

SECTOR X-RAY

ASSET MANAGEMENT COMPANIES

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 **HDFC**
MUTUAL FUND

vs

 **Nippon India**
Mutual Fund
Wealth sets you free



AMC – AN INVESTABLE OPPORTUNITY

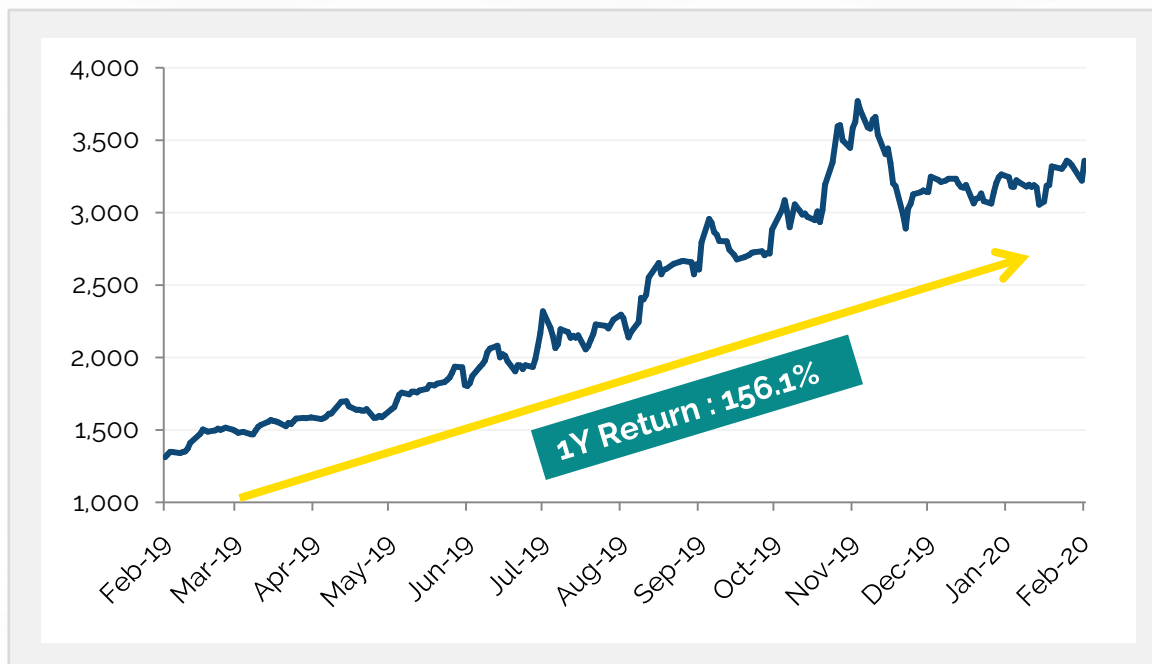
Particulars (in %)	HDFC AMC		Nippon Life AMC	
	FY19	FY18	FY19	FY18
	Efficiency Ratios			
ROCE	52%	58%	28%	31%
ROE	35%	39%	20%	22%
ROA	33%	35%	18%	19%
	Cash Flow Ratios			
CFO/PAT	96.1%	86.9%	79.3%	82.2%
FCFE/Sales	45.8%	34.2%	25.5%	22.7%
FCFE/PAT	94.2%	84.5%	77.5%	78.9%
FCFE/AUM	0.3%	0.2%	0.1%	0.1%
	Dividend Ratios			
Dividend Payout	27.4%	47.4%	77.3%	82.0%
Dividend Yield	0.8%	N/A	2.9%	2.4%

- AMC as a business is that of high operating leverage, i.e. , for every incremental AUM it gets assuming steady performance of schemes, it generates even better profits since the fixed costs are relatively low in this business. Also, as is evident from the numbers above, the MF business is a fundamentally strong business to invest owing to its High ROE, ROCE and Free Cash generation.
- For an investor, Total Return = Capital Appreciation + Dividend, Bonus, etc. Investing in AMCs, not only guarantees capital appreciation due to the massive room for the industry itself to grow as is highlighted further in the report, but also secondary returns in the form of Dividends due to high free cash generation, enhancing Total Returns for an investor.

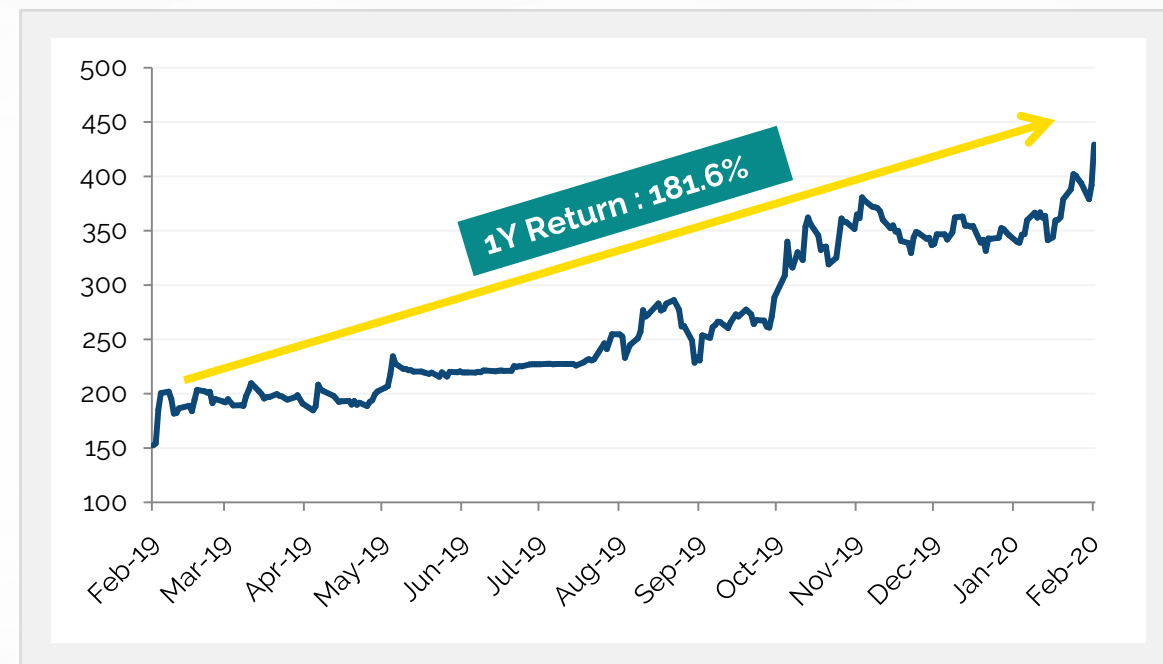
Considering both these factors, we consider **AMCs as one of the best long term investible opportunities with a multiyear growth outlook.**

AMC – LAST 1 YEAR PRICE RETURN

HDFC AMC PRICE RETURN



NAM-INDIA PRICE RETURN

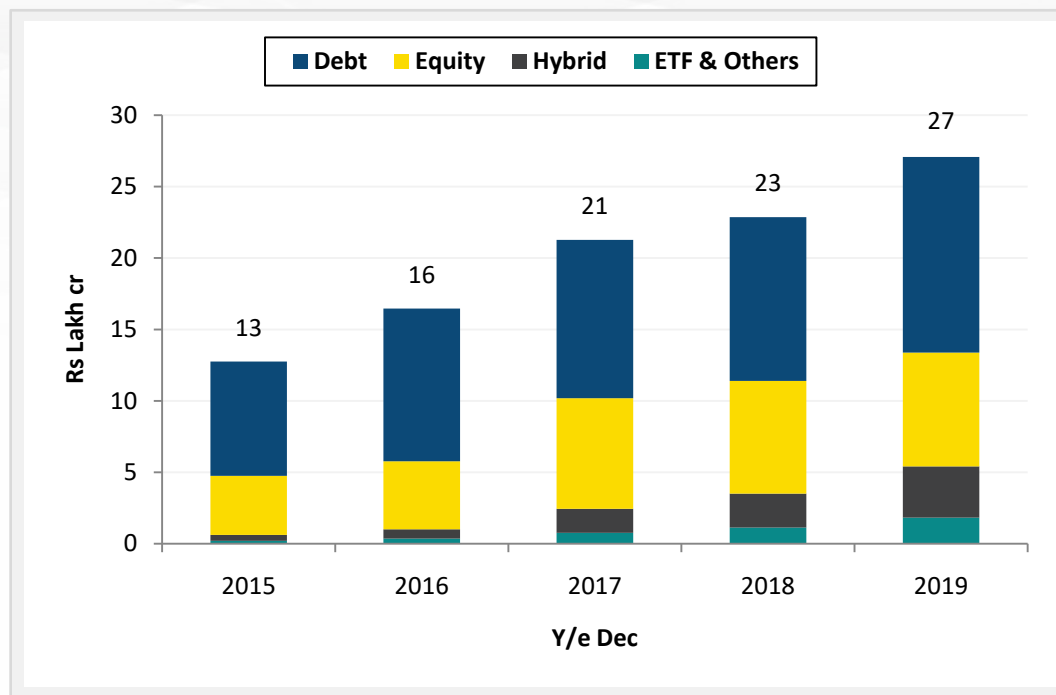


The above two charts highlight the massive capital appreciation (more than 150%) both HDFC AMC and NAM-India have generated for investors in the past 1 year.

