

HDFC Asset Management Company Ltd

Industry	Financial
Bloomberg	HDFCAMC IN
BSE CODE	541729

Low AUM Growth,-Ve Other Income Dragged the Profitability

RATING	HOLD
CMP	2622
Price Target	2703
Potential Upside	3%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	3844/1550
Mkt Capital (Rs Cr)	55,804
Free float (%)	13%
Avg. Vol 1M (,000)	513
No. of Shares (Cr)	21
Promoters Pledged %	-

Fig in Rs cr

FINANCIAL	FY18	FY19	FY20
Net Sales	1757	1915	2003
EBITDA	955	1206	1572
EBIT	945	1193	1522
PAT	711	930	1263
EPS (Rs)	34	44	59
EPS gr(%)	-85%	30%	36%
ROE (%)	32%	30%	31%
ROCE (%)	42%	39%	38%
BV	107	144	189
P/B (X)	-	10.6	13.8
P/E (x)	-	35.1	44.2

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4QFY20 Result Update

- QAAUM grew by 8%/-3% YoY/QoQ with market share of 13.7% as at 4QFY20. Backed by fall in equity AUM due to the fall in the markets in March 2020. Equity oriented assets represented 38% of the total AUM (closing basis) in 4QFY20.
- Revenue degrew by 2%/9% YoY/QoQ mainly on the account Low AUM growth, fall in equity oriented assets as well as less fee income on PMS.
- Other income has declined to -ve 27 Cr in 4QFY20 as against Rs 67 Cr last quarter the reason being one time MTM impact of NCDs of Essel Group. On fair valuation of the said NCDs as at March 31, 2020, the unrealized loss recognized in the results for the year ended March 31, 2020 stands at Rs 1, 20.3 Cr as compared to Rs 25.1 Cr for the nine months ended December 31, 2019. The residual amount for the quarter created -ve Other Income.
- PAT degrew by 10%/29% YoY/QoQ mainly on the account of lower revenue and one off impact on other income.

AUM growth lowest against last 8 quarters

QAAUM grew by 8%/-3% YoY/QoQ mainly due to fall in equity oriented assets on the account of fall in markets. QAAUM in actively managed equity oriented funds i.e. equity oriented QAAUM excluding index funds stood at ₹1,57,400 Cr as on March 31, 2020 with a market share of 15.2%. Equity AUM composition to the total AUM declined to 38% in 4QFY20 as against 46% last quarter(closing AUM basis). This fall had impact on the revenue of the company as it being the high margin segment but management is optimistic of the recovery in equity AUM going ahead. As per the management after the recent event in Mutual Fund industry the debt investors are more or less moving to liquid and overnight funds.

Other income -ve adding to degrowth in PAT

PAT degrew by 10%/29% YoY/QoQ mainly on the account of lower revenue and one off impact on other income. As per the management there are two aspects to PAT growth going ahead: One is focus on equity oriented business as most of the revenues come from there and the second one is control on the OPEX going ahead. Other income has declined to -ve 27 Cr in 4QFY20 as against Rs 67 Cr last quarter the reason being one time MTM impact of NCDs of Essel Group. On fair valuation of the said NCDs as at March 31, 2020, the unrealized loss recognized in the results for the year ended March 31, 2020 stands at Rs 1, 20.3 Cr as compared to Rs 25.1 Cr for the nine months ended December 31, 2019. The residual amount for the quarter created -ve Other Income.

View and Valuation

AUM growth has been lowest in 4QFY20 as against that of in last 8 quarters almost. SIP book declined. Along with that company had performance issue in its larger funds causing the decline in market share. The fall in equity oriented AUM had impact on the revenue of the company as it being the high margin segment but management is optimistic of the recovery in equity AUM going ahead. The major focus remains on the equity oriented assets going ahead as it being high margin business. Operating expenses are expected to remain under control. On the account of macroeconomic factors(COVID-19 impact on the market) along with the performance of the company we decline our rating to HOLD from BUY. The stock is currently trading at 44x FY20 EPS. We maintain our target price at Rs 2703.

