



#### 3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

#### What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

#### Reco/View

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 318	
Price Target: Rs. 350	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

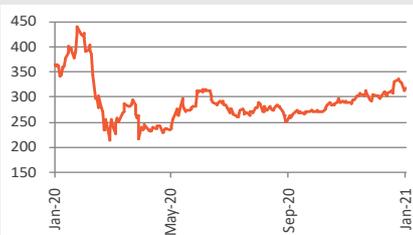
#### Company details

Market cap:	Rs. 19,247 cr
52-week high/low:	Rs. 453/201
NSE volume: (No of shares)	9.8 lakh
BSE code:	540767
NSE code:	NAM-INDIA
Free float: (No of shares)	14.8 cr

#### Shareholding (%)

Promoters	75.8
FII	6.8
DII	6.6
Others	10.8

#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	4.4	16.4	14.8	-12.2
Relative to Sensex	4.3	-2.9	-8.4	-27.9

Sharekhan Research, Bloomberg

#### Summary

- We maintain our Buy rating on the stock with an revised price target (PT) of Rs. 350.
- Nippon Life India Asset Management Limited's (NAM's) Q2FY2021 results were better than expectations, helped by cost control and healthy increase in Assets Under Management (AUMs).
- The AUM stood at Rs. 352360 crores saw an enthusiastic growth both on y-o-y and q-o-q basis.; Theshare of Equity Assets rose to 39.1% of NIMF's AUM which is positive
- Indian AMC industry continues to be attractive with long term structural tail-winds intact; We have fine-tuned our estimates and believe that the improvement in AUM traction is a positive trend.

Nippon Life India Asset Management Limited's (NAM's) Q2FY2021 results were better than expectations, helped by cost control and healthy increase in Assets Under Management (AUMs). The AUM stood at Rs. 3,52,360 crores (was Rs 2,76,774 crore in Q2 FY2021) and saw an enthusiastic growth both on a y-o-y and q-o-q basis. Also, along with AUM recovery share of Equity Assets rose to 39.1% of NIMF's AUM as against 38.9% for the quarter ended September 30, 2020 which is positive. The AUM Growth however, was led by MTM gains, along with improving institutional & retail participation. The management indicated that they have regained the traction from the intuitional investors, which had been impacted earlier, and with the new ownership taking over, the same has been arrested as expected. NAM's focus on retail (especially with geographical diversification) continues; and as of December 2020, the company garnered 17.5% of AUM from 'Beyond the Top 30 cities' category. This segment forms 17.5% of NIMF's AUM vis-à-vis 16.0% for the industry and is a positive. NAM intends to continue its focus on the retail segment, especially in B-30 town/cities and now post COVID-19, there are chances of greater digital leveraging, which will be positive for margins. Going forward, we believe with traction on AUM and scale benefits, operating ratios are expected to improve. The company has a lower concentration risk and NAM's large pan-India presence is bolstered by faster adoption of technology in a post COVID-19 world, which will be a long-term positive for operational efficiencies. In the last six months, global and domestic economic activity has seen a sharp rebound. Reflection of that was also seen in the Indian mutual fund industry's assets having increased at a strong pace in this period and, are poised to grow strong in the next 3 - 5 years. For the medium term, we expect AUM growth and business mix to be recovering gradually. We have fine-tuned our estimates and believe that the improvement in AUM traction is a positive trend. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 350.

#### Key positives

- Total operating and employee expenses fell by 22% and 18% YOY respectively indicating operating cost control
- As on December 2020, NIMF has one of the largest retail assets in the Industry, at Rs. 58,642 crore (US\$ 7.8 billion). Retail assets contributed 26% to NIMF's AUM
- As on December 2020, NIMF garnered AUM of Rs. 38,753 crore from 'Beyond the Top 30 cities' category which indicates geographical diversity. This segment forms 17.5% of NIMF's AUM vis-a-vis 16.0% for the Industry.

#### Key negatives

- NAM has seen decline in investor folios to approx. 92 lakh investor folios (declined from 93 Lakh in September 2020) but the annualized Systematic book of approx. Rs. 8,000 crore has improved from Rs 7400 crores.

#### Our Call

**Valuation:** NAM is currently available at reasonable valuations of 27x / 24.7x FY2022E / FY2023E EPS. We believe with gradual recovery in earnings cycle (with AUM growth and SIP flows normalising) the stock has the potential to be re-rated. We expect earnings recovery to gain strength going into FY2022E and FY2023E. The company remains committed to a strong retail business (strong SIP segment; penetration in B30 cities), which we believe are positives for the long term. Due to the change in ownership, there is more stability and a long-term vision, which augurs well (already reflected in improved AUM growth, institutional flows). Also, the MNC ownership can potentially result in improved global funds (already has commitments/LOIs of ~100mn, and more in pipeline) flow for the AMC. We recommend Buy on the stock with a PT of Rs. 350.

