



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. 440	
Price Target: Rs. 502	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

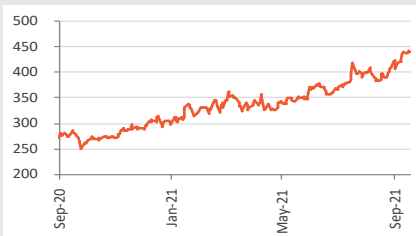
Company details

Market cap:	Rs. 27296 cr
52-week high/low:	Rs. 451/249
NSE volume: (No of shares)	13.3 lakh
BSE code:	540767
NSE code:	NAM-INDIA
Free float: (No of shares)	15.93 cr

Shareholding (%)

Promoters	74.23
FII	6.21
DII	7.46
Others	12.10

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.8	23.4	30.8	54.4
Relative to Sensex	5.0	10.7	12.2	3.2

Sharekhan Research, Bloomberg

Summary

- With improved operating performance and stable market share of ~7% over the past four quarters, we believe that Nippon India Life Asset Management (NAM) can clock better earnings growth going ahead.
- NAM has performed reasonably well after its rebranding in 2019, gaining business traction and profitability, through a strategic focus on retail investors and a strong presence in B-30 cities. It has also reactivated more than 1,000 corporate accounts.
- Focus on retail investors aided by an extensive branch network bodes well for growth. Besides, the company intends to launch newer and attractive products going ahead, which is a further positive.
- We maintain a Buy rating on NAM India with a revised price target of Rs. 502. Stock has performed well giving year-to-date returns of 45%.

The management of Nippon India Life Asset Management (NAM) broadly outlined its strategy for different business segments and growth drivers. It aims to gain market share in the retail business by strengthening its distribution network through continuous engagement and empowerment of channel partners. In the corporate and high-networth (HNI) segments, it intends to grow its wallet share through the direct connect route and by leveraging its passive product portfolio. Given its leadership position in the exchange traded funds (ETF) category with a market share of ~13%, it expects healthy growth here going ahead. Besides, it intends to take advantage of its scale in the ETF portfolio, as this comes on lower yields.

- Strong traction in AUM and earnings:** Given its past cost rationalisation measures and any further cost savings, operating leverage is likely to improve, driven by AUM growth. We expect NAM's AUMs to record a CAGR of 18% through FY21-23E to Rs. 2.88 trillion. Profit after tax (PAT) is likely to clock a CAGR of 10% through FY21-23E.
- B-30 and Retail - Key focus areas:** NAM India has continuously focused on building assets in the retail category. NAM's retail AUMs currently contribute ~28% to total average assets under management (AAUM) versus the industry average contribution of 23% to total AAUM. Additionally, its concentrated efforts to build its AUM base in highly underpenetrated B-30 cities, is likely to augur well in increasing its AUM from these cities going ahead. We believe that long-term prospects of the Indian mutual fund industry remain positive given a rise in financialisation of savings and low penetration levels vs. global average and developed countries.
- Robust distribution network and increase in digital access:** NAM has a diverse and extensive distribution network across ~280 locations. Further, it has also built a robust digital ecosystem, which allows investors easy access. This has helped the company to garner purchases through digital platform which rose 28% q-o-q in Q1FY22.

Our Call

View: Maintain Buy with a revised price target of Rs. 502: Despite a strong run-up of 45% YTD in the stock price, it remains our preferred pick due to robust earnings growth and a valuation of 13.3/15.5x its FY2023/24E EPS, which is at a discount to peers. We expect its AAUM to clock a CAGR of 18% through FY21-23E to Rs. 2.88 trillion. Key growth drivers include NAM's focus on retail assets, a strong distribution network and its expanding presence in B-30 cities. We expect its PAT to clock 12% CAGR over FY21-24E, thus translating into an average RoE of 24%. We maintain a Buy rating on the stock with a price target of Rs. 502.

Key Risks

Any prolonged weakness in benchmark stock market indices can affect inflows and AUMs. Any adverse regulations on trail commissions could hamper equity inflows through mutual fund distributors and hence hinder AUM growth.

Valuation (Consolidated)

Particulars	FY21	FY22E	FY23E	FY24E
Total Revenue (Rs cr)	1,419	1,517	1,762	2,006
EBITDA Margin (%)	64.4	63.4	64.5	65.8
PAT (Rs cr)	679	692	822	958
EPS (Rs)	11.0	11.2	13.3	15.5
P/E (x)	39.9	39.2	33.0	28.3
P/B (x)	8.7	8.2	7.5	6.8
RoE (%)	23.9	21.6	23.7	25.1

Source: Company; Sharekhan estimates

Multi-year industry growth prospects; NAM India eyes strong foothold in ETF and retail segment

Strong growth prospects: The Indian mutual fund industry's assets under management (AUM) are expected to double in the next five years from Rs. 37 trillion as of August 2021. Major growth drivers would be financial inclusion and financialisation of savings and evolution in technology. Further, a large proportion of the population in B-30 cities is becoming aware of mutual fund products and their benefits, which augur well for the industry's growth.

