India Asset Management Companies

Structural growth factors intact

The Indian mutual fund industry has several structural factors in place which will lead to its multi-year growth. The Indian MF industry AUM as a share of GDP (11%) remains significantly lower than the world average (62%). While Indian household savings as a percentage of GDP have declined over the recent past, RBI data indicate that households are moving higher shares of their savings to financial assets. This provides scope for strong future industry AUM growth. Significant recent regulatory changes such as revised expense ratios will lower costs for mutual fund investors and should aid in greater retail participation. Furthermore, industry Systematic Investment Plan (SIP) flows have seen high growth over the last five years and should be a strong driver for MF AUM growth. We initiate coverage on HDFC Asset Management Company (HDFC AMC) and Reliance Nippon Life Asset Management (RNAM) with BUY ratings.

India MF industry AUM to GDP much lower than world average

India remains a large untapped market. Indian MF industry AUM as a percentage of GDP rose from 5.6% in FY00 to 11% in CY18. This is significantly lower than the world average of 62% and also lower than those of developed economies such as US (113%), Canada (90%), France (75%), UK (62%), Germany (58%), Japan (36%) and China (13%), and also of Thailand (29%). Furthermore, unique mutual fund investor count in the industry is still only ~20mn. This low penetration provides scope for strong future growth.

Household savings moving to investments

As a percentage of GDP, household savings have dropped from ~34% in FY12 to ~30% in FY18. Though, RBI data indicate that households are moving higher shares of their savings to financial assets. Household investments in financial assets have grown at 14.1% CAGR from FY15-FY19. MFs are becoming a key investment vehicle as funds are moving from cash and deposits into investment products.

SIPs growing rapidly; Recent regulatory changes could boost retail investor base

MF AUM as a share of bank deposits has grown from 16% to 19% over FY16-FY19. Retail investors' share in industry AUM has been rising and steady retail flows should, to an extent, shield the industry from cyclical fluctuations in the markets. SIPs, with flows having doubled over the last five years, are poised to be a strong growth driver for equity mutual funds. Regulatory change to lower Total Expense Ratio (TER) on industry AUM will lower costs for mutual fund investors and should aid in greater retail participation.

HDFC AMC and RNAM - Valuations, View, and Key Risks

We initiate with BUY ratings on both HDFC AMC and RNAM. HDFC AMC is the largest AMC in India. We believe it is likely to see earnings compounding given high brand equity of the HDFC group, strong pan-India distribution network, operational efficiency, focus on the higher-yield equity segment, and consistent fund performance over the past, which have led to the company's healthy AUM growth at highly profitable levels. RNAM is the fifth largest AMC in India. It is focused on building granular retail AUM via presence in B30 cities (beyond top 30 cities), through a large distribution network of independent financial advisors (IFAs). Nippon Life Insurance of Japan recently completed acquisition of the previous promoter's (Reliance Capital) stake. In our opinion, the Nippon Life brand is likely to aid RNAM in getting better flows from domestic corporates and the offshore segment going forward.

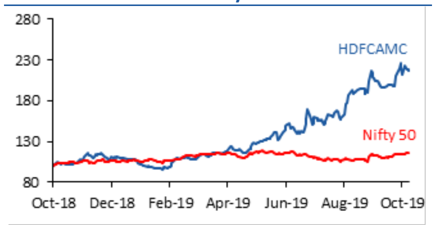
We value HDFC AMC and RNAM on price to earnings. We value HDFC AMC at 48.1x FY21E P/E resulting in a target price of Rs 3447 (15.1% upside). We value RNAM at 40.8 FY21E P/E resulting in a target price of Rs 421 (16.3% upside). Risks for both companies include reduction in financial savings rate, potential negative news on the brands, and underperformance of schemes.

Initiating Coverage
India I AMCs
2 November 2019

NIFTY 50: 11891
BSE Sensex: 40165

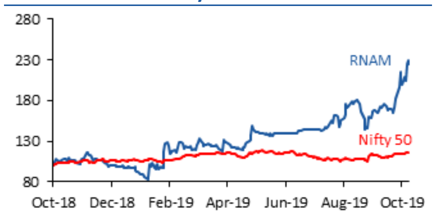
Institutional Research

HDFC AMC relative to Nifty 50



Source: Bloomberg

RNAM relative to Nifty 50



Source: Bloomberg

Company	Rating	CMP	Target	Upside %
HDFC AMC	Buy	2994	3447	15.1
RNAM	Buy	362	421	16.3

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Valuation Sheet

Valuation comparison

Company	Mkt Cap Rs bn	CAGR FY19-FY21E (%)			PE (x)			P/B (x)			RoE (%)		
		Revenue	Core Profit	PAT	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
HDFC AMC	631.0	11.2	20.4	28.0	33.9	35.3	41.8	10.3	12.9	15.6	35.0	39.1	40.1
RNAM	217.8	-0.4	14.3	13.9	25.1	29.9	35.1	4.8	5.5	8.3	19.5	18.6	23.8

Source: Company, Centrum Research estimates

HDFC AMC

Market Data

Bloomberg:	HDFCAMC IN
52 week H/L:	Rs3140/1302
Market cap:	Rs631bn
Shares outstanding:	213mn
Free float:	13.9%
Avg. daily vol. 3mth:	457,995

Source: Bloomberg

Shareholding pattern

	Sep-19	Jun-19	Mar-19	Dec-18
Promoter	82.7	82.7	82.7	82.8
FIIs	5.8	4.7	4.2	3.9
DIIs	1.0	1.1	1.1	1.1
Public/others	10.6	11.5	12.1	12.2

Source: BSE

HDFC AMC versus NIFTY 50

	1m	6m	1 year
HDFCAMC IN	8.2	75.2	108.7
NIFTY 50	4.7	1.2	14.5

Source: Bloomberg, NSE

RNAM

Market Data

Bloomberg:	RNAM IN
52 week H/L:	Rs373/120
Market cap:	Rs218bn
Shares outstanding:	612mn
Free float:	40.5%
Avg. daily vol. 3mth:	2,327,001

Source: Bloomberg

Shareholding pattern

	Sep-19	Jun-19	Mar-19	Dec-18
Promoter	79.3	75.0	85.8	85.8
FIIs	4.6	7.5	3.0	2.7
DIIs	4.2	3.9	3.8	4.4
Public/others	11.9	13.6	7.5	7.1

Source: BSE

RNAM versus NIFTY 50

	1m	6m	1 year
RNAM IN	33.9	79.8	110.0
NIFTY 50	4.7	1.2	14.5

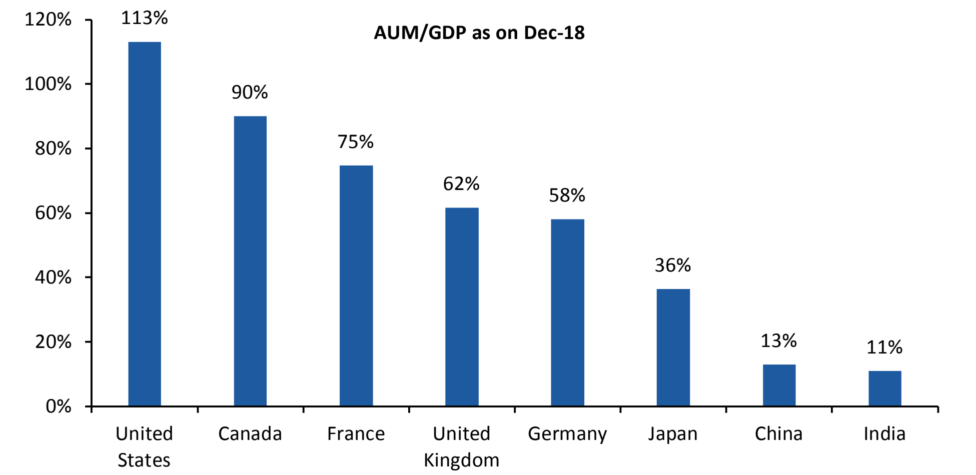
Source: Bloomberg, NSE

India Asset Management Industry

Underlying growth opportunity

Indian mutual fund industry AUM as a share of GDP rose from 5.6% in FY00 to 11% in CY18. However, the industry still has tremendous potential for growth, considering India is a large untapped market (unique mutual fund investors in the Industry are still only ~20mn - compared to India's population of over 1.3bn). India's AUM to GDP is significantly lower than the world average of 62% and also lower than many developed economies like US (113%), Canada (90%), France (75%), UK (62%), Germany (58%), Japan (36%) and China (13%), and also of Thailand (29%). This relatively low penetration provides a large scope for strong growth ahead.

Fig 1: India: Mutual fund AUM as a percentage of GDP

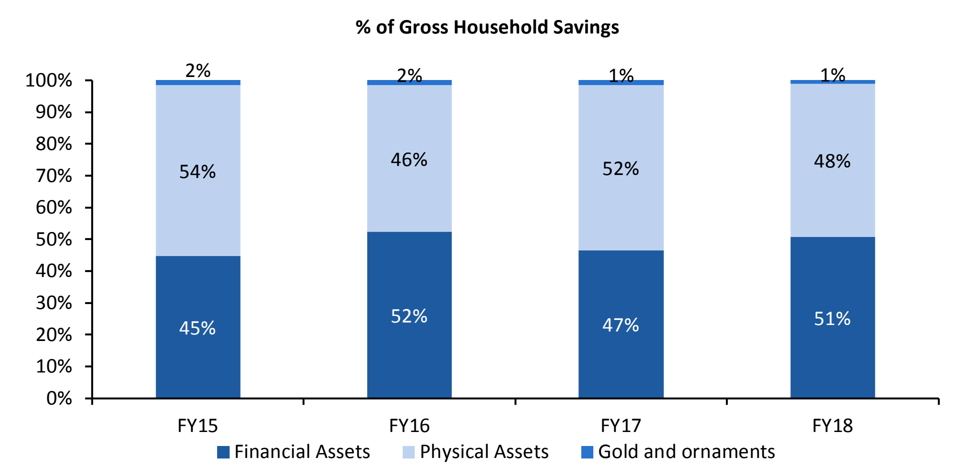


Source: ICI, World Bank

India's Household Savings

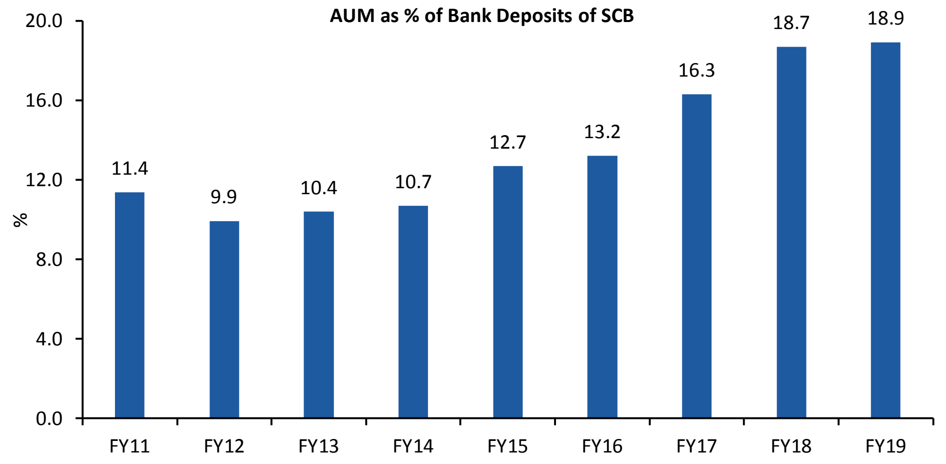
While India's overall household savings (as a % of GDP) have been on a declining trend since FY 2011-12, the bulk of the decline is attributable to fall in physical savings rather than financial savings. The decline in household physical savings is responsible for a majority of the total fall in household savings since FY 2011-12 while financial savings has been relatively more stable. The main reason behind this appears to be falling or stagnating returns in real estate and gold as opposed to higher returns in equity and debt markets. As of FY18, gross financial savings is about 51% of the total household savings with headroom to grow even further driven by a structural decline in inflation and ongoing formalization of the economy. Within financial assets, the share of non-bank deposit instruments like mutual funds and insurance are on the rise.

Fig 2: Household Financial Savings have been more stable than Physical Savings



Source: RBI Handbook FY18

Fig 3: Share of MF AUM to total deposits of Scheduled Commercial Banks over last 9 years



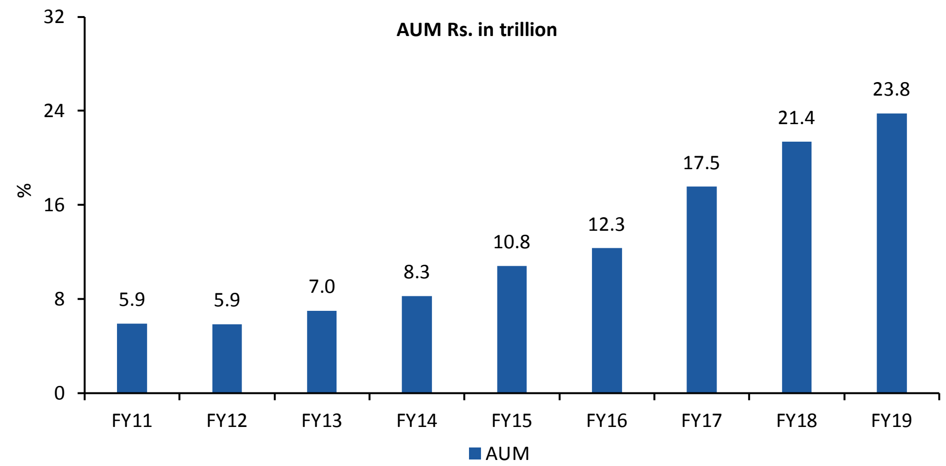
Source: RBI

MF AUM as a share of bank deposits has grown from 13% to 19% in the last four years.

High long-term-average growth in mutual funds AUM

The mutual funds industry history in India started in 1963 with the formation of the first mutual fund - Unit Trust of India (UTI). The number of MF houses increased to 33 in 2000 with total assets of ~Rs. 1.2 trillion. Since then, despite being subject to cyclical factors, (i.e. performance of capital markets in equity segment and the interest rate cycle in debt segment), but supported by various regulatory measures as well as investor education initiatives, the mutual fund industry has witnessed healthy growth with AUM of ~Rs. 25.6 trillion as of end-September 2019; implying ~17% CAGR for nearly two decades. From a more recent starting point (FY11) also, overall MF AUM growth has shown a strong performance with through-the-cycle overall MF AUM CAGR (FY11 - FY19) of 19%.

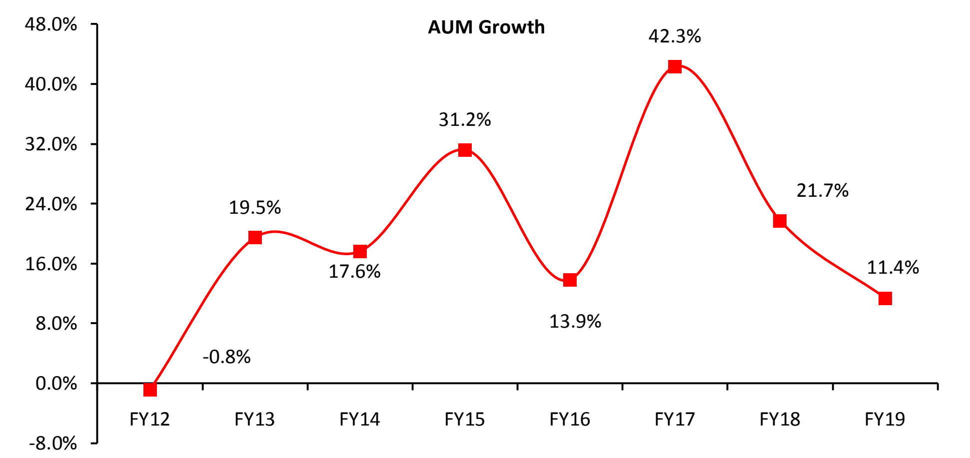
Fig 4: Industry Overall MF AUM growth



Source: AMFI, Centrum Research

Mutual fund flows rose sharply over FY12-18. Factors broadly responsible for these were that inflation was largely controlled, as also the outperformance of the capital markets and measures taken by the government to formalise the economy (e.g. demonetization) leading to financialisation of savings: flowing from real estate and gold to mutual funds.

