

February 27, 2025

Analyst Meet Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		BUY	
Target Price	4,450		4,700	
Revenue (Rs. m)	38,967	42,600	40,057	45,275
% Chg	(2.7)	(5.9)		
Opex (Rs. m)	8,486	9,420	8,762	9,420
% Chg	(3.1)	-		
Core EPS (Rs.)	108.5	118.1	111.4	127.6
% Chg	(2.6)	(7.5)		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Revenue (Rs m)	25,844	35,043	38,967	42,600
Opex	6,842	7,708	8,486	9,420
Employee	3,535	3,880	4,301	4,758
Others	3,308	3,827	4,186	4,663
Core Income (Rs m)	19,001	27,336	30,480	33,180
PAT (Rs mn)	19,459	24,062	27,309	29,614
Core PAT (Rs m)	14,920	20,365	23,165	25,217
Core EPS (Rs.)	69.9	95.4	108.5	118.1
Gr. (%)	26.0	36.5	13.7	8.9
AAuM (Rs bn)	5,437	7,422	8,501	9,807
Gr. (%)	25.1	36.5	14.5	15.4
Core RoAAuM (%)	0.3	0.3	0.3	0.3
Core RoE (%)	29.6	36.1	36.2	34.5
P/Core EPS (x)	24.4	35.1	30.3	27.3

Key Data HDBK.BO | HDFCAMC IN

52-W High / Low	Rs.4,864 / Rs.3,416
Sensex / Nifty	81,820 / 25,057
Market Cap	Rs.804.4bn/ \$ 9,223.4m
Shares Outstanding	213.8m
3M Avg. Daily Value	Rs.1,650.9m

Shareholding Pattern (%)

Promoter's	52.48
Foreign	21.32
Domestic Institution	17.04
Public & Others	9.16
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.8	(16.2)	(3.2)
Relative	3.0	(6.3)	(4.8)

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Focus on increasing scale through brand value

Quick Pointers:

- Distributor commission cuts could cushion top-line during falling markets.
- HDFCAMC aims to expand scale but not at the cost of profitability.

HDFCAMC's MD&CEO sounded optimistic on growth potential of India's AMC space, drawing parallels US market from 1980s-2000s. Hence unique investors for the MF industry (52.6mn in Dec'24) can increase at a good pace. HDFCAMC will be a dominant player in this journey as its strong brand value is a function of its track record led by strong investment, risk and product management. Investor behavior is maturing as industry saw stable SIP flows during falling markets. Distributors have not objected to commission cuts as AuM growth was robust and AMCs cannot bear TER cuts for an elongated time. Closing equity AuM for industry corrected by 9.4% over Oct'24-Jan'25; hence we trim core EPS for FY26/27E by avg. 5%. Stock is valued at 29.0x on Sep'26 core EPS; we maintain multiple of 35x but cut TP to Rs4,450 from Rs4,700. Retain 'BUY'.

- **More scope for investor base to grow; investor behavior maturing:** Recent regulations have been supportive viz. new AIF product, lowering minimum SIP amount to Rs250, personal taxation benefit and GST introduction leading to formalization of economy. Industry witnessed stable SIP flows during falling markets suggesting investor maturity has increased. Recency bias is present; gross inflows are higher in funds where recent past performance was superior and it was vice versa for outflows. SIP closure rate may be higher also due to investors shifting from one fund to another. New SIPs through fintechs have jumped from 0.4mn in FY20 to 15mn in FY23; 25-30mn are expected in FY25. Fintechs are bringing new customers which were never part of the industry.
- **Distributors accepting commission cuts:** Commission rationalization did not face backlash as 1) growth in AuM was strong and AMC could not take the burden for an elongated time and 2) distributors have also grown multi-fold in tandem with AMCs. Commission cut has arrested the pace of fall in yields due to telescopic pricing. Other funds have also started reducing commissions. Commissions are a contract between AMC and distributor and it may not be regulated by AMFI; however, commission cannot be more than TER. Higher commissions may not translate to higher inflows. Although, money from MFD is usually stickier, which helps during volatile markets.
- **Focus to increase scale through strong brand value:** As per the MD&CEO, AMC business is built on three main pillars i.e. investment management, risk management and product management. Strong track record through various business cycles helps build a brand. HDFCAMC has delivered superior returns in terms of long horizon returns. As of Jan'25, basis weighted avg. equity performance, HDFC AMC remains top performing in the 3/5/10-yr buckets. M&A opportunities would be considered only in case of significant strategic advantage. HDFCAMC has been mindful of expenses during a growth period. Thus, when the markets correct, there may not be excess operating costs to control. Staff costs may continue to increase by 9-10%.

