

## Focus on client accretion, product mix to aid growth...

Nippon Life AMC posted a steady operational performance with sequential improvement in topline and pick-up in AUM growth.

Revenue from operations was up 12.5% QoQ, 10.0% YoY to ₹ 302 crore on the back of improved revenue yields, which were up 3 bps QoQ to 0.53% of AUM. Revenue yields improved QoQ as proportion of equity AUM increased. Other income was at ₹ 60 crore vs. ₹ 130 crore QoQ and MTM loss of ₹ 125 crore YoY. Opex to AUM increased marginally from 24 bps to 25 bps both on QoQ and yearly basis, primarily driven by 41% rise in other expenses mostly related to investment in technology and digital infrastructure. PAT fell 21% QoQ to ₹ 166 crore due to volatile other income despite steady operational revenue.

Industry AUM increased from ₹ 31 lakh crore as of Q3FY21 to ₹ 31.4 lakh crore as on Q4FY21, largely led by pick up in equity markets and offset by outflow in debt segment. Equity related AUM increased 6.5% QoQ at ₹ 13 lakh crore. Proportion of equity AUM was at 41% vs. 39% QoQ. Debt schemes witnessed outflow thereby declining ~4% QoQ. SIP inflows increased QoQ from ₹ 8400 crore to ₹ 9200 crore.

For Nippon AMC, QAAUM increased 11.6% YoY, 7.3% QoQ to ₹ 2.28 lakh crore. Healthy rise in AUM was driven by 12.8% QoQ uptick in equity AUM. Equity contribution to total AUM increased from 39% to 41% QoQ. AUM in liquid schemes saw decline of 8% QoQ and 16% YoY. MTM gains and increased institutional flows aided AUM growth. The company managed to arrest quantum of fall in market share in equity segment, which declined marginally by 4 bps to 6.95% QoQ while debt AUM market share was down 6 bps QoQ to 6.49%.

Monthly SIP flows have been steady on a QoQ basis at ₹ 660 crore while the annualised book was at ₹ 7900 crore. Digital contribution towards new SIP was at 59%.

## Valuation & Outlook

Focus on passive segment through ETF (market share of 13%) with substantial market share in terms of number of investor folios and volume on exchange (~72% market share in volume) provides advantage in AUM growth, though profitability remains low. Robust client accretion led by strong distribution and digital focus remains positive for traction in AUM ahead. Focus on non MF segment through managed AUM of ₹ 1.26 lakh crore to support revenue and earnings. Sebi came out with a circular stating 20% of compensation of key employee of AMC to be paid in terms of MF units. Implementation of circular in its existing forms could lead to higher expense but clarity is awaited. We continue to remain positive on the business model and expect earnings to grow at 7% CAGR in FY21-23E to ₹ 763 crore. Consequently, we value the business at ~7.6% of FY23E MF AUM and revise our target price ₹ 360 (earlier ₹ 300). We maintain HOLD.



### Particulars

	Amount
Market Capitalisation	₹ 21032 crore
Networth	₹ 3100 crore
52 week H/L	374/220
Face Value	₹ 10
DII Holding (%)	5.92
FII Holding (%)	6.7

### Key Highlights

- Revenue yield improved from 50 bps to 53 bps QoQ
- Equity AUM contribution was higher at 41% versus 39% QoQ
- Monthly SIP book inflows remained steady at ₹660 crore
- Maintain HOLD with revised target price of ₹ 360

### Key risks

- Impact of pandemic may lead to volatility in markets and, thus, may impact business performance
- Increased equity AUM may boost profitability ahead of expectations

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## Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Profit (₹ crore)	486	415	679	686	778	7%
EPS (₹)	7.9	6.8	11.1	11.2	12.7	7%
P/E (x)	42.7	50.0	30.5	30.3	21.5	
AUM /share (₹)	3817	3347	3624	4167	4750	
P/AUM (%)	8.9	10.1	9.4	8.1	5.7	
DPS (₹)	6.0	5.0	8.0	8.1	9.2	
RoE (%)	19.2	14.1	18.7	15.9	15.3	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

