

Slight uptick in operating margins

HDFC AMC saw a good quarter with earnings beat led by better operating margins and higher other income. Though QAAuM was a tad lower, revenue was better driven by superior yields. Opex was mainly in-line. Hence operating income was a beat at Rs3.95bn (est. Rs3.84bn). Sequentially, equity share rose by 1.6% due to equity growth ~9% QoQ. Although HDFC is focusing on passive products, ETF share may not significantly change in the medium term. While fintechs have been aggressive, HDFC does not see them as a threat since they contribute only 2% to industry equity AuM. Market share reduction remains a concern and hence we revise our multiple to 44.2x also rolling forward to Sep'23 EPS. Revise TP to Rs3,100. Retain ADD.

Q2FY22 results – Stable quarter with a slight beat on earnings

Revenue at Rs5.4bn was a tad higher (est. Rs5.3bn) largely led by better than expected annualised yields at 49bps (est. 48bps) as QAAuM at Rs4.39trn was a bit lower (est. Rs4.44trn). Yields were stable QoQ and improved in tandem with equity share rise. Opex was Rs1.47bn (est. Rs1.49bn) with staff cost being lower at Rs798mn (est. Rs825mn) which was offset by higher other opex at Rs500mn (est. Rs481mn). ESOP charge of Rs167mn was included in employee cost. Incremental ESOP charge in H2FY22E could be Rs340-350mn. Led by higher revenues, operating income was ahead at Rs3.95bn (est. Rs3.84bn). Hence operating yields improved QoQ from 35bps to 36bps. Other income moderated QoQ to Rs661mn (est. Rs500mn) as last quarter saw sale of collateral on ESSEL group debentures. PAT was a beat at Rs3.44bn (est. Rs3.20bn).

Equity AUM share further improves; new fund launches in pipeline

QAAUM rose by 5.1% QoQ mainly led by healthy equity growth of 8.9% with an Equity/Debt/Liquid mix of 44.2%/36.7%/16.4%. Equity growth was also contributed by the banking fund NFO of Rs18.7bn. Sustained equity market buoyancy led to a sequential rise in equity AuM share by 1.6%. The company earns equity yields of 80bps which could sustain in the near to medium term though over the long term yields could compress as AuM increases. Hence margins will see some dilution over a period of time. Also NFO pricing by competition is very aggressive. Although HDFC is focusing on passive products, ETF share may not materially change in the medium term. While fintechs are growing, competition from them is immaterial as their AuM is only 2% of industry equity AuM.

SIP flows see an uptick and market share loss a tad concerning; opex to rise

SIP for Sep-21 upticked to Rs10.8bn (Rs9.8bn in Jun'21). Market share (MS) continues to fall in SIP (10.8% in Q2FY22 compared to 11.1% in Q1FY22). From a H1FY22 perspective, the company lost SIP MS to 10.9% from 11.7% in FY21. Also, basis closing AuM, HDFC has lost MS over FY21-H1FY22 from 12.6% to 11.9%. Business and technology spends would be incurred and hence we see a 14% CAGR in other opex over FY21-24E.

Valuation and risks

We raise opex est. for FY22/23E due to focus on improving business which would impact PAT by 1.9%/1.7%. Roll forward to Sep'23 EPS but revise multiple to 44.2x (earlier 46.3x) as market share is yet to stabilise, though distribution network is a strength. Change TP to Rs3,100 (earlier Rs3,280). Retain ADD. Risks: weak equity flows, regulatory challenges.

Financial and valuation summary

YE Mar (Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY21	QoQ (%)	FY21	FY22E	FY23E
Revenue	5,423	4,563	18.9	5,071	7.0	18,525	21,259	22,455
Operating Profit	3,953	3,493	13.2	3,652	8.2	13,997	15,384	16,848
Other Income	661	1,137	(41.9)	1,009	(34.5)	3,492	2,910	2,974
PAT	3,444	3,381	1.9	3,455	(0.3)	13,258	13,683	14,826
AAuM (Rs bn)	4,389	3,754	16.9	4,178.1	5.1	3,573	4,168	4,491
ROAAUM (% calc.)	0.31	0.36	(5)bps	0.33	(2)bps	0.37	0.33	0.33
PAT Margin	63.5	74.1	(10.6)	68.1	(4.6)	71.6	64.4	66.0
RoE (%)						30.1	27.1	26.4
P / E						40.6	43.1	39.8
P / B						10.4	11.1	10.0

Source: Company, Centrum Broking

Please see Appendix for analyst certifications and all other important disclosures. In the interest of timeliness, this document is not edited.

