

27 June 2024

HDFC AMC Ltd – BUY

CMP : Rs. 4,001.0
Target Price : Rs. 4,914.0
Upside : 22%+
Stop Loss : Rs. 3,600.0 (Closing basis)

Investment Thesis

- HDFC Asset Management Company Ltd. (HDFC AMC) closed the FY24 at AUM of Rs. 6,073 bn and delivered better-than-industry AUM growth of 39% on YoY basis. In total market AUM, HDFC AMC has market share of 11.4% which improved by 30bps on a YoY basis. The largest contributor to the industry's net flow was actively managed equity funds. HDFC AMC's market share in actively managed equity fund improved by 90bps compared to the previous year. HDFC AMC has been witnessing a gradual market share growth across all segments.
- HDFC AMC is planning to introduce more products in upcoming quarters which will be based on careful evaluation of opportunities in the market. During FY24, HDFC AMC expanded product offerings in sectoral/thematic space by launching 5 new funds. On passive front, HDFC AMC enhanced it's bouquet by launching 5 new index funds and 2 ETFs.
- In FY24, industry added 6.9mn unique investors in which HDFC AMC added 3mn unique investors. In HDFC AMC, the total number of unique investors now stand at 9.6 million with 16.6 million live accounts. HDFC AMC continue to hold the first position when it comes to market share in individual investor AUM and second highest in terms of below-30 (B-30) AUM.
- HDFC AMC added 24 branches in FY24 and reached to 254 branches out of that 174 branches are in B-30. HDFC AMC is also focused on technology part and is committed to enhance its digital capabilities. HDFC AMC digital and physical network help them to attract more and more investor and increase their market share.
- HDFC AMC demonstrates a proactive approach to business investment, actively seeking opportunities for sustainable business growth. Three years ago, HDFC AMC operating expenses as per AUM was at 13-14bps which has now come down to 12bps in FY24. We expect HDFC AMC to keep operating expenses at the current levels, as it use the benefits from effective operational efficiencies to invest in business growth.

Financials

- In FY24, HDFC AMC reported revenue growth of 27% on YoY basis which was supported by increased AUM by 39% on YoY basis.

Particulars	FY22	FY23	FY24	FY25E	FY26E
Revenue (Rs in Crs)	2115.4	2166.8	2,584.4	3,411.4	3,957.2
EBITDA (Rs in Crs)	1599.9	1617.8	1,961.5	2,626.8	3,047.0
EBITDA margin %	76%	75%	76%	77%	77%
Adj. PAT (Rs in Crs)	1,393.1	1,423.9	1,945.9	2,171.4	2,501.4
Adj. EPS (Rs.)	65.3	66.7	91.1	101.7	117.1
PE Multiple (x)	61.7	60.4	44.2	39.6	34.4

Stock Data

Market Cap (Rs. Crs)	85,443.0
Market Cap (\$ Mn)	10,233.6
Shares O/S (in Mn)	214.0
Avg. Volume (3 month)	5,22,491
52-Week Range (Rs.)	4,187 / 2,131

Shareholding Pattern

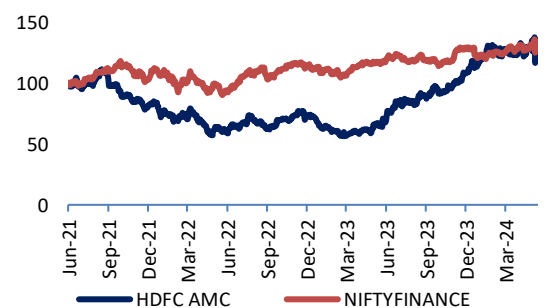
Promoters	52.55%
FII's	20.01%
Institutions	18.37%
Public	9.06%
Others (incl. body corporate)	0.00%

Key Ratios

Div Yield	1.70%
TTM PE	43.90x
ROE	29.50%
TTM EPS (Rs.)	91.10/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	3.2%	26.6 %	101.6%
NIFTYFINANCE	7.4%	11.0%	20.9%



- One time Total expense ratio (TER) led sharp decline in yields, robust other income supported the profitability. Effective operational efficiency of HDFC AMC led them to deliver 31% YoY growth in EBITDA after the ESOP expenses also they were able to protect margins.
- According to management, the employee cost for FY24 increased by 13.0% YoY as it included an ESOP cost of Rs. 47.0 Cr., while for FY25E, the ESOPs will reduce to Rs. 20 Cr.

