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Fund houses' ticker-tape parade of fiscal success on D-Street

Robust performance buoyed by soaring AUM and stellar equity performance

SAMIE MODAK & RAM PRASAD SAHU
Mumbai, 28 April

The financial numbers for 2023-24 (FY24) of the four pure-play listed asset management companies (AMCs) have enthused the Street. All firms listed robust growth in net profit and revenue both during the January-March quarter (Q4) of FY24, as well as in full FY24.

The strong performance comes amid a positive growth environment for the sector, led by tailwinds such as sharp growth in assets under management (AUM) and robust performance in equity offerings.

In FY24, the AUM for the domestic mutual fund (MF) industry grew by 34 per cent — the most since 2016-17 — to ₹54.1 trillion.

HDFC AMC, the largest of the listed pack, reported a 44 per cent year-on-year (Y-o-Y) growth in Q4 net profit to ₹540 crore on the back of a 29 per cent growth in revenue to ₹695.4 crore.

The country's third-largest AMC in terms of AUM reported a 37 per cent Y-o-Y jump in net profit for FY24 at ₹1,943 crore.

Revenues in Q4 were up 28.6 per cent Y-o-Y to ₹695 crore, although they missed Street estimates due to a fall in revenue yield (revenue as a proportion of assets).

HDFC AMC's stock dipped 3 per cent after the earnings announcement, although it recouped its losses in the subsequent trading sessions. The management indicated that Q4 was a one-off as the fall in yields was higher than the decline in distribution payouts.

The company highlighted that the first quarter (Q1) of 2024-25 (FY25) opening yields on key equity funds and hybrid funds are higher than Q4 and guided for a 47-basis point (bp) yield on equity for Q1FY25, for the same asset mix.

JM Financial Research has maintained a 'buy' on the stock with a revised target price of ₹4,100, valuing the company at 37 times its 2025-26 (FY26) earnings.

Meanwhile, Nippon Life AMC reported a 73 per cent Y-o-Y rise in Q4 profit at ₹343 crore. The net profit for FY24 stood at ₹1,106 crore, 53 per cent higher than the 2022-23 profit. Revenue from operations rose by 34 per cent in Q4 to ₹468 crore. The revenues missed estimates by 4.6 per cent, say analysts at Prabhudas Lilladher Research, led by higher other operating expenses and lower blended yields that fell by 1.4 bps sequentially to 43.4 bps.

For the financial year, revenues went up by 22 per cent to ₹1,643 crore. Total income surged by 45 per cent Y-o-Y for the quarter and 34 per cent for FY24.

Analysts at the brokerage have a 'buy' on the stock, which is trading at 29.4 times its FY26 core earnings per share. This is at a 15 per cent discount to HDFC AMC. It has slightly increased the multiple from 30-31 times and marginally increased its target price to ₹615.

UTI AMC's net profit rose by 90 per cent Y-o-Y in Q4 to ₹163 crore, while revenues rose by 38 per cent to ₹416 crore. However, weak sequential growth and a slight miss in profit led to downgrades in FY25 and FY26 estimates for the stock. The stock is trading at 16.3 times its FY26 earnings estimates, less than half of the valuation of HDFC AMC.

Aditya Birla Sun Life AMC's FY24 net profit rose by 31 per cent Y-o-Y to its highest ever at ₹780 crore. This was on a 21 per cent Y-o-Y growth in revenue to ₹1,640 crore. Q4FY24 net profit was up by 54 per cent Y-o-Y to ₹210 crore. IIFL Research has an 'add' on the stock with a target price of ₹550 and is valuing the stock at just under 16 times its FY26 earnings estimates.

So why is the Street so bullish on this space?

The domestic MF space is seen as a structural growth story, with assets expected to top ₹100 trillion before 2029-30. Also, the equity investing cult is believed to be a strong growth driver for the industry, which makes higher margins on its equity offerings compared to debt.

While there are few doubts over the sector's growth trajectory, investors have to be mindful that the MF industry is tightly regulated and faces strict pricing pressure.

ILLUSTRATION: AJAY MOHANTY

NAVIGATING THE FINANCIAL SKYLINE

Analysing AMCs' market cap, profit sails, and P/E horizons

(2023-24)	HDFC AMC	Nippon Life AMC	Aditya Birla Sun Life AMC	UTI AMC
Mcap (₹ crore) One-year % change in parentheses	79,339 (115)	36,516 (145)	15,982 (65)	12,400 (48)
Revenue (₹ crore)	2,584	1,643	1,640	1,737
Net profit (₹ crore)	1,943	1,107	780	766
AUM (₹ trillion)	5.4	4.2	3.3	2.9
P/E (x) FY25E	41	30	19	17

AMC: Asset management company; Mcap: Market capitalisation;
AUM: Assets under management; P/E (x): Price-to-earnings (ratio);
FY25E: 2024-25 estimates

Sources: Company filings, brokerage reports