#### Key Risks

As NAM's revenue ultimately depends on the value of the assets it manages, changes in market conditions and trend of flows into mutual funds may have an impact on operations and profitability.

#### Valuation

	Rs cr				
Particulars	FY19	FY20	FY21E	FY22E	FY23E
Operating Income	1,646.8	1,131.7	1,405.7	1,764.5	2,082.1
Net Profit	487.1	415.8	648.3	718.9	787.9
EPS (Rs)	7.9	6.8	10.6	11.7	12.9
BVPS (Rs)	42.0	42.5	42.4	46.1	50.2
MCap / AUM (%)	8.3	9.2	9.1	7.9	6.7
Opex / AUM (%)	0.40	0.26	0.25	0.32	0.35
PE (x)	40.0	47.1	30.0	27.0	24.7
PBV (x)	7.6	7.5	7.5	6.9	6.3

Source: Company; Sharekhan estimates

## Key Concall Highlights

- ◆ **AUM update:** NAM's AAUM mix stood at equity, debt, liquid, and ETF, contributing 39%, 32%, 14%, and 15%, respectively.
- ◆ **Business focus:** Aiming at an "Investor First" philosophy at its core, NAM places relentless emphasis on four key pillars viz. superior fund performance in the active category, comprehensive product offering in the passive category, business de-risking by increasing share of non-MF segments, and a robust digitech architecture that provides wide reach and best-in-class customer service.
- ◆ **AUM:** As on December 31, 2020, NAM India's assets under management was Rs. 3,52,360 crore (US\$ 47.0 billion)
- ◆ **Average AUM:** NAM's average assets under management was Rs. 2,13,033 crore (US\$ 28.4 billion)
- ◆ **Rise in Equity Assets:** For the quarter ended December 31, 2020, share of Equity Assets rose to 39.1% of NAM's AUM as against 38.9% for the quarter ended September 30, 2020. Higher composition of Retail Assets in AUM at 26% vis-à-vis 21% for the Industry. NAM has one of the largest retail assets in the Industry, at Rs. 58,642 crore (US\$ 7.8 billion). Retail assets contributed 26% to NAM AUM
- ◆ **Granular and diversified book:** NAM garnered AUM of Rs. 38,753 crores from 'Beyond the Top 30 cities' category. This segment forms 17.5% of NAM's AUM vis-a-vis 16.0% for the Industry. The Individual AUM was Rs. 108,182 crore and contributed 49% to NAM's AUM
- ◆ **AIF update:** Nippon India AIF offers Category II and Category III Alternative Investment Funds and has a total commitment of approx. Rs. 3,500 crore (US\$ 466 million) across various schemes
- ◆ **Network:** NAM has geographical presence at approx. 290 locations pan India, and is amongst the highest in the industry
- ◆ **Digital share:** For Q3 FY2021, digital purchase transactions rose to over 4 lakh - an increase of 39% as against quarter ended December 31, 2019. Digital channel contributed 52% to total new purchase transactions
- ◆ **Growing Inorganically:** The Management contemplates inorganic growth by acquiring Mutual Fund, AIF Fund, Asset management company keeping shareholder interest in tact. Bottom-line is key integral part of any strategy going forward.
- ◆ **Stable investor base:** Despite volatility, share in overall investor base remained stable driven by extensive distribution and product suite that caters to diverse investor needs since ~3 out of 10 unique investors in the Industry invest with NAM
- ◆ **ETF performance:** NAM remains the Category leader - ETFs with highest liquidity in the Industry
- ◆ **SIP performance:** In SIP monthly flow stood at Rs 660crs with Annualized book of INR 80 bn in volatile markets, folios with lower ticket size demonstrated longer vintage. Approx. 76% market share in ETF volumes on the NSE and BSE in Q3 FY21. The AMC continue to work with the Government of India for the CPSE ETF. It added over 150,000 ETF folios in Q3 vs. 97,600 in entire FY20
- ◆ Focus on individual assets since 82% of the Distributed Assets are contributed by Individual investors
- ◆ **Fund raising underway:** NAM is doing fund raising of following classes viz. Equity: Category III AIF for domestic investors, Real Estate: Category II AIF for offshore institutional investors, Tech / VC: Category II AIF for both domestic and offshore institutional investors. As on Dec 2020, it raised commitments of approx. INR 3,500 crs across funds.
- ◆ **Oversease funds potential:** Leveraging brand Nippon, the company will try to engage with Japanese investors in India for generating business opportunity.

