

HDFC AMC Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	595	592	0.51%	570	4.39%	1656	1694	-2.24%
PBT	483	466	3.65%	463	4.32%	1326	1323	0.23%
PAT	369	353	4.53%	338	9.17%	1010	1013	-0.30%

Detailed Results

- Revenues for the quarter were up 0.5% YoY only at Rs 592 Cr.
- PBT in Q3 is up 3.6% YoY and PAT is up 4.5% YoY.
- QAAUM for the company was at Rs 3895 billion which was up 2% YoY. Closing AUM was up 10% YoY at Rs 4068 Cr. Market share in both was at 13.1%.
- The breakup of closing AUM for HDFC by segment is as follows:
 - Equity: 40.4% vs industry average of 39.2%
 - Debt: 38.4% vs industry average of 35.3%
 - Liquid: 19.2% vs industry average of 14.4%
 - Others: 2% vs industry average of 11%
- Market share in Actively Managed Equity Oriented AUM for HDFC is 13.6%. Actively managed QAAUM saw a fall of 10% YoY while Closing AUM fell 5% YoY.
- Market share in Debt QAAUM was at 13.8% and QAAUM & Closing AUM have risen 34% and 40% YoY respectively.
- Market share in liquid funds was at 17.2% by QAAUM which was down 17% YoY. Closing AUM for liquid funds was flat YoY.
- The number of individual accounts fell 4% YoY while individual MAAUM fell 2% YoY.

9. The company also maintained a long tenure SIP book with 83% of order book having flows over 5 years and 72% having flows over 10 years.
10. The distribution of total AUM across different channels saw the following changes:
 1. Direct: 49.2% vs 41.7% a year ago
 2. HDFC Bank: 5.3% vs 6.5% a year ago
 3. Banks: 9.6% vs 12.2% a year ago
 4. MFDs: 24.4% vs 26.4% a year ago
 5. National Distributors: 16.8% vs 19.8% a year ago.
11. The company also maintained its position as 2nd biggest player in B30 markets with an 11.8% market share. The company has a total of 224 branches with 146 in B30 cities and 65,000+ empanelled distribution partners. The company now has customers in 98% of pin codes in India
12. The company has seen 84% of transactions in 9MFY21 by electronic means as compared to 69% in FY20.

Investor Conference Call Highlights

1. Equity-oriented funds saw net outflows of INR 440 billion during the quarter, while debt-oriented funds from net inflows of INR 1,518 billion. Liquid funds saw net new flows of INR 131 billion during the quarter ended December 2020 for the MF industry.
2. Individual investors contributed to 52% of the industry's total MAAUM and 91% of the equity MAAUM.
3. The management admits that competing with SBI MF is difficult in B30 regions due to the breadth of the reach of SBI itself which is a captive distributor for SBI MF. But HDFC AMC is content at the moment on maintaining the lead over the 3rd ranked player and will continue to focus on brand building in B30 regions.
4. The management attributes the general industry outflows in equity funds in Dec to risk aversion which was evident from the fact that bank deposits grew 10% YoY despite interest rates being at historically low levels. This has also led to outstanding growth in debt funds in the same period.
5. The management expects this redemption behavior to taper off as the risk appetite of individual investors comes back to normal.
6. The management firmly believes that increased retail participation indirect equity is not a threat to mutual funds as the captive market is different in terms of their participation and size.
7. The company is looking to bring in diversification in style when looking for investment managers.

8. Although HDFC Equity Fund and HDFC Balanced Advantage Fund have lagged behind the benchmark significantly in the recent past, the management has stated that these funds have shown strong recovery in the last 3 months and should get back to normal levels soon.
9. Debt funds have indeed seen good growth in the past year but if interest rates and liquidity remain at current levels, debt fund returns will start getting moderated as yield remain down.
10. In SIPs, the predominant segment is equity with a very small % going to the non-equity segment.
11. The company saw cost savings of Rs 25 Cr in 9M most of which was from lockdown and cost savings initiatives taken by the company.
12. The management has assured that cost control shall be calibrated according to the business environment and if the company sees a chance for business growth it will be ready to spend money to do it.
13. The channels with the most influence in B30 regions are banks and IFAs. But the digital channel is also growing fast with widespread internet coverage and thus the dependence on specific channels is coming down.
14. The company is indeed looking at IFAs & MFD as one of the mainstays of the B30 regions. Around 41.2% of AUM in B30 comes from IFAs. The company also saw good participation of over 6500 IFAs at the recent launch of its HDFC Dividend Yield Fund which collected Rs 1500 Cr at its debut.
15. The other income growth was mainly driven by the fact that the company invested a large part of its investment book in debt funds. But the management admits that this growth is clearly not sustainable and will taper off going forward.
16. In Q3's board meet, the management has gotten another fund launch approved which is to be registered for approval with the regulator in the next month.
17. The company has a pipeline of 3 new funds for launch.
18. The management states that since the participation in debt funds is more from HNIs, family offices, institutional investors, etc, these investors tend to invest more via the direct channel which may have led to the growth of the direct channel in the past 2 quarters. HDFC AMC has not made any conscious effort to grow the direct channel by themselves.
19. The company has not made any change in TER for debt funds in the last 2 quarters.
20. New fund collections should not be taken as a measure of the fund's quality as these funds are open-ended and will need some time to deliver performance.

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 its high individual account numbers and AUM. The company had a muted quarter due to the continuing fall in Equity AUM and overall outflows for the MF industry. The company has done well to focus on cost savings and new product launches and was able to launch the HDFC Dividend Yield Fund with good reception and collections of Rs 1500 Cr. The management has admitted that some of the equity funds had fallen behind the benchmark but they have assured that the recovery in these funds has already started. It remains to be seen how the economic situation post-COVID-19 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.

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