

16 July 2024

India | Equity Research | Q1FY25 results review

HDFC Asset Management Company

Asset Management Companies

Market share gains, high equity mix, low cost ratio should help sustain valuation premium

HDFC AMC reported a 25-quarter-high core EBITDA of INR 5.9bn in Q1FY25 driven by 12% end-to-end equity AUM growth. Consistent fund performance across segments has led to superior business metrics such as gain in equity market share, unique investor share, and SIP flow market share in equity segment across channels. Our current estimates consider ~14%/15% end-to-end AUM growth in 9MFY25E/FY26E and ~4bps drop in yields between FY24–26E. The prospect of declining yields with AUM growth remains a risk due to telescopic pricing, fresh flows, regulation and competition. However, increasing systematic flows could mitigate the impact of declining yields through an increase in equity mix, while superlative all-round performance/position could lead to an increase in multiples. Maintain **ADD**. The company did mention of initiating efforts to minimise impact of yield dilution with AUM growth. We believe, high equity mix and low cost to AUM along with past track record of cost salience justify high multiples.

Maintain ADD; TP revised to INR 4,420

Our valuations are based on 40x FY26E (unchanged) core EPS of INR 100.9 and cash of INR 384 per share, which leads us to a revised TP of INR 4,420 (earlier INR 4,000). Key assumptions: 1) 14%/15% growth in AUM (end to end) in 9MFY25/FY26E. 2) ~4bps cumulative decline in yields between FY24 and FY26. 3) Total cost CAGR of 14.2% between FY24–26E. This would put opex at 9.6bps of AUM vs. 11.5bps/10.8bps as of FY24/Q1FY25. This translates into 22.5%/20.3% CAGRs in core EBITDA/core PAT between FY24–26E. Upside potential exists basis strong periods such as FY24/Q1FY25 (40%/12% end-to-end AUM growth for HDFC AMC), better flows on the back of improved fund performance, an invigorated HDFC Bank channel post-merger and growth in systematic investments. Downside risk could stem from any regulatory cut in TERs.

Rising systematic flow, MTM increasing equity mix could mitigate yield drop impact — example of FY24 remains

HDFC AMC reported average growth of ~10% in Systematic Transactions (STP & SIP) over the last 12 quarters (vs. industry growth of ~9%) and 12.8% for last three quarters (vs. industry growth of ~10%). Consequently, SIP & STP flows' market share expanded from 13.1% in Q1FY24 to 15.4% in Q1FY25, against SIP inflow of industry. Continuation of this momentum, along with MTM growth in equity, could increase the equity mix considerably to assuage any extraordinary drop in yields. SIP AUM has increased from INR 1.4bn in Q4FY24 to INR 1.6bn in Q1FY25, representing SIP AUM market share of 13% as on Jun'24. As per management, company has healthy share in new customer addition in lumpsum as well as systematic investments.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	21,668	25,844	33,874	37,567
EBITDA	16,173	19,574	26,659	29,397
Net Profit	14,234	19,427	23,585	25,120
Core PAT	11,830	14,882	19,471	21,529
EPS (INR)	66.7	91.0	110.5	117.7
P/E (x)	62.9	46.1	37.9	35.6
Core EPS (INR)	55.5	69.7	91.2	100.9
Core PE (x)	70.4	55.3	42.0	37.8
Dividend Yield	1.1	1.7	2.1	2.2
RoE (%)	24.5	29.5	32.3	32.2

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Market Data

Market Cap (INR)	896bn
Market Cap (USD)	10,719mn
Bloomberg Code	HDFCAMC IN
Reuters Code	HDFC BO
52-week Range (INR)	4,296 /2,355
Free Float (%)	47.0
ADTV-3M (mn) (USD)	23.9

Price Performance (%)	3m	6m	12m
Absolute	15.1	19.8	76.3
Relative to Sensex	5.2	9.8	54.2

Previous Reports

22-04-2024: [Q4FY24 results review](#)

15-01-2024: [Q3FY24 results review](#)

Gaining market share in equity-oriented AUM for last eight quarters

HDFC AMC has been gaining equity-oriented market share for the last eight quarters, from 11.5% in Q2FY23 to 12.9% in Q1FY25. On a QoQ-basis, overall AAUM market share increased marginally to 11.4% in Q1FY25 from 11.3% in Q4FY24. Actively managed equity-oriented AUM saw a 2bps increase in market share to 12.9% in Q1FY25, while liquid AAUM saw an improvement of 42bps to 12%. Debt AUM witnessed a 9bps decline in market share to 12.7% in the same period.

