

Reliance Nippon Life Asset Management | BUY

Steady operational quarter

RNAM reported a strong quarter with PAT for 4QFY18 up 35% YoY at INR 162bn. Quarterly average AUM in equity MF schemes witnessed strong growth (+53% YoY). However, overall quarterly average MF AUM grew 16%, as debt MF schemes faced pressure from rising interest rates. Equity MF schemes now contribute 37% of RNAM's overall MF AUM (on a closing basis), up from 30% as of FY17. RNAM's profitability witnessed a sharp uptick in 4QFY18, with PAT / QAAUM at 26bps for the quarter and 24bps for the full year FY18. However, there were some one-offs for the quarter relating to a) other income (+113% YoY) at INR850mn due to recognition of investment income in MF schemes and accrued interest on IPO proceeds and b) Reduction in tax rate to 23% for the quarter (due to tax breaks on investment income booked). Adjusting for these RNAM's profits were largely in-line with our expectations. We factor in the impact of the 15bps cut in TER (as part of the Kotak Committee recommendations) in FY19, although we expect it to be largely borne by the distributors. We believe the resultant compression on net revenue yields will to a large extent be offset by the strong growth in other income from PMS/ AIF/ offshore businesses which are shaping up well. We factor in a 2% / 5% earnings cut for FY19E/FY20E and value RNAM at 28x FY20E EPS to arrive at our revised 12-month TP of INR 330/sh.

- **Improving AUM mix bodes well for profitability:** Share of Equity AUM for RNAM has grown from 30% as of FY17 to 37% of overall AUM (closing basis). We expect this to grow further to 46% by FY20E as equity MF flows for the industry continue to witness strong tailwinds and debt schemes remain under pressure. This bodes well for overall profitability (as measured by PAT/ Avg AUM) for RNAM. Moreover, the run-rate of monthly SIP inflows for RNAM is at INR 7.5bn as of Mar-18 (+70% YoY), which represents a 10.5% market share in SIP flows. At current run-rate, these SIP flows alone could add another 11% to RNAM's equity MF AUM base over FY19E. Moreover, RNAM continues to witness healthy trends in retail MF flows: RNAM added INR 206bn of retail avg. AUM in FY18, which was the highest for the industry.
- **Other income to partially offset impact of TER cut:** With SEBI approving the Kotak Committee recommendation for a 15bps cut in TER, we expect overall profitability for the AMC industry could be affected by 6-8%. Although we understand that the major brunt of this is expected to be borne by the distribution-heavy equity MF schemes, it remains to be seen how the impact of the TER cut is split between the distributors and the AMCs. We believe that ~40% of the overall MF AUM for the industry (and a similar proportion for RNAM) might be impacted. Positively, RNAM's consol. other income from PMS/ AIF / offshore business are shaping up well: these businesses combined now manage c. INR 125bn in AUM, with net yields of ~1%. We believe that the impact of the TER cut on consolidated profits could be partially absorbed by the strong growth in these businesses as well as the improvement in the MF AUM mix.
- **Valuation and outlook:** We have cut our earnings estimates for FY19E/FY20E by 2% / 5% and value RNAM at 28x FY20E EPS to arrive at our revised 12-month TP of INR 330. Maintain BUY.

Financial summary

	FY16	FY17	FY18	FY19E	FY20E
Mutual Fund AUM (closing basis, INR bn)	1,461	2,036	2,261	2,736	3,322
YoY growth (%)	13%	39%	11%	21%	21%
% of equity MF AUM (closing basis)	33%	30%	37%	43%	46%
Consol. Revenues (INR mn)	13,138	14,359	18,150	21,361	25,605
Total operating expenses (INR mn)	7,914	8,546	10,891	12,640	15,013
Consol. PAT (INR mn)	3,964	4,027	5,219	6,017	7,309
YoY growth (%)	12%	2%	30%	15%	21%
Consol PAT / Avg. AUM (RoAUM) (%)	0.29%	0.23%	0.24%	0.24%	0.24%
RoE (%)	24.3%	22.2%	25.2%	25.4%	27.8%
EPS (INR)	6.7	6.9	8.5	9.8	11.9
P/E (x)	37.8	37.2	29.9	25.9	21.4