Market Data

Bloomberg:	HDFCAMC IN
52 week H/L:	Rs3365/2226
Market cap:	Rs590bn
Shares outstanding:	213mn
Free float:	24.7%
Avg. daily vol. 3mth:	694420
Source: Bloomberg	

Changes in the report

Rating:	ADD; Unchanged
Target price:	To Rs3,100 from Rs3,280
EPS:	FY22E: Rs64.3; -1.9%
	FY23E: Rs69.6; -1.7%
Source: Centrum Research	

Shareholding pattern

	Sep-21	Jun-21	Mar-21	Dec-20
Promoter	68.9	77.9	73.9	73.9
FIs	9.0	9.1	9.4	9.1
DIs	1.8	1.8	1.4	1.3
Public/oth	20.4	11.2	15.3	15.7
Source: BSE				

Centrum estimates vs Actual results

YE Mar (Rs mn)	Actual Q2FY22	Centrum Q2FY22	Variance (%)
Revenue	5,423	5,328	1.8
Core Operating	3,953	3,837	3.0
PAT	3,444	3,205	7.4
PAT Margin	63.5	60.2	3.3
Source: Bloomberg, Centrum Broking			



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Thesis Snapshot

Estimate revisions

YE Mar (Rs mn)	FY22E New	FY22E Old	% chg	FY23E New	FY23E Old	% chg
Revenue	21,259	21,359	(0.5)	22,455	22,380	0.3
Opex	15,384	15,877	(3.1)	16,937	17,193	(1.5)
Core Inc.	13,683	13,943	(1.9)	14,894	15,078	(1.2)
PAT	10.8	9.0	1.8	5.0	10.0	(5.0)
ROE (%)	27.1	30.4	(3.3)	26.5	30.8	(4.3)

Source: Centrum Broking

HDFC AMC versus NIFTY 50

	1m	6m	1 year
HDFCAMC IN	(13.7)	(1.9)	19.9
Nifty 50	1.5	25.1	54.0

Source: Bloomberg, NSE

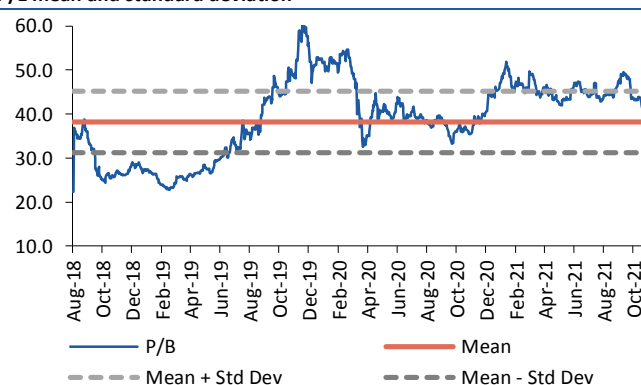
Valuations

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Valuations

Sep'23E EPS (Rs)	70.1
Historical P/E (x)	38.2
Premium assigned	15.8%
Ascribed P/E (x)	44.2
Fair value/share (Rs)	3,100

P/E mean and standard deviation



Source: Bloomberg

Peer comparison

Company	Mkt Cap Rs bn	CAGR FY21-FY23E (%)			PE (x)			P/B (x)			RoE (%)		
		Revenue	Core Profit	PAT	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HDFC AMC	590	10.1	10.0	6.0	40.6	43.1	39.8	10.4	11.1	10.0	30.1	27.1	26.4
NAM	269	10.0	12.6	(2.0)	30.2	45.2	40.9	5.5	8.0	7.7	23.9	18.6	19.6
UTI AMC	132	10.3	34.9	0.8	13.5	25.7	23.0	2.0	4.3	4.0	16.4	15.2	15.7

