

Nippon Life Asset Management

BUY

CMP Rs273

Target 364

Upside 33%

Key highlights of Q2 FY21 performance

- ✓ **QAUM** – QAUM de-grew by 1% on YoY basis and grew by 11% on sequential basis. Even though share of Equity AUM declined by 400 bps on YoY basis, it improved by 100 bps on sequential basis. Pie of Debt AUM improved by 100bps both on YoY and sequential basis.
- ✓ **Revenue** – Management Fees was at Rs.2.6bn was lower than our estimates of Rs. 2.7bn. Management fees declined by 14% yoy and witnessed a growth of 11% on sequential basis.
- ✓ **Yield on Management fees** - The Yield on Management fees was 52bps, which was decline of 8bps YoY, against our estimate of 53bps.
- ✓ **Operating Profit** - Operating profit came at Rs. 1.36bn which was lower than our estimates of Rs. 1.45bn on back lower revenue. Expenses came in line with our estimates.
- ✓ **Profits** – PAT stood at Rs. 1.45bn v/s our estimates of Rs. 1.24bn led by higher other income.

Q2 FY21 results in line with estimates, attractively priced at FY23E P/E of 21.6x, Retain BUY

We remain positive on the stock considering our expectations of 1) strong equity market performance, 2) NAM gaining market share under the new promoters, 3) costs control will narrow down the financial performance gap when compared with peers, and 4) valuations are attractive at 21.6x FY23E earnings. Our estimates for FY21 have been raised by 10% mainly on the back of higher other income. We maintain our BUY rating.

Exhibit 1: Financial Summary

Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
AAUM	2,086,199	1,980,617	2,266,261	2,591,937
YoY Growth	-12.6%	-5.1%	14.4%	14.4%
Net Revenue	12,030	10,579	12,676	14,871
YoY Growth	-18.6%	-12.1%	19.8%	17.3%
Operating Profit	6,085	5,146	6,935	8,977
YoY Growth	12.9%	-15.4%	34.8%	29.4%
PAT	4,158	5,508	6,139	7,756
YoY Growth	-14.6%	32.5%	11.4%	26.3%
ROE	16.1%	20.6%	21.6%	25.8%
EPS	6.8	9.0	10.0	12.7
P/E	40.4	30.5	27.3	21.6
BV	42.4	45.1	47.6	50.7
P/BV	6.5	6.1	5.8	5.4

Source: Company, YES Sec – Research

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MANAGEMENT COMMENTARY

✓ Outlook and AUM

- Focus on ETF, AIF and other business avenues
- **Equity -**
- Performance of few funds has not been good but confident that with the initiatives like hiring of new fund manager, implementation of suggestions from Nippon Life Japan and realignment of portfolio shall yield results in coming few quarters.
- The Outflow has been constrained now. By then focus on cost rationalization and building the distribution channel. Once the inflows are back shall benefit in disproportionate manner.
- Flows in the industry – confident of flows coming back with markets almost close to new highs, trying to build distribution online channels, new NFOs multi asset and IT ETF has seen strong response
- Debt – Expect the move to be back to long term funds
- **SIP -**
- Earlier used to report the registered SIP, this time have disclosed the actual cash received through SIP.
- New SIP registered were 3,12,000 during the quarter.

✓ **POLIF and RPOLIF** – Rs. 50,000-60,000 cr will be added in AUM, 10% in Equity AUM and remaining in Debt AUM.

✓ Yields

- Equity and ETFs realization has remained consistent
- Debt realization declined due to shift of debt investment to short term funds from long term and Credit risk funds.
- Debt realization from 22bps have come to 20.5bps on sequential basis.

✓ Distribution

- Added 400 IFAs during the quarter with total base of 77,000
- Aim to get profitable growth, don't want to pay higher commissions
- Getting investors from 380 locations for the multi asset NFO is testimony to strong presence in B30 towns

✓ Cost

- 1/3rd of Employee cost is variable. Relative part of PLI shall be covered by ESOP so dependence on variable employee cost shall reduce. (Currently 15% company covered by ESOP)
- Lot of measures on expenses have been taken. It may not be the rock bottom and as business grows employee cost as % shall decline.
- Continue to work towards making the system more efficient so control admin expenses and improve operating margins.
- ESOP cost is coming down as it was higher in the initial years.

✓ **Other Income** - Other income is a function of Market performance. With market bouncing back majority of MTM loss booked in March 2020 has been reversed in H1FY21.

✓ **Others**

- Added 2,81,000 folios and onboarded 600+ institutions
- 1st Government Joint mandate to manage the investments of POLIF and RPOLIF for three years post change of ownership
- 48% purchase transaction through Digital mode.
- Continue to evaluate inorganic growth opportunities, acquisition or strategic partnerships, value accretive is the key, should add to profit or give competitive advantage, complementary to existing products not just MFs
- Board of directors have been strengthened

Exhibit 2: Result Table

	Q2FY21	Q2FY20	YoY	Q1FY21	QoQ	Q2FY21E
Revenue from operation	2,587	3,002	-14%	2,331	11%	2,676
As % of QAUM	0.52%	0.59%	-8bps	0.52%	0bps	0.53%
Fees and Commission	97	135	-29%	94	3%	60
As % of revenues	3.73%	4.51%	-77bps	4.02%	-28bps	2.25%
Employee Benefit	679	856	-21%	715	-5%	718
As % of revenues	26.3%	28.5%	-226bps	30.7%	-442bps	26.8%
Other Expenses	447	559	-20%	439	2%	447
As % of revenues	17.3%	18.6%	-134bps	18.8%	-152bps	16.7%
Total Expense	1,223	1,551	-21%	1,248	-2%	1,225
Operating Profit	1,363	1,451	-6%	1,084	26%	1,451
As % of QAUM	0.27%	0.29%	-1bps	0.24%	3bps	0.29%
As % of revenues	52.7%	48.3%	437bps	46.5%	622bps	54.2%
Other Income	637	224	185%	1,031	-38%	301
Finance cost	12	16	-28%	13	-7%	13
Depreciation	79	76	4%	105	-25%	110
Profit before Tax	1,910	1,583	21%	1,997	-4%	1,629
Tax Expense	457	216	112%	436	5%	391
Profit After Tax	1,452	1,367	6%	1,561	-7%	1,238
As % of QAUM	0.29%	0.27%	2bps	0.35%	-6bps	0.25%
As % of revenues	56.1%	45.5%	1061bps	67.0%	-1082bps	46.3%
QAUM	2,000,000	2,026,000	-1%	1,801,000	11%	2,007,959
QAUM Mix						
Equity	39%	43%	-400bps	38%	100bps	
Debt	30%	29%	100bps	29%	100bps	
Liquid	17%	14%	300bps	19%	-200bps	
ETFs	14%	14%	0bps	14%	0bps	
SIP Flows	6,200	7,600	-18%	6,700	-7%	
Channel Mix						
IFA's	54%	55%	-100bps	54%	0bps	
Banks	20%	25%	-500bps	28%	-800bps	
National Distributor	26%	20%	600bps	18%	800bps	
Retail share	26%	26%	0bps	24%	200bps	
Geographical Spread						
T-30	82%	80%	180bps	83%	-90bps	
B-30	18%	20%	-180bps	17%	90bps	

Source: Company, YES Sec – Research

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