Indian MF Industry

Growth Trajectory

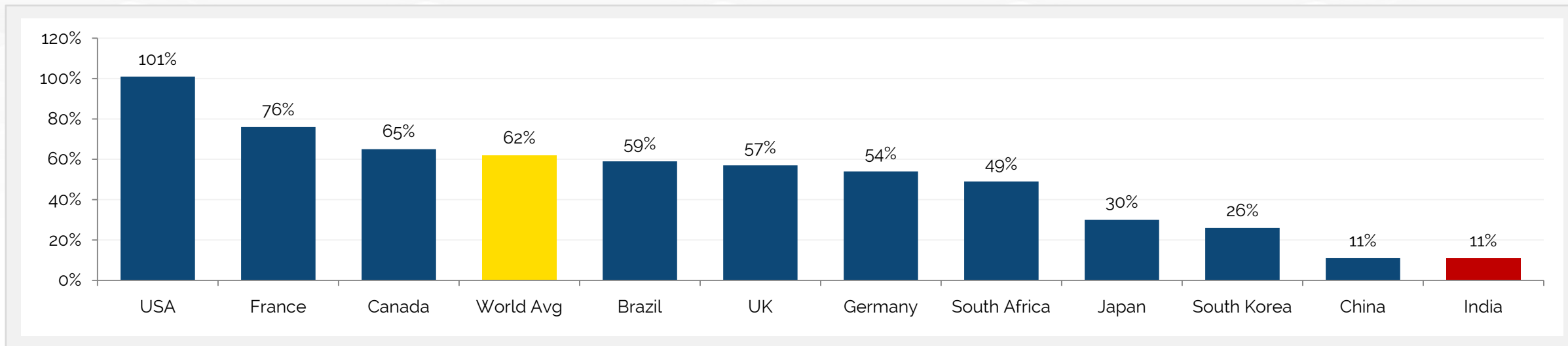
A STELLAR RUN FOR THE INDIAN MF INDUSTRY



AUM (Y/end) (Rs cr)	Dec'15	Dec'16	Dec'17	Dec'18	Dec'19	4 Yr CAGR%
Debt	7,99,996	10,69,559	11,08,032	11,45,787	13,69,310	14.4%
Growth %		33.7%	3.6%	3.4%	19.5%	
Absolute change		2,69,563	38,473	37,755	2,23,523	
Equity	4,12,963	4,75,711	7,74,528	7,89,924	7,97,637	17.9%
Growth %		15.2%	62.8%	2.0%	1.0%	
Absolute change		62,748	2,98,817	15,396	7,713	
ETF & Others	19,683	36,113	76,720	1,13,568	1,82,398	74.5%
Growth %		83.5%	112.4%	48.0%	60.6%	
Absolute change		16,430	40,607	36,848	68,830	
Hybrid	42,193	64,954	1,67,385	2,36,663	3,58,348	70.7%
Growth %		53.9%	157.7%	41.4%	51.4%	
Absolute change		22,761	1,02,431	69,278	1,21,685	
Solution Oriented	-	-	-	-	18,237	N/A
Growth %		N/A	N/A	N/A	N/A	
Absolute change		-	-	-	18,237	
Total	12,74,835	16,46,337	21,26,665	22,85,942	27,25,930	20.9%
Growth %		29.1%	29.2%	7.5%	19.2%	
Absolute change		3,71,502	4,80,328	1,59,277	4,39,988	

- Exhibit on the left shows India's MF industry's consistent growth at 21% CAGR doubling from Rs 12.75 lakh cr in 2015 to Rs 27.26 lakh cr in 2019, led by digital penetration, financialisation of savings due to demonetisation and lower FD rates.
- ETF and Hybrid MF have grown at a CAGR of more than 70% in the last 4 yrs. Low yield ETFs being the fastest growing category, though on a low base, poses a pressure on the margins of actively managed Equity Funds.
- Equity MF and Debt MF grew at 4 yr CAGR of 18% and 14% respectively.
- We can also see the clear jump in Equity Funds and Hybrid Funds of 62% and 158% in 2017, i.e., post demonetisation and lower interest rates.
- Further, Debt funds saw massive redemptions as reflected in the poor growth of just 3.4% in Dec'18, i.e., post IL&FS crisis. However, SEBI was quick to intervene and tightened norms to regain the trust in Debt MFs and hence we see a growth of 19.5% in Dec'19.

YET ENOUGH HEADROOM TO GROW



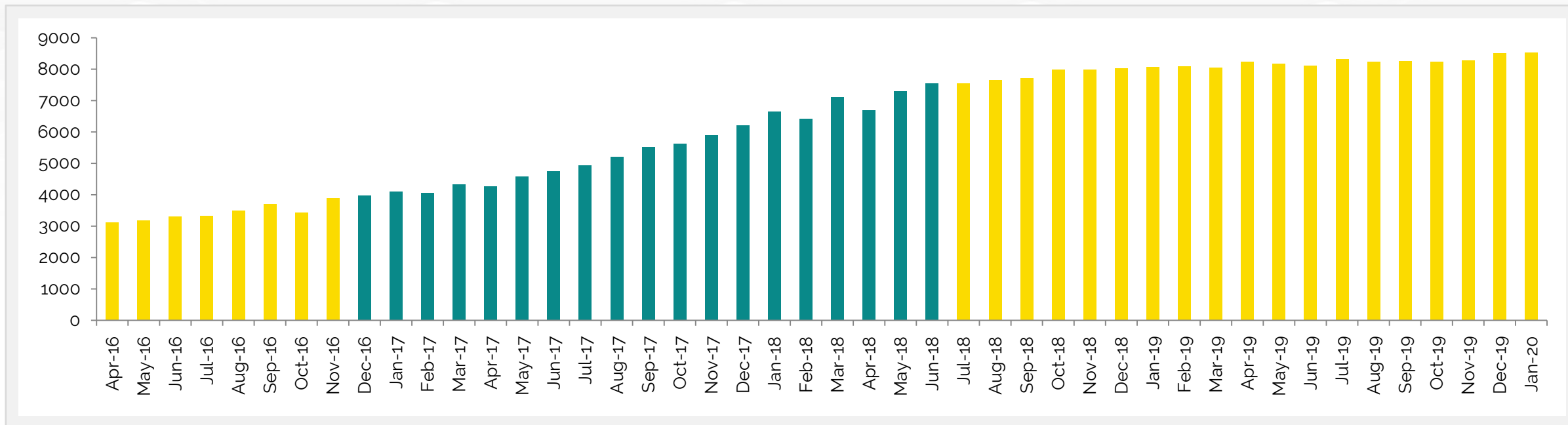
Although MF AUM continues to rise and has even beat the Rs 27 lakh cr mark, total AUM as % of GDP is still very low at about 11% vs world average of about 62% which means there is yet enough room for it to grow from here.

The following factors will facilitate/continue to facilitate the Indian MF industry's growth:

- Growing middle class with rising disposable income
- Large working age population with better job opportunities
- Low FD interest rates accelerating financialization of household savings
- Increasing popularity of SIPs as a mode of investing savings.
- Digital platforms, ease of on boarding coupled with an organized and trustworthy solution for investing with low minimum amounts aid the multiyear growth story.

Given the low penetration and factors facilitating its growth, Indian MF industry is expected to touch Rs 100 lakh cr by 2025.

SIP MONTHLY INFLOW



- Systematic Investment Plan (SIP) is an investment plan offered by Mutual Funds wherein one could invest a fixed amount in a mutual fund scheme periodically, at fixed intervals – say once a month, instead of making a lump-sum investment.
- SIPs can start with as low as Rs 500. Due to the low ticket size and convenience of SIPs, the MF industry penetrated deeper, broadening the investor base participating in the market and hence creating popularity among the masses for this product.
- As is evident from the chart above, with demonetisation in Nov 2016, not only did Industry's SIP book clearly grow but also remained stable at higher levels. This gave a good push to the entire MF Industry in general.

