RM securities

Date: 11/05/2020
Company: HDFC AMC Ltd.
Industry: Asset Management

Result Snapshot

Amt. in Rs. Crs.	Q4FY20	Q3FY20	Q-o-Q(%)	Q4FY19	Y-o-Y(%)
Revenue	476.13	524.73	-9.3%	486.50	-2.1%
Other Income	-26.51	67.26		61.17	
Total Income	449.62	591.99	-24.0%	547.67	-17.9%
EBITDA	371.68	413.61	-10.1%	356.85	4.2%
EBIDTA (%)	78.1%	78.8%		73.4%	
EBIT	356.08	400.97	-11.2%	353.38	0.8%
PBT	329.57	466.03	-29.3%	414.55	-20.5%
PAT	249.83	352.55	-29.1%	276.17	-9.5%
PAT%	52.5%	67.2%		56.8%	

Result / Con-call Highlights:

1) Result Update:

HDFC AMC being the second largest asset management company in India in terms of total asset under management (AUM) ended the March 31, 2020 quarter with revenue of Rs. 476 cr down 9.3% Q-o-Q basis and down 2.1% Y-o-Y basis mainly on account of fall in equity oriented AUM. Total Income declined by 24% Q-o-Q and came in at Rs. 449 cr due to one off impact on other income. The Operating Profit (EBIT) of the company for the quarter ended March 31, 2020 was Rs. 356 cr as compared to Rs. 353 cr for the quarter ended March 31, 2019 an increase of 0.8%.

PAT for the quarter ended March 31, 2020 was at Rs. 249 cr down 9.5% on Y-o-Y basis. Adjusting for non-recurring items, the company reported a PAT of Rs. 321 cr in Q4 FY20 compared to a PAT of Rs. 283 cr in Q4 FY19 up by 13%. The company also declared a dividend of Rs. 28 per share for FY20.

The Company holds certain Non-Convertible Debentures (NCDs) that are secured by a pledge of listed equity shares of Essel Group. Accounting standards of FVPL (Fair Valuation through Profit and Loss) states that any change in the fair value on the reporting date is reflected as Other Income and any subsequent losses turning aggregated fair value to negative is shown as Other Expense. Accordingly the unrealized loss recognized in the results for the year ended March 31, 2020 stands at Rs. 120.36 cr as compared to Rs.25.10 cr in 9M FY20 which formed the part of Other Income. The carrying value of these NCDs as on March 31, 2020 was Rs. 29.42 cr. The value of the collateral as on March 31, 2020 is Rs. 35.87 cr

2) Business Update:

Quarterly Average AUM (QAAUM) declined by ~3% to Rs. 3,69,800 cr for the quarter ended March 31, 2020 from Rs. 3,82,500 cr in the quarter ended December 31, 2019. This fall is mainly due to decline in equity oriented assets of the company because of the fall in the markets at the end of March, 2020 thereby affecting HDFC AMC's revenue.
The fall in HDFC AMC's revenue can be further diagnosed if we only look at Actively Managed Equity-Oriented AUM based on the closing date of the quarter.

Result / Con-call Highlights: (Continued)

(Amt in Rs. Cr)	December 2019	March 2020	% Down
Closing Total AUM	3,68,900	3,19,100	-13.5%
Closing Actively Managed Equity-Oriented AUM	1,69,400	1,20,000	**-29.2%**

The ratio of equity oriented AUM to non-equity oriented AUM is 38:62 for HDFC AMC, in line with the industry's ratio 37:63. However, for HDFC AMC and likewise for the industry a major chunk of AMC's profitability is attributable to the equity AUM on account of higher margins in the actively managed equity schemes. In the case of HDFC AMC ~75% of the profitability is attributable to the equity AUM which continues to remain under pressure for the time being due to 'flight to safety' of capital coupled with higher liquidity preference of people at large on account of the prevailing economic situation. Management has also chosen to remain cautiously optimistic showing signs of deferment of growth expectations.

However it is to be noted that reduction in fund (AUM) sizes allows for expansion in TER (Total Expense Ratio) this can help offset the impact of reduction in AUM by some extent.

3) Other Updates:

- At this point, Covid-19 impact on the value of the Company's assets is minimal. However, since the revenue of the company is ultimately dependent on the value of the assets it manages, changes in market conditions and the trend of flows into mutual funds will have an impact on the operations of the company.
- During 2008 GFC (Global Financial Crisis) management navigated through its utmost focus on high margin Equity Oriented AUM and secondly through cost cutting measures in maintaining the margins.

4) Outlook:

In the near term we continue to expect profitability of the AMC industry to remain under pressure due to higher redemptions in equity oriented schemes / lack of growth in AUM of the equity oriented schemes. Also, going ahead we believe the liquidity preference of investors & redemptions due to need for cash flows in the current cash strapped economic situations shall only expand creating further pressure on HDFC AMC's profitability.

However, investments in lower margin products in the liquid / debt / arbitrage categories, Incremental TER's, evolved technology to conduct business in these times & healthy balance sheet shall get HDFC AMC through the tough times.

We believe that HDFC AMC will stand to be a premier value creating investment when the economy stabilizes and the capital markets achieve normalcy, as improvement in these shall aid both the profitability & the valuation of the stock. However, in the current state of affairs we assign a HOLD rating to the stock and shall revisit the stock at a later date.

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