

HDFC Asset Management | BUY

Rich valuations justified by superior margins, upside limited

HDFC AMC has benefited from the gains in mid- and small-caps and defence/PSU themes in recent quarters and saw its equity AUM rise 61.9% in FY24, while the industry grew 53.4%. It has capitalised on superior scheme performances to raise its share of SIP inflows to 15.2% in 4Q24 from 10.4% in 1Q23, however, the share remains below its reported peak of 18.2% in 2Q18. Even with benign equity appreciation from 2Q25 to 4Q26, we expect revenue yields in FY26 to hold up at FY24 levels of 50bps of average AUM. Over a longer time-frame, its 5 year CAGR of equity AUM, at 18.1%, is below industry CAGR of 23.8% - as newer AMCs have taken up market share. In our coverage, it looks most resilient to a market drawdown. The largest scheme of the fund is the Balanced Advantage Fund, which should provide resilience against lumpsum outflows. With the merger of erstwhile HDFC Limited and HDFC Bank, while the bank now contributes a higher share of its MF inflows, its share in total inflows remains low at 6.1% in 4Q24, thus, insulating it from a push for deposits in parent counters. With scale and the resultant operating leverage, it remains the cost leader – with costs at 13bps of average AUM in FY24. We see limited room for improvement here, as even over FY20-FY24 (since new accounting norms came in), the improvement in cost ratio was limited to 2bps. With a long track record and good schemes performance, the company is trading at rich valuations, and we struggle to see a sustained upside, unless markets continue to outperform expectations. At CMP, the stock trades at 38.4/33.9x FY25/FY26e EPS. We value it at 37x on FY26e EPS to arrive at a revised Target Price of INR 4,555. Maintain BUY.

- Fund performances improved at the right time:** HDFC AMC has given up its market share of equity AUM as newer players came in, however, its good scheme performances ensured an uptick in SIP market share over last 2 years –from 10.4% in 1Q23 to 15.2% in 4Q24. Due to telescopic pricing, revenue yields dropped by 5bps to 45bps of QAAUM in 4Q24, however, we consider 4Q24 as a one-off and see yields to be stable at FY24 levels – we expect it to show in 1Q25 topline and expect it to report 8.3% QoQ/31.1% YoY growth in revenue to INR 7,534mn.
- Expect expenses to remain benign over FY25/FY26e but see limited room for improvement:** The company has been the cost leader in the listed space – reporting 15bps or lower in total costs as a ratio of average AUM. With the gains in equity book, we expect it to improve further to 12bps over FY25/FY26e, but any further improvement looks difficult.
- Valuation and view:** In a drawdown, HDFC AMC's balanced product mix provides a resilience unlike peers, and it can see its market share inch up to historical levels. Costs are expected to remain benign at 12bps of average AUM. Valuation comfort is difficult at this time, however, if the music keeps playing, we will see earnings upgrades for the cost leader. At CMP, it trades at 38.6/34.1x FY25/FY26e EPS. With the gains in equity AUM (and the other income it brings in), we raise our FY25/FY26e PAT estimates by 17.9%/12.2%. We continue to value it 37x FY26e upgraded PAT of INR 26.2bn to raise our TP to INR 4,555. Maintain BUY.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	4,555
Upside/(Downside)	8.8%
Previous Price Target	4,100
Change	11.1%

Key Data – HDFCAMC IN

Current Market Price	INR4,187
Market cap (bn)	INR894.2/US\$10.7
Free Float	40%
Shares in issue (mn)	213.0
Diluted share (mn)	
3-mon avg daily val (mn)	INR2,047.4/US\$24.5
52-week range	4,265/2,219
Sensex/Nifty	80,352/24,433
INR/US\$	83.5

Price Performance

%	1M	6M	12M
Absolute	9.5	22.6	85.8
Relative*	4.3	9.3	51.1

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY19A	FY21E	FY21E	FY22E	FY22E
Mutual Fund AUM (closing basis, INR bn)	4,076	4,367	6,073	7,340	8,366
YoY growth (%)	3%	7%	39%	21%	14%
% of equity MF AUM (closing basis)	51%	55%	64%	69%	72%
Operating Revenues (INR mn)	21,154	21,668	25,844	32,946	38,219
Total operating expenses (INR mn)	5,779	6,120	6,884	7,529	8,255
PAT (INR mn)	13,931	14,239	19,427	23,132	26,205
YoY growth (%)	5%	2%	36%	19%	13%
PAT / Avg. MF AUM (RoAUM) (%)	0.35%	0.34%	0.37%	0.34%	0.33%
RoE (%)	27.0%	24.5%	29.5%	31.2%	32.1%
EPS (INR)	65.3	66.7	91.0	108.4	122.8
P/E (x)	63.7	62.3	45.7	38.6	34.1

Source: Company data, JM Financial. Note: Valuations as of 09/July/2024

JM Financial Research is also available on:
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