



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	■	↔	■

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 353	
Price Target: Rs. 418	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 22,136 cr
52-week high/low:	Rs. 441 / 201
NSE volume: (No of shares)	9.8 lakh
BSE code:	540767
NSE code:	NAM-INDIA
Free float: (No of shares)	14.8 cr

Shareholding (%)

Promoters	75.8
FII	6.8
DII	6.6
Others	10.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.1	22.2	33.0	-8.3
Relative to Sensex	7.5	8.1	0.8	-42.3

Sharekhan Research, Bloomberg

Summary

- Nippon Life India Asset Management Company (NAM) has shown improved performance of its equity funds, stabilising SIP inflows, and concerns related to loss in market share, which seem to be left behind now.
- Moreover, efforts taken towards cost optimisation along with expected growth in AUM could result in operating leverage playing out and boosting return on equity (RoE).
- Given industry tailwinds, improving operational performance, and reasonable valuations (33x/28x its FY2022E/FY2023E EPS; On market cap to AUM basis, NAM at 7.6%, which is at a steep discount to 17% commanded by the industry leader); we see scope for further re-rating of the stock.
- Consequently, we maintain our Buy rating with a revised price target (PT) of Rs. 418.

Nippon Life India Asset Management Company (NAM) has shown improved performance of its equity funds, stabilising SIP inflows, and concerns related to loss in market share, which seem to be left behind now. Moreover, efforts taken towards cost optimisation along with expected growth in AUM could result in operating leverage playing out and boosting return on equity (RoE). NAM saw 9MFY2021 operating expense decline by 22% y-o-y, along with improvement in branch productivity and profitability, which are positive indicators. While some mean reversion is likely in costs, we believe helped by improved equity scheme performance, AUM growth can provide significant operating leverage benefits for NAM, which can lead to RoE expansion. Buoyant markets and stabilising SIP inflow can help the company to finally get out of months of continuous net outflows in equity funds and resume to better overall AUM growth. An MNC ownership offers a strong growth potential for NAM's offshore business. Management indicated that there is potential for significant growth, which can also add to operating leverage benefits. We believe due to its granular nature, SIP contribution is a good proxy for investor traction for the AMC industry. Hence, SIP contribution, which was coming down since the latter months of CY2020, has now seen a pickup in December 2020 and January 2021 and is a positive for the AMC industry. We expect AUM recovery to gain pace going forward, helped by market performance and economic recovery being key triggers. Due to better infrastructure, leverage benefits, and brand image, we expect larger players in the AMC space to benefit disproportionately from improving AUM momentum. We are positive on the long-term prospects of the AMC business and see a long runway for growth due to structural factors. Going forward, we believe with traction on AUM and scale benefits, operating ratios are likely to improve, which will aid to RoE expansion. We see scope for further re-rating and closing of valuation gap with peers for the stock. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 418.

Our Call

Valuation: NAM is currently available at reasonable valuations of 33x/28x its FY2022E/FY2023E EPS, which are still at a significant discount to the listed industry leader. Comparing the market cap to AUM basis, the company is available at 7.6% (lower than industry leader, which is at ~17%) and has, therefore, head room available. Going forward, industry tailwinds and upside benefits from offshore money inflow (helped by MNC owner) can be growth drivers for the company. The change in ownership has helped and can potentially result in improved global funds flow for the AMC. 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 positives for the long term. We believe factors such as improving cost optimisation and operating leverage benefits (due to AUM growth) can result in improvement in RoE, which will be further triggers for re-rating for the stock. We recommend Buy on the stock with a revised PT of Rs. 418.

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

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 (%)	9.2	10.3	10.1	8.8	7.4
Opex / AUM (%)	0.40	0.26	0.33	0.34	0.34
PE (x)	44.5	52.4	36.7	32.7	27.6
PBV (x)	8.4	8.3	8.3	7.7	7.1

Source: Company; Sharekhan estimates

NAM has shown improvement in the performance of its equity funds

The investment performance are key criteria. While last year due to the pandemic and market volatility the investment performance was muted, of late the recent rally in the market has helped in significant improvement in performance for NAM. Consequently, several top equity funds of NAM have shown healthy returns, which will be seen as a positive for inflows going forward.

