

India

HOLD (previously ADD)

Consensus ratings*: Buy 14 Hold 6 Sell 2

Current price: Rs2,498
 Target price: ▲ Rs2,450
 Previous target: Rs2,250
 Up/downside: -1.9%
 InCred Research / Consensus: 16.0%

Reuters:
 Bloomberg: HDFCAMC IN
 Market cap: US\$7,342m
 Rs533,151m
 Average daily turnover: US\$23.0m
 Rs1668.2m
 Current shares o/s: 213.2m
 Free float: 46.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	23.9	41.5	34.3
Relative (%)	17.5	28.1	12.8

Major shareholders	% held
HDFC	52.0
ABRDN INVESTMENT	16.0
LIC	6.0



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HDFC AMC

Positives already priced in

- We downgrade HDFC AMC to HOLD from ADD, despite a healthy PAT in 1Q amid a spike in trading income, as we feel the positives are already priced in.
- HDFC AMC is gaining market share, mainly in equity funds (~12.1%), but the impact on revenue yields due to the change in SEBI norms remains uncertain.
- Adjusting for trading gains, we have raised earnings estimates by ~8.1%/8.8% for FY24/25F, respectively, with a new TP of Rs2,450, or ~33x FY25F EPS.

Rise in market share in equity funds; strong customer acquisition

HDFC AMC reported a steady trend in its market share across portfolios, whereby its share in total QAAAUM stood at ~11.3% in 1QFY24 (11.1% in 4QFY23). Equity fund inflows improved to ~12.1% (~12% in 4QFY22) whereas debt funds witnessed a minor decline to ~13.2% against ~13.3% in the previous quarter. Systematic investment plan or SIP book also witnessed a significant improvement, with SIP AUM at Rs18.9bn and a customer base of more than 5m. HDFC AMC has become a pioneer in the SIP space as well.

Yields down sequentially; investment income aids profitability

HDFC AMC witnessed sequentially flat yields at ~49bp, which management attributed to higher equity fund inflows. We expect a marginal improvement in yields due to the rising share of equity funds. HDFC AMC reported a PAT of Rs4.77bn (+52% yoy/+26.9% qoq) despite flat yields amid a rise in other income, which is linked to market investments that have seen a significant improvement during the past quarter, but the same remains volatile and could see a reversal in an adverse market.

Expect ~30-32bp impact on TER and ~9bp on revenue yields

Our scheme-wise analysis for HDFC AMC indicates that it is operating at an equity TER (total expense ratio) of ~167bp against the new Securities and Exchange Board of India or SEBI's norm of ~156bp. We are building an additional charge of ~30-32bp for all relevant expenses like additional charges such as Goods and Services Tax or GST, brokerage, Securities Transaction Tax or STT and exit load which need to be adjusted. Our base-case assumption is that the company would be able to pass on ~50% of the TER cut to the distributors, which indicates ~9bp impact on FY24F revenue yields.

Outlook & valuation

HDFC AMC is gaining market share, mainly in equity funds (~12.1%) but the impact on revenue yields due to the change in SEBI norms remains uncertain. However, post recent run-up, we believe that most positives have already been priced in and there is limited room for a further upside in the stock from the current levels. We have downgraded HDFC AMC's rating to HOLD (from ADD earlier) and adjusting for trading gains, we have revised our earnings by ~8.1%/8.8% for FY24F/25F, respectively, with a new target price of Rs2,450, corresponding to ~33x FY25F EPS. Downside risks: Lower growth and industry-related risks. Upside risks: Improved inflows, and a relatively faster gain in market share.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	0	0	0	0	0
Total Non-Interest Income (Rsm)	24,332	24,826	23,943	27,446	31,800
Operating Revenue (Rsm)	24,332	24,826	23,943	27,446	31,800
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	13,931	14,239	13,522	15,832	18,477
Core EPS (Rs)	65.34	66.79	63.43	74.26	86.67
Core EPS Growth	5%	2%	(5%)	17%	17%
FD Core P/E (x)	38.22	37.40	39.38	33.63	28.82
DPS (Rs)	42.00	48.00	44.00	52.00	61.00
Dividend Yield	1.68%	1.92%	1.76%	2.08%	2.44%
BVPS (Rs)	259.4	286.5	306.0	328.2	353.9
P/BV (x)	9.63	8.72	8.16	7.61	7.06
ROE	27.0%	24.5%	21.4%	23.4%	25.4%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs m	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Revenue from operations	5,163	5,216	5,447	5,596	5,410	5,745	10.2%	6.2%
Total revenue (Rs m)	5,809	5,329	6,489	6,629	6,378	7,326	37.5%	14.9%
Total expenditure	1,384	1,479	1,558	1,622	1,460	1,612	9.0%	10.4%
Cost-to-income (%)	23.8%	27.8%	24.0%	24.5%	22.9%	22.0%		
Tax	991	708	1,290	1,313	1,156	939	32.6%	-18.8%
Tax rate (%)	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%		
Profit after tax	3,434	3,142	3,641	3,694	3,762	4,775	52.0%	26.9%
QAAUM (Rs tr)	4.32	4.15	4.29	4.45	4.50	4.86	17.0%	8.0%

