

**BUY**

TP: Rs 365 | ▲ 15%

**NIPPON LIFE INDIA AMC** | NBFC

28 July 2023

### On a firm footing

- **QAAUM growth strong at 12% YoY in Q1 fuelled by 20% share of industry-wide net equity flows (ex-arbitrage and index)**
- **Market share inched up across categories, barring liquid schemes, with industry ranking maintained**
- **TP raised to Rs 365 (vs. Rs 305) as we increase FY24/FY25 PAT 15%/9% and value the stock at 24x FY25E EPS (vs. 22x); maintain BUY**

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**Strong quarter:** Nippon AMC's total income grew 57% YoY (21% QoQ) to Rs 4.7bn in Q1FY24. Of this, revenue from operations increased 12% YoY to Rs 3.5bn and other income shot up to Rs 1.2bn (vs. Rs 397mn in Q4FY23 and a loss of Rs 167mn in Q1FY23) lifted by MTM gains. Consequently, PAT more than doubled YoY to Rs 2.4bn with core PAT (ex-MTM) growing 16% YoY to Rs 1.5bn.

**AUM up 12% YoY:** QAAUM saw robust 12% YoY growth to Rs 3.1tn with equity QAAUM increasing 20% YoY and debt flattish (but up 19% QoQ). Nippon AMC accounted for 20% of industry net equity flows (except arbitrage and index) in Q1. ETFs constituted 24% of the company's QAAUM, cementing its leadership in the category. We bake in the Q1 print by raising our FY24/FY25 AUM estimates by 5%/7% to Rs 3.4tn/3.8tn and net profit estimates by 15%/9% to Rs 8.9bn/Rs 9.5bn.

**Market share stable; rank maintained:** QAAUM-based market share witnessed minor gains to 7.3%. Equity market share stood at 6.3%. The debt and ETF segments clocked increases of 44bps and 12bps QoQ respectively. On MAAUM basis, the company maintained its fourth rank overall and sixth rank in equity assets.

**Yields under pressure:** Yield (calc.) was flattish YoY at 45bps but fell from 47bps in Q4FY23 due to (i) the mandated reduction in TER as AUM rises, (ii) lowering of yields in some debt schemes in a bid to increase volumes, and (iii) a change in AUM composition towards the low-yield ETF business.

**Estimates raised; maintain BUY:** The stock is currently trading at 21x FY25E EPS. Factoring in robust equity flows, rising market share and continued ETF leadership, we increase our target P/E multiple from 22x to 24x FY25E EPS – a 10% discount to mean. Together with estimate changes, this translates to a revised TP of Rs 365 (vs. Rs 305), offering 15% upside. Nippon AMC remains our top pick in the asset management space – maintain BUY. Regulatory headwinds from potential TER revision along with lower net flows for the industry could pose downside risks.

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	NAM IN/Rs 317
Market cap	US\$ 2.4bn
Free float	12%
3M ADV	US\$ 2.8mn
52wk high/low	Rs 326/Rs 197
Promoter/FPI/DII	74%/6%/9%

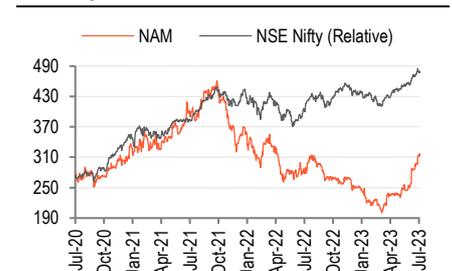
Source: NSE | Price as of 27 Jul 2023

### Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	7,610	8,387	9,904
Core PBT (YoY)	0.2	10.2	18.1
Adj. net profit (Rs mn)	7,229	8,953	9,528
EPS (Rs)	11.5	14.3	15.2
Consensus EPS (Rs)	11.5	12.6	14.1
MCap/AAAUM (%)	6.8	5.9	5.2
ROAAAUM (bps)	24.7	26.7	24.8
ROE (%)	20.7	24.8	25.1
P/E (x)	27.5	22.2	20.9