## Results

Particulars	Rs cr				
	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Revenue from Operations	250.9	285.4	(12.09)	240.5	4.31
Other Income	123.0	56.5	117.46	61.9	98.56
Total Revenue	373.8	341.9	9.33	302.4	23.61
Employee expenses	60.7	75.7	(19.76)	62.0	(2.08)
Other Expenses	47.0	66.6	(29.37)	45.9	2.44
EBITDA	266.1	199.7	33.27	194.5	36.79
Finance Cost	1.0	1.9	(44.92)	1.2	NA
Depreciation & Amortization	7.6	9.1	(16.67)	7.7	(1.81)
PBT	257.5	188.7	36.46	185.6	38.70
Tax	55.7	44.8	24.37	45.0	23.60
PAT	201.8	143.9	40.21	140.6	43.53

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Strong structural demand supported by long-term secular themes of financialisation

The past few decades have seen a gradual shift of household savings from traditional avenues (FD, gold, and real estate) to financial assets, including MFs, stocks and bonds (financialisation of savings), which we view as a secular long-term trend due to increasing awareness on MFs as an investment vehicle in non-metros (share rising from B15 towns and cities). AUM as a percentage of GDP remains considerably low in India (when compared to mature economies such as the US and the UK, and even developing economies such as Brazil), which indicates the growth opportunity as India catches up with global peers. In the medium term, due to widespread cash flows impact and market performance due to the pandemic, we believe AUM growth and business mix for the AMC will to improve and normalize over the medium term. We believe long-term structural tailwinds continue which will benefit strong players with a strong retail distribution base. In the last six months, global and domestic economic activity has seen a sharp rebound. Reflection of that was also seen in the Indian mutual fund industry's assets having increased at a strong pace in this period and, are poised to grow strong in the next 3 - 5 years. We believe the AMC industry has a strong growth potential due to the above-mentioned factors.

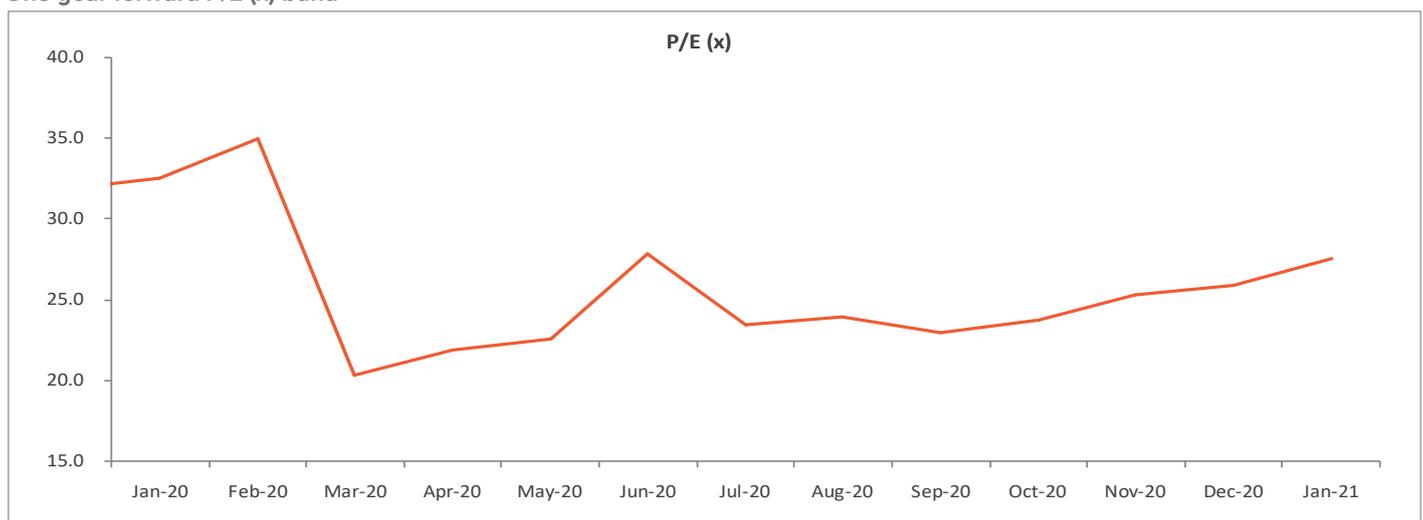
### ■ Company outlook - Strong fundamentals to sustain long term outlook

NAM has a strong retail base, which we believe is stickier as compared to high net worth individuals (HNIs) and institutional clients. The retail segment's contribution to total AUM stood 26% for NAM (higher than industry average), which is a positive, as retail is considered a relatively sticky segment. The company also has lower concentration risk as no distributor has more than 5.3% contribution in AUM. The top five AMCs are expected to gain disproportionately due to their strong distribution network and brand reputation in a normalised course of business. While in the medium term, due to uncertainties on growth and market performance due to the pandemic, we believe AUM growth and business mix will gradually improve as the pandemic's impact subsides. We believe the company is well placed to ride over medium-term challenges.