Source: Company, Centrum Broking

Concall Highlights

Industry backdrop

- Industry AUM has crossed Rs36trn with Rs16.8trn in equity oriented assets, Rs10.7trn in debt and Rs4.2trn in Liquid funds, Rs5.1trn in ETFs, arbitrage and Fund of Funds
- In August 2018, AUM of industry was Rs22trn and equity oriented assets were Rs9.8Trn
- H1FY22 has seen net positive flows of Rs936bn. Rs459bn or 49% of net flows has come in through NFOs. Majority of these NFO were offered at margins which were materially lower as compared to existing schemes.
- Debt schemes have seen outflows of Rs45bn while liquid funds have seen inflows of Rs26bn
- The others category has seen healthy flows adding up to Rs778bn of which Rs345bn are in arbitrage, Rs79bn in International FoFs, while balancing Rs354bn is in ETF which includes both equity as well as debt ETFs
- For Q2FY22, the net new flows were Rs685bn of which 426bn came in through NFOs
- During the last one year, ~Rs230bn have flown into Thematic/Sectoral funds as against total equity net flows of Rs410bn
- SIPs flow in the month of Sep 21' was Rs104bn as against 92bn in June 21'

Company AUM performance

- Closed the quarter with an AUM of Rs4.36trn of which 46% is in equity oriented schemes. Over and above this Rs115bn is managed through PMS
- In terms of overall market share based on QAAUM, the market share dropped to 12.1% from 13.6% last year and excluding ETFs the market share stood at 13.3%
- Market share is 12.2% in equity oriented schemes, 14.6% in terms of debt schemes and 15.3% for liquid from 18.7% YoY
- Had the highest market share in terms of Individual AUM at 12.8%. 58.8% of total AUM is contributed by individual investors which for the industry is 54.5%
- Redemption share has been constant over the last 3 years. Impact on market share was due to lower share in gross inflows largely coming from NFOs of other big fund houses
- HDFC AMC Continued to be 2nd highest in B30 market share
- Processed over 3.22mn systematic transactions in the month of Sep 21' resulting in flows of Rs10.8bn
- During the financial year launched the Hybrid fund, Thematic/Sectoral fund (BFSI sector), Smart Beta fund (Nifty 50 equal weight fund), International Fund tracking MSCI world index (HDFC developed world Index FoF – Rs11bn), NFO of Nifty next 50 fund

Financial performance

- Revenue from operations increased due to an increase in AUM
- Other income was lower than same quarter last year as Sep 20' had gains on ESSEL group NCDs to the tune of Rs560mn
- In Jun 21' booked a gain of about Rs140 on collateral of NCDs leading to fluctuating other income over the past few quarters
- Due to expansion of product bouquet there has been an increase in expense on new fund offers
- In Feb 21' a grant of ESOPs was made to certain employees which affected the employee benefit expenses including pro rata amortization of fair value of these ESOPs as required by IND AS. This was a non-cash charge which is non-tax deductible and is book value neutral
- In Q2FY22 this non-cash charge amounted to Rs167mn

- Employee benefit expenses have increased as the company resumed its practise of annual increase in employee remuneration this year after a break from the practise last year due to Covid
- Employee cost currently running at about 7.5bps of AUM and may slightly inch up going forward

Other

- Equity mutual fund industry is close to Rs16-17trn while all Fintech put together the size of their equity oriented schemes is about Rs350-360bn which is ~2% of the size of the mutual fund industry
- HDFC AMC has filed for 9 ETFs, couple of Index funds and multi cap and will be working on creating couple more thematic funds such as MNCs
- New fund managers manage about 15% of the overall Equity AUM
- Choosing those indices for passive products where there is sufficient liquidity and the risk is contained

Outlook

- Pursuing strategy of international funds as International fund market size is almost Rs350bn
- Focus on building scale, building quality and profitability of the business
- Margins will see some level of dilution over a period of time. NFO pricing by competition very aggressive
- Focus continues on digital infrastructure, automation to enhance customer satisfaction and will be investing in digital assets
- Due to additional investments in technology, cost to income ratio will more or less be 4-5% higher than Q2FY22 which was ~24%,
- ETFs won't change opex much because there would be some expenses related to business promotions such as advertising and marketing of the funds
- Despite launching lot of passive products still huge proponents of active funds