Key funds of NAM have shown improved performance

	Fund Returns			Rank within category			No of Funds in the Category			Quartile Rank		
	3mths	6mths	1 yrs	3mths	6mths	1 yrs	3mths	6mths	1 yrs	3mths	6mths	1 yrs
Nippon India Large Cap	19.1	37.2	31.1	3	7	52	70	67	65	1	1	4
Nippon India Growth	21.0	40.6	40.2	11	11	20	27	27	26	2	2	4
Nippon India Multicap Fund	26.9	45.5	31.7	1	1	1	11	11	11	1	1	1
Nippon India Tax Saver (ELSS) Fund - Direct Plan	22.0	42.4	32.3	3	4	22	38	38	38	1	1	3

Note: As on 04-Mar-2021

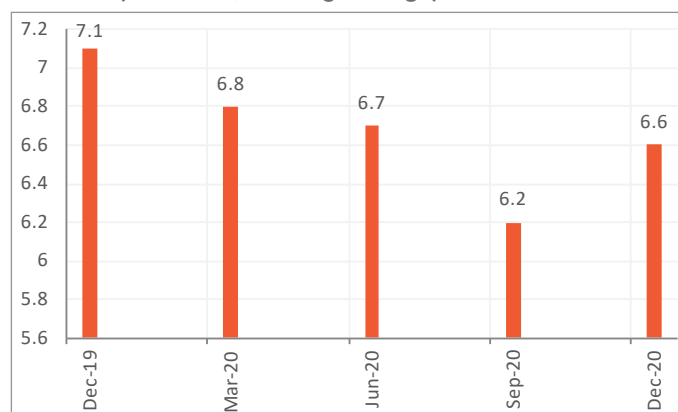
Source: Value Research online, Sharekhan Research

We believe larger players such as NAM will be able to gain higher share in incremental flows if they are able to sustain short-term outperformance.

SIP inflows are stabilising for NAM; Concerns related to loss in market share seem to be left behind now

Monthly SIP flows for NAM seem to have stabilised, which we believe are positive indicators for the company, after a sustained decline seen over the past several quarters.

SIP flows (Rs. billion; monthly average) for NAM



Source: Company, Sharekhan Research

Calculated Market share of HDFC AMC, NAM AMC (on Total AUM basis)

Particulars	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
HDFC AMC AUM	366200	368900	319100	357500	354400	406800
HDFC AMC Mkt Share	14.9%	13.8%	11.8%	14.5%	13.2%	13.1%
NAM AUM	1,88,600	1,99,700	1,84,700	1,90,600	1,99,300	2,21,300
NAM Mkt Share	7.7%	7.5%	6.8%	7.7%	7.4%	7.1%

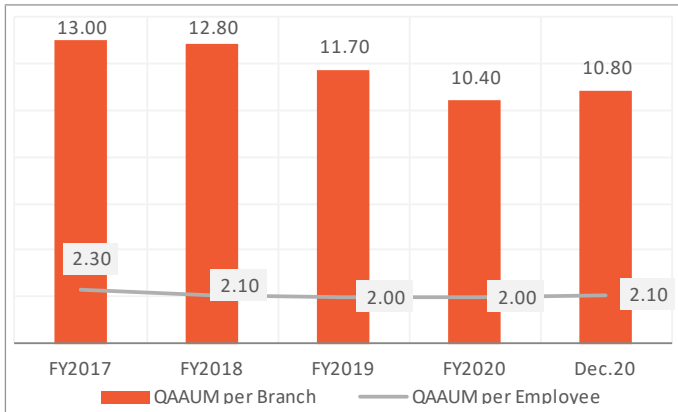
Source: AMFI, Sharekhan Research

The calculated market share for NAM (calculated on total AUM basis) has increased from the lows of Q4 and is presently at ~7% overall.

Cost optimisation along with expected growth in AUM could result in operating leverage benefits and RoE expansion

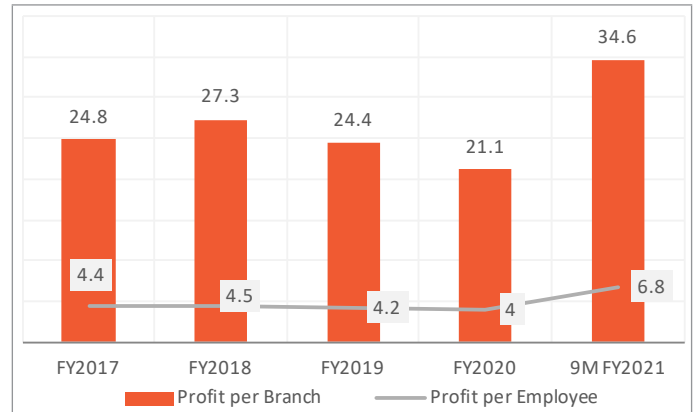
Compared to last year, NAM's opex is significantly down during the current year and the company saw 24% savings in terms of its expenses as against the corresponding 9MFY2020 period. Working towards improving its operating efficiencies, we believe 9M figures on opex and business traction per branch basis are encouraging indicators.

