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Nippon Life India Asset Management Limited

Positive performance

Banks & Finance	Sharekhan code: NAM-INDIA	Result Update

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. 341**	
Price Target: **Rs. 418**	⇔

↑ Upgrade ⇔ Maintain ↓ Downgrade

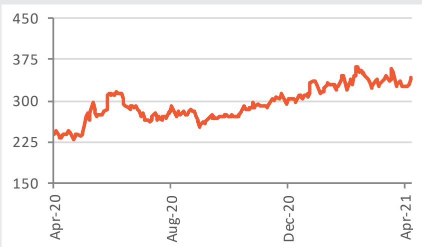
Company details

Market cap:	Rs. 21,032 cr
52-week high/low:	Rs. 374 / 220
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	74.5
FII	5.9
DII	6.6
Others	13.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.3	7.3	25.1	43.7
Relative to Sensex	1.8	1.2	0.5	-8.3

Sharekhan Research, Bloomberg

Summary

- Nippon Life Asset Management's (NAM) results for Q4FY2021 were largely in line with expectations and rise in equity AUM is encouraging.
- Healthy traction seen, with QAAUM up by 7% q-o-q and 11.6% y-o-y, driven by 19% y-o-y growth in debt AUM and equity AUM grew by 9% y-o-y and 13% q-o-q.
- Given industry tailwinds, improving operational performance, and reasonable valuations 31.6x/26.7x its FY2022E/FY2023E EPS; On market cap to AUM basis, NAM at 7.6% is at a discount to ~14% commanded by industry leader and we see scope for further re-rating of the stock.
- We maintain our Buy rating with an unchanged PT of Rs. 418.

Nippon Life Asset Management's (NAM) results for Q4FY2021 were largely in line with expectations and rise in equity assets under management (AUM) is encouraging. Total revenue came at Rs. 361.96 crore, up by 142% y-o-y and flat q-o-q, in line with expectations. QAAUM grew by 7% q-o-q and 11.6% y-o-y, driven by 19% growth in debt AUM. Equity AUM grew 9% y-o-y and 13% q-o-q. Operating expenses increased by 21% y-o-y, largely driven by investment in digital infrastructure and higher employee expenses. For Q4FY2021, employee expense came higher by 24% y-o-y mainly due to a one-time ESOP cost and due to a lower base. Opex to AUM ratio remained flat at 11 bps y-o-y going forward. As AUM growth picks up, we expect opex to AUM ratio to continue to trend down, providing operating leverage. 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 would 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. Recent partnership with Taiwan-based Cathay Site will allow access to each other's investor base and was facilitated by NAM's promoter, and more such developments are expected. 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 in 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 an unchanged price target (PT) of Rs. 418.

Key positives

- NAM's average AUM was Rs. 2,28,586 crore up 12% y-o-y; and the share of equity assets rose to 40.6% of NIMF's AUM as against 39.1% for the quarter ended December 31, 2020.
- NAM has one of the largest retail assets in the industry at Rs. 64,345 crore, of which retail assets contributed 28% to NAM's AUM.

Key negatives

- Monthly flows book at Rs. 660 crore was down on a y-o-y basis from Rs. 680 crore in March 2020 mainly due to volatile markets and folios with lower ticket size.

Our Call

Valuation: NAM is currently available at reasonable valuations of 31.6x/26.7x 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% (lower-than-industry leader, which is at ~14%) and has, therefore, head room available. Going forward, industry tailwinds and upside benefits from offshore money inflow (helped by MNC owner) can be the company's growth drivers. 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 maintain Buy on the stock with an unchanged PT of Rs. 418.

