

## Steady quarter; retail, digital focus support performance

Nippon Life India AMC (Nippon) posted modest PAT growth of 6% YoY to ₹ 145 crore on a consolidated basis as cost rationalisation and healthy growth in other income compensated for a decline in revenues. Overall AUM declined on a yearly basis but saw some improvement sequentially.

MF AUM fell marginally by 1% YoY on account of ~10% YoY reduction in equity AUM while debt and liquid AUM showed growth of 2% and 20% YoY, respectively. Consequently, contribution of equity MF AUM declined from 43% a year ago to 39% as on Q2FY21 while debt and liquid fund contribution increased to 30% and 17% from 29% and 14% in Q2FY20, respectively.

During the quarter, the company has got mandate from post office insurance wherein the management expects AUM inflow of ~₹ 50000 to 60000 crore, of which ~10% will be equity AUM. Nippon AMC added over 1.68 lakh retail folios and registered 3.12 lakh new SIPs. The company is also looking for strategic partnerships or acquisitions to complement its business strategy.

Nippon AMC has launched new products viz. Nifty IT ETF, which has garnered ₹ 7000 crore, multi asset fund, which has AUM to the tune of ₹ 800 crore, and Nifty small cap fund. Proportion of retail AUM continues to remain well above industry at 26%. Also, ~69% of individual assets are of more than 12 months as on September 2020.

Total revenue for the quarter declined 14% YoY on account of reduced yield led by a decline in equity MF inflow and change in debt AUM mix with higher proportion of ultra short term category debt fund where realisations are lower. Realisation in debt fund has declined to ~20.5 bps compared to 22 bps a quarter ago. Staff cost and admin expenses declined 21% and 19%, respectively, as a result of cost rationalisation. The management has indicated that further room for cost reduction is limited. With a boost from other income (₹ 63 crore vs. ₹ 22 crore in Q2FY20) and cost optimisation, PAT increased 6% YoY to ₹ 145 crore.

## Valuation & Outlook

Volatility in equity markets and inflow of funds into the shorter end of debt schemes is expected to keep pace of improvement in AUM and yields slower. Healthy client acquisition (on both retail, corporate) gives indication that the AMC has gained customer confidence. Strong distribution and digital focus is expected to further enable improvement in traction in AUM. Cost rationalisation and operating leverage are seen keeping operating expenses steady. We continue to remain positive on the business model, though we are watchful on AUM growth trend and product launches. Therefore, we maintain our target price at ₹ 300/share, valuing the stock at ~7.6% of MF AUM FY22E AUM. We revise our recommendation from BUY to HOLD.



### Particulars

	Amount
Market Capitalisation	₹16747 crore
Networth	₹2803 crore
52 week H/L	453/201
Face Value	₹10
DII Holding (%)	6.33
FII Holding (%)	5.11

### Key Highlights

- Earnings growth led by cost control and investment gain
- Change in asset mix leads to decline in yield
- Limited room for cost rationalisation ahead
- Revise rating from BUY to HOLD with target price unchanged at ₹ 300

### Research Analyst

Kajal Gandhi  
kajal.gandhi@icicisecurities.com

Vishal Narnolia  
vishal.narnolia@icicisecurities.com

Yash Batra  
yash.batra@icicisecurities.com

### Key Financial Summary

₹ Crore	FY19	FY20	FY21E	FY22E	CAGR (FY19-22)
Net Profit (₹ crore)	486	415	586	680	12%
EPS (₹)	7.9	6.8	9.6	11.1	12%
P/E (x)	34.4	40.2	28.5	24.6	-11%
AUM /share (₹)	3817	3347	3414	3927	
P/AUM (%)	7.2	8.2	8.0	7.0	
DPS (₹)	6.0	5.0	7.0	8.2	
RoE (%)	19.2	14.1	16.6	16.1	

**Exhibit 1: Variance Analysis**

₹ crore	Q2FY21	Q2FY20	YoY	Q1FY21	QoQ	Comments
Revenue from Operations	258.66	300.23	-14%	233.12	11%	Decline on account of reduced margins in fixed income AUM
Revenue/AUM	0.01	0.01	-12.7bps	0.01	-0.1bps	
Other Income	63.7	22.37	185%	103.06	-38%	Steep rise on account of MTM gains from equity related investments
Net Total Income	322.36	322.6	0%	336.18	-4%	
Staff Cost	67.94	85.63	-21%	71.54	-5%	Cost rationalisation coming into play
Other Operating Expenses	63.46	78.69	-19%	64.97	-2%	
Total Expenses	131.4	164.32	-20%	136.51	-4%	
PBT	190.96	158.28	21%	199.67	-4%	
Tax Outgo	45.73	21.55	112%	43.55	5%	
PAT	145.23	136.73	6%	156.12	-7%	Boosted by rise in other income and cost control
Total AUM	276774	453517	-39%	273701	1%	
MF- AAUM	200000	202649	-1%	180100	11%	Declined on YoY basis due to reduced equity AUM

