

CMP: ₹ 245

Target: ₹ 300 (22%)

Period: 12 months

BUY

May 18, 2020

Volatility seen ahead; business model preferred...

Nippon Life India AMC (Nippon) reported weak earnings, primarily led by MTM losses on investments. Regressive AUM growth, amid Covid-19, kept the topline under pressure with the outlook being a bit uncertain.

Industry AUM declined to ₹ 22.3 lakh crore as of March 2020 vs. ₹ 26.5 lakh crore as of December 2019. Equity segment saw a decline of ~24% QoQ to ₹ 8.3 lakh crore, led by a correction in markets. Debt, liquid schemes saw ~7%, ~11% QoQ, respectively, decline in AUM due to outflows in the quarter. SIP flows continued to remain consistent at ₹ 8600 crore in Q4FY20.

MF AUM growth slumped ~12% YoY to ~₹ 2.04 lakh crore, led by broad based market correction. Correction in equity markets led to ~4% QoQ fall in equity AUM to ₹ 0.86 lakh crore. However, Nippon AMC fared well on debt AUM (post change in ownership) with ~4% QoQ increase in AUM to ₹ 0.57 lakh crore, despite industry seeing outflows. As a proportion of AUM, equity AUM remained steady at ~42% in FY20, despite market correction.

The company continued to maintain its focus on retail asset with contribution at ~24%, higher than the industry. Proportion of B30 AUM also stayed higher at ~17.4% as of March 2020 vs. ~15.6% of industry. On the SIP front, SIP book saw a decline to ₹ 808 crore per month vs. ₹ 859 crore in FY19 with average ticket size at ~₹ 2550, higher than industry at ₹ 3350.

Nippon's investment book was at ~₹ 2400 crore, of which ~12% is in equity, ~57% in debt and 25% in bank FD and tax free bonds. The market correction has led to ~₹ 150 crore of MTM loss in investments thereby impacting other income, which was at -₹ 112.6 crore in Q4FY20. Accordingly, PAT declined 92% QoQ to ₹ 12 crore.

Valuation & Outlook

The steep correction in equity market impacted both AUM and earnings momentum. In the current environment, near term outlook remains uncertain but structural changes including increase in financial savings remains positive. Focus on client acquisition (inducted more than 290 corporate & SME clients in H2FY20) and risk management (board's decision that all schemes (except two) to invest in debt papers rated AA and above) bodes well to gain lost customer confidence. Strong distribution with ~76,200 partners across the country is expected to further enable improvement in traction in AUM. Focus on operating efficiency & proportion of equity AUM is seen to aid profitability margin ahead. Accordingly, we expect MF AUM growth at ~6% CAGR in FY21-22E to ₹ 2.45 lakh crore and earnings momentum at ~27% CAGR in FY21-22E to ₹ 667 crore (led by lower base of FY20). Near term outlook remains volatile. However, given elevated economic uncertainty, business model without large credit risk remain preferred. Therefore, we have a **BUY** rating on the stock with a target price of ₹ 300/share.

Key Financial Summary

	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22)
Net Profit (₹crore)	447	475	412	536	667	12%
EPS (₹)	7.3	7.8	6.7	8.8	10.9	12%
P/E (x)	33.5	31.6	36.4	28.0	22.5	-11%
AUM/share (₹)	3694	3722	3348	3534	4005	
P/AUM (%)	6.6	6.6	7.3	6.9	6.1	
DPS (₹)	6.0	6.0	4.7	6.1	7.6	
RoE (%)	19.1	18.8	15.5	19.0	22.1	

Source: Company, ICICI Direct Research



Particulars

	Amount
Market Capitalisation	₹14899 crore
Net worth	₹2656 crore
52 week H/L	453/192
Face Value	₹10
DII Holding (%)	6.72
FII Holding (%)	5.26

Key Highlights

- MTM loss on investment impacts quarterly earnings
- Focus on client acquisition and risk management to gain confidence
- Strong distribution to aid AUM growth ahead
- Target lowered to ₹ 300. Maintain BUY rating

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Exhibit 1: Variance Analysis