Exhibit 1: Quarterly financials

(Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue from Operations	4,980	5,247	4,761	4,115	4,563	4,819	5,029	5,071	5,423
Expenses	1,215	1,260	1,201	1,109	1,070	1,123	1,226	1,419	1,470
Employees	578	571	432	526	535	569	638	835	798
Others	504	492	619	446	382	401	435	436	522
Depreciation	125	126	134	137	141	140	136	135	136
Fees	8	71	16	0	13	14	16	13	14
Core Operating Income	3,889	4,114	3,695	3,143	3,633	3,836	3,804	3,652	3,953
Other Income	511	673	(265)	798	1,137	1,131	426	1,009	661
PBT	4,275	4,660	3,296	3,804	4,630	4,826	4,230	4,661	4,614
Tax	593	1,135	797	780	1,249	1,134	1,069	1,207	1,170
PAT	3,682	3,526	2,498	3,024	3,381	3,693	3,161	3,455	3,444
AUM (Rs in bn)	3,766	3,825	3,698	3,562	3,755	3,895	4,155	4,169	4,389
Yields	0.53%	0.55%	0.52%	0.46%	0.49%	0.49%	0.48%	0.49%	0.49%
AUM Breakup of AAAUM (%)									
Equity	43.1	44.0	38.5	37.0	39.1	39.6	41.2	42.6	44.2
Debt	28.1	28.3	32.2	27.8	32.3	37.3	38.2	37.6	36.7
Liquid	27.4	25.9	19.5	33.3	26.5	21.1	18.5	18.5	16.4
Others	1.4	1.8	9.8	1.9	2.1	2.0	2.1	2.4	2.7
Growth QoQ									
Equity	(4.6)	3.7	(15.4)	(17.3)	11.4	5.1	11.0	3.7	9.0
Debt	9.5	2.3	10.0	(12.8)	22.5	19.8	9.2	(1.2)	2.5
Liquid	21.5	(4.0)	(27.2)	33.1	(16.1)	(17.4)	(6.5)	0.3	(6.9)
Others	5.6	30.6	426.3	(12.9)	16.5	(1.2)	12.0	14.7	18.2
SIP Flows Monthly (in bn)	12.8	12.2	11.3	9.6	9.0	9.1	10.4	10.4	10.4
Growth ratios (%) (QoQ)									
AUM	5.6	1.6	(3.3)	(3.7)	5.4	3.7	6.7	0.3	5.1
Revenue from Operations	(1.3)	5.4	(9.3)	(13.6)	10.9	5.6	4.4	0.8	7.0
EBE	2.0	(1.3)	(24.4)	21.9	1.6	6.4	12.3	30.8	(4.3)
PAT	26.2	(4.3)	(29.1)	21.0	11.8	9.2	(14.4)	9.3	(0.3)
Profitability Ratios (%)									
EBE / Core Revenue	11.6	10.9	9.1	12.8	11.7	11.8	12.7	16.5	14.7
Operating Income/ Core Revenue	78.1	78.4	77.6	76.4	79.6	79.6	75.6	72.0	72.9
Other Income / Core Revenue	13.1	16.3	(7.2)	25.4	31.3	29.5	11.2	27.6	16.7
Effective tax rate	13.9	24.4	24.2	20.5	27.0	23.5	25.3	25.6	25.4
PAT Margin	73.9	67.2	52.5	73.5	74.1	76.6	62.8	68.1	63.5
ROAAUM in bps	0.40	0.37	0.27	0.33	0.37	0.39	0.31	0.33	0.31

Source: Company, Centrum Broking

Annual financials

P&L					
YE March (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue from Operations	20,033	18,525	21,259	22,455	23,076
Investment Management Fees	19,653	18,174	20,856	22,030	22,639
PMS and Advisory Fees	380	351	403	426	437
Expenses	4,904	4,528	5,875	5,608	6,131
Employees	2,147	2,268	3,250	2,678	2,839
Others	2,044	1,649	1,959	2,201	2,449
Depreciation	504	554	603	662	773
Fees	209	57	63	67	71
Core Operating Income	15,129	13,997	15,384	16,848	16,945
Other Income	1,401	3,492	2,910	2,974	3,157
Exceptional Item: Impairment of FI	0	0	0	0	0
PBT	16,530	17,490	18,293	19,821	20,102
Tax	3,906	4,232	4,610	4,995	5,066
PAT	12,624	13,258	13,683	14,826	15,036
Dividend	5,959	7,241	8,211	8,896	9,774
Retained Earnings	6,665	6,017	5,473	5,930	5,262

Growth ratios (%)					
YE March	FY20A	FY21A	FY22E	FY23E	FY24E
Closing AuM	(7.2)	23.9	10.8	5.0	4.8
Revenue	4.6	-7.5	14.8	5.6	2.8
Opex	(32.1)	(7.7)	29.8	(4.5)	9.3
Core income	26.8	(7.5)	9.9	9.5	0.6
PAT	35.7	5.0	3.2	8.8	2.0