### ■ Valuation - Recommend Buy with a PT of Rs. 350

NAM is currently available at reasonable valuations of 27x / 24.7x FY2022E / FY2023E EPS. We believe with gradual recovery in earnings cycle (with AUM growth and SIP flows normalising) the stock has potential to be re-rated. We expect earnings recovery to gain strength going into FY2022E and FY2023E. The company remains committed to a strong retail business (strong SIP segment; penetration in B30 cities), which we believe are positive for the long term. Due to the change in ownership, there is more stability and a long-term vision, which augurs well (already reflected in improved AUM growth, institutional flows). Also, the MNC ownership can potentially result in improved global funds (already has commitments/LOIs of ~100mn, and more in pipeline) flow for the AMC. We recommend Buy on the stock with a PT of Rs. 350.

### One-year forward P/E (x) band



Source: Sharekhan Research

### Peer valuation

Particulars	CMP (Rs)	P/BV (x)		P/E (x)		RoE (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Nippon Life India Asset Management Ltd	273	6.4	5.9	25.8	23.2	19.6	21.4
HDFC AMC	2914	13.5	11.7	46.7	40.9	30.74	30.8

Source: Company, Sharekhan Research

## About company

Nippon Life India Asset Management Limited is one of the largest asset managers in India, managing (directly & indirectly) assets across mutual funds including Exchange Traded Funds, managed accounts, including portfolio management services, alternative investments funds and pension funds; and offshore funds and advisory mandates. NAM India is the asset manager of Nippon India Mutual Fund's schemes. It also acts as an advisor for India focused Equity & Fixed Income funds in Japan (launched by Nissay Asset Management), and in Thailand (launched by BBL Asset Management). It also manages offshore funds through its subsidiaries in Singapore & Mauritius and, also has representative office in Dubai thereby catering to investors across Asia, Middle East, UK, US, & Europe. NAM had total AUM (India AUM) of ~Rs. 3.5+ trillion and a strong SIP business (annualised SIP book of over Rs. 10,000 crore). The company has a strong distribution network with its presence across 300+ locations and more than 75,400 distributors. Besides mutual funds, NAM also runs managed accounts and international/offshore advisory services.

## Investment theme

NAM has maintained its position in the top five consistently over the years. The company has grown its MF AUM at a 17% CAGR in the FY2013-FY2019. NAM's success on building a large distribution network despite not having a bank promoter entity is notable. NAM has a strong foothold in B30 cities (~20% of AUM), which has helped the AMC garner and improve its retail share, which in turn makes the customer segment more granular. We believe a granular book is more sustainable and sticky as compared to HNI and institutional flows. While in the medium term, due to uncertainties on growth and market performance due to the pandemic, we believe AUM growth and business mix may be impacted. We believe the company is well placed to ride over medium-term challenges. The buyout and subsequent re-branding by the MNC owner has stabilized the company and will enable NAM to leverage the parent's network to improve its AUM in the long term.

## Key Risks

As the company's revenue ultimately depends on the value of the assets it manages, changes in market conditions, and trend of flows into mutual funds may have an impact on operations and profitability.

## Additional Data

### Key management personnel

MR. SUNDEEP SIKKA	CEO
MR. Chandra Gupta	Chief Technology Officer
Mr. Prateek Jain	CFO
Mr. Sandeep Walunj	Chief Marketing Officer
Mr. Muneesh Sud	Compliance Officer

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	INDUSIND BANK LTD	3.3
2	Baron Capital Inc	1.8
3	HDFC Asset Management Co Ltd	1.7
4	HDFC Trustee Co Ltd	1.6
5	Nippon Life India Asset management	1.5
6	IIFL SPECIAL OPPORT FUND	1.2
7	Valiant Mauritius Partners Ltd	1.1
8	Nippon Life Insurance	0.9
9	Vanguard Group Inc/The	0.8
10	Motilal Oswal Asset Management Co	0.7

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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by BNP PARIBAS

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