

India

**HOLD** (no change)

Consensus ratings\*: Buy 12 Hold 8 Sell 2

Current price: Rs4,196  
 Target price: ▲ Rs4,250  
 Previous target: Rs3,800  
 Up/downside: 1.3%  
 InCred Research / Consensus: 1.7%

Reuters:  
 Bloomberg: HDFCAMC IN  
 Market cap: US\$10,721m  
 Rs896,262m  
 Average daily turnover: US\$23.1m  
 Rs1932.4m  
 Current shares o/s: 213.2m  
 Free float: 46.0%

\*Source: Bloomberg

**Key changes in this note**

- We appreciate the improved performance of HDFC AMC, but we believe that other AMC stocks offer a better risk-reward ratio.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.5	12.5	76.3
Relative (%)	(0.2)	1.8	44.4

Major shareholders	% held
HDFC	52.0
ABRDN INVESTMENT	16.0
LIC	6.0

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# HDFC AMC

## Steady performance; expensive valuation

- HDFC AMC reported a better-than-estimated 1QFY25 PAT of Rs6bn (+26.5% yoy/+11.6% qoq) despite sequential flat yields amid a spurt in other income.
- The company has maintained market share gains across portfolios, whereby its share in total QAAAUM stood at ~11.4% against ~11.3% last quarter.
- We appreciate the improved performance, but we feel that other AMC stocks offer a better risk-reward ratio. Retain HOLD with a higher TP of Rs4,250.

### Equity funds' market share rises amid scheme-level outperformance

HDFC AMC reported a steady trend in market share gains across portfolios, whereby its share in total QAAAUM stood at ~11.4% in 1QFY25 against ~11.3% last quarter. Similarly, the share in equity fund inflow improved to ~12.8% (~12.7% in 4QFY24). HDFC AMC witnessed QAAAUM growth of +38.3% yoy/+9.6% qoq, led by the rise in inflow as well as a consistent improvement in capital markets. The company's management intends to focus more on scheme-level performance to boost the AUM growth momentum further. Management considers the current product offerings sufficient, leading to lesser launch of new products.

### Steady revenue yield trend; rising equity funds' share advantageous

HDFC AMC witnessed sequentially flat revenue yields, but the surge in operating expenses was attributed to the rise in employee expenses amid an increase in the overall headcount as well as new fund offer or NFO-related expenses. However, this has fetched an additional AUM that will generate higher fees going ahead. Interestingly, HDFC AMC's asset mix continued to tilt towards equity funds, currently at ~60.6% on a quarterly average basis, which will continue to support yields in the coming quarters.

### 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 Rs1.61tr (+15% qoq) and a customer base of more than ~8.76m (+9.6% qoq). The rise in SIP portfolio, with a consistency in the surge in SIP AUM, provides further confidence in HDFC AMC's ability to manage its healthy growth trend in assets under management or AUM even in the coming quarters.

### Outlook & valuation

We continue to appreciate the strong scheme-wise delivery provided by the company which, in turn, 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 feel that other AMC stocks offer a better risk-reward ratio. We retain our HOLD rating on the stock with a higher target price of Rs4,250 (Rs3,800 earlier) or ~29x FY26F EPS. Downside risks: Lower growth and industry-related risks. Upside risks: Improved inflow and a relatively faster gain in market share.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	0	0	0	0	0
Total Non-Interest Income (Rsm)	24,826	31,624	41,416	50,228	61,426
Operating Revenue (Rsm)	24,826	31,624	41,416	50,228	61,426
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	14,239	19,459	25,937	31,000	36,713
Core EPS (Rs)	66.79	91.27	121.66	145.40	172.20
Core EPS Growth	2%	37%	33%	20%	18%
FD Core P/E (x)	62.83	45.98	34.49	28.86	24.37
DPS (Rs)	48.00	70.00	97.00	116.00	138.00
Dividend Yield	1.14%	1.67%	2.31%	2.76%	3.29%
BVPS (Rs)	286.5	332.0	356.6	385.8	419.8
P/BV (x)	14.65	12.64	11.77	10.88	10.00
ROE	24.5%	29.5%	35.3%	39.2%	42.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly earnings summary**