Management expects share of equity-oriented assets to remain high, given that it is supported by SIP flows. Flows from fintech players remain healthy for industry, contributing more than 50% of new SIP flows with majority from B30 cities.

High equity mix and low cost is the best industry combination—proprietary to HDFC AMC

HDFC AMC's equity AUM mix increased 130bps to 64.3% in Q1FY25, which is significantly higher than industry's equity mix of 55.6%. Operating expenses, as a percentage of AUM, have remained in the range of 11–12bps over the years (during Q1FY25, it was at 10.8bps vs. 10.2bps in Q4FY24).

During the quarter, employee expense increased by 17% QoQ due to an increase in annual increments, head count (+280 over last 12 months), employee engagement and learning and development expenses. Management guided for 12–15% growth (including ESOP costs) for employee expenses. Other expense increased by 14% QoQ due to general business and NFO related expenses. During CY24, the company opened 24 new branches in tier-2/3 cities, taking the total branch count to 255.

The company has deployed dedicated employees now for HDFC Bank and a few other dedicated channels, technology team, alternates as well as for its international segment. There may be need for further investments in technology but largely towards its sales force.

Strong operational footing in terms of investor share

Unique investors for HDFC AMC increased from 9.6mn in Q4FY24 to 10.7mn in Q1FY25. Unique investor share for the company increased from 22% in Q4FY24 to 23% in Q1FY25. Live accounts increased from 16.6mn to 18.6mn during the same period. From Jun'23 to Jun'24, industry has added 8.6mn new incremental investors, of which ~42% share (3.6mn unique investors) belonged to HDFC AMC. Individual investors increased from 12.05mn in Q1FY24 to 18.53mn in Q1FY25.

Q1FY25 core EBITDA nears INR 6bn; blended yields rise to 46.2bps

Q1FY25 AAUM increased 9.5% QoQ to INR 6.7trn driven by a sharp 11.9% QoQ increase in equity AAUM. Debt AAUM increased 1.7% QoQ while liquid AAUM increased 9.4% QoQ. HDFC's passive AAUM increased 10.6% QoQ in Q1FY25. In Q1FY25, on a blended-basis, yield increased to 46.2bps after falling to 45.4bps in Q4FY24 (year-end one-off in distribution expenses estimate in Q4FY24).

Equity yield for Q1FY25 was at ~59bps, debt ~28bps and liquid at ~12–13bps. NFO commissions are higher than normal flows, but remained rangebound.

Total operating expenses witnessed a sharp 15% QoQ growth to INR 1.81bn. Core EBITDA/PAT were up 10%/12% QoQ. Effective tax rate was lower in Q1FY25 on account of deferred tax expenses due to reclassification of certain investments from short term to long term. Other income stood at INR 1.74bn, up 11% QoQ.

Fund performance remains strong

HDFC AMC's scheme performance has been strong in the industry over the last couple of years. Majority of its schemes rank in the top quartile for performance in their respective segments; however, some decline in rankings can be seen in the last few months. In a one-year period (as of Jun'24), ~63% of HDFC AMC's AUM outperformed its benchmark on a one-year return horizon basis, while for three/five-year horizons, 77%/40% of its AUM outperformed the benchmark (Exhibits 11–13)