Analyst Meet Highlights

Industry and Regulations

- AMFI has increased investor awareness by allocating Rs13.5-14bn on advertisements leading to investor maturity. Industry witnessed stable SIP flows during fall in markets as target is to build wealth in long term horizon.
- Unique investor base is likely to further grow considering there are many people having bank accounts, gaming accounts, passports who are not yet part of the MF industry.
- Recent regulations have supported the MF industry viz. new AIF product for HNIs, lowering minimum SIP amount to Rs250, personal taxation benefit and GST introduction leading to formalization of economy.
- Higher regulation can be an advantage as it develops more trust in the product
- Recency bias is certainly present; gross inflows are higher in funds where recent performance was superior and vice versa for outflows. SIP closure rate may be higher also due to investors shifting from one fund to the other.
- New SIP accounts through Fintech partners were 0.4mn in FY20, 3.6mn in FY21, 8.6mn in FY22, 15mn in FY23 and this year 25-30mn new accounts are expected. Fintech AuM has consistently grown mainly led by Zerodha and Groww. These fintechs are bringing new customers which are new to industry.

Company and its brand value

- HDFCAMC has maintained a stance of creating investor value despite increasing AuM. Thus, SIPs were stopped in Defense fund. Focus is on investment management, risk management and product management
- Entry barriers may not be visible in monetary terms, however, a track record through various business cycles helps build a brand which is the biggest asset in this business
- Brand value and legacy is an important part of the industry. Many of the funds are about 30 years old delivering consistent performance showcasing returns over long term horizon, through global uncertainties.
- There are restrictions on performance disclosures. However, in terms of long term returns i.e. 5-yr, 10-yr and since inception buckets, company stands-out.

New products and future outlook

- Product bouquet for HDFCAMC is largely completed. New products may come in Index/ETF/FoF as per the requirements. Number of listed stocks is expected to double in next 7-8 years.
- AIF business is planned to be increased in a slow but steady manner over next 10 years. AIF is managed by an investment team of 10 people.
- Focus is to fixed income sales and increasing market share. Currently, majority of investors are invested in debt schemes through hybrid funds.

- Mergers and acquisition opportunities would be considered only in case of dramatic strategic advantage.
- Focus will be on gaining market share. Thus, new SIP registration share is more than flow market share which in turn is more than book market share.

