

India

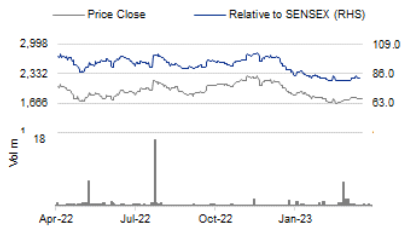
**ADD** (no change)

Consensus ratings\*: Buy 14 Hold 6 Sell 1

Current price:	Rs1,766
Target price: ▲	Rs2,050
Previous target:	Rs1,950
Up/downside:	16.1%
InCred Research / Consensus:	-2.5%

Reuters:	
Bloomberg:	HDFCAMC IN
Market cap:	US\$4,600m
	Rs376,823m
Average daily turnover:	US\$9.2m
	Rs755.3m
Current shares o/s:	213.2m
Free float:	46.0%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.5	(8.7)	(11.9)
Relative (%)	1.0	(8.6)	(16.0)

Major shareholders	% held
HDFC	52.0
ABRDN INVESTMENT	16.0
LIC	6.0

# HDFC AMC

## Market share improvement is key

- HDFC AMC posted in-line 4QFY23 PAT of Rs3.7bn (+9.5% yoy), despite a qoq drop in yields, amid market share gains as well as improved equity fund inflow.
- HDFC AMC witnessed a rise in market share in equity AUM to ~11.9% (11.3% in Mar 2022) and gained one-third market share in unique customers.
- We believe HDFC AMC is well-placed in case a low TER cap is introduced due to better-managed schemes. Retain ADD rating on it with a new TP of Rs2,050.

### Rise in equity market share and strong customer acquisition

HDFC AMC reported a steady trend in market share across portfolios, whereby its share in total QAAAUM stood at ~11.1% in 4QFY23 (10.8% in 4QFY22). Equity fund inflow improved to ~11.9% (11.3% in 4QFY22) whereas debt funds witnessed a minor decline to ~13.3% against ~13.8% last year. Liquid AUM too witnessed a minor decline to ~13.1% against ~13.3% last year. Out of 1m customers added by the industry in 4QFY23, HDFC added 0.3m customers, which is a one-third share, and we believe it will drive further market share gains.

### Yields dip sequentially; improving mix to support yields in near term

HDFC AMC witnessed its yields falling by 3bp qoq to ~48bp against ~51bp last quarter, which management attributed to lower days in 4Q and the impact of withdrawal of B-30 exemption. We expect a marginal improvement in yields due to the rising share of equity funds, but we have factored in lower yields on account of the introduction of a low TER cap.

### Stable profitability; we factor in TER cap impact

HDFC AMC reported a 4QFY23 PAT of Rs3.7bn (+9.5% yoy/+1.8% qoq), despite lower qoq yields, amid lower operating expenses led by a sequential decline in employee costs. We believe there is a high probability of the introduction of a low TER cap, which will include all expenses in TER, and have factored in a TER cap of 1.5% and pass-on to distributors of 50%. Accordingly, we have already cut our earnings estimates for HDFC AMC by 14% in FY24F. Our analysis indicated that HDFC AMC is relatively superiorly placed due to well-managed TER for various schemes, which allows a relatively lower hit on profitability in various scenarios.

### Outlook & valuation

Though we expect the regulatory overhang to weigh on AMC stock prices for some time, the probable earnings impact, based on our scenario analysis, is already factored in. We appreciate HDFC AMC's ability to regain lost market share in the equity segment & believe it is favorably placed because of better-managed scheme-wise TER in case of introduction of a low TER cap. We retain ADD rating on the stock with a higher target price of Rs2,050 (Rs1,950 earlier) or 27.2x FY25F EPS and ~7.2% of FY25F AUM. Key downside risks: Lower growth and industry-related risks.

### Analyst(s)



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### Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Non-Interest Income (Rsm)	24,332	24,826	22,014	24,757	28,937
Operating Revenue (Rsm)	24,332	24,826	22,014	24,757	28,937
Net Profit (Rsm)	13,931	14,239	13,274	15,314	18,382
Core EPS (Rs)	65.34	66.79	62.26	71.83	86.22
Core EPS Growth	5%	2%	(7%)	15%	20%
FD Core P/E (x)	27.02	26.44	28.36	24.58	20.48
DPS (Rs)	42.00	48.00	44.00	50.00	60.00
Dividend Yield	2.38%	2.72%	2.49%	2.83%	3.40%
BVPS (Rs)	259.4	286.5	304.8	326.6	352.9
P/BV (x)	6.81	6.16	5.79	5.41	5.00
ROE	27.0%	24.5%	21.1%	22.8%	25.4%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly results summary**

Rs m	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
Revenue from operations	5,163	5,216	5,447	5,596	5,410	4.8%	-3.3%
<b>Total revenue (Rs m)</b>	<b>5,809</b>	<b>5,329</b>	<b>6,489</b>	<b>6,629</b>	<b>6,378</b>	<b>9.8%</b>	<b>-3.8%</b>
Total expenditure	1,384	1,479	1,558	1,622	1,460	5.5%	-10.0%
Cost to Income (%)	23.8%	27.8%	24.0%	24.5%	22.9%		
Tax	991	708	1,290	1,313	1,156	16.6%	-12.0%
Tax rate (%)	22.9%	22.9%	22.9%	22.9%	22.9%		
<b>Profit after tax</b>	<b>3,434</b>	<b>3,142</b>	<b>3,641</b>	<b>3,694</b>	<b>3,762</b>	<b>9.5%</b>	<b>1.8%</b>
<b>QAAUM (Rs tr)</b>	<b>4.32</b>	<b>4.15</b>	<b>4.29</b>	<b>4.45</b>	<b>4.50</b>	<b>4.1%</b>	<b>1.1%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Estimate revision**

