

# HDFC AMC

ADD

CMP Rs 2,866

Target Rs 3,245

Upside 13%

## Result Highlights

- ✓ **Revenue** – Management Fees was at Rs.5bn was lower than our estimates of Rs.5.32bn. Management fees were higher by 6% yoy and witnessed a growth of 4% on sequential basis.
- ✓ **Yield on Management fees** - The Yield on Management fees was at 0.49%, which was a deterioration of 3bps YoY, against our estimate of 0.51%.
- ✓ **Operating Profit** -Operating profit came at Rs.4bn which was lower than our estimates of Rs.4.4bn due to lower than estimated yield and higher than expected employee cost.
- ✓ **Profits** – PAT stood at Rs.3.1bn v/s our estimates of Rs.3.9bn led by significantly lower ther income and weaker operating performance.
- ✓ **Valuations** - The stock currently trades at FY23E P/E of 31x.
- ✓ **Dividend:** The Board of Directors have recommended a dividend of Rs34 per share.

**Our view:** HDFC AMC reported a weaker than expected performance led by sequential decline in yields despite favorable product mix, higher employee costs and fall in other income. Market share loss has continued but with fund performance improving, the company is hopeful of a recovery in market share going ahead. This coupled with our house view of strong equity market returns will lead to higher equity share driving revenue and profitability growth. ESOP costs will restrict margin expansion. Impact of higher employee costs has been offset by better AUM performance in Feb and March 2021. Resultantly, while there is no change in earnings for FY22, our FY23E earnings have been cut marginally by 2%. Valuations at FY23E P/E of 31.8x leaves limited room for upside. Retain ADD rating with a 1-year target of Rs3,245 (Rs3,302 earlier)

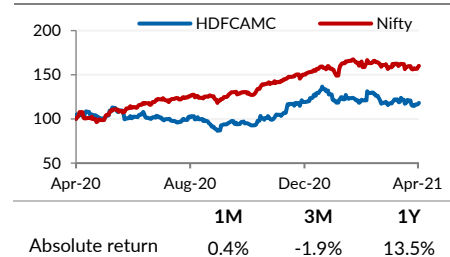
## Exhibit 1: Result Table

| Rs. Mn                 | Q4FY21 | Q4FY20 | YoY     | Q3FY21 | QoQ     |
|------------------------|--------|--------|---------|--------|---------|
| Revenue from operation | 5,029  | 4,761  | 6%      | 4,819  | 4%      |
| As % of QAUM           | 0.48%  | 0.52%  | -3bps   | 0.49%  | -1bps   |
| Fees and Commission    | 16     | 16     | 2%      | 14     | 17%     |
| As % of revenues       | 0.3%   | 0.3%   | -1bps   | 0.3%   | 3bps    |
| Employee costs         | 638    | 432    | 48%     | 569    | 12%     |
| As % of revenues       | 12.7%  | 9.1%   | 363bps  | 11.8%  | 89bps   |
| Other Expenses         | 412    | 597    | -31%    | 378    | 9%      |
| As % of revenues       | 8.2%   | 12.5%  | -436bps | 7.9%   | 33bps   |
| Total Expenses         | 1,066  | 1,045  | 2%      | 961    | 11%     |
| Operating Profit       | 3,963  | 3,717  | 7%      | 3,858  | 3%      |
| As % of QAUM           | 0.38%  | 0.40%  | -2bps   | 0.40%  | -1bps   |
| As % of revenues       | 78.8%  | 78.1%  | 74bps   | 80.1%  | -125bps |
| Other Income           | 426    | (265)  | -261%   | 1,131  | -62%    |
| Finance Cost           | 23     | 22     | 6%      | 22     | 6%      |
| Depreciation           | 136    | 134    | 2%      | 140    | -3%     |
| Profit before Tax      | 4,230  | 3,296  | 28%     | 4,826  | -12%    |
| Tax Expense            | 1,069  | 797    | 34%     | 1,134  | -6%     |
| Tax Rate               | 25%    | 24%    | 108bps  | 23%    | 179bps  |
| Profit After Tax       | 3,161  | 2,498  | 27%     | 3,693  | -14%    |
| As % of QAUM           | 0.30%  | 0.27%  | 3bps    | 0.38%  | -7bps   |

## Stock data (as on April 27, 2021)

|                        |               |
|------------------------|---------------|
| Sensex:                | 14,653        |
| 52 Week h/l (Rs)       | 3359 / 2070   |
| Market cap (Rs/USD mn) | 610146 / 8172 |
| Outstanding Shares     | 213           |
| 6m Avg t/o (Rs mn):    | 940           |
| Div yield (%):         | 1.2           |
| Bloomberg code:        | HDFCAMC IN    |
| NSE code:              | HDFCAMC       |

## Stock performance



## Shareholding pattern (As of Dec'20 end)

|          |        |
|----------|--------|
| Promoter | 73.92% |
| FII+DII  | 14.74% |
| Others   | 11.34% |

## Δ in stance

| (1-Yr)       | New   | Old   |
|--------------|-------|-------|
| Rating       | ADD   | ADD   |
| Target Price | 3,245 | 3,302 |