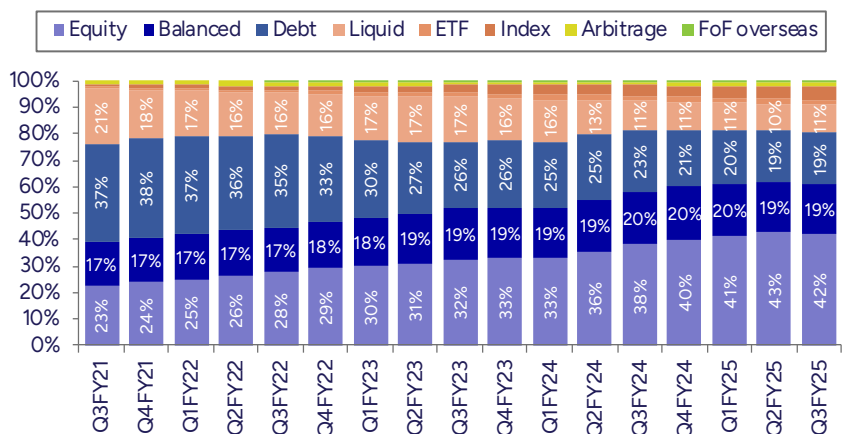
Commission management

- Commission cut did not face backlash as 1) growth in AuM was robust and AMC could not bear the burden for an elongated time and 2) distributors have also grown multi-fold in tandem with AMCs. Commission rationalization has arrested the pace of fall in yields due to telescopic pricing. Other fund houses have also started reducing commissions.
- Commissions are a contract between AMC and distributor, and it may not be regulated by AMFI. However, commission cannot be more than TER.
- Higher pay of commission does not usually translate to higher inflows. However, money from MFD is stickier, which helps during volatile markets.
- Growth in profitability is a win-win situation for the company, higher alpha benefits investors and higher commissions due to increase in AuM size benefits the distributors..

Profitability management

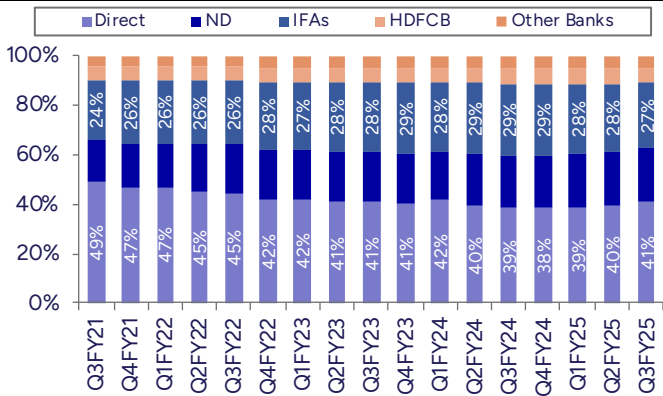
- HDFCAMC has been mindful of expenses during a growth period. Thus, when the markets correct, there may not be excess operating costs to control. Staff costs may continue to increase by 9-10%.
- Talent management is a key part of this business. 3 aspects of talent management include 1) wealth creation and fair compensation, 2) work culture and 3) growth opportunities.
- Post-tax cash profit is fully paid out as dividends..

