Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Nippon Life India Asset Management

Readying for the next leg of growth

AMC	Sharekhan code: NAM-INDIA
Reco/View: Buy ↔	CMP: Rs. 346 / Price Target: Rs. 502 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 23.11

Updated Nov 08, 2021

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

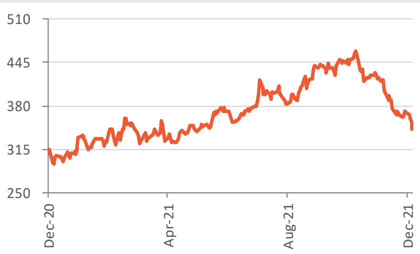
Company details

Market cap:	Rs. 21,480 cr
52-week high/low:	Rs. 477 / 283
NSE volume: (No of shares)	22.0 lakh
BSE code:	540767
NSE code:	NAM-INDIA
Free float: (No of shares)	16.2 cr

Shareholding (%)

Promoters	74.0
FII	6.6
DII	8.8
Others	10.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-15.1	-19.2	-3.2	14.0
Relative to Sensex	-11.1	-17.3	-13.5	-10.0

Sharekhan Research, Bloomberg

Summary

- Nippon Life India Asset Management's (NAM's) management stated that business has progressed well, operating efficiencies are improving and it has regained market share. It termed its journey as 'regaining, reinventing and recreating' since it was renamed Nippon Life Asset Management in 2019.
- NAM undertook several initiatives to boost profitability. With a focus on the retail segment which is important in terms of stickiness and profitability, the company saw its folio share rise to 13% in September 2021 from 10.2% in September 2020. It intends to have retail AUM mix of 40-45% going ahead.
- NAM continues to invest in technology and intends to scale up its business with laying more emphasis on profitability and avoid low yielding business.
- We re-iterate a Buy rating on NAM India with price target (PT) of Rs. 502.

We interacted with the management of Nippon Life India Asset Management (NAM) to understand the industry, business and growth outlook. It stated that business and operating efficiencies have progressed well and it continues to regain the market share. The management termed its journey as 'regaining, reinventing and recreating' since it was renamed Nippon Life Asset Management in 2019. The company has undertaken several initiatives with a focus on profitability. Overall, the mutual funds industry has grown five times in the past 10 years. Although the industry AUM stood at Rs. 37.8 trillion in November 2021, growing by 24.5% y-o-y, but only 2% of unique investors have mutual funds investments. NAM's overall market share increased by 30 bps to 7.3% in September 2021 and the share of the retail folios has increased from 10.2% to 13%. The company is seeing retail investors coming back aided by a buoyant equity market.

- **Improving market share:** NAM foresees further improvement in the market share, especially as the retail investors are making a return, primarily on account of strong fund and equity market performance. For management, not having a banking sponsor is not an obstacle for it. Its overall market share on quarterly average assets under management (QAAUM) basis has increased by 30 bps to 7.3% in September 2021 and the share of the retail folios has increased from 10.2% in September 2020 to 13%. A higher retail share of AUM mix at 28% vs industry's 23% offers the company resilience and stickiness. This can be also attributed to its leadership position in B-30 cities. Apart from continuous gains in the retail market share, the company has done well to recover in institutional flows with empanelment of 500-600 HNI/ family office accounts that led to market share gains.
- **Scaling up of ETFs:** NAM expects growth in the ETFs to continue largely driven by investments by provident funds, insurance companies and CPSE ETFs. For ETFs, the company has ~80% market share in ETF volumes on the NSE and BSE. It highlighted that it sees strong growth in the passive investing space going ahead. With large bouquet of 23 ETFs, the company's market share stood at 58% in terms of investor folios.
- **Alternative product offerings and digital access:** On the fixed income front, the appetite for credit risk is returning and the company is careful and conservative on these products and does not have exposure to below AA-rated instruments. For the company, HNI participation is increasing in the credit risk funds, which is largely through AIF/ PMS route and it foresees gain in traction for longer tenure going ahead. NAM has recently concluded its New fund Offer (NFO), Nippon India Taiwan Equity Fund which garnered Rs. 617 crore which is multi-cap fund. Further, it has also built a robust digital ecosystem, which allows investors easy access.

Our Call

Valuation – We re-iterate a Buy on NAM with PT of Rs. 502. We believe that NAM is in a better position to deliver on profitability given its robust AUM growth. Its retail market share is expected to improve going ahead and its strategic focus on the B-30 cities is likely to bode well for the company. It is also likely to benefit from leveraging of Nippon Life's network to garner offshore mandates which would be a key to its future growth. Further, a sustained flow into MF and equity market and its widening distribution network is expected to retain its growth momentum. Additionally, its leadership position in the passive market (ETF space) is likely to benefit the company in terms of valuation as compared to its peers. At CMP, the stock currently trades at 25.8x and 22.2x its FY23E and FY24E EPS. Hence, we re-iterate a Buy rating on NAM with a price target (PT) of Rs. 502.

Key Risks

Any prolonged weakness in benchmark stock 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.