₹ crore	Q4FY21	Q4FY20	YoY	Q3FY21	QoQ	Comments
Revenue from Operations	301.9	274.5	10%	268.46	12%	Steady rise helped by rise in revenue yields
Revenue/AUM	0.01	0.01	-1.4bps	0.01	4.8bps	
Other Income	60.06	-124.94	-148%	130.38	-54%	YoY higher as previous quarter had MT loss
Net Total Income	361.96	149.56	142%	398.84	-9%	
Staff Cost	65.39	52.87	24%	66.5	-2%	
Other Operating Expenses	78.7	69.34	13%	63.8	23%	Increased due to technology related expense
Total Expenses	144.09	122.21	18%	130.3	11%	
PBT	217.87	27.35	697%	268.54	-19%	
Tax Outgo	51.36	23.22	121%	56.99	-10%	
PAT	166.51	4.13	3932%	211.55	-21%	Sequential decline due to volatile other income
MF- AAUM	228600	204884	12%	213000	7%	Pick up in growth driven by MTM gain and institutional flows

Source: Company, ICICI Direct Research

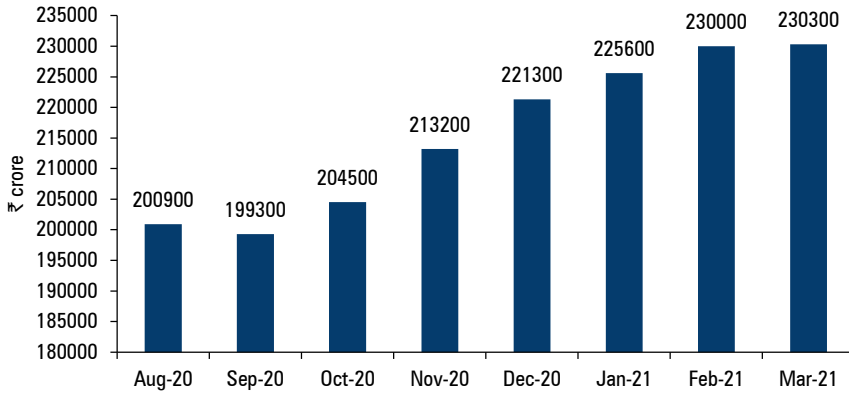
**Exhibit 2: Change in Estimates**

(₹ crore)	FY22E			FY23E
	Old	New	Change %	Introduced
Revenue from Operations	1308.8	1239.5	-5%	1380.2
PBT	912.8	920.5	1%	1043.7
PAT	680.0	685.8	1%	777.6
EPS (₹)	11.1	11.2	1%	12.7