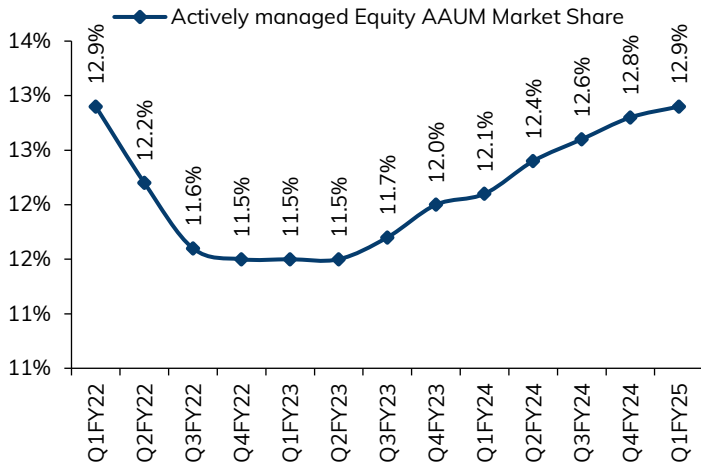
- HDFC Large and Mid-Cap Fund (AUM of INR 207bn) ranks 10th among 26 funds in large and mid-cap segment. Its performance has dipped from 6th in Mar'24 to 10th in Jun'24.
- HDFC Mid-Cap Opportunities Fund(G) (AUM of INR 689bn) ranks 17th among 29 funds in mid-cap segment. Its performance has dipped from 5th in Mar'24 to 9th in May'24 and 17th in Jun'24.
- HDFC Balanced Advantage Fund(G) (AUM of INR 882bn) ranks first amongst 18 funds in balanced advantage segment. Its performance has been consistent over the last one year with the scheme giving 41% during the same period in Jun'24.
- HDFC Focused 30 Fund-Reg(G) (AUM of INR 128bn) ranks sixth among 26 funds in the focused segment. Its performance has been consistent over the last one year with the scheme giving 44.9% during the same period in Jun'24.
- HDFC Flexi Cap Fund(G) (AUM of INR 574bn) ranks 12th among 34 funds in the large and mid-cap segment. This scheme has been consistent over the last one year with the scheme giving 45.2% during the same period in Jun'24.

Exhibit 1: Q1FY25 performance review

INR mn	Q1FY25	Q1FY24	YoY %	Q4FY24	QoQ %
Revenue from Operation	7,752	5,746	35%	6,954	11%
Other Income	1,735	1,580	10%	1,558	11%
Total Revenue	9,487	7,326	30%	8,513	11%
Operating expense	1,809	1,460	24%	1,568	15%
Core EBITDA	5,944	4,286	39%	5,387	10%
Reported PAT	6,038	4,775	26%	5,408	12%
Adjusted PAT	6,038	4,775	26%	5,408	12%
Core PAT	4,645	3,454	34%	4,167	11%
Core EPS	21.8	16.2	34%	19.5	11%
MF QAAUM (INR bn)	6,716	4,856	38%	6,130	10%
Equity MF AUM / Total MF AUM	66.7%	56%	1062 bps	65.4%	136 bps
Op revenue/Avg. AUM (bps)	46.2	47.3	-1 bps	45.4	1 bps
PAT / Avg. AUM (bps)	36.0	39.3	-3 bps	35.3	1 bps
EPS (INR)	28.3	22.4	26%	25.4	12%