Turnaround in Branch Productivity



Source: Company, Sharekhan Research

Improving operating metrics



Source: Company, Sharekhan Research

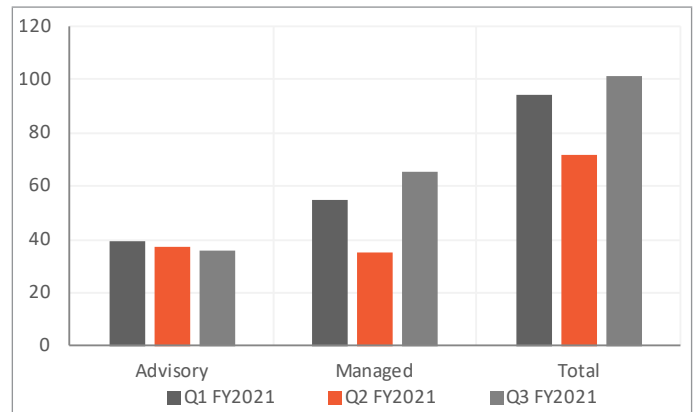
Notably, expenses are predominantly fixed in nature (across employee benefit expenses and other administrative expenses, including rent and other utility expenses of the branches) while the variable expenses, related to schemes, are now part of the scheme expense. So largely, since these are now fixed expenses and management has indicated that it does not see any significant growth in these numbers, even post opening up of the economy or post COVID. In smaller cities and towns, the company is not opening new branches as of now.

NAM's offshore business looking up, potential for lot more

Post consolidation in the past three years, NAM expects to grow its existing funds and expand into further categories in the AIF and PMS segments. From October 2020, NAM India has begun to manage Post Office Life Insurance and Rural Post Office Life Insurance's funds. With this mandate, we manage assets of over Rs. 1,200 billion on account of government mandates.

The offshore business has assets of Rs. 102 billion under management and advisory, and about 50% would be from Nippon and 50% would be others. Management indicated that there were various initiatives taken, which have been taken with Nippon, which will show results in times to come. Leveraging Nippon Life's global network, the company expects to ramp up its international presence further in the coming years.

Offshore business looking up, potential for lot more

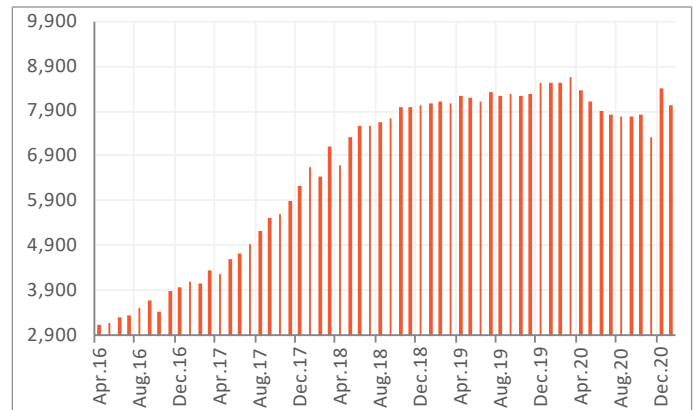


Source: Company, Sharekhan Research

Industry scenario

Systematic Investment Plan or SIP, as it is commonly known, is an investment plan (methodology) offered by mutual funds (MF), wherein one could invest a fixed amount in a mutual fund scheme periodically at fixed intervals with a small instalment size (can be as small as Rs. 500 per month) and is similar to a recurring deposit where you deposit a small/fixed amount every month.