RECENT MACRO DEVELOPMENTS

BUDGET 2020

- **Option to switch to the New Taxation Regime with lower slab rates and no deductions including 80C ELSS deductions.**

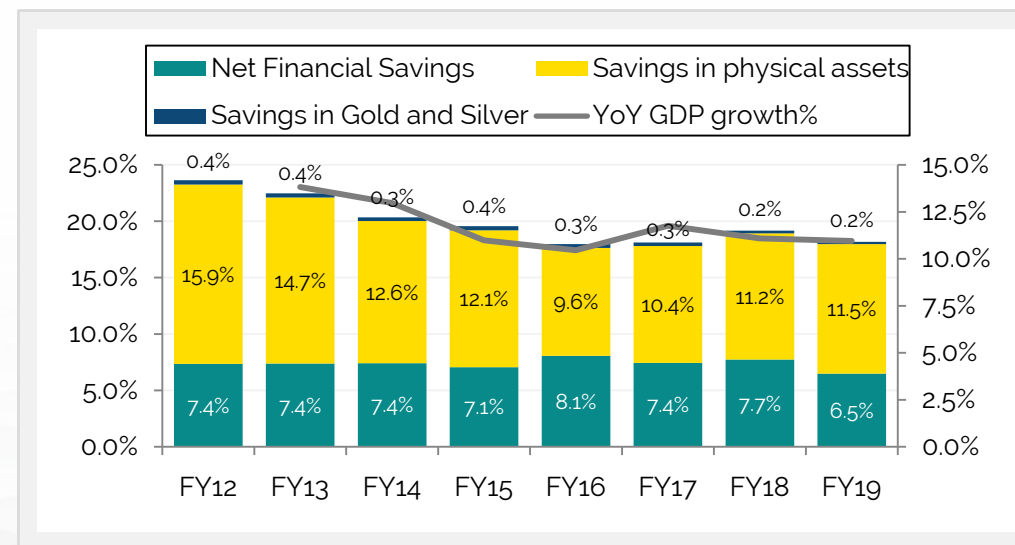
In the last 3 years, ~4% of Industry AUM came from ELSS as on a year-end basis. Deduction in tax through investment in ELSS was a main push strategy by distributors. Hence, we can expect some reduction in this instrument. However, since tax payers could now invest in an asset class of their choice in the new regime and considering the nature of millennials, investments in Equities through MFs could go up especially through the SIP mode, offsetting the impact on ELSS.

- **DDT abolished and 10% TDS on Dividends and Capital Gains introduced.**

Currently, mutual funds are liable to pay DDT of 11.648% on equity funds and 29.12% on debt funds. The new TDS rule would hurt mostly all MF investors except the lower tax bracket debt MF investors. Therefore, MF investors would opt for Growth Option rather than the costlier Dividend Option which implies stickiness to stay invested in the long term and is positive for the AMC.

FINANCIAL SAVINGS RATE

- In the exhibit on the right we have taken the 3 allocations of household income vs Nominal GDP growth.
- FY19 Financial Savings Rate % came in at 8 year low of 6.5% of GDP according to latest provisional estimates from NSO. This is concerning given steady 11% growth in Nominal GDP. A possible reason for this is that it reflects the reduced confidence in the Banking and MF sector post PMC Bank and IL&FS, ADAG crisis respectively. However, we expect some of this lost trust to be regained and mirror in the FY21 numbers.



Global Peer Comparison

Valuation

VALUATION OF GLOBAL PEERS

Y/e Ending	CY 2018							FY 2019	
(Figures in USD bn)	World's largest	Europe's largest	Chinese peers		World peers			Indian peers	
	Blackrock	Amundi	China Huarong - H	Value Partners	T Rowe Price	Franklin Res Inc	Eaton Vance	HDFC AMC	NAM-India
Mcap	87.7	16.8	5.9	1.1	32.5	12.9	5.7	10.0	3.7
Revenue	14.5	5.7	4.2	0.2	5.6	5.7	111.2	0.3	0.2
PAT	4.5	1.1	0.2	0.1	2.1	1.2	0.4	0.13	0.07
CY/FY Closing AUM	5,975.8	1,631.9	27.5	15.1	962.3	717.1	439.3	48.6	59.6
YoY AUM Gr%	-5.0%	-0.1%	-58.8%	-9.0%	-2.9%	-4.8%	4.0%	17.8%	6.5%
Latest Closing AUM	7,429.6	1,631.9	23.7	15.1	1,206.8	692.6	497.4	51.6	43.4
PATM%	30.8%	17.6%	2.8%	13.1%	37.9%	20.7%	23.7%	44.4%	32.9%
ROE%	13.4%	10.2%	1.3%	4.8%	31.4%	12.0%	34.9%	35.1%	19.8%
Mcap/Closing AUM	1%	1%	25%	7%	3%	2%	1%	19%	8%

- Globally, AMCs in developed markets trade anywhere between 1%-5% of their AUM.
- However, developing market like China with similar MF penetration levels has AMCs like China Huarong AMC that trades at 25% of its AUM (not a pure-play and has many other divisions). But, Hong Kong based Value Partners with its main focus on China, trades at 7% of its AUM.
- Ceteris paribus, NAM-India trades at fair valuations from a country-wise Growth outlook perspective, ROE & Profit Profile while HDFC AMC seems overvalued.

Indian Peer Comparison

AUM Growth

MF AUM GROWTH OF INDIAN PEERS

AMC NAME	Incorporation Date	Latest AUM Mix Dec 19			Total MF AUM CAGR			Equity AUM CAGR			Non-Equity AUM CAGR		
		Total	Equity	Non-Equity	1Y	3Y	5Y	1Y	3Y	5Y	1Y	3Y	5Y
HDFC AMC	10-12-1999	3,71,928	42%	58%	10.8%	18.9%	19.9%	12.4%	28.0%	20.3%	9.6%	13.7%	19.6%
ICICI Prudential AMC	22-06-1993	3,65,461	38%	62%	17.5%	17.8%	22.3%	13.1%	26.5%	27.1%	20.4%	13.6%	19.8%
SBI Funds Management	07-02-1992	3,61,927	53%	47%	39.1%	36.4%	38.4%	39.6%	53.7%	58.5%	38.5%	23.8%	26.8%
Aditya Birla Sun Life AMC	05-09-1994	2,46,163	35%	65%	1.7%	12.3%	17.9%	5.8%	29.6%	31.3%	-0.4%	6.0%	13.2%
Nippon India Life AMC	24-02-1995	2,02,065	52%	48%	-14.3%	1.5%	9.0%	2.1%	25.5%	18.1%	-27.0%	-11.5%	2.5%
UTI AMC	14-11-2002	1,52,788	50%	50%	-1.2%	7.1%	12.6%	22.4%	25.4%	19.1%	-17.1%	-3.8%	7.7%
Axis AMC	13-01-2009	1,28,142	45%	55%	55.2%	40.5%	41.5%	48.1%	56.9%	54.2%	61.6%	31.0%	34.5%
Mirae Asset Investment Managers	20-11-2006	42,635	85%	15%	88.3%	87.2%	91.2%	88.1%	85.0%	90.0%	89.4%	102.2%	98.2%
Motilal Oswal AMC	14-11-2008	20,920	93%	7%	8.9%	43.1%	64.5%	9.3%	43.0%	64.7%	3.9%	44.2%	60.9%

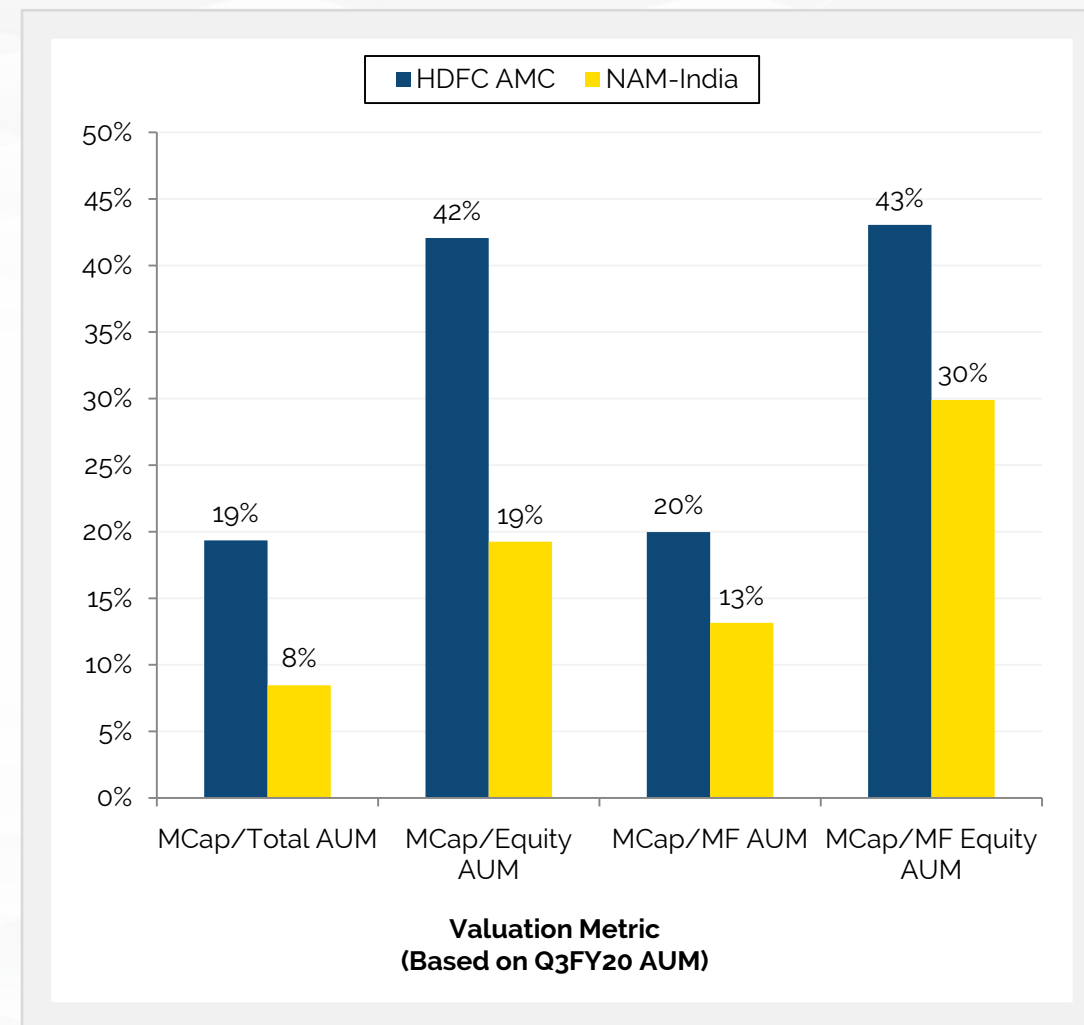
- HDFC AMC being the largest player by Total AUM and profits has underperformed some of its large (ICICI, SBI) and smaller peers (Axis, Mirae) in terms of Total AUM growth, Equity AUM growth and Equity-Non Equity mix as highlighted above. The 1,3,5 Yr CAGR on a Total AUM basis and Equity AUM basis reflects high competitive intensity among the larger peers and aggressive growth by smaller peers.
- NAM-India has been facing consistent draw-downs in its Non-Equity AUM as is reflected in the exhibit above. It also has had a rather flat growth in its Equity AUM compared to its peers. However, the Equity-Non Equity AUM mix is in line with peers. With change in management, redemptions have started bottoming out and we could see fresh inflows for the AMC. Furthermore, the recent write-off and drawdown due to ADAG exposure could make the AUM CAGR seem negatively skewed.