Exhibit 1: Equity + Bal share reduced to ~61%, liquid share improves to ~11%



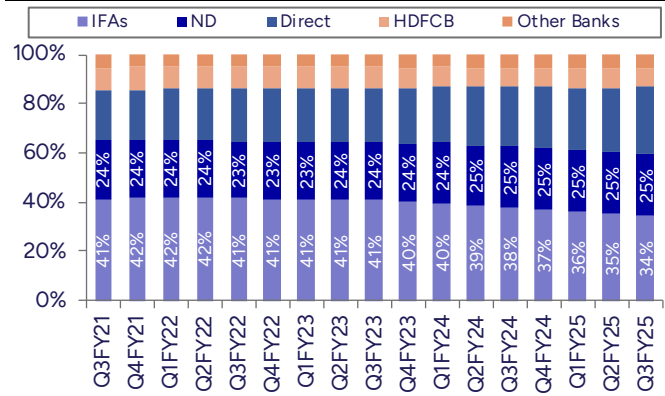
Source: Company, PL

Exhibit 2: Total distribution – Direct dominates at 41%



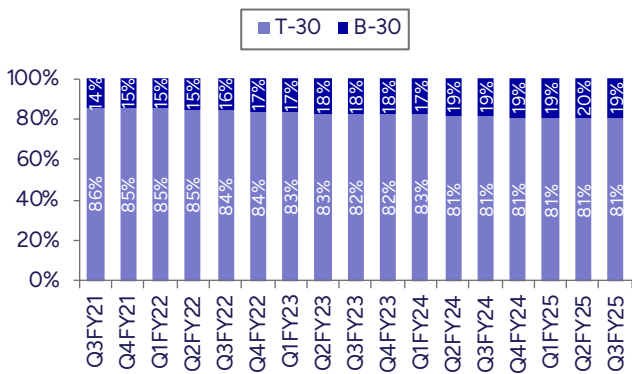
Source: Company, PL

Exhibit 3: Equity distribution – IFAs dominate at 34%



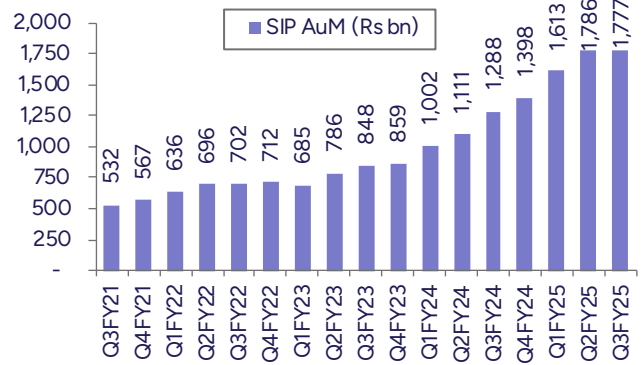
Source: Company, PL

Exhibit 4: T-30:B-30 mix stable at 81:19



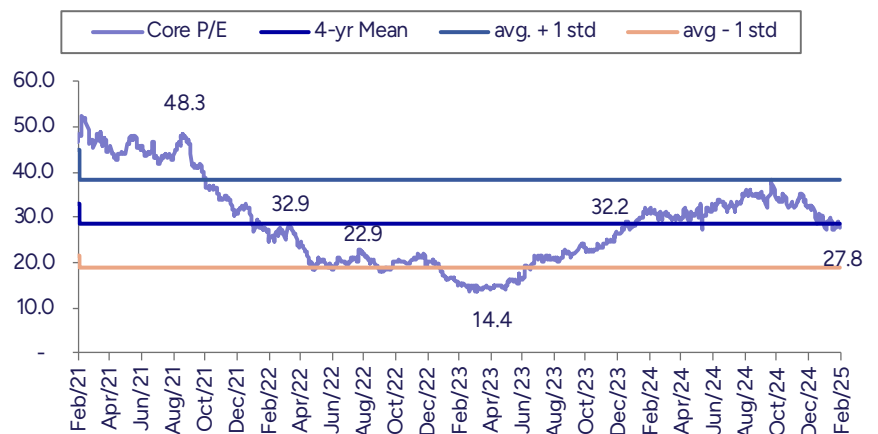
Source: Company, PL

Exhibit 5: SIP AuM grew by 38% YoY while remained flat QoQ



Source: Company, PL

Exhibit 6: HDFCAMC 2-yr fwd. P/Core EPS trades at 27.8x



Source: Company, PL

Financials

Exhibit 7: Quarterly Financials

Particulars (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Revenue	5,596	5,410	5,745	6,431	6,713	6,954	7,752	8,872	9,344
Expenses	1,622	1,460	1,612	1,761	1,751	1,718	1,959	1,991	1,872
Employee	680	639	731	798	774	765	945	899	898
Others	699	609	645	702	718	721	818	898	774
Depreciation	134	133	129	130	131	133	133	137	149
Core Income	3,974	3,949	4,133	4,670	4,962	5,236	5,794	6,881	7,472
Other Income	1,034	969	1,580	1,221	1,424	1,555	1,731	1,706	927
PBT	5,007	4,918	5,714	5,891	6,386	6,791	7,525	8,587	8,400
Tax	1,313	1,156	939	1,516	1,489	1,380	1,485	2,818	1,985
PAT	3,694	3,762	4,775	4,376	4,897	5,411	6,040	5,769	6,415
Core PAT	2,931	3,021	3,454	3,468	3,805	4,172	4,650	4,623	5,706
QAAuM	44,47,201	44,97,151	48,56,309	52,47,903	55,13,799	61,29,639	67,16,253	75,89,755	78,73,645
Equity	32.4%	32.7%	32.8%	35.7%	38.0%	39.9%	41.2%	42.6%	42.1%
Balanced	19.2%	19.4%	19.0%	19.4%	19.9%	20.2%	19.9%	19.4%	19.0%
Debt	25.5%	25.7%	25.3%	24.8%	23.3%	21.1%	20.1%	19.4%	19.2%
Liquid	17.1%	15.8%	15.9%	13.1%	11.3%	11.0%	10.6%	9.9%	10.7%
ETF	1.3%	1.7%	1.9%	1.8%	1.9%	1.8%	1.8%	1.8%	2.0%
Index	2.9%	3.2%	3.7%	3.8%	4.0%	4.1%	4.3%	4.7%	4.7%
