

India

HOLD (no change)

Consensus ratings*: Buy 15 Hold 7 Sell 3

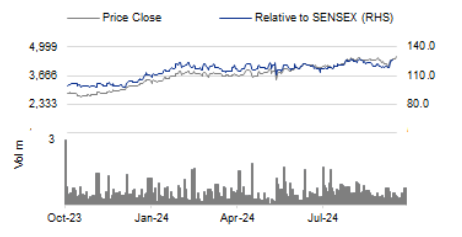
Current price:	Rs4,555
Target price: ▲	Rs4,750
Previous target:	Rs4,250
Up/downside:	4.3%
InCred Research / Consensus:	5.1%

Reuters:	HDFC.NS
Bloomberg:	HDFCAMC IN
Market cap:	US\$13,400m Rs973,044m
Average daily turnover:	US\$30.2m Rs2190.7m
Current shares o/s:	213.2m
Free float:	47.5%

*Source: Bloomberg

Key changes in this note

- ▶ HDFC AMC reported in-line 2Q performance with PAT at Rs5.8bn, as the sequential improvement in revenue yield adjusted against a one-time tax outgo.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.0	8.5	59.5
Relative (%)	4.5	7.1	29.0

Major shareholders	% held
HDFC Bank	52.5
SBI	3.7
LIC	2.7

Research Analyst(s)



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HDFC AMC

In-line performance; expensive valuation

- HDFC AMC posted an in-line 2Q performance with PAT at Rs5.8bn, as the qoq improvement in revenue yield got adjusted against a one-time tax outgo.
- Robust QAAUM growth with strong inflow aided by a new high in SIP inflow; equity fund AUM inches up to ~61.6%. Debt fund inflow improves.
- We appreciate the improved performance with decent market share gains, but the risk-reward ratio is unattractive. Retain HOLD rating with a TP of Rs4,750.

New capital gain norms dents PAT with a one-time tax outgo

HDFC AMC reported 2QFY25 net profit of Rs5.8bn, down ~4% qoq, due to a one-time higher deferred tax liability of Rs697.5m on mark-to-market gains relating to its debt investments. The tax rate is guided to normalize from the next quarter.

Yields attain stability amid lower commissions in select schemes

HDFC AMC lost ~17-18bp revenue yield since the implementation of the revised total expense ratio or TER norms since Apr 2019 due to the expanding size of its schemes. To pare the pace of decline, the company cut down distribution commission from Aug 2024 in select 10-12 schemes. The impact of lower commission will be completely incorporated in the next quarter. We believe the move is in the right direction as with a rise in assets under management or AUM size, overall TER will continue to exert pressure on revenue yield. However, the gradual pass-on to distributors through lowered commissions will ensure a limited impact on yields.

Inflows post an even better market share - trend likely to sustain

QAAUM grew at a strong pace of ~13% qoq to Rs7.6tr led by robust equity fund AUM growth of ~15% qoq, which was aided by strong systematic investment plan or SIP inflow touching a new high flow Rs36.8bn (up by ~15% qoq). The company is seeing good traction in inflow, especially from B-30 cities, as the market share in incremental inflow (excluding inflow from new fund offers or NFOs) was higher than AUM market share. The share of equity fund AUM inched up further to ~61.6%, up by ~710bp yoy and ~100bp qoq. The product pipeline remains healthy with four new products lined up at GIFT City in Gujarat, new products on the private credit side, and innovative products lined up for the new asset class. We expect HDFC AMC to continue gaining market share led by its wide distribution network and strong scheme-level performance.

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. However, post recent rally, 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 HOLD rating on HDFC AMC with a higher target price of Rs4,750 (from Rs4,250) or ~29x FY26F EPS. Downside risks: Lower growth & industry-related risks. Upside risks: Improved inflow & relatively faster market share gain.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Non-Interest Income (Rsm)	24,826	31,624	43,622	54,768	65,079
Operating Revenue (Rsm)	24,826	31,624	43,622	54,768	65,079
Net Profit (Rsm)	14,239	19,459	27,205	34,591	41,114
Core EPS (Rs)	66.79	91.27	127.60	162.25	192.84
Core EPS Growth	2%	37%	40%	27%	19%
FD Core P/E (x)	68.20	49.91	35.70	28.07	23.62
DPS (Rs)	48.00	70.00	102.00	130.00	154.00
Dividend Yield	1.05%	1.54%	2.24%	2.85%	3.38%
BVPS (Rs)	286.5	332.0	357.5	389.6	428.2
P/BV (x)	15.90	13.72	12.74	11.69	10.64
ROE	24.5%	29.5%	37.0%	43.4%	47.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary (Rs m)

Rs m	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)
Revenue from operations	5,745	6,431	6,713	6,954	7,752	8,872	38.0	14.4
Total revenue (Rs m)	7,326	7,652	8,138	8,509	9,483	10,578	38.2	11.5
Total expenditure	1,612	1,761	1,751	1,718	1,959	1,991	13.1	1.7
Cost-to-income (%)	22.0	23.0	21.5	20.2	20.7	18.8		
Tax	939	1,516	1,489	1,380	1,485	2,818	85.9	89.8
Tax rate (%)	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	31.8	-4.5
QAAUM (Rs tr)	4.86	5.25	5.52	6.13	6.72	7.59	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	42,666	43,622	2.2%	52,395	54,768	4.5%	61,918	65,079	5.1%
PAT	26,105	27,205	4.2%	32,435	34,591	6.6%	36,895	41,114	11.4%
Dividend payout (%)	80	80	0.0%	80	80	0.0%	80	80	0.0%
QAAUM (Rs tr)	8.2	8.4	2.6%	9.7	10.3	6.5%	11.4	12.4	8.6%