Source: Company, ICICI Direct Research

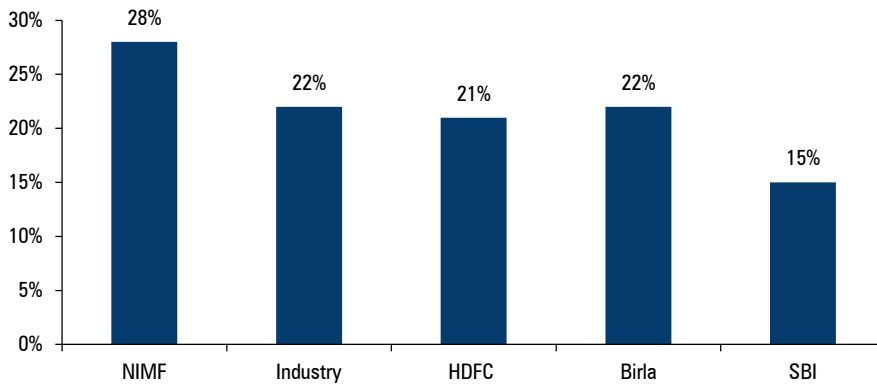
## Snapshot of company

Exhibit 3: Pick-up in MAAUM growth



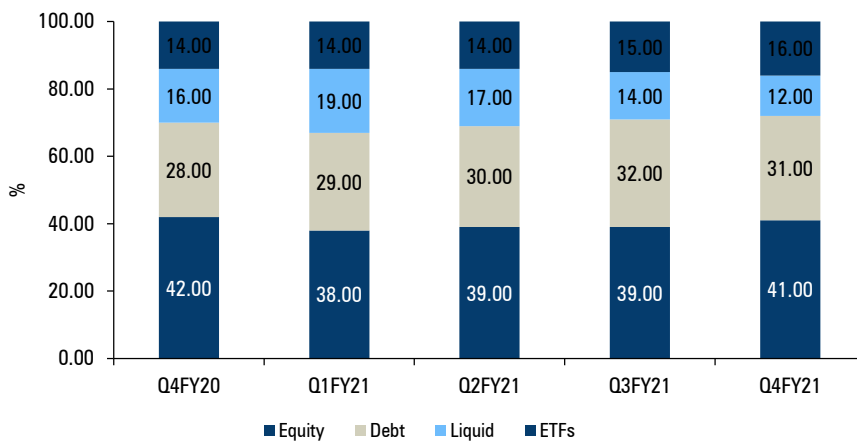
Source: Company, ICICI Direct Research

Exhibit 4: Retail AUM contribution higher than industry



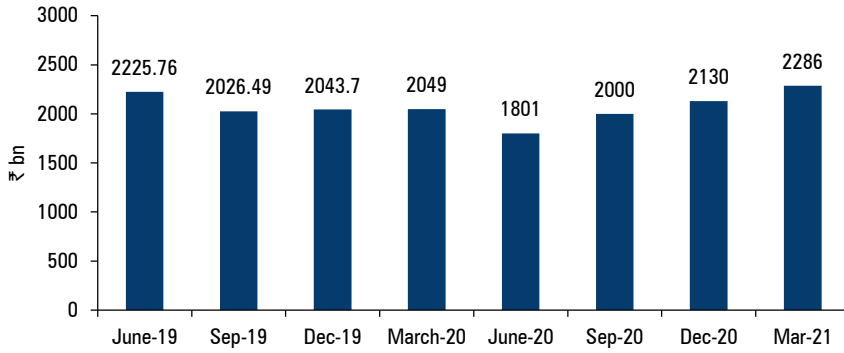
Source: Company, ICICI Direct Research

Exhibit 5: AUM break-up



Source: Company, ICICI Direct Research

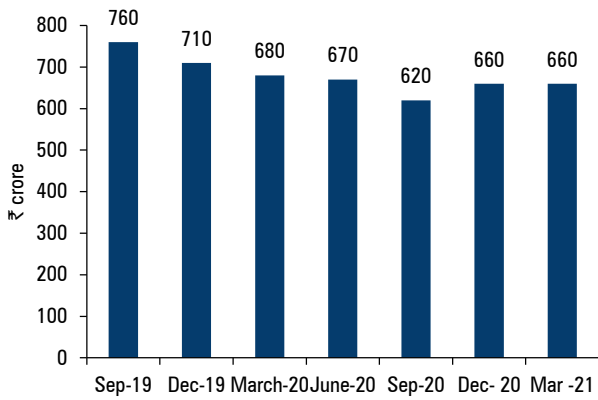
Exhibit 6: NIFM AAUM quarterly trend



Source: Company, ICICI Direct Research

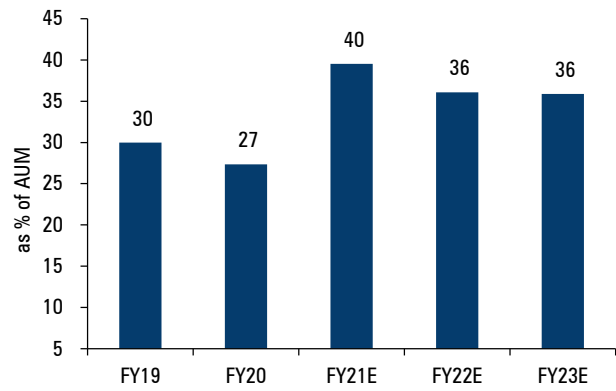
Direct Research

Exhibit 7: Steady SIP flows



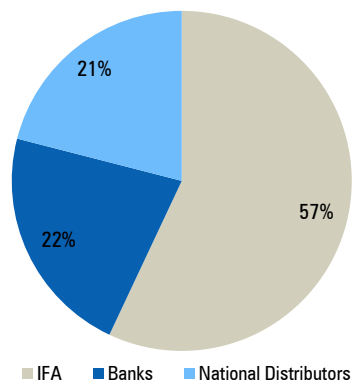
Source: Company, ICICI Direct Research

Exhibit 8: PBT/AUM



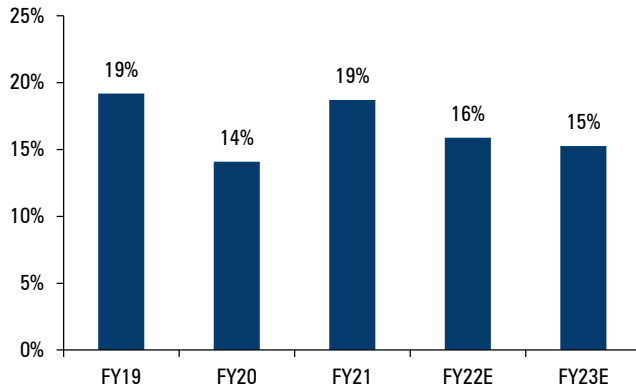
Source: Company, ICICI Direct Research

Exhibit 9: Distribution channel as of Q4FY21



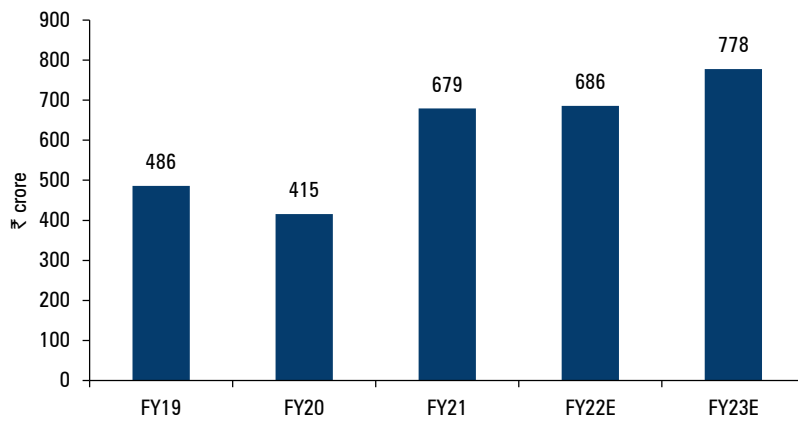
Source: Company, ICICI Direct Research

Exhibit 10: RoE trajectory



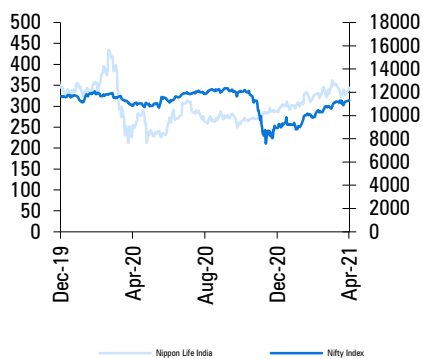