Source: Company, ICICI Direct Research

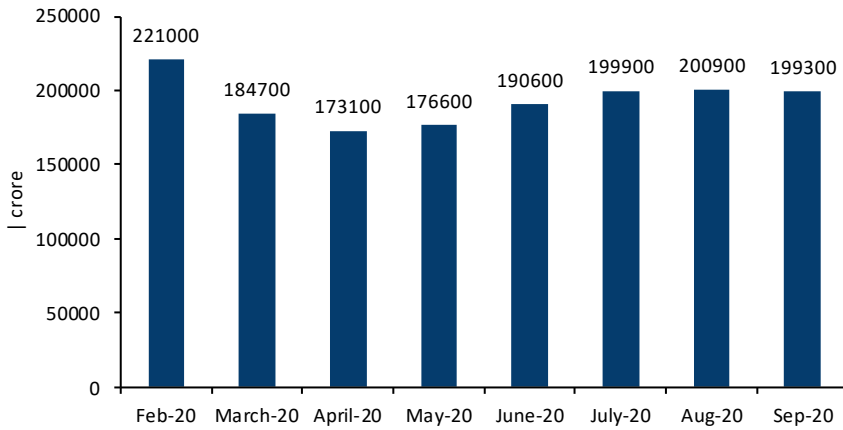
**Exhibit 2: Change in Estimates**

(₹ crore)	FY21E			FY22E		
	Old	New	Change %	Old	New	Change %
Revenue from Operations	1276.8	1098.0	-14%	1478.8	1308.8	-11%
PBT	665.5	786.0	18%	854.9	912.8	7%
Revenue/AUM	0.4	0.4	-9%	0.4	0.4	-6%
PAT	495.8	585.5	18%	636.9	680.0	7%
EPS (₹)	8.1	9.6	18%	10.4	11.1	7%