## Financial Summary

|               | FY22E  | FY23E  | FY24E  |
|---------------|--------|--------|--------|
| Net Revenue   | 23,116 | 27,334 | 32,358 |
| YoY Growth    | 24.8%  | 18.2%  | 18.4%  |
| EBIDTA Margin | 80.5%  | 81.4%  | 82.7%  |
| PAT           | 16,286 | 19,194 | 22,819 |
| YoY Growth    | 22.8%  | 17.9%  | 18.9%  |
| ROE           | 32.4%  | 34.9%  | 37.8%  |
| EPS           | 76.5   | 90.1   | 107.1  |
| P/E           | 37.5   | 31.8   | 26.7   |
| BV            | 247.2  | 269.8  | 296.5  |
| P/BV          | 11.6   | 10.6   | 9.7    |

## Δ in earnings estimates

| Rs        | FY22e | FY23e |
|-----------|-------|-------|
| EPS (New) | 76.5  | 90.1  |
| EPS (Old) | 76.7  | 91.7  |
| % change  | 0.0%  | -1.7% |

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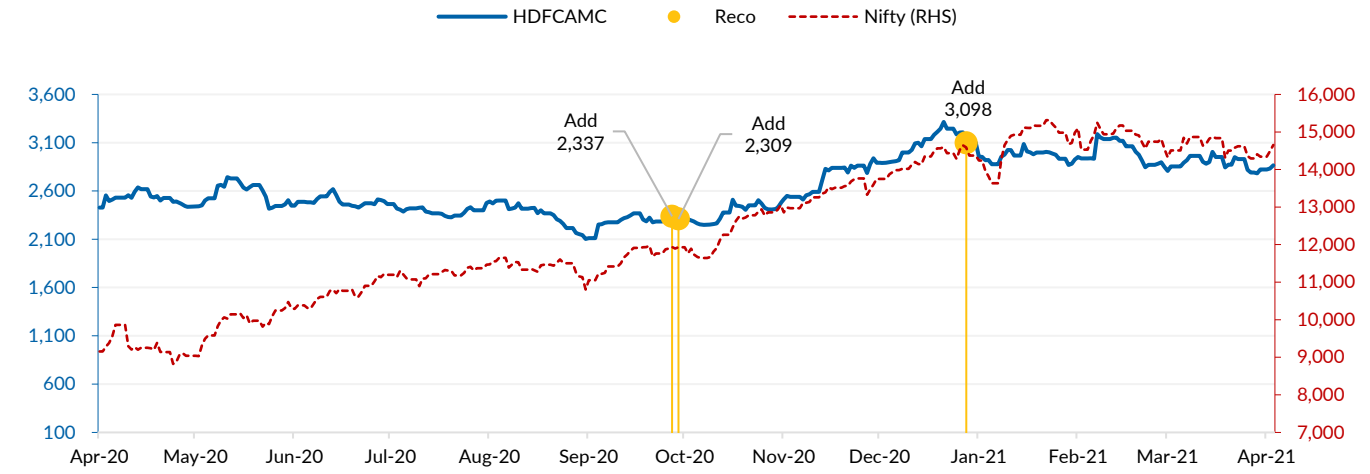
## Exhibit 2: Other Business Parameters

| Rs. Mn  | Q4FY21 | Q4FY20 | YoY     | Q3FY21 | QoQ     |
|---------|--------|--------|---------|--------|---------|
| AUM Mix |        |        |         |        |         |
| Equity  | 41.2%  | 43.1%  | -190bps | 39.6%  | 160bps  |
| Debt    | 38.2%  | 30.7%  | 750bps  | 37.3%  | 90bps   |
| Liquid  | 18.5%  | 24.1%  | -560bps | 21.1%  | -260bps |
| Others  | 2.1%   | 2.1%   | 0bps    | 2.0%   | 10bps   |

## CON-CALL HIGHLIGHTS

- ✓ **Outlook by Navneet Munoot:** Joined on 16<sup>th</sup> Feb, 2021; very optimistic on the industry growth, all resources in place for HDFC AMC to outperform, aim to recover market share in equity and grow market share in debt, SIPs market share to improve significantly, improve presence in the B30, globally margins have been under pressure and shift to passive has happened, but India has a huge growth opportunity, In India margins of around 80bps in equity, 27-32bps in debt, 12-13bps in Money market, passive could drive lower margins
- ✓ **Products:** Presence in all core categories but gaps in passive strategy, thematic and sector funds, international funds. Over a period of time will fill these gaps. Q1 Banking fund to be launched.
- ✓ **COVID impact:** Second wave has impacted business to some extent but preparedness has been much better in terms of digital presence
- ✓ **Passive strategy:** 80%+ of the funds dominated by AUM 2 AMCs, PSU Debt ETF and govt disinvestment, launching new products in the segment in the near term, size of index funds is Rs15000crs 30% market share in this, filed for Nifty Next50 fund with regulator
- ✓ **Fintechs:** Paytm, ET Money, Groww, have been growing very well. In last 1-year one-third of the new investors addition have come from fintechs, 29 lakhs SIPs created by them, helping expand the market
- ✓ **Strategy for fund performance:** New FM strategy is different in style and valuations, new FMs are managing 15% of the assets, those products have started gaining traction
- ✓ **Costs:** Employee cost and other costs lower by 8% in FY21 led by reduction in business development and travel amongst others, large part of it would come back, Employee costs includes ESOP costs, part of it came in this year, Next fiscal will be highest and decline going ahead
- ✓ **Essel NCDs:** last year took a hit and this year first three quarters saw MTM gains as underlying value had increased, net net gain of about Rs85crs
- ✓ **Resource addition:** Opened 6 new branches and added 60 new employees taking total to 1254 employees

## Recommendation Tracker



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