

India

HOLD (no change)

Consensus ratings*: Buy 10 Hold 10 Sell 3

Current price:	Rs2,755
Target price:	Rs2,700 ▲
Previous target:	Rs2,250
Up/downside:	-2.0%
InCred Research / Consensus:	3.1%

Reuters:	
Bloomberg:	HDFCAMC IN
Market cap:	US\$7,066m Rs588,245m
Average daily turnover:	US\$26.5m Rs2202.0m
Current shares o/s:	213.2m
Free float:	46.0%

*Source: Bloomberg

Key changes in this note

- We factor in the new TER norms becoming applicable from FY25F.
- HDFC's merger with HDFC Bank to increase AMC's share in the bank's MF distribution.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.0	18.3	43.5
Relative (%)	6.7	16.8	23.7

Major shareholders	% held
HDFC	52.0
ABRDN INVESTMENT	16.0
LIC	6.0

Analyst(s)



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HDFC AMC

Performance improving; expensive valuation

- HDFC AMC reported a healthy 2Q PAT of Rs4.3bn (+20.2% yoy/-8.4% qoq), driven by better equity prices, leading to a qoq improvement in revenue yields.
- HDFC merger is good for the AMC as the MF distribution share of HDFC Bank can rise to ~60% vs. ~24% now, leading to Rs150-200bn more inflow (Fig.2).
- Assuming the new TER norms are applicable from FY25F, we have revised FY24F earnings by ~25%. Retain HOLD rating with a higher TP of Rs2,700.

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 ~12.4% in 2QFY24 (11.3% in 1QFY24). The share in equity fund AUM improved to ~13.3% (~12.1% in 1QFY24) whereas debt funds witnessed a minor decline to ~13.2% against ~13.3% in the previous quarter. HDFC AMC witnessed QAAAUM growth of 22.2% yoy/8% qoq in 2QFY24. Equity funds grew by 15% qoq/35% yoy while the share of equity funds in total QAAAUM rose to 54.5% from 51.2% in 1QFY24. The SIP book also witnessed a significant improvement, with SIP AUM at Rs1.1tr and a customer base of more than 5.8m. HDFC AMC has become a pioneer in SIP investments as well.

Yields driven by a better share of equity funds

HDFC AMC witnessed sequential yield improvement at ~51bp (49bp in 1QFY24), which management attributed to higher equity fund inflow. We expect a marginal improvement in yields due to the rising share of equity funds. HDFC AMC reported a healthy PAT of Rs4.3bn (up 20.2% yoy/-8.4% qoq), driven by better equity prices and yields.

HDFC's merger with HDFC Bank to aid growth

HDFC Bank worked on open architecture because of which HDFC AMC's share in the bank's mutual fund business stood at only 24%. Peers like ICICI Prudential and Axis Mutual Fund have a share of 50-60% in their respective bank's mutual fund business. HDFC AMC indicated that efforts towards increasing its share in HDFC Bank's business have commenced post HDFC merger. HDFC Bank garnered Rs1tr of gross inflow in FY23 through mutual fund or MF distribution and thus, our calculations suggest that the increased share of HDFC AMC can lead to an additional inflow of Rs150-200bn, which is 10-13% of HDFC AMC's gross inflow (regular).

Outlook & valuation

We now believe that the new total expense ratio (TER) norms will be applicable only from FY25F and thus, we have increased FY24F EPS by 25%. However, after the recent run-up, we believe that most positives are already valued in the stock price and there is limited upside from the current level. We maintain our HOLD rating on the stock with a higher target price of Rs2,700, corresponding to ~34x FY25F EPS, from Rs2,250 earlier. Key downside risks are lower growth and industry-related risks. Improved inflow and a relatively faster gain in market share are key upside risks.