Source: Company, Bloomberg, BOBCAPS Research

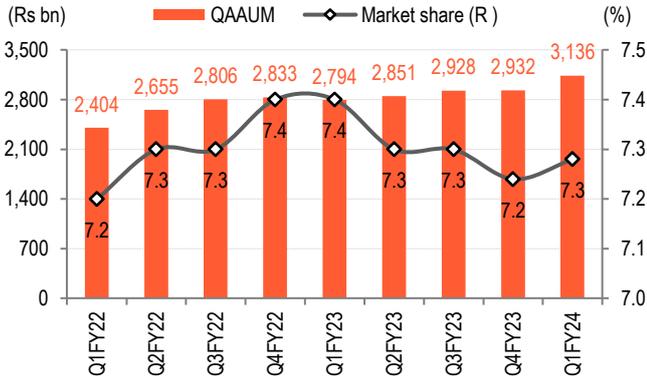
### Stock performance



Source: NSE

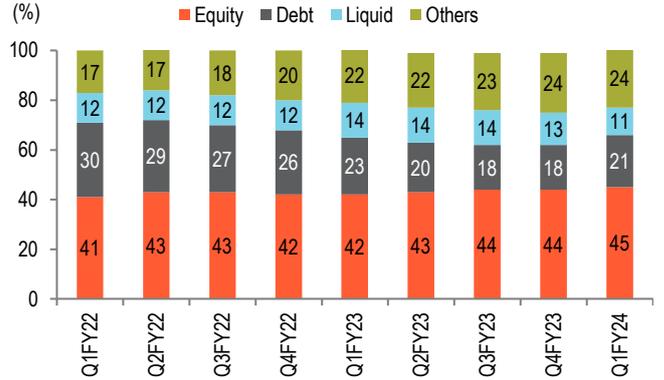


**Fig 1 – Strong growth in Q1FY24 AUM; market share maintained**



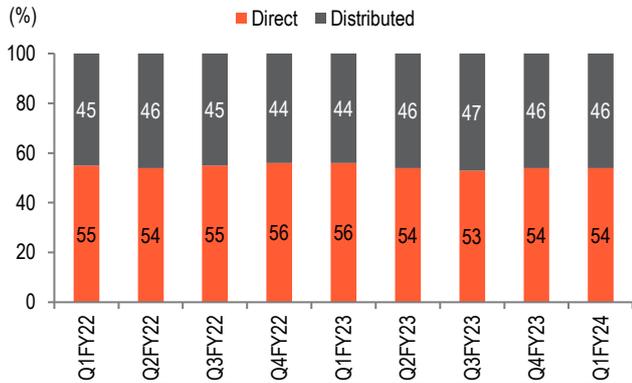
Source: Company, BOBCAPS Research

**Fig 2 – Equity component at 45% of QAAUM at end-Q1FY24**



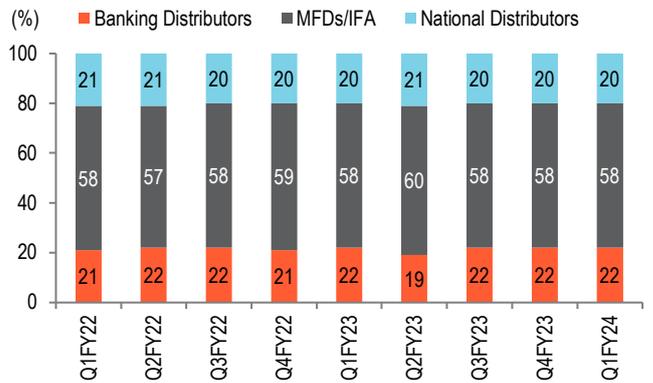
Source: Company, BOBCAPS Research

**Fig 3 – Direct channel plays an important role in QAAUM distribution mix**



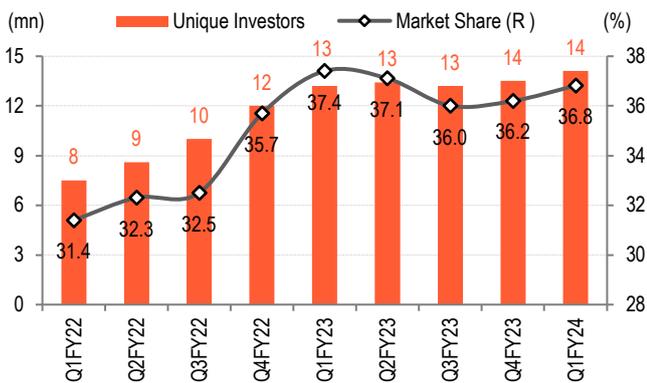
Source: Company, BOBCAPS Research

**Fig 4 – Distributed assets largely dependent on mutual fund distributors (MFD)**



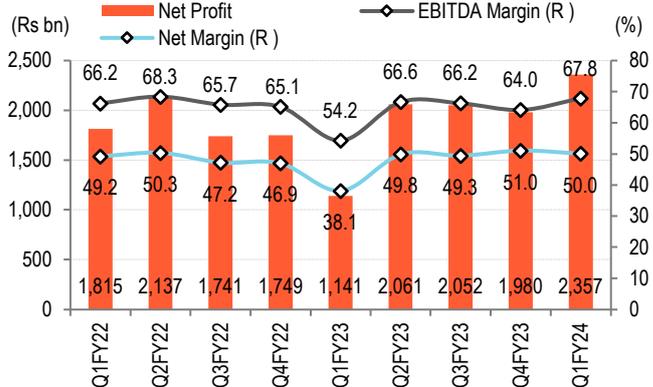
Source: Company, BOBCAPS Research

**Fig 5 – Unique investors increasing with market share inching up in Q1**



Source: Company, BOBCAPS Research

**Fig 6 – Net profit growth strong**



Source: Company, BOBCAPS Research

**Fig 7 – P&L account – Consolidated**

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
<b>Revenue from Operations</b>								
Asset Management Services	3,542	3,161	12.0	3,483	1.7	13,498	13,066	3.3
Other Income	1,169	(167)	NA	397	194.5	1,668	2,290	(27.2)