₹ Crore	Q4FY20	Q4FY19	YoY	Q3FY20	QoQ	Comments
Revenue from Operations	254.51	343.22	-26%	285.37	-11%	Regressive AUM growth leads to dip in revenues YoY
Revenue/AUM	0.00	0.01	-15.4bps	0.01	-11.0bps	
Other Income	-112.61	54.27	-307%	56.54	-299%	Other income impacted by MTM losses on investments worth ₹ 150 crore
Net Total Income	388.05	397.49	-2%	341.91	13%	
Staff Cost	45.89	76.75	-40%	75.66	-39%	
Other Operating Expenses	50.44	125.01	-60%	68.46	-26%	
Total Expenses	104.65	185.41	-44%	153.24	-32%	
PBT	37.25	212.08	-82%	188.67	-80%	
Tax Outgo	25.37	60.42	NA	44.76	NA	
PAT	11.88	151.66	-92%	143.91	-92%	
Total AUM	255000	422149	-40%	310100	-18%	Equity AUM declines due to corrections in market. Debt AUM remains broadly stable
MF- AAUM	204884	233617	-12%	204370	0%	Retail share in total AUM at 24%

Source: Company, ICICI Direct Research

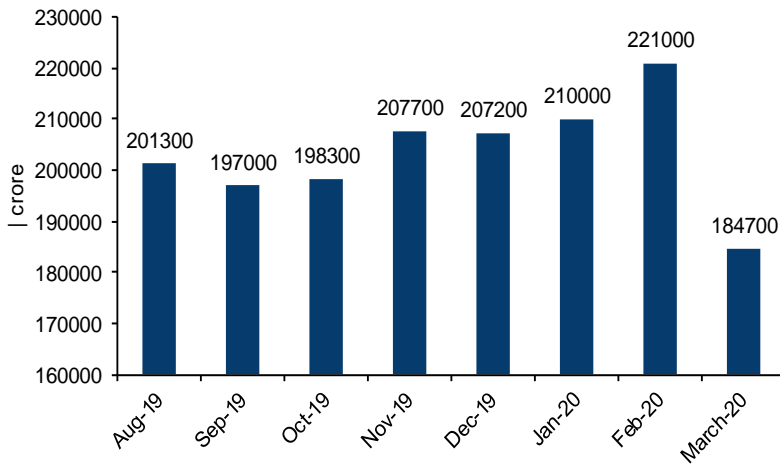
Exhibit 2: Change in Estimates

(₹ Crore)	FY21E			FY22E		
	Old	New	Change %	Old	New	Change %
Revenue from Operations	1286.6	1216.7	-5%	1462.0	1403.6	-4%
PBT	702.2	719.2	2%	829.9	894.7	8%
Revenue/AUM	0.6	0.6	-2%	0.6	0.6	1%
PAT	523.1	535.8	2%	618.3	666.5	8%
EPS (₹)	8.5	8.8	2%	10.1	10.9	8%