Key Risks to our rating and target

- AAUM growth trend
- Macroeconomic conditions may have an impact on the company.
- Equity flows.

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4Q FY20 Results

PAT Below estimates

Financials	fig in Rs cr									
	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	FY19	FY20	YoY %
Net Sales	487	504	498	525	476	-2.1%	-9.3%	1,915	2,003	4.6%
Other Income	61	48	51	67	(27)	NA	NA	182	140	-22.8%
Empl. Cost	48	57	58	57	43	-9.4%	-24.4%	206	215	4.1%
Other Exp.	48	42	41	48	46	-4.7%	-4.2%	223	195	-12.3%
EBITDA	357	396	391	414	372	4.1%	-10.3%	1,206	1,572	30.4%
EBITDA Mar.	73%	78%	79%	79%	78%	6.4%	-1.2%	1	1	24.6%
Depreciation	3	12	12	13	13	285.9%	5.9%	13	50	292.2%
EBIT	354	384	379	402	358	1.3%	-10.8%	1,193	1,522	27.6%
Interest	-	2	2	2	2	NA	0.5%	-	9	NA
PBT	415	430	428	467	330	-20.5%	-29.4%	1,375	1,653	20.3%
Excep. Item	-	-	-	-	-	-	-	-	-	-
Tax	138	138	59	113	80	-42.4%	-29.7%	444	391	-12.0%
PAT	276	289	368	354	250	-9.6%	-29.4%	930	1,263	35.7%
PAT Margin	57%	57%	74%	67%	52%	-7.7%	-22.2%	49%	63%	29.8%

Concall Highlights:

- Mutual fund industry reported AUM growth of 10% for the period one year ended March 2020, while equity oriented AUM grew by 7% YoY.
- The company had decline in market share from 14.3% to 13.7% QoQ in 4QFY20 the reason being fall in equity markets in March 2020 as Nifty 50 declined by 23% in March 2020.
- Other income has declined to -ve 27 Cr in 4QFY20 as against Rs 67 Cr last quarter the reason being one time MTM impact of NCDs of Essel Group. On fair valuation of the said NCDs as at March 31, 2020, the unrealized loss recognized in the results for the year ended March 31, 2020 stands at Rs 1, 20.3 Cr as compared to Rs 25.1 Cr for the nine months ended December 31, 2019. The residual amount for the quarter created -ve Other Income.
- Equity AUM composition to the total AUM declined to 38% in 4QFY20 as against 46% last quarter(closing AUM basis). This fall had impact on the revenue of the company as it being the high margin segment but management is optimistic of the recovery in equity AUM going ahead.
- Almost all the operations of the company are operational in the lockdown as well through digital medium.
- As per the management after the recent event in Mutual Fund industry the debt investors are more or less moving to liquid and overnight funds.
- Other expenses grew QoQ from Rs 46 Cr to Rs 60 Cr on the account of one off impact of settlement of Essel NCDs. This has been Rs 9 Cr which has been paid to FMP investors as interest.
- As per the management there are two aspects to PAT growth going ahead: One is focus on equity oriented business as most of the revenues come from there and the second one is control on the OPEX going ahead.
- The revenues declined by almost 10% QoQ the reason being decline in equity AUM as well as good performance o advisory mandates last quarter which was not there this quarter. PMS income includes one regular fee component and another one performance fee which has been high last quarter as against this quarter.
- The investment book stood at Rs 3944 Cr as at the end of FY20 .there is minimal exposure of Rs 100-125 Cr to equity here.
- On the expenses front there are some discretionary expenses and employee expenses as well which can be rationalized to keep the cost under control
- On the dividend payout front the company is expected to take conservative stance going ahead.
- The market share in equity AUM declined to 15% from 16% last quarter (closing AUM basis).
- If equity AUM falls the TER comes in the lower bracket as a result of which the company can charge little high to the customer. The applicable TER goes up marginally as per SEBI guidelines. Accordingly in the month of April there is fall in the AUM so there is marginal increase in TER which the company will be able to charge. So there will be marginal improvement on the margins due to increase in chargeable TER.
- The company continues to see the new flows to SIP.