<b>Total Income</b>	<b>4,710</b>	<b>2,994</b>	<b>57.3</b>	<b>3,880</b>	<b>21.4</b>	<b>15,166</b>	<b>15,356</b>	<b>(1.2)</b>
<b>Expenses</b>								
Fees and Commission Expenses	135	114	18.6	122	11.0	501	513	(2.4)
Employee Benefits Expenses	780	781	(0.1)	712	9.6	3,004	2,903	3.5
Other Expenses	602	476	26.6	562	7.2	2,047	1,743	17.4
<b>Total Operating Expenses</b>	<b>1,517</b>	<b>1,370</b>	<b>10.7</b>	<b>1,395</b>	<b>8.8</b>	<b>5,551</b>	<b>5,159</b>	<b>7.6</b>
<b>EBITDA</b>	<b>3,193</b>	<b>1,623</b>	<b>96.7</b>	<b>2,485</b>	<b>28.5</b>	<b>9,615</b>	<b>10,197</b>	<b>(5.7)</b>
Depreciation, Amortisation and Impairment	81	68	18.8	82	(0.9)	298	272	9.4
Finance Costs	13	9	37.2	12	11.2	40	38	3.9
<b>Profit Before Tax</b>	<b>3,099</b>	<b>1,546</b>	<b>100.5</b>	<b>2,392</b>	<b>29.6</b>	<b>9,277</b>	<b>9,887</b>	<b>(6.2)</b>
<b>Tax Expense</b>								
Current Tax	737	502	46.9	469	57.2	2,121	2,067	2.7
Deferred Tax Charge/(Credit)	8	(99)	(108.5)	(54)	(115.5)	(73)	386	(119.0)
<b>Total Tax Expense</b>	<b>746</b>	<b>403</b>	<b>85.2</b>	<b>415</b>	<b>79.8</b>	<b>2,048</b>	<b>2,453</b>	<b>(16.5)</b>
<b>Profit After Tax</b>	<b>2,354</b>	<b>1,143</b>	<b>105.9</b>	<b>1,977</b>	<b>19.0</b>	<b>7,229</b>	<b>7,434</b>	<b>(2.7)</b>