SIP contribution picks up

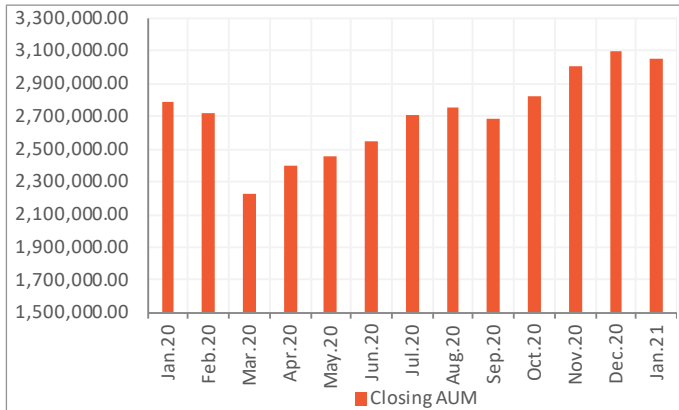


Source: Company, Sharekhan Research

Due to the flexibility, small ticket size and convenience, SIP method has been gaining popularity among Indian MF investors, as it helps in rupee cost averaging and in investing in a disciplined manner without worrying about market volatility and timing the market.

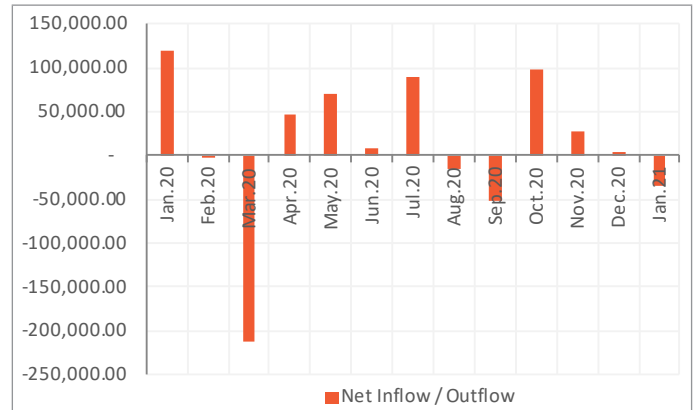
Therefore, we believe SIP contribution is a good proxy for investor traction for the AMC industry. As seen above, SIP contribution, which was coming down since the latter months of CY2020, has now seen a pickup in December 2020 and January 2021, which indicates a healthy trend for the AMC industry.

Total AUM Trajectory of the Industry



Source: AMFI, Sharekhan Research

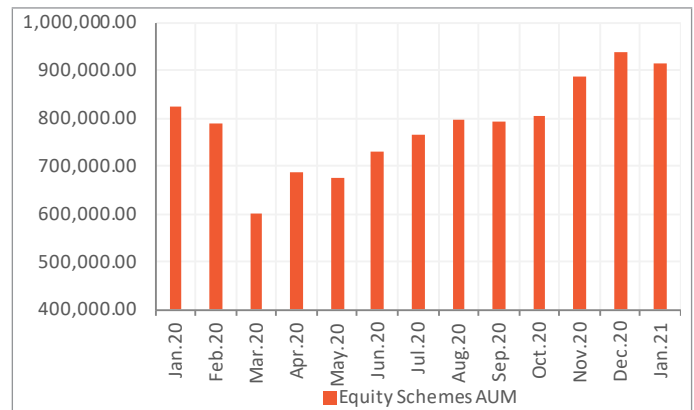
Total AUM Net Inflow Trajectory of Industry



Source: AMFI, Sharekhan Research

MF industry's total AUM decreased by 1.7% m-o-m to Rs 30.5 trillion in January 2021, weighed down by liquid funds and equity funds. The overall AUM picture is a cumulative of the inflows (or outflows) and scheme performance (market price appreciation). This explains the individual level higher equity AUMs for the past two quarters. Overall, the AMC industry has seen net outflows (especially in the equity segment since the last seven months). We believe one can assume a similar picture for individual AMCs as well.

Equity AUM Trajectory of the Industry

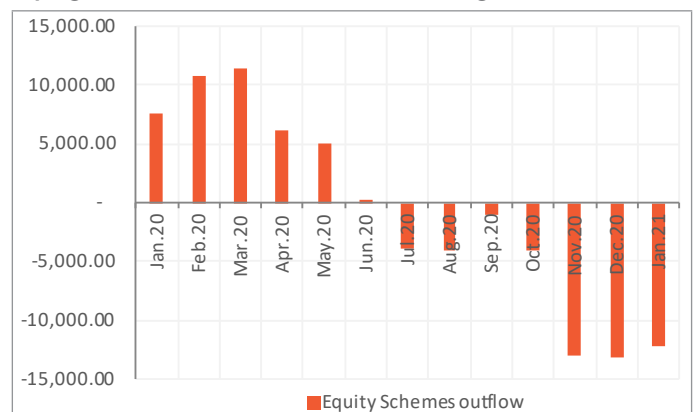


Source: AMFI, Sharekhan Research

However, seen on inflows/outflows basis, we see during the past seven months, the equity segment has seen net outflows for the past seven months.

