

01 April 2019

HDFC AMC – BUY

CMP : Rs.1,558.0
Target Price : Rs.1,888.0
Upside : 22%+
Stop Loss : Rs.1,394.0 (Closing basis)

Investment Thesis

Recently, the stock price of HDFC Asset Management Company Ltd. (HDFC AMC) corrected by ~20% from 52-week high of Rs.1,970 as proposed reduction in TER by the SEBI will lead to the weighted average impact of 24bps on its equity-oriented AUM.

HDFC AMC has been the most profitable AMC in India in terms of net profits since FY13. It has a total AUM of Rs.2,920bn, which has grown at a CAGR of 33.9% since FY01. It has been the largest AMC in India in terms of equity-oriented AUM and has consistently been among the top two AMCs in India in terms of total average AUM. Its proportion of equity-oriented AUM to total AUM was at 51.3%, which was higher than the industry average of 43.2%. By the end of FY18, its market share of total AUM was 13.7% among all AMCs in India. HDFC AMC has highest share of individual customers of 15.7% and 2nd largest market share of monthly average AUM (MAAUM) of 12.7% from B-15 cities in India. Its live accounts increased from 49.4 lakh as of March 31, 2013 to 81.0 lakh as of March 31, 2018.

HDFC AMC has a customer base with a greater proportion of individual AUM in comparison to the overall Indian mutual fund industry. Its MAAUM from individual customers accounted for 62.2% of total MAAUM compared to 51.4% in the mutual fund industry in India as a whole for FY18. With this trend towards greater individual investments in mutual funds, HDFC AMC's significant individual customer base and leadership remains a key strength. As individual customers tend to favour equity-oriented schemes, which generally attracts higher investment management fees in comparison to non-equity-oriented schemes and individual customers tend to have longer holding periods.

Financials

- During the past 5 years, revenue of HDFC AMC grew at a CAGR of 19.7% while PAT grew at a CAGR of 17.8% in the same period.

Standal. (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	14,425	14,800	17,598	20,237	23,273
EBITDA	6,675	7,039	9,665	11,114	12,781
% growth	13.0	5.5	37.3	15.0	15.0
PAT	4,779	5,503	7,216	8,313	9,568
EPS (INR)	22.5	25.9	34.0	39.1	45.0
P/E (x)	68.9	59.9	45.7	39.6	34.4
RoE (%)	38.8%	36.6%	33.4%	35.1%	36.9%

- HDFC AMC has reported 12.0% YoY growth in revenue to Rs.4,804mn in Q2FY19 mainly due to increase in assets under management (AUM) and better asset class mix. HDFC AMC's total AUM stood at Rs.2.93tn in Q2FY19, a growth of 9.0% YoY from Rs.2.68tn in Q2FY18.

Stock Data

Market Cap (Rs. Mn)	329,236
Market Cap (\$ Mn)	4,598.3
Shares O/S (in Mn)	212.4
Avg. Volume (3 month)	495,000
52-Week Range (Rs.)	1,970 / 1,100

Shareholding Pattern

Promoters	82.80%
FII's	3.75%
Institutions	1.91%
Others (incl. body corporate)	11.54%

Performance (%)	1M	6M	1Yr
Absolute	11.3%	-14.6%	NA
BSE 500	1.7%	-3.3%	-0.1%

Key Ratios

Div Yield	1.0%
TTM PE	45.7x
ROE	33.4%
TTM EPS (Rs.)	34.0/-

- HDFC AMC's current monthly flow through systematic investment plans (SIP) stood at Rs.11.5bn, out of which ~65% of SIP book has a tenure of more than 10 years adding to predictability and visibility of AUM growth.
- HDFC AMC's net profit increased by 15.0% YoY to Rs.2,059mn in Q2FY19. Net profit to assets was almost stable at 27bps in Q2FY19.

Key Business Highlights

- HDFC AMC, a joint venture between HDFC and Standard Life, is largest asset management company in India in terms of equity-oriented AUM and has consistently been among the top two AMC's in India in terms of total average AUM since August 2008.
- HDFC AMC has a total AUM of Rs.2,920bn as of March 31, 2018, which has grown at a CAGR of 25.5% during FY13-18. Out of which, equity-oriented AUM and non-equity-oriented AUM constituted Rs.1,497bn and Rs.1,423bn, respectively.
- As of FY18, HDFC AMC offered 133 schemes that were classified into 27 equity-oriented schemes, 98 debt schemes, three liquid schemes and five other schemes (exchange-traded and funds of fund).

