

Nippon Life India Asset Management

Strong core despite market share loss!

NAM printed 4QFY20 operating profits of Rs 1.52bn (+9.4/11.9% YoY/QoQ, 18.1% beat). Beat was primarily driven by lower expenses (-44.1/-27.7% YoY/QoQ). Large MTM loss (due to sharp correction on investments in equity AUM) on investment book resulted in negative other income of Rs 1.25bn and caused APAT to decline to just Rs 37mn (-97.3/-97.5% YoY/QoQ). We retain BUY with a TP of Rs 288 (36x Mar-22E NOLPAT + cash)

- Revenue at Rs 2.75bn declined 20.0%/9.4% YoY/QoQ as yields declined to 53.6bps (-5.8 bps QoQ). Management clarified that it had tactically increased commissions in 4Q on certain equity schemes.
- Total QAAUM was at Rs 2.05tn (-12.3/+0.3% YoY/QoQ, market share 7.6% (-231/-5bps YoY/QoQ)) was lower because of 1) steep decline in equity prices in Mar-20 as equity AUM declined (-4.3% QoQ, equity QAAUM market share at 8.2% (-133bps YoY)), 2) debt funds AUM declined 25.6% QoQ due to outflows and write downs. Management stated that it had activated ~290 corporates/institutions and it expected ramp up soon. Market share remains a key monitorable.
- SIP book declined to Rs 8.1bn after being in the range of Rs 8.0-8.5bn since 1QFY19. Avg ticket size continues to decline Rs 2,525 (-8.9% YoY).
- Expenses: Staff costs** declined 31.1/35.0% YoY/QoQ as the company reduced variable compensation and lower equity markets meant reversal of provisioning for phantom share expenses. **Other expenses** were also down 35.3/35.9% YoY/QoQ as management curtailed discretionary spends. With a continued difficult macro environment, we expect further cost control.
- Others income:** NAM posted a loss of Rs 1.25bn was comprising MTM loss of Rs 1.5bn (Equity: ~Rs 1.25bn, Debt: Rs 0.25bn). Total treasury of Rs 22.8bn comprises equity MFs: 12.3%, debt MFs 61.4%, bank FDs and tax free bonds: 26.3%. Management stated that part of the losses have been recouped in the equity market rally during Apr-20.
- While we are concerned about the loss of investor confidence which debt schemes face given significant write-downs/offers on exposures to stressed corporates, we believe that post ownership change NAM stands to benefit from increased credibility to raise HNI/institutional capital. We expect company to, over time, regain part of the lost market share. Valuation discount of 29.3% on FY21E EV/NOPLAT to HDFCAMC's multiple is high and we expect the same to contract. We retain BUY with 17.5% lower TP of Rs 288 (36x Mar-22E NOLPAT + cash). We have lowered target multiple given difficult operating environment in FY21E.**

Financial Summary

(Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY18	FY19	FY20	FY21E	FY22E
Revenue	2,745	3,432	-20.0	3,031	-9.4	15,918	14,786	12,030	10,402	11,817
Operating profits	1,523	1,393	9.4	1,361	11.9	5,011	5,290	5,696	4,617	5,756
OP Margin (%)	55.6	40.6	1507bps	45.5	1012bps	31.5	35.8	47.3	44.4	48.7
APAT	37	1,381	-97.3	1,493	-97.5	4,580	4,861	4,158	5,012	5,928
AEPS	0.1	2.2	-97.3	2.4	-97.5	7.5	7.9	6.6	8.0	9.4
EV/NOPLAT (x)						37.8	35.5	30.5	36.7	28.8
P/E (x)						32.5	30.6	36.7	30.5	25.8
ROIC (%)						81.1	96.8	140.4	146.7	191.9

Source: Company, HSIE Research

BUY

CMP (as on 15 May 2020)	Rs 243
Target Price	Rs 288
NIFTY	9,137

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 349	Rs 288
EPS %	FY21E	FY22E
	-11.9%	-8.8%

KEY STOCK DATA

Bloomberg code	NAM IN
No. of Shares (mn)	612
MCap (Rs bn) / (\$ mn)	149/1,972
6m avg traded value (Rs mn)	802
52 Week high / low	Rs 453/191

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(38.1)	(31.8)	25.8
Relative (%)	(13.4)	(8.9)	42.0

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	75.9	75.9
FIs & Local MFs	6.3	6.7
FPIs	5.6	5.3
Public & Others	12.1	12.1
Pledged Shares	0.00	0.00