Going forward, we believe with improving economic scenario, AUM outflow should bottom out helped by healthy market performance, which generally reflects after a lag.

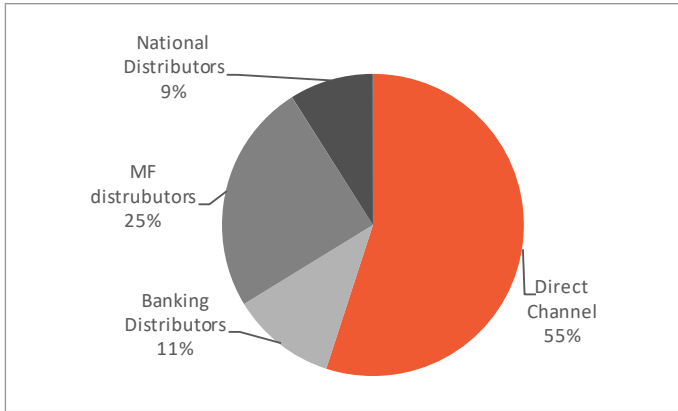
Equity AUM inflow / Outflow of the Industry



Source: AMFI, Sharekhan Research

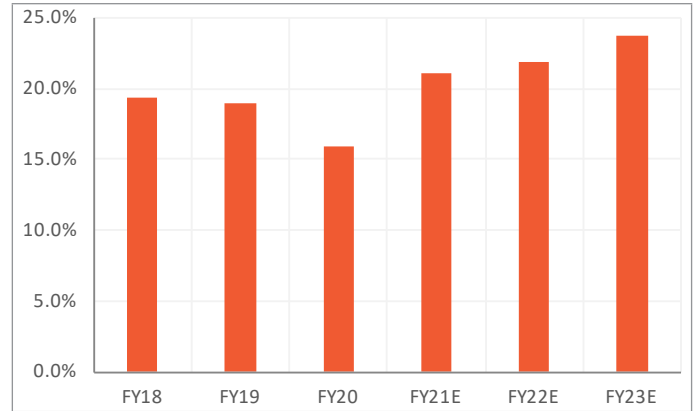
Financials in charts

NAM Distribution Mix



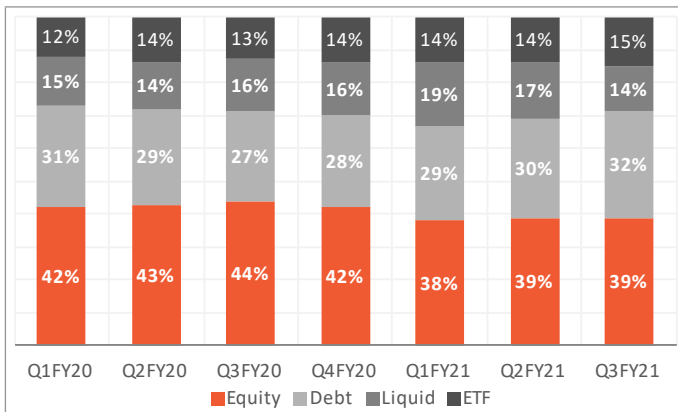
Source: Company, Sharekhan Research

RoE trajectory



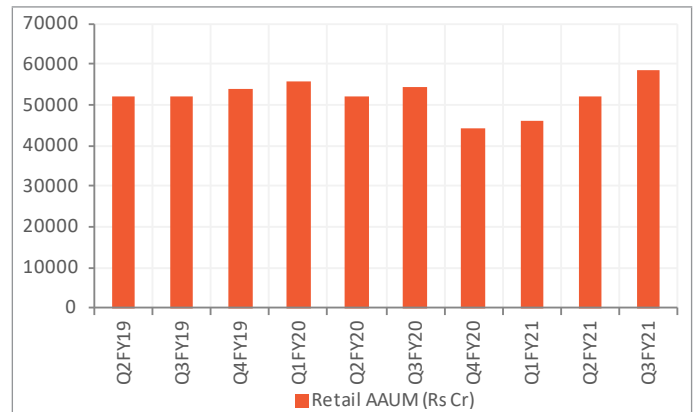
Source: Company, Sharekhan Research

Breakup of MF Assets



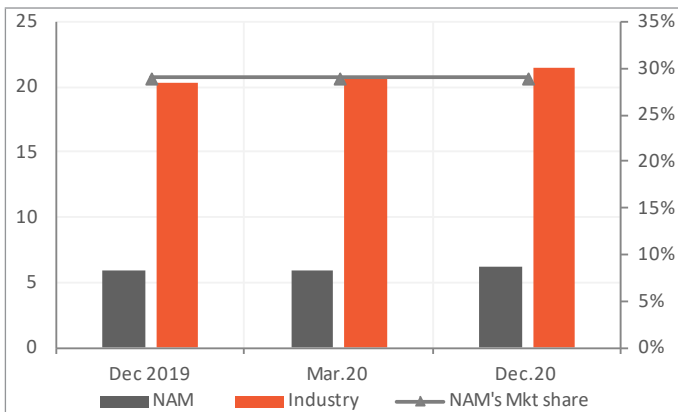
Source: Company, Sharekhan Research

Retail AAUM trajectory



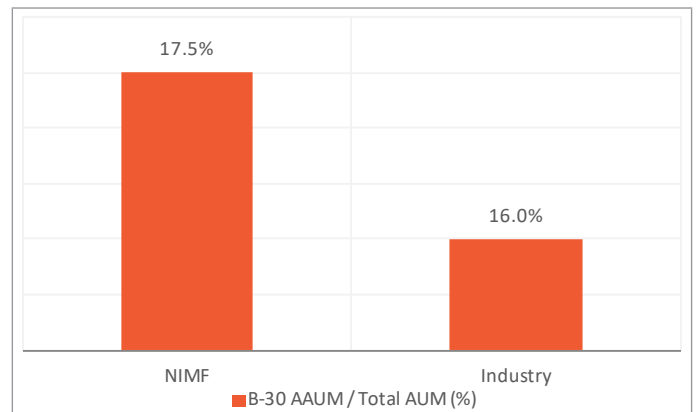
Source: Company, Sharekhan Research