Fig 5: Industry AUM Growth

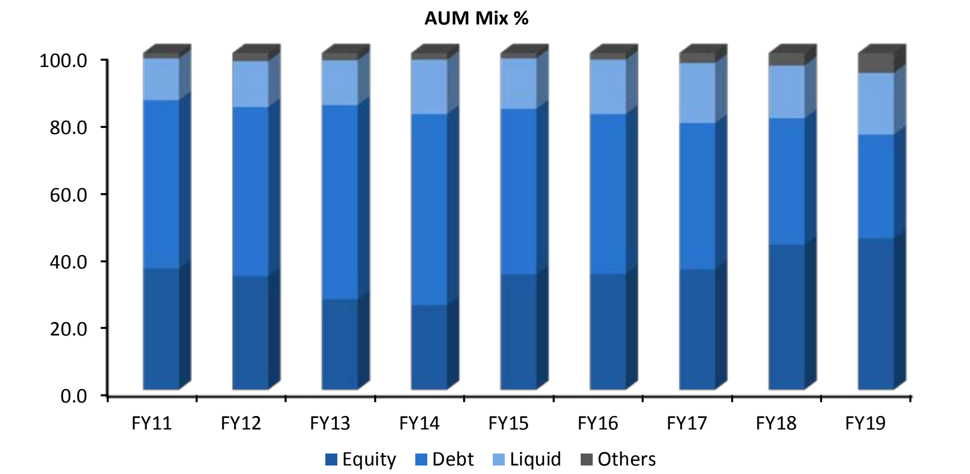


Source: AMFI, Centrum Research

Growth rate softens in FY19 and FY20YTD

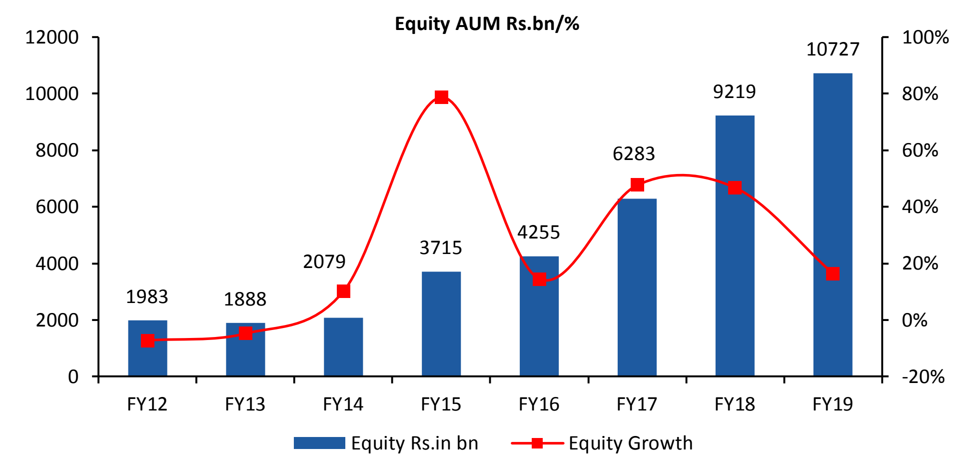
Since the beginning of FY19, increased volatility in the capital markets resulted in a softening of MF AUM growth. Overall MF AUM (on quarterly avg basis) grew only 5.8% YoY for the 12 months ended September 2019. Equity MF AUM for the 12 months ended Sept 2019 improved 12% YoY, while debt funds were down 28% YoY for the same period. Liquid Funds were up while Others (ETF, Index and fund of funds) were up 62%.

Fig 6: Debt funds AUM shrank in FY19



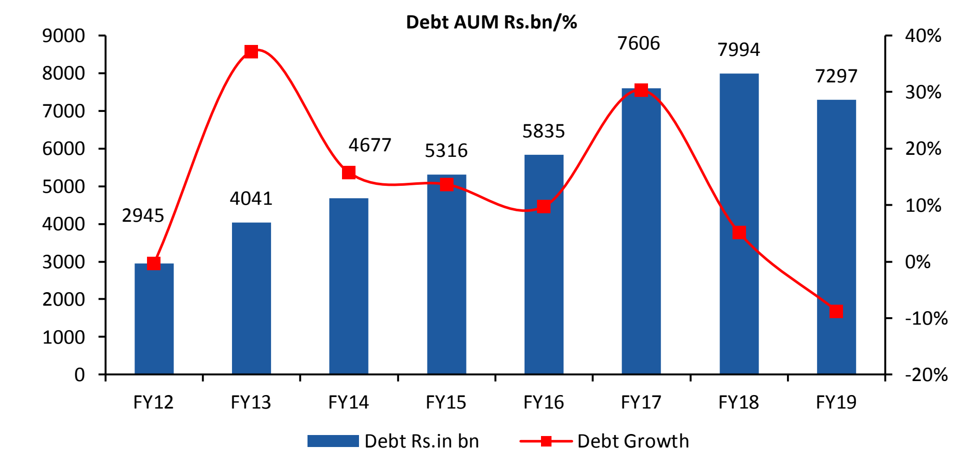
Source: AMFI, Centrum Research

Fig 7: FY19: Industry Equity MF AUM growth softens



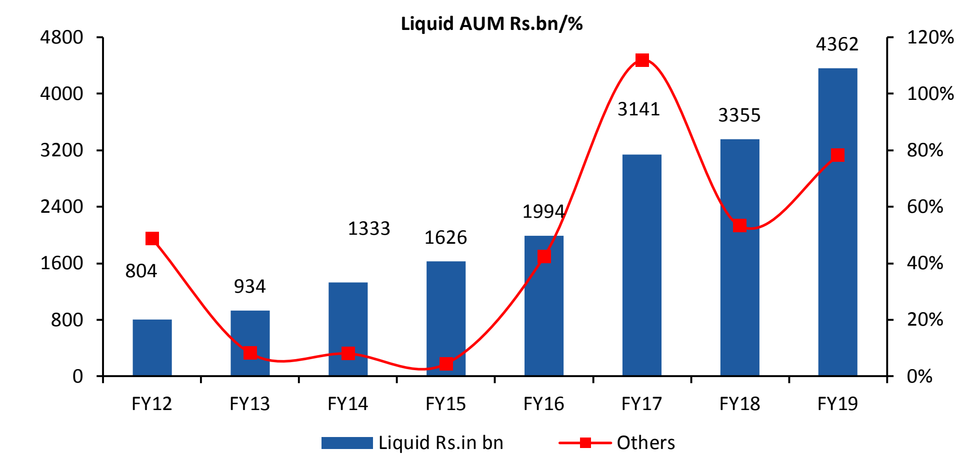
Source: AMFI, Centrum Research

Fig 8: Debt MF AUM witnesses a decline



Source: AMFI, Centrum Research

Fig 9: Liquid MF AUM witnesses sharp uptick in FY19



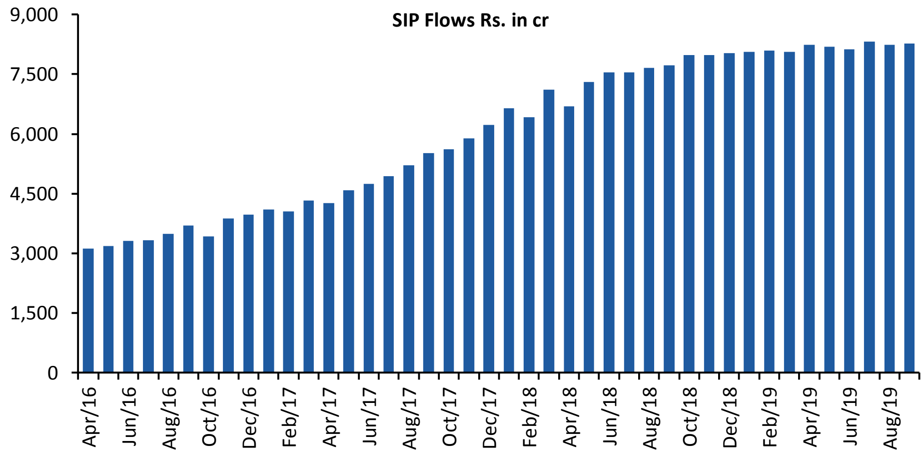
Source: AMFI, Centrum Research

Equity inflows have softened but SIPs continue to be strong

Net inflows in the equity segment, which were healthy in FY18 at ~Rs 2.6trn, witnessed a decline in FY19 to ~Rs1.1 trn, on the back of volatility in the equity market. Equity MF flows slowed down in FY19 with average monthly net inflows declining to ~Rs 100bn as compared to the all-time high average monthly net inflows of ~Rs 210bn over FY2018.

However, SIP inflows have remained robust, netting monthly average inflows of Rs 81bn over FY19. Monthly SIP inflows have shown a steady uptrend over the last few years increasing to Rs 81bn in FY19. SIP inflows have been growing from Rs 31bn per month in April 2016 to Rs 82bn in September 2019. In FY19, SIP inflows constituted ~33% of total gross inflow.

Fig 10: MFs AUM growth supported by sticky SIP flows



Source: AMFI, Centrum Research

Given ease of transacting using technology, gradually increasing risk appetite among retail investors, and low average ticket size, momentum of SIP flows is likely to remain intact, which will support overall accretion in AUM.

Debt funds provide higher yield potential

Debt funds generally tend to provide higher yields when compared to FD returns provided by banks.

Fig 11: FD Rates of top banks

	HDFC Bank	SBI	Kotak	Axis	BOB	ICICI
upto 1Y	6.9%	5.8%	6.8%	6.8%	6.5%	6.5%
1Y-2Y	6.8%	6.5%	6.8%	7.2%	6.6%	6.8%
2Y-3Y	7.1%	6.3%	6.8%	7.0%	6.5%	7.1%
3Y-5Y	7.0%	6.3%	6.5%	7.0%	6.3%	7.0%
5Y to 10Y	7.0%	6.3%	6.3%	6.8%	6.3%	7.0%

Source: Company, Centrum Research

Investments in debt funds benefit from lower taxation on long-term capital gains: Unlike bank FDs which are taxed at marginal income tax slab rates, long-term capital gains (for a holding period >3 years) arising out of investments in debt funds enjoy the benefit of lower taxation at 20% (with indexation benefit). Given the higher return potential and lower tax incidence in case of debt funds, there is an industry-wide opportunity for improvement in penetration of debt funds.

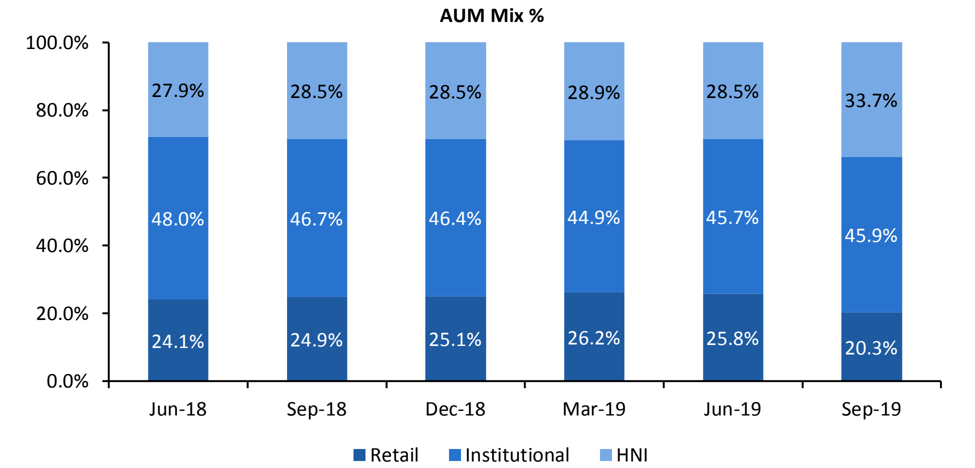
Investor profile of the industry

Individual (HNI + retail) investor AUM share increased from 44% in FY14 to 55% in FY19. On the other hand, the institutional investor share in industry assets gradually declined from 56% in FY14 to 45% in FY19. A surge in individual investor investments has aided the growth in their share of AUM, which was at Rs 13.5 trillion at March 2019.

Rise in individual investors to boost equity AUM

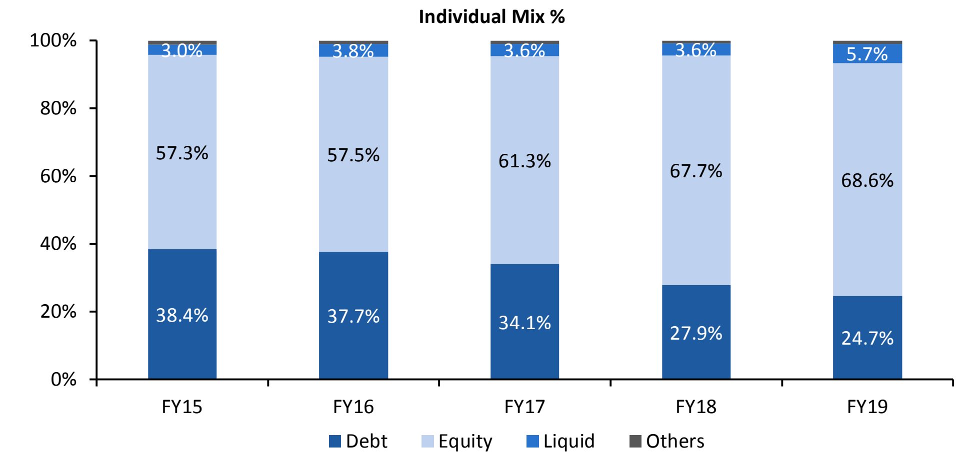
The industry witnessed faster growth in the recent past with AUM growth at ~23.6% CAGR from FY14-FY19. Traction in FY17 was highest at ~42% followed by ~22% in FY18 and ~11% in FY19. Greater participation from individual investors led to higher growth in equity AUM at ~39% CAGR in the FY14-19 period, followed by the liquid AUM segment at ~27% CAGR. The individual participation in mutual fund AUM increased from 44% in FY14 to 55% in FY19. The rising preference of individuals for investing in equity schemes augurs well for the growth of equity proportion in the AUM.

Fig 12: Institutional contribution to industry AUM softened in FY19



Source: AMFI, Centrum Research

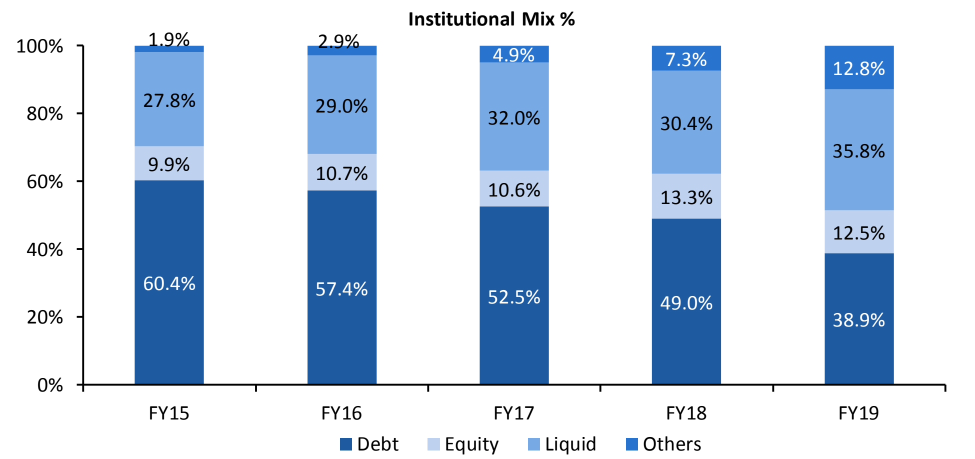
Fig 13: Individual investors' allocation to equity is increasing



Source: AMFI, Centrum Research

AUM flows from individual investors have witnessed the fastest growth among investor categories. With the recent surge in individual investors' participation in mutual funds, they have shown a growing preference for equity-oriented funds.

