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### 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	■	↔	■

### ESG Disclosure Score NEW

<b>ESG RISK RATING</b>	<b>23.11</b>			
Updated Feb 08, 2022				
<b>Medium Risk</b>				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

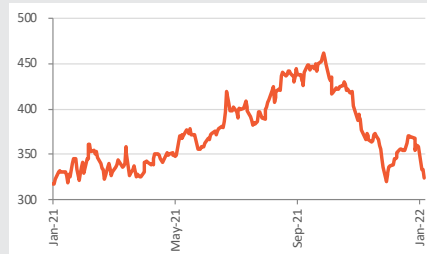
### Company details

Market cap:	Rs. 20,469 cr
52-week high/low:	Rs. 477 / 282
NSE volume: (No of shares)	6.6 lakh
BSE code:	540767
NSE code:	NAM-INDIA
Free float: (No of shares)	16.3 cr

### Shareholding (%)

Promoters	73.8
FII	6.7
DII	8.8
Others	10.7

### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	-5.3	-1.4	-21.3	-0.7
Relative to Sensex	-4.6	-0.4	-39.6	-19.1

Sharekhan Research, Bloomberg

# Nippon Life India Asset Management

## Subdued quarter

<b>AMC</b>	<b>Sharekhan code: NAM-INDIA</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 329</b>	<b>Price Target: Rs. 430</b>
↑ Upgrade	↔ Maintain	↓ Downgrade	

### Summary

- Revenue from operations grew by 12% y-o-y while it was flat q-o-q to Rs.338 crore. Yields declined by 6 bps y-o-y and was flat sequentially. PAT stood at Rs. 175 crore versus our expectations of Rs. 181 crore, growing by a moderate 5% y-o-y. For FY22, PAT rose by 9% y-o-y to Rs. 743 crore.
- Quarterly average assets under management (QAAUM) stood at Rs 2,833 billion, rising by ~24% y-o-y and ~1% q-o-q.
- NAM India's market share remained stable q-o-q at 7.4% in Q4FY22 driven by steady performance of funds, strong risk management and a wide distribution network.
- At CMP, the stock currently trades at 24.3x and 20.9x its FY23E and FY24E EPS. We maintain a Buy rating on NAM India with a revised price target (PT) of Rs. 430.

**Nippon Life India Asset Management (NAM India) registered a moderate PAT growth of 5% y-o-y and stood at Rs. 175 crore in Q4FY22. Revenue from operations grew by 12% y-o-y while it was flat q-o-q. Its yields declined by 6 bps y-o-y and was flat sequentially. This was primarily due to a sell-off in the equity markets, intense competition and lower yielding assets. Other income declined by ~43% y-o-y (up by 13% q-o-q). While EBITDA margin was flat q-o-q at 65.1% in Q4FY22. However, operating expenses were down by ~4% y-o-y and up by ~3% q-o-q. Quarterly average assets under management (QAAUM) stood at Rs 2,833 billion, rising by ~24% y-o-y and ~1% q-o-q. The mix of ETF has increased to 20% from 18% in December 2021. The company has launched seven NFOs and garnered Rs. 4,000 crore. The market share of the B-30 cities stood at 11.5% versus 11.6% in Q3FY22.**

### Key positives

- Market share was stable at 7.4% in Q4FY22 sequentially.
- Its ETF AUM stood at Rs. 55,800 crore (rose by 7% q-o-q) with 13% market share.

### Key negatives

- Other income growth was impacted by MTM losses during the year.
- Yields came off sequentially on account of replacement of newer assets of lower yields.

### Management Commentary

- The management would continue to focus on the expansion in the B-30 cities despite the quarter witnessing decline in the market share.
- The company witnessed greater fund inflows into ultra short and liquid funds at the shorter end of the yield curve in the recent months due to the expectations of a rate hike.
- Its SIP book grew by 25% y-o-y and 6% q-o-q and it foresees strong trend going ahead and plans to gain market share going ahead.

### Our Call

**Valuation – Maintain Buy with revised PT of Rs. 430:** While NAM witnessed subdued performance on revenue and EBITDA margin, we believe that NAM is in a better position to deliver on profitability given its robust AUM growth in the long term. The company managed to maintain its market share during the quarter. It is also likely to benefit from the leveraging of Nippon Life's network to garner offshore mandates which would be a key to its future growth. Further, a sustained flow into MF and equity market and its widening distribution network is expected to retain its growth momentum. Additionally, its leadership position in the passive market (ETF space) is likely to benefit the company in terms of valuation as compared to its peers. At CMP, the stock currently trades at 24.3x and 20.9x its FY23E and FY24E EPS. Hence, we maintain a Buy rating on NAM with a revised price target (PT) of Rs. 430.

### Key Risks

Prolonged weakness in benchmark stock indices can affect inflows and AUMs. Any adverse regulations on trail commissions could hamper equity inflows through mutual fund distributors and hence hinder AUM growth.

