

CMP: ₹ 321

Target: ₹ 400 (25%)

Target Period: 12 months

BUY

April 28, 2022

Yield compression continues; marginal market share gain

About the stock: Nippon Life India AMC is among the largest asset managers in India with an AUM size of ₹ 3.46 lakh crore. The company has a strong distribution network with 84300+ distributors.

- Market share as on Q4FY22 was at 7.4%
- Strong presence in B-30 cities that contribute to 17.2% of total AUM

Q4FY22 Results: Steady quarter with marginal uptick in market share.

- QAAUM was at ₹ 283300 crore, up 24% YoY, flat QoQ. Market share was up 26 bps
- Operational revenue up 12% YoY at ₹ 338 crore; sequentially flat due to lower yields
- PAT up 5% YoY, flat QoQ at ₹ 174.5 crore, due to subdued topline

What should investors do? Nippon Life India AMC's share price has grown by over 13% since its listing in November 2017.

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value Nippon AMC at ~5.3% FY24E AUM and revise our target price to ₹ 400 per share.

Key triggers for future price performance:

- Continued focus on AUM growth and robust pipeline of new products will boost profitability and aid market share gain
- Strong brand franchise, distribution strength and operational capabilities

Alternate Stock Idea: Apart from Nippon Life AMC, in our coverage we like HDFC AMC.

- HDFC AMC is among the largest and profitable mutual funds with an QAAUM of ~₹ 4.3 lakh crore as on March 2022
- BUY with a target price of ₹ 2400



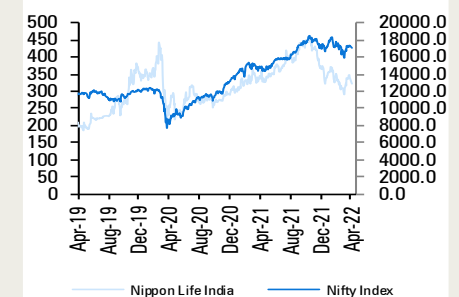
Particulars

	Amount
Market Capitalisation	₹ 19964 crore
Networth	₹ 3721 crore
52 week H/L	476/282
Face Value	₹ 10
DII Holding (%)	8.8
FII Holding (%)	6.7

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	75.8	74.5	74.2	74.0	73.8
FII	5.4	5.9	6.2	6.6	6.7
DII	6.6	6.7	7.5	8.8	8.8
Others	12.2	12.9	12.1	10.6	10.7

Price Chart



Recent Event & key risk

- QAAUM reported flat growth QoQ at ₹ 2.8 lakh crore
- Key Risk:** Increasing competitive pressure to exert pressure on yield

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY21-23E)
Net Profit (₹ crore)	485.7	415.4	679.4	743.4	15%	936.8	1108.7	22%
EPS (₹)	7.9	6.8	11.0	12.0	15%	15.1	17.8	22%
P/E (x)	40.4	47.3	29.1	26.9		21.3	18.0	
AUM /share (₹)	3817.0	3347.4	3708.0	4554.5		5217.2	6025.9	
P/AUM (%)	8.4	9.6	8.7	7.0		6.2	5.3	
DPS (₹)	6.0	5.0	8.0	8.7		10.9	12.9	
RoE (%)	19.2	14.1	18.7	17.0		17.6	20.9	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Mixed Performance

- Revenue from operations were flat at ₹ 338 crore. Other income declined 43% YoY to ₹ 34.5 crore, mainly due to MTM during the quarter
- Operating expense remained largely stable at ₹ 138 crore. Consequently, the company reported a PAT of ₹ 174.8 crore registering 5% growth YoY and flat growth on a QoQ basis
- Yields were under pressure mainly on account of lower TER due to increase in fund size
- AUM growth of 24% YoY was led by 28% YoY rise in equity AUM while ETFs also increased 50% YoY. On a QoQ basis, AUM growth was flat at ₹ 283300 crore
- SIP book increased sequentially from ₹ 2010 crore to ₹ 2130 crore in Q4FY22, with number of folios increasing from 37 lakh in Q3FY22 to 40 lakh in Q2FY22
- The company has a strong presence beyond 30 cities (B-30) with 17.2% of AUM coming from this segment compared to industry average of 16.6%
- The company has gained AUM market share on an overall basis by 26 bps sequentially to 7.4%
- Number of unique investors has increased by 20% YoY to 1.2 crore

Q4FY22 Earnings Conference Call highlights

- Equity segment has been facing pressure in the past two years but now it is improving gradually. The positive trend is visible. In the next three to four quarters equity segment market share is expected to improve
- Fall in yields in the current quarter was mainly due to a reduction in TERs of a few funds due to an increase in size, higher trail commission and increase in competition
- Opex to largely remain at current levels. Healthy growth in digital purchase during the quarter. Digital SIP registrations contributed 47% of total new SIPs registered in FY22. The management will continue to create digital infrastructure
- The company has a robust pipeline in place to further strengthen both active and passive offerings. Passive funds share is expected to be at ~ 50%
- The management will continue to grow organically but at the same time is open to inorganic opportunity
- The management aims to keep dividend payout ratio of 100%, going ahead
- The management indicated that there will be no large branch expansion; Investment in digital infrastructure will continue