Fig 14: Institutional investors' allocation to liquid & other funds going up



Source: AMFI, Centrum Research

Institutional investor AUM has witnessed a general slowdown in allocation to debt funds, while exhibiting growth in the liquid & other funds categories.

Product distribution

Still agency driven…

There are four main distribution channels for mutual funds in the country:

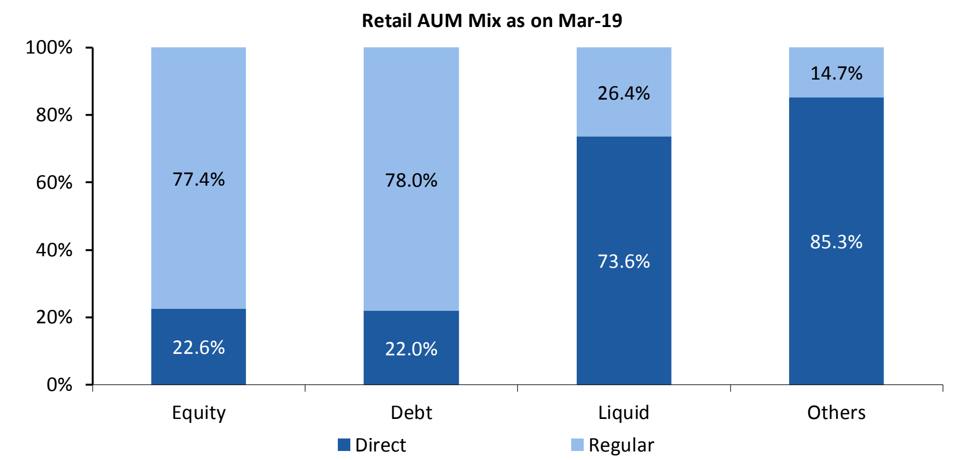
- **Banks,**
- **National distributors,**
- **Independent financial advisors (IFAs) and**
- **Other empanelled distributors.**

Given the large network and individual clientele, banks form an important channel for distribution of mutual funds.

…Though direct route gaining ground, boosted by the ease of access in the online channel

In 2012, SEBI mandated AMCs to provide a separate plan for direct investments (direct plans), i.e., investments not routed through a distributor. These plans were mandated to have a lower expense ratio excluding distribution expenses, commission, etc. and have since been contributing consistently to AUMs. AMCs started offering direct plans since 2013, and institutional investors were quick to accept this route.

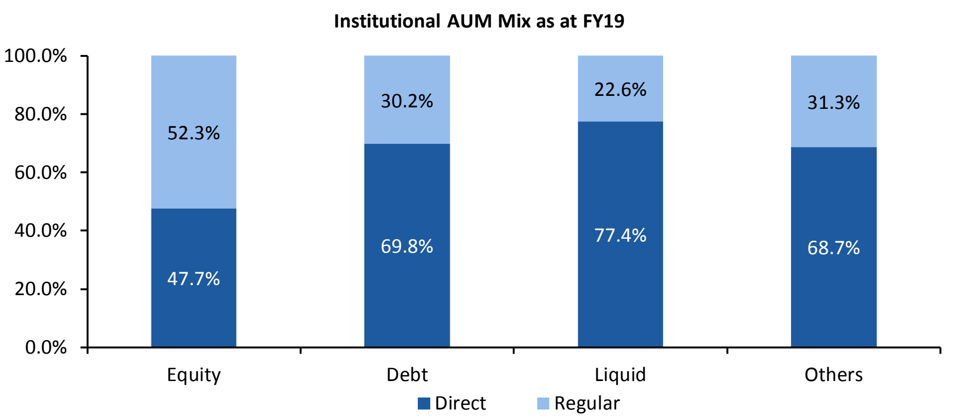
Fig 15: Direct channels still form low share of individuals' equity & debt AUM…



Source: AMFI, Centrum Research

Assets under the direct plan have grown at an annualised 27.1% between March 2014 and March 2019 to Rs 10.4tn. The share of direct plans' AUM has risen to 41% from 35% of the industry AUM over FY14-FY19**.** The integration of user interface through online channels has provided an additional push for growth in direct-plan assets.

Fig 16: …whereas direct route is predominant in institutional AUM Mix

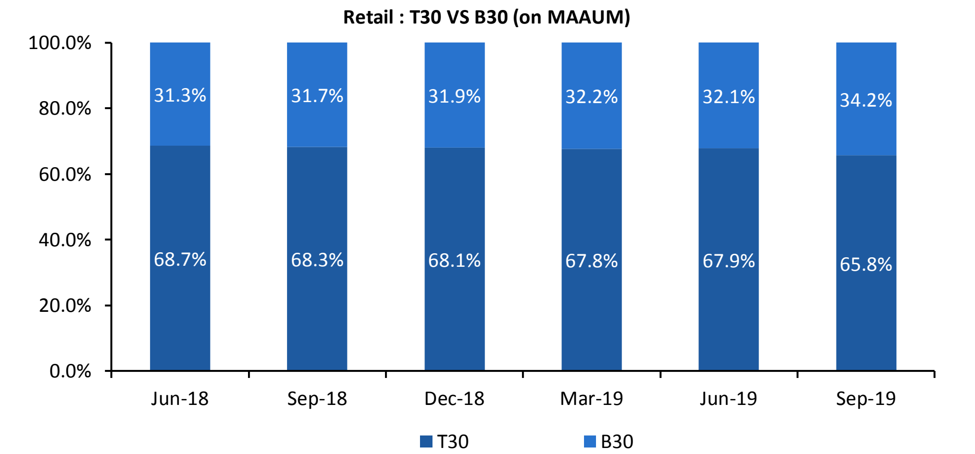


Source: AMFI, Centrum Research

Continued focus on increasing penetration beyond major cities

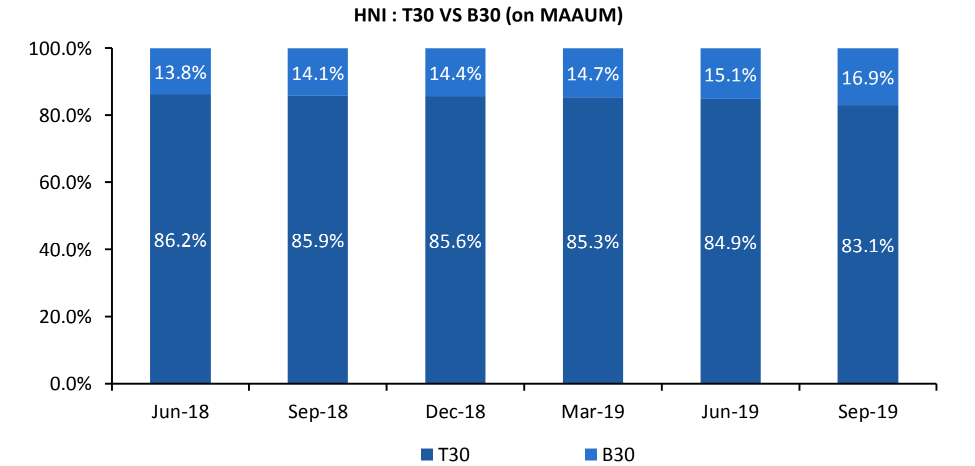
In the mutual fund industry, the top 30 (T30) cities account for ~84.4% of AUM at September 2019. Nearly two-third (~62%) of AUM is contributed by top five cities while the top 15 cities comprise ~75% of AUM. Though T30 cities have a major share of AUM, smaller cities are the likely way forward for supporting incremental business; the share of B30 (beyond top 30) cities has increased from 14.1% in June 18 to ~15.6% in September 2019. This rise is attributable to a lower base, push by distributors, and rising penetration led by improvement in technology and access to data.

Fig 17: Retail share in B30 seeing improvement…



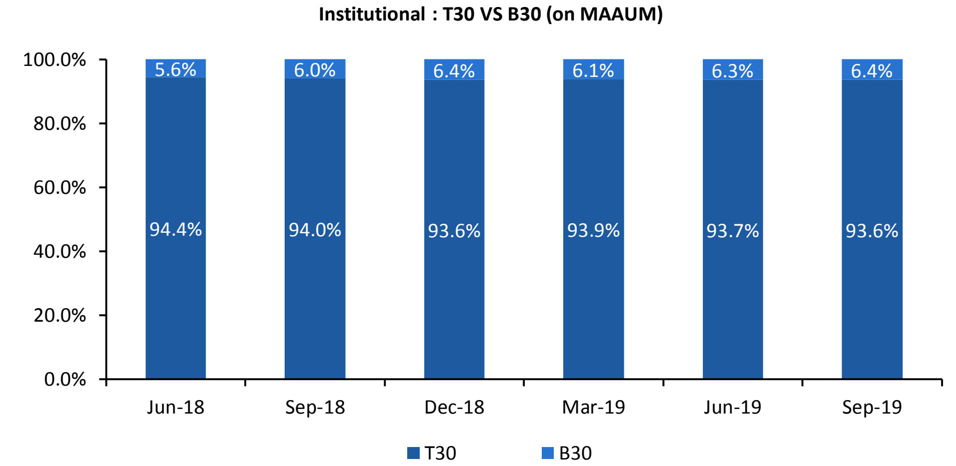
Source: AMFI, Centrum Research

Fig 18: …same is the case for HNI share in B30



Source: AMFI, Centrum Research

Fig 19: Institutional AUM has stayed high in T30.



Source: AMFI, Centrum Research

Asset Management business model likely to remain sustainable

The asset management industry in India has been in existence for multiple decades. However, it was only after enactment of mutual funds regulations by SEBI in 1996 that the industry witnessed healthy growth for over two decades. Performance of the asset management industry is primarily based on AUM. This, in turn, is an outcome of net inflows and asset pricing.

In our opinion, inflows over the next 5-7 year period are likely to be reasonable, especially in the equity segment, led by rising preference for financial assets within household savings, increasing risk appetite, more access to information, and increasing reach of AMCs in smaller cities and towns. Rising AUM and the regulator's effort to lower cost for customers is seen bringing down the total expense ratios on AUM for the industry over the long-term. Overall AUM growth with favourable mix and continued focus on improving operational efficiency in the industry makes it likely that earnings growth in the industry will continue.

Industry to remain dominated by top AMCs; consolidation likely to continue

The mutual fund industry continues to remain concentrated. At September 2019, the number of active AMCs was 44, while the AUM share of the top five and top 7 fund houses was ~59% and ~71%, respectively, as of Sept 2019 (basis QAAUM).

Fig 20: Top-7 Fund Houses

Name	MF AUM Rs Cr	Industry Share
HDFC AMC	376,868	14.6%
ICICI Pru AMC	351,234	13.6%
SBI Fund	321,011	12.5%
Aditya Birla	254,047	9.9%
RNAM	203,409	7.9%
Kotak Mahindra AMC	168,601	6.5%
UTI AMC	154,229	6.0%

Source: Company, Centrum Research

The top 10 funds contributed ~82% to Industry AUM in FY19, showing that scale is crucial for thriving in the industry. While the industry has seen an increase in the number of mutual fund players, it has also undergone consolidation, especially the mid-sized and smaller AMCs. With profits skewed in favour of larger fund houses, the MF industry has seen a fair amount of M&A activity over the last 8-9 years. Most of the deals have been by way of acquisitions where entities bought out the entire stake in other AMCs. There have been a number of exits by foreign players from the industry, stakes of which were bought out by domestic companies looking to increase their market share through inorganic routes. With there are some small loss-making entities still present, consolidation is likely to continue in the mutual fund industry.

Domestic AMCs have an edge over foreign participants

The Indian AMC industry continues to be dominated by domestic players. Many domestic AMCs are associated with banks, but some domestic business houses have also been able to capitalise on brands built in other fields of business.

Recent regulatory changes

Following are the key regulatory changes made by SEBI in the recent past:

- Phase out of upfront commission: SEBI banned the payment of upfront commissions to distributors, with effect from Oct-18. Also, SEBI notified that all commissions and expenses are to be expensed from the MF schemes' P&L alone and not through any other route (i.e. AMC/Trustee P&Ls - a common industry practice). AMCs generally paid out upfront commissions through the P&L of the AMC, while trail commissions were paid out through the respective schemes. The banning of upfront and the adoption of a full-trail model, has resulted in a decline in top-line yields of AMCs, but they have also been accompanied by a commensurate decrease in opex.
- Total expense ratio (TER) reduction: In Oct 2018, SEBI announced a reduction in the maximum TER that can be charged to mutual fund schemes. This largely had a negative impact on AMCs which operate large MF schemes (given higher TER cut for higher AUM slabs). However, the majority of this TER cut has been transferred to distributors. Per our discussions with HDFC AMC and RNAM management, ~85-90% of the TER cut has been transferred to distributors.

Regulatory changes positive

We believe the above regulatory changes are positive towards reducing costs for retail MF investors, and also in improving transparency. Further, taking into account the time required for the industry to smoothen the impact on its operations and profitability, we believe that the regulator may be done with making changes for the near-term.

HDFC Asset Management Company

Key Investment Arguments

Strength of HDFC brand

The HDFC brand carries great strength. The HDFC group has a strong presence across financial products and services, especially in the retail sector. HDFC group has emerged as a recognised financial conglomerate in India with a presence in housing finance, banking, asset management, life and non-life insurance, education finance, and real estate funds. Some listed companies of the HDFC group are HDFC Ltd, HDFC Bank, and HDFC Standard Life Insurance Company.

Strong distribution network

HDFC AMC's distribution franchise spans across over 200 cities with 213 branches, which are supported by a strong and diversified network of over 80,000 empanelled distribution partners across India, consisting of banks, national distributors and independent financial advisors (IFAs).

The company has a staff of over 1,200 employees with a majority of employees within sales, distribution and customer service. HDFC Bank contributes ~7.2% of total AUM and 10% of equity AUM. Increasing digitisation and emergence of fintech platforms such as Paytm Money are likely to gradually increase the share of the direct schemes to AUM, thereby lowering costs for existing and potential investors.

Market leader in the retail investor segment; strong SIP flows

HDFC AMC is the largest player in the individual investor segment, with 15.6% of the industry market share in individual MF AUM. AUM sourced from individuals tends to be more 'sticky'. A key metric to assess the 'stickiness' of the AUM is the inflow from systematic investment plans (SIPs). HDFC AMC received SIP flows of Rs 12.8bn per month (as at Sep-19). Moreover, 79.5% of the SIP book has a tenure of over 5 years, and 67.2% over 10 years. SIP flows, which come from retail investors and HNIs, tend to be largely directed towards equity MFs.

Class-leading profitability

HDFC AMC has ranked highest in terms of profitability (measured in terms of PAT/ Avg AUM) among the top 6 AMCs for each of the last 6 years (FY14-FY19). HDFC AMC delivered PAT / AUM of 29bps in FY19. This is supported by opex leverage of low Employee and Admin expenses, and higher Equity AUM mix improves the yields and hence the PAT.

Sharp focus on the higher-yielding equity segment, and operational efficiency have helped the company to maintain AUM growth at highly profitable levels (PAT CAGR of 21.1% over FY14-19). We estimate HDFC AMC to have a CAGR of 22% in PBT and 28% in PAT over FY19-21E.

We believe HDFC AMC's strong brand equity (benefitting from the HDFC name), strong distribution franchise, relatively higher proportion of equity assets, and continued delivery on fund performance make it one of the best opportunities to capitalize on the financial savings potential in the country.

Company Profile & Brand

The HDFC brand carries great strength. The HDFC group has a strong presence across financial products and services, especially in the retail sector. HDFC group has emerged as a recognised financial conglomerate in India with a presence in housing finance, banking, life and non-life insurance, asset management, real estate funds and education finance. Some listed companies of the HDFC group are HDFC Ltd, HDFC Bank, and HDFC Standard Life Insurance Company.

Post Sep 2018 when the IL&FS debt crisis came up, HDFC AMC actually benefitted. This is evidenced by the fact that while the industry as a whole lost liquid fund assets of ~Rs1.5trn (Sep-Oct 2018), HDFC Mutual Fund's liquid fund gained in assets over that period by ~Rs 330bn from Q2FY19 to Q3FY19.

