

Nippon Life

Refer to important disclosures at the end of this report

Steady performance in a volatile environment

CMP: Rs 270

as of (July 27, 2020)

TP: Rs 280 (▲)

12 months

Rating: HOLD (■)

Upside: 3.4 %

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- NAM India reported ~7.1% yoy decline in MF AUM to Rs1,881bn, with ~28% yoy decline in revenues (revenue yields decline amid the change in portfolio mix). However, PAT rose ~24.6% yoy to Rs1.56bn, supported by one-off reversal income of Rs1.03bn (MTM gains on the company's equity portfolio invested in own schemes).
- Going forward, although the quantum of outflows might subside, revenue yields are likely to be impacted by a change in portfolio mix toward rising share of liquid schemes over equity schemes, which in turn impacts profitability. However, we expect overall trends to improve in H2FY21 with the normalization of economy.
- Although we like the AMC business due to the limited credit risk attached, we remain concerned about the volatility in revenues/profitability in the near term. However, we remain confident of the company's liquidity positioning during these volatile times due to its healthy AUM mix, timely support from banks and strong parentage.
- We cut FY21/22 PAT estimates by ~3.5%/2.7% and roll forward valuation to Sept'22E. We maintain Hold with a revised TP of Rs280 (Rs271 earlier), corresponding to 29x P/Sept'22E EPS with 24% RoE by FY23E. We maintain EW stance in NBFC EAP.

Current volatility and economic slowdown to impact inflows: Being the largest retail AMC with retail/total MF AUM of ~24% and steady SIP flows, NAM India's management has been upbeat on increasing flows from B30 and B100 cities. Management's consistent efforts to attract flows from in Tier-2 and Tier-3 cities augur well for the company.

SIP flows depicting a more realistic picture: The company has restated its SIP inflow numbers, which are significantly lower than previously reported as the recognition of SIP has now shifted to actual receipt basis against accrual basis earlier. The SIP book of the company witnessed a steady decline to Rs7bn in Q1FY21 from Rs8.1bn in Q1FY20. However, the number of SIP accounts increased to 3.4mn from 3.2mn.

Focus remains on granularity of flows: Management's efforts to gain fund flows from Tier-2 and Tier-3 cities should be beneficial for the company as these assets tend to be stickier. The contribution from B30 cities has remained healthy at 17.3% vs. the industry average of ~15.4%. The company's advanced technology platform ensured smooth operations amid the Covid-19-related disruption during the quarter.

Outlook and valuation: We cut FY21/22 PAT estimates by ~3.5%/2.7% and roll forward our valuation to Sept'22E. Maintain Hold with a revised TP of Rs280 (Rs271 earlier), corresponding to 29x P/Sept'22E EPS with 24% RoE by FY23E. Key risk to our call is another sell off in the market impacting AUMs negatively.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(page 7\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue	16,499	11,932	14,044	16,551	19,546
Net Profit	4,869	4,158	4,701	5,434	6,188
EPS (Rs)	7.9	6.8	7.7	8.9	10.1
AAAUM (Rsbn)	2,382	2,086	2,339	2,639	2,991
ROE (%)	19.7	16.2	18.4	21.3	24.3
PE (x)	34.0	39.8	35.2	30.5	26.8

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(4)/(3)
Target Price change (%)	3.2
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	7.7	8.9
Consensus	8.6	9.7
Mean Consensus TP (12M)	Rs 284	

Stock Details

Bloomberg Code	NAM IN
Face Value (Rs)	10
Shares outstanding (mn)	612
52 Week H/L	453 / 201
M Cap (Rs bn/USD bn)	165 / 2.21
Daily Avg Volume (nos.)	17,94,263
Daily Avg Turnover (US\$ mn)	6.3

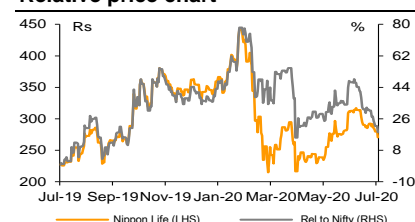
Shareholding Pattern Jun '20

Promoters	75.9%
FII	5.8%
DII	6.2%
Public and Others	12.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(14)	12	(26)	19
Rel. to Nifty	(19)	(6)	(20)	20