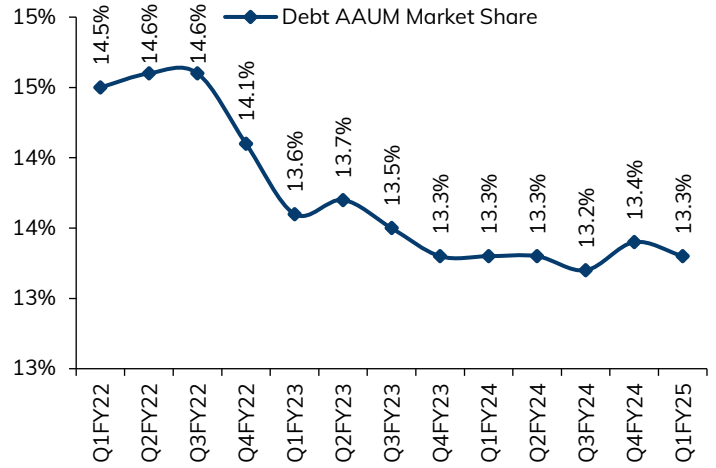
Source: I-Sec research, Company data

Exhibit 2: Equity market share continuously increasing



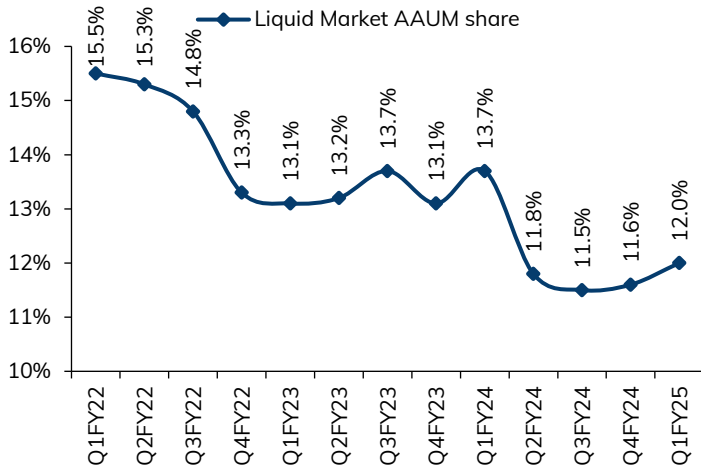
Source: I-Sec research, Company data

Exhibit 3: Debt AUM market share



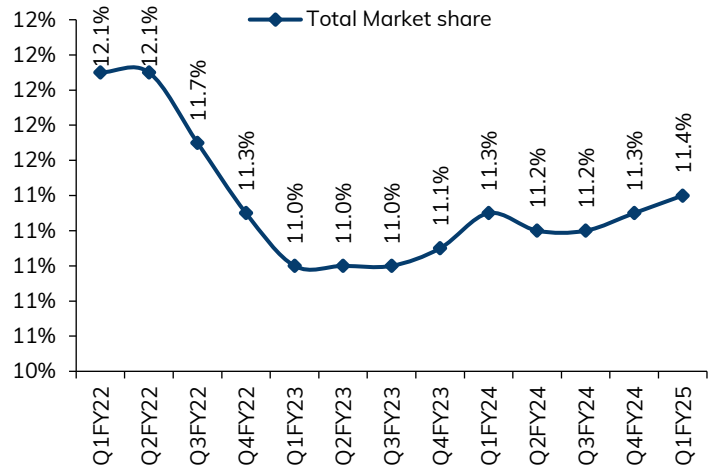
Source: I-Sec research, Company data

Exhibit 4: Liquid AUM market share



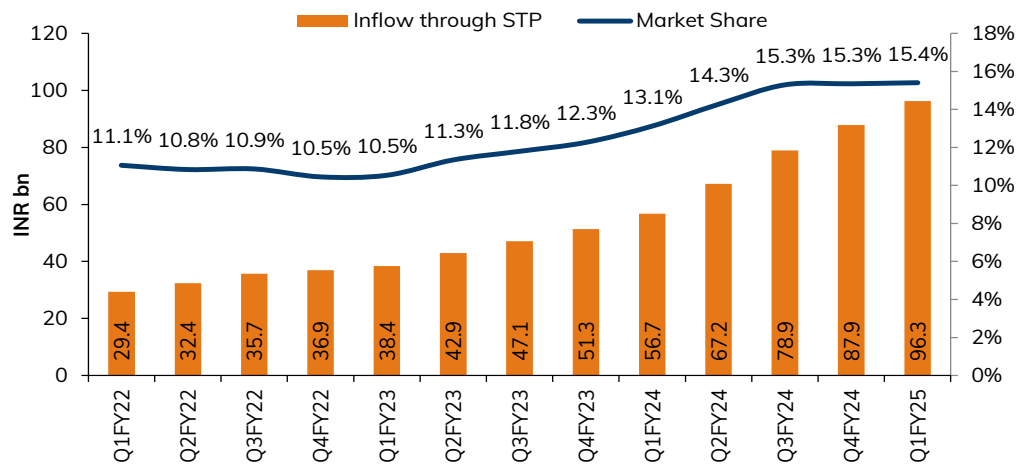