### Valuation (Consolidated)

Particulars	FY21	FY22E	FY23E	FY24E
Total Revenue	1,419	1,536	1,769	2,013
EBITDA Margin (%)	64.4	66.4	65.2	66.4
PAT	679	743	834	970
EPS (Rs)	11.0	12.0	13.5	15.7
P/E (x)	29.8	27.5	24.3	20.9
P/B (x)	6.5	5.9	5.5	5.0
RoE (%)	23.9	22.6	23.3	25.1

Source: Company; Sharekhan estimates

## Results

Particulars	Rs cr				
	4QFY22	3QFY22	4QFY21	Y-o-Y %	Q-o-Q %
AAUM	2,83,261	2,80,600	2,28,586	23.9	0.9
Core Revenue	338	339	302	11.9	-0.2
Other Income	34	30	60	-42.6	13.4
Revenue Yield (%)	0.477	0.483	0.528	-6 bps	-1 bps
Operating Cost (% of AAUM)	0.184	0.180	0.238	-6 bps	0 bps
PBT	234	235	218	7.6	-0.5
Tax	60	62	51	15.9	-3.2
APAT	175	174	167	5.0	0.5
EBITDA (%)	65.1	65.7	62.4	266 bps	-67 bps
NPM (%)	51.7	51.4	55.2	-343 bps	34 bps
Tax rate (%)	25.4	26.1	23.6	182 bps	-72 bps

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector outlook – Financialisation of savings augurs well

India's mutual fund penetration (AUM as percentage of GDP) is 12% in FY20, far below the global average of 63% for the same period. However, quarterly mutual fund AAUM is expected to grow in double digits over FY21-FY25E, despite weakness in FY21. This is likely on the back of a recovery in corporate earnings, growing individual investor base led by rising household incomes, greater financial savings and robust performance in the underlying equity markets. Further, increasing awareness and supportive regulatory measures by the government would also bode well for the industry. Industry AUMs increased by 19% over March 2021 to November 2021, supported by strong inflows in equity mutual funds and record high SIP inflows of Rs. 11,005 crore in November 2021. Within this, equity funds grew by 31% over the same period.

### ■ Company outlook – Regaining lost ground

NAM India's strategy to continue its focus on the retail segment through its extensive branch infrastructure is expected to help it retain and increase its market share going ahead. Its overall market share has increased by 21 bps to 7.3% so far in Q2FY22 and seems to be stabilizing after falling from highs of 9.5% in March 2019. Besides this, the company intends to focus on launching of newer and attractive products that is likely to bode well for growth. Additionally, its focus on B-30 cities, aided by its strong distribution network is favorable for the company. It is well on the path of gaining business traction by leveraging Nippon Life's network to garner offshore mandates.

### ■ Valuation – Maintain Buy with revised PT of Rs. 430

While NAM witnessed subdued performance on revenue and EBITDA margin, we believe that NAM is in a better position to deliver on profitability given its robust AUM growth in the long term. The company managed to maintain its market share during the quarter. It is also likely to benefit from the leveraging of Nippon Life's network to garner offshore mandates which would be a key to its future growth. Further, a sustained flow into MF and equity market and its widening distribution network is expected to retain its growth momentum. Additionally, its leadership position in the passive market (ETF space) is likely to benefit the company in terms of valuation as compared to its peers. At CMP, the stock currently trades at 24.3x and 20.9x its FY23E and FY24E EPS. Hence, we maintain a Buy rating on NAM with a revised price target (PT) of Rs. 430.

## Peer Comparison

Particulars	CMP	MCAP	P/BV(x)		P/E(x)		RoE (%)	
	Rs/Share	(Rs Cr)	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
NAM India	329	20,469	5.5	5.0	24.3	20.9	23.3	25.1
HDFC AMC	2,087	44,495	7.6	6.8	28.5	25.0	26.2	26.3

Source: Company, Sharekhan research

## About company

Nippon Life India Asset Management Ltd (NAM) – formerly known as Reliance Nippon Life Asset Management – is the asset manager for Nippon India Mutual Fund (NIMF). NAM is one of the largest asset managers with 26 years of track record, advising assets across MFs, managed accounts, pension funds and offshore strategies. In addition to this, NAM also renders advisory services to its offshore clients and an approval to manage and / or advise pooled assets including offshore funds, Insurance funds, provident funds are in place. Nippon Life Insurance Company is the promoter of NAM and currently holds 73.97% (as on 30th September 2021) of its total issued and paid-up equity share capital.

## Investment theme

With a strong foothold in the B-30 cities and a wide distribution network, the company is expected to regain market share. Currently, AUM contribution from B-30 cities is at 19% as of Q2FY22, as compared to industry contribution of 16.3%. NAM India was able to witness strong traction in AAUM growth at a CAGR of 21% over FY13-18, backed by a strong distribution network, despite of being a non-bank promoted entity. Going ahead, we expect its AAUM to clock ~14% CAGR over FY22E-FY24 E. Further, the company plans to increase its yields from the ETF segment through differentiated products and higher liquidity.

## Key Risks

Any prolonged weakness in benchmark stock indices can affect inflows and AUMs. Any adverse regulations on trail commissions could hamper equity inflows through mutual fund distributors and hence hinder AUM growth.

## Additional Data

### Key management personnel

Mr. Sundeep Sikka	Executive Director & Chief Executive Officer
Mr. Prateek Jain	Chief Financial Officer
Mr. Manish Gunwani	CIO - Equity Investments
Mr. Amit Tripathi	CIO - Fixed Income Investments

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.8
2	INDUSIND BANK LTD	3.3
3	Baron Capital Inc	2.3
4	HDFC Asset Management Co Ltd	2.2
5	Reliance Capital Ltd	1.4
6	Vanguard Group Inc/The	0.8
7	Grandeur Peak Global Advisors LLC	0.8
8	ICICI Prudential Life Insurance Co.	0.7
9	Blackrock	0.6
10	UTI Asset Management Co Ltd	0.4

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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