Relative price chart



Source: Bloomberg

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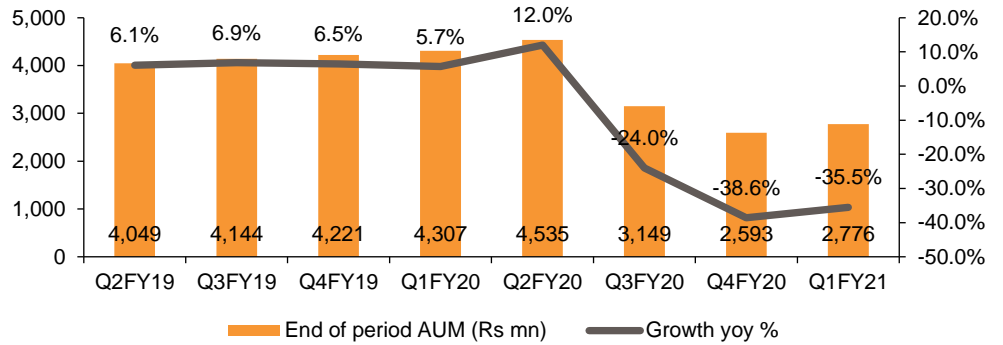
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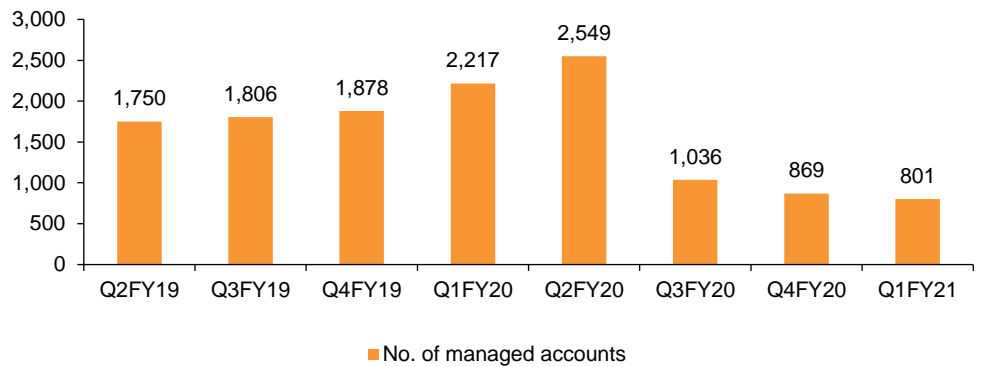
Story in Charts

Exhibit 1: AUM increases on surge in MF AUM due to market revival but managed accounts keep total AUM suppressed