Source: Company, ICICI Direct Research

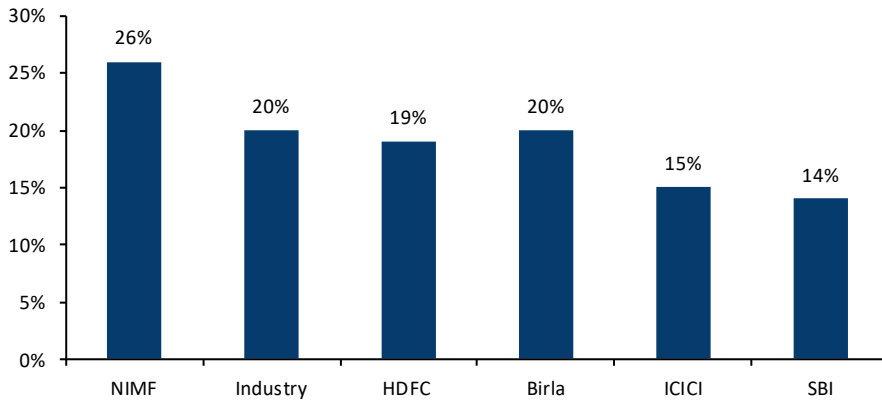
### Snapshot of company

Exhibit 3: Tepid growth in MAAUM growth



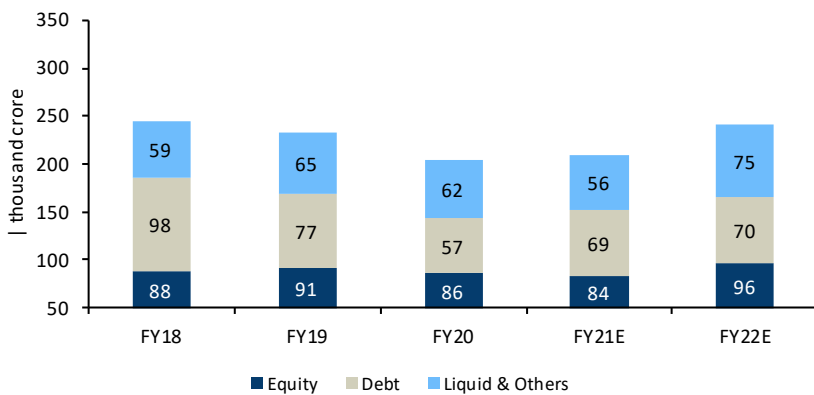
Source: Company, ICICI Direct Research

Exhibit 4: Retail AUM contribution higher than industry



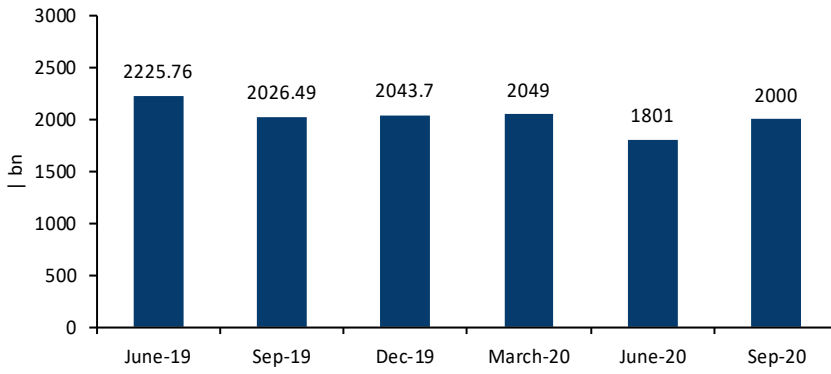
Source: Company, ICICI Direct Research

Exhibit 5: AUM break-up



Source: Company, ICICI Direct Research

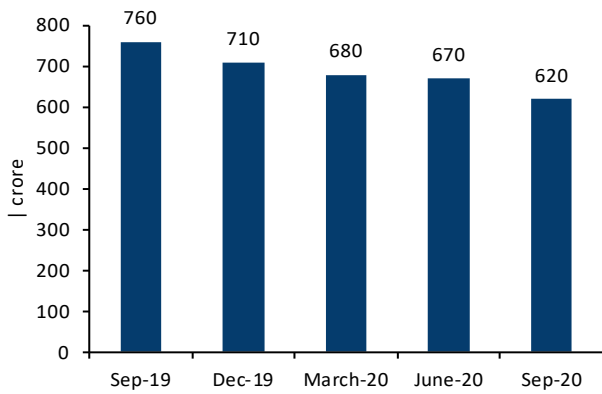
Exhibit 6: NIFM AAUM quarterly



Source: Company, ICICI Direct Research

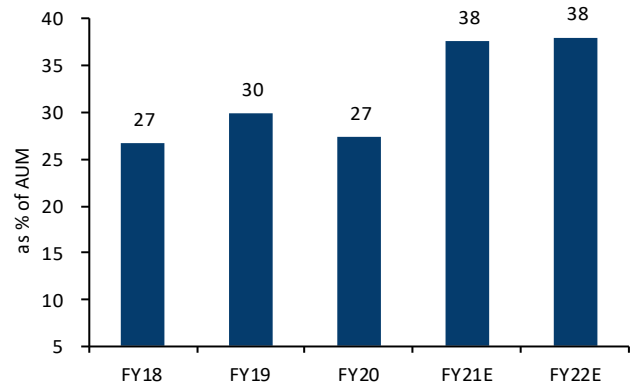
Direct Research

Exhibit 7: Decline in monthly SIP flows



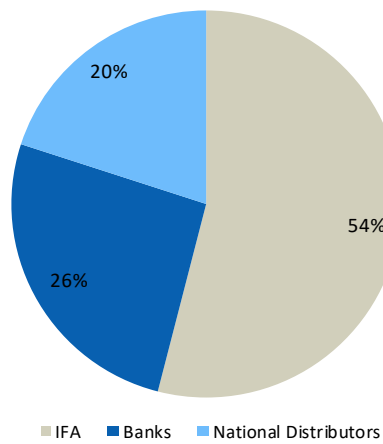
Source: Company, ICICI Direct Research

Exhibit 8: PBT/AUM



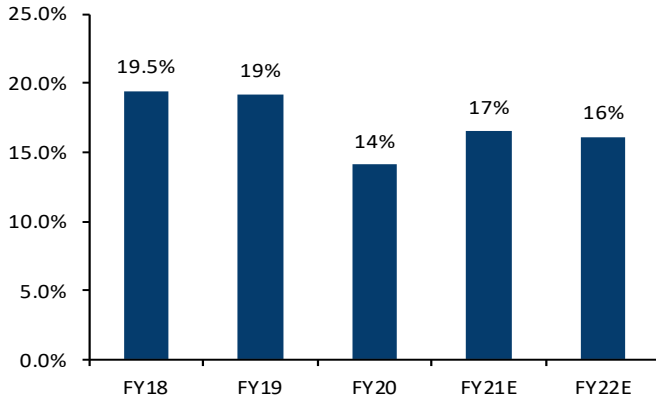
Source: Company, ICICI Direct Research

Exhibit 9: Distribution channel as of Q2FY21