Unique Investors investing with NAM, Industry



Source: Company, Sharekhan Research

Higher AUM sourced from B30 locations



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Long-term structural demand for the sector

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. The monthly industry data (while it was strong for December) saw some tempering down for January, indicating that while the trajectory is positive, it is not yet a straight path. That said, we believe long-term structural tailwinds continue, which will benefit strong players with a strong retail distribution base. We believe the AMC industry has a strong growth potential due to the above-mentioned factors.

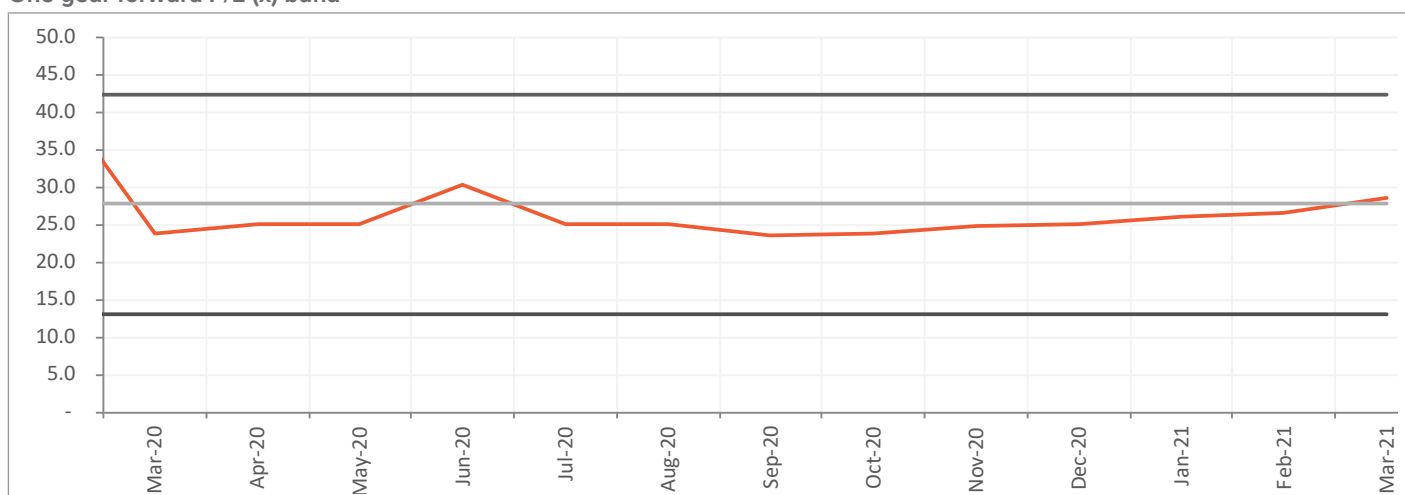
■ Company outlook - Strong fundamentals to sustain long-term outlook