Source : BSE

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NAM Results Summary: 4QFY20

(Rs mn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ(%)
Revenue	2,745	3,432	(20.0)	3,031	(9.4)
Staff cost	529	768	(31.1)	814	(35.0)
Admin & other opex	402	622	(35.3)	627	(35.9)
Fee and commission	198	628	(68.5)	120	65.2
Total expenses	1,129	2,018	(44.1)	1,560	(27.7)
EBITDA	1,617	1,415	14.3	1,471	9.9
Depreciation and amortization	89	22	304.5	91	(2.5)
EBIT	1,528	1,393	9.7	1,380	10.7
Finance cost	5	0	NM	19	NM
Core operating profits	1,523	1,393	9.4	1,361	11.9
Other Income	-1,249	543	(330.2)	575	(317.3)
PBT	274	1,935	(85.9)	1,936	(85.9)
Tax	232	548	(57.7)	443	(47.6)
PAT (pre minority interest)	41	1,387	(97.0)	1,493	(97.2)
Share of profit/ (loss) in associate	(4.1)	4.3	NM	0.0	NM
Minority interest	-	10.1	NM	-	NM
APAT	37	1,381	(97.3)	1,493	(97.5)
Adjustment (post-tax)	-	130	NM	-	NM
RPAT	37	1,511	(97.5)	1,493	(97.5)

As the company raised a new AIF, fees and commission expenses increased sequentially by 65.2%.

Core operating profits at Rs 1.52bn (+9.4/11.9% YoY/QoQ) beat estimates by 18.1%.

4QFY20 profit (Rs37mn) was hit by large MTM loss on investments.

Effective tax rate (84.9%) appears to be high as investment losses are not tax deductible.

Core operating profit yields remained flat sequentially at 26.7bps as against 38.5bps for HDFCAMC.

Margins and tax rate (%)					
EBITDA	58.9	41.2	1767bps	48.5	1035bps
EBIT	55.6	40.6	1507bps	45.5	1012bps
Operating profits	55.5	40.6	1490bps	44.9	1057bps
NOPLAT	8.4	29.1	-2070bps	34.6	-2625bps
PBT	10.0	56.4	-4642bps	63.9	-5391bps
PAT	1.4	40.2	-3888bps	49.3	-4790bps
Tax rate (%)	84.9	28.3	5656bps	22.9	6200bps

Source: Company, HSIE Research

*We have adjusted tax for 2QFY20 for ETR of 1HFY20.

Operating metrics

As % of QAAUM (bps) (Annualised)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ(%)
Revenue	53.6	58.8	-5bps	59.4	-6bps
Staff cost	10.3	13.1	-3bps	15.9	-6bps
Admin & other opex	7.8	10.6	-3bps	12.3	-4bps
Fee and commissions	3.9	10.8	-7bps	2.3	2bps
EBITDA	31.6	24.2	7bps	28.8	3bps
Operating profits	29.7	23.8	6bps	26.7	3bps
Operating profits (net of tax)	4.5	17.1	-13bps	20.6	-16bps
PBT	5.3	33.1	-28bps	37.9	-33bps
PAT	0.8	23.7	-23bps	29.2	-28bps

Source: Company, HSIE Research

Five quarters at a glance

MF QAAUM (Rs bn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)	QoQ (%)
Equity	911	935	871	899	861	(5.5)	(4.3)
Debt	771	690	598	552	574	(25.6)	4.0
Liquid	444	334	275	327	328	(26.1)	0.3
ETFs	210	267	284	266	287	36.4	8.0
Total	2,336	2,226	2,028	2,043	2,049	(12.3)	0.3
Retail AUM (Rs bn)*	899	863	519	546	444	(50.6)	(18.7)
Share in AUM (%)							
Equity	39.0	42.0	43.0	44.0	42.0	300bps	-200bps
Debt	33.0	31.0	29.0	27.0	28.0	-500bps	100bps
Liquid	19.0	15.0	14.0	16.0	16.0	-300bps	0bps
ETFs	9.0	12.0	14.0	13.0	14.0	500bps	100bps
Total	100.0	100.0	100.0	100.0	100.0		
Retail AUM as % of total AUM	38.5	38.8	25.6	26.7	21.7	-1682bps	-506bps

Source: Company, HSIE Research

* Beginning 2QFY20 AMFI changed the definition of "Retail investor" classification" has been changed to folio holding upto Rs 0.2mn from Rs 0.5mn earlier.