Peer comparison

Exhibit 1: ICICI Direct coverage universe (AMC)

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	₹	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HDFC AMC (HDFAMC)	2,072	2,400	Buy	441	65.4	73.0	83.9	35.4	31.7	24.7	8.9	7.9	6.3	25.2	24.9	25.4
Nippon AMC (RELNIP)	321	485	Buy	199	12.0	15.1	17.8	28.9	23.0	19.4	6.2	5.8	5.3	17.0	17.6	20.9

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

₹ crore	Q4FY22	Q4FY21	YoY	Q3FY22	QoQ	Comments
Revenue from Operations	338.0	301.9	12%	338.5	0%	Flattish revenue growth sequentially led by lower yields
Revenue/AUM	0.5	0.5	-6bps	0.5	-1bps	
Other Income	34.5	60.1	-43%	30.4	13%	YoY fall in other income due to lower MTM
Net Total Income	372.4	362.0	3%	368.9	1%	
Staff Cost	74.5	65.4	14%	72.9	2%	
Other Operating Expenses	63.5	78.7	-19%	60.6	5%	
Total Expenses	138.1	144.1	-4%	133.5	3%	Opex largely stable
PBT	234.4	217.9	8%	235.5	0%	
Tax Outgo	59.5	51.4	16%	61.5	-3%	
PAT	174.8	166.5	5%	174.0	1%	Subdued topline kept PAT in check
MF- AAUM	283300	228600	24%	280600	1%	Market share in equity segment moderated

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ crore)	FY23E			FY24E		
	Old	New	Change %	Old	New	Change %
Revenue from Operations	1523.3	1551.7	1.9%	1749.4	1819.0	4.0%
PBT	1234.1	1257.4	1.9%	1423.7	1488.2	4.5%
PAT	919.4	936.8	1.9%	1060.6	1108.7	4.5%
EPS (₹)	14.8	15.1	1.9%	17.1	17.8	4.5%

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit & Loss Statement

(₹ crores)	FY20	FY21	FY22	FY23E	FY24E
Revenue from Operations	1,203.1	1,062.1	1,306.6	1,551.7	1,819.0
Growth (%)	-18.6%	-11.7%	23.0%	18.8%	17.2%
Other Income	(9.8)	357.2	229.0	217.0	220.0
Total Revenue	1,193.3	1,419.3	1,535.6	1,768.7	2,039.0
Employee Benefit Expenses	302.4	271.3	290.3	297.3	307.3
Depreciation & Amortization Expense	32.6	33.3	27.2	27.2	27.2
Other Expenses (incl fees)	297.9	237.7	229.4	186.7	216.3
Total Expenses	632.9	542.3	547.0	511.3	550.8
Profit Before Tax	560.4	877.0	988.7	1,257.4	1,488.2
Taxes	145.0	197.6	245.3	320.6	379.5
Profit After Tax	415.4	679.4	743.4	936.8	1,108.7
EPS (₹)	6.8	11.0	12.0	15.1	17.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet

(₹ crores)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Share capital	612.1	616.5	622.0	622.0	622.0
Reserves and surplus	1980.9	2483.8	2855.8	3112.5	3416.4
Total Equity	2593.1	3100.3	3477.8	3734.5	4038.4
Trade payables					
	67.7	62.9	56.0	58.7	61.7
Others					
	220.1	229.0	262.8	289.1	318.0
Total Liabilities + Equity	2880.8	3392.2	3796.5	4082.3	4418.0
Applications of Funds					
Property, plant and equipment	11.2	12.1	10.1	10.1	10.1
Intangible assets	314.4	290.0	286.0	286.0	286.0
Cash and bank balance	463.3	360.6	338.4	379.0	424.5
Investments	1884.6	2550.0	2941.7	3151.6	3400.0
Receivables	59.3	45.9	75.4	75.4	75.4
Deferred tax assets (net)	0.7	0.0	0.0	0.0	0.0
Others	147.3	133.7	144.9	180.2	222.0
Total Assets	2880.8	3392.2	3796.5	4082.3	4418.0

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
Valuation					
No of Equity shares (crore)	61.2	61.7	62.2	62.2	62.2
EPS	6.8	11.0	12.0	15.1	17.8
DPS	5.0	8.0	8.7	10.9	12.9
BVPS	42.4	50.3	55.9	60.0	64.9
P/E	47.3	29.1	26.9	21.3	18.0
P/BV	7.6	6.4	5.7	5.3	4.9
Operating Ratios (%)					
Rev/AUM	0.59	0.46	0.46	0.48	0.49
EBITDA/AUM	0.19	0.23	0.27	0.32	0.34
PAT/AUM	0.14	0.30	0.26	0.29	0.30
Return Ratios (%)					
RoNW	14.1%	18.7%	17.0%	17.6%	20.9%
NAV per equity share	42.4	50.3	55.9	60.0	64.9

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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