



## 3R MATRIX

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

+ Positive = Neutral - Negative

## Reco/View

Reco: Buy	↔
CMP: Rs. 273	
Price Target: Rs. 345	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

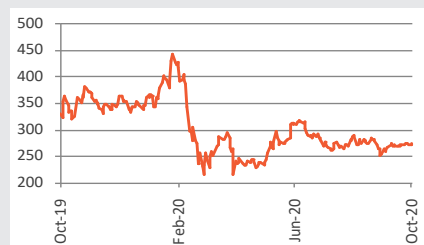
## Company details

Market cap:	Rs. 16,723 cr
52-week high/low:	Rs. 453/201
NSE volume: (No of shares)	11.9 lakh
BSE code:	540767
NSE code:	NAM-INDIA
Free float: (No of shares)	14.7 cr

## Shareholding (%)

Promoters	75.0
FII	6.5
DII	6.3
Others	12.2

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	3.8	-1.4	16.3	-15.5
Relative to Sensex	-2.9	-6.7	-9.9	-17.2

Sharekhan Research, Bloomberg

## Summary

- Nippon Life India Asset Management's (NAM's) Q2FY2021 results were encouraging with ahead of expectations operational numbers, helped by cost control and stable AUMs.
- The AUM decline trend seen in Q1 was arrested, which is encouraging. With MNC ownership, there is more stability and can result in improved global funds flow for NAM.
- We have fine-tuned our estimates for FY2021E and FY2022E and introduce FY2023E estimates in this note.
- We maintain our Buy rating on the stock with a PT of Rs. 345.

Nippon Life India Asset Management's (NAM's) Q2FY2021 results were encouraging. Operational numbers came above expectations, helped by cost control because of marginal increase in Assets Under Management (AUMs). The AUM decline trend seen in Q1 was arrested and AUM at Rs. 2,76,774 crore saw a marginal increase on q-o-q basis, which is encouraging. Quarterly average AUM came in at Rs. 2,00,030 crore, indicated improving traction. AUM performance is notable, especially given the recent pandemic impact, volatile capital markets, as well as specific events in the debt mutual funds impacting investor sentiment. NAM's focus on retail (especially with geographical diversification) continues; and as of September 2020, the company garnered AUM of Rs. 36,278 crore (13% of AUM) from 'Beyond the Top 30 cities' category. This segment forms 18.2% of NIMF's AUM vis-à-vis 16.1% 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. However, in the medium term, due to widespread cash flow impact and market performance due to the pandemic, we believe AUM growth and business mix for the medium term may be muted. We have fine-tuned our estimates for FY2021E and FY2022E and introduce FY2023E estimates in this note. We maintain our Buy rating on the stock with a price target (PT) of Rs. 345.

## Key Positives:

- Total operating and employee expenses fell by 20% and 21% YOY respectively indicating operating cost control.
- For the quarter ended September 30, 2020, NIMF is one of the largest ETF players with AUM of Rs. 28,579 crore and a market share of 13.5%. During the quarter, it added over 151,600 ETF folios in Q2 versus 97,600 in FY2020.

## Key Negatives:

- For Q2FY2020, equity assets contributed 39% to NIMF's AUM, down from 42% in Q4FY2020.

## Our Call

**Valuation:** NAM is currently available at reasonable valuations. We believe with gradual recovery in earnings cycle (with AUM growth and SIP flows normalising) once the pandemic and its impact settles in 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 and the MNC ownership can 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. 345.

## 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	1,512.9	1,739.8	2,053.0
Net Profit	487.1	415.8	588.6	661.0	782.0
EPS (Rs)	7.9	6.8	9.6	10.8	12.8
BVPS (Rs)	42.0	42.5	42.4	45.7	49.5
MCap / AUM (%)	7.2	7.9	7.8	6.8	5.7
Opex / AUM (%)	0.40	0.26	0.33	0.34	0.35
PE (x)	34.4	40.5	28.4	25.3	21.4
PBV (x)	6.5	6.4	6.4	6.0	5.5

Source: Company; Sharekhan estimates

Note: We now convert Nippon Life AMC into a Stock Update; It was earlier a 'Viewpoint' under our coverage.

