Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Nippon Life India Asset Management Ltd

Strong earnings streak continues

AMC	Sharekhan code: NAM-INDIA
Reco/View: Buy ↔	CMP: Rs. 521	Price Target: Rs. 615 ↑

↑ 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		↔	

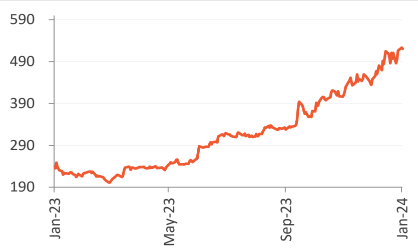
Company details

Market cap:	Rs. 32,686 cr
52-week high/low:	Rs. 541/197
NSE volume: (No of shares)	9.2 lakh
BSE code:	540767
NSE code:	NAM-INDIA
Free float: (No of shares)	17.0 cr

Shareholding (%)

Promoters	73.1
FII	5.5
DII	14.2
Others	7.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.3	40.4	63.3	121.7
Relative to Sensex	16.2	29.4	56.1	103.5

Sharekhan Research, Bloomberg

Summary

- Core revenues grew 20% y-o-y/ 7% q-o-q driven by strong growth in QAAUM (up 29% y-o-y/ 8% q-o-q). Blended revenue yields were at 45 bps versus 48 bps y-o-y.
- Core PBT grew by 23% y-o-y/ 8% q-o-q. Overall market share rose by 21 bps q-o-q in QAAUM to 7.67%. Equity market share (exc. ETF) also rose 15 bps q-o-q to 6.67%.
- We maintain a Buy rating with a revised PT of Rs. 615. Strong market share gains along with higher retail mix is a key positive.
- At CMP, the stock trades at 29.6x/ 27.1x its FY2025E / FY2026E EPS.

Q3FY24 numbers were strong. Strong returns across schemes continues to drive market share gains in flows and overall AUM. Core revenue grew by 20% y-o-y/ 7% q-o-q to Rs. 423 crore, while quarterly average assets under management (QAAUM) rose 29% y-o-y /8% q-o-q. Blended revenue yields stood at 45 bps versus 48 bps y-o-y. Opex grew by 17% y-o-y/ 5% q-o q. Opex to AUM ratio improved to 17 bps vs 19 bps y-o-y. Other income was Rs. 107 crore (up 73% y-o-y/ 38% q-o-q) mainly led by higher mark-to-market (MTM) gains. Core PBT grew by 23% y-o-y/ 8% q-o-q led by strong core revenue growth and operating leverage. Equity AUM is now contributing 49% of AUM versus 45% y-o-y grew strongly by 54% y-o-y/ 12% q-o-q. ETF grew by 36% y-o-y/ 15% q-o-q. SIP flows rose ~26% q-o-q in Q3, boosting market share to ~12% versus 10% q-o-q. SIP accounts continuing for >5 years is 63% for NAM India, higher than the industry average of 27%, indicating stickiness in SIP inflows. We expect Nippon to deliver better-than-industry AUM growth.

Key positives

- Strong market share gain across equity AUM and SIP flows.

Key negatives

- Equity yields were lower at 60-65 bps vs 70 bps q-o-q.

Management Commentary

- The company guided that equity yields on the book are at ~60-65 bps vs (~70 bps last quarter), debt yields at 20-25 bps, liquid and ETF yields at 10-20 bps.
- Incremental market share in SIP flows during the quarter stood at ~18%.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 615: The effect of lower equity yield on core revenues is expected to be partly managed by strong growth in the AUM led by strong market share gains. We maintain a Buy rating on NAM India with a revised PT of Rs. 615 on the back of sustained strong flows driven by strong market share gains. We remain watchful of the key changes in the TER norms in the revised proposed discussion paper to be put forth by the SEBI.