Scaling up of ETFs: Globally, ETFs clocked a CAGR of 20% over 2002 to 2020, while in India ETF AUMs stood at ~Rs. 3.3 lakh crore, recording a CAGR of 80% in the same period. Growth was largely driven by investments by provident funds, insurance companies and CPSE ETFs. NAM India expects this trend to continue and highlighted its leadership position in the ETF segment. Currently, NAM generates yields of 12 bps (after netting off all expenses) and has AUMs of Rs. 35,000 crore. With its differentiated ETF product offerings and higher liquidity, the company expects to charge a higher yield of 5bps or more from ETF customers. The company has filed for regulatory approvals for launching a Taiwan Equity Fund in collaboration with Cathay SITE in Taiwan. While yields on the ETFs are lower, the management intends to overcome this by scaling up its ETF AUMs. NAM has attracted about 1 million new folios in the past 18 months, with a share of ~80% in total industry incremental ETF folios.

Strong reach in B-30 cities: NAM is committed to remain a dominant player in B-30 cities through its long standing relationship with the distribution network and technology evolution.

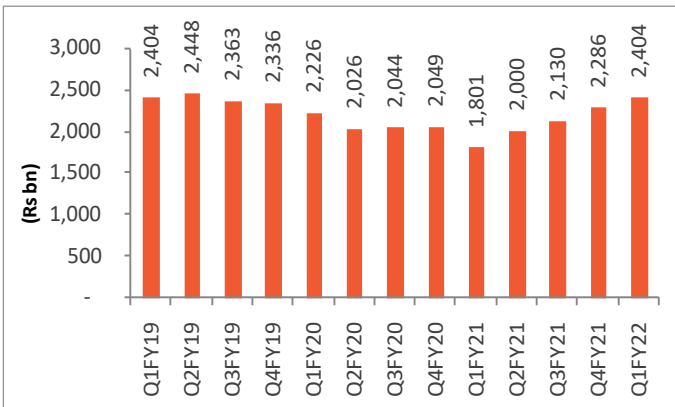
Stable market share: NAM's market share has improved on the fixed-income segment during the past months which has in turn helped it to gain overall market share in Q1FY22 and the management remained confident about improving its market share going ahead. It stated that it has reactivated more than 1,000 corporate accounts in the last couple of quarters. Additionally, with the continued focus on B-30 cities along with strong brand equity and digital platform, it expects its market share to improve.

Gaining ground with NFOs: NAM launched 12 new fund offers (NFOs) in the past five quarters and its recently concluded Nippon India Flexi Cap Fund witnessed a good response and garnered Rs. 28,600 crore from more than three lakh customers. The company plans to launch 5-6 NFOs in coming months in various categories.

Improvement seen in SIP Flows and Equity AUM: The company's SIP flows is expected to improve going ahead which has to Rs. 5.9 billion in Q1FY22.

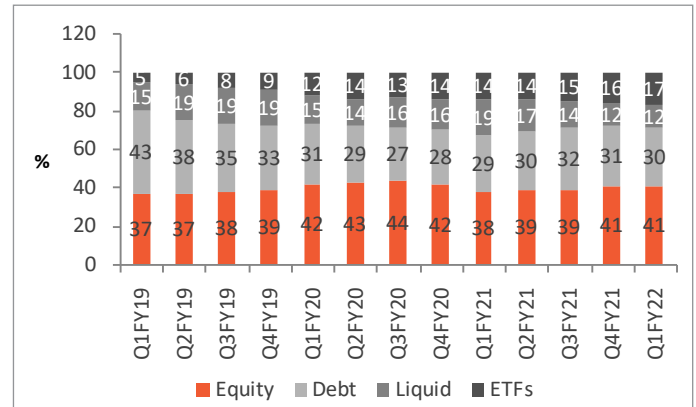
Financials in charts

AAUM quarterly trend (Rs bn)



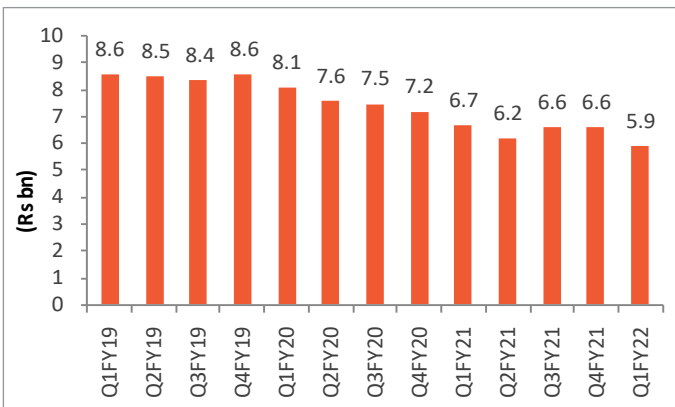
Source: Company, Sharekhan Research

.. percentage of ETFs has increased..