Source: Company, BOBCAPS Research

**Fig 8 – AUM breakup**

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
<b>QAAUM (Rs bn)</b>	<b>3,136</b>	<b>2,794</b>	<b>12.2</b>	<b>2,932</b>	<b>7.0</b>	<b>2,932</b>	<b>2,833</b>	<b>3.5</b>
- Equity-oriented	1,397	1,168	19.6	1,300	7.5	1,300	1,191	9.2
- Debt	644	645	(0.2)	540	19.3	540	732	(26.2)
- Liquid	357	380	(6.1)	390	(8.5)	390	352	10.8
- ETF	738	601	22.8	700	5.4	700	558	25.4
Unique Investors (mn)	14.1	13.2	6.8	13.5	4.4	13.5	12.0	12.5
Systematic Transactions - Quarterly Book (Rs bn)	34.3	22.8	50.4	32.2	6.5	NA	NA	NA
SIP AUM (Rs bn)	686	482	42.3	580	18.3	580	514	13

Source: Company, BOBCAPS Research

**Fig 9 – Margin indicators**

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
EBITDA margin (%)	67.8	54.2	1356bps	64.0	374bps	63.4	66.4	(301bps)
Net margin (%)	50.0	38.1	1194bps	51.0	(99bps)	47.7	48.4	(74bps)
Revenue yield (bps)	45.2	45.3	(8bps)	47.5	(235bps)	46	46	(1bps)

Source: BOBCAPS Research | Note: The above data is based on consolidated P&amp;L numbers

## Earnings call highlights

### Business highlights

- Nippon AMC's QAAUM grew 12% YoY (7% QoQ) to Rs 3.1tn in Q1FY24 with the share of equity assets constituting 45% of the total (vs. 42% in Q1FY23 and 44% last quarter). The company accounted for 20% of industry net equity flows (except arbitrage and index) in Q1. There has been no change in commission structure to distributors.
- B30 locations contributed 19% of AUM (17% for the industry) at Rs 631bn with 8.3% market share. Individual AUM (retail + HNI) was at Rs 1.8tn or 58% of the total. Nippon AMC remains one of the largest ETF players in India with ETF AUM of Rs 738bn and 14% market share.
- SIP AUM grew 42% YoY to Rs 686bn in Q1.
- For the company, 17% of SIP folios have continued for over five years against the industry average of 12%.
- In the debt segment, the inflows were primarily in the ultra-short-term scheme (short end of the curve).
- Nippon AMC's total revenue from operations increased 12% YoY to Rs 3.5bn in Q1FY24 whereas total income grew 57% YoY to Rs 4.7bn on account of MTM gains. PAT grew 107% YoY (19% QoQ) to Rs 2.4bn.
- Nippon India Alternate Investments (NIAIF) had a total commitment of Rs 57.5bn as on Q1FY24. It launched a category-II structured credit AIF in Q1. Further, fundraising is underway for two public equity AIFs and one real estate AIF which is a follow-on fund to an existing mandate from Japanese investors.
- Market share based on QAAUM increased 4bps QoQ to 7.28% with gains across asset categories, barring liquid schemes.
- The company has been appointed as one of the asset managers to the EPFO corpus for ETFs, where investments commenced in Jul'23.

### Yields

- Operating yield (calc.) declined from 47bps in Q4FY23 to 45bps in Q1FY24 due to (i) the slab-wise TER system whereby TER declines as AUM rises, (ii) reduction in yields in some debt schemes to drive higher volumes, and (iii) change in AUM mix towards low-yield ETF business.
- Equity yields decreased in Q1 due to the slab-wise TER system, old money being replaced by new flows at lower yields, and a change in equity mix due to the influx of lower yield index funds.

### Financials

- Employee cost was flattish YoY but increased 10% QoQ in Q1. In Q4FY23, the base looked low as bonus provisions that were carried throughout the year were reduced in the fourth quarter.

- Other expenses increased 27% YoY to Rs 602mn because of inflationary adjustments to routine cost and a significant increase in discretionary spends for brand building purposes.
- Other income jumped to Rs 1.2bn (vs. a loss of Rs 167mn in Q1FY23 and income of Rs 397mn in Q4FY23) primarily due to MTM gains.