Source: I-Sec research, Company data

Exhibit 5: Total AUM market share movement



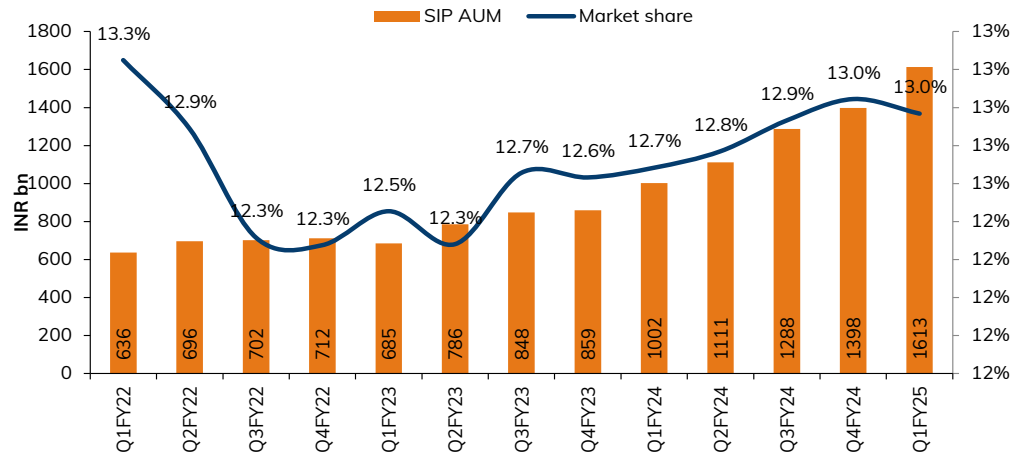
Source: I-Sec research, Company data

Exhibit 6: SIP & STP inflow market share has been increasing for HDFC AMC



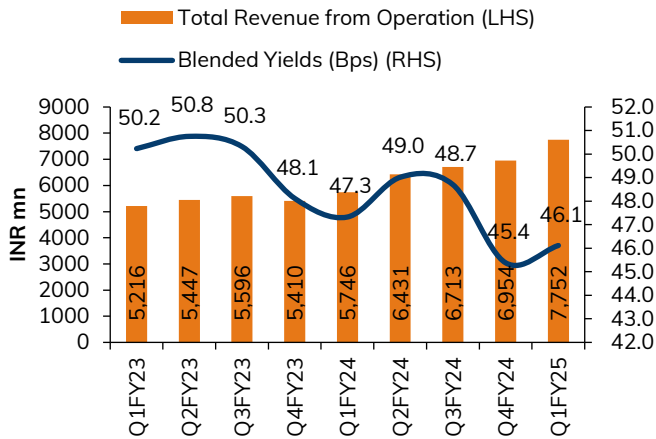
Source: I-Sec research, Company data, Note: We have multiplied Quarter month end number by 3 to obtain SIP & STP flow for quarter.

