



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Grey	↑	Green
RV	Green	↔	Green

ESG Disclosure Score NEW

ESG RISK RATING

Updated Dec 08, 2022

23.11

Medium Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 14,196 cr
52-week high/low:	Rs. 357 / 227
NSE volume: (No of shares)	5.4 lakh
BSE code:	540767
NSE code:	NAM-INDIA
Free float: (No of shares)	16.2 cr

Shareholding (%)

Promoters	73.7
FII	5.8
DII	9.1
Others	11.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.8	-14.0	-23.7	-34.1
Relative to Sensex	-7.5	-13.4	-27.4	-37.0

Sharekhan Research, Bloomberg

Nippon Life India Asset Management Ltd

Stable Performance

AMC	Sharekhan code: NAM-INDIA
Reco/View: Hold	CMP: Rs. 228 Price Target: Rs. 265
Upgrade	Maintain Downgrade

Summary

- NAM India reported 7%/ 10% q-o-q growth in Core revenue and Core PBT, respectively driven by improvement in top-line yields to 48 bps (up 1 bps q-o-q)
- Improvement in yields was driven by higher proportion of Equity AUM at 44% (+100 bps q-o-q) along with improvement in realization in debt funds and ETF funds. However, the top line yields may continue to be under pressure as new lower yielding AUM replaces older higher yielding AUM.
- QAAUM grew by 4% y-o-y/3% q-o-q to Rs 2,928 bn. Equity AUM grew by 9% y-o-y contributing 44% of total AUM vs 43% q-o-q. Market share remained stable in Equity AUM and total AUM. SIP flows for the quarter grew by ~15% q-o-q vs 6% for the industry, leading to an improvement in market share to ~7.6% (up 70 bps q-o-q).
- At the CMP, the stock trades at 19.0x/ 17.1x/ 16.3x its FY2023E/ FY2024E / FY2025E EPS. We maintain Hold on NAM India with an revised PT of Rs. 265.

Nippon Life India Asset Management (NAM India) reported stable performance in Q3FY23. Core revenue grew by 5% y-o-y/7% q-o-q to Rs 354 crore while growth in quarterly average assets under management (QAAUM) stood at 4% y-o-y/3.0% q-o-q. Top line yield stood at ~48 bps vs 47 bps q-o-q & 48 bps y-o-y. The company attributed the increase in topline yields to – a change in mix towards higher yielding equity segment (44% vs 43% q-o-q), slightly higher yield in ETF segment and better pricing power in the debt segment as incremental returns are rising. However, there could be moderation expected in top line yields going forward. Operating expenses increased 11% y-o-y on account of higher other expenses (one off cost related to IT and office relocation). Employee expenses grew 2% y-o-y. Opex to AUM ratio was stable q-o-q at 19 bps versus 18 bps y-o-y. Other income was at Rs 62 crore. Equity AUM grew by 9% y-o-y contributing 44% of total AUM vs 43% q-o-q. Fixed income AUM declined by 30% y-o-y while ETF AUM rose by 43% y-o-y. Market share remained stable in Equity AUM and total AUM. SIP flows for the quarter grew by ~15% q-o-q vs 6% for the industry, leading to an improvement in market share to ~8%.

Key positives

- Top line yields improved sequentially by 1 bps.
- SIP flow market share improved to ~ 7.6% (+70 bps q-o-q).

Key negatives

- Higher Opex

Management Commentary

- Management expect realisation on debt funds could increase further as interest rate stabilizes and assets get deployed in longer duration debt funds. Outflows in debt funds were witnessed across industry driven by rising yield, competition from bank's deposit and Credit repayments by corporates.
- Equity yields improved due to higher proportion of flows coming from B-30 cities where TER is higher. Company also guided that they are witnessing an uptick in net equity inflows on the back of improvement in fund performance and should see equity market share going up from these levels.

Our Call

Maintain Hold on NAM with a revised PT of Rs. 265: Long-term prospects of the Indian AMC industry remain intact given the low penetration levels in India vis-à-vis developed countries and is a play on the financial inclusion of savings in India. NAM is focused more on the passive side. The SEBI's upcoming review of mutual fund fees and expenses is the key monitorable, and any downward revision of TER caps will further hamper operating leverage. Also, we believe the top line yields could remain slightly compressed in the near to medium term. Higher volatility in the capital market, higher intensity of competition in the industry, and yield compression going forward pose a challenge to NAM. Hence, we maintain our Hold rating with a revised price target (PT) of Rs. 265.

Key Risks

Decline in AUM growth due to increased competition, prolonged period of outflows due to weakness in market and regulatory risk.

Valuation (Consolidated)

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	1,536	1,657	1,830	2,013
PAT	743	741	823	870
EPS (Rs.)	12.0	12.0	13.3	14.0
P/E (x)	19.1	19.0	17.1	16.3
P/B (x)	4.1	3.8	3.5	2.9
ROE (%)	22.6	20.6	21.2	20.5

Source: Company; Sharekhan estimates

Key Results Highlights

Market share trends stable: Overall QAAUM stood at Rs. 2,928 billion, rising by ~4% y-o-y / ~3% q-o-q. Equity AUM grew by 9% y-o-y contributing 44% of total AUM versus 43% q-o-q. Fixed income AUM declined by 30% y-o-y while ETF AUM rose by 43% y-o-y. Market share remained stable in Equity AUM and total AUM. SIP flows for the quarter grew by ~15% q-o-q vs 6% for the industry, leading to an improvement in market share to ~8%. Company foresees strong trends and continued to gain market share going ahead. The company enjoys a leadership position in the ETF domain with ~69% share in ETF volumes on the NSE and BSE. It offers the largest number of ETFs (25) in the industry and commands a 14% market share. Overall QAAUM market share was stable at 7.3% q-o-q.

