India

HOLD *(previously ADD)*

Consensus ratings*: Buy 21 Hold 6 Sell 1

Current price:	Rs5,510
Target price: ▲	Rs5,600
Previous target:	Rs4,900
Up/downside:	1.6%
InCred Research / Consensus:	10.9%
Reuters:	
Bloomberg:	HDFCAMC IN
Market cap:	US$13,693m
	Rs1,178,642m
Average daily turnover:	US$24.9m
	Rs2142.9m
Current shares o/s:	213.2m
Free float:	47.5%

Source: Bloomberg

Key changes in this note

- We revise upwards our revenue estimates to incorporate the strong 1QFY26 performance.

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.6	30.6	34.8
Relative (%)	9.5	24.7	33.3

Major shareholders	% held
HDFC	52.5
SBI MF	2.8
UTI Pension	2.1

Research Analyst(s)

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HDFC AMC

The strong getting stronger

- HDFC AMC reported a robust 1Q PAT growth of 24% yoy/7% qoq led by good AUM growth, stable yields & benefits from rationalization in Aug 2024.
- Overall net flow share was higher than the book market share. Other income gained strength from stable market performance, which aided profitability.
- Downgrade to HOLD, but with a higher target price of Rs5,600 as the recent run-up in share price makes the risk-reward ratio unfavourable.

Robust asset mgmt fees & treasury gains lead to higher profitability

HDFC AMC reported a PAT of Rs 7.5bn in 1QFY26, up 24% yoy and 17% qoq, led by strong revenue growth (27% yoy/17%qoq) supported by healthy asset management fees and capital market gains. The asset management fees were supported by strong AUM growth, favourable mix, stable yields and continued gains from the rationalization of distribution commission in Aug 2024. Other income grew sizably by 34% yoy and 88% qoq to Rs2bn on the back of strong capital market gains. Of the total investment book of Rs74bn, 9.4% was attributed to equity MF schemes and another 5.4% attributed to other equity, alternate investment funds or AIFs, etc.

Sustainable and favourable high-yield QAAUM mix

QAAUM grew by 23% yoy and 7% qoq to Rs8.2tr driven by strong flows and mark-to-market or MTM gains. The overall market share was stable at 11.5%. Equity QAAUM grew by 22% yoy and 8% qoq while the market share remained sequentially stable at 12.8%. Systematic investment plan or SIP inflow increased by 10% qoq to Rs40bn and the SIP AUM increased by 14% qoq to Rs2tr. Debt funds grew by 19% yoy and 7% qoq, constituting ~20.5% of AUM. However, volatile liquid funds remained flat qoq, reducing their contribution to the total AUM to ~10%, from ~11% qoq.

Stable yields, distribution cuts with higher ESOP & CSR expenses

Reported yields were flat both yoy and from the FY25 level at 46bp. HDFC AMC had started cutting distribution commission from Aug 2024, which is having its impact. The new ESOP scheme is guided to have an impact of Rs560m in FY26F and Rs630m in FY27F. Other expenses included higher CSR expenses of Rs9bn, up from Rs750m.

Valuation and outlook

Historically, we have observed that any sort of high market volatility redirects flows from riskier funds with high short-term gains and low vintage to larger funds with a long vintage. HDFC AMC clearly stands to benefit on this front. Moreover, we expect industry-wide net flows to improve further as the repo rate cut seeps in, making term deposits an unattractive savings tool. We had recently upgraded HDFC AMC's rating to ADD, and the stock has run up by ~38%. Consequently, we downgrade it to HOLD but with a higher target price of Rs5,600 (Rs4,900 earlier), valuing it at 30x FY27F EPS, as we believe the risk-reward ratio has turned unfavourable. Downside/upside risks: Slower inflows and vice-versa.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	0	0	0	0	0
Total Non-Interest Income (Rsm)	31,624	40,583	50,969	60,577	74,259
Operating Revenue (Rsm)	31,624	40,583	50,969	60,577	74,259
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	19,459	24,611	32,689	39,320	48,970
Core EPS (Rs)	91.27	115.43	153.32	184.43	229.69
Core EPS Growth	37%	26%	33%	20%	25%
FD Core P/E (x)	60.37	47.73	35.94	29.88	23.99
DPS (Rs)	70.00	90.00	122.00	147.00	183.00
Dividend Yield	1.27%	1.63%	2.21%	2.67%	3.32%
BVPS (Rs)	332.0	381.5	320.4	354.4	398.3
P/BV (x)	16.59	14.44	17.20	15.55	13.83
ROE	29.5%	32.4%	43.7%	54.7%	61.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY26 earnings-call highlights

- HDFC AMC's overall net flow share is higher than its book market share.
- The reduction in interest rates is attracting investors to the debt market, resulting in highest-ever inflow in debt and liquid fund categories.
- The company added 0.5m unique customers (50% share of the industry).
- Quarterly yields - equity funds (58-59bp), debt funds (27-28bp), liquid funds (12-13bp). The overall yield is 46bp.
- The company has granted ESOPs (1m) with a vesting period of four years - 10%, 20%, 30% and 40%.
- The company has also granted performance stock units (PSU, 0.2m) with a vesting period of four years - 30% and 70% over the third and fourth year.
- Overall ESOP and PSU expenditure is guided to be Rs 2.05 – 2.10bn.
- The company has secured SIF approval from the Securities and Exchange Board of India.
- Debt schemes are seeing higher traction than before.