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	30,201	29,118	34,647
Operating Revenue (Rsm)	24,332	24,826	30,201	29,118	34,647
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	13,931	14,239	17,563	16,987	20,507
Core EPS (Rs)	65.34	66.79	82.38	79.68	96.19
Core EPS Growth	5%	2%	23%	(3%)	21%
FD Core P/E (x)	42.17	41.26	33.45	34.58	28.65
DPS (Rs)	42.00	48.00	58.00	56.00	67.00
Dividend Yield	1.52%	1.74%	2.10%	2.03%	2.43%
BVPS (Rs)	259.4	286.5	310.9	334.6	363.8
P/BV (x)	10.62	9.62	8.86	8.23	7.57
ROE	27.0%	24.5%	27.6%	24.7%	27.5%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Revenue from operations	5,216	5,447	5,596	5,410	5,745	6,431	18.1%	11.9%
Total revenue (Rs m)	5,329	6,489	6,629	6,378	7,326	7,652	17.9%	4.5%
Total expenditure	1,479	1,558	1,622	1,460	1,612	1,761	13.0%	9.2%
Cost to Income (%)	27.8%	24.0%	24.5%	22.9%	22.0%	23.0%		
Tax	708	1,290	1,313	1,156	939	1,516	17.5%	61.5%
Tax rate (%)	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	20.2%	-8.4%
QAAUM (Rs tr)	4.15	4.29	4.45	4.50	4.86	5.25	22.2%	8.0%

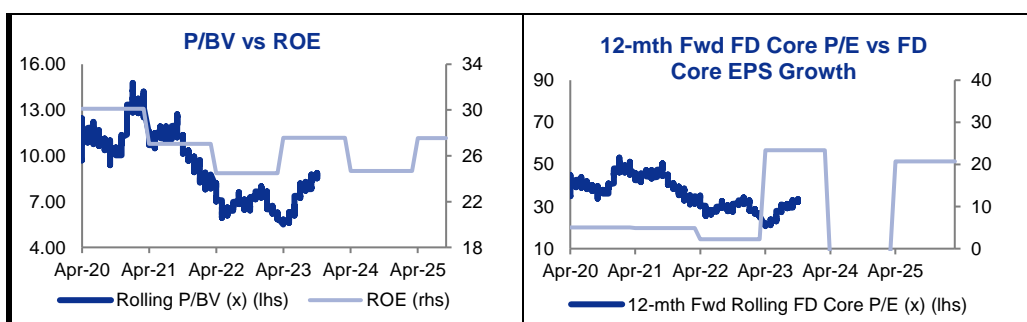
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Computation of additional inflow opportunity for HDFC AMC post HDFC's merger with HDFC Bank

FY23(Rs m)	HDFC MF	Axis MF	ICICI Pru MF
Total commission paid by mutual fund (MF)	10,816	11,059	13,866
Commission paid to parent bank by MF	1,593	2,922	2,735
Share of parent bank in commission paid	15%	26%	20%
Total commission received by parent bank	6,693	5,422	3,978
Share of own AMC in commission received	23.8%	53.9%	68.8%
Gross inflow of parent bank	992,424	426,150	163,830
Gross inflow of mutual fund	1,535,164	1,382,331	2,233,442
Additional opportunity for HDFC MF @ 40% share in HDFC Bank	158,788	-	-
Additional inflow % to existing inflow (regular)	10%	-	-

SOURCE: AMFI, 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	30,201	29,118	34,647
Operating Revenue	24,332	24,826	30,201	29,118	34,647
Total Non-Interest Expenses	(5,779)	(6,120)	(6,722)	(6,766)	(7,664)
Pre-provision Operating Profit	18,553	18,706	23,480	22,352	26,983
Total Provision Charges					
Operating Profit After Provisions	18,553	18,706	23,480	22,352	26,983
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	18,553	18,706	23,480	22,352	26,983
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	18,553	18,706	23,480	22,352	26,983
Exceptional Items					
Pre-tax Profit	18,553	18,706	23,480	22,352	26,983
Taxation	(4,622)	(4,467)	(5,917)	(5,364)	(6,476)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	13,931	14,239	17,563	16,987	20,507
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	13,931	14,239	17,563	16,987	20,507
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%	1.3%	2.7%	4.0%
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					

SOURCES: 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	1,678	2,357	3,973
Long-term Investments	55,702	60,792	65,655	70,907	76,580
Total Assets	58,670	65,333	70,640	76,455	83,634
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	66,285	71,337	77,565
Minority Interests					
Total Equity	55,300	61,084	66,285	71,337	77,565

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth					
Operating Profit Growth	2.8%	0.8%	25.5%	(4.8%)	20.7%
Pretax Profit Growth	6%	1%	26%	(5%)	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	24.9%	23.9%	25.2%	24.0%	24.0%
Net Dividend Payout Ratio					
Return On Average Assets	25.42%	22.97%	25.83%	23.10%	25.62%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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