HDFC AMC vs NAM-India

Valuation

AUM BASED VALUATION

- HDFC AMC trades at a premium on all fronts vs NAM-India considering HDFC AMC's size of equity AUM which is double of NAM-India's equity AUM, superior profitability mix, larger SIP flows, brand positioning and strong parentage. Further, HDFC AMC's leadership position in the MF industry and especially Equity MF lends credence to its superior valuation.
- Based on Total AUM and Total Equity AUM multiples, NAM-India trades at 58% & 54% discount respectively to HDFC AMC. Based on MF AUM and MF Equity AUM multiples, NAM-India trades at 35% & 30% discount respectively to HDFC AMC.



PRICE, VALUATION & GROWTH HISTORY

HDFC AMC

Particulars	Issue Price	Listing Price	All Time Low	52 Week Low	CMP	52 Week High
Date	06-08-2018	06-08-2018	11-10-2018	19-02-2019	19-02-2020	22-11-2019
Price (Rs)	1,100	1,739	1,250	1,307	3,367	3,844
AUM (Rs cr)	3,01,100	3,01,100	2,92,600	3,29,100	3,68,900	3,66,200
MCap (Rs cr)	23,383	36,865	26,543	27,877	71,378	80,156
MCap/AUM	8%	12%	9%	8%	19%	22%

AUM CAGR	
Last 1Yr AUM Growth%	17.8%
Last 2Yr AUM Growth%	22.1%
Last 3Yr AUM Growth%	27.6%
Last 4Yr AUM Growth%	25.9%

NAM-India

Particulars	Issue Price	Listing Price	All Time Low	52 Week Low	CMP	52 Week High
Date	06-11-2017	06-11-2017	05-10-2018	19-02-2019	19-02-2020	19-02-2020
Price (Rs)	252	296	127	146	429	434
AUM (Rs cr)	3,81,500	3,81,500	4,04,800	4,14,400	3,10,100	3,10,100
MCap (Rs cr)	15,422	18,109	7,785	9,330	26,269	26,639
MCap/AUM	4%	5%	2%	2%	8%	8%

AUM CAGR	
Last 1Yr AUM Growth%	6.5%
Last 2Yr AUM Growth%	9.7%
Last 3Yr AUM Growth%	15.3%
Last 4Yr AUM Growth%	26.8%

SENSITIVITY ANALYSIS – HDFC AMC

		5-Year Sensitivity Analysis							Price
		Valuation (MCap as a % of AUM)							
		5.0%	7.5%	10.0%	12.5%	15.0%	17.5%	20.0%	
Next 5 Years AUM CAGR	10.0%	1,397	2,096	2,795	3,494	4,192	4,891	5,590	
	12.5%	1,564	2,345	3,127	3,909	4,691	5,473	6,255	
	15.0%	1,745	2,618	3,491	4,363	5,236	6,108	6,981	
	17.5%	1,943	2,915	3,887	4,858	5,830	6,802	7,774	
	20.0%	2,159	3,239	4,318	5,398	6,477	7,557	8,636	
	22.5%	2,394	3,590	4,787	5,984	7,181	8,378	9,574	
	25.0%	2,648	3,972	5,296	6,620	7,944	9,268	10,592	

		10-Year Sensitivity Analysis							Price
		Valuation (MCap as a % of AUM)							
		5.0%	7.5%	10.0%	12.5%	15.0%	17.5%	20.0%	
Next 5 Years AUM CAGR	10.0%	2,251	3,376	4,501	5,626	6,752	7,877	9,002	
	12.5%	2,818	4,227	5,635	7,044	8,453	9,862	11,271	
	15.0%	3,510	5,266	7,021	8,776	10,531	12,286	14,041	
	17.5%	4,353	6,529	8,705	10,882	13,058	15,234	17,410	
	20.0%	5,373	8,059	10,745	13,431	16,118	18,804	21,490	
	22.5%	6,603	9,904	13,206	16,507	19,809	23,110	26,411	
	25.0%	8,081	12,122	16,162	20,203	24,243	28,284	32,324	

- The above 2 tables represent the price points one can expect given expectations of AUM CAGR and Mcap/AUM multiple for 5yr and 10 yr periods.
- For example, if we expect the current Mcap/AUM Multiple to continue (~19%) and an AUM CAGR for the next 5 years to be around 15%, then we can expect a price of ~Rs 6,981 which translates into a price return of ~107% from the CMP.
- However, bearing in mind the valuation multiples of global peers, reduction in scarcity premium with listing of other AMCs, higher free float, increasing competitive intensity from better performing AMCs and Fintech companies, we assume a steady state conservative multiple of 12.5% Mcap/AUM and a 5 year AUM CAGR of 15.0% to 17.5%. Based on this we arrive at a price band of Rs 4,363 to Rs 4,858 which translates into a price return anywhere between ~30% to 44% from the CMP of Rs 3,367.

SENSITIVITY ANALYSIS – NAM-INDIA

5-Year Sensitivity Analysis								
		Valuation (MCap as a % of AUM)						
		1.0%	2.5%	5.0%	6.25%	7.5%	10.0%	
Next 5 Years AUM CAGR	10.0%	82	204	408	510	612	816	Price
	12.5%	91	228	457	571	685	913	
	15.0%	102	255	510	637	764	1,019	
	17.5%	113	284	567	709	851	1,135	
	20.0%	126	315	630	788	946	1,261	
	22.5%	140	349	699	874	1,048	1,398	
	25.0%	155	387	773	966	1,160	1,546	

10-Year Sensitivity Analysis								
		Valuation (MCap as a % of AUM)						
		1.0%	2.5%	5.0%	6.3%	7.5%	10.0%	
Next 5 Years AUM CAGR	10.0%	131	329	657	821	986	1,314	Price
	12.5%	165	411	823	1,028	1,234	1,645	
	15.0%	205	512	1,025	1,281	1,537	2,050	
	17.5%	254	635	1,271	1,589	1,906	2,542	
	20.0%	314	784	1,569	1,961	2,353	3,137	
	22.5%	386	964	1,928	2,410	2,892	3,856	
	25.0%	472	1,180	2,360	2,949	3,539	4,719	

- The above 2 tables represent the price points one can expect given expectations of AUM CAGR and MCap/AUM multiple for 5yr and 10 yr periods.
- For example, if we take the MCap/AUM multiple of 8% and an AUM CAGR for the next 5 years to be around 15%, then we can expect a price of Rs 764 which translates into a price return of ~78% from the CMP.
- Due to higher penetration in B-30 cities, recovery in Institutional & HNI flows, Growth in offshore Funds due to global presence of Nippon Life, and faster growth in ETFs being the market leader one can assume a higher AUM CAGR of 17.5% to 20% over 5 years. The higher growth comes with lower yields, hence we assume a lower multiple at 7.5% on a steady state basis, arriving at a price band of Rs 851 to Rs 946 which translates into a price return anywhere between ~98% - 120% from the CMP of Rs 429.

HDFC AMC OR NAM-INDIA?

- **NARROWING VALUATION GAP**

A valuation gap between the two AMCs seems reasonable with HDFC AMC leading with Higher Yield AUM Mix, AUM Granularity, Distribution network, ROE Profile & Margin Profile. Nevertheless, with ADAG exposures fully written off, de-risking NAM-India's Balance sheet and Nippon Life, being the sole MNC promoter of NAM-India, the renewed credibility will help recover lost Debt, Institutional & HNI inflows, enabling a sizable increase in AUM given the low base effect thereby reducing the valuation gap. Going further, we can also expect higher offshore business generated especially from Asia due to Nippon Life's global network.