Arbitrage	1.3%	1.3%	1.1%	1.2%	1.4%	1.7%	1.8%	2.0%	2.1%
FoF overseas	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Market share (%)	11.0	11.1	11.3	11.2	11.2	11.3	11.4	11.5	11.5
Equity	9.4	9.7	9.8	10.2	10.5	10.7	10.9	11.0	10.9
Balanced	19.0	19.4	19.9	20.3	20.4	20.7	20.5	20.5	20.2
Eq+Bal	11.6	11.9	12.0	12.3	12.6	12.8	12.9	12.8	12.7
Debt	14.8	15.1	14.7	14.7	14.5	14.7	14.5	14.6	14.2
Liquid	13.7	12.8	13.7	11.9	11.5	11.6	12.0	12.1	12.9
ETF	1.2	1.5	1.7	1.7	1.7	1.7	1.7	1.7	1.9
Index	10.9	10.3	10.5	11.2	11.5	12.2	12.7	13.7	13.8
QAAuM Growth (%)	3.6	1.1	8.0	8.1	5.1	11.2	9.6	13.0	3.7
Equity	8.1	2.2	8.1	17.6	12.0	16.6	13.2	17.1	2.5
Balanced	5.9	1.9	6.0	10.1	7.9	12.7	8.1	10.1	1.6
Eq+Bal	7.3	2.1	7.3	14.9	10.5	15.2	11.5	14.8	2.2
Debt	-3.3	1.8	6.5	5.8	-1.3	0.9	4.4	8.8	2.6
Liquid	2.6	-6.1	8.5	-11.4	-8.9	7.9	6.1	5.5	11.8
ETF	15.1	27.9	20.3	6.3	5.6	7.8	11.2	11.8	12.1
Index	12.6	10.3	28.3	10.5	8.5	15.4	15.1	22.1	5.6
Arbitrage	-5.7	-1.6	-6.8	16.0	25.3	32.8	14.5	25.2	10.4
FoF overseas	-3.6	-0.9	0.8	0.0	8.0	6.9	4.7	1.3	2.6
Dupont (bps)									
Revenue yield	50.3	48.1	47.3	49.0	48.7	45.4	46.2	46.8	47.5
Opex to AuM	14.6	13.0	13.3	13.4	12.7	11.2	11.7	10.5	9.5
Staff cost	6.1	5.7	6.0	6.1	5.6	5.0	5.6	4.7	4.6
Other opex	6.3	5.4	5.3	5.3	5.2	4.7	4.9	4.7	3.9
Depreciation	1.2	1.2	1.1	1.0	0.9	0.9	0.8	0.7	0.8
Core income/AuM	35.7	35.1	34.0	35.6	36.0	34.2	34.5	36.3	38.0
PAT/AuM	33.2	33.5	39.3	33.4	35.5	35.3	36.0	30.4	32.6
Core PAT/AuM	26.4	26.9	28.5	26.4	27.6	27.2	27.7	24.4	29.0
Profitability (%)									
Staff cost/revenue	12.2	11.8	12.7	12.4	11.5	11.0	12.2	10.1	9.6
Other opex/revenue	12.5	11.3	11.2	10.9	10.7	10.4	10.6	10.1	8.3
Core income/revenue	71.0	73.0	71.9	72.6	73.9	75.3	74.7	77.6	80.0
Tax rate	26.2	23.5	16.4	25.7	23.3	20.3	19.7	32.8	23.6
PAT margin	66.0	69.5	83.1	68.0	72.9	77.8	77.9	65.0	68.7
Core PAT margin	52.4	55.8	60.1	53.9	56.7	60.0	60.0	52.1	61.1

