

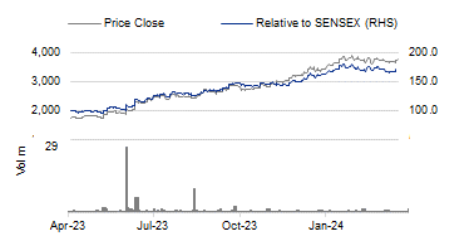
India

**HOLD** (no change)

Consensus ratings*: Buy 11 Hold 9 Sell 3	
Current price:	Rs3,708
Target price: ▲	Rs3,800
Previous target:	Rs3,550
Up/downside:	2.5%
InCred Research / Consensus:	2.0%
Reuters:	
Bloomberg:	HDFCAMC IN
Market cap:	US\$9,485m Rs791,695m
Average daily turnover:	US\$20.2m Rs1689.4m
Current shares o/s:	213.2m
Free float:	46.0%
*Source: Bloomberg	

**Key changes in this note**

► 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.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	2.7	8.9	109.0
Relative (%)	2.3	6.4	70.6

<b>Major shareholders</b>	% 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 healthy 4QFY24 PAT of Rs5.4bn (+43.8% yoy/+10.5% qoq), despite a sequential decline in yields, on improved operating leverage.
- 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 Rs3,800.

### Rise in equity market share amid scheme-level outperformance

HDFC AMC has reported a steady trend in market share gains across portfolios, whereby its share in total QAAAUM stood at ~11.3% in 4QFY24 against ~11.2% last quarter. Similarly, the share in equity fund inflow improved to ~12.8% (~12.6% in 3QFY24) whereas in the case of debt funds it improved to ~13.4% against ~13.2% last quarter. HDFC AMC witnessed QAAAUM growth of +36.3% yoy/+11.1% qoq, led by the rise in inflow as well as the consistent rally in capital markets. The company's management intends to introduce thematic schemes during FY25F (to launch a manufacturing fund in Apr 2024F), which may further boost the assets under management or AUM growth momentum.

### One-off impact on yields; rising equity AUM share is advantageous

HDFC AMC has witnessed a sequential dip (~2bp) in its yields, partially due to a one-time adjustment in direct funds (< 1bp) and partially due to the rising size of its AUM (incremental yield is lower for AUM expansion per scheme). However, management intends to hold ~59 bp in equity funds and ~27/28bp in debt funds and ~12/13bp in liquid funds, which should drive normalized 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 Rs1.39tr (+8% qoq) and a customer base of more than ~7.74m (+13.7% 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 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, after the recent rise, we believe that most positives have already been factored in the stock price and there is a limit to a further upside. We introduced FY27F to our earnings estimates and have revised our earnings estimates by ~11%/~3% for FY25F/26F, respectively. We retain our HOLD rating on the stock with a higher target price of Rs3,800, or ~30x FY26F EPS from Rs3,550 earlier. Downside risks: Lower growth and industry-related risks. Upside risks: Improved inflow and a relatively faster gain in market share.

<b>Financial Summary</b>	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Non-Interest Income (Rsm)	24,826	31,624	38,723	45,221	54,312
Operating Revenue (Rsm)	24,826	31,624	38,723	45,221	54,312
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	14,239	19,459	23,068	27,009	31,942
Core EPS (Rs)	66.79	91.27	108.20	126.68	149.82
Core EPS Growth	2%	37%	19%	17%	18%
FD Core P/E (x)	56.48	41.33	34.87	29.78	25.18
DPS (Rs)	48.00	70.00	86.00	101.00	120.00
Dividend Yield	1.27%	1.86%	2.28%	2.68%	3.18%
BVPS (Rs)	286.5	332.0	354.1	379.7	409.3
P/BV (x)	13.17	11.36	10.65	9.94	9.22
ROE	24.5%	29.5%	31.5%	34.5%	38.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Our revised earnings estimates**

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)
Revenue from operations	5,216	5,447	5,596	5,410	5,745	6,431	6,713	6,954	28.6%	3.6%
Total revenue (Rs m)	5,329	6,489	6,629	6,378	7,326	7,652	8,138	8,509	33.4%	4.6%
Total expenditure	1,479	1,558	1,622	1,460	1,612	1,761	1,751	1,718	17.6%	-1.9%
Cost-to-income (%)	27.8%	24.0%	24.5%	22.9%	22.0%	23.0%	21.5%	20.2%		
Tax	708	1,290	1,313	1,156	939	1,516	1,489	1,380	19.4%	-7.3%
Tax rate (%)	18.4%	26.2%	26.2%	23.5%	16.4%	25.7%	23.3%	20.3%		
Profit after tax	3,142	3,641	3,694	3,762	4,775	4,376	4,897	5,411	43.8%	10.5%
QAAUM (Rs tr)	4.15	4.29	4.45	4.50	4.86	5.25	5.52	6.13	36.3%	11.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