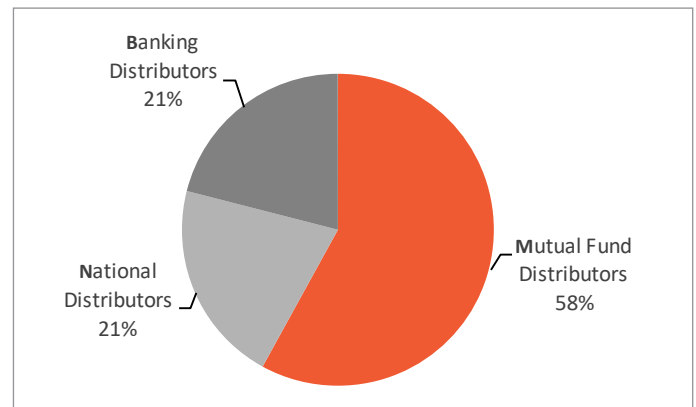
Source: Company, Sharekhan Research

Monthly SIP flows book (Rs bn)



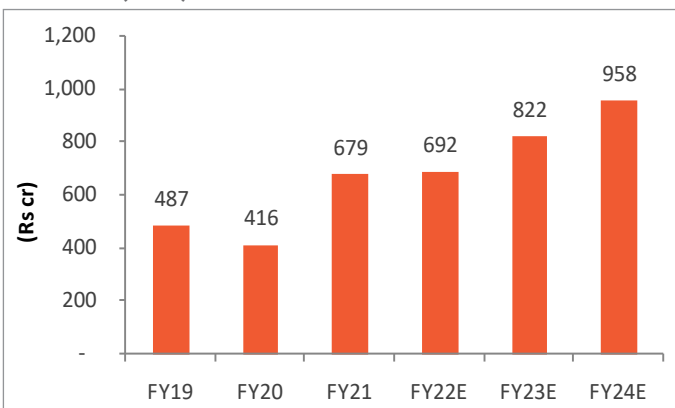
Source: Company, Sharekhan Research

Distribution Channel Mix (%) as on Q1FY22



Source: Company, Sharekhan Research

PAT Trend (Rs cr)



Source: Company, Sharekhan Research

RoE trajectory



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Financialisation of savings augurs well

India's mutual fund penetration (AUM as percentage of GDP) is 10.9% in FY20, which is far below the global average of 63% for the same period. However, quarterly mutual fund AAUM is expected to grow in double digits over FY21-FY25E, despite weakness in FY21. This is likely on the back of a recovery in corporate earnings, growing individual investor base led by rising household incomes, growing financial savings and robust performance in the underlying equity markets. Further, increasing awareness and supportive regulatory measures by the government would also bode well for the industry. Industry AUM has increased by 16% over March 2021 to August 2021, supported by strong inflows in equity mutual funds and record high SIP inflows of Rs. 99,200 crore in August 2021. Within this the equity funds grew by 5% m-o-m.

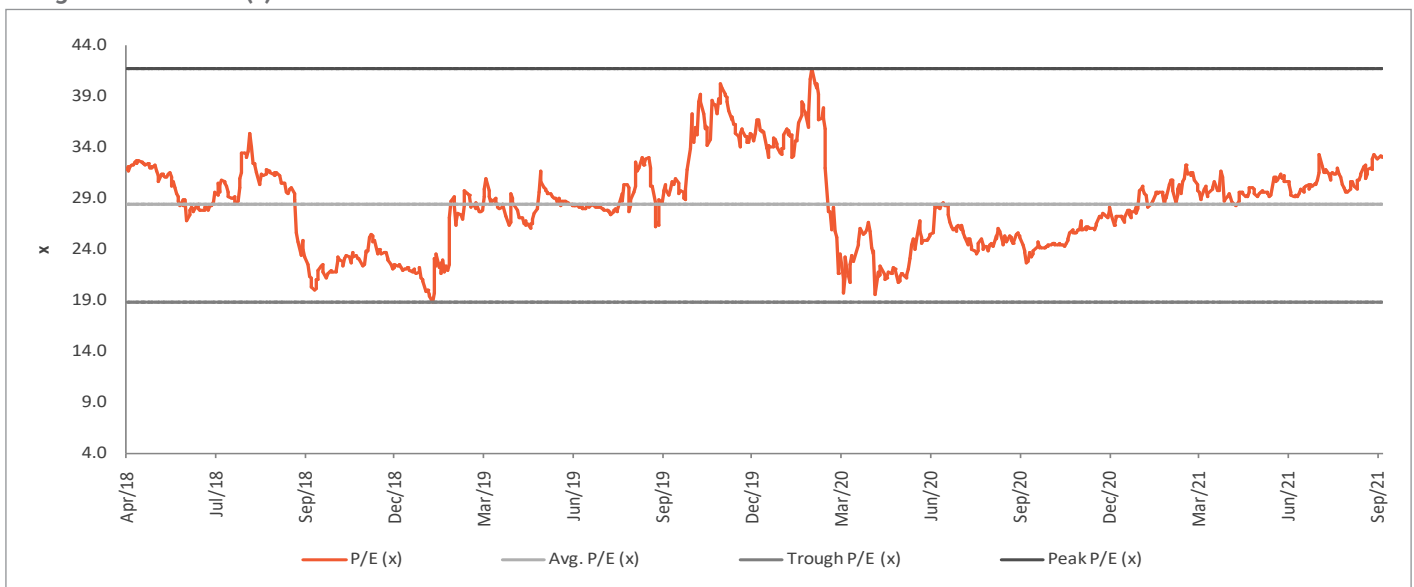
■ Company outlook - Regaining market share