We believe AUM growth is likely to sustain (we model next 2-year CAGR of 18% overall) given that retail equity inflows (i.e. SIPs) have remained healthy despite the correction in markets in FY19, reflective of a behavioural shift in retail investors as well as subdued returns in physical asset classes.

Leader on multiple key parameters

HDFC AMC is the industry leader on multiple metrics:

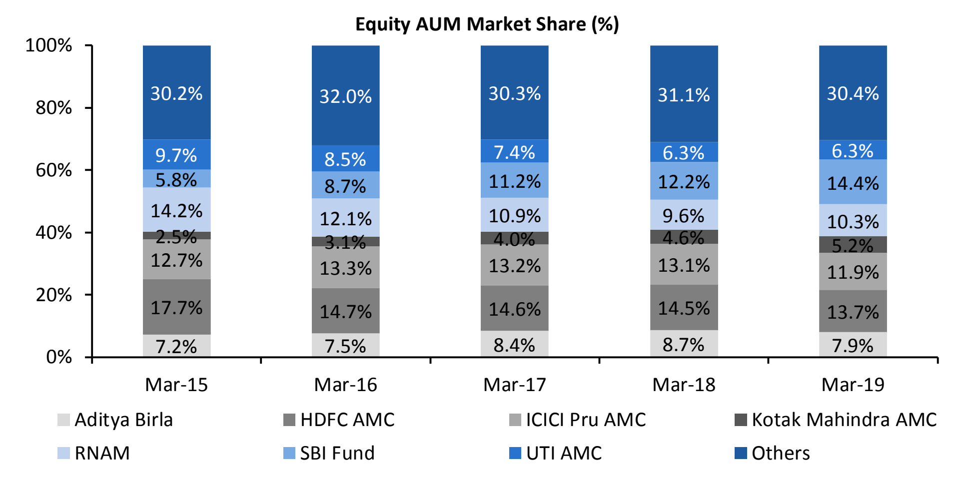
a) Distribution and brand presence,

b) Share of equity assets is among the highest,

c) Retail AUM – 15.6% market share of retail AUM (market leader) and

d) Profitability – 30bps (FY19) driven by its higher equity share. HDFC AMC's profitability is highest amongst the top 7 AMCs. Given the growth potential and granular nature of the business, strong distribution franchise, and industry-leading profitability metrics, we see premium valuation multiples sustaining despite the market-linked cyclical nature of AMC valuations.

Fig 21: Overall Avg AUM mkt share

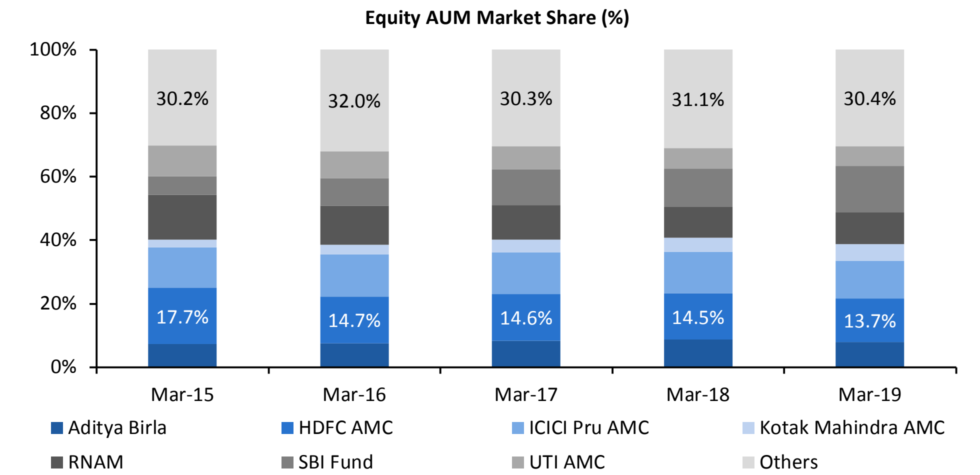


Source: Company, Centrum Research

HDFC AMC: Market leader in Equity MF AUM

HDFC AMC has been the leader in equity oriented assets since Q4FY11 while being amongst the top 2 asset managers for more than a decade now. Equity AUM has grown at a CAGR of 30.8% during FY13-18 vs. industry average CAGR of 37.3%. Share of Equity AUM is 51.9% which is higher than the industry average of 44.4%, as of Sep-2018.

Fig 22: Equity MF Avg AUM is highest among peers

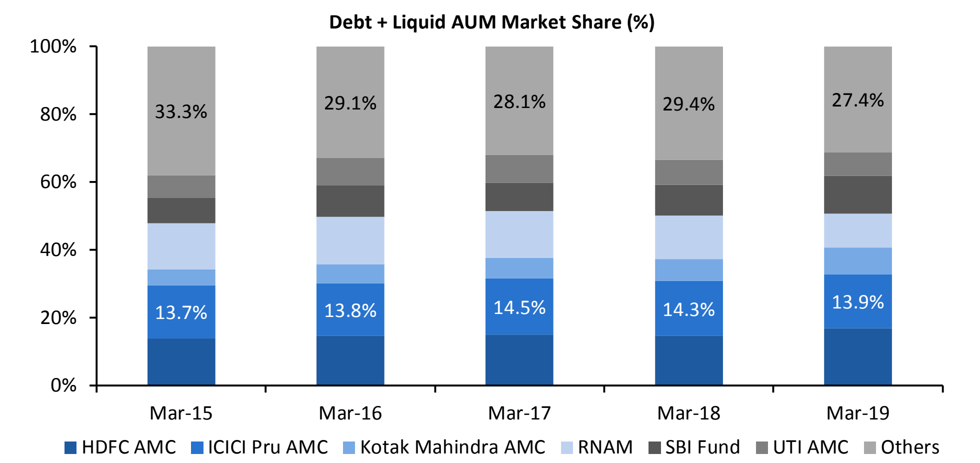


Source: Company, Centrum Research

HDFC AMC recently claimed market leadership in debt MF AUM as well in Feb-19. Its market share in debt MFs (ex-liquid) has shown a consistent improvement from 11.6% as of FY14 to 18.6% as of Sept 19. Separately, HDFC AMC is also the market leader in liquid MFs, with a market share of 14.4% (Sept 19).

HDFC AMC's market share in debt and liquid segments has shown a significant improvement since Aug-18 - when a default by a stressed infrastructure conglomerate triggered a liquidity crisis in the debt capital market. HDFC AMC's market share in debt and liquid MF segments has risen by 68bps and 616bps, respectively since Aug-18. Market share gains in the debt segment have come at the expense of other large players. The gains in the liquid segment have largely come from smaller players (outside the top 10), as the liquid MF industry segment witnessed consolidation. Market share of the top 6 players in the debt plus liquid MF segment was at 72.6% as of Mar-19, from 60.6% in Mar-18, with the gains largely accruing to HDFC AMC.

Fig 23: HDFC AMC: Debt + Liquid MF Avg AUM mkt share has shown consistent improvement



Source: Company, Centrum Research

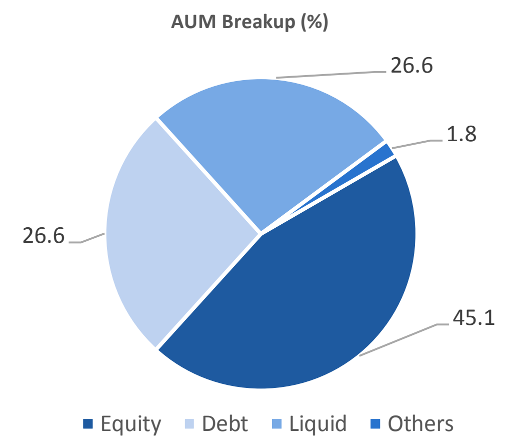
The liquidity event in Aug-18 may have resulted in corporates looking beyond only the price point while investing in liquid MF schemes. Prudent fund management and preference for a superior brand name may have taken precedence since then. HDFC

Liquid Fund has witnessed a disproportionate 186% increase in AUM from Sep-18 to Sept-19, much higher than in other large MFs.

Market leader in the individual investor segment

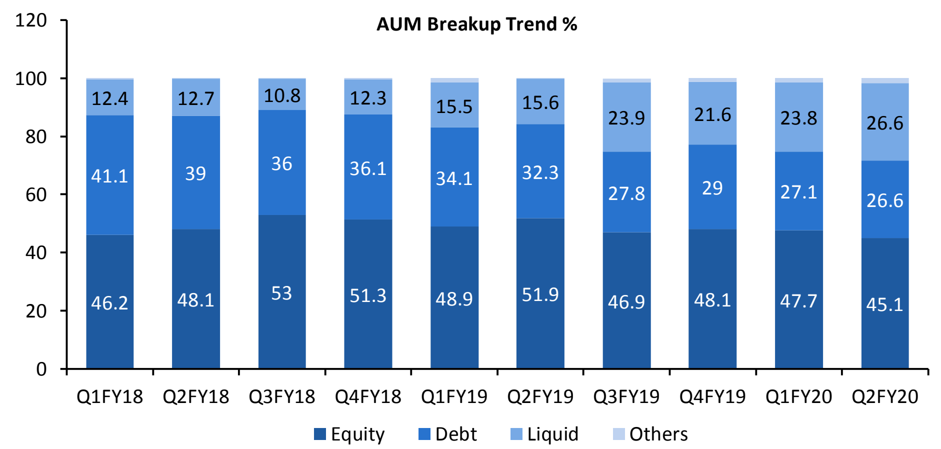
HDFC AMC is the largest player in the individual investor segment, with 15.6% of the industry market share in individual MF AUM. AUM sourced from individuals tends to be more 'sticky'.

Fig 24: HDFC AMC: Overall AUM mix as on Sept-19



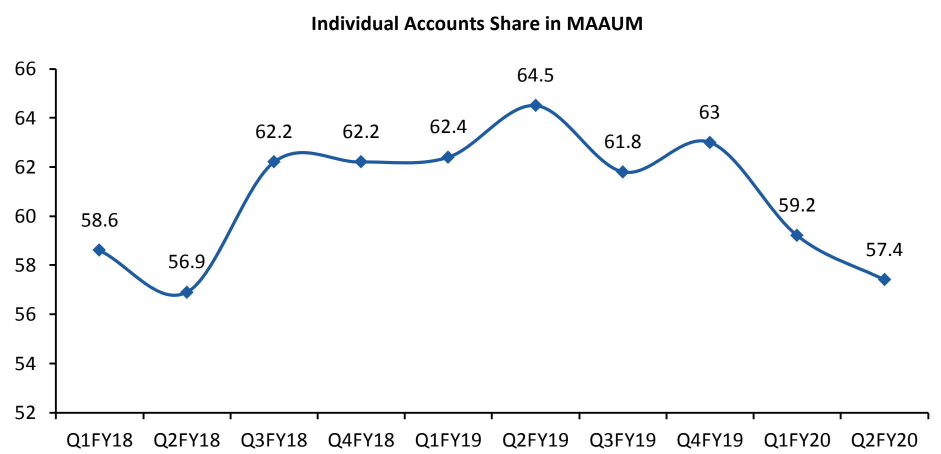
Source: Company, Centrum Research

Fig 25: HDFC AMC: Overall AUM Split Trend



Source: Company, Centrum Research

Fig 26: HDFC AMC: Trends in Individual MF AUM market share



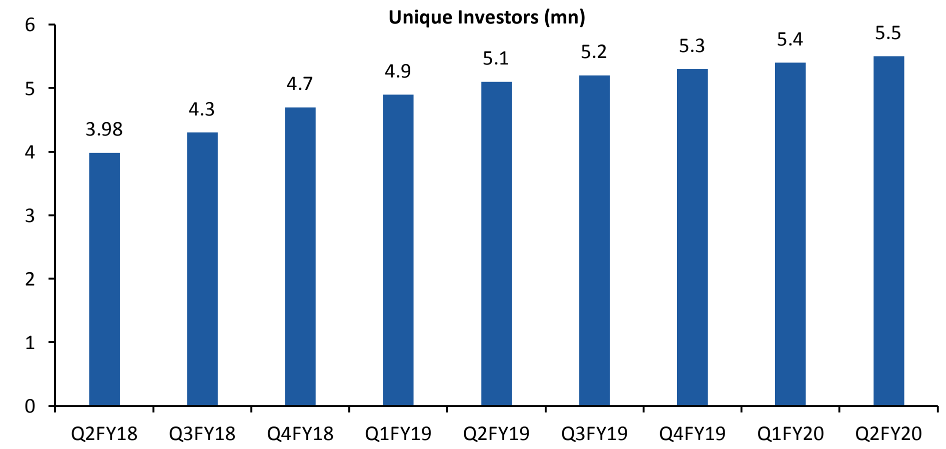
Source: Company, Centrum Research

As of Sep-19, 137 of HDFC AMC's 213 branches were located in B30 cities. Its share of monthly average AUM from T30 and B30 cities as of Sep-19 was 87.3% and 12.7%, respectively. The company is well-positioned to capture the underpenetrated B30 market opportunity.

Unique Investors

HDFC AMC accounts for ~28% of the total number of unique investors in the Industry.

Fig 27: Steady uptrend in number of unique individual investors



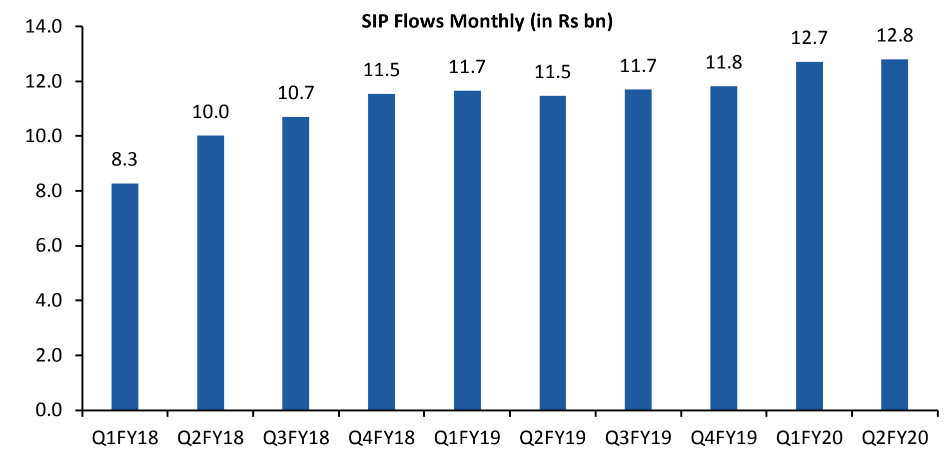
Source: Company, Centrum Research

Strong SIP book setting up base for medium-term growth

A key metric to assess the 'stickiness' of the AUM is the inflow from systematic transactions (SIPs). HDFC AMC received SIP flows of Rs 12.8bn per month (as at Sep-18). Moreover, at registration, 79.5% of the SIP book has a tenure of over 5 years, and 67.2% over 10 years. SIP flows, which come from retail investors and HNIs, tend to be largely directed towards equity MFs.

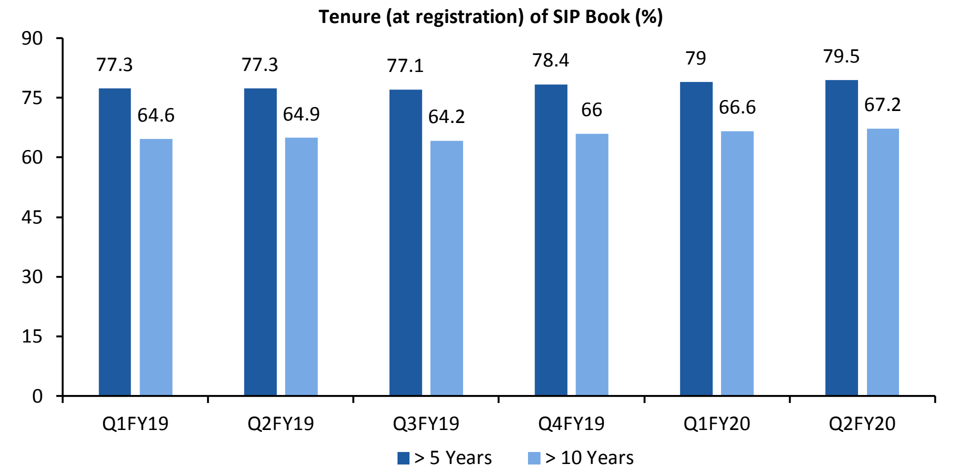
SIP flows for the AMC industry have sustained despite the weakness in equity markets in FY19 and H1FY20. For HDFC AMC, flows from systematic transactions have shown a consistent improvement since March-17, as shown in the chart below.