Source: Company, JM Financial



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	330
Upside/(Downside)	30.4%
Previous Price Target	350
Change	-5.7%

Key Data –RNAM IN Equity

Current Market Price	INR 253
Market cap (bn)	INR 154.9/\$2.3
Free Float	10%
Shares in issue (mn)	612.00
Diluted share (mn)	612.00
3-mon avg daily val (mn)	NA
52-week range	335/237
Sensex/Nifty	34,970/10,692
INR/US\$	66.6

Price Performance

%	1M	6M	12M
Absolute	2.1	NA	NA
Relative*	-3.3	NA	NA

* To the BSE Sensex

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Key Quarterly Trends

Exhibit 1. RNLAM : 4QFY18 Result Summary

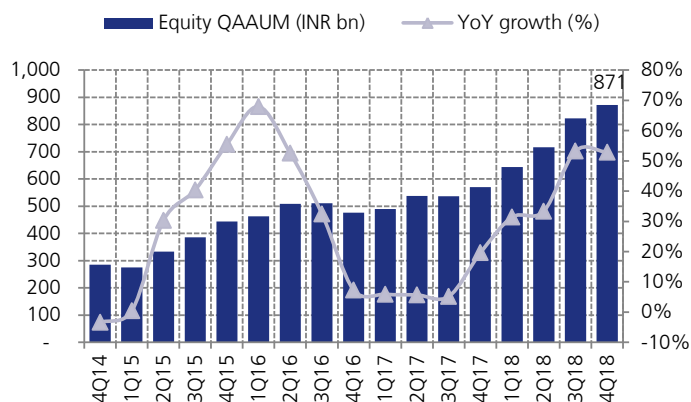
Consolidated P&L (INR mn)	4Q17	3Q18	4Q18	QoQ (%)	YoY (%)
Revenue from operations	3,660	4,090	4,290	4.9%	17.2%
Other income	400	610	850	39.3%	112.5%
Total revenue	4,060	4,700	5,140	9.4%	26.6%
Employee benefits expense	500	600	741	23.5%	48.2%
Other operating expenses	1,960	2,220	2,300	3.6%	17.3%
Total expenses	2,460	2,820	3,041	7.8%	23.6%
PBT	1,600	1,880	2,099	11.6%	31.2%
PAT	1,200	1,300	1,619	24.5%	34.9%

Qtrly Avg AUM (INR bn)	4Q17	3Q18	4Q18	QoQ (%)	YoY (%)
Equity MF schemes	570	823	871	5.9%	52.9%
Debt MF schemes	1,031	1,066	991	-7.1%	-4.0%
Liquid MF schemes	380	415	454	9.5%	19.5%
Other MF schemes	127	132	133	0.4%	4.3%
Overall MF	2,109	2,436	2,449	0.5%	16.1%

Dupont analysis	4Q17	3Q18	4Q18	QoQ (%)	YoY (%)
Revenue / QAAUM (%)	0.69%	0.67%	0.70%	0.03%	0.01%
Other income / QAAUM(%)	0.08%	0.10%	0.14%	0.04%	0.06%
Total revenue / QAAUM (%)	0.77%	0.77%	0.84%	0.07%	0.07%
Employee exp / QAAUM(%)	0.09%	0.10%	0.12%	0.02%	0.03%
Marketing & publicity exp / QAAUM(%)	0.37%	0.36%	0.38%	0.01%	0.00%
Total cost / QAAUM (%)	0.47%	0.46%	0.50%	0.03%	0.03%
PBT / QAAUM(%)	0.30%	0.31%	0.34%	0.03%	0.04%
PAT / QAAUM(%)	0.23%	0.21%	0.26%	0.05%	0.04%

