

April 26, 2022

RESULT REPORT Q4 FY22 | Sector: Asset Managers

Nippon Life India AMC

Early vintage assets to now remain largely sticky

Result Highlights

- ✓ **Revenue:** Revenue from operations at Rs 3,380mn was down -0.2% QoQ but up by 11.9% YoY, lagging the growth of QAAUM at 1%/24% QoQ/YoY
- ✓ **Share of Equity in AUM:** Share of Equity in AUM (including Hybrid funds) at 42% was down -100bps QoQ but up 100 bps YoY (calculated on rounded off figures)
- ✓ **Share of B-30 in AUM:** Share of B-30 in AUM at 17.2% was down -30bps/-70bps QoQ/YoY
- ✓ **Channel mix:** In overall AUM, the share of direct channel was 56%. Share of MFDs, Banks and NDs within distributed assets was 59%, 21% and 20%, respectively
- ✓ **Operating profit margin:** Operating profit margin for the quarter, at 61.5%, was down -115 bps QoQ but was up 658 bps YoY

Our view – Early vintage assets to now remain largely sticky

The sharp decline in yield in the month of March was a transient phenomenon related to compliance aspects: These expenses have been resurrected back in the first week of April itself. There has been dip in management fees but not in TER realization. On an overall basis, revenue realization stands at 49 bps vs 52 bps a year ago. Structurally, management averred that most of the “old” assets that had to flow out have done so.

Management expects improvement in equity market share and outflows from longer-term fixed income funds: Market share in equity AUM is expected to move up with a lag effect. On the fixed income side, the company expects flows to come in at the shorter end of the yield curve. There would be outflows from the longer end of the yield curve.

We maintain 'BUY' rating on NAM with an unchanged price target of Rs 450: We value NAM at 29.0x FY23 P/E for an FY21-24E EPS CAGR of 20.1%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Exhibit 1: Result table

Rs mn	Q4FY22	Q4FY21	YoY	Q3FY22	QoQ
Revenue from operation	3,380	3,019	11.9%	3,385	-0.2%
As % of QAUM [^]	0.5%	0.5%	-5bps	0.5%	-1bps
Fees and Commission Expenses	160	141	13.4%	118	35.4%
As % of revenue	4.7%	4.7%	6bps	3.5%	124bps
Employee Benefit Expenses	745	654	14.0%	729	2.3%
As % of revenue	22.1%	21.7%	40bps	21.5%	52bps
Other Expenses	396	566	-30.1%	417	-5.1%
As % of revenue	11.7%	18.7%	-704bps	12.3%	-61bps
Total Expense	1,301	1,360	-4.4%	1,264	2.9%
Operating Profit	2,079	1,659	25.4%	2,122	-2.0%
As % of QAUM [^]	0.3%	0.3%	0bps	0.3%	-1bps
As % of revenue	61.5%	54.9%	658bps	62.7%	-115bps
Other Income	345	601	-42.6%	304	13.4%
Finance cost	11	10	16.8%	7	70.8%
Depreciation	69	71	-3.0%	66	5.2%
Profit before Tax	2,344	2,179	7.6%	2,354	-0.4%
Tax Expense	595	514	15.9%	615	-3.2%
Profit After Tax	1,748	1,665	5.0%	1,739	0.6%
As % of QAUM [^]	0.2%	0.3%	-4bps	0.2%	0bps
As % of revenue	51.7%	55.2%	-342bps	51.4%	38bps

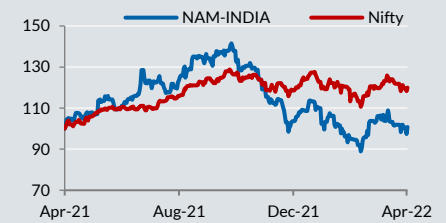
 Source: Company, YES Sec-Research, [^]Annualised

Recommendation : BUY
Current Price : Rs 329
Target Price : Rs 450
Potential Return : 37%

Stock data (as on April 26, 2022)

Nifty	17,201
52 Week h/l (Rs)	476 / 284
Market cap (Rs/USD mn)	204407 / 2669
Outstanding Shares (mn)	622
6m Avg t/o (Rs mn):	230
Div yield (%):	1.1
Bloomberg code:	NAM IN
NSE code:	NAM-INDIA

Stock performance



	1M	3M	1Y
Absolute return	-4.9%	-1.3%	1.5%

Shareholding pattern (As of Mar'22 end)

Promoter	73.8%
FII+DII	15.5%
Others	10.7%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	450	450