## Key Concall Highlights

- ♦ **AUM update:** NIMF AAUM mix stood at equity, debt, liquid, and ETF, contributing 39%, 30%, 17%, and 14%, respectively.
- ♦ **AUM growth outlook:** Management has intention to grow AUM by way of improving service and launching new product rather than increasing commission to distributor.
- ♦ **Opex:** Going forward, employee cost is expected to fall further due to structure of employee cost, which is mixed of fixed cost, variable cost, and ESOP cost, which are arrived through Black & Scholes Model. As business improves, employees will opt for ESOP as a component of remuneration, leading to lower employee cost.
- ♦ **International inflows:** Pumping of AUM worth Rs. 50,000 crore-Rs. 60,000 crore from the international market will lead to topline growth. Equity AUM is likely to form 10% component of total AUM, while rest will be in the form of debt.
- ♦ **New appointments:** Appointment of new fund manager and independent director will be trigger growth momentum for the company's growth.
- ♦ **Business update:** For the quarter ended September 30, 2020, share of equity assets rose to 39% of NAM's AUM as against 38% for the quarter ended June 30, 2020.
- ♦ **Retail focus:** As on September 30, 2020, NAM has approximately 93 lakh investor folios, with an annualised systematic book of over Rs. 7,400 crore. Individual AUM was at Rs. 98,533 crore and contributed 49% to NAM's AUM.
- ♦ **AIF segment:** Nippon India AIF offers Category II and Category III Alternative Investment Funds and has a total commitment of approximately Rs. 3,400 crore (US\$ 458 million) across various schemes.
- ♦ **Rising digital reach:** For the quarter ended September 30, 2020, digital purchase transactions rose to 5 lakh (nos) - an increase of 31% as against quarter ended September 30, 2019. Digital channel contributed 48% to total new purchase transactions.
- ♦ **Expanding network strength:** Added 600+ institutional investors and over 281,000 retail folios. Moreover, the company added 384,000 ETF folios.
- ♦ **New initiatives:** NIMF completed one of the largest digital NFOs (Multi Asset Fund) in August, garnering over Rs. 700 crore. Further, NIMF expanded its product suite in the passive fund category and launched India's first IT ETF and Nifty small cap 250 Index Fund. The mandate to manage Post Office Life Insurance Fund (POLIF) and Rural Post Office Life Insurance Fund (RPOLIF) funds greatly enhances credibility across domestic and foreign investors.
- ♦ **Yields:** Equity realizations remained same as last year. However, product mix changed in the debt segment. Preference shifted to credit protect (short-term liquid schemes etc.) segment as the debt funds segment was impacted.
- ♦ **Steps to recovery:** Confident making some changes in processes in equity funds management, which will improve returns and consequently earnings. Feedback from Nippon Life Japan and addition of new fund managers etc. will help buoy the returns.
- ♦ **Employee cost:** Employee cost has been helpful, employee cost is one-third of total expenses. Earlier the company did not have ESOPs; and hence, the performance linked incentive (PLI) will be covered by ESOP going forward. Currently, the company is unable to assess the impact on employee compensation, but does not see material impact/rise going forward.
- ♦ **Distribution outlook:** Trying to build distribution capability, but focused on keeping costs low. Year 2018-2019 saw lot of outflows. Outflows have been able to be stemmed in. Once flows stabilise, the cost structure will stabilise too.
- ♦ **International inflow to AUM:** Gained Rs. 50,000 crore-60,000 crore AUM, 10% is equity, and rest is fixed income. Overall, Rs. 34 billion commitment is over the next 12 months. Funds will be at 1% fixed carry income.

**Results**

					<b>Rs cr</b>
<b>Particulars</b>	<b>Q2FY21</b>	<b>Q2FY20</b>	<b>YoY %</b>	<b>Q1FY21</b>	<b>QoQ %</b>
Revenue from Operations	240.5	283.6	(15.2)	215.4	11.7
Other Income	61.9	23.6	162.8	98.8	(37.3)
Total Revenue	302.4	307.1	(1.5)	314.2	(3.7)
Employee expenses	62.0	79.9	(22.4)	65.7	(5.6)
Other Expenses	43.9	52.8	(16.8)	44.5	(1.4)
EBITDA	196.6	174.5	12.6	204.0	(3.7)
Finance Cost	1.2	1.6	(28.4)	1.2	(6.5)
PBT	185.6	156.8	18.4	192.4	(3.5)
Tax	45.0	22.9	96.6	42.8	5.3
PAT	140.6	133.9	5.0	149.7	(6.1)

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 medium term may be muted. However, we believe long-term structural tailwinds continue and will manifest once the pandemic impact is normalised. We view the AMC industry to have a strong growth potential due to the above mentioned factors.