Fig 28: Strong & sustained monthly flows from systematic transactions



Source: Company, Centrum Research

Fig 29: SIP book tenure at registration

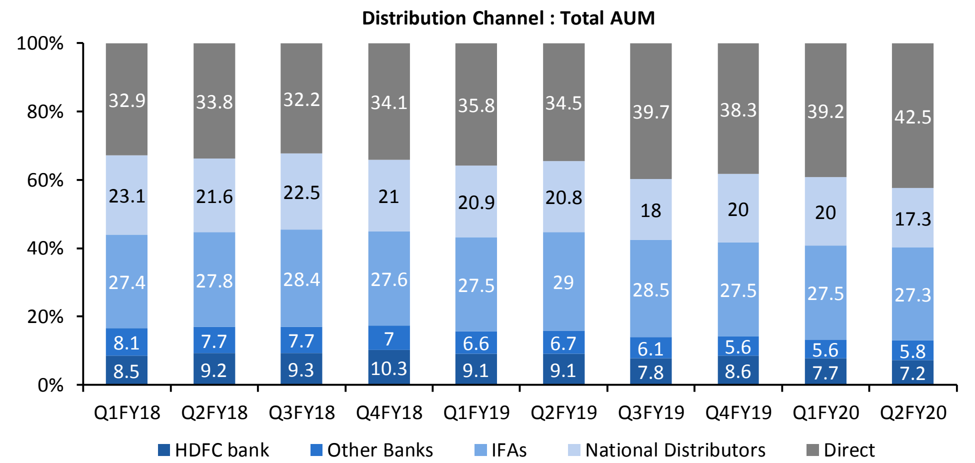


Source: Company, Centrum Research

Distribution footprint that provides market access across India

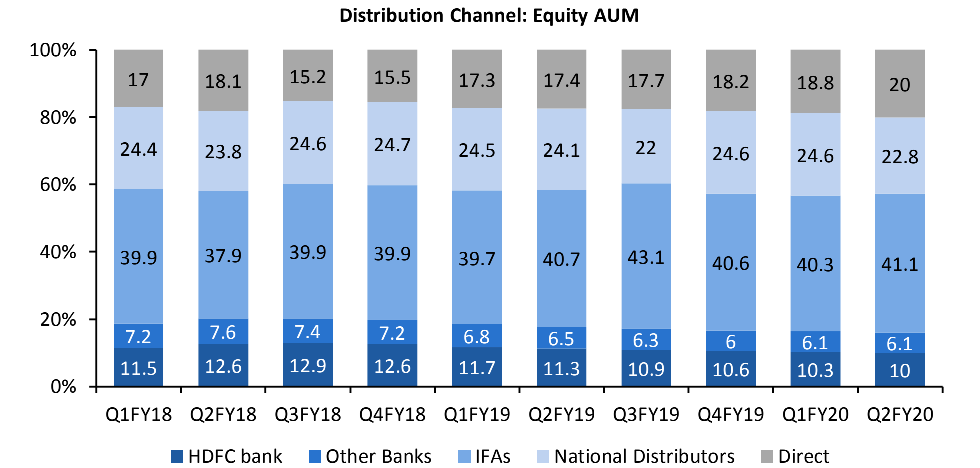
HDFC AMC's network spans across over 200 cities with 213 branches, which are supported by a strong and diversified network of over 80,000 empanelled distribution partners across India, consisting of banks, national distributors and IFAs. As of Sep-19, banks, national distributors and IFAs, generated 13.0%, 17.3% and 27.3% of HDFC AMC's total AUM, respectively, while the remaining 42.4% was invested in direct plans. In terms of equity-oriented AUM, banks, national distributors and IFAs, generated 16.1%, 22.8% and 41.1% of the equity-oriented AUM, respectively, while the remaining 20.0% was invested in direct plans.

Fig 30: Steady contribution to total AUM from IFAs in HDFC AMC's distribution channel



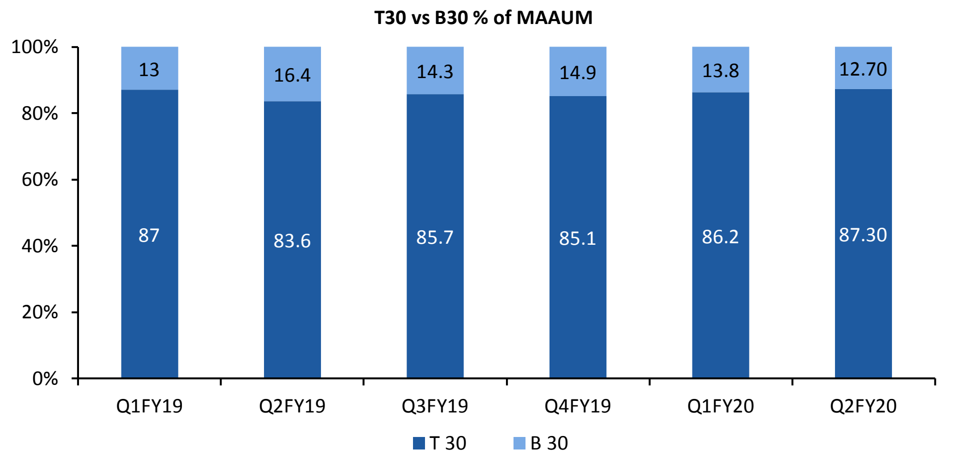
Source: Company, Centrum Research

Fig 31: IFAs dominate contribution to equity AUM



Source: Company, Centrum Research

Fig 32: T30 upticks in H1FY20



Source: Company, Centrum Research

The company has a staff of over 1200 employees with ~65% of employees within sales, distribution & customer service. HDFC Bank contributes ~7.2% of total AUM & 10.0% of equity AUM. Increasing digitisation and emergence of fintechs platforms such as Paytm Money are expected to increase the share of the direct scheme to AUM thereby reducing the reliance on traditional distribution network.

Most profitable large AMC

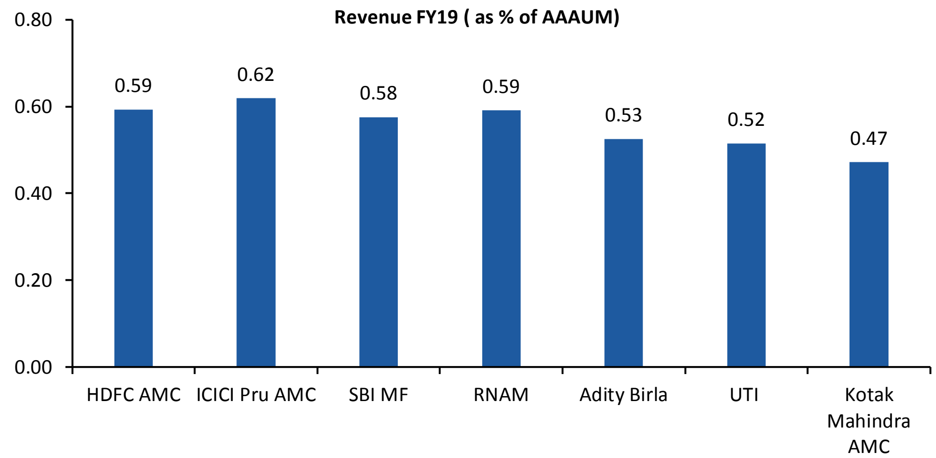
HDFC AMC has ranked highest in terms of profitability (measured in terms of PAT/ Avg AUM) among the top 6 AMCs for each of the last 6 years (FY14-FY19). HDFC AMC delivered PAT / AUM of 29bps in FY19. (see DuPont Peer comparison on page 37).

HDFC AMC's best-in-class profitability can be attributed to:

a) A high mix of equity MF assets in overall AUM: The company has maintained a higher share of equity MF assets in its mix since FY13. As of Sep-19, equity MF assets contributed 45.1% to HDFC AMC's overall AUM vs 42.5% for the industry.

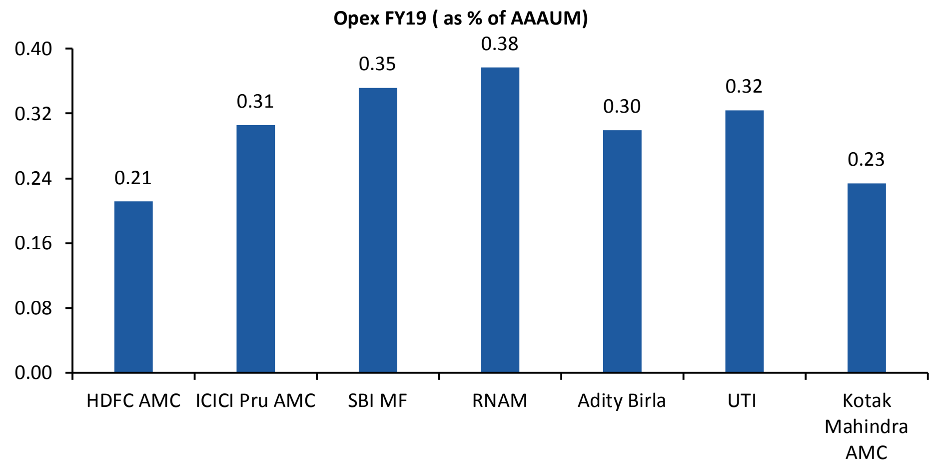
b) Operating leverage: Operating costs (employee and other admin expenses) as a percentage of the AUM is among the lowest for HDFC AMC, as it utilizes the benefits of scale. FY19 operating cost is at 21 bps of AUM, which is lowest in the industry. Operating leverage has helped the company sustain higher RoE of >30% over the years.

Fig 33: Revenue yields among the highest in the industry



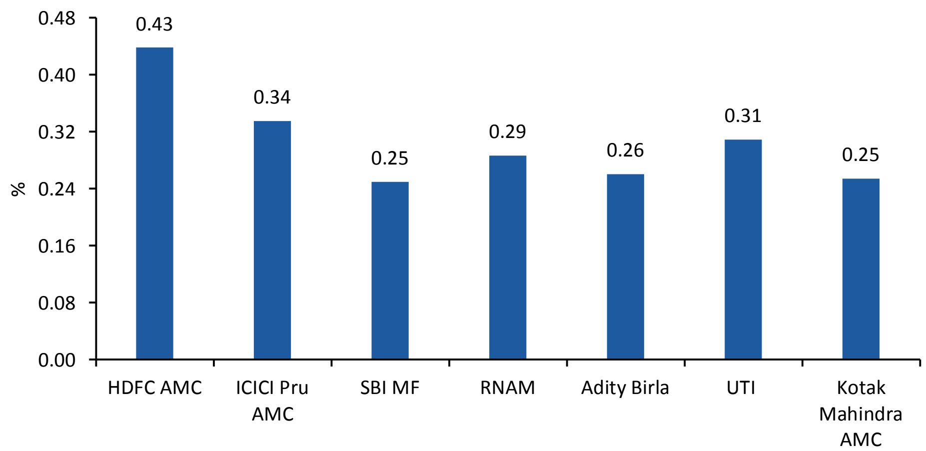
Source: Company, Centrum Research

Fig 34: Opex is best in class…



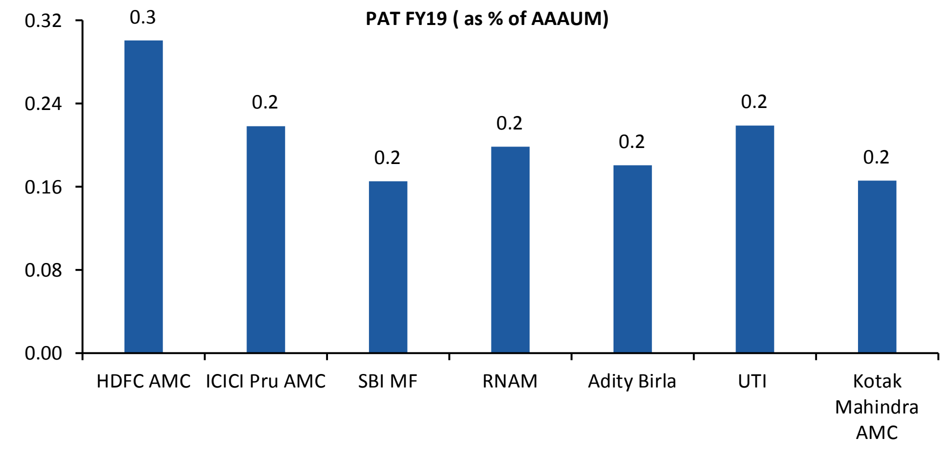
Source: Company, Centrum Research

Fig 35: Leads to highest PBT ratio….



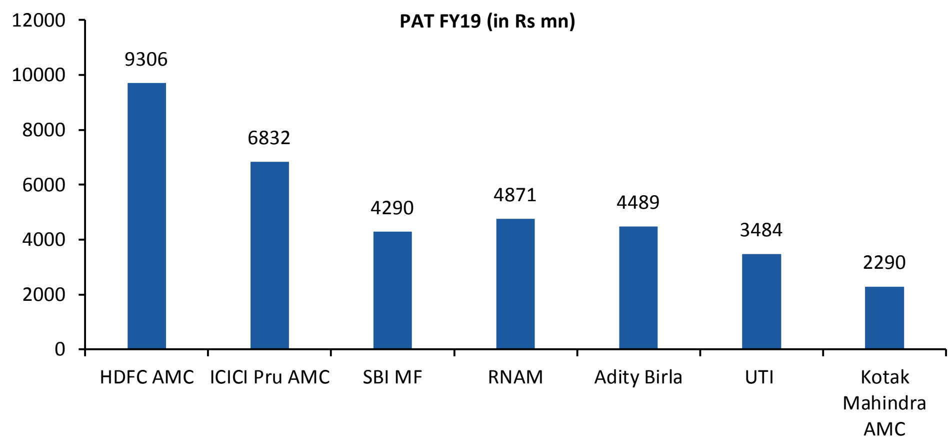
Source: Company, Centrum Research

Fig 36: …and thus helps lead to highest PAT ratio



Source: Company, Centrum Research

Fig 37: PAT

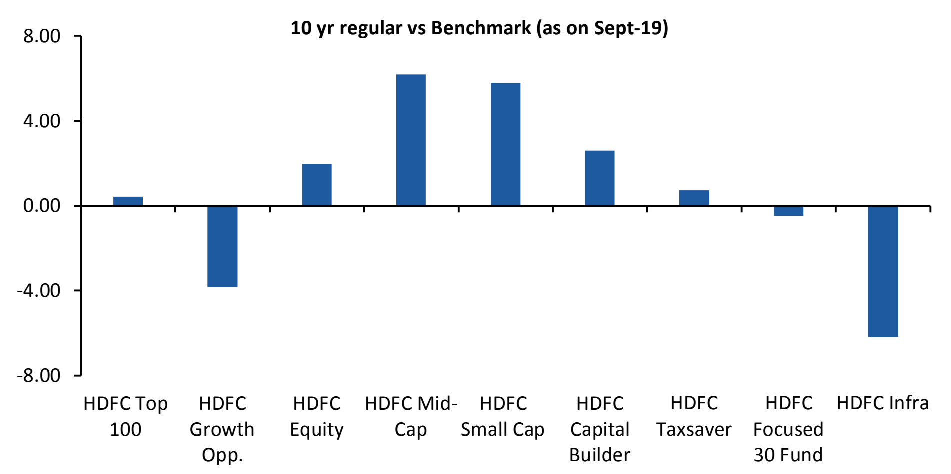


Source: Company, Centrum Research

Creditable scheme performance

The chart below compares the performance of the equity-oriented MF schemes of HDFC AMC, in relation to their respective benchmarks. The top 6 schemes account for ~97% of HDFC AMC's equity MF AUM. As can be seen in the chart below, most schemes have outperformed their respective benchmarks by a significant margin.