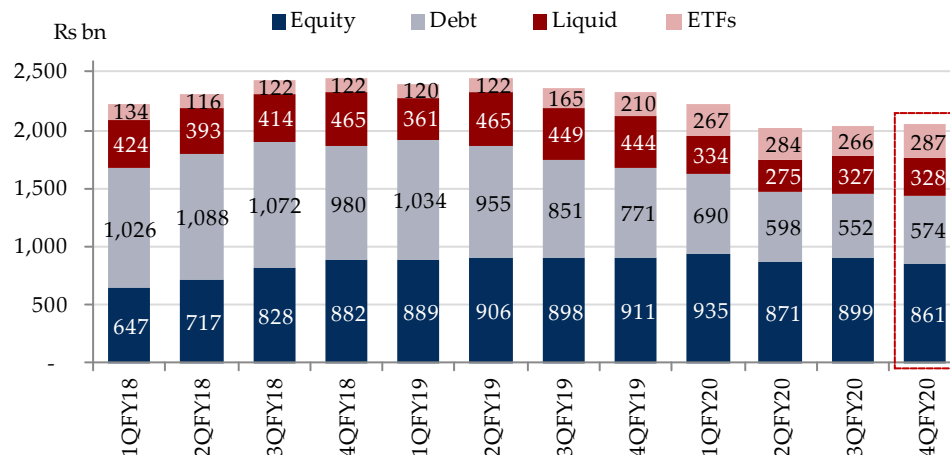
Equity QAAUMs declined sequentially because of steep decline in equity prices in Mar-20.

Debt AUM declined as a result of redemptions and write-down of stressed credits.

Management has decided to only invest in AA and above rated paper in all schemes except for the credit risk fund.

Equity QAAUM declined 4.3% QoQ

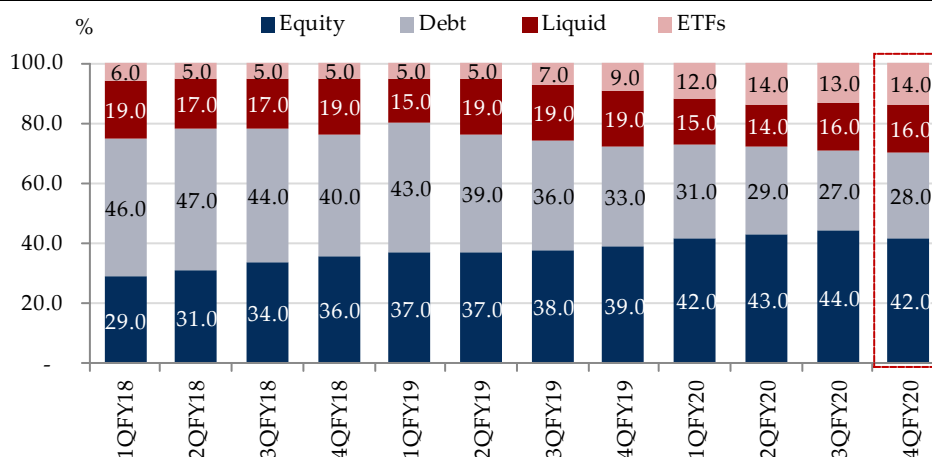
Equity AUM declined 4.3% sequentially largely due to MTM loss.



Source: Company, HSIE Research

Debt schemes losing share

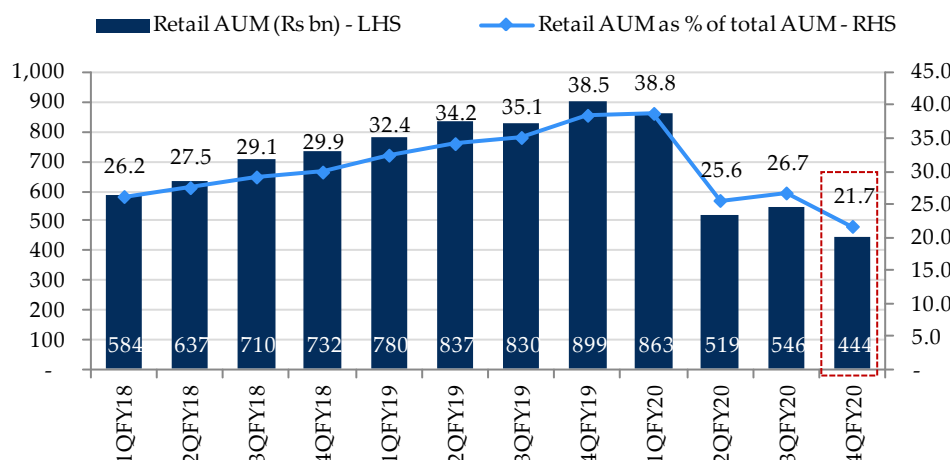
Share of debt AUM in mix has reduced considerably since 2QFY18.