Financial Summary

Rs mn	FY22	FY23E	FY24E
Net Revenue	13,066	16,086	19,144
YoY Growth	23.0%	23.1%	19.0%
EBIDTA Margin	60.5%	67.3%	71.2%
PAT	7,434	9,657	11,897
YoY Growth	9.4%	29.9%	23.2%
ROE	22.6%	26.9%	31.0%
EPS (Rs)	12.0	15.5	19.1
P/E (x)	27.5	21.1	17.2
BV (Rs)	55.9	59.8	63.6
P/BV (x)	5.9	5.5	5.2

Δ in earnings estimates

Rs.	FY22E	FY23E	FY24E
EPS (New)	NA	15.5	19.1
EPS (Old)	NA	15.5	19.1
% change	NA	0.1%	0.2%

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COMPREHENSIVE CON-CALL TAKEAWAYS

AUM aspects

- ✓ **Overall business**
 - Total average AUM grew 24% YoY to Rs 2833bn.
 - Total average AUM market share stood at 7.38%.
- ✓ **Retail business**
 - Share of retail AUM in total AUM was 28%.
 - 70% of individual assets had a vintage of more than 12 months.
- ✓ **Equity fund business**
 - Share of equity AUM was 42% of total AUM.
 - Market share in equity AUM is expected to move up with a lag effect.
- ✓ **Debt fund business**
 - The company expects yields to continue to harden.
 - The company expects flows to come in at the shorter end of the yield curve.
 - There would be outflows from the longer end of the yield curve.
- ✓ **B-30 business**
 - Share of B-30 AUM in total AUM was 17.2%.
 - Share of B-30 would improve as new investors added would top up investment.
- ✓ **ETF business**
 - ETF AUM was Rs 558bn with a market share of 14%.
 - Market share of ETF folios was 58%.
 - Market share of ETF volumes was 68%.
- ✓ **Non-MF business**
 - Total Non-MF AUM was Rs 682bn.
 - Offshore AUM was Rs 114bn.

Channel mix

- ✓ Share of direct channel was 56%, the remaining being distributed assets.
- ✓ **Mix of distributed assets**
 - Mutual fund distributors contributed 59%.
 - National distributors contributed 20%.
 - Banking distributors contributed 21%.

Yield aspects

- ✓ **Share decline in yield in March**
 - There has been a change in the last week of March, which has more to do with Compliance.
 - These expenses have been resurrected back in the first week of April itself.
 - There has been dip in management fees but not in TER realization.
 - On an overall basis, revenue realization stands at 49 bps vs 52 bps a year ago.
- ✓ **Reasons for general yield decline**
 - There has been general pressure on yields due to mix change, size issues, competitive pressure and old AUM being replaced with new.

(Con call takeaways continue on the next page)

✓ **Share of old assets**

- Share of old and new assets would be roughly 50:50.
- Most of the old assets that had to flow out have flowed out and, going forward, old assets should remain largely sticky.

✓ **PAT to Revenue**

- PAT to Revenue would be maintained at 50%.
- Operating leverage would take care of decline in yield.

Dividend policy

- ✓ On the standalone company, dividend payout is 96% of profit for FY22.
- ✓ The company intends to continue with a similar approach of paying high dividend.

Operating expenses

✓ **ESOP cost**

- Most of the ESOP cost has been account for.
- The last set of ESOPs granted was in 2019.
- There would be some vesting happening over the next 4 years but its impact would be lesser.

Exhibit 2: Other Business Parameters

Rs mn	Q4FY22	Q4FY21	YoY	Q3FY22	QoQ
QAAUM	2,832,610	2,286,000	24%	2,806,015	1%
Retail share	28%	28%	-13bps	28%	0bps
SIP Flows	21,300	17,000	25%	20,100	6%
QAAUM Mix					
Equity	1,189,696	937,260	27%	1,206,586	-1%
Debt	736,479	708,660	4%	757,624	-3%
Liquid	339,913	274,320	24%	336,722	1%
ETFs	566,522	365,760	55%	505,083	12%
QAAUM Mix (% proportion)					
Equity	42%	41%	100bps	43%	-100bps
Debt	26%	31%	-500bps	27%	-100bps
Liquid	12%	12%	0bps	12%	0bps
ETFs	20%	16%	400bps	18%	200bps
Channel Mix (% proportion)					
Direct	56%	54%	200bps	55%	100bps
Distributed Assets	44%	46%	-200bps	45%	-100bps
MFDs	59%	57%	200bps	58%	100bps
Banks	21%	22%	-100bps	22%	-100bps
National Distributors	20%	21%	-100bps	20%	0bps
Geographical Spread					
T-30	83%	82%	70bps	83%	30bps
B-30	17%	18%	-70bps	18%	-30bps