- **HDFC AMC VALUATION AT VULNERABLE LEVELS**

HDFC AMC though a market leader, seems overvalued at ~19% of AUM given high competitive intensity and AUM growth slowing down vis-à-vis its strong domestic unlisted peers like ICICI Prudential AMC, SBI Funds & Axis AMC. Once these strong peers get listed, we could see some corrections in valuations of both HDFC AMC & NAM-India as the scarcity premium reduces. Despite higher growth opportunity and lower penetration in India vs Global peers, the Mcap/AUM valuation multiples of HDFC AMC seem stretched.

- **NAM-INDIA ON A NEW GROWTH TRAJECTORY**

NAM-India's valuation could be supported by rerating led by ROE profile enhancement and margin improvement coupled with improved AUM growth trajectory. A key differentiator between the two AMCs is their Employee expenses as a % of Revenue which stood at 11% (vs 12% in Q2FY20) for HDFC AMC and 27% (vs 29% in Q2FY20) for NAM-India in Q3FY20. However, cost rationalisation by its Japanese promoter has already begun as reflected in the latest quarter, employee benefit expenses reduced by ~6% QoQ with number of employees decreasing to 1,050 in Q3FY20 from 1,100 in Q2FY20. Further, green shoots were visible in Q3FY20 in the form of a 6% QoQ increase in MF AUM which in fact also arrested the continuous QoQ decline in MF AUM. However, a sharp fall in Q3FY20 Closing AUM triggered by a 60% QoQ decrease in Pension and PMS AUM was a key negative.

HDFC AMC OR NAM-INDIA?

- **KEY LEVERS FOR NAM-INDIA**

Hence, one could invest in NAM-India to play the turnaround while keeping a close watch on its proportion aggressively growing low-yielding ETFs. It also becomes important to track NAM-India's key drivers of growth in AUM, i.e., growth in Offshore, Institutional, HNI & Debt AUM which can lead to a sharp turnaround.

- **NAM-INDIA : FAVOURABLE RISK-REWARD IN THE MEDIUM TERM**

Additionally, based on our 5-year sensitivity model, if we assume a steady state conservative multiple of 12.5% Mcap/AUM and a 5 year AUM CAGR of 15.0% to 17.5% for HDFC AMC, we arrive at a price band of Rs 4,363 to Rs 4,858 which translates into a price return anywhere between ~30% to 44% from the CMP of Rs 3,367. On the other hand, if we assume a lower multiple at 7.5% on a steady state basis for NAM-India, we arrive at a price band of Rs 851 to Rs 946 which translates into a price return anywhere between ~98% - 120% from the CMP of Rs 429. Hence, based on fair estimates, NAM-India looks more favourable given a 5 year horizon.

- **MULTI-YEAR MF STORY INTACT WITH EMERGING OVERHANGS**

While, we remain structurally positive on the MF industry growth, we also consider industry-wide growth in low-yielding ETF and SEBI regulations lowering TER (Total Expense Ratio) to make MF investing cheaper as key risks since they result in margin compression and low industry-wide profitability. Lastly, we also see low cost asset management and advisory solutions posing competition to MFs as another key emerging risk with growing popularity of Fintech products in the financial markets. As we saw broking being disrupted with discount & zero broking, it's a matter of time when asset management and advisory could be disrupted by Fintech companies and passive investment products.

HDFC AMC vs NAM-India

Key Comparisons

TOTAL AUM MIX

Particulars (Rs in Cr)	HDFC AMC					Nippon Life AMC				
	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19
Total (Closing) AUM	3,68,900	3,66,200	3,56,700	3,43,900	3,29,100	3,10,100	4,53,500	4,30,700	4,22,100	4,14,400
QoQ Growth%	1%	3%	4%	4%	12%	-32%	5%	2%	2%	2%
	Equity - Non Equity Breakup									
Equity AUM	1,69,694	1,65,100	1,70,100	1,65,300	1,58,000	1,36,444	1,95,005	1,80,894	1,64,619	1,57,472
% of Total AUM	46.0%	45.0%	48.0%	48.0%	48.0%	44.0%	43.0%	42.0%	39.0%	38.0%
Non Equity AUM	1,99,206	2,01,100	1,86,600	1,78,600	1,71,000	1,73,656	2,58,495	2,49,806	2,57,481	2,56,928
% of Total AUM	54.0%	55.0%	52.0%	52.0%	52.0%	56.0%	57.0%	58.0%	61.0%	62.0%
	MF - Non MF Breakup									
Non-MF AUM incl. Offshore	11,600	11,000	11,810	9,750	9,160	1,10,400	2,64,900	2,28,200	1,94,400	1,87,100
% of Total AUM	3.1%	3.0%	3.3%	2.8%	2.8%	35.6%	58.4%	53.0%	46.1%	45.1%
Offshore AUM	N/A	N/A	N/A	N/A	N/A	6,800	6,500	3,100	3,100	3,100
% of Total AUM	N/A	N/A	N/A	N/A	N/A	2.2%	1.4%	0.7%	0.7%	0.7%
Mutual Fund AUM	3,57,300	3,55,200	3,44,890	3,34,150	3,19,940	1,94,900	1,88,600	2,02,500	2,27,700	2,27,300
% of Total AUM	96.9%	97.0%	96.7%	97.2%	97.2%	62.9%	41.6%	47.0%	53.9%	54.9%

MF AUM MIX

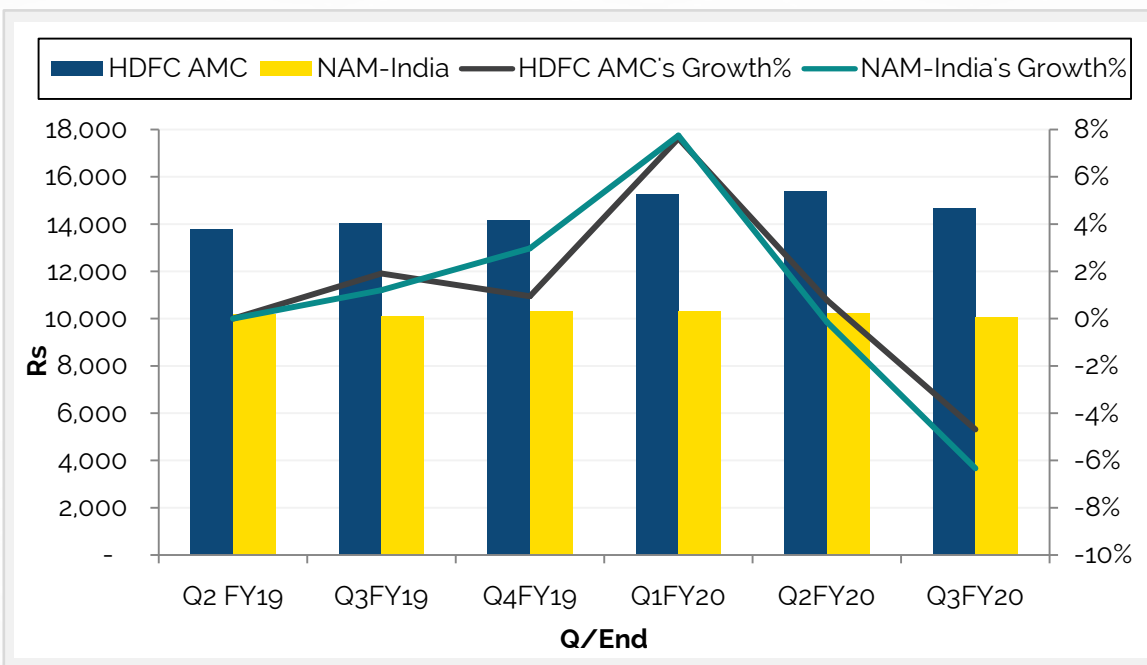
Particulars (Rs in Cr)	HDFC AMC					Nippon Life AMC				
	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19
Mutual Fund (Closing) AUM	3,57,300	3,55,200	3,44,890	3,34,150	3,19,940	1,94,900	1,88,600	2,02,500	2,27,700	2,27,300
% Market share in MF AUM	13.9%	14.9%	14.7%	14.5%	14.4%	7.6%	7.9%	8.6%	9.9%	10.2%
Asset Class Breakup										
Equity	1,65,787	1,59,840	1,64,513	1,60,726	1,53,571	85,756	81,098	85,050	88,803	86,374
% of MF AUM	46.4%	45.0%	47.7%	48.1%	48.0%	44.0%	43.0%	42.0%	39.0%	38.0%
Debt	1,07,547	94,483	93,465	96,904	89,032	52,623	54,694	62,775	75,141	79,555
% of MF AUM	30.1%	26.6%	27.1%	29.0%	27.8%	27.0%	29.0%	31.0%	33.0%	35.0%
Liquid	76,820	94,483	82,084	72,176	76,542	31,184	26,404	30,375	43,263	43,187
% of MF AUM	21.5%	26.6%	23.8%	21.6%	23.9%	16.0%	14.0%	15.0%	19.0%	19.0%
ETF	7,503	6,394	4,828	4,344	640	25,337	26,404	24,300	20,493	18,184
% of MF AUM	2.1%	1.8%	1.4%	1.3%	0.2%	13.0%	14.0%	12.0%	9.0%	8.0%
Investor Breakup										
Retail AUM	19.0%	18.0%	24.0%	24.0%	23.0%		26.0%	40.0%	39.0%	35.0%
Non-Retail AUM	81.0%	82.0%	76.0%	76.0%	77.0%		74.0%	60.0%	61.0%	65.0%

