

ICICI Securities Limited
is the author and
distributor of this report

Q4FY21 results review
and earnings revision

Financial Services

Target price Rs3,284

Earnings revision

(%)	FY22E	FY23E
Revenue	↑ 0.7	↑ 1.1
PAT	↓ 4.4	↓ 4.5
Core PAT	↓ 7.0	↓ 6.4

Target price revision

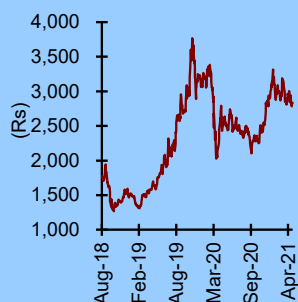
Rs3,284 from Rs3,500

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	73.9	73.9	73.9
Institutional investors	10.5	14.8	15.3
MFs and others	1.4	1.1	1.1
Banks/FIs	0.3	4.4	4.7
FII	8.8	9.3	9.5
Others	15.6	11.3	10.8

Source: CMIE

Price chart



HDFC Asset Management Company

BUY

Maintain

Rs2,865

Expanding product strategy holds promise

HDFC Asset Management (HDFC AMC) reported lower than expected numbers in Q4FY21 due to lower yields QoQ (despite higher equity mix). Business levers ahead include: 1) building upon the performance, which can improve flows as indicated by the management; 2) new product pipeline; and 3) possible industry momentum given the net inflows and increase in SIP witnessed in Mar'21. Maintain BUY with a revised target price of Rs3,284 (earlier: Rs3,500) based on FY23E core EPS of Rs66.4 plus cash and investments of Rs296 /share, which takes into account the drop in yields and possible rise in operating costs.

- Q4FY21 disappointed on yields sequentially leading to earnings miss.** Despite increase in equity mix (41.2% in Q4FY21 from 39.6% in Q3FY21) on 6% QoQ higher AUM (Rs4.1trn from Rs3.9trn), the average revenue yield in Q4FY21 was 48.8bps vs 49.5bps in Q3FY21. This could be a function of scheme-specific AUM growth or flow vs stock movement in equity. Total revenues rose only 4% QoQ to Rs5bn. Total operating costs were up 11% YoY due to higher employee costs (including the impact of ESOP cost of Rs73.5mn) and higher other expenses (up 9% QoQ). Other income declined 62% QoQ resulting in 14% QoQ decline in PAT. Core PAT (excluding the impact of other income) grew 11% QoQ.
- New MD (Mr. Navneet Munot) outlines more definitive outlook for growth.** The strategy includes: 1) launch of products in passive categories like NIFTY NEXT50 index fund, sector funds like banking & finance, thematic and international funds. Company indicated that there has been a turnaround in performance from Oct'20 onwards and the results thereof are expected to follow. The induction of new fund managers has yielded designed results (they now manage ~15% of the AUM and have received positive response).
- Ex-ETF market share stable:** HDFC AMC's overall market share stood at 12.9% in Q4FY21 vs 13.1% / 13.7% in Q3FY21 / Q4FY20. In ex-ETF terms, its market share remained stable in Q4FY21 at 14.1% vs 14.2% / 14.6% in Q3FY21 / FY21. In terms of equity (ex-ETF), Q4FY21 market share stood at 13.3% vs 13.6% / 15.2%, in Q3FY21 / Q4FY20. HDFC AMC witnessed an improvement in debt market share as on Q4FY21 as its market share stood at 14.4% vs 13.8% / 13.1% in Q3FY21 / Q4FY20. In terms of liquid QAAUM 16.7% vs 17.2% / 16.9% in Q3FY20 / Q4FY21. In unique clients market share, HDFC AMC witnessed a decline from 25% in Q3FY21 to 23% in Q4FY21. In systematic transactions, Mar'21 saw an inflow of Rs10.4bn while SIP AUM stood at Rs567bn. In distribution mix in terms of equity AUM, share of direct channel / MFDs, HDFC AMC stood at 20.2% / 41.7% in Q4FY21 (+100bps / +140bps YoY) while banca / national distributors witnessed decline of 220bps / 90 YoY.