Source: Company, YES Sec – Research

Exhibit 3: Quarterly Actuals Vs Estimates

Q4FY22 (Rs. mn)	Actuals	Estimates	Diff, %
Revenue	3,380	3,502	(3.5)
Operating profit	2,079	2,195	(5.3)
Profit after tax	1,748	1,872	(6.6)

Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 4: Balance Sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Share Capital	6,121	6,165	6,220	6,220	6,220
Total Reserves	19,809	24,844	28,566	30,982	33,363
Shareholder's Funds	25,931	31,009	34,786	37,202	39,583
Long Term Provisions	393	234	154	154	154
Other Non Current Liabilities	422	856	1,240	532	618
Total Non - Current Liabilities	815	1,090	1,394	687	772
Trade Payables	677	629	560	689	820
Other Current Liabilities	1,386	1,195	1,226	1,423	1,651
Total Current Liabilities	2,063	1,824	1,785	2,112	2,471
Total Liabilities and Equity	28,808	33,922	37,965	40,001	42,826
Net Block	3,236	3,008	2,960	3,160	3,360
Capital Work in Progress	20	13	1	0	0
Non Current Investments	18,846	25,500	29,417	31,592	33,734
Long Term Loans & Advances	998	774	838	974	1,129
Other Non Current Assets	192	352	376	437	507
Total Non-Current Assets	23,292	29,646	33,593	36,163	38,731
Sundry Debtors	593	459	754	929	1,105
Cash and Bank	4,633	3,606	3,384	2,638	2,674
Other Current Assets	282	204	231	268	311
Short Term Loans and Advances	9	7	4	4	4
Total Current Assets	5,517	4,276	4,373	3,838	4,095
Total Assets	28,808	33,922	37,965	40,001	42,826

Source: Company, YES Sec - Research

Exhibit 5: Profit and Loss Statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Investment Management Fees	11,636	10,199	13,103	15,413	18,403
Portfolio Management Fees	394	423	623	673	741
Operating Income	12,030	10,621	13,726	16,086	19,144
Fees and Commission	705	432	513	435	432
Employee Expense	3,024	2,713	2,903	3,077	3,262
Other Expenses	2,217	1,901	1,743	1,749	1,823
Total Expenses	5,945	5,046	5,159	5,261	5,518
Operating Profit	6,085	5,575	8,566	10,825	13,626
Other Income	(98)	3,572	2,290	2,236	2,402
Depreciation	333	333	272	316	336
Finance Cost	57	44	38	38	38
Profit before Tax	5,598	8,770	10,546	12,707	15,653
Tax	1,441	1,976	2,453	3,050	3,757
Net Profit	4,158	6,794	7,434	9,657	11,897

Source: Company, YES Sec - Research

Exhibit 6: Cash flow statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
PBT	5,598	8,770	10,546	12,707	15,653
Depreciation	333	333	272	316	336
Change in working cap	5,609	313	(142)	(789)	(2)
Tax paid	1,441	1,976	2,453	3,050	3,757
Others	(868)	3,172	3,131	8	8
Cash flow from operations	9,231	10,612	11,354	9,192	12,239
Capex	(1,021)	(97)	(213)	(516)	(536)
Change in investments	(5,946)	(6,654)	(3,918)	(2,175)	(2,143)
Others	0	0	0	0	0
Cash flow from investments	(6,966)	(6,751)	(4,130)	(2,690)	(2,679)
Free cash flow	2,265	3,861	7,224	6,502	9,560
Equity raised/(repaid)	1	44	55	0	0
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl tax)	3,061	4,932	6,842	7,249	9,524
Others	0	0	0	0	0
Cash flow from financing	(3,059)	(4,888)	(6,787)	(7,249)	(9,524)
Net change in cash	(794)	(1,027)	437	(746)	36

Source: Company, YES Sec – Research

Exhibit 7: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	NA	16,086	19,144	13,788	16,563	19,590	NA	(2.9)	(2.3)
Operating Profit	NA	10,825	13,626	8,394	10,895	13,642	NA	(0.6)	(0.1)
Profit After Tax	NA	9,657	11,897	7,674	9,564	11,761	NA	1.0	1.1