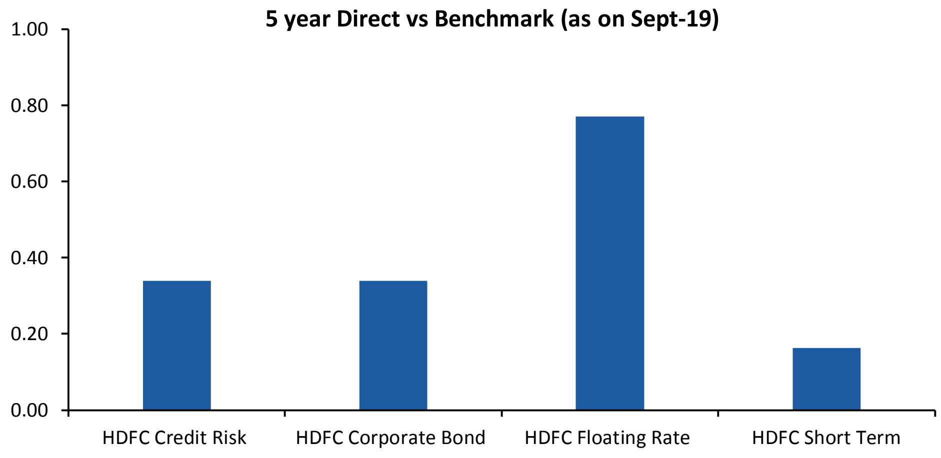
Fig 38: Equity schemes performance



Source: Company, Centrum Research

Debt MF schemes inherently have lesser ability to outperform their respective benchmarks. The performance of the 4 largest debt MF schemes (accounting for 89% of debt MF AUM) is tabulated below. The returns from these schemes are very close to their respective benchmarks.

Fig 39: Top 4 Debt schemes have outperformed benchmark



Source: Company, Centrum Research

Experienced management team

The management team, led by Mr. Milind Barve, is well-supported by highly experienced professionals, who have in-depth industry knowledge.

MD: Mr. Milind Barve is the Managing Director of HDFC AMC Ltd since July 2000. Prior to HDFC AMC, he served as the General Manager of Treasury at HDFC Ltd. and headed the department for 14 years. He was responsible for the management of HDFC's Treasury portfolio and for raising funds from financial institutions and capital markets. Previously, he was also the Head of Marketing for retail deposit products.

CFO: Mr. Piyush Surana has been the Chief Financial Officer at HDFC AMC Ltd. since February 2013. Prior to joining the Company, he has held various managerial roles at Daiwa Asset Management (India) Pvt. Ltd., Shinsei Bank in India, and Alliance Capital Asset Management (India) Pvt. Ltd.

CIO: Mr. Prashant Jain is the Chief Investment Officer and Executive Director at HDFC AMC. He has been associated with the company for over 15 years and was appointed as CIO with effect from July, 2004. Prior to joining the company, he was the Chief Investment Officer at Zurich Asset Management Company (India) Private Limited.

Key Risks to our thesis

Drop in financial savings rate: Indian households have been increasingly inclined towards financial savings in the recent past. Net financial savings as % of net household savings increased to 38% as of FY18, up from 31% in FY12. This has helped sustain flows into financial assets, despite a general decrease in the savings rate in the economy. Gross savings to GDP ratio has declined to 30% in FY18 from 34% in FY12. Erosion in the financial savings rate, triggered by outperformance of physical assets (gold / real estate) or underperformance of financial assets, or a general decrease in savings in the economy, pose a risk to our thesis.

Brand: Brand strength is key in this business. Negative news around the brand may lead to acute consequences in the company's ability to retain assets.

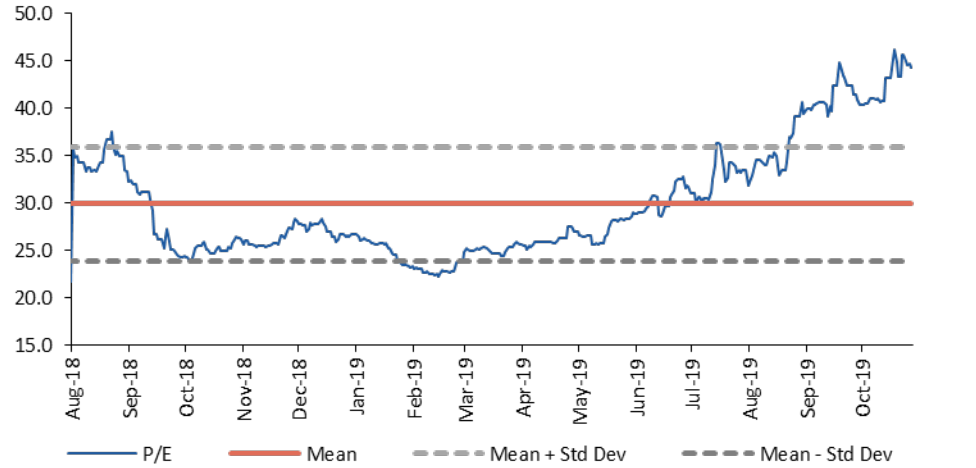
Scheme underperformance: Scheme performance for HDFC AMC has been creditable. However, any underperformance may have the impact of a reduction in AUM (mark-to-market impact) and may also result in outflows from schemes, denting profitability.

Extended bear market scenario: HDFC AMC's business is closely linked to the performance of debt and equity capital markets. Any prolonged underperformance in these capital markets may result in weakness in operational performance for the AMC.

Valuation

We value HDFC AMC using Multiple approach. Our assumptions are below. We value HDFC AMC at 48.1x FY21E EPS to arrive at our TP of Rs 3447 / share.

Fig 40: Forward P/E Chart



Source: Company, Centrum Research Estimate

Fig 41: Key Assumptions

Growth	FY20E	FY21E
Equity	17.3	17.2
Debt	11.1	-6.9
Liquid	13.3	19.2
Others	52.5	108.5
Overall	21.0	15.5
Yields		
Equity	0.85%	0.85%
Debt	0.42%	0.42%
Liquid	0.10%	0.10%
Others	0.12%	0.12%
Overall	0.52%	0.53%

Source: Company, Centrum Research

P&L

YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operations	**14,800**	**17,568**	**19,152**	**20,422**	**23,689**
Investment Management Fees	14,285	17,335	18,954	20,218	23,452
PMS and Advisory Fees	516	233	198	204	237
Expenses	**7,863**	**8,115**	**6,821**	**5,397**	**5,812**
Fees and Commission	4,193	3,270	2,403	156	68
EBE	1,576	1,861	2,063	2,349	2,764
Depreciation	120	94	129	470	498
Other Expenses	1,975	2,891	2,227	2,422	2,482
Core Operating Income	**6,938**	**9,452**	**12,331**	**15,025**	**17,877**
Other Income	1,060	1,130	1,816	2,200	2,492
Exceptional Item : Impairment of FI	0	0	400	0	0
PBT	**7,998**	**10,582**	**13747**	**17,224**	**20,369**
Tax	2,496	3,469	4,441	4,341	5,133
PAT	**5,502**	**7,113**	**9,306**	**12,884**	**15,236**
Dividend	**2,787**	**4,055**	**6,150**	**8,376**	**9,752**
Retained Earnings	**2,715**	**3,058**	**3,556**	**4,508**	**5,484**

Growth ratios (%)

YE March	FY17	FY18	FY19	FY20E	FY21E
AUM	25.2	29.0	15.8	21.0	15.5
Revenue from Operations	2.6	18.7	9.0	6.6	16.0
EBE	10.0	18.1	10.8	13.9	17.7
PAT	15.1	29.3	30.8	38.4	18.3

Profitability Ratios (%)

	FY17	FY18	FY19	FY20E	FY21E
Yield on AUM	0.68	0.63	0.59	0.52	0.53
Yield on Investments	7.58	6.59	6.35	6.27	6.18
EBE / Core Revenue	10.6	10.6	10.8	11.5	11.7
Operating Income/ Core Revenue	46.9	53.8	64.4	73.6	75.5
Other Income / Core Revenue	7.2	6.4	9.5	10.8	10.5
Effective tax rate	31.2	32.8	32.3	25.2	25.2
PAT Margin	37.2	40.5	48.6	63.1	64.3
ROE	41.2	37.7	35.0	39.1	40.1
ROAAUM	0.25	0.26	0.29	0.33	0.34

DuPont analysis (%)

	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operations	0.68	0.63	0.59	0.52	0.53
Investment Management Fees	0.66	0.62	0.59	0.52	0.52
PMS and Advisory Fees	0.02	0.01	0.01	0.01	0.01
Expenses	0.36	0.29	0.21	0.14	0.13
Fees and Commission	0.19	0.12	0.07	0.00	0.00
EBE	0.07	0.07	0.06	0.06	0.06
Depreciation	0.01	0.00	0.00	0.01	0.01
Other Expenses	0.09	0.10	0.07	0.06	0.06
Core Operating Income	0.32	0.34	0.38	0.38	0.40
Other Income	0.05	0.04	0.06	0.06	0.06
PBT	0.37	0.38	0.43	0.44	0.45
Tax	0.12	0.12	0.14	0.11	0.11
PAT	0.25	0.26	0.29	0.33	0.34

Source: Company, Centrum Research estimates

Balance sheet

YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Share Capital	252	1,053	1,063	1,063	1,063
Reserves and Surplus	14,923	21,486	29,644	34,154	39,640
Net Worth	**15,175**	**22,539**	**30,707**	**35,217**	**40,703**
Trade Payables	961	1,116	474	360	349
Employee Benefit	589	593	649	644	719
Others	217	440	390	390	391
Total Liabilities and Equity	**16,941**	**24,688**	**32,220**	**36,611**	**42,162**
Cash and Bank	13	21	320	320	320
Investment	13,392	20,577	29,350	33,337	38,546
Fixed Asset	282	369	429	715	1,026
Receivables	917	1,030	1,029	1,119	1,363
Others	2,338	2,691	1,093	1,121	906
Total Assets	**16,941**	**24,688**	**32,220**	**36,611**	**42,162**

AUM Breakup % of AAAUM

YE March	FY17	FY18	FY19	FY20E	FY21E
Equity	37.02	46.12	48.1	45.5	46.2
Debt	43.27	39.18	29.0	26.0	25.0
Liquid	19.23	14.34	21.6	26.0	25.5
Others	0.48	0.36	1.3	2.5	3.3

Growth % basis AAAUM

YE March	FY17	FY18	FY19	FY20E	FY21E
Equity	60.7	20.7	14.5	17.3	17.2
Debt	16.8	-14.3	8.5	11.1	-6.9
Liquid	-3.8	74.4	45.6	13.3	19.2
Others	-3.2	318.1	132.7	52.5	108.5

Valuations

YE March	FY17	FY18	FY19	FY20E	FY21E
EPS (Rs)	109.3	33.8	43.8	60.6	71.7
DPS (Rs)	46.0	16.0	24.0	32.7	45.9
BVPS (Rs)	301	107	144	166	191
Dividend Yield (%)			1.6	1.5	1.5
P/E (x)			33.9	35.3	41.8
P/B (x)			10.3	12.9	15.6

Source: Company, Centrum Research estimates

Reliance Nippon Life Asset Management

Key Investment Arguments

Nippon Life Brand likely to aid in improvement of inflows

In September 2019, Nippon Life Insurance of Japan completed the acquisition of 75% stake in RNAM from Reliance Capital. Nippon Life Insurance, a 130-year old company, is one of the largest life insurance companies in Japan, managing assets of over USD 700 billion.

Nippon Life's buyout of the previous promoter's stake should stem the outflow that RNAM has recently witnessed in debt & liquid funds. The Nippon Life brand is likely to aid better inflows from domestic corporates as well as the offshore segment. RNAM also plans to continue to further leverage Nippon Life's corporate relations with global tech and insurance companies to get further overseas funds.

Established Distribution franchise

RNAM has a strong presence across India with a distribution network across 294 locations with ~75,400 distributors (independent financial advisors), 74 banks (including foreign banks), and 94 National distributors (e.g. Karvy). In the absence of a bank promoter, RNAM focused on developing a strong IFA network.

RNAM is focused on building granular retail assets (26% of AUM) via presence in B30 cities, which account for 20% of AUM through a large distribution network of IFAs. RNAM's B30 AAUM/Total AAUM of 20% is higher compared with the industry share of 16%.

The company also manages offshore funds through subsidiaries in Singapore and Mauritius and has a representative office in Dubai, which enables it to cater to investors across Asia, Middle East, UK, US, and Europe.

SIP flows seeing healthy traction

RNAM has seen a doubling of its annualised SIP flow from ~Rs 50bn in FY15 to ~Rs103bn in FY19. Market share of SIP is currently at ~11%, which is greater than its total MF AUM market share of ~7.4%. The strong SIP flows have aided in increasing retail share in total AUM. SIPs received by the company over the years, have been sticky; as manifested in 80% of the incremental SIP book having a tenure of more than five years. Going ahead, the company aims to focus on increasing the SIP flows to enable sustainable AUM growth.

Profitability to see improvement going forward

When compared to its peers, RNAM's operational expenses are higher. This is attributable to both higher employee costs and & other costs. Going forward, we expect profitability to strengthen on account of economies of scale, a likely improvement in share of equity flows (largely led by individual investors) and a gradual improvement in debt & liquid flows (largely from institutional investors). We estimate RNAM to have a CAGR of 10% in PBT and 14% in PAT over FY19-21E.

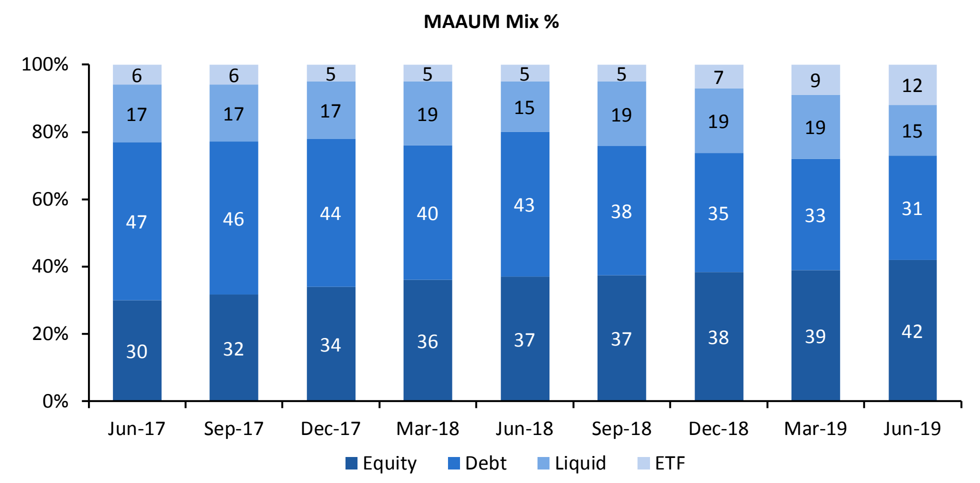
Brand & Profile

Reliance Nippon Life Asset Management (RNAM) was incorporated in 1995 as Reliance Mutual Fund. Currently, it is the fifth largest asset management company (AMC) in India by way of AUM. As at September 2019, RNAM has a total AUM of Rs 4.53 trillion, of which MF AUM is at Rs 1.89 trillion with ~7.4% market share. The company also manages Rs 2.59 trillion of managed funds, largely pension funds. Recently, Nippon Life of Japan completed the acquisition of 75% stake in RNAM.

In FY19, multiple downgrades on the company's erstwhile parent & exposure to stressed companies led to outflows in debt & liquid funds, impacting AUM growth. In our opinion, Nippon Life's buyout of the previous promoter's stake should stem the outflow in debt & liquid funds. The Nippon Life brand is likely to aid better inflows from domestic corporates as well as the offshore segment. RNAM also plans to continue to further leverage Nippon Life's corporate relations with global tech and insurance companies to get further overseas funds.

