

Retail Equity Research

HDFC Asset Management Company Ltd

AMC

BSE CODE: 541729

NSE CODE: HDFCAMC

Bloomberg CODE: HDFCAMC:IN

SENSEX: 40,248

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs 3,003 TARGET Rs 3,225 RETURN 7% ↑

(Closing: 05-11-19)

KEY CHANGES:
TARGET ↔

RATING ↔

EARNINGS ↔

HDFC AUM growth ahead of Industry trend

HDFC Asset Management Company Ltd. (HDFC AMC) is one of the largest asset management companies (AMC) in India, with a total asset under management (AUM) of Rs. 3,662bn as on 30th September 2019.

- AUM grew 25.2% YoY to Rs. 3,662bn vs. industry's growth of 11.2%. Market share increased to 14.9% as of sept. 2019 (13.3% in Sept. 2018).
- Revenue from operations rose 3.7% YoY in Q2FY20 to Rs. 498cr (5.3% YoY in H1FY20), but missed Street estimates by 4.6%.
- EBIT margin improved to 76.1% (vs. Q2FY19: 54.6%) due to lower costs. While Adj. PAT increased 63.1% YoY to Rs. 336cr primarily driven by lower tax rate and reassessment of deferred tax assets.
- With healthy AUM growth, leadership position in the industry and double digit market share, we provide HOLD rating on the stock, with a target price of Rs. 3,225, based on 45x FY21E adj. EPS.

HDFC AMC vs Industry

HDFC AMC's equity-oriented AUM grew by 11.9% YoY in Q2FY20 to Rs. 1,651bn as against industry' growth of 12.7%, thereby, reducing its equity-oriented assets from 47.7% in Q1FY20 to 45.1% in Q2FY20. Actively managed equity-oriented AUM stood at Rs. 1,637bn with market share of 15.8% in Q2FY20 vs Rs. 1,689bn in Q1FY20 (market share of 16.2%), mainly due to change in product mix. Individual investors contributing Rs. 2,180bn to the present HDFC AMC's AUM represent 57.4% share as against 54.1% for the industry, making it the most preferred choice. The company has over one-fourth of industry total unique customers (5.5mn unique customers out of 20mn total unique customers). Market share in B-30 AUM is 12.5%, which is second highest in the industry only after SBI mutual fund. The company also witnessed continued increase in systematic investment plan (SIP) accounts. HDFC AMC's Equity/Debt/Liquid funds contribution stood at 45.1%/26.6%/26.6% respectively vs 42.1%/29.1%/19.0% at industry level during September 2019.

Healthy topline and strong earnings

The company reported revenue growth of 3.7% YoY to reach Rs. 498cr, with an improved EBIT margin of 76.1%, up 2150bps YoY, on account of reduced costs. Net profit soared 78.8% YoY to Rs. 368cr, owing to lower corporate tax rate regime adopted by the company leading to reassessment of DTA, where the full impact of Rs. 67cr was recognized in 1HFY20. Adjusting for this impact, net profit was up 63.1% to Rs. 336cr. in 2QFY20.

Key concall highlights

- Rs. 67cr has been recognized as provision for income tax during H1FY20, out of which approximately Rs. 34cr pertains to Q1FY20.
- The company handled Rs. 25cr of Non-convertible debentures as unrealized loss in other income.
- Though the company increases the transaction via electronic medium (69.3% in 1HFY20), it doesn't have any plan to reduce the physical mediators (financial advisors and distributors).
- Mutual funds have been growing at a rate higher than the growth rate of the bank deposits. Given the under-penetration of mutual fund products, the management expects huge opportunity for the industry to grow.

Valuation

We estimate earnings to grow at CAGR of 28% over FY19-21E and EBIT margin reaching ~73% in FY20-21E, aided by the optimized product mix. Hence we provide HOLD rating on the stock, with a target price of Rs. 3,225, based on 45x FY21E adj. EPS.

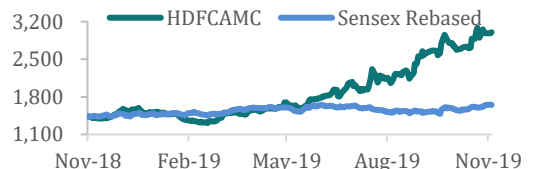
Company Data

Market Cap (cr)	Rs.63,850
Enterprise Value (cr)	Rs.63,794
Outstanding Shares (cr)	21.3
Free Float	13.0%
Dividend Yield	0.4%
52 week high	Rs.3,140
52 week low	Rs.1,302
6m average volume (cr)	0.04
Beta	0.7
Face value	Rs.5

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	82.7	82.7	82.7
FII's	4.2	4.7	5.8
MFs/Insti	2.2	2.3	1.7
Public	9.1	8.3	8.0
Others	1.9	2.0	1.8
Total	100.0	100.0	100.0
Promoters pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	46.1%	80.7%	110.7%
Absolute Sensex	9.7%	3.3%	15.2%
Relative Return*	36.4%	77.4%	95.5%

