SMART SYNC SERVICES

HDFC AMC Q2FY21

Financial Results & Highlights

Brief Company Introduction

HDFC Asset Management Company Limited (HDFC AMC) is Investment Manager to HDFC Mutual Fund, the largest mutual fund in the country. HDFC AMC has a diversified asset class mix across Equity and Fixed Income/Others. It also has a countrywide network of branches along with a diversified distribution network comprising Banks, Independent Financial Advisors and National Distributors.

Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	570	549	3.83%	491	16.09%	1061	1102	-3.72%
PBT	463	428	8.18%	380	21.84%	843	857	-1.63%
PAT	338	368	-8.15%	302	11.92%	640	660	-3.03%

Detailed Results

1. Revenues for the quarter were up 4% YoY at Rs 570 Cr.
2. PBT in Q2 is up 8% YoY and PAT is down 8% YoY.
3. QAAUM for the company was at Rs 3755 billion which was flat YoY. Closing AUM was down 3% YoY at Rs 3544 Cr. Market share in both was at 13.6% and 13.2% respectively.
4. The breakup of closing AUM for HDFC by segment is as follows:
    1. Equity: 40.5% vs industry average of 38.39%
    2. Debt: 35.4% vs industry average of 34.3%
    3. Liquid: 21.9% vs industry average of 16%
    4. Others: 2.2% vs industry average of 10.7%
5. Market share in Actively Managed Equity Oriented AUM for HDFC is 14.1%. Actively managed QAAUM saw a fall of 11% YoY while Closing AUM fell 14% YoY.
6. Market share in Debt QAAUM was at 13.4% and QAAUM & Closing AUM have risen 15% and 19% YoY respectively.
7. Market share in liquid funds was at 18.7% by QAAUM which was down 4% YoY. Closing AUM for liquid funds was down 13% YoY.
8. The number of individual accounts fell 2% YoY while individual MAAUM fell 6% YoY.

9. The company also maintained a long tenure SIP book with 83% of order book having flows over 5 years and 71% having flows over 10 years.
10. The distribution of total AUM across different channels saw the following changes:
    1. Direct: 47.4% vs 42.5% a year ago
    2. HDFC Bank: 5.4% vs 7.2% a year ago
    3. Banks: 10% vs 13% a year ago
    4. MFDs: 24.8% vs 27.3% a year ago
    5. National Distributors: 17.8% vs 17.3% a year ago.
11. The company also maintained its position as 2nd biggest player in B30 markets with an 11.7% market share. The company has a total of 223 branches with 145 in B30 cities and 65,000+ empanelled distribution partners. The company now has customers in 98% of pin codes in India
12. The company expects to see 87% of transactions in FY21 by electronic means as compared to 69% in FY20.

Investor Conference Call Highlights

1. The gain from MTM from the Essel exposure has been 5.7-5.8% net of tax.
2. The management admits that the fall in market share in actively managed equity space has been partly due to the fund's performance but it still has enough gap with the 2nd player to sustain and gain back the lost market share in the future.
3. The market share in debt has remained stable despite the redemptions in credit funds in Q1.
4. The market share in liquid funds has dipped as more and more alternatives have popped up but the company still holds a lead of more than Rs 15000 Cr over its nearest competitor which is a very dominant position in the market.
5. The management remains confident that the investment performance in the equity will bounce back and the company will regain lost market share in the medium term.
6. The company is also working on and looking to launch new products including thematic products and will fill existing product gaps. This is also expected to help gain lost market share and capture even more shares than before.
7. The sequential improvement in expenses is mainly due to the renegotiation of rent costs.
8. The total run rate of monthly SIPs in the industry has come down marginally even though more and more new SIPs are opened as existing SIPs are getting reduced due to the high volatility in markets. The management expects this to be temporary.
9. Equity yields have remained stable while debt yields have gone down due to a smaller share of credit risk funds which yielded higher management fees.

10. The management admits that there will certainly be a period of risk aversion to equities due to the overhang of the pandemic and it will difficult to predict how long this will last.
11. The company is looking to offer increased commission payouts for certain selected products as a festival kind of a promotion campaign. It will also be giving out higher commissions for its new launch products when they come out to engage the distributor fraternity and endorse its brand and new product range.
12. The company is looking to bring in 1-2 more fund managers and has not settled on any quantum on how much these new managers will be managing when they join up. It will be making allocations based on the approach and market cap category and other factors.
13. One of the new products which are expected to fill the gap is a dedicated dividend fund which will have companies that have high dividend yield.
14. The management believes that there is still a lot of untapped potential in equity as an investment class and it will take at least 10-15 years for every household to have equity exposure through a mandated retirement plan like 401K in the USA or any other govt program.
15. The company has been slow in launching ETFs as most of the money in ETFs is in index ETFs and the majority of the money is coming from sources like EPFO which have a mandate to invest only in government-owned asset management companies.
16. The largest challenge for the industry still remains customer reach in terms of total population size and distributors are instrumental in connecting this gap. And the financials of an ETF make it almost impossible for distributors to have much incentive to sell them to customers.
17. The company is indeed open to making thematic ETFs based on indexes representing those themes but this is still far away.
18. The management has admitted that hybrid funds are losing connect with investors and it is becoming more preferable for investors to divide allocation to separate equity and debt funds rather than go for a single hybrid fund.
19. The key lead indicator for investors' interest in the equities for the management is absolute returns for the industry as compared to benchmark bank interest rates. As long as equity funds deliver superior performance to bank interest rates, people will be looking to invest in equities and equity MFs.
20. A major purpose of the branches for HDFC AMC is to service distributors in the region which is not possible through any outsourced means.

Analyst's View

HDFC AMC is the leading mutual fund house in India. It is the market leader in actively managed equity funds space and a trusted mutual fund provider for individual investors which is evident in their high

individual account numbers and AUM. The company had a muted quarter due to a fall in Equity AUM and a falling share of credit risk funds in the debt category. The company has done well to focus on cost savings and facilitating online registrations and transactions to cover for difficulties in physical transactions due to COVID-19. It is also good to see that the company is looking to launch new products in the near future which will help address current gaps in the addressable market and expand into the thematic equity investment space. It remains to be seen how the COVID-19 situation will unravel and how it will continue to affect the investment sentiments in India. However, given the company's strong past track record and its leadership position in the industry, the medium and long term outlook for HDFC AMC remains intact.