



## 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	Green	↔	Green
RV	Green	↔	Green

## ESG Disclosure Score

NEW

ESG RISK RATING  
Updated Mar 08, 2023

23.11

## Medium Risk

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

Source: Morningstar

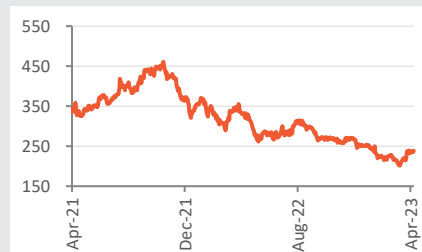
## Company details

Market cap:	Rs. 14,829 cr
52-week high/low:	Rs. 331 / 197
NSE volume: (No of shares)	4.3 lakh
BSE code:	540767
NSE code:	NAM-INDIA
Free float: (No of shares)	16.2 cr

## Shareholding (%)

Promoters	73.7
FII	5.0
DII	9.4
Others	12.0

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	18.4	-1.2	-11.2	-25.6
Relative to Sensex	12.3	-4.2	-13.1	-31.9

Sharekhan Research, Bloomberg

## Nippon Life India Asset Management Ltd

## Muted Q4

## AMC

Sharekhan code: NAM-INDIA

Reco/View: Hold



CMP: Rs. 238

Price Target: Rs. 265



Upgrade



Maintain



Downgrade

## Summary

- NAM India reported a 3%/ 2% y-o-y growth in core revenue and core PBT, respectively, in Q4FY23. Topline yields declined marginally to 0.475% vs 0.483% q-o-q.
- Dip in topline yield was driven by a higher share of ETFs. We believe top line yields are expected to be lower going forward as new lower yielding AUM replaces older higher yielding AUM.
- QAAUM grew by 4% y-o-y/flat q-o-q to Rs. 2,932 billion. It managed to hold equity market share q-o-q at ~6% however debt AUM declined by ~28% y-o-y. ETF AUM grew by ~32% y-o-y. SIP flows grew by ~11% q-o-q with market share at ~8%.
- At CMP, the stock trades at 18.8/ 17.9 its FY2024E / FY2025E EPS. We maintain Hold on NAM India with an unchanged PT of Rs. 265.

Nippon Life India Asset Management (NAM India) reported muted performance in Q4FY23. Core revenue grew by 3% y-o-y but was down 2% q-o-q to Rs. 338 crore while growth in quarterly average assets under management (QAAUM) stood at 4% y-o-y and flat q-o-q. Top line yield stood at ~0.475 bps vs 0.483 bps q-o-q and 0.477 bps y-o-y. We believe top line yields are expected to be lower going forward as new lower yielding AUM continues to replace older higher yielding AUM. Opex to AUM ratio was stable q-o-q at 19 bps versus 18 bps y-o-y. Other income was Rs. 40 crore vs Rs. 62 crore q-o-q owing to MTM losses on fixed income. Equity AUM is now contributing 44% of AUM vs 41% y-o-y. Fixed income AUM declined to 18% vs 25% y-o-y while ETF AUM at 24% vs 19% y-o-y. Market share remained stable in Equity AUM however marginally declined on total AUM basis. SIP flows for the quarter grew by ~11% q-o-q leading to an improvement in market share to ~8%. The share of SIP of more than five years is 60% for NAM India, which is higher than the industry average of 24%, indicating stickiness in SIP inflow.

## Key positives

- SIP flow continues to remain strong with company gradually improving its market share.
- Managed to hold equity market share despite decline in total AUM share.

## Key negatives

- QAAUM growth was muted.

## Management Commentary

- Company is seeing a lower churn in AUM due to better performance. Outflows in debt funds were witnessed across industry driven by rising yields, competition from bank deposits and credit repayments by corporates.
- Yield has been impacted by replacement of new funds by old as newer funds have a higher cost of acquisition. Nippon is 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

**Valuation – Maintain Hold on NAM with unchanged PT of Rs. 265:** Regulatory actions continue to be a challenge for the industry as whole. Any downward revision of TER caps in the upcoming SEBI meeting would further put pressure on operating leverage. Also, we believe topline yields could remain slightly stressed 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 unchanged 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)