Source: Company, HSIE Research

Retail participation

Retail participation currently remains muted due to uncertainties around covid-19.



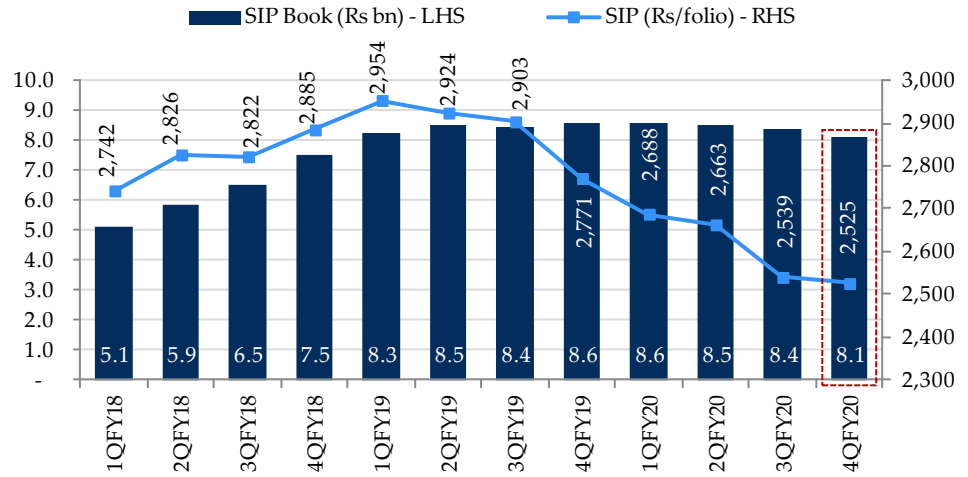
Source: Company, HSIE Research

Beginning 2QFY20 AMFI changed the definition of "Retail investor" to folio holding upto Rs 0.2mn from Rs 0.5mn earlier.

Monthly avg. SIP inflows declined to Rs 8.1bn (-5.9/-3.6% YoY/QoQ); Avg. SIP contribution/folio is at Rs 2,525.

SIP market share declined 130bps YoY to 9.4%.

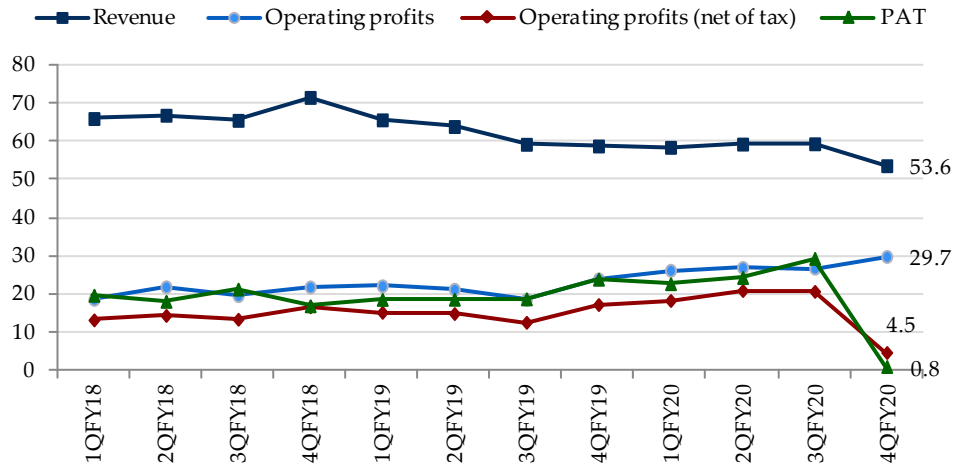
SIP book declined QoQ



Source: Company, HSIE Research

Core operating profits were 29.7bps of QAAUM.