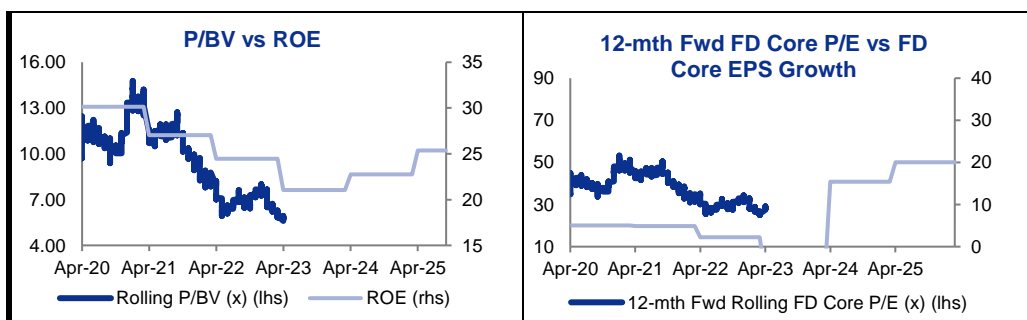
Y/e Mar (Rs m)	FY24F			FY25F			FY26F
	Earlier	Revised	Variance	Earlier	Revised	Variance	Introduced
Revenue from operations	22,264	22,014	-1.1%	24,967	24,757	-0.8%	28,937
PAT	13,437	13,274	-1.2%	15,451	15,314	-0.9%	18,382
Dividend payout (%)	70	70	0.0%	70.0	70.0	0.0%	70.0
QAAUM (Rs tr)	5.1	5.1	-0.3%	5.8	5.8	-0.1%	6.8

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Conference-call highlights

- HDFC AMC added 3m new unique customers during the quarter, which is one-third of the overall new unique customers added by the industry.
- HDFC AMC believes that with HDFC Bank becoming its owner now, the share of HDFC AMC in mutual funds sold by HDFC Bank could increase.
- HDFC AMC's board has approved the employee stock option plan or ESOP of 1.05m shares at a price of Rs1,780 per share. This ESOP scheme will cost Rs500-600m to HDFC AMC, which would be recognized over FY24F-26F.
- The Rs120m revenue impact was due to withdrawal of B-30 exemption.
- Net yield of equity funds is 70bp, in debt funds it is 27bp and 12bp in case of liquid funds.
- Opex on IT & digitalization has been largely done and the opex ratio next year will remain flat.
- HDFC AMC has initiated Alternate Investment Fund (AIF) and has already received a commitment of Rs4bn.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income					
<b>Total Non-Interest Income</b>	<b>24,332</b>	<b>24,826</b>	<b>22,014</b>	<b>24,757</b>	<b>28,937</b>
Operating Revenue	24,332	24,826	22,014	24,757	28,937
<b>Total Non-Interest Expenses</b>	<b>(5,779)</b>	<b>(6,120)</b>	<b>(4,316)</b>	<b>(4,337)</b>	<b>(4,427)</b>
Pre-provision Operating Profit	18,553	18,706	17,698	20,419	24,510
<b>Total Provision Charges</b>					
Operating Profit After Provisions	18,553	18,706	17,698	20,419	24,510
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	18,553	18,706	17,698	20,419	24,510
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	18,553	18,706	17,698	20,419	24,510
<b>Exceptional Items</b>					
Pre-tax Profit	18,553	18,706	17,698	20,419	24,510
Taxation	(4,622)	(4,467)	(4,425)	(5,105)	(6,127)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	13,931	14,239	13,274	15,314	18,382
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	13,931	14,239	13,274	15,314	18,382
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%	0.1%	0.3%	1.0%
<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					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</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>1,665</b>	<b>3,125</b>	<b>2,000</b>	<b>1,949</b>	<b>1,901</b>
<b>Total Non-Interest Earning Assets</b>	<b>2,887</b>	<b>4,501</b>	<b>3,307</b>	<b>3,191</b>	<b>3,081</b>
Cash And Marketable Securities	81	40	131	355	1,263
<b>Long-term Investments</b>	<b>55,702</b>	<b>60,792</b>	<b>65,655</b>	<b>70,907</b>	<b>76,580</b>
Total Assets	58,670	65,333	69,093	74,453	80,924
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	4,113	4,815	5,691
Total Liabilities	3,503	4,281	4,113	4,815	5,691
Shareholders Equity	55,300	61,084	64,980	69,638	75,232
<b>Minority Interests</b>					
Total Equity	55,300	61,084	64,980	69,638	75,232

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Income Growth					
Operating Profit Growth	2.8%	0.8%	(5.4%)	15.4%	20.0%
Pretax Profit Growth	6%	1%	(5%)	15%	20%
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%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Return On Average Assets	25.42%	22.97%	19.75%	21.34%	23.66%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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