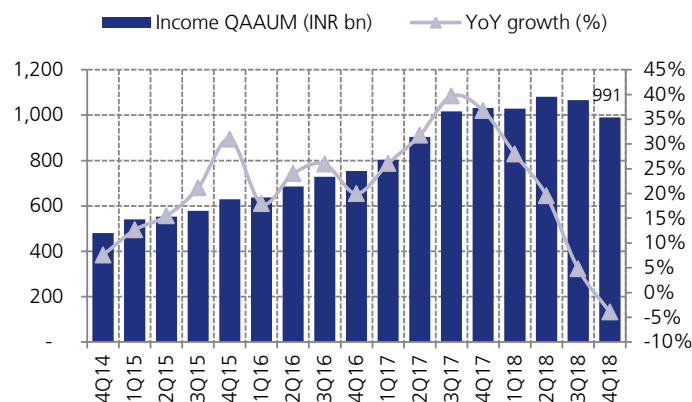
Source: Company, JM Financial

Exhibit 2. RNLAM: Equity Qtrly Avg AUM and growth (%)



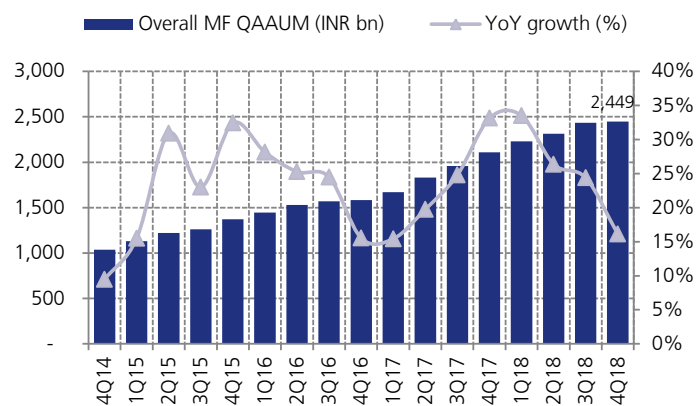
Source: Company, JM Financial

Exhibit 3. RNLAM: Debt Qtrly Avg AUM and growth (%)



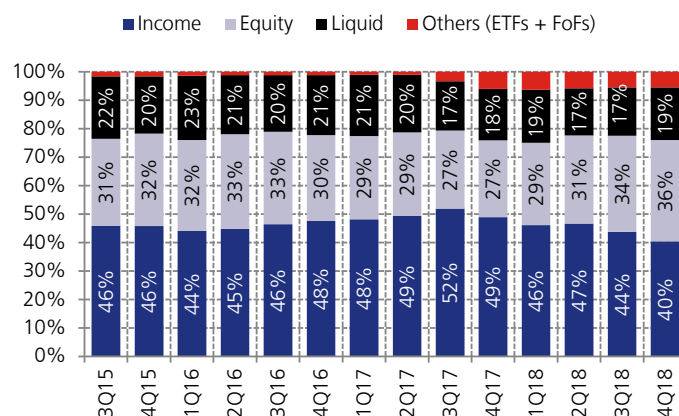
Source: Company, JM Financial

Exhibit 4. RNLAM : Overall MF Qtrly Avg AUM growth



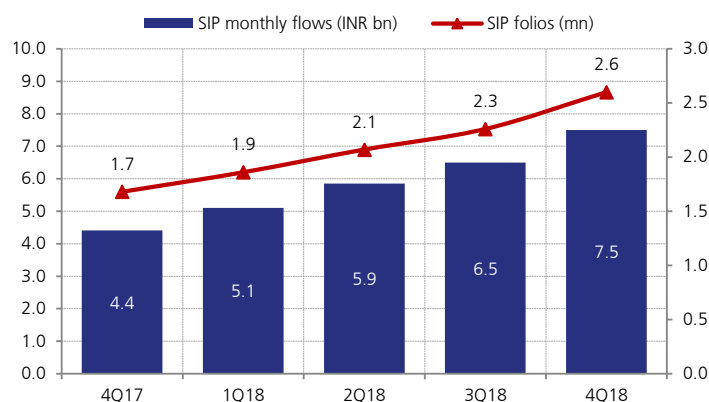
Source: Company, JM Financial

Exhibit 5. RNLAM : Overall MF Qtrly Avg AUM mix (%)