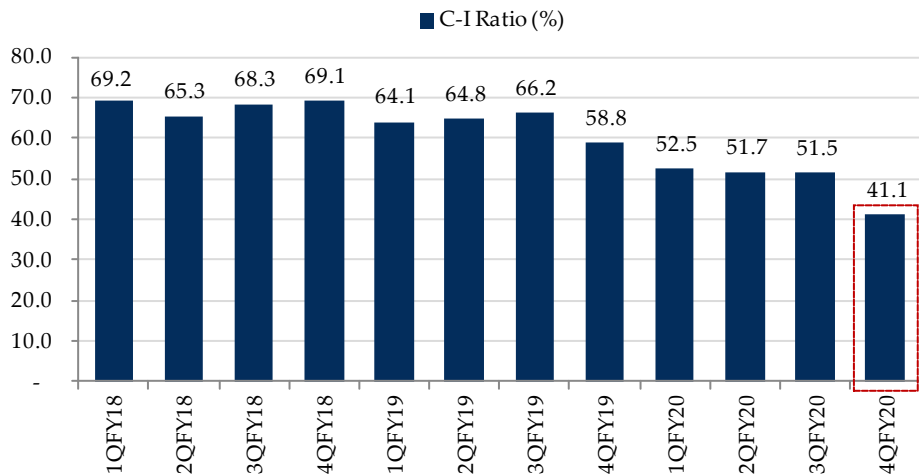
As a % of QAAUM



Source: Company, HSIE Research

C/I ratio declined further by ~1767/1035bps YoY/QoQ to 41.1%.

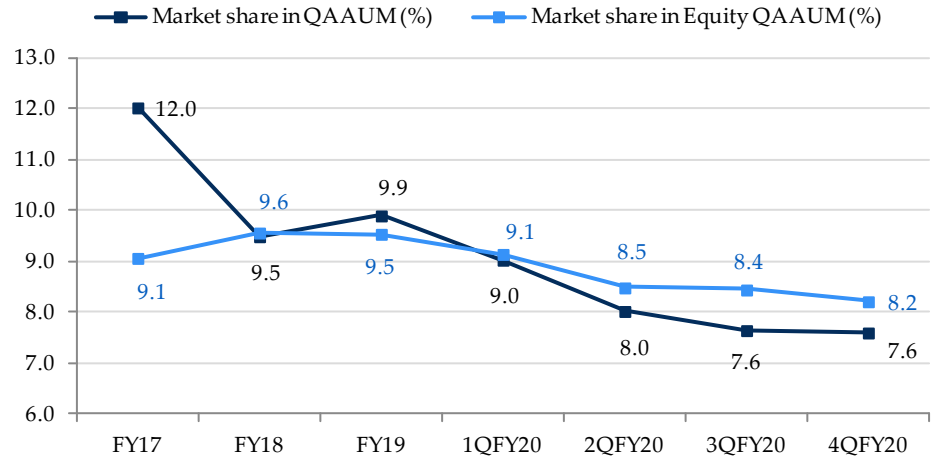
C/I Ratio improved materially



Source: Company, HSIE Research

NAM's equity QAAUM market share declined to 8.2% (-133/-23bps YoY/QoQ).

AUM Market share trend



Source: Company, HSIE Research

*FY17 and FY18 numbers have been taken on closing AUM basis.

Assumptions

We expect closing total MF AUM to increase 24.6/15.7% YoY in FY21/22E.

	FY18	FY19	FY20	FY21E	FY22E
Closing AUM (Rs bn)					
Mutual fund	2,261	2,278	1,635	2,037	2,356
Managed accounts	32	35	39	47	54
Offshore funds and advisory	28	31	89	107	123
Pension	1,643	1,878	830	1,038	1,204
Total	3,964	4,222	2,593	3,228	3,736

MF AAAUM (Rs bn)

Equity	768	901	891	749	899
Debt	1,040	795	603	513	574
Liquid	421	395	316	332	372
ETFs	128	190	276	243	279
Total	2,357	2,282	2,086	1,836	2,124

We expect core operating yields (net of tax) to remain stable at 20.4bps by FY22E.

Growth (%)					
Equity	44.0	17.3	(1.1)	(16.0)	20.0
Debt	10.7	(23.5)	(24.1)	(15.0)	12.0
Liquid	16.3	(6.2)	(20.0)	5.0	12.0
ETFs	100.8	48.7	44.8	(12.0)	15.0
Total	24.1	(3.2)	(8.6)	(12.0)	15.7

Share(%)

Equity	32.6	39.5	42.7	40.8	42.3
Debt	44.1	34.9	28.9	27.9	27.0
Liquid	17.9	17.3	15.1	18.1	17.5
ETFs	5.4	8.3	13.2	13.2	13.1
Total	100.0	100.0	100.0	100.0	100.0