Profitability Ratios (%)					
Yield on AUM	0.60	0.52	0.51	0.50	0.49
Yield on Investments	3.48	7.83	5.60	5.20	5.10
EBE / Core Revenue	10.7	12.2	15.3	11.9	12.3
Operating Income/ Core Revenue	75.5	75.6	72.4	75.0	73.4
Other Income / Core Revenue	7.0	18.9	13.7	13.2	13.7
Effective tax rate	23.6	24.2	25.2	25.2	25.2
PAT Margin	63.0	71.6	64.4	66.0	65.2
ROE	35.6	30.1	27.1	26.4	24.3
Core ROE	38.2	28.8	28.1	28.3	26.5
ROAAUM	0.38	0.37	0.33	0.33	0.32

DuPont analysis (%)					
Revenue from Operations	0.60	0.52	0.51	0.50	0.49
Investment Mgmt. Fees	0.59	0.51	0.50	0.49	0.48
PMS and Advisory Fees	0.01	0.01	0.01	0.01	0.01
Expenses	0.15	0.13	0.14	0.12	0.13
Employee	0.06	0.06	0.08	0.06	0.06
Others	0.06	0.05	0.05	0.05	0.05
Depreciation	0.02	0.02	0.01	0.01	0.02
Fees	0.01	0.00	0.00	0.00	0.00
Core Operating Income	0.46	0.39	0.37	0.38	0.36
Other Income	0.04	0.10	0.07	0.07	0.07
PBT	0.50	0.49	0.44	0.44	0.43
Tax	0.12	0.12	0.11	0.11	0.11
PAT	0.38	0.37	0.33	0.33	0.32

Source: Company, Centrum Broking

Balance sheet					
YE March (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Share Capital	1,064	1,065	1,065	1,065	1,065
Reserves and Surplus	39,229	46,697	52,171	58,102	63,365
Net Worth	40,293	47,762	53,236	59,166	64,429
Trade Payables	467	421	388	435	483
Employee Benefit	601	552	1,603	1,320	1,400
Others	1,685	2,090	2,090	2,090	2,090
Total Liabilities and Equity	43,046	50,904	57,398	63,098	68,494
Cash and Bank	271	24	24	24	24
Investment	39,445	47,533	52,684	57,405	61,810
Fixed Asset	1,613	1,544	2,280	3,091	4,018
Receivables	646	838	1,223	1,292	1,328
Others	1,072	966	1,188	1,215	1,242
Total Assets	43,046	50,904	57,398	63,098	68,494

Closing AuM (Rs bn)					
YE March	FY20A	FY21A	FY22E	FY23E	FY24E
Closing AuM	3,191	3,955	4,382	4,600	4,819
Equity	1,269	1,738	2,011	2,132	2,238
Debt	855	1,216	1,253	1,290	1,329
Liquid	1,033	921	1,004	1,054	1,106
Others	34	81	114	124	146

Closing AUM Breakup (%)					
Overall AuM	100.0	100.0	100.0	100.0	100.0
Equity	39.8	43.9	45.9	46.3	46.4
Debt	26.8	30.7	28.6	28.1	27.6
Liquid	32.4	23.3	22.9	22.9	23.0
Others	1.1	2.0	2.6	2.7	3.0

AuM Growth (%)					
YE March	FY20A	FY21A	FY22E	FY23E	FY24E
Overall	(7.2)	23.9	10.8	5.0	4.8
Equity	(24.8)	36.9	15.7	6.0	5.0
Debt	(14.4)	42.2	3.1	3.0	3.0
Liquid	38.8	(10.9)	9.0	5.0	5.0
Others	NM	138.1	41.3	9.0	17.0

Valuations (per share)					
YE March	FY20A	FY21A	FY22E	FY23E	FY24E
EPS	59.3	62.3	64.3	69.6	70.6
DPS	28.0	34.0	38.6	41.8	45.9
BVPS	189	224	250	278	303
Dividend Yield	1.1	1.3	1.4	1.5	1.7
P/E	40.9	40.6	43.1	39.8	39.2
P/B	11.4	10.4	11.1	10.0	9.1

Source: Company, Centrum Broking

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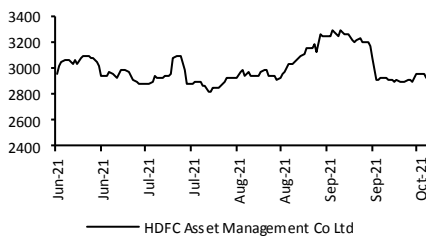
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Source: Bloomberg

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