Market Cap	Rs610bn/US\$8.2bn
Reuters/Bloomberg	HDFA.BO.HDFCAMC IN
Shares Outstanding (mn)	213.0
52-week Range (Rs)	3315/2103
Free Float (%)	26.1
FII (%)	9.5
Daily Volume (US\$'000)	13,409
Absolute Return 3m (%)	(1.9)
Absolute Return 12m (%)	13.5
Sensex Return 3m (%)	3.4
Sensex Return 12m (%)	55.8

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	3,820	3,928	4,534	5,301
EBITDA (Rs mn)	15,722	14,641	16,913	19,434
Net Income (Rs mn)	12,623	13,258	15,011	17,211
Core PAT	11,553	10,610	12,242	14,143
EPS (Rs)	59.4	62.3	70.5	80.8
P/E (x)	48.3	46.1	40.7	35.5
Core EPS (Rs)	54.3	49.8	57.5	66.4
Core PE (Rs)	52.8	57.5	49.9	43.2
Dividend Yield	1.0%	1.0%	1.0%	1.7%
RoE (%)	35.6	30.1	28.8	28.8

Please refer to important disclosures at the end of this report

Research Analysts:

Ansuman Deb

ansuman.deb@icicisecurities.com
+91 22 6637 7312

Ravin Kurwa

ravin.kurwa@icicisecurities.com

- **Maintain BUY with a revised target price of Rs3,284 based on 45x FY23E core EPS of Rs66.4 and investment value of Rs296.** We factor-in 16% AUM growth between FY21-end and FY23-end with aggregate yields moderating from 48.8bps in Q4FY21 to 47.3bps in FY22E and 45.4bps in FY23E. This accounts for possible improvement in performance/flows in equities and debt. We also factor-in operating costs to increase from Rs3.8bn in FY21 to Rs4.6bn in FY23E (both ex-ESOP) while we estimate ESOP cost at Rs400mn/200mn in FY22E/FY23E. This leads to operating profit ranging from 38bps in FY21 to 37.5bps/38bps in FY22E/FY23E.

Table 1: Q4FY21 result review*(Rs mn)*

	Q4FY21	Q4FY20	YoY growth	Q3FY21	QoQ growth
Average AUM	4,124	3,698	12%	3895	6%
Total Revenue from Operations	5,029	4,761	6%	4,819	4%
Other Income	426	-265	-261%	1,131	-62%
Total Revenue	5,456	4,496	21%	5,949	-8%
Employee Expenses	638	432	48%	569	12%
Fees and Commission Expenses	16	16	2%	14	17%
Other Expense	412	597	-31%	378	9%
Total Operating expenses	1,066	1,045	2%	961	11%
EBITDA	4,390	3,452	27%	4,988	-12%
Depreciation and Amortisation	136	134	2%	140	-3%
Finance Cost	23	22	6%	22	6%
PBT	4,230	3,296	28%	4,826	-12%
PAT	3,161	3,451	-8%	3,693	-14%
Core PAT	2,842	3,716	-24%	2,828	1%
EPS (Rs)	14.9	16.2	-8%	17.4	-14%

Source: Company data, I-Sec research

Table 2: AUM breakup

<i>(Rs bn)</i>	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
QAUM breakup								
Equity	45.4%	42.6%	43.6%	42.6%	36.3%	38.2%	38.6%	40.4%
Debt	28.5%	30.7%	28.3%	30.7%	27.8%	32.3%	37.3%	38.5%
Liquid	24.5%	24.1%	25.9%	24.1%	33.2%	26.5%	21.1%	18.6%
Others	1.6%	2.6%	2.2%	2.6%	2.6%	3.0%	3.0%	2.4%
QAAUM breakup								
Equity	1,645	1,574	1,666	1,574	1,293	1,436	1,505	1,666
Debt	1,033	1,135	1,082	1,135	992	1,212	1,453	1,588
Liquid	888	891	991	891	1,184	995	821	769
Others	58	97	86	97	93	112	116	101
Total	3,624	3,698	3,825	3,698	3,562	3,755	3,895	4,124

Source: Company data, I-Sec research

Financial summary

Table 3: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21P	FY22E	FY23E
AAUM (incl managed funds)	3,264	3,820	3,928	4,534	5,301
of which MF	3,167	3,728	3,834	4,431	5,187
Revenue from operations	19,152	20,033	18,525	21,434	24,072
Investment management fees	18,954	19,653	18,125	20,952	23,551
Portfolio management fees	198	380	400	483	520
Other income	1,816	1,402	3,492	3,700	4,100
Total income	20,968	21,434	22,017	25,134	28,172
Operating expenses					
Employee expense	2,063	2,147	2,268	2,688	2,614
Other expenses	4,630	2,164	1,617	1,834	2,023
Total Opex	6,692	4,311	3,884	4,522	4,638
EBITDA (ex-other income)	12,460	15,722	14,641	16,913	19,434
Depreciation & amortisation expenses	129	504	554	463	444
PBT	13,747	16,530	17,490	20,060	23,000
Core PBT (ex-other income)	11,931	15,128	13,997	16,360	18,900
Tax	4,441	3,906	4,232	5,049	5,789
PAT	9,306	12,623	13,258	15,011	17,211
Core PAT	8,077	11,553	10,610	12,242	14,143