Exhibit 7: SIP AUM market share has been increasing



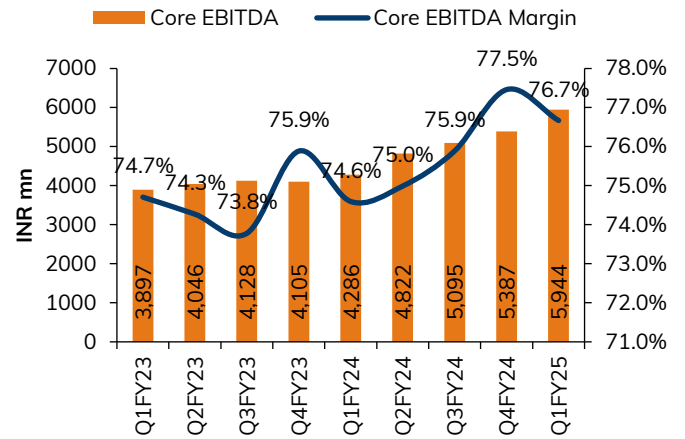
Source: I-Sec research, Company data

Exhibit 8: Blended yields increased with rising AAUM



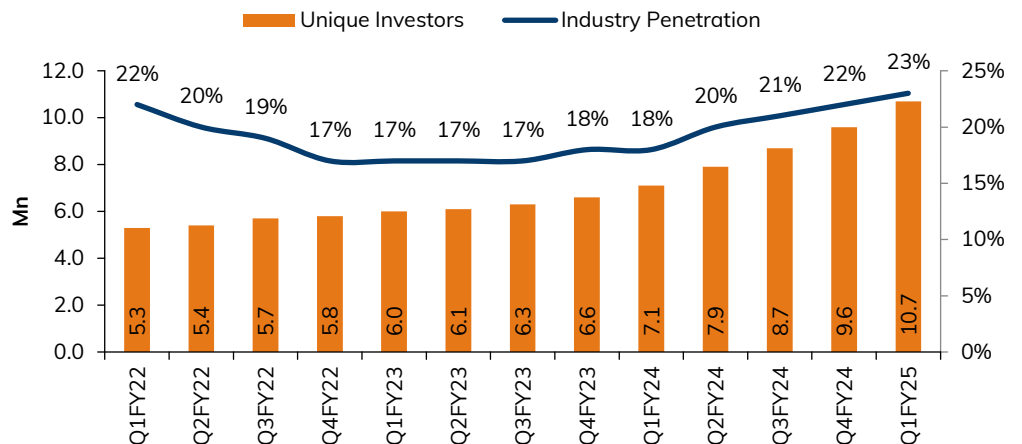
Source: I-Sec research, Company data

Exhibit 9: Core EBITDA reached INR ~6bn; with slight decline in margins



Source: I-Sec research, Company data

Exhibit 10: Unique investors and industry penetration for HDFC AMC



Source: I-Sec research, Company data

Exhibit 11: Distribution mix of HDFC AMC

INR (bn)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Total AUM	4,166	4,128	4,363	4,572	4,452	5,119	5,336	5,744	6,238	7,002
Distribution Mix										
Direct	41.60%	42.10%	41.00%	40.90%	40.50%	41.70%	39.60%	38.80%	38.40%	39.00%
Banks	10.50%	10.40%	10.60%	10.60%	10.70%	10.40%	10.80%	11.00%	11.20%	11.20%
MFDs	27.80%	27.40%	28.20%	28.20%	28.70%	28.20%	29.00%	29.30%	29.10%	28.40%
National Distributors	20.10%	20.00%	20.20%	20.30%	20.10%	19.70%	20.60%	20.90%	21.30%	21.40%
Distribution Mix										
Direct	1,733	1,738	1,789	1,870	1,803	2,135	2,113	2,229	2,395	2,731
Banks	437	429	463	485	476	532	576	632	699	784
MFDs	1,158	1,131	1,230	1,289	1,278	1,444	1,547	1,683	1,815	1,988
National Distributors	837	826	881	928	895	1,008	1,099	1,201	1,329	1,498