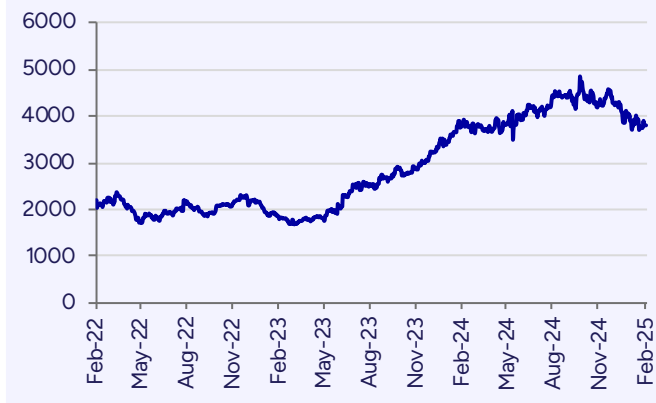
Source: Company, PL

Exhibit 8: Summary Financials (Rs mn)

Particulars	FY24	FY25E	FY26E	FY27E	Particulars	FY24	FY25E	FY26E	FY27E
Profit & Loss					Balance Sheet				
Revenue	25,844	35,043	38,967	42,600	Net Worth	70,791	81,194	93,805	1,08,158
Investment mgmt.	25806	34991	38908	42537	Capital (FV Rs5)	1,067	1,067	1,067	1,067
PMS / Advisory	38	52	58	64	Reserves	69,723	80,126	92,737	1,07,090
Expenses	6,842	7,708	8,486	9,420	Employee benefit	827	992	1,191	1,429
Employee	3,535	3,880	4,301	4,758	Others	3,958	4,346	4,772	5,240
Others	2,785	3,283	3,621	4,070	Total Liabilities	75,576	86,531	99,767	1,14,826
Depreciation	523	545	564	593	Cash and Bank	112	112	112	112
Core Income	19,001	27,336	30,480	33,180	Investment	71,900	82,576	95,507	1,10,235
Other Income	5,781	4,962	5,453	5,785	Fixed assets	1,522	1,598	1,678	1,762
PBT	24,782	32,298	35,933	38,965	Others	2,042	2,246	2,471	2,718
Tax	5,323	8,236	8,624	9,352	Total Assets	75,576	86,531	99,767	1,14,826
PAT	19,459	24,062	27,309	29,614	AuM Data				
Core PAT	14,920	20,365	23,165	25,217	AAuM	54,36,912	74,21,813	85,01,032	98,07,443
Dividend	14,944	19,251	22,121	24,284	Equity	20,00,796	30,79,161	35,76,081	40,89,117
Growth ratios (%)					Balanced	10,70,055	14,33,657	16,75,192	19,30,296
Revenue	19.3	35.6	11.2	9.3	Debt	12,77,231	14,64,460	16,67,824	19,12,454
Opex	11.8	12.6	10.1	11.0	Liquid	6,89,164	7,90,025	7,49,531	8,25,246
Employee	13.0	9.8	10.8	10.6	ETF	1,00,170	1,42,157	1,70,559	2,10,137
Others	13.2	17.9	10.3	12.4	Index	2,13,393	3,48,317	4,72,793	6,21,431
Core income	22.2	43.9	11.5	8.9	Arb & FoF	86,102	1,64,037	1,89,052	2,18,762
PAT	36.7	23.7	13.5	8.4	Mix				
Core PAT	26.1	36.5	13.7	8.9	Equity	36.8	41.5	42.1	41.7
DuPont analysis (%)					Balanced	19.7	19.3	19.7	19.7
Revenue	0.48	0.47	0.46	0.43	Debt	23.5	19.7	19.6	19.5
Expenses	0.13	0.10	0.10	0.10	Liquid	12.7	10.6	8.8	8.4
Employee	0.07	0.05	0.05	0.05	ETF	1.8	1.9	2.0	2.1
Others	0.05	0.04	0.04	0.04	Index	3.9	4.7	5.6	6.3
Depreciation	0.01	0.01	0.01	0.01	Arb & FoF	1.6	2.2	2.2	2.2
Core Income	0.349	0.368	0.359	0.338	Growth				