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21P	FY22E	FY23E
Share Capital	1,063	1,064	1,064	1,064	1,064
Reserves and Surplus	29,644	39,229	46,698	55,320	62,204
Net worth	30,707	40,293	47,762	56,384	63,268
Minority interest	-	-	-	-	-
Trade payables	474	467	421	442	464
Provisions	10	73	79	79	79
Other Liabilities	1,018	2,254	2,685	2,685	2,685
Total Liabilities	32,209	43,086	50,947	59,590	66,497
Assets					
Net block (incl CWIP)	429	1,613	1,544	1,481	1,437
Investments	29,670	39,716	47,556	56,150	62,977
of which cash and cash equivalents	320	271	24	-5	-62
Loans and advances	681.3	0	0	0	0
Other assets	1,430	1,757	1,847	1,959	2,083
Total Assets	32,209	43,086	50,947	59,590	66,497

Source: Company data, I-Sec research

Table 5: Cashflow statement*(Rs mn, year ending Mar 31)*

	FY19	FY20	FY21P	FY22E	FY23E
Operating Cashflow ex WC	12,750	15,949	14,787	20,523	23,445
Working Capital Changes	691	945	-257	-91	-101
Cashflow from operations	8,943	12,848	10,853	15,383	17,554
Capital Commitments ex asset sale	-175	-298	-116	-400	-400
Free Cashflow	11,884	14,706	14,928	20,214	23,146
Cash flow from Investing Activities	-7,765	-9,275	-4,828	-9,022	-7,284
Dividend paid including taxes	-3,075	-3,076	-5,960	-6,389	-10,327
Cashflow from Financing Activities	-1,186	-3,314	-6,276	-6,389	-10,327
Chg. in Cash & Bank balance	-9	259	-250	-28	-57

Source: Company data, I-Sec research

Table 6: Key ratios*(Year ending Mar 31)*

	FY19	FY20	FY21P	FY22E	FY23E
Per Share Data (in Rs)					
EPS(Basic Recurring)	43.8	59.4	62.3	70.5	80.8
Core EPS	38.0	54.3	49.8	57.5	66.4
Dividend per share (DPS)	12.0	28.0	30.0	30.0	48.5
Book Value per share	144.5	189.5	224.3	264.8	297.1
Growth Ratios (%)					
AUM	-21.4	17.0	2.8	15.4	16.9
Total Revenue	8.8	4.6	-7.5	15.7	12.3
EBITDA	28.9	26.2	-6.9	15.5	14.9
Recurring Net Income	29.0	35.6	5.0	13.2	14.7
Core PAT	24.5	43.0	-8.2	15.4	15.5
Valuation Ratios (x)					
P/E	65.5	48.3	46.1	40.7	35.5
P/BV	19.8	15.1	12.8	10.8	9.7
Core P/E	75.5	52.8	57.5	49.9	43.2
MCap to AUM	18.7	16.0	15.5	13.4	11.5
Operating ratios					
Investment management fees/total income	90.4	91.7	82.3	83.4	83.6
Operating expenses/total income	31.9	20.1	17.6	18.0	16.5
Employee expenses/operating expenses	30.8	49.8	58.4	59.5	56.4
Core PBT margin (of total income)	56.9	70.6	63.6	65.1	67.1
PAT margin (of total income)	44.4	58.9	60.2	59.7	61.1
Tax rate	32.3	23.6	24.2	25.2	25.2
Payout ratio	27%	47%	48%	43%	60%
% of MF AUM (bps)					
Revenue	58.7	52.4	47.2	47.3	45.4
Operating expenses	20.5	11.3	9.9	10.0	8.7
Operating margins	38.2	41.2	37.3	37.3	36.7
PAT	28.5	33.0	33.8	33.1	32.5
Core PAT					
ROE	59.9	52.7	47.3	47.3	45.4

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

I/We, Ansuman Deb, MBA, BE; Ravin Kurwa, CA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.