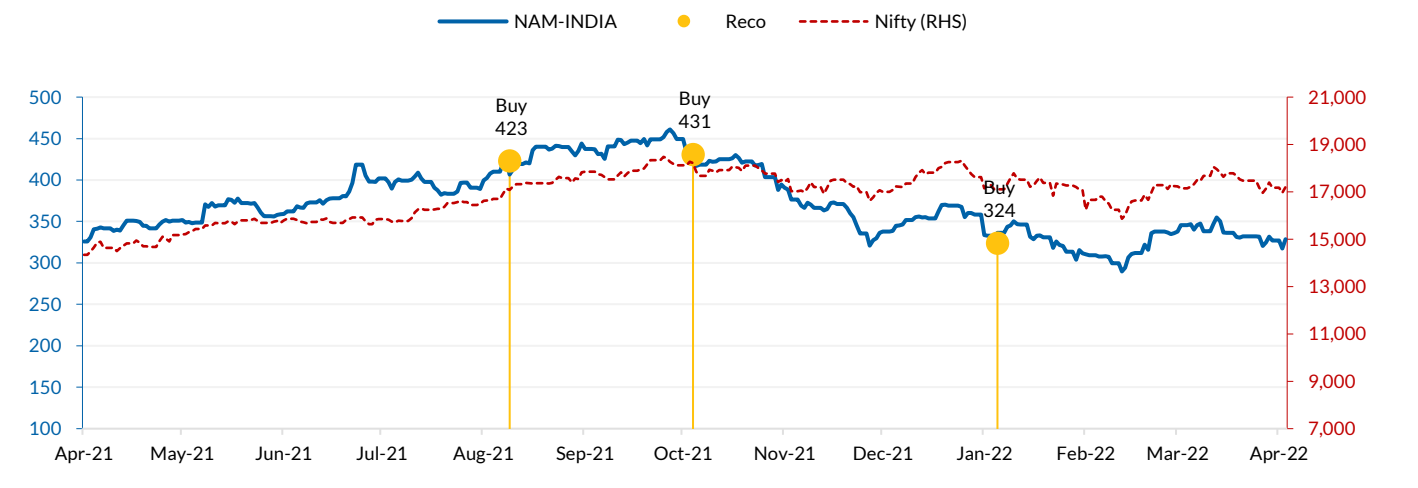
Source: Company, YES Sec – Research

Exhibit 8: Ratios

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth ratios (%)					
AAUM	-12.6%	-1.5%	30.2%	16.2%	16.0%
Management Fees	-19.6%	-12.3%	28.5%	17.6%	19.4%
PMS & Advisory Fees	22.3%	7.3%	47.3%	8.1%	10.1%
Staff Cost	3.0%	-10.3%	7.0%	6.0%	6.0%
Total Operating Expenses	-36.7%	-15.1%	2.2%	2.0%	4.9%
Profit Before Tax	-20.1%	56.7%	12.7%	28.5%	23.2%
Net profit	-14.6%	63.4%	9.4%	29.9%	23.2%
As a % of Avg AUM					
Investment Management Fees	0.56%	0.50%	0.49%	0.50%	0.51%
Staff Cost	0.14%	0.13%	0.11%	0.10%	0.09%
Other Expenses	0.11%	0.09%	0.07%	0.06%	0.05%
PBT	0.27%	0.43%	0.37%	0.41%	0.43%
Net profit	0.20%	0.20%	0.33%	0.28%	0.31%
Operating Ratios					
Operating Profit Margin	50.6%	52.5%	60.5%	67.3%	71.2%
PBT Margin	46.5%	82.6%	75.7%	79.0%	81.8%
PAT Margin	34.6%	64.0%	56.9%	60.0%	62.1%
ROE	16.1%	23.9%	22.6%	26.9%	31.0%
Dividend Payout Ratio	73.7%	72.5%	91.9%	75.0%	80.0%
Per share					
EPS	6.8	11.0	12.0	15.5	19.1
Book Value	42.4	50.3	55.9	59.8	63.6
Valuation Ratios					
P/E	48.4	29.8	27.5	21.1	17.2
P/BV	7.8	6.5	5.9	5.5	5.2
Mcap to AUM	9.8%	9.9%	7.6%	6.6%	5.7%
Dividend Yield	1.5%	2.4%	3.3%	3.5%	4.7%

Source: Company, YES Sec – Research

Recommendation Tracker



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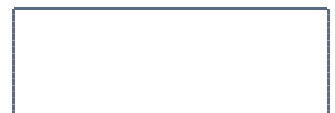
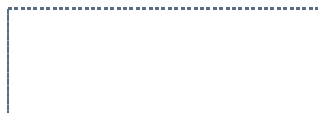
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