Source: I-Sec research, Company data

Exhibit 12: HDFC AMC scheme performance

Type	Fund	AUM (INR bn)	Return (1Yr)	Number of Funds (as on Jun'24)	Rank - Jun-24	Rank - May-24	Rank - Apr-24	Rank - Mar-24	Rank - Dec-23	Rank - Jun23
Equity Linked Savings Scheme	HDFC ELSS Tax saver(G)	153	47.9	40	8	7	7	6	6	7
Flexi Cap Fund	HDFC Flexi Cap Fund(G)	574	45.2	34	12	9	9	11	13	2
Focused Fund	HDFC Focused 30 Fund(G)	128	44.9	26	6	6	7	6	8	2
Large & Mid Cap	HDFC Large and Mid-Cap Fund-Reg(G)	207	48.2	26	10	5	6	6	2	3
Mid Cap Fund	HDFC Mid-Cap Opportunities Fund(G)	689	51.9	29	17	9	8	5	4	1
Large Cap	HDFC Top 100 Fund(G)	346	36.1	30	13	10	11	8	2	3
Multi Cap	HDFC Multi Cap Fund-Reg(G)	148	49.9	19	9	9	8	8	2	2
Balance Advantage	HDFC Balanced Advantage Fund(G)	882	41.0	18	1	1	1	1	1	2

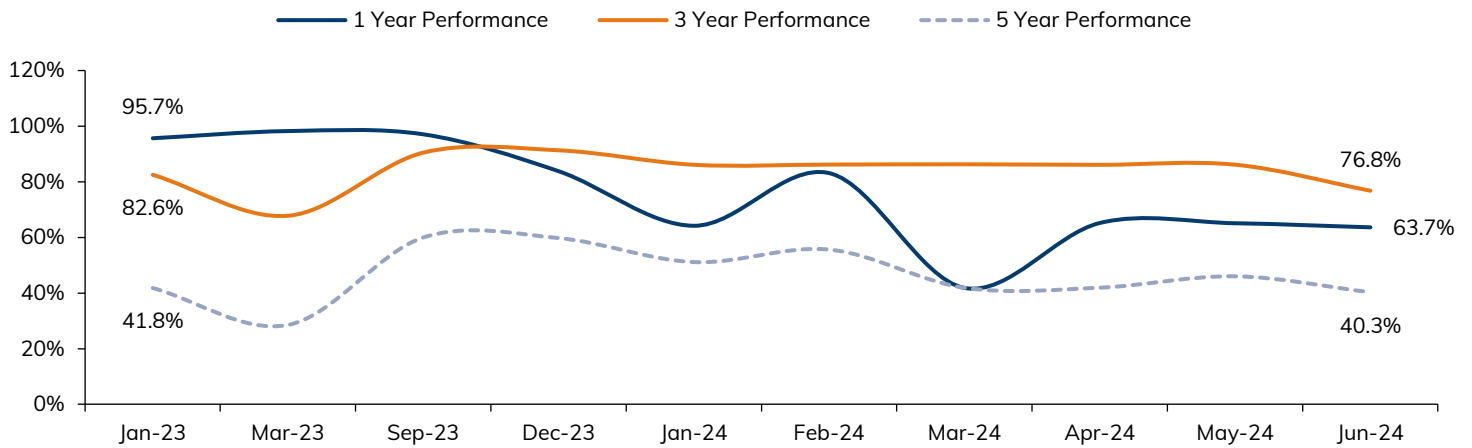
Source: I-Sec research, Ace MF; Note: Ranking is done based on 1 year return for the period

Exhibit 13: HDFC AMC's active equity AUM outperformance relative to its benchmark in Jun'24

	1-year		3-year		5 year	
	Mix (%)	Equity AUM (INR bn)	Mix (%)	Equity AUM (INR bn)	Mix (%)	Equity AUM (INR bn)
Mix of Equity AUM Out Performing benchmark	63.7%	2,230	76.8%	2,690	40.3%	1,411
Mix of equity AUM Under Performing benchmark	34.7%	1,214	13.7%	481	48.7%	1,705
Others	1.7%	58	9.4%	331	11.0%	386
Total	-	3,502	-	3,502	-	3,502
Average outperformance (%)		7.5		5.4		2.6

Source: I-Sec research, Company data

Exhibit 14: Trend of proportion of equity AUM outperforming benchmark on 1/3/5 years performance



Source: I-Sec research, Company data

Exhibit 15: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	52.6	52.6	52.5
Institutional investors	37.8	37.8	38.5
MFs and others	11.7	10.9	11.8
Insurance	7.5	7.4	6.1
FIs	18.3	20.0	20.6
Others	9.9	9.6	9.0