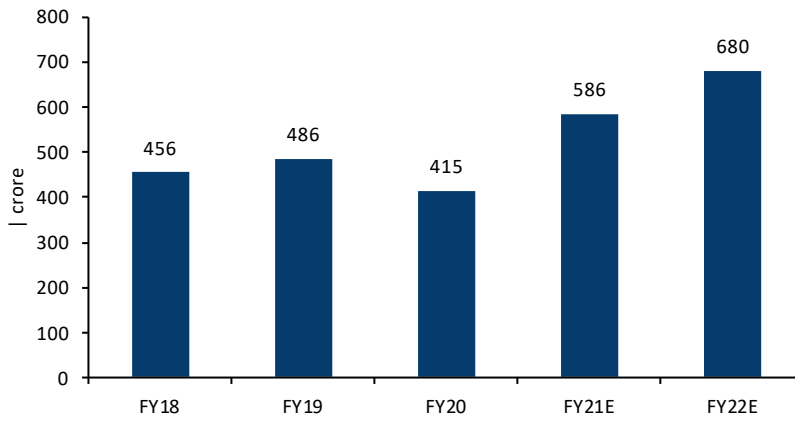
Source: Company, ICICI Direct Research

Exhibit 10: RoE trajectory improving



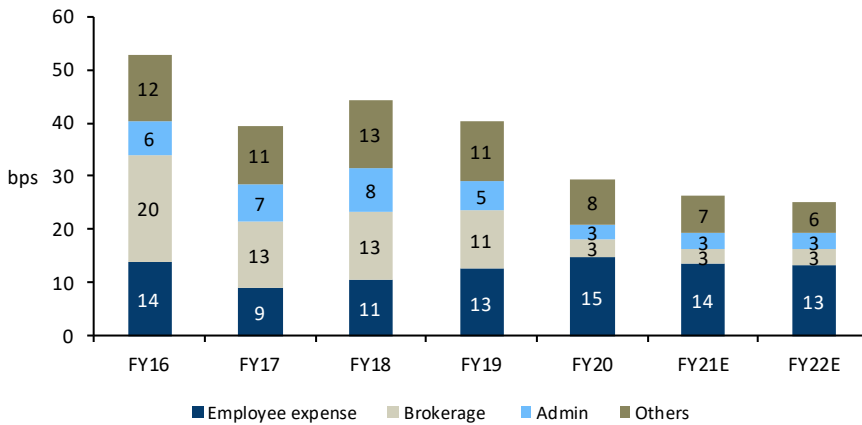
Source: Company, ICICI Direct Research

Exhibit 11: PAT to witness gradual improvement



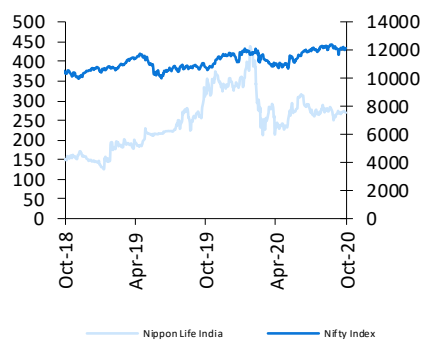
Source: Company, ICICI Direct Research

Exhibit 12: Total expenses to remain largely stable



Source: Company, ICICI Direct Research

**Exhibit 13: Price Chart**



Source: Company, ICICI Direct Research

**Exhibit 14: Revenue and expense structure**

(₹ crore)	FY19	FY20	FY21E	FY22E
Investment Management Fees	1,398	1,173	1,066	1,274
Portfolio Management Fee & Other Advisory Services	81	30	32	35
<b>Revenue from Operations</b>	<b>1,479</b>	<b>1,203</b>	<b>1,098</b>	<b>1,309</b>
Other Income	171	(10)	246	220
<b>Total Revenue</b>	<b>1,650</b>	<b>1,193</b>	<b>1,344</b>	<b>1,529</b>

