18.8%	50bps	19.5%	-20bps

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

Q3FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Revenue	9,344	9,097	2.7
EBITDA	7,643	7,096	7.7
PAT	6,415	5,770	11.2

Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 4: Balance sheet statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	1,067	1,067	1,067	1,067	1,067
Total Reserves	60,017	69,723	76,440	83,303	90,874
Shareholder's Funds	61,084	70,791	77,507	84,370	91,941
Trade Payables	356	388	527	577	639
Other Current Liabilities	3,616	4,171	4,912	5,384	5,922
Short Term Provisions	310	226	226	226	226
Total Current Liabilities	4,281	4,785	5,666	6,187	6,787
Total Liabilities and Equity	65,365	75,576	83,173	90,557	98,728
Net Block	1,505	1,513	1,763	2,013	2,263
Intangible Assets	21	9	9	9	9
Non Current Investments	0	0	0	0	0
Long Term Loans & Advances	0	0	0	0	0
Other Non Current Assets	732	766	804	844	886
Total Non-Current Assets	2,259	2,287	2,576	2,866	3,158
Currents Investments	60,792	71,900	77,945	84,122	90,936
Sundry Debtors	1,837	933	1,267	1,386	1,536
Cash and Bank	40	112	994	1,738	2,589
Other Current Assets	312	212	233	256	282
Short Term Loans and Advances	126	132	158	190	228
Total Current Assets	63,107	73,288	80,597	87,691	95,570
Total Assets	65,365	75,576	83,173	90,557	98,728

Source: Company, YES Sec – Research

Exhibit 5: Profit & Loss statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Operating Income	21,668	25,844	35,114	38,411	42,563
Fees and Commission	37	25	15	17	19
Employee Expense	3,127	3,535	3,923	4,355	4,834
Other Expenses	2,326	2,670	3,314	3,745	4,195
Total Expenses	5,489	6,229	7,253	8,117	9,048
Operating Profit	16,179	19,615	27,861	30,294	33,515
Other Income	3,158	5,781	5,210	3,562	3,840
Depreciation	533	523	564	644	724
Finance Cost	97	91	91	91	91
Profit before Tax	18,706	24,782	32,416	33,121	36,540
Tax	4,467	5,323	8,428	8,611	9,500
Net Profit	14,239	19,459	23,988	24,510	27,040

Source: Company, YES Sec – Research

Exhibit 6: Cash flow statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	18,706	24,782	32,416	33,121	36,540
Depreciation	533	523	564	644	724
Finance Cost	97	91	91	91	91
Other Income	(2,722)	(5,273)	(5,210)	(3,562)	(3,840)
Change in working cap	(1,020)	1,374	460	308	344
Tax paid	(4,102)	(5,297)	(8,428)	(8,611)	(9,500)
Cash flow from operations	11,493	16,200	19,893	21,990	24,359
Capex	(140)	(185)	(814)	(894)	(974)
investments	(2,398)	(5,636)	(6,045)	(6,176)	(6,814)
Others	356	353	5,210	3,562	3,840
Cash flow from investments	(2,182)	(5,467)	(1,649)	(3,509)	(3,948)
Interest Expenses	(97)	(91)	(91)	(91)	(91)
Dividend (incl tax)	(8,959)	(10,247)	(17,271)	(17,647)	(19,469)
Others	(244)	(324)	0	0	0
Cash flow from financing	(9,299)	(10,662)	(17,362)	(17,738)	(19,560)
Net change in cash	13	71	882	744	851

Source: Company, YES Sec – Research

Exhibit 7: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	35,114	38,411	42,563	31,239	36,650	42,997	12.4	4.8	(1.0)
Operating Profit	27,861	30,294	33,515	23,987	28,744	34,378	16.1	5.4	(2.5)
Profit After Tax	23,988	24,510	27,040	21,121	24,481	28,888	13.6	0.1	(6.4)