Source: Company, ICICI Direct Research

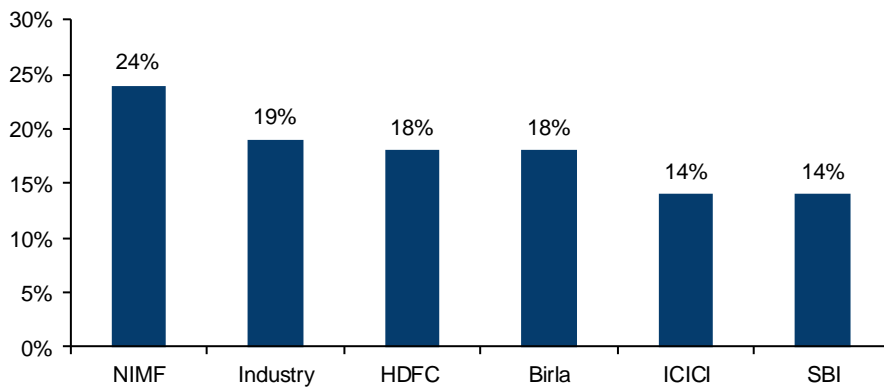
Snapshot of company

Exhibit 3: MAAUM growth witnesses dip



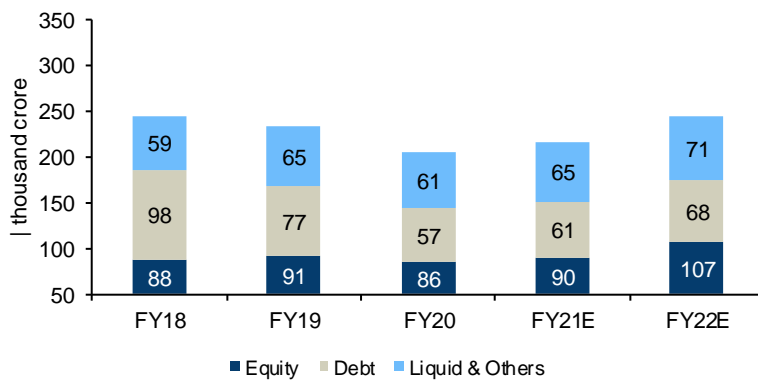
Source: Company, ICICI Direct Research

Exhibit 4: Highest share of retail AUM composition



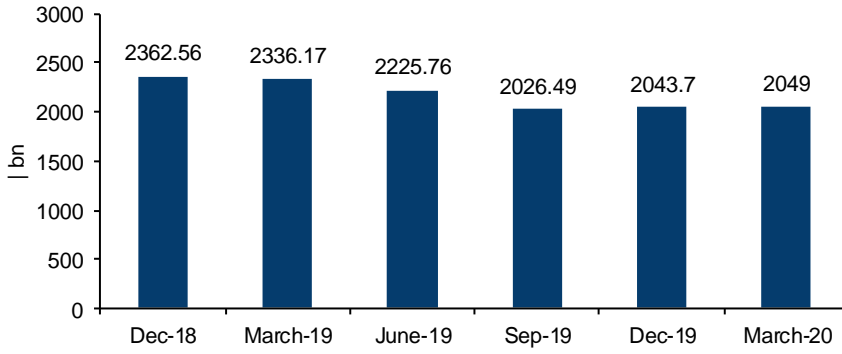
Source: Company, ICICI Direct Research

Exhibit 5: Expect stable growth rate



Source: Company, ICICI Direct Research

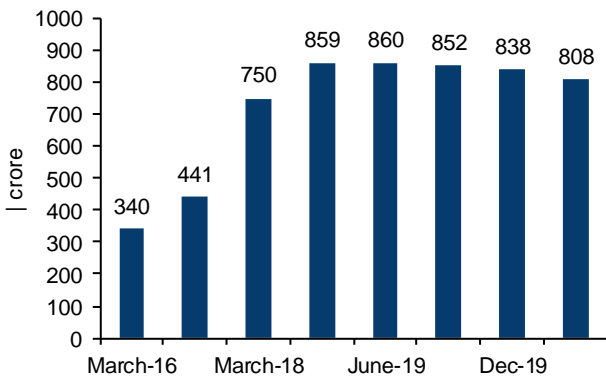
Exhibit 6: QAAUM book



Source: Company, ICICI Direct Research

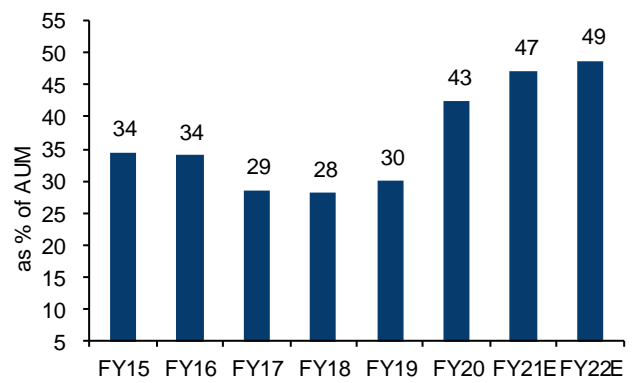
Direct Research

Exhibit 7: Monthly SIP flows



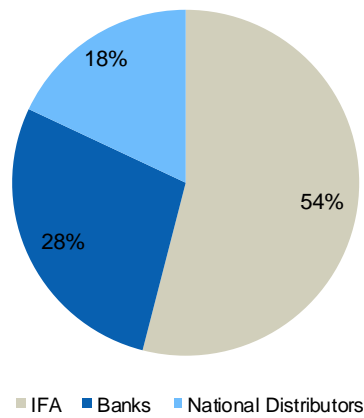
Source: Company, ICICI Direct Research

Exhibit 8: PBT/AUM



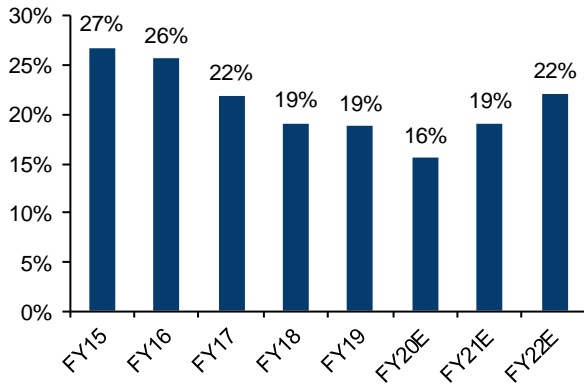
Source: Company, ICICI Direct Research

Exhibit 9: Distribution channel (Q4FY20)



