

India

HOLD (no change)

Consensus ratings*: Buy 10 Hold 11 Sell 2

Current price:	Rs3,502
Target price: ▲	Rs3,550
Previous target:	Rs2,700
Up/downside:	1.4%
InCred Research / Consensus:	14.0%
Reuters:	
Bloomberg:	HDFCAMC IN
Market cap:	US\$9,003m Rs747,557m
Average daily turnover:	US\$22.8m Rs1895.8m
Current shares o/s:	213.2m
Free float:	46.0%

*Source: Bloomberg

Key changes in this note

➤ HDFC AMC has been seeing a consistent surge in equity funds' market share amid scheme-level outperformance, which has been the key driver of strong earnings growth.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	16.1	27.1	62.8
Relative (%)	12.6	17.7	36.1

Major shareholders	% held
HDFC	52.0
ABRDN INVESTMENT	16.0
LIC	6.0

Research Analyst(s)



Jignesh SHIAL

T (91) 22 4161 1547
E jignesh.shial@incredresearch.com

Mayank AGARWAL

T (91) 22 4161 0000
E mayank.agarwal@incredresearch.com

HDFC AMC

Performance improving; valuation justified

- HDFC AMC reported a healthy 3QFY24 PAT of Rs4.89bn (+32.6% yoy/+11.9% qoq) as the rising share of equity AUM continues to aid revenue yield.
- The company has managed its overall operating expenses well, which has further aided profitability and improved scheme-wise expense ratios.
- We appreciate the improved performance of AMC, but we believe the current valuation prices in the same. Retain HOLD rating with a higher TP of Rs3,550.

Rise in equity market share amid scheme-level outperformance

HDFC AMC has reported a steady trend in market share across portfolios, whereby its share in total QAAUM stood at ~11.2% in 3QFY24, flat sequentially. However, its share in equity fund inflow improved to ~12.6% (~12.4% in 2QFY24) whereas debt funds witnessed a minor decline to ~13.2% against ~13.3% last quarter. HDFC AMC witnessed QAAUM growth of +24% yoy/+5.1% qoq, which is also supported by the recent rise in capital markets. Equity funds grew by +10.7% qoq and the share of equity funds increased to ~57.4% from ~54.5% in 2QFY24 as debt and liquid funds witnessed a relative slowdown. HDFC AMC has been witnessing a consistent surge in equity funds' market share amid scheme-level outperformance, which has been the key driver of its strong earnings growth.

Steady yields driven by better equity funds' share in overall AUM

HDFC AMC has managed to hold yields sequentially at ~50bp, which management attributed to a higher equity inflow. We expect a marginal improvement in yields due to the rising share of equity funds. The company has managed its overall operating expenses well, which has aided profitability and also improved scheme-wise expense ratios.

Sharp surge in SIP portfolio provides further confidence

The systematic investment plan or SIP book of the company also witnessed a significant improvement, with SIP AUM at Rs1.28tr (+15.9% qoq) and a customer base of more than ~6.81m (+17.4% qoq). The rise in SIP portfolio, with a consistent surge in SIP AUM, provides further confidence in HDFC AMC's ability to manage the healthy growth trend in AUM even in the coming quarters.

Outlook & valuation

We continue to appreciate the strong scheme-wise delivery provided by the company which, in turn, has resulted in a surge in equity funds' AUM and an improvement in market share for the AMC. This will also support yields and profitability in the coming quarters. However, post recent rise, we believe that most positives are already factored in the stock price and there is a limit to further upside. We have revised our earnings estimates by ~22%/~27% for FY25F/26F, respectively. We retain HOLD rating on the stock with a higher target price of Rs3,550, corresponding to ~36x FY25F EPS, from Rs2,700. 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	31,354	34,273	42,365
Operating Revenue (Rsm)	24,332	24,826	31,354	34,273	42,365
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	13,931	14,239	19,104	20,700	26,077
Core EPS (Rs)	65.34	66.79	89.61	97.09	122.31
Core EPS Growth	5%	2%	34%	8%	26%
FD Core P/E (x)	53.59	52.43	39.08	36.07	28.63
DPS (Rs)	42.00	48.00	63.00	68.00	86.00
Dividend Yield	1.20%	1.37%	1.80%	1.94%	2.46%
BVPS (Rs)	259.4	286.5	313.1	342.3	378.6
P/BV (x)	13.50	12.22	11.18	10.23	9.25
ROE	27.0%	24.5%	29.9%	29.6%	33.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary (Rs m)