Exhibit: MF QAAUM Growth

MF QAAUM growth remained low in 4QFY20 fall came from Equity AUM.

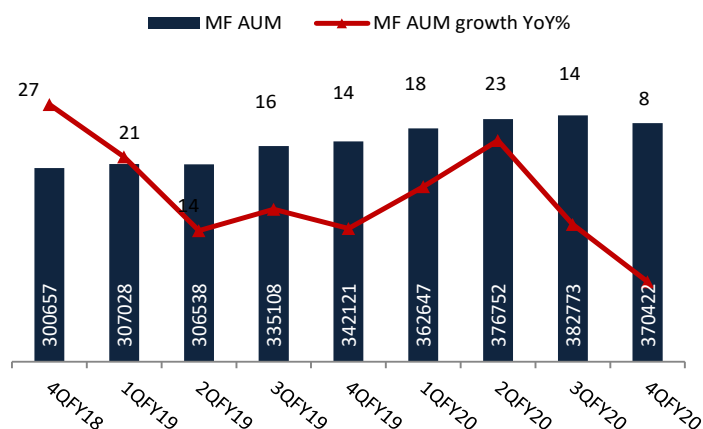


Exhibit: MF AUM Breakup

Equity AUM growth has been low.

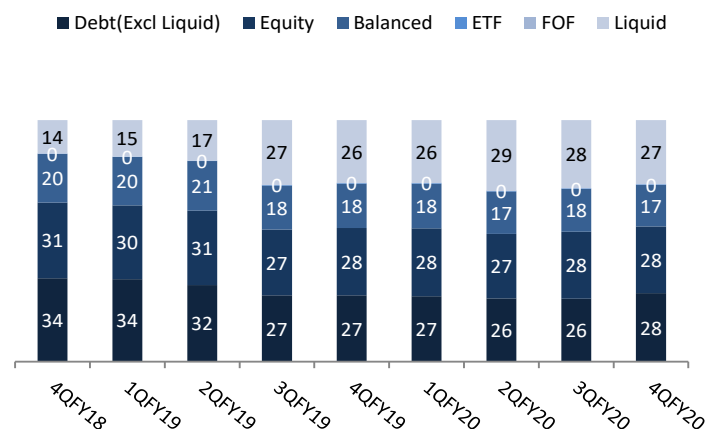


Exhibit: Distri.Channel mix

Direct channel(Total AUM basis) has increased in the channel mix.

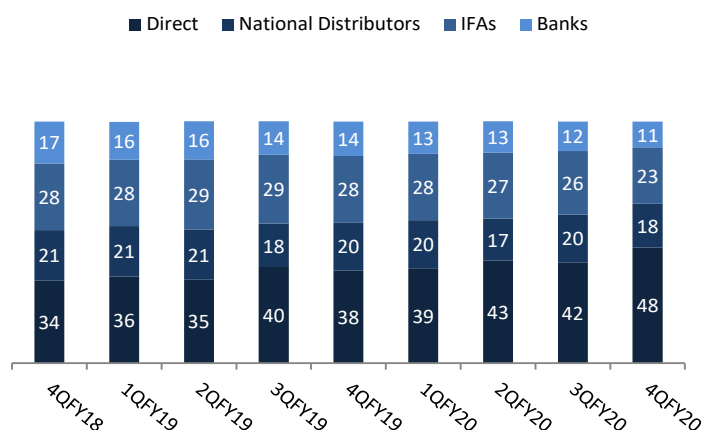


Exhibit: Distri.Channel mix(Equity AUM)