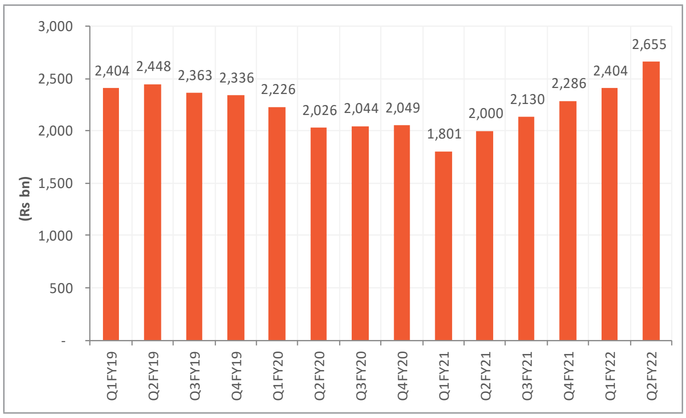
Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Total Revenue	1,419	1,517	1,762	2,006
EBITDA Margin (%)	64.4	63.4	64.5	65.8
PBT	877	925	1,099	1,280
PAT	679	692	822	958
EPS (Rs)	11.0	11.2	13.3	15.5
RoE (%)	23.9	21.6	23.7	25.1
P/E (x)	31.3	30.7	25.8	22.2
P/B (x)	6.8	6.4	5.9	5.3

Source: Company; Sharekhan estimates

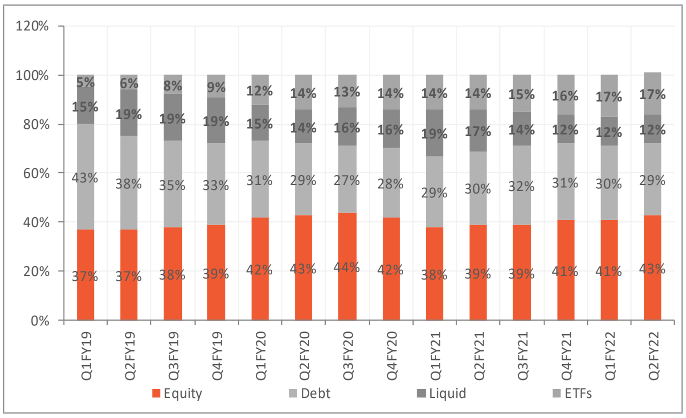
Financials in charts

AAUM quarterly trend



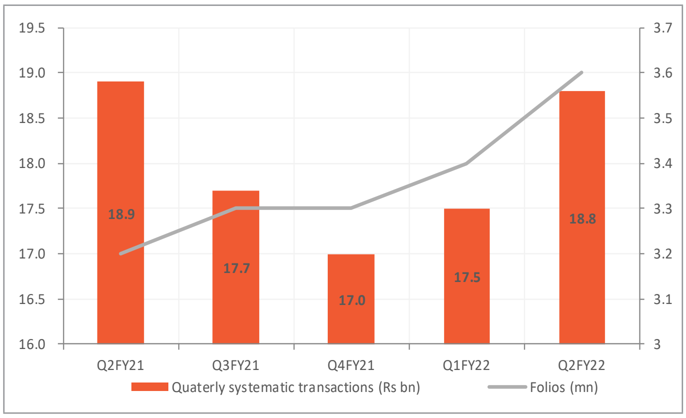
Source: Company, Sharekhan Research

QAAUM mix (%)



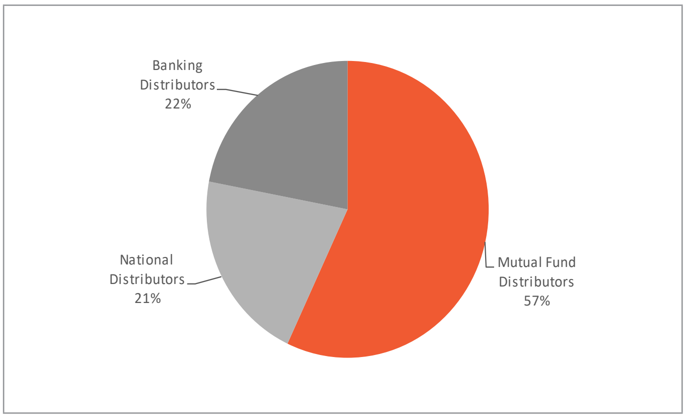
Source: Company, Sharekhan Research

Quarterly systematic transactions



Source: Company, Sharekhan Research

Distribution Channel Mix (%) as on Q2FY22



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector outlook – Financialisation of savings augurs well

India's mutual fund penetration (AUM as percentage of GDP) is 12% 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 AUMs increased by 19% over March 2021 to November 2021, supported by strong inflows in equity mutual funds and record high SIP inflows of Rs. 11,005 crore in November 2021. Within this, equity funds grew by 31% over the same period.

■ Company outlook – Regaining market share

NAM India'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 21 bps to 7.3% so far in Q2FY22 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 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 – We re-initiate a Buy on NAM with PT of Rs. 502

We believe that NAM India is in a better position to deliver on profitability given its robust AUM growth. Its retail market share is expected to improve going ahead and its strategic focus on the B-30 cities is likely to bode well for the company. It is also likely to benefit from leveraging of Nippon Life's network to garner offshore mandates which would be a key to its future growth. Further, a sustained flow into MF and equity market and its widening distribution network is expected to retain its growth momentum. Additionally, its leadership position in the passive market (ETF space) is likely to benefit the company in terms of valuation as compared to its peers. It currently trades at 30.7x of FY22E PE. Hence, we re-iterate a Buy rating on NAM India with a price target (PT) of Rs. 502.

Peer comparison

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
NAM India	346	21,480	30.7	25.8	6.4	5.9	21.6	23.7	19.7	21.6
HDFC AMC	2,439	51,995	35.1	30.5	8.3	8.6	30.0	30.5	28.1	28.6

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 73.97% (as on 30th September 2021) 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 Q2FY22, 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 clock ~14% CAGR over FY22E-FY24 E. Further, the company plans to increase its yields from the ETF segment through differentiated products and higher liquidity.

Key Risks

Any prolonged weakness in benchmark stock 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.

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 Website

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; data as on Sep 17, 2021

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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