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Revenue from operations	5,216	5,447	5,596	5,410	5,745	6,431	6,713	20.0%	4.4%
Total revenue (Rs m)	5,329	6,489	6,629	6,378	7,326	7,652	8,138	22.8%	6.3%
Total expenditure	1,479	1,558	1,622	1,460	1,612	1,761	1,751	8.0%	-0.5%
Cost-to-income (%)	27.8%	24.0%	24.5%	22.9%	22.0%	23.0%	21.5%		
Tax	708	1,290	1,313	1,156	939	1,516	1,489	13.4%	-1.8%
Tax rate (%)	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%		
Profit after tax	3,142	3,641	3,694	3,762	4,775	4,376	4,897	32.6%	11.9%
QAAUM (Rs tr)	4.15	4.29	4.45	4.50	4.86	5.25	5.52	24.0%	5.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

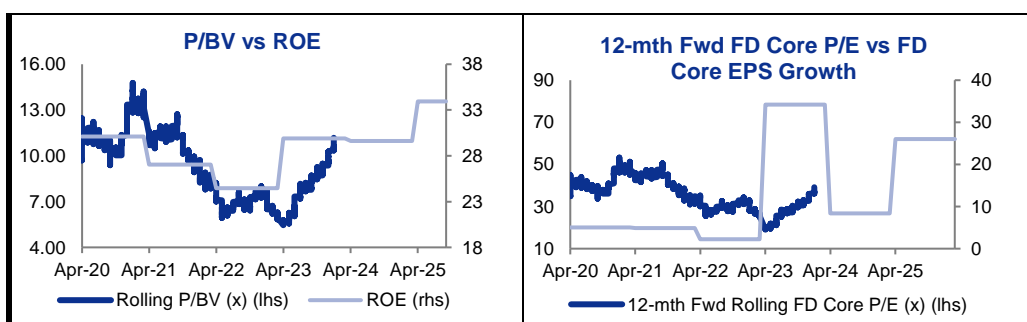
Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	Variance	Earlier	Revised	Variance	Earlier	Revised	Variance
Revenue from operations	30,201	31,354	3.8%	29,118	34,273	17.7%	34,647	42,365	22.3%
PAT	17,563	19,104	8.8%	16,987	20,700	21.9%	20,507	26,077	27.2%
Dividend payout (%)	70	70	0.0%	70	70	0.0%	70	70	0.0%
QAAUM (Rs tr)	5.4	5.6	5.0%	6.1	6.7	8.6%	7.1	7.8	9.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key takeaways from 3QFY24 earnings conference call

- The market share in debt and liquid funds has been in a range. In debt funds, there was a delay in the debt index fund and thus ignoring the debt index fund, its market share is stable.
- The current growth was observed on an expanding base, which underscores the significance of acceptance of mutual funds even in B-30 markets.
- The contribution of B-30 markets to equity-oriented AUM is even higher. 27% of equity-oriented AUM comes from B-30 markets.
- 24 new branches set up so far in Jan 2024, out of which 22 are in B-30 markets. Total branches as on date stand at ~253, of which ~173 are located in B-30 markets and the remaining in T-30 markets.
- The customer profile leans towards individual investors with a contribution of 70%, compared to the industry, which stands at 59%.
- The penetration in the unique investor universe stands at 21%, signifying that over one in every five investors has chosen HDFC Mutual Fund as one of their investment choices.
- The effective tax rate is low, primarily due to the decrease in deferred tax charge for the current quarter, which is mainly attributed to the holding period of certain investments transitioning from the short term to the long term.
- The major focus remains on continuing to build the core business, as there is a huge runway for growth. At the same time, it is focused on building an alternative to the PMS business in a slow and steady manner over a period, which will continue to grow.

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	31,354	34,273	42,365
Operating Revenue	24,332	24,826	31,354	34,273	42,365
Total Non-Interest Expenses	(5,779)	(6,120)	(6,861)	(7,036)	(8,054)
Pre-provision Operating Profit	18,553	18,706	24,493	27,237	34,311
Total Provision Charges					
Operating Profit After Provisions	18,553	18,706	24,493	27,237	34,311
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	18,553	18,706	24,493	27,237	34,311
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	18,553	18,706	24,493	27,237	34,311
Exceptional Items					
Pre-tax Profit	18,553	18,706	24,493	27,237	34,311
Taxation	(4,622)	(4,467)	(5,388)	(6,537)	(8,235)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	13,931	14,239	19,104	20,700	26,077
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	13,931	14,239	19,104	20,700	26,077
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%	1.6%	4.1%	6.7%
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	2,154	3,988	7,125
Long-term Investments	55,702	60,792	65,655	70,907	76,580
Total Assets	58,670	65,333	71,117	78,086	86,785
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	66,761	72,969	80,716
Minority Interests					
Total Equity	55,300	61,084	66,761	72,969	80,716

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth					
Operating Profit Growth	2.8%	0.8%	30.9%	11.2%	26.0%
Pretax Profit Growth	6%	1%	31%	11%	26%
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%	22.0%	24.0%	24.0%
Net Dividend Payout Ratio					
Return On Average Assets	25.42%	22.97%	28.00%	27.75%	31.63%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.