Source: Bloomberg, I-Sec research

Exhibit 16: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	21,668	25,844	33,874	37,567
Operating Expenses	5,496	6,270	7,216	8,170
EBITDA	16,173	19,574	26,659	29,397
EBITDA Margin (%)	74.6	75.7	78.7	78.3
Depreciation & Amortization	533	523	537	524
EBIT	15,639	19,051	26,122	28,873
Interest expenditure	97	91	91	91
Other Non-operating Income	-	-	-	-
Recurring PBT	18,700	24,750	31,531	33,582
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	4,467	5,323	7,946	8,463
PAT	14,234	19,427	23,585	25,120
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	14,234	19,427	23,585	25,120
Net Income (Adjusted)	14,234	19,427	23,585	25,120

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	2,341	1,676	1,688	2,082
of which cash & cash eqv.	70	400	305	582
Total Current Liabilities & Provisions	4,283	4,788	4,808	4,828
Net Current Assets	(1,942)	(3,112)	(3,120)	(2,746)
Investments	60,762	71,560	76,277	81,301
Net Fixed Assets	1,526	1,535	1,498	1,074
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	428	456	501	551
Other assets	305	311	311	311
Deferred Tax assets	-	-	-	-
Total Assets	61,078	70,750	75,467	80,491
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	1,067	1,067	1,067	1,067
Reserves & Surplus	60,011	69,683	74,400	79,424
Total Net Worth	61,078	70,750	75,467	80,491
Minority Interest	-	-	-	-
Total Liabilities	61,078	70,750	75,467	80,491

Source Company data, I-Sec research

Exhibit 19: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	11,494	16,147	23,990	25,497
Working Capital Changes	(1,014)	1,362	(133)	(147)
Capital Commitments	(140)	(190)	(500)	(100)
Free Cashflow	11,354	15,957	23,490	25,397
Other investing cashflow	(2,028)	(5,232)	(4,717)	(5,024)
Cashflow from Investing Activities	(2,168)	(5,422)	(5,217)	(5,124)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(9,299)	(10,662)	(18,868)	(20,096)
Others	-	-	-	-
Cash flow from Financing Activities	(9,299)	(10,662)	(18,868)	(20,096)
Chg. In Cash & Bank balance	26	63	(95)	277
Closing cash & balance	45	108	9	286

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
EPS (Basic Recurring)	66.7	91.0	110.5	117.7
Core EPS	55.5	69.7	91.2	100.9
Dividend per share (DPS)	48.0	70.0	88.4	94.2
Book Value per share	286.2	331.5	353.6	377.1
Growth Ratio (%)				
AAUM	(1.7)	25.3	37.7	14.1
Total Revenue	2.4	19.3	31.1	10.9
EBITDA	1.1	21.0	36.2	10.3
Recurring Net Income	2.2	36.5	21.4	6.5
Core PAT	2.5	25.8	30.8	10.6
Valuation Ratios (x)				
P/E	62.9	46.1	37.9	35.6
P/BV	14.7	12.6	11.9	11.1
Core P/E	70.4	55.3	42.0	37.8
Mcap to AUM	20.5	16.4	11.9	10.4
Operating Ratios (%)				
Investment management fees/total income	87.0	81.5	85.9	88.5
Operating expenses/total income	22.1	19.8	18.3	19.3
Employee expenses/operating expenses	56.9	56.5	56.1	56.5
Core PBT margin (of total income)	62.6	59.9	66.1	67.9
PAT margin (of total income)	57.3	61.4	59.9	59.3
Tax rate	23.9	21.5	25.2	25.2
Payout ratio	72.0	76.9	80.0	80.0
% of MF AUM (bps)				
Revenue	49.8	47.4	45.1	43.9
Operating expenses	12.7	11.5	9.6	9.6
Operating margins	37.1	35.9	35.5	34.3
PAT	32.8	35.7	31.5	29.4
Core PAT	27.3	27.4	26.0	25.2
ROE	24.5	29.5	32.3	32.3

Source Company data, I-Sec research

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