Source: Company, ICICI Direct Research

Exhibit 11: PAT to improve gradually



Source: Company, ICICI Direct Research

Exhibit 13: Price Performance



Source: Company, ICICI Direct Research

**Exhibit 14: Revenue and expense structure**

(₹ crore)	FY19	FY20	FY21	FY22E	FY23E
Investment Management Fees	1,398	1,173	1,023	1,197	1,334
Portfolio Management Fee & Other Advisory Servi	81	30	39	42	46
<b>Revenue from Operations</b>	<b>1,479</b>	<b>1,203</b>	<b>1,062</b>	<b>1,240</b>	<b>1,380</b>
Other Income	171	(10)	357	220	220
<b>Total Revenue</b>	<b>1,650</b>	<b>1,193</b>	<b>1,419</b>	<b>1,460</b>	<b>1,600</b>

(₹ crore)	FY19	FY20	FY21E	FY22E	FY23E
Brokerage / Incentives / Fees / Mutual Fund expe	258	71	43	33	39
Business Promotion	98	54	59	65	71
Rent	26	1	1	1	1
Printing & Courier	1	3	3	3	4
Others	263	170	131	122	110
<b>Total Other expense (including fees)</b>	<b>646</b>	<b>298</b>	<b>238</b>	<b>224</b>	<b>225</b>

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 15: Profit & Loss statement

