

BUY

TP: Rs 347 | ▲ 47%

NIPPON LIFE INDIA AMC | NBFC

30 January 2023

Healthy quarter; retain BUY

- Market share intact at ~7% with Q3 QAAUM up 4% YoY to Rs 2.9tn; competitive edge in ETFs maintained
- MFDs contributed a bulk of distributed assets at 58%; banks/national distributors constituted 22%/20%
- Valuation compelling at 16x FY25E EPS; retain BUY with unchanged TP of Rs 347

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Core fundamentals intact: Nippon AMC maintained its No. 4 position in the AMC industry with QAAUM of Rs 2.9tn (+4% YoY) at end-Q3FY23 and a stable market share of ~7%. Although equity QAAUM market share remained soft, management was confident of improvement based on top-quartile scheme performance, higher incremental flows and slower redemptions over the last 12 months. About 30% of MAAUM was generated from retail customers vs. 25% for the industry, pointing to a strong retail thrust. The SIP quarterly book grew 45% YoY to Rs 29.1bn with high stickiness as 14% of folios have continued for over five years vs. 11% for the industry.

Competitive advantage in ETFs: The company is a leader in the ETF industry with 69%/61% volume/folio share on both exchanges (NSE, BSE) at end Dec'22. ETFs within its QAAUM swelled from 6% (Rs 125bn) at end-FY17 to 23% (Rs 683bn) at end-Q3FY23 backed by a comprehensive product suite.

Yields firm up: The overall yield (calc.) was flat YoY at ~48bps (+1bps QoQ) as (a) the share of equity in QAAUM increased YoY from 42.8% to 44.5%, (b) a higher contribution from B30 cities boosted equity yields, (c) there were no NFOs in Q3 (a drag on yields), and (d) debt and ETF schemes earned higher realisations.

MF distributors continue to contribute lion's share of assets: Mutual fund distributors (MFD) contributed a lion's share of distributed assets at 58% in Q3; banks/national distributors constituted 22%/20%. The company's distribution network remains robust with 74 banks, 91 national distributors, 78 alternate channels (incl. state-owned banks) and 88,800+ MFDs (1,900 added in Q3).

Maintain BUY: Nippon AMC is currently trading at an attractive valuation of 16x FY25E EPS. We value the stock at an unchanged 24x FY25E EPS, 1SD below the long-term mean, to arrive at a TP of Rs 347. We like the company for its competitive advantage in ETFs, stable market share, high retail focus, diversified distribution network and sustained high dividend payout (for details, see our recent [initiation report](#)) – maintain BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

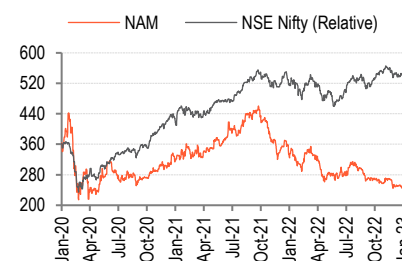
Ticker/Price	NAM IN/Rs 235
Market cap	US\$ 1.8bn
Free float	12%
3M ADV	US\$ 1.2mn
52wk high/low	Rs 357/Rs 233
Promoter/FPI/DII	74%/6%/9%

Source: NSE | Price as of 30 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Core PBT (Rs mn)	7,597	7,528	8,249
Core PBT (YoY)	46.1	(0.9)	9.6
Adj. net profit (Rs mn)	7,434	7,259	8,177
EPS (Rs)	11.8	11.6	13.0
Consensus EPS (Rs)	11.8	11.6	13.6
MCap/AAAUM (%)	5.2	4.8	4.4
ROAAAUM (bps)	26.2	23.5	24.1
ROE (%)	22.6	20.7	22.5
P/E (x)	19.9	20.4	18.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Fig 1 – P&L account – Consolidated

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Revenue from Operations					
Asset Management Services	3,538	3,385	4.5	3,316	6.7
Other Income	619	304	103.7	819	(24.4)
Total Income	4,157	3,689	12.7	4,135	0.5
Expenses					
Fees and Commission Expenses	126	118	6.9	139	(9.0)
Employee Benefits Expenses	747	729	2.5	765	(2.4)
Other Expenses	533	417	27.7	477	11.6
Total Operating Expenses	1,405	1,264	11.2	1,381	1.8
EBITDA	2,752	2,426	13.5	2,754	(0.1)
Depreciation, Amortisation and Impairment	77	65	20.0	71	9.3
Finance Costs	11	7	66.2	8	36.7
Profit Before Tax	2,664	2,355	13.1	2,676	(0.4)
Tax Expense					
Current Tax	506	548	(7.7)	645	(21.7)
Deferred Tax Charge/(Credit)	110	68	63.4	(30)	(466.4)
Total Tax Expense	616	615	0.1	615	0.1
Profit After Tax	2,048	1,740	17.7	2,060	(0.6)