As % of MF AAUM (bps)

Revenue	67.5	64.8	57.7	56.7	55.6
Staff cost	10.9	12.9	14.5	16.8	15.7
Admin & other opex	14.5	12.7	6.9	7.6	6.7
Marketing expenses	7.3	4.3	3.8	4.0	3.5
Brokerage expenses	13.2	11.3	3.4	1.6	1.6
EBITDA	21.6	23.6	29.2	26.7	28.2
Core operating profits	21.3	23.2	27.3	25.1	27.1
Core operating profits (net of tax)	14.8	16.1	20.3	19.0	20.4
PBT	27.9	30.7	26.8	36.2	37.0
APAT (post minority interest)	19.4	21.3	19.9	27.3	27.9

We have fine tuned our estimates to reduce APAT by 11.9/8.8% for FY21E/FY22E.

Efficiency Ratios

C/I Ratio (%)	68.5	64.2	52.2	55.2	51.0
Tax Rate (%)	30.2	30.4	25.7	24.6	24.6

Source: Company, HSIE Research

Estimate Change

Rs bn	FY21E			FY22E		
	Old	New	Change	Old	New	Change
Revenues	11,471	10,402	-9.3	12,613	11,817	-6.3
EBITDA	5,749	4,899	-14.8	6,721	5,995	-10.8
EBITDA margin (%)	50.1	47.1	-301	53.3	50.7	-255
NOPLAT	4,096	3,481	-15.0	4,852	4,340	-10.5
NOPLAT margin (%)	35.7	33.5	-224	38.5	36.7	-173
APAT	5,687	5,012	-11.9	6,498	5,928	-8.8
ROE (%)	21.0	18.9	-212bps	21.9	20.7	-116bps
ROIC (%)	146.7	146.7	3bps	169.5	191.9	2233bps

Source: Company, HSIE Research

We have reduced our AAAUM estimates across asset classes resulting in a decline in estimated revenues and profitability for FY21/22E.

Financials

Income statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Revenues	8,469	11,999	13,074	15,918	14,786	12,030	10,402	11,817
Growth (%)	25.4%	41.7%	9.0%	21.8%	-7.1%	-18.6%	-13.5%	13.6%
Employee Benefits Expenses	1,613	1,923	1,957	2,572	2,935	3,024	3,084	3,331
Operating Expenses	3,311	5,911	6,451	8,250	6,461	2,921	2,419	2,491
EBITDA	3,545	4,166	4,665	5,096	5,390	6,085	4,899	5,995
EBITDA Margin (%)	41.9	34.7	35.7	32.0	36.5	50.6	47.1	50.7
EBITDA Growth (%)	43.5%	17.5%	12.0%	9.2%	5.8%	12.9%	-19.5%	22.4%
Depreciation	68	43	179	85	101	333	240	209
EBIT	3,477	4,122	4,486	5,011	5,290	5,753	4,659	5,786
Other Income (includes treasury)	1,159	1,100	1,326	1,569	1,713	(98)	2,031	2,105
Interest & Financial Charges	-	-	-	-	-	57	42	29
PBT	4,635	5,222	5,812	6,579	7,002	5,598	6,647	7,862
Tax	1,094	1,242	1,786	1,984	2,132	1,441	1,635	1,934
RPAT	3,542	3,980	4,026	4,595	4,871	4,158	5,012	5,928
RPAT Growth (%)	41.8%	12.4%	1.2%	14.1%	6.0%	-14.6%	20.6%	18.3%
APAT	3,542	3,980	4,026	4,580	4,861	4,158	5,012	5,928
APAT Growth (%)	41.8%	12.4%	1.2%	13.8%	6.1%	-14.5%	20.6%	18.3%
AEPS	6.0	6.8	6.9	7.5	7.9	6.6	8.0	9.4
EPS Growth (%)	41.8%	12.4%	1.2%	9.2%	6.1%	-16.6%	20.6%	18.3%