DISTRIBUTION CHANNELS & GEOGRAPHICAL SPREAD OF AUM

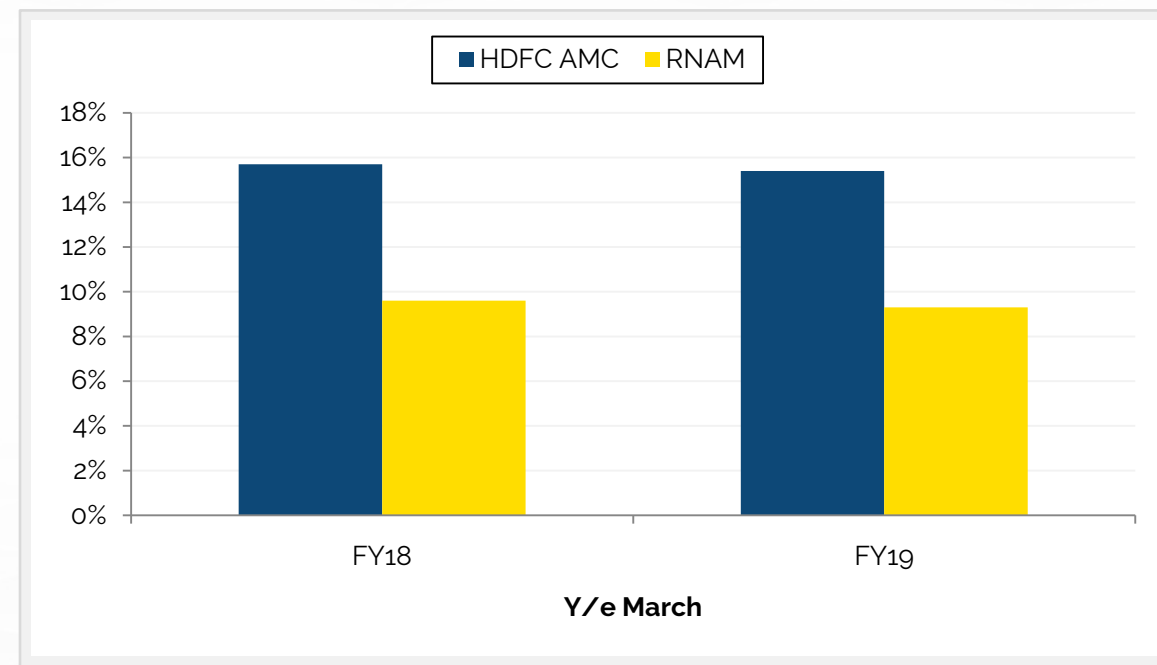
Particulars (Rs in Cr)	HDFC AMC					Nippon Life AMC				
	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19
	Distribution Channels									
Direct	41.7%	42.5%	39.2%	38.3%	39.7%	Excluded	Excluded	Excluded	Excluded	Excluded
National distributors	19.8%	17.3%	20.0%	20.0%	18.0%	20.0%	20.0%	20.0%	19.0%	19.0%
IFAs	26.3%	27.3%	27.5%	27.5%	28.5%	55.0%	55.0%	54.0%	52.0%	51.0%
HDFC Bank	6.4%	7.2%	7.7%	8.6%	7.8%	-	-	-	-	-
Other Banks	12.2%	5.7%	5.6%	5.6%	6.0%	25.0%	25.0%	26.0%	29.0%	30.0%
	Digital Presence									
Electronic	68.3%	69.3%	69.7%	69.6%	71.2%	40.0%	45.0%	41.0%	33.3%	33.3%
Physical	31.7%	30.7%	30.3%	30.4%	28.8%	60.0%	55.0%	59.0%	66.7%	66.7%
	Geographic Spread of MF AUM									
Total MAAUM by T-30 cities	87.1%	87.3%	86.2%	85.1%	85.7%	81.0%	80.0%	80.0%	80.0%	82.0%
Total MAAUM by B-30 cities	12.9%	12.7%	13.8%	14.9%	14.3%	19.0%	20.0%	20.0%	20.0%	18.0%

SIP BOOK AND INDIVIDUAL INVESTORS

ANNUALIZED MONTHLY SIP BOOK



INDIVIDUAL INVESTORS MARKET SHARE



KEY FINANCIALS

Particulars (Rs in Cr)	HDFC AMC					Nippon Life AMC				
	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19
	Profit & Loss									
Revenue from Operations	525	498	504	487	477	303	300	325	343	350
<i>% of Total AUM (Annualized)</i>	<i>0.57%</i>	<i>0.54%</i>	<i>0.57%</i>	<i>0.57%</i>	<i>0.58%</i>	<i>0.39%</i>	<i>0.26%</i>	<i>0.30%</i>	<i>0.33%</i>	<i>0.34%</i>
Fees & Commission Expenses	7	1	11	30	53	12	14	25	63	73
<i>% of Sales</i>	<i>1.4%</i>	<i>0.2%</i>	<i>2.3%</i>	<i>6.1%</i>	<i>11.1%</i>	<i>4.0%</i>	<i>4.0%</i>	<i>7.8%</i>	<i>18.3%</i>	<i>20.8%</i>
Employee Benefit Expenses	57	58	57	48	51	81	86	83	77	75
<i>% of Sales</i>	<i>10.9%</i>	<i>11.6%</i>	<i>11.2%</i>	<i>9.8%</i>	<i>10.6%</i>	<i>26.8%</i>	<i>28.5%</i>	<i>25.4%</i>	<i>22.4%</i>	<i>21.5%</i>
Operating Profit	399	377	382	354	322	284	136	136	145	158
<i>% of Total AUM (Annualized)</i>	<i>0.43%</i>	<i>0.41%</i>	<i>0.43%</i>	<i>0.41%</i>	<i>0.39%</i>	<i>0.39%</i>	<i>0.18%</i>	<i>0.12%</i>	<i>0.13%</i>	<i>0.15%</i>
<i>% of Sales</i>	<i>76.0%</i>	<i>75.6%</i>	<i>75.6%</i>	<i>72.7%</i>	<i>67.4%</i>	<i>59.0%</i>	<i>44.9%</i>	<i>45.3%</i>	<i>44.7%</i>	<i>46.0%</i>
PAT	353	368	292	276	243	149	137	125	151	110
<i>% of Total AUM (Annualized)</i>	<i>0.38%</i>	<i>0.40%</i>	<i>0.33%</i>	<i>0.32%</i>	<i>0.30%</i>	<i>0.19%</i>	<i>0.12%</i>	<i>0.12%</i>	<i>0.14%</i>	<i>0.11%</i>
<i>% of Sales</i>	<i>67.2%</i>	<i>74.0%</i>	<i>57.8%</i>	<i>56.8%</i>	<i>51.0%</i>	<i>49.3%</i>	<i>45.6%</i>	<i>38.6%</i>	<i>44.0%</i>	<i>31.4%</i>

KEY FINANCIALS

Particulars (Rs in Cr)	HDFC AMC					Nippon Life AMC				
	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19
	TTM Basis Efficiency Ratios									
ROCE (%)	51.4%	54.1%	54.7%	N/A	N/A	28.1%	27.3%	27.7%	N/A	N/A
ROE (%)	37.8%	38.2%	36.5%	N/A	N/A	21.1%	20.0%	19.3%	N/A	N/A
ROA (%)	37.3%	37.5%	34.5%	N/A	N/A	19.9%	18.8%	18.3%	N/A	N/A
	Ratios per Employee									
No. of Employees	1,221	1,217	1,211	1,150	1,167	1,050	1,100	1,100	1,145	1,206
TTM Revenue per employee	1.68	1.66	1.65	N/A	N/A	1.16	1.16	1.21	N/A	N/A
TTM Expenses per employee	0.42	0.45	0.53	N/A	N/A	0.63	0.67	0.74	N/A	N/A
TTM PAT per employee	1.07	0.99	0.86	N/A	N/A	0.51	0.46	0.43	N/A	N/A
Total AUM per employee	302	301	295	299	282	295	412	392	369	344
Mcap per employee	58	50	41	29	27	25	9	13	10	8