NAM's strategy to continue its focus on the retail segment through its extensive branch infrastructure is expected to help it retain and increase its market share going ahead. Its overall market share has increased by 13 bps to 7.2% so far in Q1FY22 and seems to be stabilising after falling from highs of 9.5% in March 2019. Besides this, the company intends to focus on launching of newer and attractive products that is likely to bode well for growth. Additionally, its focus on the B-30 cities aided by its strong distribution network is favorable for the company. It is well on the path of gaining business traction by leveraging Nippon Life's network in order to garner offshore mandates.

■ Valuation - Retain Buy with a revised PT of Rs. 502

Despite a strong run-up of 45% YTD in the stock price, it remains our preferred pick due to robust earnings growth and a valuation of 13.3/15.5x its FY2023/24E EPS, which is at a discount to peers. We expect its AAUM to clock a CAGR of 18% through FY21-23E to Rs. 2.88 trillion. Key growth drivers include NAM's focus on retail assets, a strong distribution network and its expanding presence in B-30 cities. We expect its PAT to clock 12% CAGR in FY21-24E, thus translating into an average RoE of 24%. We maintain a Buy rating on the stock with a price target of Rs. 502.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP (Rs)	P/BV (x)		P/E (x)		RoE (%)	
		FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
NAM India	440	8.2	7.5	39.2	33.0	21.6	23.7
HDFC AMC	3,269	12.9	11.47	47.6	41.8	29.0	29.4
UTI AMC	1,177	4.2	3.89	29.2	25.1	16.0	16.9

Source: Company, Sharekhan estimates

About company

Nippon Life India Asset Management Ltd (NAM) – formerly known as Reliance Nippon Life Asset Management – is the asset manager for Nippon India Mutual Fund (NIMF). NAM is one of the largest asset managers with 26 years of track record, advising assets across MFs, managed accounts, pension funds and offshore strategies. In addition to this, NAM also renders advisory services to its offshore clients and an approval to manage and / or advise pooled assets including offshore funds, Insurance funds, provident funds is in place. Nippon Life Insurance Company is the promoter of NAM and currently holds 74.5% of its total issued and paid-up equity share capital.

Investment theme

With a strong foothold in the B-30 cities and a wide distribution network, the company is expected to regain market share. Currently, AUM contribution from B-30 cities is at 19% as of Q1FY22, as compared to industry contribution of 16.3%. NAM India was able to witness strong traction in AAUM growth at a CAGR of 21% over FY13-18, backed by a strong distribution network, despite of being a non-bank promoted entity. Going ahead, we expect its AAUM to grow at a CAGR of 18% through FY21-23E to Rs. 2.88 trillion. Further, the company plans to increase its yields from the ETF segment through differentiated products and higher liquidity. Currently, yields generated are at 12 bps after netting off all expenses with an AUM of Rs. 350 crore.

Key Risks

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Additional Data

Key management personnel

Mr. Sundeep Sikka	Executive Director & Chief Executive Officer
Mr. Prateek Jain	Chief Financial Officer
Mr. Manish Gunwani	CIO - Equity Investments
Mr. Amit Tripathi	CIO - Fixed Income Investments

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	3.6
2	INDUSIND BANK LTD	3.6
3	Baron Capital Inc	2.1
4	HDFC Asset Management Co Ltd	1.6
5	Vanguard Group Inc/The	0.8
6	Reliance Capital Ltd	0.8
7	Grandeur Peak Global Advisors LLC	0.5
8	Valiant Mauritius Partners Ltd	1.1
9	Blackrock	0.3
10	UTI Asset Management Co Ltd	0.3

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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