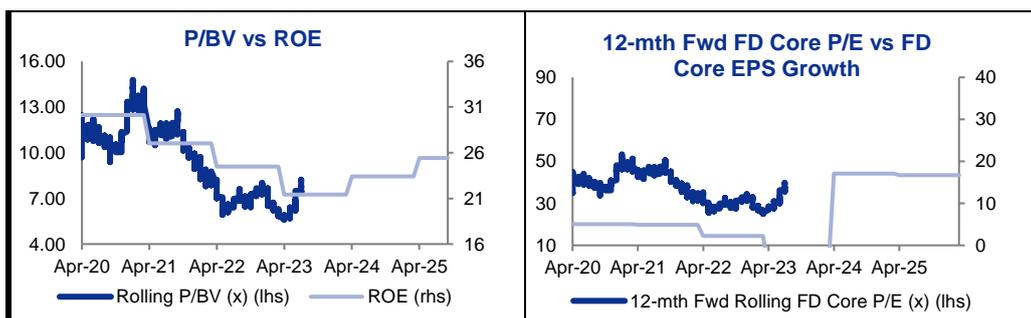
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/e Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	Variance	Earlier	Revised	Variance	Earlier	Revised	Variance
Revenue from operations	22,617	23,943	5.9%	26,040	27,446	5.4%	30,324	31,800	4.9%
PAT	12,514	13,522	8.1%	14,556	15,832	8.8%	17,116	18,477	8.0%
Dividend payout (%)	70	70	0.0%	70	70	0.0%	70	70	0.0%
QAAUM (Rs tr)	5.1	5.1	0.0%	5.8	5.8	0.0%	6.8	6.8	0.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income					
Total Non-Interest Income	24,332	24,826	23,943	27,446	31,800
Operating Revenue	24,332	24,826	23,943	27,446	31,800
Total Non-Interest Expenses	(5,779)	(6,120)	(6,151)	(6,614)	(7,488)
Pre-provision Operating Profit	18,553	18,706	17,792	20,832	24,312
Total Provision Charges					
Operating Profit After Provisions	18,553	18,706	17,792	20,832	24,312
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	18,553	18,706	17,792	20,832	24,312
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	18,553	18,706	17,792	20,832	24,312
Exceptional Items					
Pre-tax Profit	18,553	18,706	17,792	20,832	24,312
Taxation	(4,622)	(4,467)	(4,270)	(5,000)	(5,835)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	13,931	14,239	13,522	15,832	18,477
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	13,931	14,239	13,522	15,832	18,477
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	0.1%	0.1%	0.5%	1.1%	1.8%
Avg Liquid Assets/Avg IEAs					
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans					
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets					
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets					
Intangible Assets					
Other Non-Interest Earning Assets	1,665	3,125	2,000	1,949	1,901
Total Non-Interest Earning Assets	2,887	4,501	3,307	3,191	3,081
Cash And Marketable Securities	81	40	622	997	1,863
Long-term Investments	55,702	60,792	65,655	70,907	76,580
Total Assets	58,670	65,333	69,584	75,096	81,524
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities					
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	3,503	4,281	4,355	5,118	6,069
Total Liabilities	3,503	4,281	4,355	5,118	6,069
Shareholders Equity	55,300	61,084	65,229	69,978	75,454
Minority Interests					
Total Equity	55,300	61,084	65,229	69,978	75,454

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth					
Operating Profit Growth	2.8%	0.8%	(4.9%)	17.1%	16.7%
Pretax Profit Growth	6%	1%	(5%)	17%	17%
Net Interest To Total Income					
Cost Of Funds					
Return On Interest Earning Assets					
Net Interest Spread					
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit					
Interest Return On Average Assets					
Effective Tax Rate	24.9%	23.9%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio					
Return On Average Assets	25.42%	22.97%	20.05%	21.89%	23.60%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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