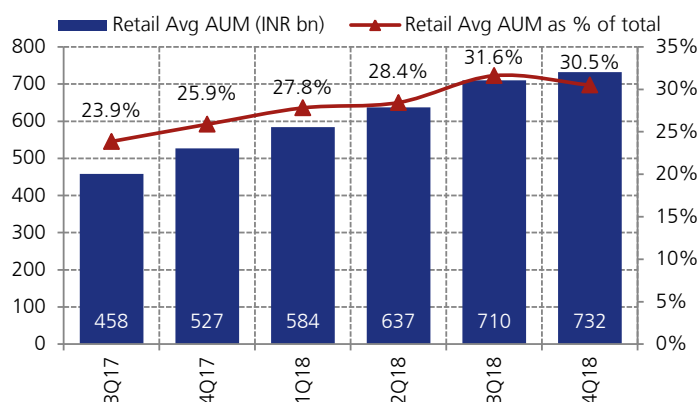
Source: Company, JM Financial

Exhibit 6. RNLAM: SIP monthly inflows and folios (%)



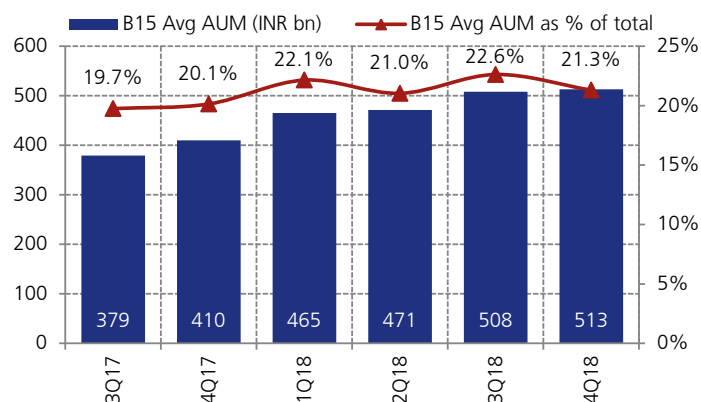
Source: Company, JM Financial

Exhibit 7. RNLAM: Retail AAUM as % of total (%)