RNAM grew its MF AUM at ~19% CAGR in FY14-19. Additionally, it has been able to garner ~11% share in the SIP market, doubling its share in previous five years. A strong foothold in B30 cities (20% of AUM) has helped the AMC to improve its retail share, which has aided in lowering its dependence on HNI & institutional flows.

Fig 42: Debt & Liquid AUM shrink, which leads to higher share of equity in overall AUM

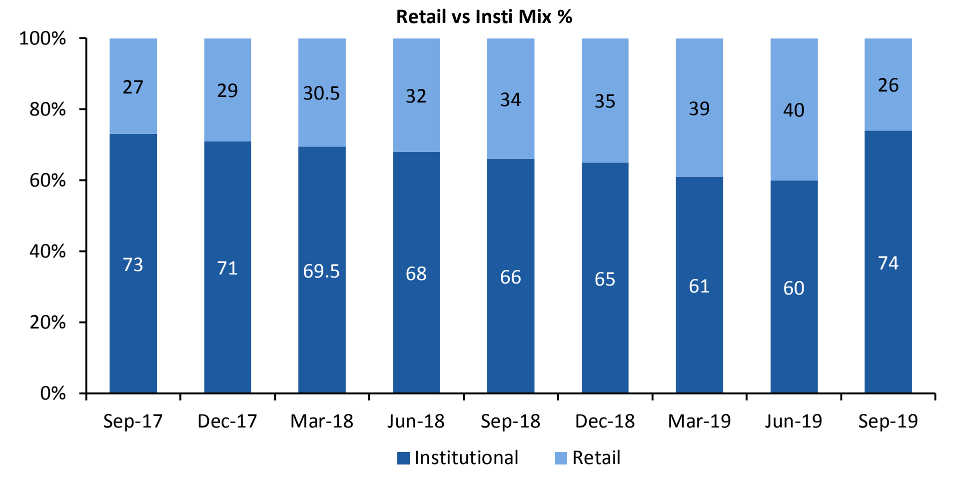


Source: Company, Centrum Research

Relatively high contribution from retail assets

The company has higher contribution from retail assets. Average assets under management from retail investors managed by the company was Rs. 519 bn at Sept-19 and Retail AAUM / Total AAUM stands at 26%, higher than the industry average of 20%. This is positive as retail flows typically consist of higher-yielding equity assets and are typically 'stickier' than institutional flows. With increased awareness about mutual funds, the share of household savings is shifting towards financial savings and RNAM is well placed with its strong focus on the retail segment.

Fig 43: Retail shrinks in Q2FY20 as retail definition changed from Rs 0.5mn to Rs 0.2mn



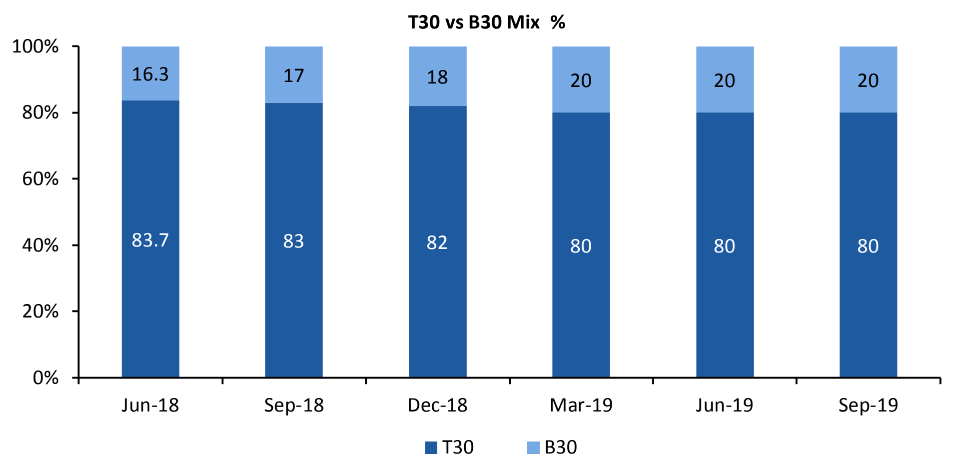
Source: Company, Centrum Research

In Q2FY20, 'Retail Investor' classification was changed from Rs 0.5mn to Rs 0.2mn as per AMFI guidelines so the proportion has shrunk. However, the proportion is still much higher than the industry average (which also shrank commensurately).

Leading player in B30 market

RNAM's focus on increasing its granular reach in the retail space has led to the share of AUM from B30 cities to increase to 20% of its total AAUM (vs the industry average of16%). Accordingly, it has highest share of B30 cities to AUM among peers.

Fig 44: Improving contribution from B30 markets



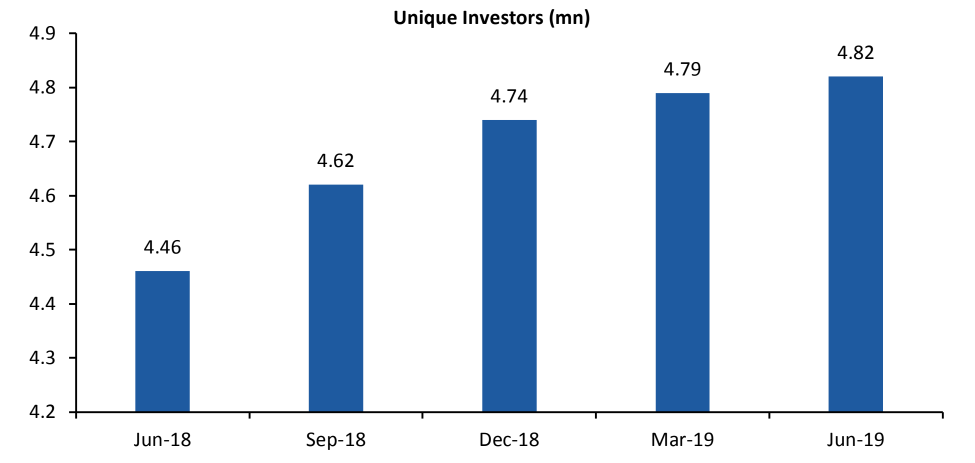
Source: Company, Centrum Research

Focus on retail & SIP flow to aid AUM growth

RNAM'S total MF AUM grew at ~19% CAGR over FY14-19. Over the past few years, the MF has been focusing on increasing granularity of AUM by rising retail proportion (AUM up to Rs 0.2mn), thus attempting to reduce dependence on cyclical HNI & institutional flows. Accordingly, share of retail in AUM has doubled to 26% in FY19 from ~13% in FY14 vs. industry average of 20%.

Going ahead, with improving share in SIP flows and focus on garnering higher retail AUM in B30 cities, we expect overall MF AUM to grow at ~3.4% CAGR for FY19-21E.

Fig 45: Steady accretion in unique investor count

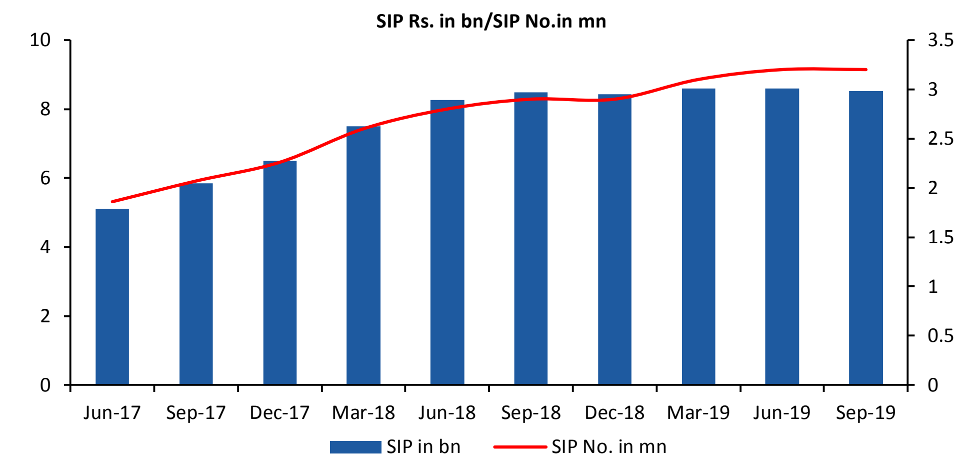


Source: Company, Centrum Research

SIP flows improving

RNAM saw a doubling of its annualised SIP flow from ~Rs 50bn in FY15 to ~Rs103bn in FY19. Market share of SIP is currently at ~11%, which is greater than its total MF AUM market share of ~7.4%. The strong SIP flows have aided in increasing retail share in total AUM. SIPs received by the company over the years, has been sticky; as manifested in 79% of SIP book having tenure of more than five years. Going ahead, the company aims to focus on increasing SIP to enable sustainable AUM growth.

Fig 46: Strong SIP flows sustain despite turbulent market conditions



Source: Company, Centrum Research

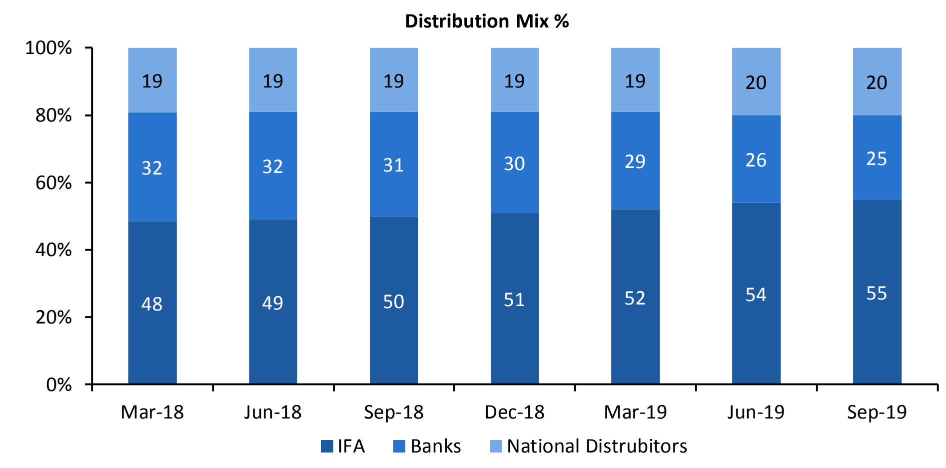
Non-MF flows to remain strong

RNAM has non-MF AUM of Rs 2.65 trillion comprising pension, ETFs, AIF and international assets. RNAM is the second largest player in the ETF space. As at Q2FY20, ETF AUM was at Rs 279bn with a market share of 18.8%. The company also manages pension fund AUM of Rs 2.55 trillion. These funds are largely garnered via EPFO and PFRDA. RNAM plans to continue to leverage Nippon Life's international tie-ups & increase its share of non-MF AUM. Though the non-MF AUM generates low yield, it aids in overall AUM growth.

Distribution Network

The company has a strong presence across India with a distribution network across 294 locations with ~75,400 distributors (independent financial advisors), 74 banks (including foreign banks, and 94 National distributors (e.g. Karvy). As at Q2FY20, distribution mix by AUM, excluding direct AUM, is: IFAs (55%), banking distributors (25%) & national distributor (20%). In the absence of a bank promoter, RNAM focused on developing a strong IFA network. IFA AUM, over the years, has increased from Rs 350bn (27% of MF AUM) in FY15 to Rs 575bn (31% of MF AUM) in Q2FY20.

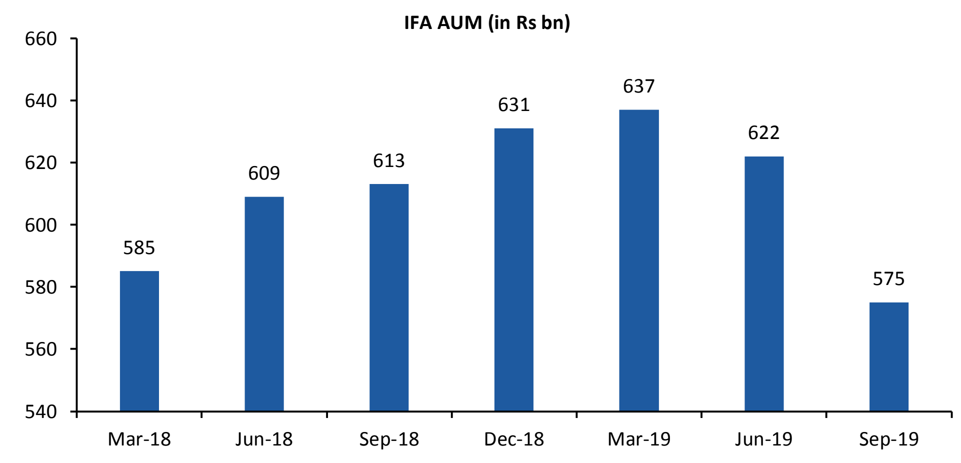
Fig 47: IFAs dominate the share of distribution



Source: Company, Centrum Research

RNAM's strong distribution network in India has helped it garner high retail AUM. RNAM also manages offshore funds through subsidiaries in Singapore and Mauritius and has a representative office in Dubai, which enables it to cater to investors across Asia, Middle East, UK, US, and Europe.

Fig 48: IFA AUM declines due to NAV impact



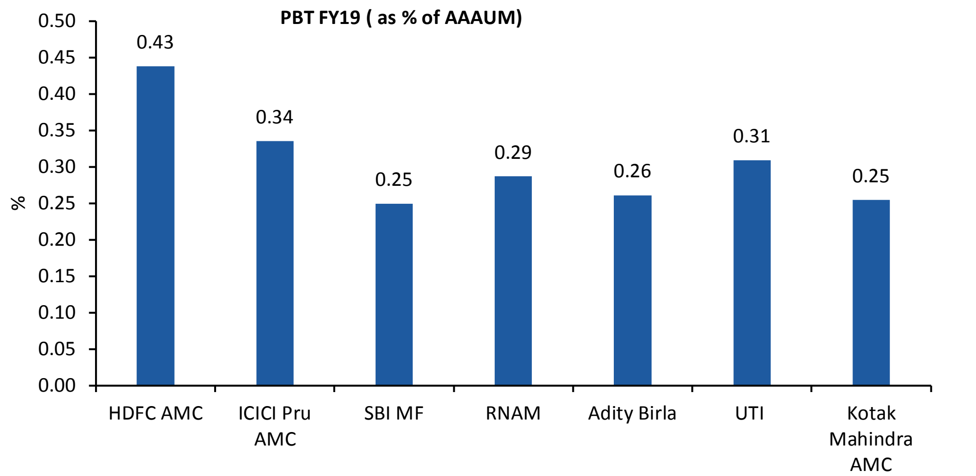
Source: Company, Centrum Research

Profitability

Operational leverage to aid future profitability

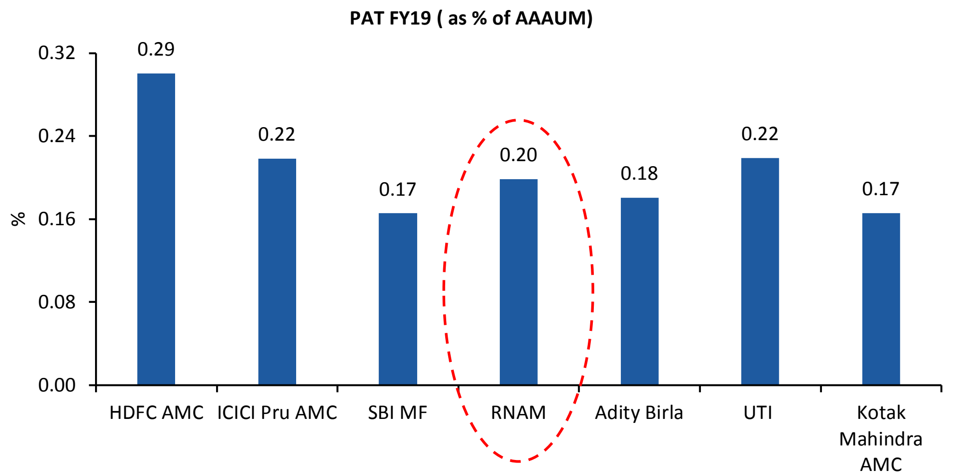
When compared to its peers, RNAM's operational expenses are higher. This is attributable to both higher employee costs and other costs. There is limited scope for a reduction in operating expense. Going forward, we expect profitability to strengthen on account of economies of scale, a likely improvement in share of equity flows (largely led by individual investors) and a gradual improvement in debt & liquid flows (largely from institutional investors). We expect PAT to grow at 14% CAGR in FY19-21E.