Key Business Highlights

- HDFC Asset Management Company Ltd. (HDFC AMC) incorporated in 1999 to provide fund management services. HDFC Trustee Company Limited appointed HDFC AMC as investment manager of HDFC Mutual Fund. HDFC AMC is also registered under the SEBI to provide portfolio management services. HDFC AMC has strong network of 1,509 employees, 254 branches, 85,000 distributors which support AUM growth.
- HDFC AMC has 65.4%, 22.1%, 8.9% and 3.6% of equity, debt, liquid and other contribution in total AUM which is better than industry as they are more focused toward high yield products to deliver robust margins.
- HDFC AMC has multichannel distribution network which is supported by HDFC bank, banks, MFD's, national distributor and direct at 6.1%, 11.2%, 29.1%, 21.3% and 38.4%, respectively. HDFC AMC is progressing pretty well with HDFC Bank, their teams have been engaging across all levels. HDFC AMC has done high level of mapping of HDFC Bank's clusters, branches and people with their own clusters, branches and people. HDFC AMC has also engaged with various teams in the bank to have greater synergy and to leverage the most from the potential that has arisen.

Valuation

We can expect upward movement in EPS for FY25E and FY26E by 12% and 15%, respectively, primarily driven by higher AUM growth with increasing market share. We are applying a P/E multiple of 42x on FY26E EPS of Rs. 117.10 to arrive at a target price of Rs. 4,914 per share, with an upside of 22% over the CMP.

Risk & Concern

- HDFC AMC has witnessed intense competitive pressure that has eroded market share over the past five years. Higher competition coupled with new entrants could dampen AUM growth and hurt business.
- Equity assets constitute a significant portion of the company's AUM. Thus, a decline in Indian equity markets would cause AUM to decline directly as the value of the underlying securities fall, and indirectly as securities investments become less attractive for investors, resulting in net outflows or redemptions. Any decrease in AUM will impact fees and hence net profit.
- AMCs are regulated by the Securities and Exchange Board of India and could be adversely impacted in case of unfavourable policy changes. For instance, if the regulator mandates a further cut in TER, yields could reduce further.

Graphs & Charts

Figure 1: Revenue (Rs. in Cr)

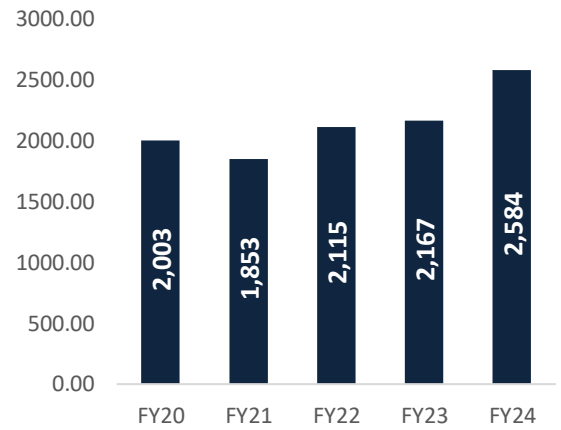


Figure 2: AUM (Rs. Bn) and Market Share

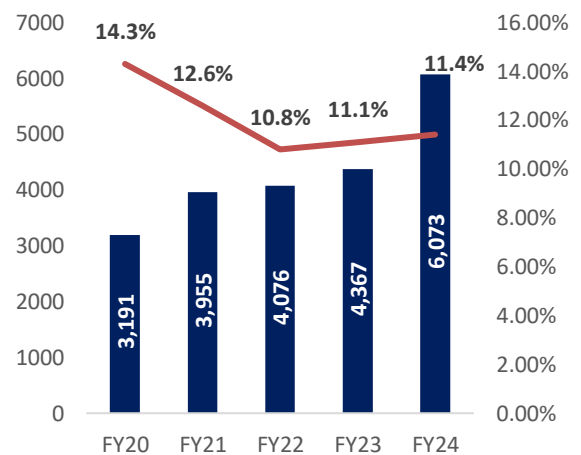
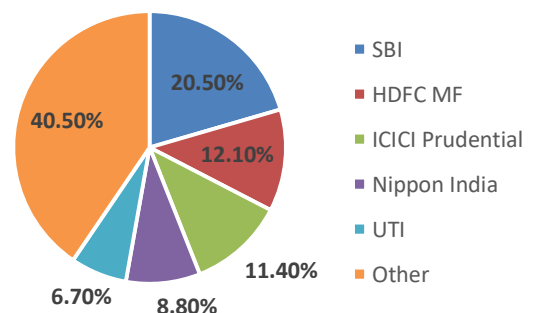


Figure 3: AUM by segment

Segment	HDFC MF	Industry
Equity	63.0%	54.3%
Debt	22.3%	18.9%
Liquid	11.0%	10.8%
Other	3.7%	16.0%

Figure 4: Player in B-30 market



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