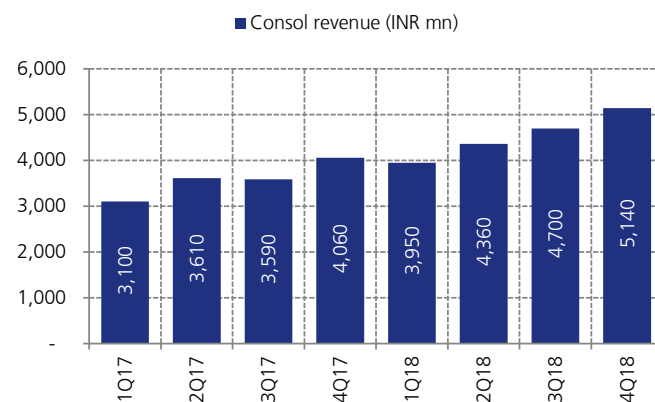
Source: Company, JM Financial

Exhibit 8. RNLAM : B15 AAUM and trajectory



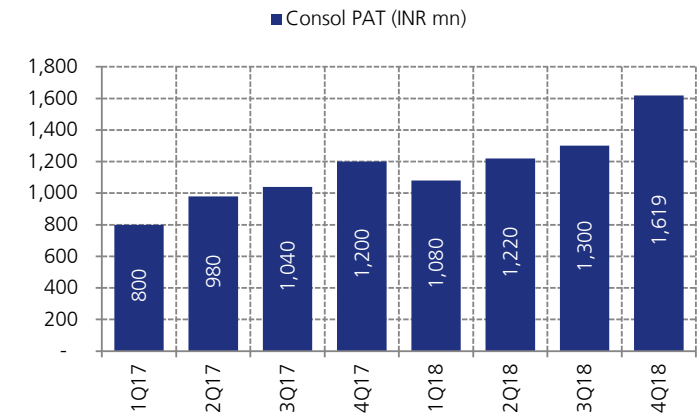
Source: Company, JM Financial

Exhibit 9. RNLAM : Consolidated Revenues



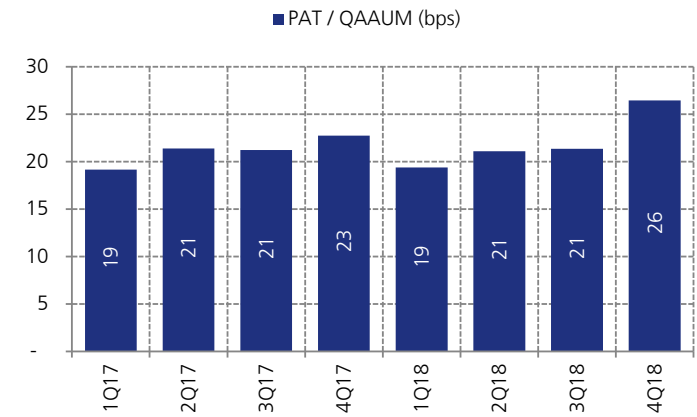
Source: Company, JM Financial

Exhibit 10. RNLAM : Consolidated PAT



Source: Company, JM Financial

Exhibit 11. RNLAM : Consolidated PAT Yields (PAT/QAAUM)



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)					
	FY16	FY17	FY18	FY19E	FY20E
Invst. Mgmt. Fees	11,581	12,676	15,096	17,237	20,716
PMS Fees	418	398	763	1,176	1,352
Share of Profit in LLP	2	1	1	1	1
Investment Management fees	12,001	13,075	15,860	18,414	22,069
Total Other income	1,137	1,284	2,290	2,947	3,536
Total Revenue	13,138	14,359	18,150	21,361	25,605
Employee costs	1,923	1,957	2,301	2,736	2,989
Admin & Other expenses	2,159	2,559	3,130	3,600	4,319
Mktg & publicity expenses	3,752	3,892	5,120	5,964	7,364
Total Operating Expenses	7,833	8,408	10,551	12,300	14,673
Depreciation/Diminution in LT	81	138	340	340	340
Total Expenditure	7,914	8,546	10,891	12,640	15,013
PBT	5,224	5,813	7,259	8,721	10,593
Tax	(1,260)	(1,786)	(2,040)	(2,703)	(3,284)
PAT (Pre-Extraordinaries)	3,964	4,027	5,219	6,017	7,309
Less: Share of Minority	(0)	-	-	-	-
Reported Profit (PAT)	3,964	4,027	5,219	6,017	7,309
Dividend	1,737	3,003	4,315	3,911	4,751
Retained earnings	2,227	1,025	904	2,106	2,558

Source: Company, JM Financial

Balance Sheet (INR mn)					
	FY16	FY17	FY18	FY19E	FY20E
Share capital	115	115	6,120	6,120	6,120
Reserves & Surplus	17,504	18,511	16,750	18,453	21,850
Networth	17,619	18,626	22,870	24,573	27,970
Preference shares	300	300	-	-	-
Minority interest	89	-	-	-	-
Current Liabilities	1,190	1,372	2,690	2,761	3,037
Provisions	110	216	150	188	234
Total Liabilities	19,308	20,513	25,710	27,521	31,242
Net Fixed Assets	119	2,511	2,320	2,601	2,911
Non-Current investments	5,272	5,895	7,860	8,759	9,763
Total Non-current assets	9,335	10,005	11,600	13,043	16,272
Total Current investments	3,836	3,570	850	893	937
Total Current Assets	9,972	10,507	14,110	14,478	14,970
Total Assets	19,308	20,513	25,710	27,521	31,242

Source: Company, JM Financial

Mutual Fund AUM (INR bn)					
	FY16	FY17	FY18	FY19E	FY20E
Closing AUM	FY16	FY17	FY18	FY19E	FY20E
Equity	475	610	842	1,164	1,515
Debt	761	998	961	1,051	1,209
Liquid	207	283	330	355	384
ETF	18	145	128	166	213
Total AUM	1,461	2,036	2,261	2,736	3,322