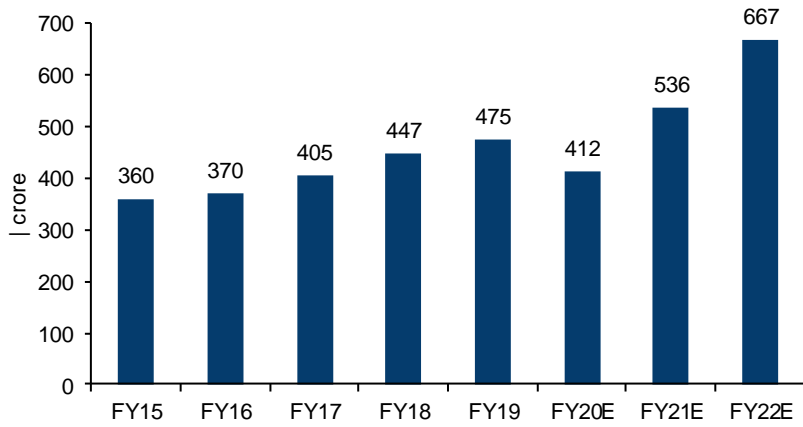
Source: Company, ICICI Direct Research

Exhibit 10: RoE to surge in near term



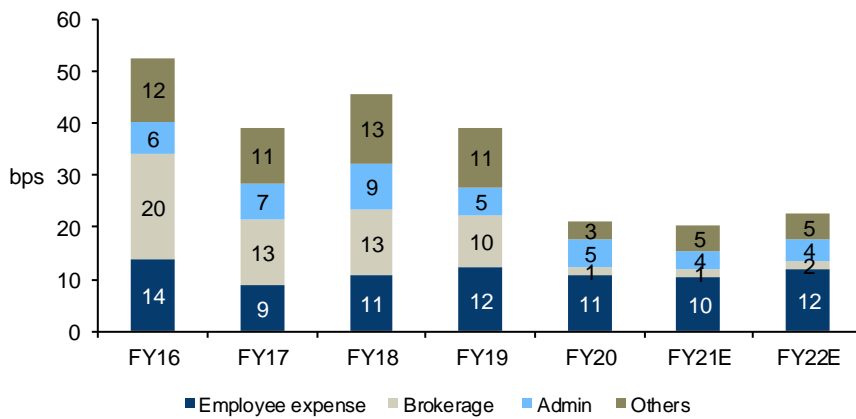
Source: Company, ICICI Direct Research

Exhibit 11: PAT growing at 9% CAGR from FY15



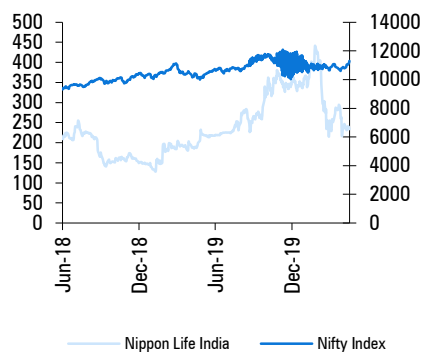
Source: Company, ICICI Direct Research

Exhibit 12: Total expenses to decline



Source: Company, ICICI Direct Research

Exhibit 13: Price Chart



Source: Company, ICICI Direct Research

Exhibit 14: Revenue and expense structure

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E
Investment Management Fees	1,486	1,376	1,122	1,206	1,391
Portfolio Management Fee & Other Advisory Serv	46	39	10	11	13
Revenue from Operations	1,532	1,415	1,132	1,217	1,404
Other Income	149	174	3	110	171
Total Revenue	1,681	1,589	1,134	1,327	1,574