## Valuation methodology

Nippon AMC continues to attract robust flows and to deliver top-quartile scheme performance across the large-, mid- and small-cap equity space. Following the strong Q1FY24 print, we increase our FY24/FY25 AUM estimates by 5%/7% and net profit estimates by 15%/9%.

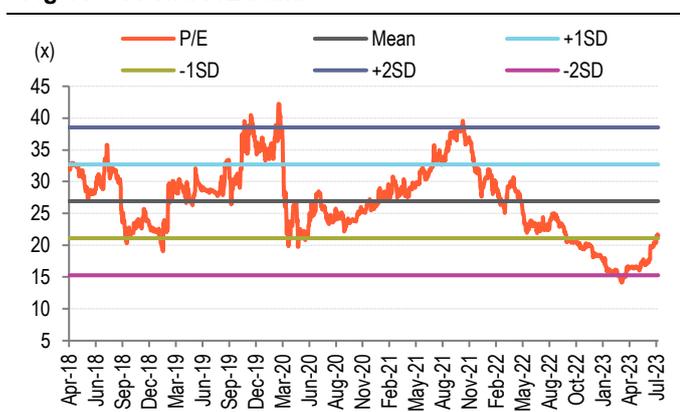
The stock is currently trading at 21x FY25E EPS. We raise our target P/E multiple from 22x to 24x on FY25E – a 10% discount to the stock’s long-term mean – for a revised TP of Rs 365 (vs. Rs 305), offering 15% upside. Our revised multiple factors in robust flows (20% market share in industry equity net flows ex-arbitrage and index categories in Q1), rising market share, and continued ETF leadership (70% volume share and 61% folio share). Nippon AMC remains our top pick in the wealth management space ([see our Jan’23 initiation report for details](#)) – maintain BUY.

**Fig 10 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	18,523	19,543	16,593	18,213	11.6	7.3
EBITDA	12,250	13,035	10,753	12,053	13.9	8.1
Profit After Tax (PAT)	8,953	9,528	7,799	8,756	14.8	8.8
AUM (Rs bn)	3,359	3,846	3,212	3,588	4.6	7.2
EBITDA Margin (%)	66.1	66.7	64.8	66.2	133bps	52bps
Net Margin (%)	48.3	48.8	47.0	48.1	133bps	68bps

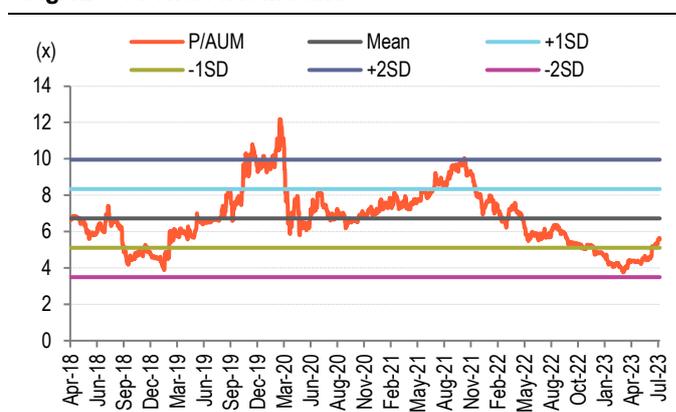
Source: Company, BOBCAPS Research

**Fig 11 – 1Y fwd P/E band**



Source: BOBCAPS Research

**Fig 12 – 1Y fwd P/AUM band**



Source: BOBCAPS Research

## Key risks

- **Decline in AUM growth due to increased competition:** Nippon AMC has witnessed intense competitive pressure in the AUM industry. Higher competition coupled with new entrants could dampen AUM growth and hurt revenue.
- **Prolonged weakness in equity markets:** Equity assets constitute a significant portion of the company’s AUM. Thus, a fall in Indian equity markets would cause AUM to decline directly as the value of underlying securities falls, and indirectly as

securities investments become less attractive for investors, resulting in net outflows or redemptions. Any decrease in AUM will impact fees and consequently net profit.