Source: Company, JM Financial

Key Ratios						
As a % of Avg AUM	FY16	FY17	FY18	FY19E	FY20E	
Core Revenues / Avg. AUM	0.87%	0.75%	0.74%	0.74%	0.73%	
Other Revenues / Avg. AUM	0.08%	0.07%	0.11%	0.12%	0.12%	
Total Revenues / Avg. AUM	0.95%	0.82%	0.84%	0.86%	0.85%	
Employee cost / Avg. AUM	0.14%	0.11%	0.11%	0.11%	0.10%	
Brokerage / Avg. AUM	0.23%	0.15%	0.16%	0.16%	0.16%	
Operating cost / Avg. AUM	0.57%	0.49%	0.51%	0.51%	0.50%	
PBT / Avg. AUM	0.38%	0.33%	0.34%	0.35%	0.35%	
PAT / Avg. AUM	0.29%	0.23%	0.24%	0.24%	0.24%	
As a % of Balance sheet assets	FY16	FY17	FY18	FY19E	FY20E	
Core Revenues / Avg. Assets	66.1%	65.7%	68.6%	69.2%	75.1%	
Other Revenues / Avg. Assets	6.3%	6.4%	9.9%	11.1%	12.0%	
Total Revenues / Avg. Assets	72.3%	72.1%	78.5%	80.3%	87.1%	
Employee cost / Avg. Assets	10.6%	9.8%	10.0%	10.3%	10.2%	
Brokerage / Avg. Assets	17.2%	13.0%	14.8%	14.7%	16.7%	
Operating cost / Avg. Assets	43.1%	42.2%	45.7%	46.2%	49.9%	
PBT / Avg. Assets	28.8%	29.2%	31.4%	32.8%	36.1%	
RoA (%)	21.8%	20.2%	22.6%	22.6%	24.9%	
Avg Assets/Equity (x)	1.1	1.1	1.11	1.12	1.12	
RoE (%)	24.3%	22.2%	25.2%	25.4%	27.8%	

Source: Company, JM Financial

Growth ratios (YoY %)					
	FY16	FY17	FY18E	FY19E	FY20E
Inv mgmt fees	41.6%	9.0%	21.3%	16.1%	19.9%
Other income	5.4%	12.9%	78.4%	28.7%	20.0%
Revenue	37.6%	9.3%	26.4%	17.7%	19.9%
Employee cost	19.2%	1.8%	17.6%	18.9%	9.3%
Admin & other exp	19.3%	18.5%	22.3%	15.0%	20.0%
Marketing & publicity exp	150.0%	3.8%	31.5%	16.5%	23.5%
Total operating exp	59.1%	7.3%	25.5%	16.6%	19.3%
PBT	12.6%	11.3%	24.9%	20.1%	21.5%
Tax	15.2%	41.8%	14.3%	32.5%	21.5%
PAT	11.8%	1.6%	29.6%	15.3%	21.5%
Total Assets	13.5%	6.2%	25.3%	7.0%	13.5%
Equity AUM	4%	28%	34%	31%	22%
Debt AUM	18%	31%	14%	18%	20%
Liquid AUM	22%	37%	13%	15%	17%
Other AUM	-11%	706%	36%	24%	20%
Total AUM	13%	39%	21%	22%	21%

Source: Company, JM Financial

Valuation					
	FY16	FY17	FY18	FY19E	FY20E
Shares in issue (mn)	587.5	587.5	612.0	612.0	612.0
EPS (INR)	6.7	6.9	8.5	9.8	11.9
EPS (YoY)(%)	12%	2%	24%	15%	21%
PER (x)	46.2	45.5	29.7	25.7	21.2
BV (INR)	30.0	31.7	37.4	40.2	45.7
BV (YoY)	17.0%	5.7%	17.9%	7.4%	13.8%
P/BV (x)	10.4	9.8	6.8	6.3	5.5
DPS (INR)	3.0	5.1	7.1	6.4	7.8
Div. yield (%)	0.9%	1.6%	2.8%	2.5%	3.1%

Source: Company, JM Financial

APPENDIX I

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