Fig 49: RNAM PBT impacted by higher opex…



Source: Company, Centrum Research

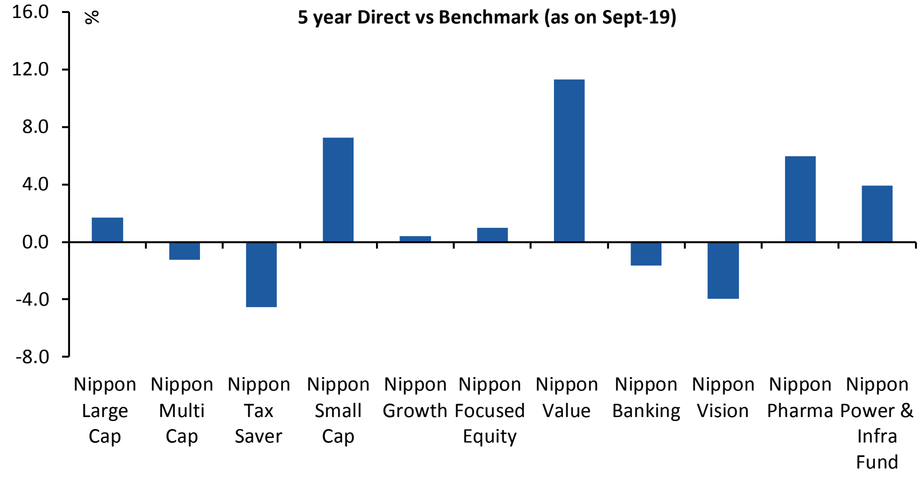
Fig 50: PAT margin is the mid-range of the peer group



Source: Company, Centrum Research

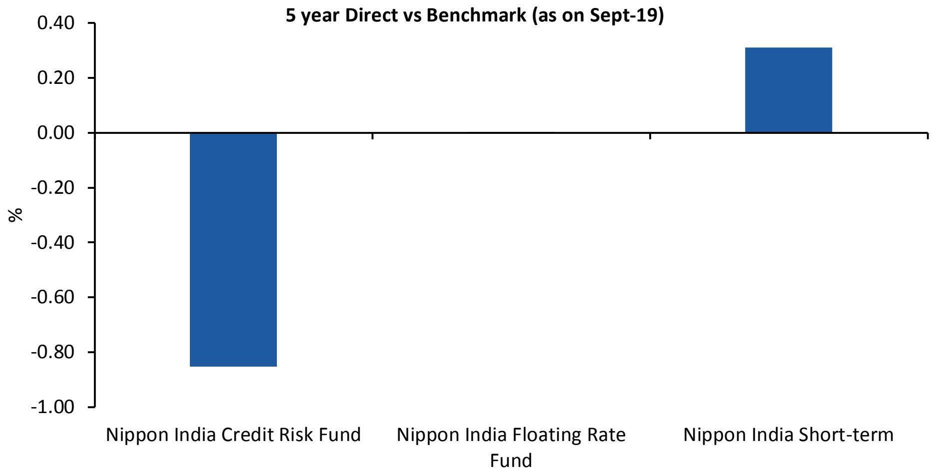
Scheme performance

Fig 51: Top 11 Equity funds performance (accounting for 99% of pure equity AUM)



Source: Company, Centrum Research

Fig 52: Top-3 Debt Funds (accounting for 66% of debt AUM)



Source: Company, Centrum Research

Management Team

CEO: Mr. Sundeep Sikka is the Executive Director & Chief Executive Officer of Reliance Nippon Life Asset Management Limited (RNAM). Sundeep has held both Vice-Chairman and Chairman positions of the industry body AMFI (Association of Mutual Funds in India). Sundeep joined RNAM in 2003, and has handled various positions through which he has been instrumental in building domestic and international operations of the company.

CFO: Prateek Jain has over 16 years of experience in finance. Prior to RNAM, he worked with AIG Global Asset Management Company as CFO & Head - Risk Management. He has also been associated with organizations such as Howden Insurance Brokers India Pvt Ltd. and ICICI Lombard General Insurance Company Ltd.

CIO - Equity Investments: Manish Gunwani is CIO - Equity Investments at Nippon India Mutual Fund. Manish graduated from IIT Chennai with a B.Tech and has a Post Graduate Diploma in Management from IIM Bangalore. Manish has over 21 years of work experience primarily in equities spanning roles in equity research and fund management. He has also co-founded a technology company in the document management space.

Key Risks to our thesis

Reduction in financial savings rate: Indian households have increasingly been inclined towards financial savings in the recent past. Net financial savings as % of net household savings increased to 38% as of FY18, up from 31% in FY12. This has helped sustain flows into financial assets, despite a general decrease in the savings rate in the economy. Gross savings to GDP ratio has declined to 30% as of FY18, from 34% as of FY12. Erosion in the financial savings rate, triggered by outperformance of physical assets (gold / real estate) or underperformance of financial assets, or a general decrease in savings in the economy, pose a risk to our thesis.

Brand: There is an expectation of improved debt & liquid inflows over the near-medium term from domestic and offshore corporates post the acquisition by Nippon Life. If debt & liquid inflows do not improve materially over this tenure, it could pose a risk to our thesis.

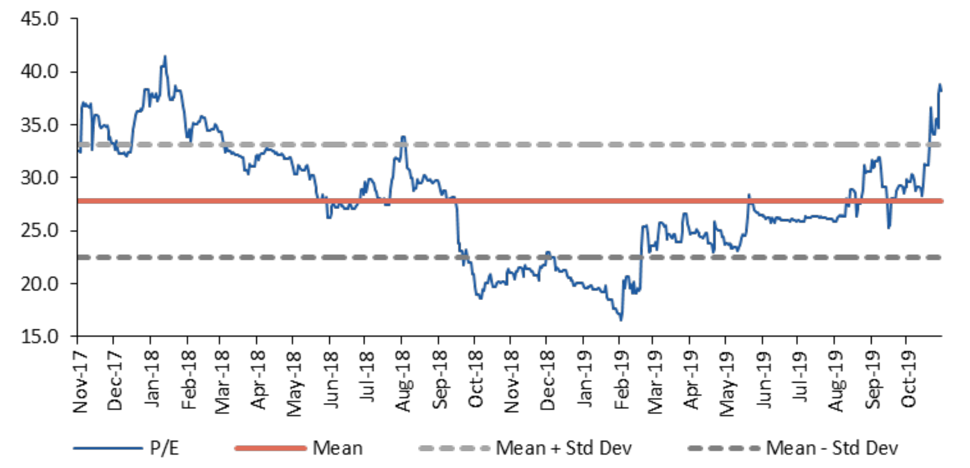
Scheme underperformance: Inflows within the schemes are dependent on performance compared to benchmarks. Underperformance within the top schemes could lead to higher redemption and lower AUM growth, which would dent yields and profitability.

Extended bear market scenario: RNAM's business is closely linked to the performance of debt and equity capital markets. Any prolonged underperformance of the capital markets may result in weakness in operational performance for the AMC.

Valuation

We value RNAM using Multiple approach. We value RNAM at 40.8x FY21E EPS to arrive at our TP of Rs 421 / share.

Fig 53: Forward P/E



Source: Company, Centrum Research Estimates

Fig 54: Key Assumptions

Growth	FY20E	FY21E
Equity	-4.6	10.7
Debt	-9.8	15.0
Liquid	-31.5	17.1
Others	44.7	25.3
Overall	-7.0	15.0
Yields		
Equity	0.96%	0.96%
Debt	0.50%	0.50%
Liquid	0.12%	0.12%
Others	0.17%	0.17%

Source: Company, Centrum Research

P&L

YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operations	**13,075**	**15,918**	**14,786**	**13,014**	**14,661**
Investment Management Fees	12,676	15,526	14,464	12,730	14,342
PMS and Advisory Fees	399	392	322	283	319
Expenses	**8,545**	**10,930**	**9,497**	**8,102**	**7,747**
Fees and Commission	2,594	3,105	2,583	668	256
EBE	1,957	2,572	2,935	3,785	3,585
Depreciation	77	85	101	308	320
Other Expenses	3,917	5,168	3,878	3,340	3,585
Core Operating Income	**4,530**	**4,988**	**5,290**	**4,912**	**6,915**
Other Income	1,284	1,569	1,713	1,431	1,530
Exceptional Item : Impairment of FI	0	0	0	0	0
PBT	**5,814**	**6,556**	**7,002**	**6,343**	**8,445**
Tax	1,794	1,984	2,132	1,510	2,128
PAT	**4,020**	**4,572**	**4,871**	**4,832**	**6,317**
Dividend	**2,981**	**4,420**	**5,165**	**4,349**	**5,685**
Retained Earnings	**1,039**	**153**	**-294**	**483**	**632**

Growth ratios (%)

YE March	FY17	FY18	FY19	FY20E	FY21E
AUM	23.3	24.4	1.3	(7.0)	15.0
Revenue from Operations	12.3	21.7	(7.1)	(12.0)	12.7
EBE	(3.0)	31.5	14.1	29.0	(5.3)
PAT	8.5	13.7	6.5	(0.8)	30.7

Profitability Ratios (%)

Yield on AUM	0.69	0.67	0.62	0.58	0.57
Yield on Investments	8.43	8.04	8.15	6.20	6.40
EBE / Core Revenue	15.0	16.2	19.8	29.1	24.5
Operating Income/ Core Revenue	34.6	31.3	35.8	37.7	47.2
Other Income / Core Revenue	9.8	9.9	11.6	11.0	10.4
Effective tax rate	30.8	30.3	30.4	23.8	25.2
PAT Margin	30.7	28.7	32.9	37.1	43.1
ROE	21.5	20.5	19.5	18.6	23.8
ROAAUM	0.21	0.19	0.20	0.22	0.25

DuPont analysis (%)

Revenue from Operations	0.69	0.67	0.62	0.58	0.57
Investment Management Fees	0.67	0.66	0.60	0.57	0.56
PMS and Advisory Fees	0.02	0.02	0.01	0.01	0.01
Expenses	0.45	0.46	0.40	0.36	0.30
Fees and Commission	0.14	0.13	0.11	0.03	0.01
EBE	0.10	0.11	0.12	0.17	0.14
Depreciation	0.00	0.00	0.00	0.01	0.01
Other Expenses	0.21	0.22	0.16	0.15	0.14
Core Operating Income	0.24	0.21	0.22	0.22	0.27
Other Income	0.07	0.07	0.07	0.06	0.06
PBT	0.31	0.28	0.29	0.28	0.33
Tax	0.09	0.08	0.09	0.07	0.08
PAT	0.21	0.19	0.20	0.22	0.25

Source: Company, Centrum Research estimates

Balance sheet

YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Share Capital	115	6,120	6,120	6,120	6,120
Reserves and Surplus	20,186	18,187	19,580	20,063	20,695
Net Worth	**20,301**	**24,307**	**25,700**	**26,183**	**26,815**
Trade Payables	1,135	1,329	474	505	495
Employee Benefit	216	297	435	467	393
Others	772	1,249	1,150	1,035	931
Total Liabilities and Equity	**22,423**	**27,182**	**27,758**	**28,190**	**28,634**
Cash and Bank	471	6,091	5,428	5,428	5,428
Investment	11,444	9,934	12,900	14,173	14,382
Fixed Asset	2,520	2,603	2,568	2,671	2,804
Loans	4,262	4,246	3,696	3,696	3,696
Receivables	432	404	1,026	463	482
Others	3,294	3,905	2,141	1,759	1,842
Total Assets	**22,423**	**27,182**	**27,758**	**28,190**	**28,634**

AUM Breakup % of AAAUM

YE March	FY17	FY18	FY19	FY20E	FY21E
Equity	28.0	36.0	39.0	40.0	38.5
Debt	47.0	40.0	33.0	32.0	32.0
Liquid	19.0	19.0	19.0	14.0	14.3
Others	6.0	5.0	9.0	14.0	15.3

Growth % basis AAAUM

YE March	FY17	FY18	FY19	FY20E	FY21E
Equity	15.1	59.9	9.7	-4.6	10.7
Debt	20.7	5.8	-16.5	-9.8	15.0
Liquid	6.5	24.4	1.3	-31.5	17.1
Others	639.7	3.6	82.3	44.7	25.3

Valuations

YE March	FY17	FY18	FY19	FY20E	FY21E
EPS (Rs)	349.0	7.5	8.0	7.9	10.3
DPS (Rs)	258.8	7.2	8.4	7.1	9.3
BVPS (Rs)	1762.2	39.7	42.0	42.8	43.8
Dividend Yield (%)		2.6	4.2	3.0	2.6
P/E (x)		36.8	25.1	29.9	35.1
P/B (x)		6.9	4.8	5.5	8.3

Source: Company, Centrum Research estimates

FY19 Dupont Analysis: Top 7 AMCs

The Dupont analysis for the peer group summarising the break-up of its unit profitability is tabulated below. HDFC AMC has the second highest RoE among the top 7 AMCs. It has consistently delivered RoE > 30% in the FY13-19 period. HDFC AMC's superior profitability is clearly evident from the table below.

Fig 55: DuPont

Dupont	HDFC AMC	ICICI Pru AMC	UTI	RNAM	Birla	SBI MF	Kotak Mahindra AMC
Revenue from Operations	**0.59**	**0.62**	**0.52**	**0.59**	**0.53**	**0.58**	**0.47**
Investment Management Fees	0.59	0.57	0.51	0.57	0.49	0.56	0.40
PMS and Advisory Fees	0.01	0.05	0.00	0.02	0.04	0.02	0.07
Expenses	**0.21**	**0.31**	**0.32**	**0.38**	**0.30**	**0.35**	**0.23**
EBE	0.06	0.08	0.17	0.12	0.11	0.08	0.07
Depreciation	0.00	0.01	0.01	0.00	0.01	0.01	0.01
Other Expenses	0.14	0.22	0.14	0.26	0.19	0.26	0.16
Core Operating Income	**0.38**	**0.31**	**0.19**	**0.21**	**0.23**	**0.22**	**0.24**
Other Income	0.06	0.02	0.12	0.07	0.03	0.03	0.02
PBT	**0.43**	**0.34**	**0.31**	**0.29**	**0.26**	**0.25**	**0.25**
Tax	0.14	0.12	0.09	0.09	0.08	0.08	0.09
PAT	**0.29**	**0.22**	**0.22**	**0.20**	**0.18**	**0.17**	**0.17**

Source: Company, Centrum Research

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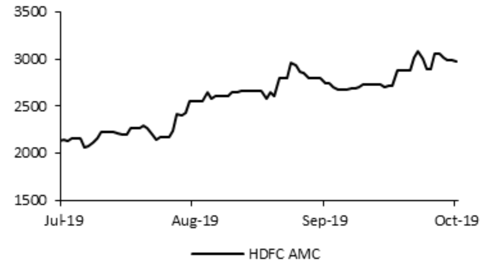
Add – the stock is expected to return 5-15%.

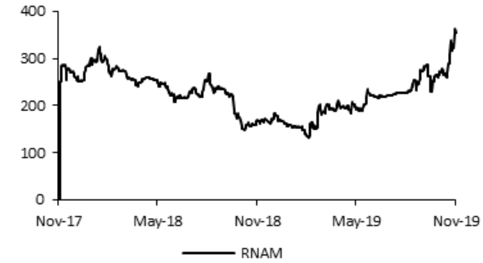
Reduce – the stock is expected to deliver -5-+5% returns.

Sell – the stock is expected to deliver <-5% returns.

HDFC AMC



RNAM



Source: Bloomberg

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