Source: Company, HSIE Research

Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS								
Share Capital	413	415	415	6,120	6,120	6,121	6,121	6,121
Reserves	14,948	17,504	18,311	17,533	19,580	19,809	21,039	23,878
Minority Interest	89	89	-	654	-	-	-	-
Total Shareholders Funds	15,449	18,008	18,726	24,307	25,700	25,931	27,160	29,999
Long-term Debt	1	1	-	-	-	591	560	389
Short-term Debt	-	-	-	-	-	-	-	-
Total Debt	1	1	-	-	-	591	560	389
Other Financial Liabilities & Provisions	128	110	216	297	435	393	342	388
Other Non Current Liabilities	1	1	-	-	-	-	-	-
Net Deferred Tax Liability	(69)	(86)	(37)	(123)	0	(7)	(7)	(7)
TOTAL SOURCES OF FUNDS	15,509	18,033	18,904	24,481	26,135	26,907	28,055	30,771
APPLICATION OF FUNDS								
Net Block	71	119	2,512	2,603	2,568	3,256	3,067	3,017
Loans & Deposits	3,029	3,781	1,488	3,180	1,251	1,183	1,195	1,207
Other Non Current Assets	40	79	74	-	-	-	-	-
Total Non-current Assets	3,141	3,979	4,074	5,783	3,819	4,440	4,262	4,224
Current Investments	8,349	9,108	9,465	9,934	12,900	18,846	20,165	21,576
Debtors	175	594	432	404	1,026	593	427	486
Cash & Equivalents	602	795	397	6,091	5,428	4,633	4,702	6,192
Loans & Advances	4,508	4,602	5,840	4,246	4,032	9	9	9
Other Current Assets	172	145	268	602	554	282	228	259
Total Current Assets	13,806	15,244	16,402	21,276	23,939	24,362	25,531	28,521
Creditors	934	650	1,083	1,329	474	677	598	680
Other Current Liabilities	505	539	489	1,249	1,150	1,218	1,140	1,295
Total Current Liabilities	1,439	1,190	1,572	2,578	1,623	1,895	1,738	1,975
Net Current Assets	12,367	14,054	14,830	18,698	22,316	22,468	23,793	26,546
TOTAL APPLICATION OF FUNDS	15,508	18,032	18,904	24,481	26,135	26,907	28,055	30,771

Source: Company, HSIE Research

Cash Flow

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Reported PBT	4,639	5,224	5,813	7,258	7,002	5,598	6,647	7,862
Non-operating & EO Items	(1,155)	(1,029)	(1,339)	(2,132)	(1,479)	592	(2,031)	(2,105)
Interest Expenses	-	-	-	-	-	-	-	-
Depreciation	69	43	179	336	101	333	240	209
Working Capital Change	(3,017)	(591)	2,474	364	355	1,025	0	182
Tax Paid	(992)	(1,432)	(1,580)	(1,883)	(1,924)	(1,301)	(1,635)	(1,934)
OPERATING CASH FLOW (a)	(456)	2,214	5,547	3,942	4,055	6,247	3,222	4,213
Net Capex	(44)	(91)	(2,572)	(151)	(85)	(40)	(51)	(159)
(Purchase)/sale of net operating financial assets	-	-	-	-	-	-	-	-
Free Cash Flow (FCF)	(500)	2,124	2,975	3,791	3,971	6,207	3,171	4,054
Investments	3,693	(739)	(1,002)	2,047	(1,295)	(535)	(1,319)	(1,412)
Non-operating Income	797	545	632	953	837	742	2,031	2,105
INVESTING CASH FLOW (b)	4,446	(285)	(2,942)	2,849	(542)	168	660	535
Debt Issuance/(Repaid)	-	-	-	-	-	-	-	-
Interest Expenses	-	-	-	-	-	-	-	-
FCFE	(500)	2,124	2,975	3,791	3,971	6,207	3,171	4,054
Proceeds From Issue of Share Capital	-	-	-	5,869	-	24	-	-
Dividend	(4,040)	(1,737)	(3,003)	(6,686)	(2,923)	(4,427)	(3,783)	(3,088)
Others	-	-	-	(280)	(1,253)	(2,806)	(31)	(170)
FINANCING CASH FLOW (c)	(4,040)	(1,737)	(3,003)	(1,097)	(4,176)	(7,209)	(3,814)	(3,258)
NET CASH FLOW (a+b+c)	(50)	193	(398)	5,694	(663)	(794)	69	1,490
Opening Cash & Equivalents	652	602	795	397	6,091	5,428	4,633	4,702
Closing Cash & Equivalents	602	795	397	6,091	5,428	4,633	4,702	6,192