(₹ crores)	FY19	FY20	FY21	FY22E	FY23E
Revenue from Operations	1,478.5	1,203.1	1,062.1	1,239.5	1,380.2
Growth (%)	-7.1%	-18.6%	-11.7%	16.7%	11.3%
Other Income	171.3	(9.8)	357.2	220.0	220.0
<b>Total Revenue</b>	<b>1,649.8</b>	<b>1,193.3</b>	<b>1,419.3</b>	<b>1,459.5</b>	<b>1,600.2</b>
Employee Benefit Expenses	293.5	302.4	271.3	281.6	298.0
Depreciation & Amortization Expense	10.1	32.6	33.3	33.3	33.3
Other Expenses (incl fees)	646.0	297.9	237.7	224.1	225.2
<b>Total Expenses</b>	<b>949.6</b>	<b>632.9</b>	<b>542.3</b>	<b>539.0</b>	<b>556.5</b>
Profit Before Tax	700.2	560.4	877.0	920.5	1,043.7
Taxes	214.5	145.0	197.6	234.7	266.1
Profit After Tax	485.7	415.4	679.4	685.8	777.6
EPS (₹)	7.94	6.79	11.10	11.20	12.70

Source: Company, ICICI Direct Research

### Exhibit 16: Balance sheet

(₹ crores)	FY19	FY20	FY21	FY22E	FY23E
<b>Sources of Funds</b>					
Share capital	612.0	612.1	616.5	616.5	616.5
Reserves and surplus	1958.0	1980.9	2484.4	2675.9	2893.0
<b>Total Equity</b>	<b>2570.0</b>	<b>2593.1</b>	<b>3100.9</b>	<b>3292.4</b>	<b>3509.5</b>
<b>Trade payables</b>					
	47.4	67.7	62.9	66.0	69.3
<b>Others</b>					
	158.5	220.1	228.5	251.4	276.5
<b>Total Liabilities + Equity</b>	<b>2775.8</b>	<b>2880.8</b>	<b>3392.2</b>	<b>3609.7</b>	<b>3855.3</b>
<b>Applications of Funds</b>					
Property, plant and equipment	12.5	11.2	12.1	12.1	12.1
Intangible assets	243.6	314.4	290.0	290.0	290.0
Cash and bank balance	30.0	463.3	360.6	403.9	452.3
Investments	1290.0	1884.6	2550.0	2672.9	2851.1
Receivables	102.6	59.3	45.9	45.9	45.9
Deferred tax assets (net)	0.0	0.7	0.0	0.0	0.0
Others	1097.2	147.3	133.7	185.0	203.9
<b>Total Assets</b>	<b>2775.8</b>	<b>2880.8</b>	<b>3392.2</b>	<b>3609.7</b>	<b>3855.3</b>

Source: Company, ICICI Direct Research

### Exhibit 17: Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
<b>Valuation</b>					
No of Equity shares (crore)	61.2	61.2	61.2	61.2	61.2
EPS	7.9	6.8	11.1	11.2	12.7
DPS	6.0	5.0	8.0	8.1	9.2
BVPS	42.0	42.4	50.7	53.8	57.3
P/E	42.7	50.0	30.5	30.3	26.7
P/BV	8.1	8.0	6.7	6.3	5.9
<b>Operating Ratios (%)</b>					
Rev/AUM	0.3	0.4	0.3	0.3	0.3
EBITDA/AUM	0.1	0.2	0.2	0.3	0.3
PAT/AUM	0.1	0.1	0.3	0.3	0.3
<b>Return Ratios (%)</b>					
RoNW	19.2%	14.1%	18.7%	15.9%	15.3%
NAV per equity share	42.0	42.4	50.7	53.8	57.3

Source: Company, ICICI Direct Research

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

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoAUM (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HDFC AMC (HDFAMC)	2,685	3,000	Hold	610	62.2	68.7	77.1	43.2	39.1	34.8	12.0	10.4	9.0	0.3	0.3	0.3	27.8	26.6	26.0
Nippon AMC (RELNIP)	339	360	Hold	211	11.1	11.2	12.7	30.5	30.3	26.7	6.7	6.3	5.9	0.3	0.3	0.3	18.7	15.9	15.3

Source: Company, ICICI Direct Research



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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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Buy: >10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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