Source: Company, BOBCAPS Research

Fig 2 – AUM breakup

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
QAAUM (Rs bn)	2,928	2,806	4.3	2,851	2.7
- Equity-oriented	1,302	1,201	8.4	1,240	5.0
- Debt	532	763	(30.3)	563	(5.5)
- Liquid	411	327	25.7	410	0.2
- ETF	683	515	32.6	638	7.1
Market share QAAUM (as provided) (%)	7.3	7.3	NA	7.3	NA
Unique Investors (mn)	13.2	10.0	32.0	13.4	(1.5)
Systematic Transactions - Quarterly Book (Rs bn)	29.1	20.1	44.8	25.6	13.7
SIP AUM (Rs bn)	583	507	15.0	555	5.0

Source: Company, BOBCAPS Research

Fig 3 – Margin indicators

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
EBITDA margin (%)	66.2	65.7	45bps	66.6	(41bps)
Net margin (%)	49.3	47.2	217bps	49.8	(49bps)
Revenue yield (bps)	48.3	48.3	NA	46.5	NA

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

Valuation methodology

Nippon AMC is currently trading at a compelling valuation of 16x FY25E earnings. We maintain our BUY rating with an unchanged TP of Rs 347, assigning the stock a P/E multiple of 24x on FY25E EPS – one standard deviation below the long-term mean multiple. Our positive investment view is based on Nippon AMC's stable market share, competitive advantage in ETFs, high retail focus and diversified distribution network. Dividend payout has also remained high. Please refer to our recent [initiation report](#) for a detailed investment thesis.

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 Nippon AMC'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.
 - Should the regulator mandate a further decline in total expense ratio, yields could weaken even more.
 - SEBI in Apr'22 had barred fund houses from floating new schemes till the industry complied with its direction to discontinue mutual fund investments by distributors and brokers from their pool accounts. The deadline for implementation of the new guideline was 1 Jul 2022. Thus, Q1FY23 didn't see any new fund offers.
- **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	1.5	419	488	HOLD
HDFC AMC	HDFC AMC IN	4.9	1,873	2,310	BUY
Nippon Life India AMC	NAM IN	1.8	235	347	BUY
UTI AMC	UTIAM IN	1.1	722	983	BUY

Source: BOBCAPS Research, NSE | Price as of 30 Jan 2023

Glossary

Glossary			
AUM	Assets Under Management	NFO	New Fund Offer
B30	Beyond the Top 30 cities	QAAUM	Quarterly Average Assets Under Management
ETF	Exchange Traded Funds	SIP	Systematic Investment Plan
MAAUM	Monthly Average Assets Under Management	T30	Top 30 cities
MF	Mutual Fund	TER	Total Expense Ratio
MFD	Mutual Fund Distributor		

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Investment mgmt. fees	10,621	13,066	13,470	14,534	15,687
YoY (%)	(11.7)	23.0	3.1	7.9	7.9
Operating expenses	5,046	5,159	5,655	5,977	6,280
Core operating profits	5,575	7,907	7,815	8,557	9,406
Core operating profits growth (%)	(8.4)	41.8	(1.2)	9.5	9.9
Depreciation and Interest	377	310	287	309	331
Core PBT	5,198	7,597	7,528	8,249	9,075
Core PBT growth (%)	(8.7)	46.1	(0.9)	9.6	10.0
Other income	3,572	2,290	2,177	2,683	3,078
PBT	8,770	9,887	9,705	10,932	12,153
PBT growth (%)	56.7	12.7	(1.8)	12.6	11.2
Tax	1,976	2,453	2,446	2,755	3,063
Tax rate (%)	22.5	24.8	25.2	25.2	25.2
Reported PAT	6,794	7,434	7,259	8,177	9,091