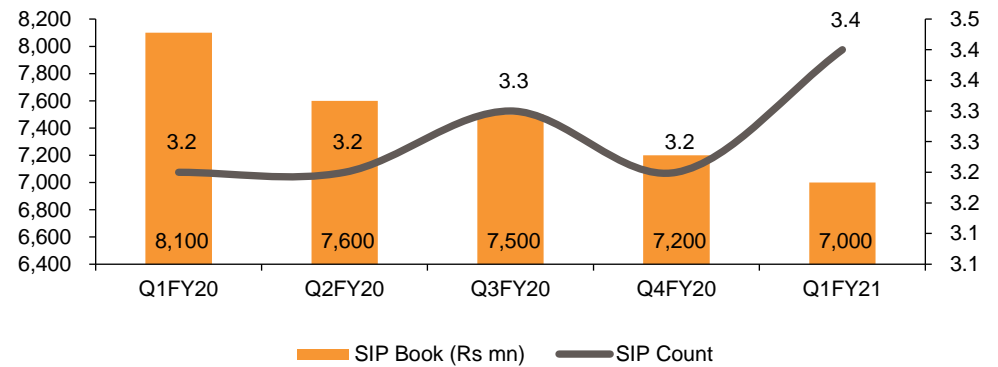
Source: Company, Emkay Research

Exhibit 2: Managed account weakness continues



Source: Company, Emkay Research

Exhibit 3: SIP book declines on reducing ticket size



Source: Company, Emkay Research

Exhibit 4: Quarterly financials

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Total Revenue from operations	3,251	3,002	3,031	2,745	2,331	-28	-15	12,030	12,161	1
Other income	353	224	575	(1,249)	1,031	192	-182	(98)	1,884	-2,028
Total Revenue	3,604	3,226	3,606	1,496	3,362	-7	125	11,932	14,044	18
Employee Expense	825	856	814	529	715	-13	35			
Other Expense	880	695	747	583	532	-40	-9			
Depreciation	76	76	91	91	105	38	15			
Total Expense	1,799	1,643	1,670	1,222	1,365	-24	12	6,334	7,717	22
Profit before tax	1,805	1,583	1,936	274	1,997	11	630	5,598	6,327	13
Taxes	549	216	443	232	436	-21	88	1,441	1,626	13
Tax rate (%)	30	14	23	85	22	-28	-74	26	26	
Profit after tax	1,256	1,367	1,493	41	1,561	24	3,680	4,158	4,701	13
Share of profit/ (loss) in associate	(2)	1	0	0	2	-190	800			
Net Profit after tax	1,254	1,368	1,493	42	1,563	25	3,666	4,158	4,701	13
AUM data (Rs.bn.)										
End of period AUM	4,307	4,535	3,149	2,593	2,776	-36	7	2,593	2,776	7
Mutual Fund QAAUM	2,226	2,026	2,044	2,049	1,801	-19	-12	2,049	1,801	-12
Retail Assets MAAUM	557	519	546	444	460	-17	4	444	460	4

Source: Company, Emkay Research

Exhibit 5: Revision in earnings estimates

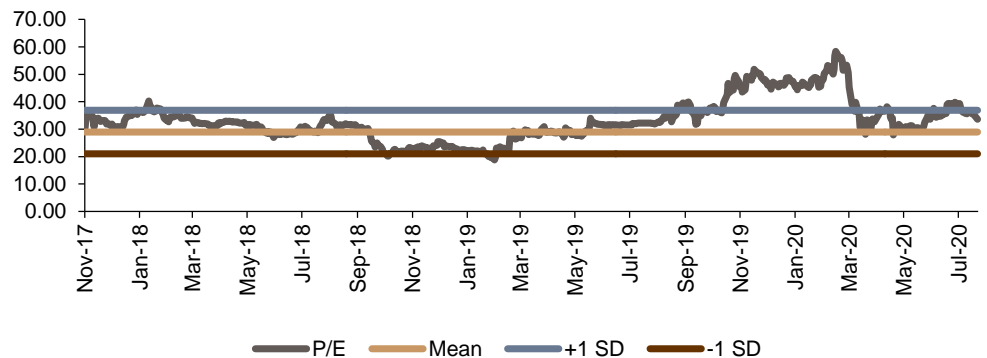
Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
AAAUM (Rs bn)	2,437	2,339	-4.0%	2,790	2,639	-5.4%	2,969	2,991	0.8%
Revenue	14,676	14,044	-4.3%	17,361	16,551	-4.7%	19,711	19,546	-0.8%
PAT	4,872	4,701	-3.5%	5,586	5,434	-2.7%	6,148	6,188	0.7%
EPS (Rs)	7.9	7.7	-3.6%	9.1	8.9	-2.8%	10.2	10.1	-0.6%

Source: Company, Emkay Research

Exhibit 6: Key assumptions table

	FY20	FY21E	FY22E	FY23E
AAAUM of MF's (Rs bn)	2,086	2,339	2,639	2,991
Revenue on MF AUM	0.58%	0.52%	0.55%	0.58%
Total expense on MF AUM	0.30%	0.33%	0.35%	0.38%