Yields trajectory: Equity yields improved due to higher proportion of flows coming from B30 cities where TER is higher and repricing in ETF & Debt segment. We believe as incremental new money replaces the old assets, NAM could see a decline in equity yields of about 2-3 bps. Management expect realization on debt funds could increase further as interest rate stabilises and assets get deployed in longer duration debt funds.

Higher Expenses: Other expenses were higher on account of one-off IT expenditure and office relocation expenses.

Higher share from B-30 locations & higher retail share: B-30 locations contribution for the company was at 19.2% versus 17.1% for the industry. Management continues to focus on its strategy of expansion in B-30 cities. Market share of total folios remained stable at 13.5% q-o-q. Likewise, market share of B-30 folios also remained stable at 11.7% in Q3FY2023.

Digital Channel Contribution: Digital channels contributed 59% vs 56% q-o-q to the total new purchase transactions.

Results (consolidated)

Particulars	Rs cr				
	Q3FY23	Q3FY22	Q2FY23	y-o-y (%)	q-o-q (%)
AAUM (Rs.bn)	2,928	2,806	2,851	4.3	2.7
Core Revenue	354	339	332	4.5	6.7
Other Income	62	30	82	103.7	-62.9
Revenue Yield (%)	0.48	0.48	0.47		
Operating Cost (% of AAUM)	0.19	0.18	0.19		
EBITDA (%)	66.2	65.7	66.6		
PBT	266	235	268	13.1	-0.4
Tax Rate (%)	23.1	26.1	23.0		
PAT	205	174	206	17.9	-0.4

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Strong growth potential however competitive intensity remains high

Over the last decade, the Indian MF Industry has grown at a steady pace from Rs. 6.6 lakh crore to Rs. 38.4 lakh crore, an approximately 6x increase in last 10 years. Industry is witnessing healthy growth in total folios largely due to increasing awareness and higher retail participation. Equities and passive assets is accounting for the incremental rise in overall assets reflecting the increasing risk appetite and need for diversification from the retail investors. The breadth of the investor base continued to expand and rising prominence of SIPs also lends stability to industry inflows. However competitive intensity is very high and underperformance of the funds in the short term may lead to higher outflows.

■ Company outlook - Lower topline yield may lead slow performance despite strong retail market share

We believe the topline yield could remain slightly compressed in the near term due to a change in the composition of the AUM mix and new competitors entering the marketplace. Higher volatility in the capital market, higher intensity of competition in the industry, and yield compression going forward pose a challenge to NAM. Opex to AAUM remains elevated at a higher level than its peers. We expect its AUM and PAT growth to moderate with lower top-line yields in the medium term.

■ Valuation - Maintain Hold on NAM with a revised PT of Rs. 265

Long-term prospects of the Indian AMC industry remain intact given the low penetration levels in India vis-à-vis developed countries and is a play on the financial inclusion of savings in India. NAM is focused more on the passive side. The SEBI's upcoming review of mutual fund fees and expenses is the key monitorable, and any downward revision of TER caps will further hamper operating leverage. Also, we believe the top line yields could remain slightly compressed in the near to medium term. Higher volatility in the capital market, higher intensity of competition in the industry, and yield compression going forward pose a challenge to NAM. Hence, we maintain our Hold rating with a revised price target (PT) of Rs. 265.

Peer Comparison

Companies	CMP (Rs/Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
NAM India	227	14,208	19.0	17.1	3.8	3.5	20.6	21.2
HDFC AMC	1,912	40,807	29.2	25.1	6.7	6.0	24.0	25.2

Source: Company; Sharekhan Research

About company

Nippon Life India Asset Management Limited (NAM) –is one of the largest asset managers with 26 years of track record and a total AUM of Rs. 3.6 lakh crore as on Dec 2022. The Company is involved in managing (i) mutual funds, including exchange traded funds (ETFs); (ii) managed accounts, including portfolio management services (PMS), alternative investment funds and pension funds; (iii) offshore funds and advisory mandates. Company is promoted by Nippon Life Insurance Company, one of the leading private life insurers in Japan.

Investment theme

With a strong foothold in B-30 cities and a wide distribution network, the company is expected perform better and gain market share. Currently, AUM contribution from B-30 cities is at ~19% as compared to industry contribution of ~17%. We believe the overall yields could remain slightly compressed in the near term due to a change in the composition of the AUM mix and higher competitive intensity.

Key Risks

Decline in AUM growth due to increased competition, prolonged period of outflows due to weakness in market and regulatory risk.

Additional Data

Key management personnel

Mr. Sundeep Sikka	ED & CEO
Mr. Prateek Jain	CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	NIPPON LIFE INSURANCE CO	73.66
2	LIFE INSURANCE CORP OF INDIA	6.12
3	INDUSIND BANK LTD	3.29
4	BARON CAPITAL INC	1.94
5	BARON EMERGING MARKETS FUND	1.83
6	HDFC ASSET MANAGEMENT CO LTD	1.36
7	NIPPON LIFE INDIA TRUSTEE	0.91
8	VANGUARD GROUP INC	0.81
9	GRANDEUR PEAK GLOBAL ADVISORS LLC	0.73
10	BHARTI AXA LIFE INSURANCE CO LTD	0.68

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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