

CMP: ₹ 422

Target: ₹ 485 (15%)

Target Period: 12 months

BUY

November 8, 2021

Market share gain; other income elevated...

About the stock: Nippon Life India AMC is among the largest asset managers in India with an AUM size of ₹ 4.01 lakh crore. The company has a strong distribution network with ~82000 distributors.

- Market share as on Q2FY22 was at 7.3%
- Strong presence in B-30 cities that contribute to ~18% of total AUM

Q2FY22 Results: Steady quarter with gradual uptick in market share.

- QAAUM up 33% YoY, 5% QoQ to ₹ 265500 crore. Market share up 21 bps
- Operational revenue up 27% YoY at ₹ 328 crore; yields down 1 bps QoQ
- PAT up 47% YoY, 18% QoQ to ₹ 213 crore, aided by revenue & other income

What should investors do? Nippon Life India AMC's share price has grown by over 49% since its listing in November 2017.

- We maintain BUY rating on the stock

Target Price and Valuation: We value Nippon AMC at ~9.5% FY23E AUM and revise our target price to ₹ 485 per share.

Key triggers for future price performance:

- Strategy to focus on AUM growth & anticipated steady yield to aid revenue
- Plan to continue new product launch ahead to aid capturing market share
- Strong brand franchise, distribution strength and operational capabilities
- Improvement in performance of equity schemes to aid inflow & market share gain

Alternate Stock Idea: Apart from Nippon Life AMC, in our coverage we like MCX.

- MCX is a leader in commodity derivative exchanges in India with ~93% market share in terms of commodity futures turnover.
- BUY with a target price of ₹ 2000



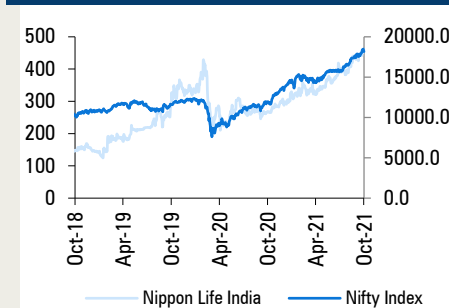
Particulars

	Amount
Market Capitalisation	₹ 26546 crore
Networth	₹ 3293 crore
52 week H/L	476/275
Face Value	₹ 10
DII Holding (%)	8.8
FII Holding (%)	6.6

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	75.9	75.8	74.5	74.2	74.0
FII	5.1	5.4	5.9	6.2	6.6
DII	6.3	6.6	6.7	7.5	8.8
Others	12.7	12.2	12.9	12.1	10.6

Price Chart



Recent Event & key risk

- QAAUM saw healthy sequential growth of 5% QoQ at ₹ 2.6 lakh crore
- Key Risk:** Increasing competitive pressure to exert pressure on yield

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Namolia
vishal.namolia@icicisecurities.com

Sameer.Sawant
sameer.sawant@icicisecurities.com

Key Financial Summary

₹ Crore	FY18	FY19	FY20	FY21	4 year CAGR (FY17-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Profit (₹ crore)	456	485.7	415.4	679.4	14%	737.3	849.2	12%
EPS (₹)	7.4	7.9	6.8	11.0	14%	12.0	13.8	12%
P/E (x)	45.5	53.2	62.2	38.3		35.3	30.6	
AUM /share (₹)	4002	3817.0	3347.4	3708.0		4375.5	5031.8	
P/AUM (%)	8.5	11.1	12.6	11.4		9.6	8.4	
DPS (₹)	6.0	6.0	5.0	8.0		8.7	10.0	
RoE (%)	19.5	19.2	14.1	18.7		16.9	16.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Growth remains healthy; yields remain dampener

- AUM growth of 33% YoY, 10% QoQ was led by 46% YoY and 15.8% QoQ rise in equity AUM while ETFs also increased 10.4% QoQ
- Other income increased 53% YoY to ₹ 97 crore, mainly due to higher MTM gains during the quarter
- Yields declined ~1 bps QoQ to 49 bps, mainly on account of lower TER due to increase in fund size
- SIP book increased sequentially from ₹ 1750 crore to ₹ 1880 crore in Q2FY22, with number of folios increasing from 34 lakh in Q1FY22 to 36 lakh in Q2FY22
- Operating expense increased 7% QoQ, 8% YoY, which can be partly attributed to an increase in staff movement and related expenses. Employee expenses increased 8% YoY due to Esops related costs (₹ 4.6 crore)
- Opex is expected to be under control and should be below topline growth. In turn, this should provide operating leverage ahead
- The company has a strong presence beyond 30 cities (B-30) with 18% of AUM coming from this segment compared to industry average of 16.5%
- The company has gained AUM market share on an overall basis by ~21 bps sequentially to 7.33%
- Number of unique investors has increased by 39% YoY to 86 lakh