Source: Emkay Research

Exhibit 7: The stock currently trades at 34x 1 year forward P/E

Source: Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue from Operations	14,786	12,030	12,161	14,517	17,349
Other income	1,712	(98)	1,884	2,034	2,197
Total Revenue	16,499	11,932	14,044	16,551	19,546
Operating Expenses	9,497	6,334	7,717	9,238	11,217
Employee costs	2,934	3,024	3,508	3,959	4,487
Profit before tax	7,002	5,598	6,327	7,313	8,329
Tax	2,132	1,441	1,626	1,879	2,141
Tax rate (%)	30	26	26	26	26
Profit after tax	4,869	4,158	4,701	5,434	6,188

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	6,120	6,120	6,120	6,120	6,120
Reserves & Surplus	19,580	19,534	19,426	19,301	19,301
Net worth	25,700	25,654	25,546	25,421	25,421
Provisions	435	565	706	883	1,104
Other current liabilities	1,623	2,597	4,156	6,649	10,638
Total Liabilities	27,758	28,817	30,408	32,953	37,163
Net fixed assets	2,568	2,825	3,107	3,418	3,760
Investments	12,900	14,190	15,893	17,800	19,936
Other assets	12,400	11,802	11,408	11,735	13,467
Total assets	27,868	28,817	30,408	32,953	37,163

AAAUM

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Equity	907.0	891.5	962.8	1,059.1	1,186.2
Debt	1,320.2	918.9	1,017.2	1,132.1	1,267.1
ETF	154.6	275.8	358.6	448.2	537.9
Total AAAUM	2,381.7	2,086.3	2,338.6	2,639.4	2,991.2

End of Period AUM

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Mutual funds	2,278.0	1,635.0	1,716.8	1,802.6	1,892.7
Managed accounts	1,913.0	869.0	955.9	1,051.5	1,156.6
Offshore funds & adv mandates	31.0	48.0	57.6	69.1	82.9
Total	4,222.0	2,552.0	2,730.3	2,923.2	3,132.3

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Revenue from operations/ AAAUM	0.62	0.58	0.52	0.55	0.58
Total Revenue/ AAAUM	0.69	0.57	0.60	0.63	0.65
Cost	0.40	0.30	0.33	0.35	0.38
PBT/AAAUM	0.29	0.27	0.27	0.28	0.28
PAT/AAAUM	0.20	0.20	0.20	0.21	0.21
ROE	19.73	16.19	18.36	21.32	24.34

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	7.9	6.8	7.7	8.9	10.1
BVPS	42.0	41.9	41.7	41.5	41.5
DPS	6.8	5.7	6.5	7.5	8.6

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PE	34.0	39.8	35.2	30.5	26.8
P/BV	6.4	6.4	6.5	6.5	6.5
Mkt cap/AUM	0.07	0.08	0.07	0.06	0.06
Dividend yield (%)	2.5	2.1	2.4	2.8	3.2

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue	(5.6)	(27.7)	17.7	17.9	18.1
Cost	(13.1)	(33.3)	21.8	19.7	21.4
PAT	6.9	(14.6)	13.1	15.6	13.9
QAAUM	(4.6)	1.0	(0.9)	12.9	13.3

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue	3,604	3,226	3,606	1,496	3,362
Total Revenue/ Avg. AUM (%)	0.76	0.74	0.84	0.35	0.92
PAT	1,273	1,384	1,512	60	1,574
PAT/Avg. AUM (%)	0.3	0.3	0.4	0.0	0.4
QAAUM (Rsbn)	1,892	1,742	1,717	1,721	1,459

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	75.0	79.3	75.9	75.9	75.9
FIIIs	7.5	4.6	5.6	5.3	5.8
DIIIs	7.1	7.1	6.3	6.7	6.2
Public and Others	10.4	9.0	12.1	12.1	12.1