Key Risks

As NAM's revenue ultimately depends on the value of 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	FY21	FY22E	FY23E
Operating Income	1,646.8	1,131.7	1,419.3	1,739.8	2,053.0
Net Profit	487.1	415.8	679.4	661.0	782.0
EPS (Rs)	7.9	6.8	11.1	10.8	12.8
BVPS (Rs)	42.0	42.5	42.4	46.3	50.0
MCap / AUM (%)	8.9	9.9	9.7	8.5	7.2
Opex / AUM (%)	0.40	0.26	0.32	0.34	0.34
PE (x)	42.9	50.6	30.7	31.6	26.7
PBV (x)	8.1	8.0	8.0	7.4	6.8

Source: Company; Sharekhan estimates

Conference Call Highlights

- **Tie-up with Cathay Site:** NAM India has signed LoI with Cathay SITE, Taiwan's largest asset manager, in April 2021.
- **Operating leverage gains:** The company expects operating leverage gains to flow in from FY2022E. For FY2021, average equity annual AUM was subdued and, correspondingly, earnings were lower.
- **Higher operating expenses:** One-off expense was mainly due to higher investment in digital and technological infrastructure.
- **Traction in AUMs seen:** Added 9 lakh unique (new to NAM) new investors during the year. This indicates the investor is coming back to NAM.
- **B30 Cities Outlook:** Market share in B30 cities is gaining strength. Look forward to gain market share, last quarter the market share was flat.
- **Leveraging the parent:** Has launched two real estate funds in Japan, and new relationship with Cathay (Taiwan) was also due to the parent.
- **Employee Costs:** Opex for FY2021 consisted of higher employee cost which had a one off element of the ESOP cost.
- **Digital infrastructure:** Increases opex is towards investment in digital infrastructure. Moreover, some cost associated with creation of own data centre.
- **ETF segment:** Liquidity is a key factor for ETF investments for investors. High volumes and lower costs have helped NAM differentiate its ETF offering. ETF has a blended yield of 90 bps and is important contributor for profitability for NAM.
- **Passive Funds:** Liquidity in ETF is crucial, and can have impact cost of 2-4BPS. Hence, in ETF, liquidity attracts more fund and vice-versa. Despite liquidity advantage, the strategy in ETF is not to have differential pricing compared to industry but focus on volume. Blended yield on ETF is 19 bps (may have come down) but contribution to profitability is Rs. 0.5 billion.
- **Banca Distribution:** The decline in banca channel is due to the fact that the bank's profitability in this particular product has declined. Moreover, due to investors becoming smarter and coming in directly to invest has been impacted. Further, with the advent of financial advisors, more and more investors prefer the direct channel.
- **Market share:** At AUM of Rs. 2,286 billion, compared to industry, NAM lost ~5 bps market share in Q4FY2021. Market share erosion has been for the past two years due to the erstwhile group level issues and under performance. The company believes that the pace of decline in market share has been arrested. Going forward, management expects to see higher market share.
- **SIP business:** NAM saw some ceding of market share in SIP business during Q4, which it expects to reverse going forward.
- **Unique customer:** That the company added 9 lakh unique investors versus 2 million for the industry in the past one year. The industry added 20 lakh new investors. Market share is expected to improve going ahead.

Results — Rs cr

Particulars	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %
Revenue from Operations	301.9	274.5	10.0	268.5	12.5
Other Income	60.1	(124.9)	(148.1)	130.4	(53.9)
Total Revenue	362.0	149.6	142.0	398.8	(9.2)
Employee expenses	65.4	52.9	23.7	66.5	(1.6)
Other Expenses	56.6	40.2	40.7	44.9	26.0
EBITDA	225.9	36.7	515.4	277.3	(18.5)
Finance Cost	1.0	0.5	106.5	1.1	NA
Depreciation & Amortization	7.1	8.9	(20.2)	7.8	(8.6)
PBT	217.9	27.4	696.6	268.5	(18.9)
Tax	51.4	23.2	121.2	57.0	(9.9)
PAT	166.5	4.1	3,931.7	211.5	(21.3)

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector view - Long-term structural tailwinds 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 abovementioned factors.