KEY OBSERVATIONS

Key metric	Observation	HDFC AMC	Nippon Life AMC
Total AUM Mix	Given the long runway for growth in MF Industry, a larger share of MF AUM as a % of Total AUM augurs well for an AMC. Similarly, due to higher profitability, Equity AUM is preferred.	HDFC scores on both fronts. It has a higher share of MF AUM which is 97% of the Total AUM and a significant portion (46%) of its Total AUM comes from Equity AUM.	Until Q2FY20, NAM-India's AUM was dominated by its Non-MF AUM. However in Q3FY20, the declining trend in MF AUM reversed and MF AUM formed 64% of the total AUM. Also, ~44% of its Total AUM came in from Equity AUM.
Total AUM Trend	Focus on increasing the share of MF AUM and Equity AUM is preferable. An increasing MF AUM size could imply that the public has some faith in the performance of the AMC.	Total AUM has been growing every quarter but at a decelerating speed. Over the past 5 quarters, MF AUM as a % of Total AUM has remained constant at ~97%. However, the share of Equity AUM as a % of Total AUM increased marginally in Q3FY20.	Total AUM witnessed a sharp 32% QoQ drop in Q3FY20 primarily caused by a 60% fall in Managed Pension and PMS funds. Silver lining was the increased share of MF AUM to Total AUM due to a reversal in trend and consistent increase in Equity AUM share to Total AUM.
MF AUM Mix	For an AMC, order of profitability is Equity funds, Debt funds, Liquid funds and ETFs with Equity funds having the highest fee structure.	HDFC AMC has a highly profitable product mix dominated by Equity AUM along with a very low share of ETFs. In fact, HDFC MF is the market leader in MF Equity AUM which is almost twice the size of MF Equity AUM of NAM-India.	Even though Equity AUM contribution to MF AUM is high at 44%, NAM-India is the largest private player in low-yielding ETFs included in the Equity mix.
MF AUM Trend	Increasing the share of MF Equity AUM and MF Retail AUM is preferable since both have higher holding periods and better profitability profile. SIP popularity too has facilitated the growth in MF AUM and Retail Individuals are key to continue the momentum in MF Industry.	The share of Equity AUM in MF AUM had been declining since Q3FY19 but went up to 46% in Q3FY20. Confirming the trend, Retail AUM share to MF AUM had also decreased by 5% since Q3FY19 and went back up to 19% in Q3FY20.	Caused by debt redemptions, MF AUM saw a declining trend which was arrested in Q3FY20 and in fact grew 6% QoQ. The Equity AUM share to MF AUM has increased 6% YoY. Contrarily, the share of Retail AUM has decreased 8% YoY in Q3FY20.
Market share in MF AUM	Low mutual fund penetration in India as well as increasing financialization of household savings creates long runway for growth for MF industry. An AMC with a higher share of MF Industry's AUM will benefit tremendously.	HDFC AMC is the leader in MF industry with a market share of 14% is the foremost beneficiary, well positioned to capitalize on the MF industry growth. It has although lost 1% market share in Q3FY20.	NAM-India had lost market share with the ADAG stigma attached to it especially in debt AUM which shall be regained with the global image of its new parent, Nippon Life and all the ADAG group exposure already written off in AMC B/S. Q3FY20 saw green shoots like trend reversal in declining MF AUM and consistent uptick in offshore AUM.

KEY OBSERVATIONS

Key metric	Observation	HDFC AMC	Nippon Life AMC
Distribution Channel	In the MF industry, the distribution network determines the reachability of products which could act a strong moat for an AMC. Indian AMCs have a multi-channel distribution network including Distributors, IFAs, Banks. However, selling directly (direct plans),i.e., without any intermediary is most profitable route since its cuts down commission expenses for the AMC.	HDFC AMC being a bank-led AMC , has a ready customer base to tap into thereby reducing its distribution costs to that extent. Although, the business generated by its own bank has been on a declining trend since Q3FY19 and in Q3FY20 stood at 7.8%. A silver lining is that in the past 2 quarters, 42% of its AUM was sourced from low-cost Direct Plans.	If we exclude Direct selling, majority (55%) of NAM-India's business is generated by IFAs(Independent Financial Advisors). In Q3FY20, NAM-India sourced 16% of their Equity MF AUM from Direct plans.
Digital Presence	As financial aggregators emerged, the MF industry saw a gradual shift from physical transactions to electronic transactions. Since selling directly through online platforms or websites or apps reduces the money spent to sell products/funds, it aids to an AMC's profitability.	AUM generated electronically has been on a downward trend for 4 quarters now. In Q3FY20, ~68% of the transactions were done electronically which significantly reduces costs for HDFC AMC.	The increasing trend in share of digital transactions to total transactions was discontinued in Q3FY20 which came in at 40%.
Geographical Spread of MF AUM	AMFI data suggests B30 locations tend towards high revenue generating equity assets which is dominated by retail individual investors whereas T30 is dominated by institutional investors. T30 refers to the top 30 geographical locations contributing to the MF AUM in India and B30 refers to the locations beyond the top 30.	HDFC AMC's B30 AUM market share of 12.6% is only 2 nd to SBI MF. A concern though is continuous decline of B30 AUM share to total MF AUM. It went down from 14.3% in Q3FY19 to 12.9% in Q3FY20 validating its decreasing retail AUM contribution to MF AUM in the same period.	The share of B30 was quite steady at 20% but dipped by 1% in Q3FY20. Although, management has guided that their focus remains on tapping under-penetrated B30 locations
Retail MF AUM	MF AUM derived from Retail individuals (> Rs 2 Lakhs w.e.f. March,2019) is beneficial given they are the main drivers of SIPs.	Although, its share of Retail AUM is only 19% but on an absolute basis its much higher as the MF base is twice the size of NAM-India.	On the upside, Retail AUM contributes 26% to MF AUM which is relatively higher than that of HDFC AMC, on a lower MF AUM base.
Market Share in Individual AUM	With an increasing share of AUM derived from Individuals, the AMC's profitability along with sustainability of funds increases. Further, Individuals tend to invest in Equity funds and long-lived assets. Institutions mainly invest in debt funds and make the AMC vulnerable to heavy redemptions in times of distress.	HDFC AMC is a market leader in the 'stickier' Individual AUM segment with a market share of 15.4% as of FY19.	NAM-India had 9.3% market share in FY19 in the Individual AUM segment .



























KEY OBSERVATIONS

Key metric	Observation	HDFC AMC	Nippon Life AMC
SIP Book	A key metric to assess the ‘stickiness’ of the AUM is the inflow from systematic transactions .Therefore, a strong and growing SIP “Order Book” provides predictable flows. SIP Book with tenure of over 5 years implies SIP flow sustainability for at least 5 years.	HDFC AMC’s monthly SIP order book has been steadily increasing QoQ thereby suggesting SIPs. In Q3FY20 although there was a material decline of ~5% in Systematic transactions due to STPs whose tenure was over.	NAM-India's SIP Order book in Q3FY20 was 1.6% lower QoQ and 0.5% YoY due to poor performance of schemes attributable to a narrow rally in equities in 2019 that also saw an all –time high termination ratio of 66% in the MF Industry as is relevant from the slide in growth in the Annualized SIP Book from Q1FY20 for both the AMCs.
Revenues	For an AMC, revenue from operations comprises of investment management fees from the Mutual Fund and portfolio management services and advisory fees. The correct way of analysing the total revenue is to see it as the top line yield earned as a % of AUM.	Revenue was up 10% YoY at Rs 525cr in Q3FY20 vs Rs 477cr in Q3FY19. However, the revenues generated from AUM too was up by 3bps to 57bps in Q3FY20. YoY decline of 1bps in yield was due to TER (Total Expense Ratio) capping by SEBI.	The drastic decrease in revenues was arrested in Q3FY20 mainly with MF AUM going up especially in Equities. It is yet down by 13.4% hit by massive redemptions post ADAG crisis along with cap on TER.
Fees and Commissions	Fees and commission primarily comprise of commissions paid to distributors. We can see that fees and commissions have tremendously reduced for both the AMCs. This was due to banning of upfront commissions paid by AMCs.	Fees and commissions to generate AUM came down significantly to 0.1bps in Q2FY20 but due to lumpy calendar year end inflows in PMS business it shot up to Rs 7cr in Q3FY20. This means to generate incremental Non-MF business of Rs 600cr, the fee expenses went up by 6cr or was 1% of AUM in Q3FY20.	Q3FY20 Fees and commission expenses were Rs 12cr, declined 84% YoY and 11% QoQ due to SEBI restricting recognition of upfront commissions in AMC book. The commission paid although is higher for NAM-India as a % of its AUM vs HDFC AMC which could due to a relatively higher share of regular plans sold by NAM-India.
Core Operating Profit	An increasing core operating profit as a % AUM implies operating leverage. Additionally, an increasing operating profit as a % of revenue also signifies the efficiency of the AMC.	HDFC AMC due to favourable product mix and efficiency in operations has the highest profitability in the MF industry. This is evident given it converted almost 0.43% of its AUM into Operating Profit in Q3FY20 and has increased YoY by 4bps.	NAM-India only generated 0.18% operating profit from its AUM in Q3FY20 . Although, on YoY basis it has increased by 7bps but QoQ on an absolute basis operating profit remained flat.
PAT	PAT is the ultimate profit after paying taxes that the AMC earns. A higher share of PAT as a % of sales and AUM is preferred.	HDFC AMC has seen steady growth in PAT and PAT as a % of AUM went from 30bps in Q3FY19 to 38bps in Q3FY20, in line with its core operating profit.	NAM-India on the other hand has not really generated much profits from its AUM. The share of PAT as a % of AUM kept declining for the past 3 quarters before Q3FY20 and current PAT is 0.19% of AUM in Q3FY20.



