NAM has a strong retail base, which we believe is stickier as compared to high net worth individuals (HNIs) and institutional clients. NAM has a higher number of branches/distributors as compared to peers (HDFC AMC and UTI AMC), which is a strong positive for the company's retail growth prospects. Moreover, while NAM traditionally had an asset mix with higher proportion of debt (FY2017: 49%) and institutional investors (FY2017: 58%) portions, since the last year the mix is changing (due to industry wise and company-specific reasons) towards individual and equity, which we believe is a positive as it is a higher yielding and sticky clientele. The company also has lower concentration risk as no distributor has more than 5.3% contribution in AUM. The top AMCs are expected to gain disproportionately due to their strong distribution network and brand reputation in a normalised course of business. We believe AUM growth and business mix will gradually improve as the pandemic's impact subsides and business fundamentals, operating leverage benefits, and benefits of traction from the foreign ownership start to show.

■ Valuation - Maintain Buy, with a revised PT of Rs. 418

NAM is currently available at reasonable valuations of 33x/28x its FY2022E/FY2023E EPS, which are still at a significant discount to the listed industry leader. Comparing on mcap to AUM basis, the company is available at 7.6% (lower than industry leader which is at ~17%) and has, therefore, head room available. Going forward, industry tailwinds and upside benefits from offshore money inflow (helped by MNC owner) can be growth drivers for the company. The change in ownership has helped and can potentially result in improved global funds flow for the AMC. 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 positives for the long term. We believe factors such as improving cost optimisation and operating leverage benefits (due to AUM growth) can result in improvement in RoE, which will be further triggers for re-rating for the stock. We recommend Buy on the stock with a revised PT of Rs. 418.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoE (%)	
	Rs/Share	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Nippon Life India Asset Management Ltd	353	8.1	7.7	36.8	32.7	19.6	21.4
HDFC AMC	3141	14.5	12.6	50.3	43.0	30.74	30.8

Source: Company, Sharekhan research

About company

Nippon Life India Asset Management Limited is one of the top 10 asset managers in India, managing (directly and indirectly) assets across mutual funds, including Exchange Traded Funds, managed accounts, including portfolio management services, alternative investments funds and pension funds; and offshore funds and advisory mandates. NAM India is the asset manager of Nippon India Mutual Fund's schemes. It also acts as an advisor for India focused equity and fixed income funds in Japan (launched by Nissay Asset Management) and in Thailand (launched by BBL Asset Management). It also manages offshore funds through its subsidiaries in Singapore and Mauritius and has representative office in Dubai, thereby catering to investors across Asia, Middle East, UK, US, and Europe. NAM had total AUM (India AUM) of ~Rs. 3.5+ trillion and a strong SIP business (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 largely been able to maintain its position in the top six players, consistently over the years despite change in business mix. 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. We believe growth visibility is gradually improving, helped by market performance and pandemic impact abating, but a straight path is yet to emerge. We believe the company is well placed to ride over medium-term challenges and benefit from the long-term structural opportunity for the AMC sector. 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 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.

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. Muneesh Sud	Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	INDUSIND BANK LTD	3.3
2	Baron Capital Inc	1.8
3	HDFC Asset Management Co Ltd	1.7
4	HDFC Trustee Co Ltd	1.6
5	Nippon Life India Asset management	1.5
6	IIFL SPECIAL OPPORT FUND	1.2
7	Valiant Mauritius Partners Ltd	1.1
8	Nippon Life Insurance	0.9
9	Vanguard Group Inc/The	0.8
10	Motilal Oswal Asset Management Co	0.7

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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