Valuation

- HDFC AMC has lower operating expense. Its employee expenses as a percentage of average annual AUM (AAAUM) have been the lowest since FY13 compared to top five AMC's in India. While its employee base increased from 582 in FY13 to 1,010 in FY18, employee related expenses as a percentage of AAAUM declined from 0.10 in FY13 to 0.06 in FY18. Similarly, while the number of its branches increased from 136 in FY13 to 210 in FY18, operating expenses as a percentage of AAAUM has declined from 0.09 in FY13 to 0.07 in FY18. Its return on average net worth was 41.12% in FY15 and 40.28% in FY18.
- HDFC AMC is led by a management team with extensive experience in the asset management, banking and finance sectors with a proven track record of performance. It has been operating for over 17 years. Its senior management team has been with them for an average of 13 years and has a total average work experience of 26 years. HDFC AMC has a strong and stable investment team, which consisted of 26 employees as of FY18 with an average of over eight years of work experience with the company and an average of over 17 years of total experience.
- HDFC AMC has built a strong monthly flow of funds through systematic transactions and it has monthly flows of ~Rs.11.5bn. The company has introduced multi-channel customer engagement efforts, including through its mobile application, online portal, dedicated toll-free numbers and email address. It offers additional customer services, such as multi-lingual account statements to cater to customers across India and other value-added services.
- With most profitable AMC in India, 13.7% market share in total AUM, greater proportion of individual AUM, lower operating expense, team with extensive experience in asset management and strong monthly flow of funds through SIP, we value HDFC AMC at 42.0x FY20E EPS of Rs.45.00 to arrive at target price of Rs.1,888.00, an upside of ~22%.

Risk & Concern

- Retention and replacement of key management and other personnel is very crucial, loss of any key personnel will be negative for HDFC AMC.
- Underperformance of its investment product may affect revenues and growth of the company.
- Any failure to continue existing or secure new distribution relationships may adverse impact on the business of HDFC AMC.

Graphs & Charts

Figure 1: Net Sales Trend

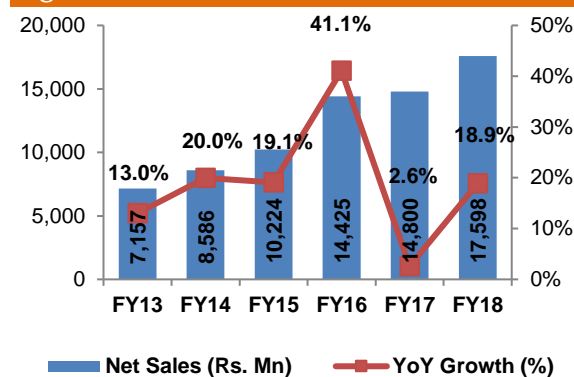


Figure 2: EBITDA & EBITDA Margin Trend

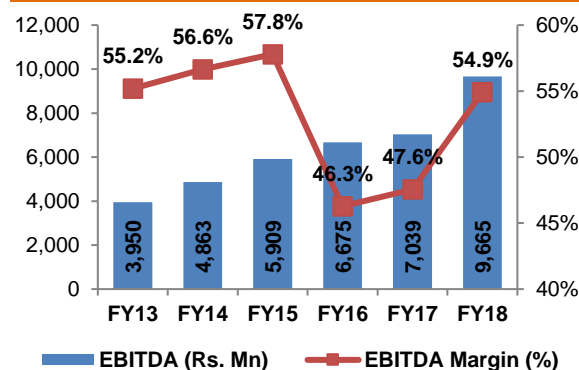


Figure 3: PAT Trend

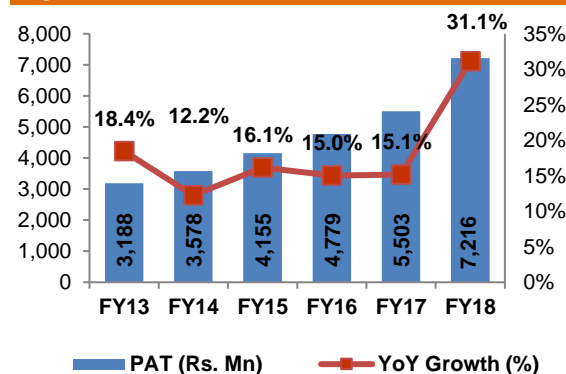
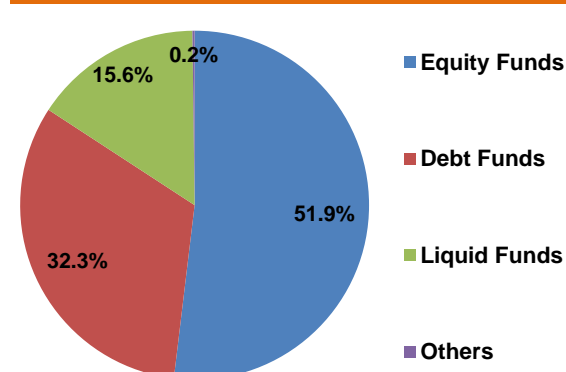


Figure 4: Distribution of AUM (Q2FY19)



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