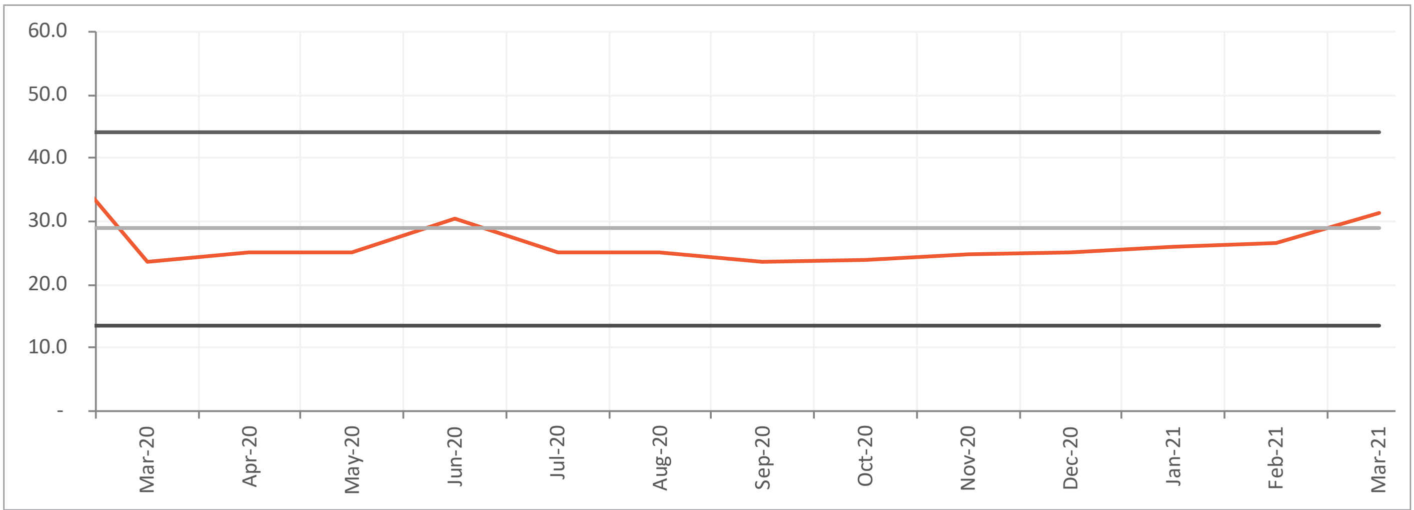
■ **Company outlook - Strong fundamentals to sustain long-term outlook**

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, the mix is changing since the last year (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. 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 an unchanged PT of Rs. 418**

NAM is currently available at reasonable valuations of 31.6x/26.7x 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% (lower-than-industry leader, which is at ~14%) and has, therefore, head room available. Going forward, industry tailwinds and upside benefits from offshore money inflow (helped by MNC owner) can be the company's growth drivers. 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 of the stock. We maintain Buy on the stock with an unchanged PT of Rs. 418.

One-year forward P/E (x) band



Source: Bloomberg, Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoE (%)	
	Rs/Share	FY22E	FY23E	FY22E	FY23E	FY20E	FY21E
Nippon Life India Asset Management Ltd.	341	7.4	6.8	31.6	26.7	19.6	21.4
HDFC AMC	2807	10.7	9.5	40.7	34.7	30.74	30.80

Source: Company, Sharekhan research

About company

Nippon Life India Asset Management Limited is one of the largest 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. 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 10 consistently over the years. 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 have 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 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	2.0
3	HDFC Asset Management Co Ltd	1.7
4	Life Insurance Corp of India	1.5
5	Valiant Mauritius Partners Ltd	1.1
6	Reliance Capital Ltd	0.8
7	Vanguard Group Inc/The	0.8
8	UTI Asset Management Co Ltd	0.4
9	Grandeur Peak Global Advisors LLC	0.3
10	BANK OF NEW YORK MELLON CORP/THE	0.3

Source: Bloomberg

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 detoriating 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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