KEY OBSERVATIONS

Key metric	Observation	HDFC AMC	Nippon Life AMC
TTM ROA,ROE, ROCE	A unique feature of an AMC's revenue is its annuity-like nature. Once an investment is made, it keeps generating the management fee as long as the investor does not redeem it. Hence, the ROA, ROCE, ROE numbers tend to be phenomenal in such a high operating leverage business.	Due to superior profitability mix and efficiency, HDFC AMC's efficiency ratios are just less than twice that of NAM-India's ratios. If we notice, the latest quarter although saw a sharp dip in the TTM efficiency ratios of HDFC AMC attributable to lower profits.	NAM-India still has enough scope to improve and catch up to HDFC AMC's ratios. In the most recent quarter, efficiency ratios have improved on a TTM basis justified by a jump in the bottom line.
Employee Benefit Expenses	Employee expenses is the only significant expense for an AMC. A dip in employee expenses as a % of Sales or AUM indicates a lower expense per unit or operating leverage.	Although employee expenses paid decreased by ~2%, it remained elevated on a YoY basis.	Employee expenses decreased by 6% to Rs 81cr in Q3FY20 vs 86cr last quarter due to lesser number of employees because of non-replacement after normal attrition levels at back-end. However, the employee expenses as a % of AUM increased by 3bps YoY.
TTM Revenue, Expense & PAT per employee	Revenue per employee measures the revenue generated by each employee of the company on average and increasing trend of Revenue or PAT per employee signifies efficiency.	The per employee ratios trend is very positive. TTM revenue per employee and PAT per employee is increasing along with reducing TTM expenses per employee.	The per employee ratios is fairly good with PAT increasing and expenses reducing per employee. However, on an absolute basis, NAM-India 's expenses per employee are significantly higher and profits are less than half that of HDFC AMC.
Total AUM per Employee	Total AUM per employee trend measures the AUM the company manages keeping its employee base same or how much AUM can be generated per employee.	AUM generated per employee has been consistently increasing.	AUM generated per employee had always been higher vs that of HDFC AMC upto Q3FY20. Even though number of employees reduced QoQ by 50 employees, the fall in Closing AUM saw this ratio drastically getting impacted.
Total MCap per Employee	With employee cost being the most significant cost for an AMC, Mcap per employee can be viewed as a valuation multiple that values the company on a per employee basis.	With a Market Cap of Rs 71,378cr, the valuation of the company is Rs 58cr per employee which is more than 2.3x that of NAM-India. This has been steadily increasing given it's one of the favourite stocks of the Street.	With a Market Cap of Rs 26,269cr, the valuation of the company is Rs 25cr per employee, a huge jump from Rs 9cr in Q2FY20, showing investor confidence in the future of the stock. This can also be seen as narrowing of the valuation gap between HDFC AMC and NAM-India.

SUMMARY OF KEY METRICS

Sr No	Key Metric	HDFC AMC		Nippon Life AMC	
1	Total AUM Mix	96.9% MF AUM		62.9% MF AUM	
2	Total AUM Trend (Quarterly)	MF AUM 11.6% YoY growth		MF AUM 14.3% YoY growth	
3	Total AUM Trend (Annual)	5Y AUM CAGR 25.9%		5Y AUM CAGR 26.8%	
4	MF AUM Mix	19% Retail MF AUM		26% Retail MF AUM	
5	MF AUM Trend	Equity MF AUM 8% YoY growth		Equity MF AUM -0.7% YoY growth	
6	Market Share in MF AUM	13.9%		7.6%	
7	Investor base Break up	63% Individual		14% Individual	
8	Distribution Channel	41.7% Direct		N/A	
9	Digital Presence	68.3% Electronic		40% Electronic	
10	Geographical spread of MF AUM	12.9% B-30 Cities		19% B-30 Cities	
11	Market Share in Individual AUM	15.7%		9.6%	
12	SIP Book	Rs. 1,280 Cr Avg Monthly SIP Book		Rs. 852 Cr Avg Monthly SIP Book	
13	Revenues	3.8% YoY Growth		-23.3% YoY Growth	

SUMMARY OF KEY METRICS

Sr No	Key Metric	HDFC AMC		Nippon Life AMC	
14	Revenue as a % of AUM	0.54%		0.29%	
15	Fees & Commission Expense	0.2% of Sales		4% of Sales	
16	Core Operating Profit	75.6% of Sales		45.3% of Sales	
17	PAT	79% YoY Growth (TTM)		20% YoY Growth (TTM)	
18	PAT as a % of AUM	0.4%		0.1%	
19	TTM ROA,ROE, ROCE	51.4% ROCE		21.8% ROCE	
20	Free cash flow for Equity	0.25% of AUM		0.09% of AUM	
21	Employee Benefit Expenses	11.6% of Sales		28.5% of Sales	
22	TTM Revenue, Expense & PAT per employee	Rs 1.1 Cr PAT/employee		Rs 0.5 Cr PAT/employee	
23	Total AUM per Employee	Rs 302 Cr AUM/employee		Rs 295 Cr AUM/employee	
24	Total MCap per Employee	Rs 58cr MCap/employee		Rs 25cr MCap/employee	
25	Price Multiples	PEG ratio 1.7		PEG ratio 9.4	
26	AUM based valuation	19% Mcap/AUM		8% Mcap/AUM	

SECTOR X-RAY

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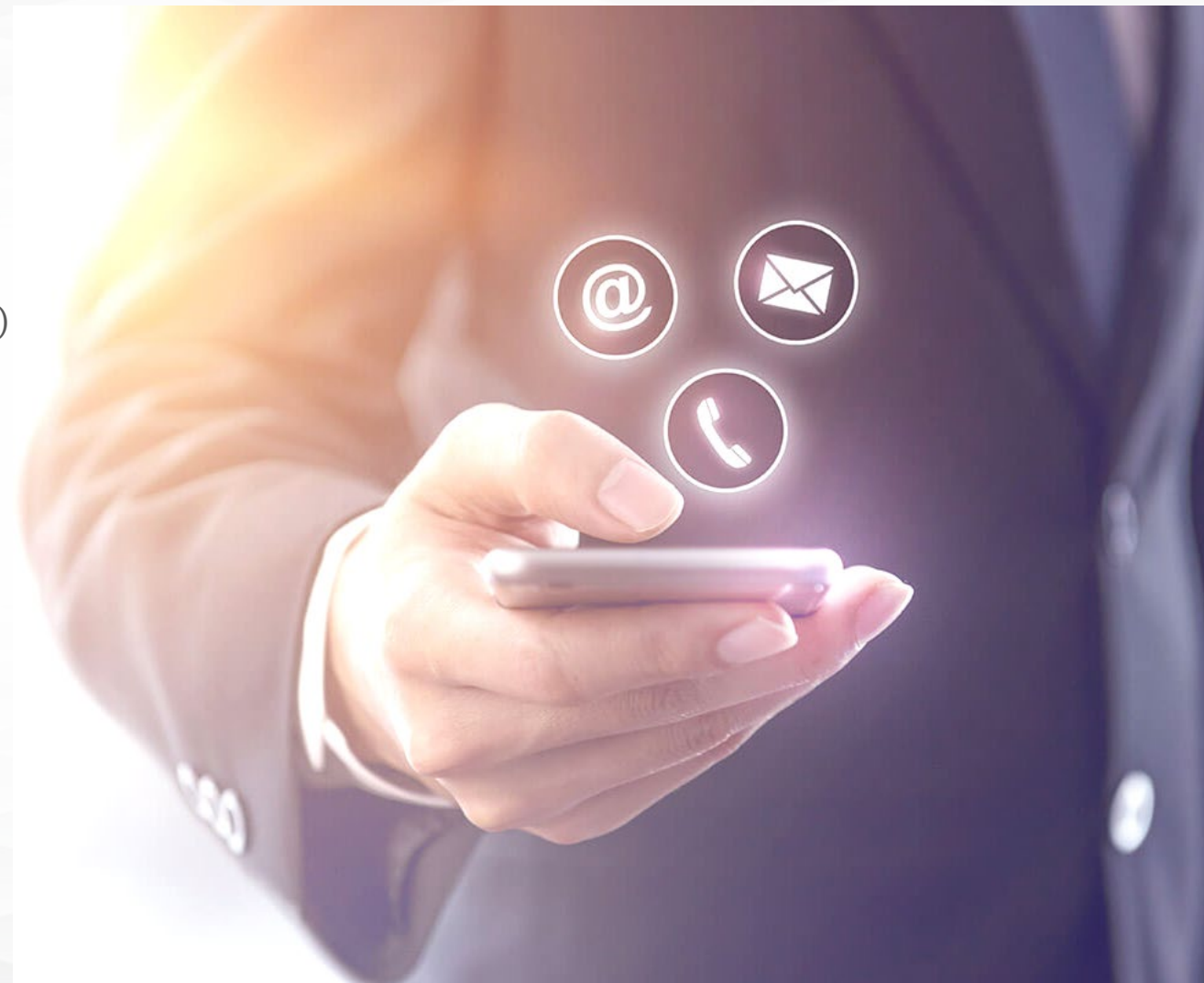
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