(₹ crore)	FY18	FY19	FY20E	FY21E	FY22E
Brokerage / Incentives / Fees / Mutual Fund exper	285	232	38	40	46
Business Promotion	170	97	107	75	82
Rent	21	25	27	30	33
Printing & Courier	12	1	2	2	2
Others	305	259	88	141	152
Total Other expense (including fees)	793	615	262	288	315

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 15: Profit & Loss statement

(₹crores)	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenue from Operations	1,269.6	1,532.0	1,415.3	1,131.7	1,216.7	1,403.6
Growth (%)	9.1%	20.7%	-7.6%	-20.0%	7.5%	15.4%
Other Income	130.8	148.6	173.8	2.6	110.0	170.9
Total Revenue	1,400.4	1,680.6	1,589.0	1,134.3	1,326.7	1,574.4
Employee Benefit Expenses	181.6	242.4	277.4	278.5	309.9	354.8
Depreciation & Amortization Exp	17.9	8.5	10.0	32.6	10.0	10.0
Other Expenses (incl fees)	618.9	793.6	615.0	261.8	287.6	315.0
Total Expenses	818.3	1,044.4	902.4	572.9	607.4	679.8
Profit Before Tax	582.1	636.2	686.6	561.4	719.2	894.7
Taxes	177.3	188.8	211.6	149.1	183.4	228.1
Profit After Tax	404.8	447.4	475.1	412.3	535.8	666.5
EPS (₹)	6.61	7.31	7.76	6.74	8.76	10.89

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet

(₹crores)	FY17	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds						
Share capital	41.5	612.0	612.0	612.0	612.0	612.0
Reserves and surplus	1808.8	1728.2	1920.3	2043.9	2204.7	2404.6
Total Equity	1850.4	2340.2	2532.3	2655.9	2816.7	3016.6
Trade payables						
	103.2	112.2	42.3	44.4	46.6	49.0
Others						
	66.3	137.6	137.2	151.0	166.1	182.7
Total Liabilities + Equity	2019.9	2590.0	2711.8	2851.3	3029.4	3248.3
Applications of Funds						
Property, plant and equipment	8.5	12.2	12.3	12.3	12.3	12.3
Intangible assets	242.5	245.2	243.6	243.6	243.6	243.6
Cash and bank balance	4.7	560.2	490.5	539.5	593.5	652.8
Investments	973.8	905.9	1280.0	1362.4	1469.6	1602.9
Receivables	40.7	37.3	90.2	90.2	90.2	90.2
Deferred tax assets (net)	7.6	8.3	12.2	12.2	12.2	12.2
Others	742.2	820.8	583.1	591.1	608.0	634.3
Total Assets	2019.9	2590.0	2711.8	2851.3	3029.4	3248.3

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E
Valuation						
No of Equity shares (crore)	61.2	61.2	61.2	61.2	61.2	61.2
EPS	6.6	7.3	7.8	6.7	8.8	10.9
DPS	215	6.0	6.0	4.7	6.1	7.6
BVPS	30.2	38.2	41.4	43.4	46.0	49.3
P/E	37.0	33.5	31.6	36.4	28.0	22.5
P/BV	8.1	6.4	5.9	5.6	5.3	5.0
Operating Ratios (%)						
Rev/AUM	0.6	0.7	0.6	0.6	0.6	0.6
EBITDA/AUM	0.2	0.2	0.2	0.3	0.3	0.3
PAT/AUM	0.2	0.2	0.2	0.2	0.2	0.3
Return Ratios (%)						
RoNW	21.9%	19.1%	18.8%	15.5%	19.0%	22.1%
NAV per equity share	30.2	38.2	41.4	43.4	46.0	49.3

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP (₹) Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	
HDFC AMC	2,600	3,000	Buy	55,238	59.2	58.8	67.5	43.9	44.2	38.5	13.7	11.9	10.3	0.4	0.4	0.4	31.3	26.9	26.8
Nippon AMC	245	300	Buy	14,899	6.7	8.8	10.9	36.4	28.0	22.5	5.6	5.3	5.0	0.2	0.2	0.2	15.5	19.0	22.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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