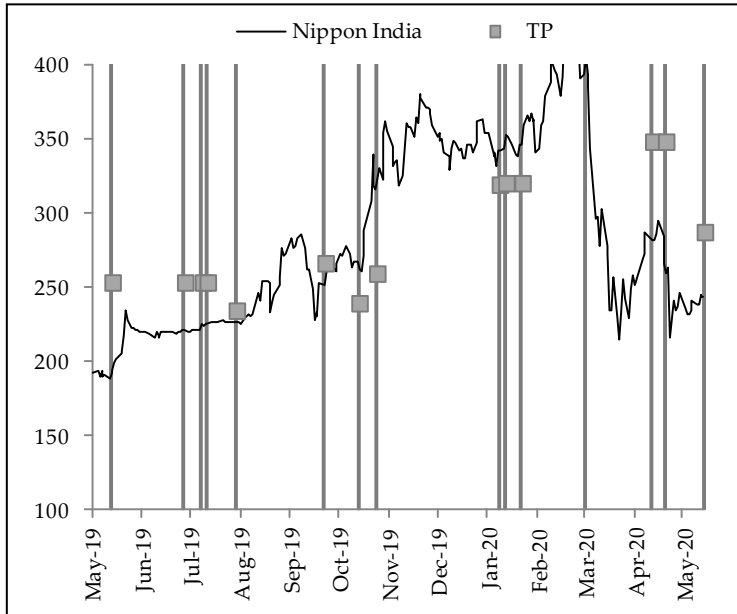
Source: Company, HSIE Research

Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PROFITABILITY (%)								
EBITDA Margin	41.9	34.7	35.7	32.0	36.5	50.6	47.1	50.7
EBIT Margin	41.1	34.4	34.3	31.5	35.8	47.3	44.4	48.7
APAT Margin	41.8	33.2	30.8	28.8	32.9	34.6	48.2	50.2
RoE	22.8	23.8	21.9	21.4	19.5	16.1	18.9	20.7
Core RoCE	92.2	66.5	65.1	81.1	96.8	140.4	146.7	191.9
RoCE	22.8	23.8	21.9	21.4	19.5	16.1	18.9	20.7
EFFICIENCY								
Tax Rate (%)	23.6	23.8	30.7	30.2	30.4	25.7	24.6	24.6
Asset Turnover (x)	79.4	126.1	9.9	6.2	5.7	4.1	3.3	3.9
Debtors (days)	8	18	12	9	25	18	15	15
Other Current Assets (days)	7	4	7	14	14	9	8	8
Payables (days)	40	20	30	30	12	21	21	21
Other Current Liab & Prov (days)	22	16	14	29	28	37	40	40
Working Capital (days)	-47	-14	-24	-36	-1	-31	-38	-38
Debt/EBITDA (x)	0.00	0.00	-	-	-	0.10	0.11	0.06
Net D/E	(0.0)	(0.0)	(0.0)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)
Interest Coverage	-	-	-	-	-	-	-	-
PER SHARE DATA								
AEPS (Rs/sh)	6.0	6.8	6.9	7.5	7.9	6.6	8.0	9.4
CEPS (Rs/sh)	6.1	6.8	7.2	7.6	8.1	7.1	8.4	9.8
DPS (Rs/sh)	2.9	2.5	4.2	5.0	6.0	5.0	4.9	5.8
BV (Rs/sh)	26.1	30.5	31.9	38.6	42.0	41.3	43.2	47.7
VALUATION								
P/E	40.3	35.9	35.5	32.5	30.6	36.7	30.5	25.8
P/BV	9.3	8.0	7.6	6.3	5.8	5.9	5.6	5.1
EV/NOPLAT	53.4	44.4	44.6	37.8	35.5	30.5	36.7	28.8
OCF/EV (%)	(0.3)	1.6	4.0	3.0	3.1	4.8	2.6	3.4
FCF/EV (%)	(0.4)	1.5	2.1	2.9	3.0	4.8	2.5	3.2
FCFE/MCAP (%)	(0.3)	1.4	1.9	2.5	2.6	4.1	2.1	2.7
Dividend Yield (%)	1.2	1.0	1.7	2.1	2.5	2.1	2.0	2.4

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
14-May-19	193	BUY	254
28-Jun-19	221	BUY	254
9-Jul-19	221	BUY	254
13-Jul-19	219	BUY	254
30-Jul-19	227	NEU	235
22-Sep-19	254	NEU	267
14-Oct-19	267	NEU	240
25-Oct-19	319	NEU	260
9-Jan-20	343	NEU	320
11-Jan-20	343	NEU	321
24-Jan-20	347	NEU	321
2-Mar-20	391	ADD	440
11-Apr-20	287	BUY	349
21-Apr-20	285	BUY	349
16-May-20	243	BUY	288

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

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