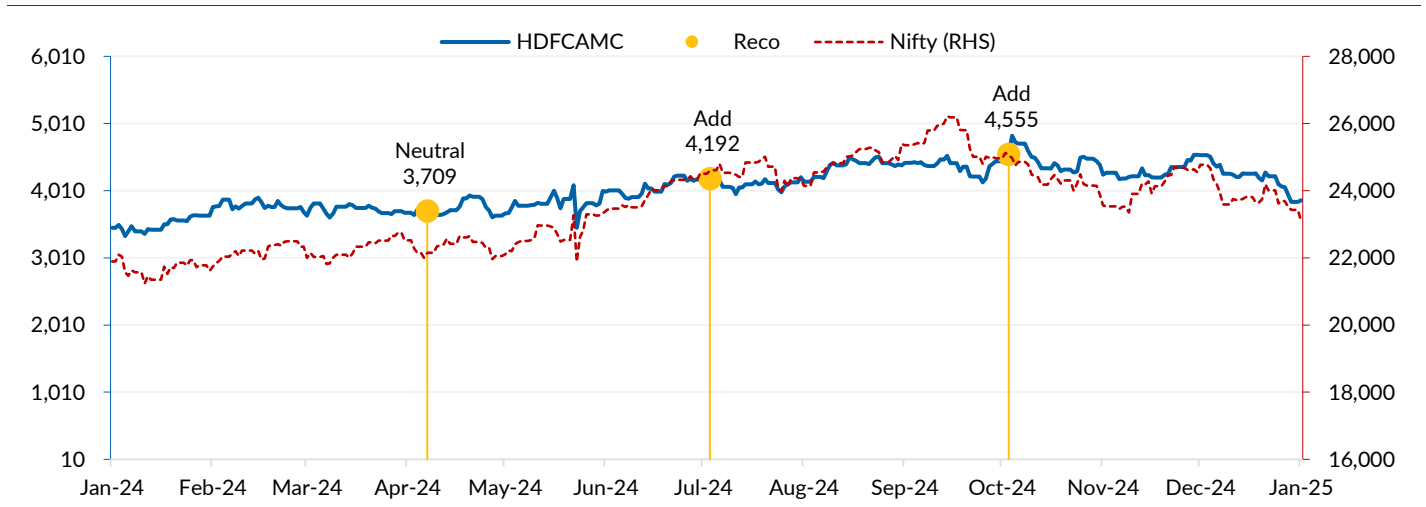
Source: Company, YES Sec – Research

Exhibit 8: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Growth ratios (%)					
AAUM	0.2%	25.1%	38.2%	12.6%	12.7%
Management Fees	2.7%	19.4%	35.6%	9.4%	10.8%
PMS & Advisory Fees	-50.3%	-37.4%	208.1%	10.0%	10.0%
Staff Cost	0.2%	13.0%	11.0%	11.0%	11.0%
Total Operating Expenses	6.5%	13.5%	16.4%	11.9%	11.5%
Profit Before Tax	0.8%	32.5%	30.8%	2.2%	10.3%
Net profit	2.2%	36.7%	23.3%	2.2%	10.3%
As a % of Avg AUM					
Investment Management Fees	0.50%	0.47%	0.47%	0.45%	0.45%
Staff Cost	0.07%	0.07%	0.05%	0.05%	0.05%
Other Expenses	0.05%	0.05%	0.04%	0.04%	0.04%
PBT	0.43%	0.46%	0.43%	0.39%	0.38%
Net profit	0.33%	0.36%	0.32%	0.29%	0.28%
Operating Ratios					
Operating Profit Margin	74.7%	75.9%	79.3%	78.9%	78.7%
PBT Margin	86.3%	95.9%	92.3%	86.2%	85.8%
PAT Margin	65.7%	75.3%	68.3%	63.8%	63.5%
ROE	24.5%	29.5%	32.4%	30.3%	30.7%
Dividend Payout Ratio	71.9%	76.8%	72.0%	72.0%	72.0%
Per share (Rs)					
EPS	66.7	91.1	112.4	114.8	126.7
Book Value	286.2	331.6	363.1	395.2	430.7
Valuation Ratios					
P/E (x)	57.9	42.4	34.4	33.7	30.5
P/BV (x)	13.5	11.7	10.6	9.8	9.0
Mcap to AUM	19.0%	15.2%	11.0%	9.8%	8.7%
Dividend Yield	1.2%	1.8%	2.1%	2.1%	2.4%

Source: Company, YES Sec – Research

Recommendation Tracker



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Name of the Research Analyst : Shivaji Thapliyal, Siddharth Rajpurohit, Suraj Singhania

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