Composition of IFAs in channel mix declined QoQ

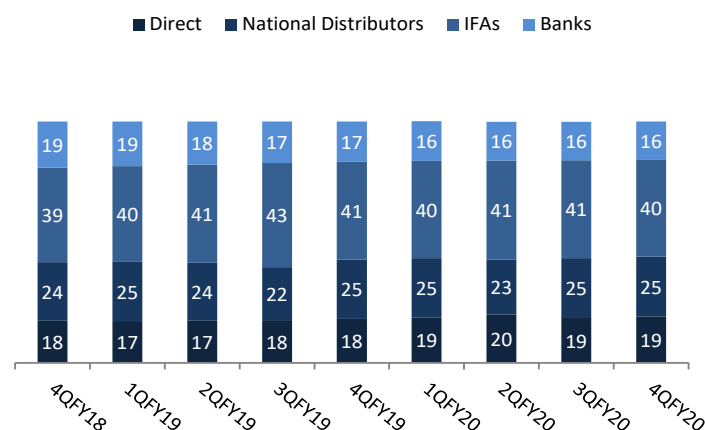


Exhibit: SIP Book Growth

SIP book decline in 4QFY20 but expected to recover.

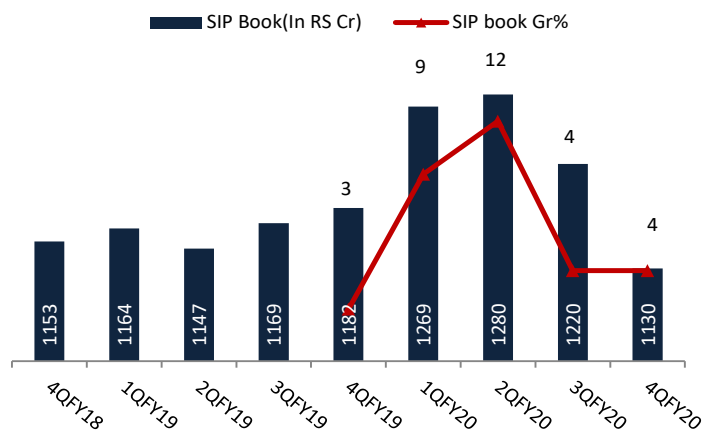


Exhibit: Mgmt Fee as% AUM

Fall in Equity oriented assets contributing to this decline

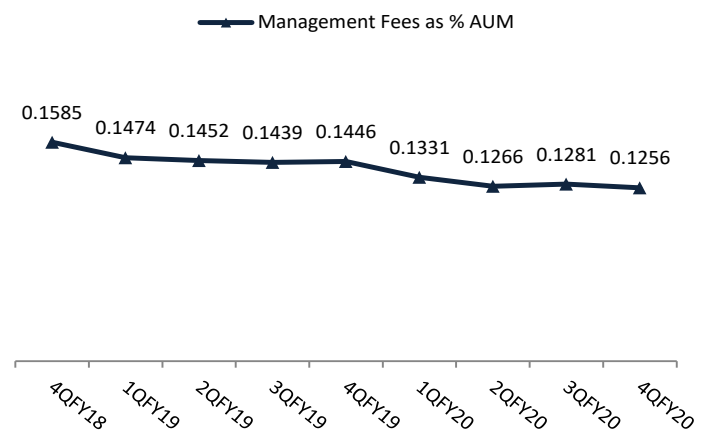


Exhibit: Revenue Growth

Revenue decline due to fall in equity AUM

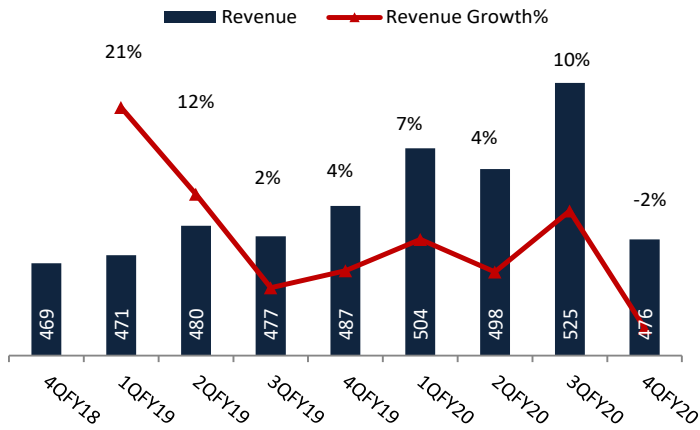


Exhibit: PAT Growth

PAT degrew YoY due to low revenue and -ve other income.