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Revenue from operations	5,216	5,447	5,596	5,410	5,745	6,431	6,713	6,954	7,752	34.9%	11.5%
Total revenue (Rs m)	5,329	6,489	6,629	6,378	7,326	7,652	8,138	8,509	9,483	29.5%	11.5%
Total expenditure	1,479	1,558	1,622	1,460	1,612	1,761	1,751	1,718	1,959	21.5%	14.0%
Cost-to-income (%)	27.8%	24.0%	24.5%	22.9%	22.0%	23.0%	21.5%	20.2%	20.7%		
Tax	708	1,290	1,313	1,156	939	1,516	1,489	1,380	1,485	58.2%	7.6%
Tax rate (%)	22.9%	22.9%	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	5,411	6,040	26.5%	11.6%
QAAUM (Rs tr)	4.15	4.29	4.45	4.50	4.86	5.25	5.52	6.13	6.72	38.3%	9.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	Variance	Earlier	Revised	Variance	Earlier	Revised	Variance
Revenue from operations	40,141	41,416	3.2%	46,851	50,228	7.2%	56,337	61,426	9.0%
PAT	24,956	25,937	3.9%	28,059	31,000	10.5%	33,216	36,713	10.5%
Dividend payout (%)	80	80	0.0%	80	80	0.0%	80	80	0.0%
QAAUM (Rs tr)	7.4	7.7	3.8%	8.7	9.3	6.4%	10.5	11.2	6.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Key takeaways from 1QFY25 earnings conference call

### AUM

- Total QAAUM grew 38% yoy and 10% qoq led by equity and debt segments
- A large part the SIPs flows was towards equity segment.

### Revenue from operations

- Revenue from operations grew 35% yoy and 11% qoq to Rs7.75bn.
- Reported yields on the outstanding book were – equity funds at 59bp (45-50bp on new funds), debt funds at 28bp and liquid funds at 12-13bp.
- The sluggishness in yields was due to higher equity funds' AUM and a large new fund.
- Equity funds' yields were lower by 0.5bp due to a large NFO, a thematic fund - Manufacturing Fund - which garnered Rs95bn during the quarter. This was higher than management's expectation of Rs30-40bn, with the Jun 2024-end AUM at ~Rs118bn.
- Total product portfolio is up from 43 in FY21 to 100 in 1Q FY25

### Opex

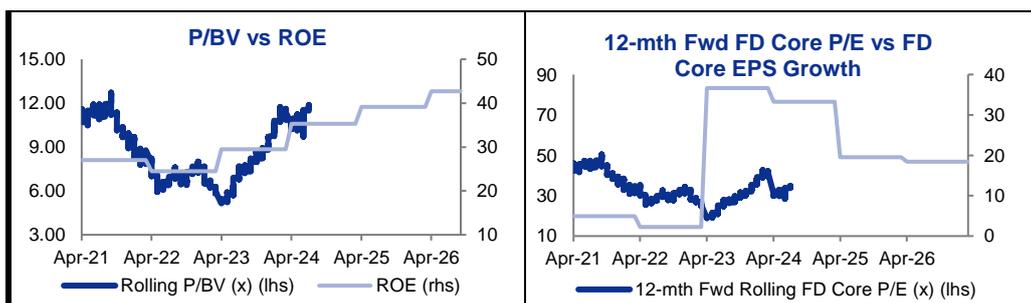
- Opex grew 21% yoy and 14% qoq, led by higher employee expenses and higher variable other expenses.
- The rise in employee expenses is attributable to annual salary revisions, higher number of employees and one-time employee engagement expenses usually incurred in 1Q or 2Q of every year. Employee costs are guided to grow 12-15% for FY25.
- Other opex was up 28% yoy and 14% qoq due to new fund offer expenses, KYC expenses, etc.