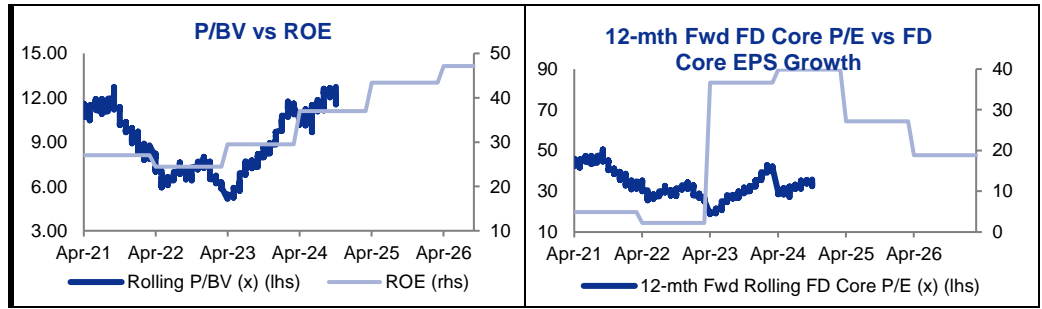
SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY25 earnings-call highlights

- The market share in fund inflow was better than the market share in AUM for HDFC AMC because of its more focus on SIPs and NFOs.
- In 2QFY25, the yield in the equity fund segment stood at 58bp, in the debt fund segment at 28bp and in the liquid fund segment at 12-13bp.
- The revenue growth was higher at 14.4% whereas the growth in overall AUM was 13% qoq, with the pace of higher revenue growth attributable to a change in the AUM mix towards equity funds and rationalization of telescopic pricing.
- HDFC AMC continues to take a larger part of the reduction in total expenses ratio or TER whereby it led to a reduction of around 18-19bp from Apr 2019. The reduction in TER is purely due to the growth in AUM supported by higher mark-to-market or MTM gains and strong equity fund inflow. Going ahead, management expects MTM gains to get softer, leading to a reduction in the pace of the fall in margin/TER.
- The fall in TER is not a problem as the revenue in absolute terms rose on the back of strong market movement and a healthy inflow in equity funds.
- The shift in the mix of a particular channel does not imply market share loss in a particular channel, but it denotes the overall landscape of the sourcing channel - like the share of direct funds in the channel rose from 23.8% in 2QFY23 to 26.5% in 2QFY25 on the back of higher MTM gains as compared to regular funds and fintechs selling direct funds.
- The Securities and Exchange Board of India or SEBI has introduced a new product called 'Investment strategies', which aims to bridge the gap between the current mutual fund framework and the alternate investment fund or AIF & portfolio management scheme or PMS framework to bring flexibility.
- The new product is permitted to use derivative instruments for purposes other than hedging, which provides an opportunity for investors seeking a high-risk and high-return product. Management believes the product will open new avenues for AUM growth.
- 2QFY25 had a higher deferred tax liability due to the changes in the tax regime, with a higher tax on unrealized gains on equity investments and the removal of indexation benefit on debt funds. The one-time impact of the change has been reflected in total unrealized MTM gains as of 2QFY25-end. Going ahead, the deferred tax liability will be on marginal MTM gains at a higher effective tax rate.
- The product portfolio looks complete, leaving limited opportunities for new NFOs. The focus remains on improving the fund level performance to get into the top position across categories.

- On the alternate assets front, the VCP FoF has received a commitment of Rs12bn, and with the private credit team shaping up, the company is seeing product launches on that front. The PMS business is developing steadily.
- HDFC AMC has set up a subsidiary in GIFT City called HDFC AMC international IFC to attract NRI investors. There are four products lined up for launch, which will feed domestic mutual funds. Management expects the subsidiary to improve its capabilities further to raise funds from international investors.
- 2QFY25 saw the highest-ever equity inflow for the industry at Rs1331bn on the back of the launch of multiple NFOs, with 18 new funds accounting for ~Rs368bn, which is ~28% of the net inflow.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income					
Total Non-Interest Income	24,826	31,624	43,622	54,768	65,079
Operating Revenue	24,826	31,624	43,622	54,768	65,079
Total Non-Interest Expenses	(6,120)	(6,842)	(8,291)	(10,134)	(12,028)
Pre-provision Operating Profit	18,706	24,782	35,332	44,634	53,051
Total Provision Charges					
Operating Profit After Provisions	18,706	24,782	35,332	44,634	53,051
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	18,706	24,782	35,332	44,634	53,051
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	18,706	24,782	35,332	44,634	53,051
Exceptional Items					
Pre-tax Profit	18,706	24,782	35,332	44,634	53,051
Taxation	(4,467)	(5,323)	(8,126)	(10,043)	(11,936)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	14,239	19,459	27,205	34,591	41,114
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	14,239	19,459	27,205	34,591	41,114
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%	2.3%	3.7%
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					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
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	3,125	2,102	2,050	2,001	1,954
Total Non-Interest Earning Assets	4,501	3,466	3,346	3,231	3,123
Cash And Marketable Securities	40	112	1,349	2,539	4,341
Long-term Investments	60,792	71,900	76,933	83,473	90,985
Total Assets	65,333	75,478	81,628	89,243	98,449
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	76,221	83,060	91,298
Minority Interests					
Total Equity	61,084	70,791	76,221	83,060	91,298

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth					
Operating Profit Growth	0.8%	32.5%	42.6%	26.3%	18.9%
Pretax Profit Growth	1%	32%	43%	26%	19%
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%	34.63%	40.49%	43.81%

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.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- 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:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- 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.