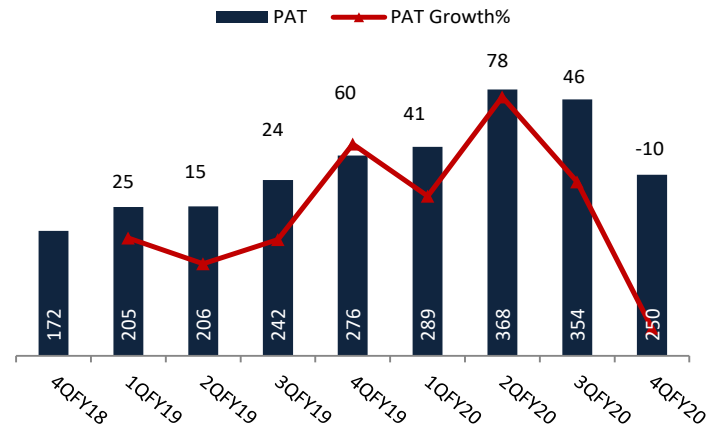


Exhibit: Margin Performance

Margins declined QoQ

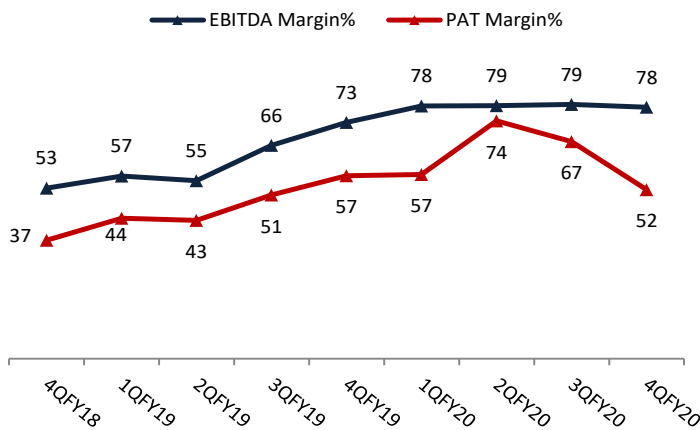
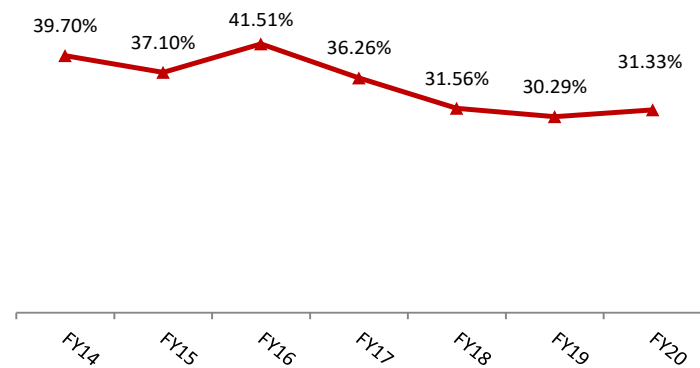