Other Income	0.11	0.07	0.06	0.06	Overall	25.1	36.5	14.5	15.4
PBT	0.46	0.44	0.42	0.40	Equity	46.1	53.9	16.1	14.3
Tax	0.10	0.11	0.10	0.10	Balanced	29.8	34.0	16.8	15.2
PAT (RoAAuM)	0.36	0.32	0.32	0.30	Debt	8.6	14.7	13.9	14.7
Core RoAAuM	0.27	0.27	0.27	0.26	Liquid	-5.0	14.6	-5.1	10.1
ROE	29.5	31.7	31.2	29.3	ETF	71.1	41.9	20.0	23.2
Core RoE	29.6	36.1	36.2	34.5	Index	76.0	63.2	35.7	31.4
Other Ratios (%)					Valuations				
Staff cost/revenue	13.7	11.1	11.0	11.2	EPS	91.2	112.7	127.9	138.7
Other opex/revenue	10.8	9.4	9.3	9.6	Core EPS	69.9	95.4	108.5	118.1
Core Income/revenue	73.5	78.0	78.2	77.9	CPS	337.3	387.3	447.9	516.9
Other Income/revenue	22.4	14.2	14.0	13.6	DPS	70.0	90.2	103.6	113.8
Yield on Investments	8.6	6.3	6.0	5.5	Dividend yield	2.6	2.4	2.8	3.0
Effective tax rate	21.5	25.5	24.0	24.0	BVPS	332	380	439	507
PAT margin	75.3	68.7	70.1	69.5	P/B	8.2	9.8	8.5	7.4
Core PAT margin	57.8	58.2	59.5	59.3	P/E	29.8	33.2	29.2	27.0
Dividend payout (%)	76.8	80.0	81.0	82.0	P/core EPS	24.4	35.1	30.3	27.3

Source: Company, PL

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-24	BUY	3,000	3,326
2	12-Jan-24	BUY	3,900	3,501
3	10-Apr-24	BUY	3,900	3,709
4	20-Apr-24	BUY	4,100	3,707
5	09-Jul-24	BUY	4,100	4,159
6	16-Jul-24	BUY	4,700	4,196
7	08-Oct-24	BUY	4,700	4,133
8	16-Oct-24	BUY	5,360	4,555
9	08-Jan-25	BUY	5,360	4,071
10	15-Jan-25	BUY	4,700	3,865

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	1,900	1,705
2	Axis Bank	BUY	1,350	1,038
3	Bank of Baroda	BUY	285	222
4	Can Fin Homes	BUY	860	708
5	City Union Bank	BUY	200	171
6	DCB Bank	BUY	155	117
7	Federal Bank	BUY	210	180
8	HDFC Asset Management Company	BUY	4,700	3,865
9	HDFC Bank	BUY	1,950	1,666
10	ICICI Bank	BUY	1,550	1,209
11	IndusInd Bank	BUY	1,500	991
12	Kotak Mahindra Bank	BUY	2,230	1,759
13	LIC Housing Finance	BUY	650	558
14	Nippon Life India Asset Management	BUY	725	653
15	State Bank of India	BUY	900	754
16	UTI Asset Management Company	BUY	1,320	1,296

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

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