(₹ crore)	FY19	FY20	FY21E	FY22E
Brokerage / Incentives / Fees / Mutual Fund expense:	258	71	55	69
Business Promotion	98	54	59	68
Rent	26	1	1	1
Printing & Courier	1	3	3	3
Others	263	170	146	144
<b>Total Other expense (including fees)</b>	<b>646</b>	<b>298</b>	<b>264</b>	<b>286</b>

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 15: Profit & Loss statement

(₹ crores)	FY19	FY20	FY21E	FY22E
Revenue from Operations	1,478.5	1,203.1	1,098.0	1,308.8
Growth (%)	-7.1%	-18.6%	-8.7%	19.2%
Other Income	171.3	(9.8)	246.0	220.0
Total Revenue	1,649.8	1,193.3	1,344.0	1,528.8
Employee Benefit Expenses	293.5	302.4	284.0	320.4
Depreciation & Amortization Expense	10.1	32.6	10.0	10.0
Other Expenses (incl fees)	646.0	297.9	264.0	285.6
Total Expenses	949.6	632.9	558.0	616.0
Profit Before Tax	700.2	560.4	786.0	912.8
Taxes	214.5	145.0	200.4	232.8
Profit After Tax	485.7	415.4	585.5	680.0
EPS (₹)	7.94	6.79	9.57	11.11

Source: Company, ICICI Direct Research

### Exhibit 16: Balance sheet

(₹ crores)	FY19	FY20	FY21E	FY22E
<b>Sources of Funds</b>				
Share capital	612.0	612.1	612.1	612.1
Reserves and surplus	1958.0	1980.9	2135.1	2314.1
<b>Total Equity</b>	<b>2570.0</b>	<b>2593.1</b>	<b>2747.2</b>	<b>2926.2</b>
<b>Trade payables</b>				
	47.4	67.7	72.4	76.0
<b>Others</b>				
	158.5	220.1	264.1	290.5
<b>Total Liabilities + Equity</b>	<b>2775.8</b>	<b>2880.8</b>	<b>3083.7</b>	<b>3292.8</b>
<b>Applications of Funds</b>				
Property, plant and equipment	12.5	11.2	11.2	11.2
Intangible assets	243.6	314.4	314.4	314.4
Cash and bank balance	30.0	463.3	500.4	560.5
Investments	1290.0	1884.6	2097.3	2208.3
Receivables	102.6	59.3	59.3	59.3
Deferred tax assets (net)	0.0	0.7	0.7	0.7
Others	1097.2	147.3	100.5	138.5
<b>Total Assets</b>	<b>2775.8</b>	<b>2880.8</b>	<b>3083.7</b>	<b>3292.8</b>

Source: Company, ICICI Direct Research

### Exhibit 17: Key Ratios

	FY19	FY20	FY21E	FY22E
<b>Valuation</b>				
No of Equity shares (crore)	61.2	61.211	61.211	61.211
EPS	7.9	6.8	9.6	11.1
DPS	6.0	5.0	7.0	8.2
BVPS	42.0	42.4	44.9	47.8
P/E	34.4	40.2	28.5	24.6
P/BV	6.5	6.4	6.1	5.7
<b>Operating Ratios (%)</b>				
Rev/AUM	0.3	0.4	0.4	0.4
EBITDA/AUM	0.1	0.2	0.3	0.3
PAT/AUM	0.1	0.1	0.3	0.3
<b>Return Ratios (%)</b>				
RoNW	19.2%	14.1%	16.6%	16.1%
NAV per equity share	42.0	42.4	44.9	47.8

Source: Company, ICICI Direct Research

**Exhibit 18: ICICI Direct AMC coverage universe (BFSI)**

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
HDFC AMC	2,295	2,500	Hold	48,872	59.2	58.8	67.5	38.7	39.0	34.0	12.1	10.5	9.1	0.4	0.4	0.4	31.3	26.9	26.8
Nippon AMC	273	300	Hold	16,747	6.7	8.8	10.9	40.5	31.2	25.1	6.3	5.9	5.5	0.2	0.2	0.2	15.5	19.0	22.1

Source: Company, ICICI Direct Research



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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

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