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity capital	6,170	6,228	6,220	6,220	6,220
Reserves & surplus	24,838	28,558	29,284	30,919	32,737
Net worth	31,009	34,786	35,504	37,139	38,958
Borrowings	0	0	0	0	0
Other liab. & provisions	2,914	3,179	3,777	3,975	4,196
Total liab. & equities	33,922	37,965	39,281	41,114	43,154
Cash & bank balance	29,106	32,801	34,615	36,652	38,933
Fixed & Other assets	4,457	4,784	4,666	4,462	4,221
Total assets	33,922	37,965	39,281	41,114	43,154

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS	10.9	11.8	11.6	13.0	14.5
Dividend per share	8.0	11.0	10.5	10.5	11.7
Book value per share	49.7	55.2	56.5	59.1	62.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
P/E	21.6	19.9	20.4	18.1	16.3
P/BV	4.7	4.3	4.2	4.0	3.8
Dividend yield (%)	3.4	4.7	4.5	4.5	5.0

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	46.5	46.1	43.6	42.8	41.8
Operating expenses	22.1	18.2	18.3	17.6	16.8
EBITDA	40.0	36.0	32.4	33.1	33.3
Depreciation and Others	1.6	1.1	0.9	0.9	0.9
Core PBT	22.7	26.8	24.4	24.3	24.2
Other income	15.6	8.1	7.1	7.9	8.2
PBT	38.4	34.9	31.4	32.2	32.4
Tax	8.6	8.7	7.9	8.1	8.2
ROAAAUM	29.7	26.2	23.5	24.1	24.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Investment mgmt. fees	(11.7)	23.0	3.1	7.9	7.9
Core operating profit	(8.4)	41.8	(1.2)	9.5	9.9
EPS	62.9	8.3	(2.1)	12.6	11.2
Profitability & Return ratios (%)					
Operating income to Total inc.	74.8	85.1	86.1	84.4	83.6
Cost to Core income ratio	47.5	39.5	42.0	41.1	40.0
EBITDA margin	64.4	66.4	63.9	65.3	66.5
Core PBT margin	36.6	49.5	48.1	47.9	48.4
PBT margin (on total inc.)	61.8	64.4	62.0	63.5	64.8
ROE	23.9	22.6	20.7	22.5	23.9
Dividend payout ratio	73.4	93.2	90.0	80.0	80.0

Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
AAAUM (Rs bn)	2,286	2,832	3,087	3,398	3,749
YoY Growth (%)	11.6	23.9	9.0	10.1	10.3
% of AAAUM					
Equity	41	42	44	45	45
Debt	31	26	20	18	17
Liquid	12	12	13	13	12
Others	16	20	23	25	26

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

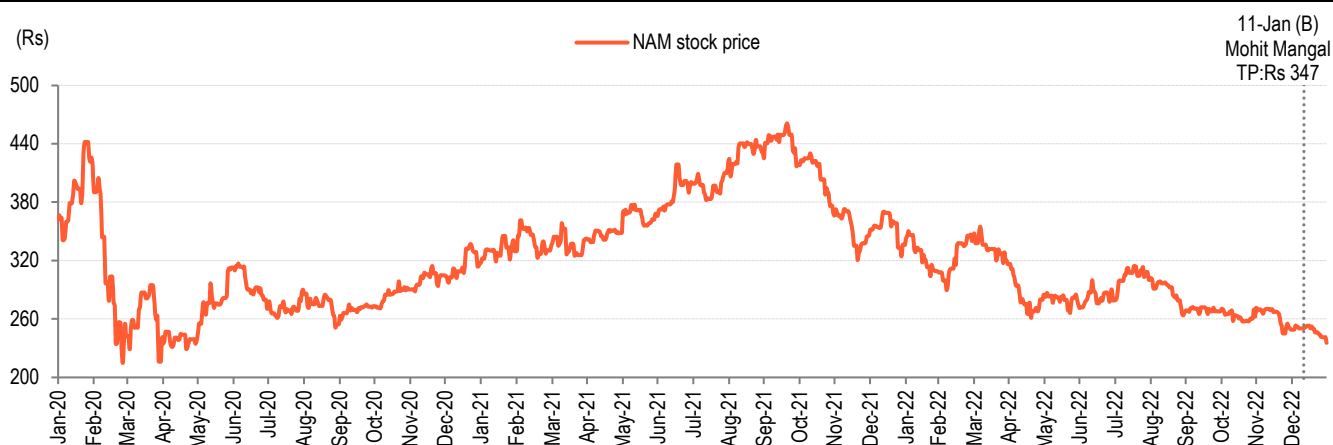
HOLD – Expected return from -6% to +15%

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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