Figure 1: Quarterly results summary (Rs m)

Rs m	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
Revenue from operations	**7,752**	**8,872**	**9,344**	**9,012**	**9,678**	**24.8%**	**7.4%**
Total revenue (Rs m)	***9,483***	***10,578***	***10,271***	***10,250***	***12,004***	***26.6%***	***17.1%***
Total expenditure	1,959	1,991	1,872	1,897	2,144	**9.5%**	**13.0%**
Cost-to-income (%)	*20.7%*	*18.8%*	*18.2%*	*18.5%*	*17.9%*		
Profit before tax	**7,525**	**8,587**	**8,400**	**8,353**	**9,861**	**31.0%**	**18.0%**
Tax	*1,485*	*2,818*	*1,985*	*1,966*	*2,381*	***60.4%***	***21.1%***
Tax rate (%)	*19.7%*	*32.8%*	*23.6%*	*23.5%*	*24.1%*		
Profit after tax	**6,040**	**5,769**	**6,415**	**6,387**	**7,479**	**23.8%**	**17.1%**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

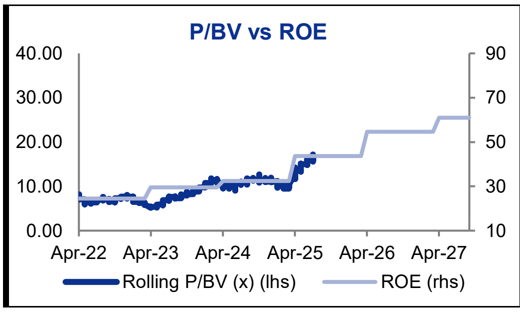
Figure 2: Earnings revision summary

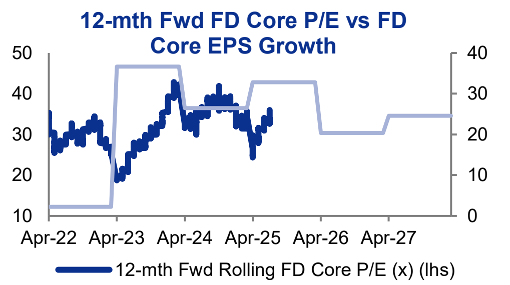
Y/E Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	Variance	Earlier	Revised	Variance	Earlier	Revised	Variance
Revenue from operations	46,603	50,969	9.4%	57,975	60,577	4.5%	69,996	74,259	6.1%
PAT	29,351	32,689	11.4%	36,906	39,320	6.5%	44,882	48,970	9.1%
EPS (Rs)	137	152	11.4%	172	183	6.5%	209	228	9.1%
Dividend payout (%)	*80*	*80*	*0.0%*	*80*	*80*	*0.0%*	*80*	*80*	*0.0%*
QAAUM (Rs tr)	10.0	9.5	-4.6%	12.9	12.5	-3.0%	15	15.1	-1.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

BY THE NUMBERS





Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income					
Total Non-Interest Income	**31,624**	**40,583**	**50,969**	**60,577**	**74,259**
Operating Revenue	31,624	40,583	50,969	60,577	74,259
Total Non-Interest Expenses	**(6,842)**	**(7,718)**	**(8,086)**	**(8,948)**	**(9,860)**
Pre-provision Operating Profit	24,782	32,864	42,883	51,629	64,399
Total Provision Charges					
Operating Profit After Provisions	24,782	32,864	42,883	51,629	64,399
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	24,782	32,864	42,883	51,629	64,399
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	24,782	32,864	42,883	51,629	64,399
Exceptional Items					
Pre-tax Profit	24,782	32,864	42,883	51,629	64,399
Taxation	(5,323)	(8,254)	(10,194)	(12,309)	(15,429)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	19,459	24,611	32,689	39,320	48,970
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	19,459	24,611	32,689	39,320	48,970
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	0.1%	0.1%	0.2%	0.1%	0.1%
Avg Liquid Assets/Avg IEAs					
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans					
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets					
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets					
Intangible Assets					
Other Non-Interest Earning Assets	**2,102**	**2,607**	**2,674**	**2,731**	**2,790**
Total Non-Interest Earning Assets	**3,466**	**4,421**	**4,879**	**5,411**	**6,048**
Cash And Marketable Securities	112	128	138	149	162
Long-term Investments	**71,900**	**82,889**	**82,230**	**102,611**	**130,538**
Total Assets	75,478	87,437	87,247	108,172	136,748
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities					
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	4,785	6,195	19,042	32,711	51,922
Total Liabilities	4,785	6,195	19,042	32,711	51,922
Shareholders Equity	70,791	81,341	68,304	75,561	84,925
Minority Interests					
Total Equity	70,791	81,341	68,304	75,561	84,925

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth					
Operating Profit Growth	32.5%	32.6%	30.5%	20.4%	24.7%
Pretax Profit Growth	32%	33%	30%	20%	25%
Net Interest To Total Income					
Cost Of Funds					
Return On Interest Earning Assets					
Net Interest Spread					
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit					
Interest Return On Average Assets					
Effective Tax Rate	21.5%	25.1%	23.8%	23.8%	24.0%
Net Dividend Payout Ratio					
Return On Average Assets	27.64%	30.21%	37.43%	40.24%	39.99%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.