Q2FY22 Earnings Conference Call highlights

- Decline in yields in the current quarter was mainly due to a reduction in TERs of a few funds due to an increase in size, higher trail commission and increase in competition
- Gain in market share was on account of debt funds; share of equity funds remained largely stable
- With the better performance, it has started to see higher flows in equity
- The management has approved 58 lakh shares as Esops amounting to ₹ 4.6 crore in Q2FY22
- Mark to market gains in the current quarter contributed to higher other income
- Realisation from ETF (excluding CPSE & gold) in the range of 15-17 bps. No plan to lower cost as Nippon remains market leader in terms of volume
- The management believes digital and physical business model to co-exist ahead with customer handholding required in smaller towns and cities

Peer comparison

Exhibit 1: ICICI Direct coverage universe (AMC)

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HDFC AMC (HDFAMC)	2,668	3,000	Hold	568	62.2	67.0	77.8	42.9	39.8	34.3	11.9	10.5	9.2	27.8	26.3	26.8
Nippon AMC (RELNIP)	422	485	Buy	265	11.0	12.0	13.8	38.3	35.3	30.6	8.4	7.9	7.4	18.7	16.9	16.3

Source: Company, ICICI Direct Research

We remain positive on the strong brand franchise and efficient operational strength. We maintain BUY rating awaiting continued improvement in market share.

Exhibit 2: Variance Analysis

₹ crore	Q2FY22	Q2FY21	YoY	Q1FY22	QoQ	Comments
Revenue from Operations	327.9	258.7	27%	302.3	8%	AUM growth bolsters revenue growth
Revenue/AUM	0.5	0.5	-3bps	0.5	-1bps	Yields decline due to higher inflows in low yielding products and decline in TER
Other Income	97.2	63.7	53%	66.9	45%	Higher other income attributable to MTM gains in equity portfolio
Net Total Income	425.1	322.4	32%	369.2	15%	
Staff Cost	73.2	67.9	8%	69.7	5%	
Other Operating Expenses	69.1	63.5	9%	63.5	9%	
Total Expenses	142.3	131.4	8%	133.2	7%	Rebound in business activity and marketing expense push opex
PBT	282.8	191.0	48%	236.0	20%	
Tax Outgo	69.6	45.7	52%	54.7	27%	
PAT	213.2	145.2	47%	181.4	18%	
MF- AAUM	265500	200000	33%	240400	10%	Healthy AAUM growth with market share gains

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ crore)	FY22E			FY23E		
	Old	New	Change %	Old	New	Change %
Revenue from Operations	1239.4	1338.6	8%	1404.7	1523.3	8%
PBT	921.3	989.7	7%	1051.6	1139.9	8%
PAT	686.3	737.3	7%	783.4	849.2	8%
EPS (₹)	11.1	12.0	7%	12.7	13.8	8%

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit & Loss Statement

(₹ crores)	FY19	FY20	FY21	FY22E	FY23E
Revenue from Operations	1,478.5	1,203.1	1,062.1	1,338.6	1,523.3
Growth (%)	-7.1%	-18.6%	-11.7%	26.0%	13.8%
Other Income	171.3	(9.8)	357.2	210.0	220.0
Total Revenue	1,649.8	1,193.3	1,419.3	1,548.6	1,743.3
Employee Benefit Expenses	293.5	302.4	271.3	284.6	292.3
Depreciation & Amortization Expense	10.1	32.6	33.3	33.3	33.3
Other Expenses (incl fees)	646.0	297.9	237.7	241.0	277.8
Total Expenses	949.6	632.9	542.3	558.9	603.4
Profit Before Tax	700.2	560.4	877.0	989.7	1,139.9
Taxes	214.5	145.0	197.6	252.4	290.7
Profit After Tax	485.7	415.4	679.4	737.3	849.2
EPS (₹)	7.9	6.8	11.0	12.0	13.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet

(₹ crores)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share capital	612.0	612.1	616.5	616.5	616.5
Reserves and surplus	1958.0	1980.9	2483.8	2685.9	2918.6
Total Equity	2570.0	2593.1	3100.3	3302.4	3535.1
Trade payables					
Trade payables	47.4	67.7	62.9	66.0	69.3
Others	158.5	220.1	228.5	251.4	276.5
Total Liabilities + Equity	2775.8	2880.8	3391.7	3619.8	3880.9
Applications of Funds					
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	2678.3	2868.6
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	133.2	189.6	212.1
Total Assets	2775.8	2880.8	3391.7	3619.8	3880.9

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No of Equity shares (crore)	61.2	61.2	61.7	61.7	61.7
EPS	7.9	6.8	11.0	12.0	13.8
DPS	6.0	5.0	8.0	8.7	10.0
BVPS	42.0	42.4	50.3	53.6	57.3
P/E	53.2	62.2	38.3	35.3	30.6
P/BV	10.0	10.0	8.4	7.9	7.4
Operating Ratios (%)					
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
Return Ratios (%)					
RoNW	19.2%	14.1%	18.7%	16.9%	16.3%
NAV per equity share	42.0	42.4	50.3	53.6	57.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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