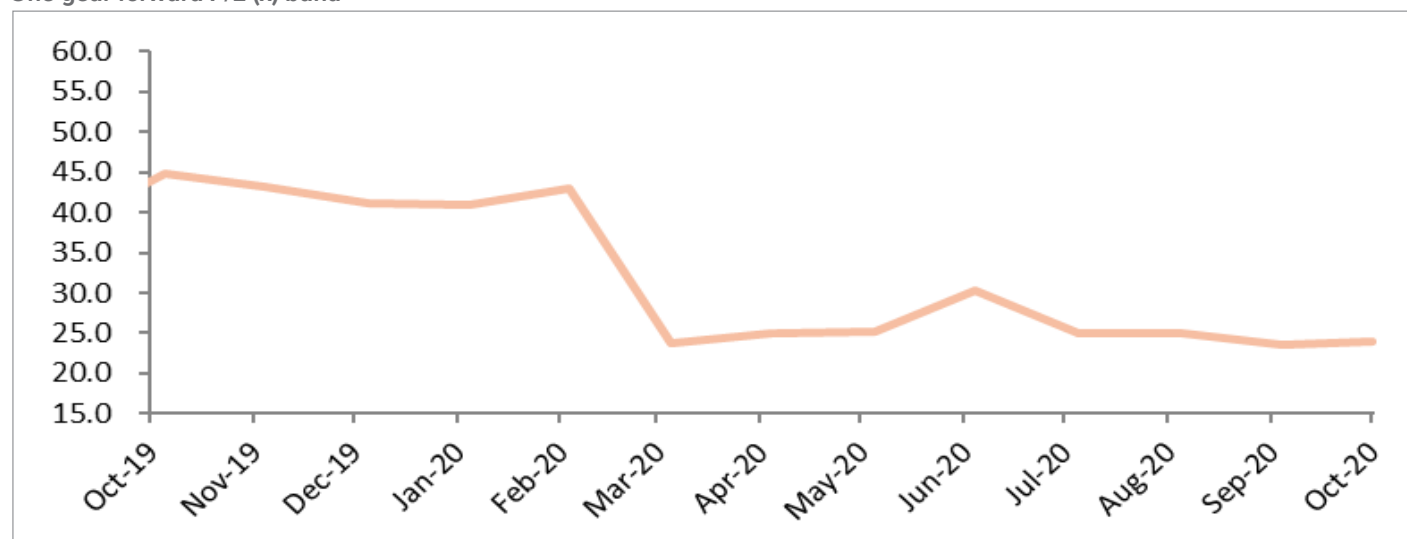
### ■ Company outlook - Strong fundamentals to sustain long term outlook

NAM has a strong retail base, which we believe is stickier as compared to high networth individuals (HNIs) and institutional clients. The retail segment's contribution to total AUM stood 26% for NAM (as against an industry average of 20%), which is a positive, as it 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. 345

NAM is currently available at reasonable valuations. We believe with gradual recovery in earnings cycle (with AUM growth and SIP flows normalising) once the pandemic and its impact settles in 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 and the MNC ownership can 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. 345.

#### 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	6.2	5.9	28.4	25.3	19.6	21.4
HDFC AMC	2300	10.6	9.4	38.0	33.0	30.32	30.35

Source: Company, Sharekhan Research

## About company

NAM had total AUM (India AUM) of ~Rs. 2.55 trillion, of which MF AUMs amount to Rs. 1,63,500 crore and managed accounts of Rs. 86,900 crore. NAM has strong SIP business, with 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 stabilised 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. Nilufer Shekhawat	Compliance Officer

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	INDUSIND BANK LTD	3.35
2	Baron Capital Inc	1.7
3	HDFC Asset Management Co Ltd	1.62
4	Reliance Capital Trustee Co Ltd	1.52
5	Nippon Life Insurance Co	1.21
6	IIFL SPECIAL OPPORT FUND	1.16
7	Valiant Mauritius Partners Ltd	1.07
8	Reliance Capital Ltd	0.93
9	Vanguard Group Inc/The	0.81
10	Motilal Oswal Asset Management Co	0.65

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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