Figure 3: InCred's BFSI coverage universe

Banks	Rating	CMP(Rs)	TP(Rs)	P/B(X) (at TP)			ROA(%)			ROE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
SBI **	ADD	881	1,000	2.1	1.8	1.6	1.0%	1.1%	1.1%	16.3%	17.2%	17.6%
HDFC Bank **	ADD	1,622	2,000	3.1	2.8	2.6	1.9%	1.9%	2.0%	15.5%	16.1%	16.8%
ICICI Bank	ADD	1,230	1,300	3.5	3.0	2.6	2.3%	2.2%	2.3%	17.7%	17.3%	17.7%
Axis Bank	HOLD	1,307	1,150	2.0	1.7	1.5	1.7%	1.7%	1.7%	16.8%	16.0%	16.3%
IndusInd	HOLD	1,444	1,650	1.8	1.6	1.4	1.7%	1.7%	1.7%	14.1%	14.4%	14.8%
NBFCs	Rating	CMP(Rs)	TP(Rs)	P/B(X) (at TP)			ROA(%)			ROE(%)		
Bajaj Finance	ADD	7,064	9,000	6.0	5.0	4.2	4.2%	4.4%	4.5%	21.0%	23.5%	25.4%
Cholamandalam	ADD	1,413	1,400	5.0	4.1	3.4	2.5%	2.5%	2.5%	21.0%	21.8%	22.5%
MMFS **	ADD	303	370	2.4	2.2	2.0	1.8%	1.9%	2.0%	12.6%	14.3%	15.6%
Shriram Finance **	ADD	2,882	2,950	2.0	1.7	1.4	3.4%	3.5%	3.5%	16.9%	17.3%	17.9%
SBI Cards **	Reduce	739	500	3.4	2.9	2.5	3.6%	3.2%	3.0%	17.8%	16.6%	16.3%
Aavas	ADD	1,783	2,000	3.5	3.0	2.6	3.3%	2.9%	2.9%	14.7%	14.1%	14.9%
Home First	ADD	1,099	1,100	4.2	3.7	3.2	3.4%	3.4%	3.4%	16.2%	17.7%	19.3%
Spandana Spoorty **	ADD	732	1,300	2.1	1.8	1.5	4.4%	4.6%	4.6%	16.7%	17.9%	18.2%
Fusion Micro Finance	HOLD	441	580	1.7	1.4	1.1	4.7%	4.7%	4.7%	19.4%	19.6%	19.7%
AMCs	Rating	CMP(Rs)	TP(Rs)	P/E(X) (at TP)			ROA(%)			ROE(%)		
Nippon AMC	ADD	671	660	31.2	26.5	23.5	0.28%	0.27%	0.25%	33.2%	38.5%	42.4%
HDFC AMC	HOLD	4,196	4,250	33.5	29.9	25.3	0.37%	0.35%	0.35%	32.8%	34.2%	37.3%
UTI AMC	ADD	1,073	1,100	16.0	13.0	11.1	0.29%	0.29%	0.28%	18.8%	20.6%	21.4%
ABSL AMC**	ADD	697	700	21.3	17.3	14.4	0.25%	0.26%	0.26%	27.9%	30.3%	32.1%
Insurance	Rating	CMP(Rs)	TP(Rs)	P/EV (X) (at TP)			Return on EV (%)			ROE(%)		
SBI Life Insurance	HOLD	1613	1550	2.4	2.0	1.7	17.8%	17.4%	17.1%	24.7%	23.1%	21.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income					
<b>Total Non-Interest Income</b>	<b>24,826</b>	<b>31,624</b>	<b>41,416</b>	<b>50,228</b>	<b>61,426</b>
Operating Revenue	24,826	31,624	41,416	50,228	61,426
<b>Total Non-Interest Expenses</b>	<b>(6,120)</b>	<b>(6,842)</b>	<b>(8,584)</b>	<b>(10,228)</b>	<b>(13,120)</b>
Pre-provision Operating Profit	18,706	24,782	32,832	40,000	48,306
<b>Total Provision Charges</b>					
Operating Profit After Provisions	18,706	24,782	32,832	40,000	48,306
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	18,706	24,782	32,832	40,000	48,306
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	18,706	24,782	32,832	40,000	48,306
<b>Exceptional Items</b>					
Pre-tax Profit	18,706	24,782	32,832	40,000	48,306
Taxation	(4,467)	(5,323)	(6,895)	(9,000)	(11,594)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	14,239	19,459	25,937	31,000	36,713
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	14,239	19,459	25,937	31,000	36,713
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	0.1%	0.1%	0.8%	1.7%	2.3%
<b>Avg Liquid Assets/Avg IEAs</b>					
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Total Gross Loans</b>					
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets					
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets					
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>3,125</b>	<b>2,102</b>	<b>2,050</b>	<b>2,001</b>	<b>1,954</b>
<b>Total Non-Interest Earning Assets</b>	<b>4,501</b>	<b>3,466</b>	<b>3,346</b>	<b>3,231</b>	<b>3,123</b>
Cash And Marketable Securities	40	112	1,148	1,735	2,552
<b>Long-term Investments</b>	<b>60,792</b>	<b>71,900</b>	<b>76,933</b>	<b>83,473</b>	<b>90,985</b>
Total Assets	65,333	75,478	81,427	88,439	96,660
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities					
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	4,281	4,785	5,407	6,183	7,151
Total Liabilities	4,281	4,785	5,407	6,183	7,151
Shareholders Equity	61,084	70,791	76,020	82,256	89,509
<b>Minority Interests</b>					
Total Equity	61,084	70,791	76,020	82,256	89,509

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Income Growth					
Operating Profit Growth	0.8%	32.5%	32.5%	21.8%	20.8%
Pretax Profit Growth	1%	32%	32%	22%	21%
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	23.9%	21.5%	21.0%	22.5%	24.0%
Net Dividend Payout Ratio					
Return On Average Assets	22.97%	27.64%	33.06%	36.50%	39.67%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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