	Rs cr			
Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,536	1,517	1,640	1,750
PAT	743	723	790	830
EPS (Rs.)	11.8	11.5	12.7	13.3
P/E (x)	20.2	20.7	18.8	17.9
P/B (x)	4.3	4.2	4.1	4.0
ROE (%)	22.6	20.7	22.2	22.5

Source: Company; Sharekhan estimates

## Key Results Highlights

- ♦ **Market share trends:** Overall QAAUM stood at Rs. 2,932 billion, rising by ~4% y-o-y / flat q-o-q. Market share declined by 14 bps y-o-y/ 3 bps q-o-q based on QAAUM. It managed to hold equity market share q-o-q at ~6% however debt AUM declined by ~28% y-o-y. ETF AUMs grew by ~32% y-o-y. SIP flows for the quarter grew by ~11% q-o-q with market share at ~8%. The company foresees strong trends and continues to gain market share going ahead. The company enjoys a leadership position in the ETF domain with ~70% 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.
- ♦ **Yields trajectory:** Topline yields marginally declined to 0.475% vs 0.483% q-o-q. The marginal decline in top line yield was driven by a higher share of ETFs. Yields are expected to be lower going forward a) A replacement of old AUM (higher yielding) by new; b) higher cost of acquisition of the new AUM; c) increase in fund size. However, the pace of this decline has come down due to lower churn amid a good equity performance and completion of bulk of the asset replacement (only 30% of assets are under the old pricing). NAM could see a decline in equity yields of about 2-3 bps. Management expects debt yields to rise because the net return to investors has gone up, which in turn gives the company flexibility to charge extra. Equity yields are at- 70 -80 bps, debt yields at 23-30bps and liquid funds earning at 15-20 bps.
- ♦ **Lower tax rate:** The effective tax rate was 17% in Q4FY23 led by favorable tax treatment as the company received on both fixed income and equity investments as they turned long term.
- ♦ **Higher share from B-30 locations & Retail segment:** B-30 locations contribution for the company was at 19.0% versus 16.9% for the industry. Management continues to focus on its strategy of expansion in B-30 cities. Market share in B-30 folios remained stable at 11.7% q-o-q. Retail share at 29% is higher than the industry average of 25%
- ♦ **Digital Channel Contribution:** Digital channels contributed 57% in FY23 to the total new purchase transactions.
- ♦ **Dividend:** The company declared a dividend of Rs. 11.5 per equity share for FY23 with a dividend payout ratio of ~100%.

## Results (Consolidated)

Particulars	Rs cr				
	Q4FY23	Q4FY22	Q3FY23	Y-o-Y %	Q-o-Q %
AAUM (Rs.bn)	2,932	2,833	2,928	3.5	0.1
Core Revenue	348	338	354	3.1	-1.5
Other Income	40	34	62	15.1	-35.9
Revenue Yield (%)	0.475	0.477	0.483		
Operating Cost (% of AAUM)	0.19	0.18	0.19		
EBITDA (%)	64.0	65.1	66.2		
PBT	239	234	266	2.1	-10.2
Tax Rate (%)	17.3	25.4	23.1		
PAT	198	175	205	13.3	-3.5

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Strong growth potential however competitive intensity & regulatory risk is higher

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. Regulatory risk also remains high.

### ■ Company Outlook – Lower topline yield may lead muted performance despite strong retail market share

We believe the topline yield could remain slightly stressed in the near term. 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 near to medium term.

### ■ Valuation – Maintain Hold on NAM with unchanged PT of Rs. 265

Regulatory actions continue to be a challenge for the industry as whole. Any downward revision of TER caps in the upcoming SEBI meeting would further put pressure on operating leverage. Also, we believe topline yields could remain slightly stressed 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 unchanged price target (PT) of Rs. 265.

## About company

Nippon Life India Asset Management Limited (NAM) –is one of the largest asset managers. 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 thus would lead to muted performance.

## 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 Website

### 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	1.77
5	BARON EMERGING MARKETS FUND	1.66
6	HDFC ASSET MANAGEMENT CO LTD	1.36
7	VANGUARD GROUP INC	0.96
8	NIPPON LIFE INDIA TRUSTEE	0.91
9	BHARTI AXA LIFE INSURANCE CO LTD	0.80
10	UTI AMC LTD	0.70

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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Source: Sharekhan Research

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