- **Regulatory risks:** AMCs are regulated by SEBI and could be adversely impacted in the event of unfavourable policy changes. For instance, should the regulator mandate a further decline in total expense ratio, yields could weaken even more.
- **Covid-like disruptions:** While Covid-related lockdowns are unlikely to be unduly harsh in future, we believe that any such lockdowns/disruptions due to any pandemic/virus mutations would be a risk to retail customer acquisition and could also result in higher redemptions.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Aditya Birla Sun Life AMC	ABSLAMC IN	1.4	407	425	HOLD
HDFC AMC	HDFCAMC IN	6.4	2,447	2,445	HOLD
Nippon Life India AMC	NAM IN	2.4	317	365	BUY
UTI AMC	UTIAM IN	1.2	806	815	HOLD

Source: BOBCAPS Research, NSE | Price as of 27 Jul 2023

## Glossary

Glossary	
<b>AUM</b>	Assets Under Management
<b>AAAUM</b>	Average Annual Assets Under Management
<b>AIF</b>	Alternate Investment Fund
<b>B30</b>	Beyond the Top 30 cities
<b>eKYC</b>	Electronic Know Your Customer
<b>EPFO</b>	Employees' Provident Fund Organisation
<b>ETF</b>	Exchange Traded Funds
<b>FOF</b>	Fund of Funds
<b>HNI</b>	High Net-worth Individual
<b>IFA</b>	Independent Financial Advisor
<b>MAAUM</b>	Monthly Average Assets Under Management
<b>MF</b>	Mutual Fund
<b>MFD</b>	Mutual Fund Distributor
<b>NFO</b>	New Fund Offer
<b>PMS</b>	Portfolio Management Services
<b>QAAUM</b>	Quarterly Average Assets Under Management
<b>SIP</b>	Systematic Investment Plan
<b>STP</b>	Systematic Transfer Plan
<b>T30</b>	Top 30 cities
<b>TER</b>	Total Expense Ratio

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Investment mgmt. fees</b>	<b>10,621</b>	<b>13,066</b>	<b>13,498</b>	<b>14,973</b>	<b>16,743</b>
YoY (%)	(11.7)	23.0	3.3	10.9	11.8
Operating expenses	5,046	5,159	5,551	6,274	6,508
Core operating profits	5,575	7,907	7,947	8,699	10,235
Core operating profits growth (%)	(8.4)	41.8	0.5	9.5	17.7
Depreciation and Interest	377	310	338	312	331
Core PBT	5,198	7,597	7,610	8,387	9,904
Core PBT growth (%)	(8.7)	46.1	0.2	10.2	18.1
Other income	3,572	2,290	1,668	3,551	2,800
PBT	8,770	9,887	9,277	11,937	12,704
PBT growth (%)	56.7	12.7	(6.2)	28.7	6.4
Tax	1,976	2,453	2,048	2,984	3,176
Tax rate (%)	22.5	24.8	22.1	25.0	25.0
<b>Reported PAT</b>	<b>6,794</b>	<b>7,434</b>	<b>7,229</b>	<b>8,953</b>	<b>9,528</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity capital	6,170	6,228	6,234	6,232	6,232
Reserves & surplus	24,838	28,558	28,922	30,713	32,618
Net worth	31,009	34,786	35,156	36,944	38,850
Borrowings	0	0	0	0	0
Other liab. & provisions	2,914	3,179	3,453	3,883	4,668
<b>Total liab. &amp; equities</b>	<b>33,922</b>	<b>37,965</b>	<b>38,609</b>	<b>40,827</b>	<b>43,518</b>
Cash & bank balance	29,106	32,801	32,959	36,008	39,303
Fixed & Other assets	4,457	4,784	5,444	4,818	4,216
<b>Total assets</b>	<b>33,922</b>	<b>37,965</b>	<b>38,609</b>	<b>40,827</b>	<b>43,518</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	10.9	11.8	11.5	14.3	15.2
Dividend per share	8.0	11.0	11.5	11.5	12.2
Book value per share	49.7	55.2	56.1	58.9	62.0

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	29.1	26.9	27.5	22.2	20.9
P/BV	6.4	5.7	5.7	5.4	5.1
Dividend yield (%)	2.5	3.5	3.6	3.6	3.9

### DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23A	FY24E	FY25E
Operating income	46.5	46.1	46.0	44.6	43.5
Operating expenses	22.1	18.2	18.9	18.7	16.9
EBITDA	40.0	36.0	32.8	36.5	33.9
Depreciation and Others	1.6	1.1	1.2	0.9	0.9
Core PBT	22.7	26.8	26.0	25.0	25.8
Other income	15.6	8.1	5.7	10.6	7.3
PBT	38.4	34.9	31.6	35.5	33.0
Tax	8.6	8.7	7.0	8.9	8.3
<b>ROAAAUM</b>	<b>29.7</b>	<b>26.2</b>	<b>24.7</b>	<b>26.7</b>	<b>24.8</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Investment mgmt. fees	(11.7)	23.0	3.3	10.9	11.8
Core operating profit	(8.4)	41.8	0.5	9.5	17.7
EPS	62.9	8.3	(2.3)	23.8	6.4
<b>Profitability &amp; Return ratios (%)</b>					
Operating income to Total inc.	74.8	85.1	89.0	80.8	85.7
Cost to Core income ratio	47.5	39.5	41.1	41.9	38.9
EBITDA margin	64.4	66.4	63.4	66.1	66.7
Core PBT margin	36.6	49.5	50.2	45.3	50.7
PBT margin (on total inc.)	61.8	64.4	61.2	64.4	65.0
ROE	23.9	22.6	20.7	24.8	25.1
<b>Dividend payout ratio</b>	<b>73.4</b>	<b>93.2</b>	<b>99.7</b>	<b>80.0</b>	<b>80.0</b>

### Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
AAAUM (Rs bn)	2,286	2,832	2,932	3,359	3,846
YoY Growth (%)	11.6	23.9	3.5	14.6	14.5
<b>% of AAAUM</b>					
Equity	41	42	44	45	44
Debt	31	26	18	17	16
Liquid	12	12	13	11	10
Others	16	20	24	27	30

Source: Company, BOBCAPS Research

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Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

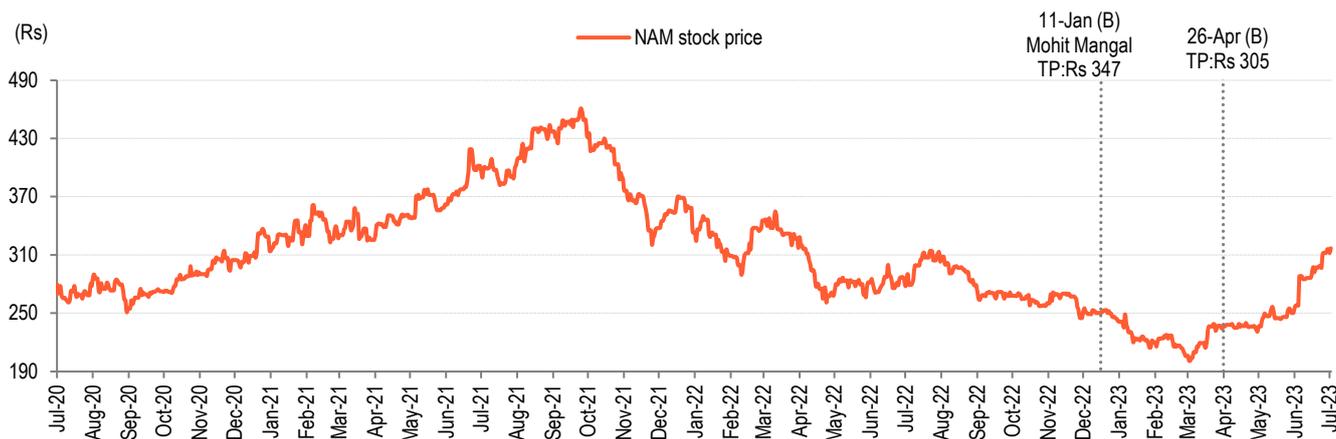
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

**Ratings and Target Price (3-year history): NIPPON LIFE INDIA AMC (NAM IN)**



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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