Exhibit: Return Ratios

ROE improved in FY20



Financial Details

Balance Sheet

Fig in Rs cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital		25	25	25	25	105	106	106
Reserves		876	1095	1126	1492	2149	2964	3923
Networth		901	1120	1151	1517	2254	3071	4029
Debt		0	0	0	0	0	0	0
Other Non Cur Liab		15	15	15	13	40	40	54
Total Capital Employed		916	1135	1166	1530	2294	3111	4084
Net Fixed Assets (incl CWIP)		28	34	32	28	37	43	161
Non Cur Investments		130	162	160	0	0	0	0
Other Non Financial Asst		0	0	0	188	218	48	27
Non Curr Assets		291	384	303	251	287	126	242
Inventory								
Debtors		15	17	39	92	103	103	65
Cash & Bank		1	3	1	1	2	32	27
Other Financial Assets		101	171	82	11	22	28	30
Curr Assets		830	928	1119	1443	2185	3098	4066
Creditors		148	95	172	96	112	47	47
Provisions		15	15	15	1	1	1	7
Other Financial Liab		57	82	85	68	67	66	178
Curr Liabilities		205	177	256	164	178	113	225
Net Curr Assets		625	751	863	1279	2007	2985	3841
Total Assets		1121	1312	1423	1694	2472	3224	4309

Income Statement

Fig in Rs cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue from Operation		859	1,022	1,443	1,480	1,757	1,915	2,003
Change (%)		0%	19%	41%	3%	19%	9%	5%
EBITDA		486	591	668	704	955	1,206	1,572
Change (%)		0%	22%	13%	5%	36%	26%	30%
Margin (%)		57%	58%	46%	48%	54%	63%	78%
Depr & Amor.		8	10	11	12	9	13	50
EBIT		478	581	656	692	945	1,193	1,522
Int. & other fin. Cost		-	-	-	-	-	-	9
Other Income		45	42	52	108	113	182	140
EBT		522	623	708	800	1,058	1,375	1,653
Exp Item		-	-	-	-	-	-	-
Tax		165	207	230	250	347	444	391
Minority Int & P/L share of Ass.		-	-	-	-	-	-	-
Reported PAT		358	416	478	550	711	930	1,263
Adjusted PAT		358	416	478	550	711	930	1263
Change (%)		0%	16%	15%	15%	29%	31%	36%
Margin(%)		42%	41%	33%	37%	40%	49%	63%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE		40%	37%	42%	36%	32%	30%	31%
ROCE		53%	52%	57%	46%	42%	39%	38%
Asset Turnover		31	30	45	53	48	45	12
Debtor Days		7	6	10	21	19	16	15
Payable Days		63	34	44	24	23	9	9
Int Coverage		-	-	-	-	-	-	169
P/E		-	-	-	-	-	35	44
P/B		-	-	-	-	-	11	14
EV/EBITDA		-	-	-	-	-	27	35

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
PBT		522	623	708	800	1,058	1,375	1,653
(inc)/Dec in Working Capital		(115)	(293)	306	4	(9)	69	94
Non Cash Op Exp		8	10	11	12	9	13	50
Int Paid (+)		-	-	-	-	-	-	9
Tax Paid		(167)	(212)	(235)	(258)	(337)	(450)	(405)
others		(39)	(33)	(48)	(103)	(103)	(113)	(117)
CF from Op. Activities		209	95	742	455	618	894	1,285
(inc)/Dec in FA & CWIP		(17)	(16)	(9)	(14)	(17)	(18)	(30)
Free Cashflow		192	79	733	441	601	877	1,255
(Pur)/Sale of Inv		(40)	108	(301)	(173)	(615)	(803)	(947)
others		7	11	13	10	(1)	44	49
CF from Inv. Activities		(51)	104	(297)	(176)	(633)	(777)	(928)
inc/(dec) in NW		(11)	-	(204)	0	423	189	16
inc/(dec) in Debt								
Int. Paid								
Div Paid (inc tax)								
Tax paid		(21)	(33)	(41)	(47)	(69)	(52)	(52)
Div Paid (inc tax)		(126)	(164)	(201)	(232)	(337)	(255)	(255)
CF from Fin. Activities		(159)	(197)	(447)	(279)	15	(119)	(332)
Inc(Dec) in Cash		0	2	(2)	0	1	(1)	26
Add: Opening Balance		1	1	2	1	1	2	1
Closing Balance		1	2	1	1	2	1	27

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