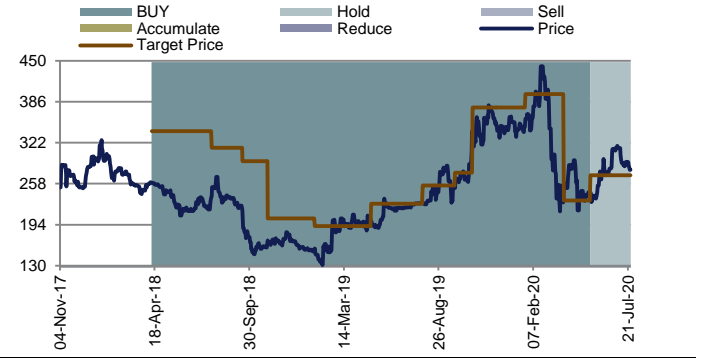
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
16-May-20	244	271	12m	Hold	Jignesh Shial
31-Mar-20	249	232	12m	Buy	Jignesh Shial
24-Jan-20	360	398	12m	Buy	Jignesh Shial
24-Oct-19	319	377	12m	Buy	Jignesh Shial
27-Sep-19	266	275	12m	Buy	Jignesh Shial
23-Sep-19	251	275	12m	Buy	Jignesh Shial
29-Jul-19	227	255	12m	Buy	Jignesh Shial
30-Apr-19	198	227	12m	Buy	Jignesh Shial
22-Jan-19	157	192	12m	Buy	Jignesh Shial
01-Nov-18	169	204	12m	Buy	Jignesh Shial
18-Sep-18	214	293	12m	Buy	Jignesh Shial
26-Jul-18	239	314	12m	Buy	Jignesh Shial
03-May-18	246	340	12m	Buy	Ravikant Bhat
13-Apr-18	259	340	12m	Buy	Ravikant Bhat

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-NBFCs



Analyst: Jignesh Shial

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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-NBFCs	7.48	7.41	-1%	-6	100.00
Bajaj Finance	1.34	1.36	1%	2	18.20
Cholamandalam Investment	0.14	0.13	-3%	0	1.77
Edelweiss Financial Services	0.07	0.00	-100%	-7	0.00
HDFC	5.29	5.42	3%	13	72.54
L&T Finance Holdings	0.06	0.00	-100%	-6	0.00
LIC Housing Finance	0.14	0.14	2%	0	1.88
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.14	0.08	-45%	-6	1.03
Nippon Life	0.07	0.07	2%	0	0.97
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.22	0.21	-7%	-1	2.76
Cash	0.00	0.06	NA	6	0.8

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

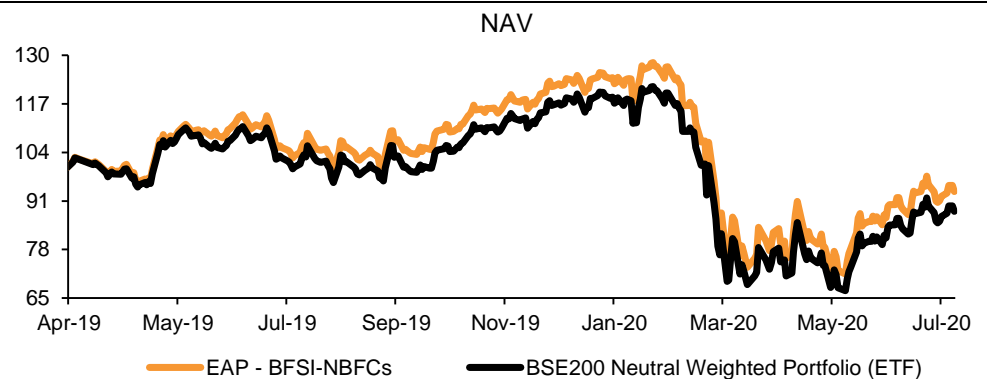
Sector portfolio NAV

	Base					Latest
	1-Apr-19	23-Oct-19	24-Jan-20	24-Apr-20	24-Jun-20	24-Jul-20
EAP - BFSI-NBFCs	100.0	111.5	124.1	75.6	91.9	93.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	105.9	118.6	70.9	86.4	88.2

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 28 Jul 2020 03:02:40 (SGT)

Dissemination Date: 28 Jul 2020 03:03:40 (SGT)

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