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	FY26E
Revenue	1,307	1,350	1,600	1,900	2,150
PAT	744	723	1,000	1,100	1,200
EPS (Rs.)	12.0	11.9	16.0	17.6	19.2
P/E (x)	43.6	43.7	32.6	29.6	27.1
P/B (x)	9.3	9.1	9.0	8.8	8.7
ROE (%)	22.6	20.7	28.0	29.5	30.0

Source: Company; Sharekhan estimates

Key result highlights

- This is the third consecutive quarter where Nippon is improving its market share across segments.
- It is among the fastest-growing AMCs in B-30 cities (market share at ~8.7% -up 13 bps q-o-q). It forms 20% of the AUM vs 18% for the industry.
- The company has the largest base of unique investors in the mutual fund industry with 15.5 million.
- There has been a continuous uptick in the SIP flows over the past 10 quarters which has led to an increase in market share. Incremental market share in SIP flows during the quarter stood at ~18%.
- Total number of SIPs below Rs.10,000 is 75%. The company has higher shares of smaller-ticket size SIP flows that leads to stickiness.
- Fixed income category that is both debt and liquid witnessed net outflow however majority of the outflow was in shorter duration funds.
- Equity yields on book are at ~60-65 bps vs (~70 bps last quarter), debt yields at 20-25 bps, liquid, and ETF at 10-20 bps.
- SEBI`s telescopic pricing formula for charging total expense ratio (TER) is impacting the overall equity yield. Even though the proportion of equity goes up, the overall blended yield comes down due to the pricing formula.
- Physical distribution base is well diversified with a presence in 260 locations across the country. The company has over 98,000 distributors in total and added 2,400 distributors during the quarter.

Results (Consolidated) Rs cr

Particulars	Q3FY24	Q3FY23	Q2FY24	y-o-y (%)	q-o-q (%)
AAUM (Rs.bn)	3,777	2,928	3,506	29.0	7.7
Core Revenue	423	354	397	19.6	6.5
Other Income	107	62	78	72.9	37.5
Revenue Yield (%)	0.45	0.48	0.45	-0.0	-0.0
Operating Cost (% of AAUM)	0.17	0.19	0.18		
EBITDA (%)	69.0	66.2	67.2		
PBT	358	266	310	34.4	15.4
Tax Rate (%)	20.7	23.1	21.3		
PAT	284	205	244	38.6	16.3

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Strong growth potential

Mutual fund flows are seeing strong growth largely due to buoyant market and higher retail participation. Equities and ETFs are accounting for the incremental rise in overall assets reflecting the increasing risk appetite and need for diversification from retail investors. 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 - Yield pressure is being offset by strong AUM growth

NAM India has been witnessing strong growth across segments leading to strong market gains on the back of buoyant market. Also, its equity funds have been delivering better performance in the past years vs peers which is driving improvement in net inflows. Impact of lower equity yields on core revenue has been broadly managed by increasing the yield in other segments and faster growth in AUMs.

■ Valuation - Maintain Buy with a revised PT of Rs. 615

The effect of lower equity yield on core revenue is expected to be partly managed by strong growth in the AUM led by strong market share gains. We maintain a buy rating on NAM India with a revised PT of Rs. 615 on the back of sustained strong flows driven by strong market share gains. We remain watchful of the key changes in the TER norms in the revised proposed discussion paper to be put forth by the SEBI.

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 to perform better and gain market share. AUM contribution from B-30 cities is at ~18%. Also Individual segment contributes to 60% of AUM.

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. Amol Bilagi	Interim CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life Insurance Co	73.1
2	Life Insurance Corp of India	6.08
3	HDFC Asset Management Co Ltd	1.76
4	Baron Capital Inc	1.64
5	SBI Funds Management Ltd	1.59
6	ICICI Prudential Asset Management	1.17
7	Vanguard Group Inc/The	0.92
8	Tata Asset Management Pvt Ltd	0.85
9	UTI Asset Management Co Ltd	0.79
10	Union Mutual Fund/India	0.44

Source: Bloomberg

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

Sharekhan

by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200 / 022-69920600