

India

**HOLD** (no change)

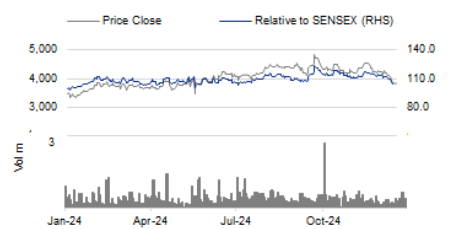
Consensus ratings\*: Buy 18 Hold 6 Sell 3

Current price:	Rs3,865
Target price:	Rs4,200
Previous target:	Rs4,750
Up/downside:	8.7%
InCred Research / Consensus:	-13.6%
Reuters:	HDFC.NS
Bloomberg:	HDFCAMC IN
Market cap:	US\$11,378m
	Rs826,181m
Average daily turnover:	US\$31.1m
	Rs2258.4m
Current shares o/s:	213.2m
Free float:	46.0%

\*Source: Bloomberg

**Key changes in this note**

➤ A largely stable performance with strong inflows and stable yields. The lower other income was offset by lower expenses. We expect yields to normalize going ahead.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(14.8)	(13.8)	11.9
Relative (%)	(8.6)	(7.8)	7.2

<b>Major shareholders</b>	% held
HDFC	52.0
ABRDN INVESTMENT	16.0
LIC	6.0

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# HDFC AMC

## Strong flows, healthy quarter; high valuation

- HDFC AMC posted a largely in-line 3QFY25 performance with PAT at Rs6.4bn led by stable revenue yield, and a dip in other income offset by lower opex.
- QAAUM grew ~4% qoq led by strong inflows as MTM gains were volatile. SIP inflow also grew in line but partly hit by the halt of new inflow in select schemes.
- We appreciate the improved performance; however, expect the yields to face some more pressure due to telescopic pricing. Retain HOLD with Rs4,200 TP.

### Strong yields, lower opex lead to ~11% qoq PAT growth

HDFC AMC posted in-line 3QFY25 PAT with stable revenue yields qoq and a marginal improvement in operating yields. Revenue yields were ~46bp, stable qoq, led by strong inflows and the residual impact of rationalization in brokerage. The rationalization in brokerage concluded in Aug 2024, however the impact was spread over as direct funds got repriced with a lag. Other income was lower by ~45% due to mark-to-market or MTM losses on account of mandated investments in own funds. Operating margin was marginally up led by lower other expenses, down ~14% qoq, due to lower CSR and new fund-related expenses. We expect the yield movement to start normalizing from the next quarter and feel the yield pressure will sustain over FY26F-27F, given the impact of telescopic pricing.

### Healthy AUM growth led by strong inflows; SIP growth moderates

QAAUM grew ~43% yoy and ~4% qoq to Rs7.8tr led by healthy inflows as capital markets remained volatile. Equity assets under management or AUM grew at a slower pace of ~2% qoq to constitute ~60.7% of AUM, weighed down by capital market volatility. Systematic investment plan or SIP inflow growth rate slowed to ~4% qoq, vs. ~15% in the previous quarter, due to the halt of new SIPs in the HDFC Defence Fund on account of valuation concerns. Debt funds grew by ~2% qoq to constitute ~20.2% of AUM. However, market volatility led to a strong rise in liquid funds, up ~12% qoq, to form ~10.7% of AUM. The company is focusing on filling in the gaps in the product suite in mutual funds, private credit and the new asset class while shoring up existing products through a consistent performance. There were three new products that were launched in GIFT City and two more are in the pipeline. HDFC AMC has been able to maintain a stable share qoq despite volatile market movement. We expect HDFC AMC to continue gaining market share led by its wide distribution network and strong scheme-level performance.

### Outlook and valuation

We 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. However, we feel 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 HDFC AMC with a lower target price of Rs4,200 (Rs4,750 earlier) or ~27x FY26F EPS, largely due to the higher yield pressure that we now expect. Downside risks: Lower growth & industry-related risks. Upside risks: Improved inflows & relatively faster market share gain.

### 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	41,535	52,788	62,356
Operating Revenue (Rsm)	24,826	31,624	41,535	52,788	62,356
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	14,239	19,459	26,018	33,506	39,331
Core EPS (Rs)	66.79	91.27	122.03	157.16	184.48
Core EPS Growth	2%	37%	34%	29%	17%
FD Core P/E (x)	57.87	42.35	31.67	24.59	20.95
DPS (Rs)	48.00	70.00	97.00	126.00	147.00
Dividend Yield	1.24%	1.81%	2.51%	3.26%	3.80%
BVPS (Rs)	286.5	332.0	356.9	387.9	425.2
P/BV (x)	13.49	11.64	10.83	9.96	9.09
ROE	24.5%	29.5%	35.4%	42.2%	45.4%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly results summary**

(Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YoY (%)	QoQ (%)
Revenue from operations	5,745	6,431	6,713	6,954	7,752	8,872	9,344	38.0%	14.4%
Total revenue (Rs m)	7,326	7,652	8,138	8,509	9,483	10,578	10,271	38.2%	11.5%
Total expenditure	1,612	1,761	1,751	1,718	1,959	1,991	1,872	13.1%	1.7%
Cost-to-Income (%)	22.0%	23.0%	21.5%	20.2%	20.7%	18.8%	18.2%		
Tax	939	1,516	1,489	1,380	1,485	2,818	1,985	85.9%	89.8%
Tax rate (%)	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%		
Profit after tax	4,775	4,376	4,897	5,411	6,040	5,769	6,415	31.8%	-4.5%
QAAUM (Rs tr)	4.86	5.25	5.52	6.13	6.72	7.59	7.87	44.6%	13.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

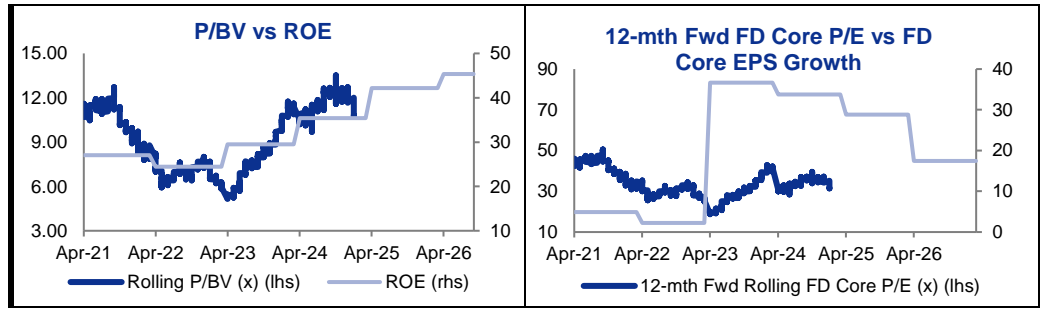
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	Variance	Earlier	Revised	Variance	Earlier	Revised	Variance
Revenue from operations	43,622	41,535	-4.8%	54,768	52,788	-3.6%	65,079	62,356	-4.2%
PAT	27,205	26,018	-4.4%	34,591	33,506	-3.1%	41,114	39,331	-4.3%
Dividend payout (%)	80	80	0.0%	80	80	0.0%	80	80	0.0%
QAAUM (Rs tr)	8.4	8.4	0.1%	10.3	10.3	-0.1%	12.4	12.3	-0.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### 3QFY25 earnings-call highlights ►

- Operating yield was 36bp in 9MFY25 and 37bp in 3QFY25, although the company's management indicated that yields will normalize going ahead.
- Management indicated other expenses will grow in the range of ~12-13% yoy on a normalized basis.
- Equity fund yield was ~58bp, debt fund yield was ~28bp and liquid fund yield was ~12-13 bp.
- As regards retail participation, there is an evident change in the distribution dynamics towards direct channels via fintechs and investment advisors.
- The share of direct distribution inched up by ~2.7bp yoy to 27%.
- The share of mutual fund distributors (MFDs) declined by ~2.4bp yoy as some MFDs graduated to become national distributors.
- Management reiterated that SIP demand continued to be strong despite some lumpy outflows, as these also included a lumpsum investment shift.

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>41,535</b>	<b>52,788</b>	<b>62,356</b>
Operating Revenue	24,826	31,624	41,535	52,788	62,356
<b>Total Non-Interest Expenses</b>	<b>(6,120)</b>	<b>(6,842)</b>	<b>(7,746)</b>	<b>(9,555)</b>	<b>(11,606)</b>
Pre-provision Operating Profit	18,706	24,782	33,789	43,233	50,750
<b>Total Provision Charges</b>					
Operating Profit After Provisions	18,706	24,782	33,789	43,233	50,750
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	18,706	24,782	33,789	43,233	50,750
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	18,706	24,782	33,789	43,233	50,750
<b>Exceptional Items</b>					
Pre-tax Profit	18,706	24,782	33,789	43,233	50,750
Taxation	(4,467)	(5,323)	(7,772)	(9,727)	(11,419)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	14,239	19,459	26,018	33,506	39,331
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	14,239	19,459	26,018	33,506	39,331
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%	0.9%	2.0%	3.2%
<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	1,229	2,187	3,700
<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	81,508	88,891	97,809
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	76,101	82,708	90,657
<b>Minority Interests</b>					
Total Equity	61,084	70,791	76,101	82,708	90,657

<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%	36.3%	27.9%	17.4%
Pretax Profit Growth	1%	32%	36%	28%	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	23.9%	21.5%	23.0%	22.5%	22.5%
Net Dividend Payout Ratio					
Return On Average Assets	22.97%	27.64%	33.15%	39.33%	42.13%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.