Y/e Mar (Rs m)	FY25F			FY26F			FY27F (Introduced)		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Revenue from operations	34,273	38,723	13.0%	42,365	45,221	6.7%	NA	54,312	NA
PAT	20,700	23,068	11.4%	26,077	27,009	3.6%	NA	31,942	NA
Dividend payout (%)	70	80	14.3%	70	80	14.3%	NA	80	NA
QAAUM (Rs tn)	6.7	7.1	6.2%	7.8	8.4	7.4%	NA	10.1	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Key takeaways from 4QFY24 earnings conference call

- The company's management expressed its comfort in expanding the AUM and profitability, despite the yield pressure, based on a higher scale.
- The company sees tremendous untapped potential in the fixed-income category.
- The total expense ratio or TER of direct funds was adjusted during the quarter in a one-time exercise, which resulted in a higher TER reduction. However, the yields have been restated from 1 Apr 2024.

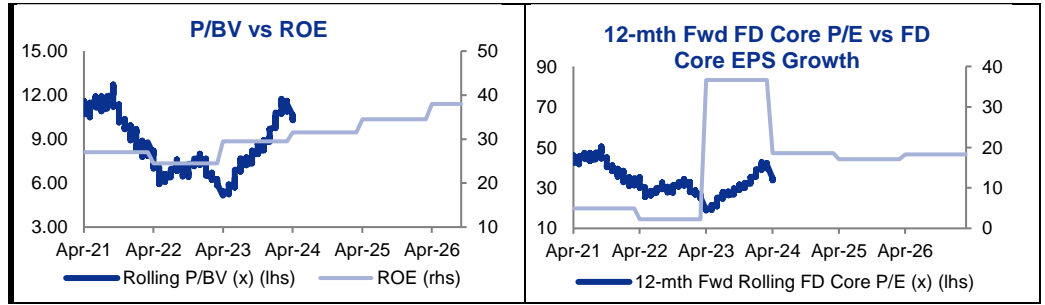
**Figure 3: Change in direct TER**

TER	31 Dec-23	31 Mar-24	1 Apr-24	Decline qoq	Reversal in April
Small-Cap Funds	72	58	63	-14	5
Hybrid Debt Funds	127	119	124	-8	5
Credit Risk Funds	97	91	96	-6	5
Transport & Logistics, Dividend				NA	5-7

SOURCE: INCRED RESEARCH, COMPANY REPORTS

- There was a lower deferred tax charge due to the transitioning of the holding period of some schemes from short-term to long-term.
- The flow margin was at 50-60bp vs. the book margin at 59bp.
- There was a high ESOP cost of Rs550m in FY24 and the same is expected to fall to Rs200m in FY25F due to the graded realization of ESOP expenses.
- The company witnessed a positive net inflow in long-term debt funds.

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>38,723</b>	<b>45,221</b>	<b>54,312</b>
Operating Revenue	24,826	31,624	38,723	45,221	54,312
<b>Total Non-Interest Expenses</b>	<b>(6,120)</b>	<b>(6,842)</b>	<b>(8,370)</b>	<b>(9,683)</b>	<b>(12,283)</b>
Pre-provision Operating Profit	18,706	24,782	30,352	35,538	42,029
<b>Total Provision Charges</b>					
Operating Profit After Provisions	18,706	24,782	30,352	35,538	42,029
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	18,706	24,782	30,352	35,538	42,029
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	18,706	24,782	30,352	35,538	42,029
<b>Exceptional Items</b>					
Pre-tax Profit	18,706	24,782	30,352	35,538	42,029
Taxation	(4,467)	(5,323)	(7,285)	(8,529)	(10,087)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	14,239	19,459	23,068	27,009	31,942
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	14,239	19,459	23,068	27,009	31,942
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%	0.5%	0.6%	0.4%
<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**

**Balance Sheet**

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<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	627	425	314
<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	80,906	87,129	94,422
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	75,499	80,946	87,271
<b>Minority Interests</b>					
Total Equity	61,084	70,791	75,499	80,946	87,271

**Key Ratios**

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth					
Operating Profit Growth	0.8%	32.5%	22.5%	17.1%	18.3%
Pretax Profit Growth	1%	32%	22%	17%	18%
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%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio					
Return On Average Assets	22.97%	27.64%	29.50%	32.15%	35.19%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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