*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	1,915	2,200	2,553
Growth (%)	9.0	14.9	16.1
EBITDA	1,206	1,650	1,912
EBITDA Margin (%)	63.0	75.0	74.9
Adj. PAT	931	1,265	1,528
Growth (%)	30.8	35.9	20.8
Adj. EPS	43.8	59.5	71.9
Growth (%)	26.8	35.9	20.8
P/E	35.0	50.5	41.8
P/B	10.6	16.1	12.8
EV/EBITDA	27.0	38.7	33.3
ROE (%)	30.3	33.6	30.6
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	498	480	3.7	504	(1.3)	1,002	952	5.3
EBITDA	391	265	47.4	396	(1.1)	787	533	47.7
EBITDA margins	78.6	55.3	2,330bps	78.5	10bps	78.5	56.0	2,250bps
Depreciation	12	3	305.9	12	4.9	24	6	329.3
EBIT	379	262	44.4	384	(1.3)	763	527	44.7
Interest	2	0	-	2	(0.4)	5	0	-
Other Income	51	35	46.6	48	5.6	99	65	53.4
Exceptional Items	-	-	-	-	-	-	-	-
PBT	428	297	43.8	430	(0.6)	857	592	44.9
Tax	59	91	(35.1)	138	(57.1)	197	181	9.3
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	368	206	78.8	292	26.2	660	411	60.5
Adjustments	(32)	-	-	(34)	-	(67)	-	-
Adjusted PAT	336	206	63.1	257	30.4	593	411	44.3
No. of shares	21.3	21.2	0.3	21.3	0.0	21.3	21.2	0.3
Adj. EPS (Rs)	15.8	9.7	62.7	12.1	30.4	27.9	19.4	43.9

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	-	-	2,200	2,553	-	-
EBITDA	-	-	1,650	1,912	-	-
Margins (%)	-	-	75.0	74.9	-	-
Adj. PAT	-	-	1,265	1,528	-	-
EPS	-	-	59.5	71.9	-	-



PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	1,480	1,757	1,915	2,200	2,553
% change	2.6	18.7	9.0	14.9	16.1
EBITDA	704	955	1,206	1,650	1,912
% change	5.5	35.6	26.3	36.8	15.9
Depreciation	(12)	(9)	(13)	(49)	(54)
EBIT	692	945	1,193	1,601	1,858
Interest	-	-	-	(9)	(23)
Other Income	108	113	182	180	161
PBT	800	1,058	1,375	1,790	2,042
% change	12.9	32.3	29.9	30.2	14.1
Tax	(250)	(347)	(444)	(458)	(515)
Tax Rate (%)	(31.2)	(32.8)	(32.3)	(25.6)	(25.2)
Reported PAT	550	711	931	1,332	1,528
Adj*	-	-	-	(67)	-
Adj PAT	550	711	931	1,265	1,528
% change	15.1	29.3	30.8	35.9	20.8
No. of shares (cr)	20.1	20.6	21.3	21.3	21.3
Adj EPS (Rs)	27.3	34.5	43.8	59.5	71.9
% change	15.1	26.3	26.8	35.9	20.8
DPS (Rs)	11.5	16.0	12.0	17.1	19.7
CEPS (Rs)	27.9	35.0	44.4	61.8	74.4

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	550	711	931	1,332	1,528
Non-cash adj.	(72)	(115)	63	76	78
Changes in W.C	(23)	22	(99)	72	(72)
C.F. Operation	455	618	894	1,479	1,533
Capital exp.	(14)	(17)	(18)	(66)	(77)
Change in inv.	(173)	(615)	(803)	(942)	(900)
Other invest.CF	10	(1)	44	(9)	(23)
C.F - Investment	(176)	(633)	(777)	(1,017)	(1,000)
Issue of equity	0	423	189	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(232)	(337)	(255)	(365)	(419)
Other finance.CF	(47)	(71)	(52)	(75)	(86)
C.F - Finance	(279)	15	(119)	(440)	(505)
Chg. in cash	0	1	(1)	22	28
Closing cash	1	2	32	54	82

BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	1	2	32	54	82
Accounts Receivable	85	90	83	88	89
Inventories	-	-	-	-	-
Other Cur. Assets	165	55	63	105	185
Investments	1,237	2,058	2,935	3,877	4,777
Gross Fixed Assets	92	27	38	104	181
Net Fixed Assets	23	22	26	43	65
CWIP	-	-	-	-	-
Intangible Assets	9	15	17	17	17
Def. Tax (Net)	9	-	-	-	-
Other Assets	71	231	68	42	42
Total Assets	1,600	2,472	3,224	4,226	5,258
Current Liabilities	96	115	49	59	68
Provisions	1	-	-	4	4
Debt Funds	-	-	-	-	-
Other Liabilities	80	102	103	201	201
Equity Capital	25	105	106	106	106
Reserves & Surplus	1,398	2,149	2,964	3,856	4,878
Shareholder's Fund	1,423	2,254	3,071	3,964	4,987
Minority Interest	-	-	-	-	-
Total Liabilities	1,600	2,472	3,224	4,226	5,258
BVPS (Rs)	71	109	144	186	235

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	47.6	54.3	63.0	75.0	74.9
EBIT margin (%)	46.8	53.8	62.3	72.8	72.8
Net profit mgn.(%)	37.2	40.5	48.6	60.5	59.8
ROE (%)	38.7	31.6	30.3	33.6	30.6
ROCE (%)	48.6	41.9	38.9	40.4	37.3
W.C & Liquidity					
Receivables (days)	21.0	18.8	15.8	14.6	12.8
Inventory (days)	-	-	-	-	-
Payables (days)	-	-	-	-	-
Current ratio (x)	8.5	10.1	20.5	15.9	19.1
Quick ratio (x)	8.5	10.1	20.5	15.9	19.1
Turnover & Leverage					
Gross asset T.O (x)	32.0	29.4	58.6	31.0	17.9
Total asset T.O (x)	1.0	0.9	0.7	0.6	0.5
Int. covge. ratio (x)	-	-	-	(175.2)	(79.4)
Adj. debt/equity (x)	-	-	-	-	-
Valuation					
EV/Sales (x)	-	-	17.0	29.0	25.0
EV/EBITDA (x)	-	-	27.0	38.7	33.3
P/E (x)	-	-	35.0	50.5	41.8
P/BV (x)	-	-	10.6	16.1	12.8

Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
6-Nov-19	HOLD	3,225

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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