Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

# Nippon Life India Asset Management Ltd

## Q1 strong on expected lines

| AMC | Sharekhan code: NAM-INDIA | | |
|---|---|---|---|
| Reco/View: **Buy** ↔ | CMP: **Rs. 639** | Price Target: **Rs. 750** ↑ | |

↑ 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 | | ↔ | |

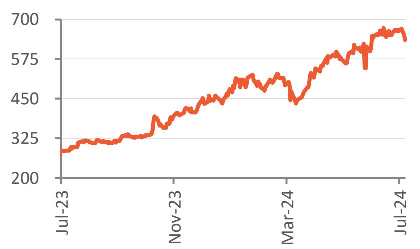
**Company details**

| | |
|---|---|
| Market cap: | Rs. 40,398 cr |
| 52-week high/low: | Rs. 687 / 303 |
| NSE volume: (No of shares) | 10.0 lakh |
| BSE code: | 540767 |
| NSE code: | NAM-INDIA |
| Free float: (No of shares) | 17.1 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 72.7 |
| FII | 6.6 |
| DII | 14.4 |
| Others | 6.4 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | -1.8 | 13.9 | 28.6 | 115.2 |
| Relative to Sensex | -5.9 | 3.6 | 16.1 | 95.9 |

*Sharekhan Research, Bloomberg*


## Summary

- Core revenues grew 43% y-o-y/ 8% q-o-q driven by strong growth in QAAUM (up 54% y-o-y/ 12% q-o-q) partly offset by lower yields. Blended revenue yields were at 42 bps versus 45 bps y-o-y.
- Core PBT grew by 60% y-o-y/ 9% q-o-q. Overall market share rose by 24 bps q-o-q in QAAUM to 8.2%. Equity market share (ex-ETFs) also rose 12 bps q-o-q to 6.86%.
- SIP flows rose by 7.5% q-o-q and market share improved to ~11% vs ~8% y-o-y.
- We maintain a Buy with a revised PT of Rs. 750. At CMP, the stock trades at 30.8x/ 27.6x its FY2025E / FY2026E EPS.


**NAM India reported yet another strong quarter led by buoyant capital market flows. Core revenues grew by 43% y-o-y/ 8% q-o-q to Rs. 505 crore, while quarterly average assets under management (QAAUM) rose by 54% y-o-y /12% q-o-q. Blended revenue yields stood at 42 bps versus 45 bps y-o-y. Operating expenses grew by 24% y-o-y/ 6% q-o q mainly led by staff cost. Other income was Rs. 131 crore (up 12% y-o-y/ 42% q-o-q) mainly led by higher mark-to-market (MTM) gains. Core PBT grew by 60% y-o-y/ 9% q-o-q led by strong core revenue growth. PAT grew by 41% y-o-y. Equity AUM is now contributing 50% of AUM versus 38% y-o-y grew strongly by 102% y-o-y/ 14% q-o-q. ETF AUMs grew by 76% y-o-y/ 16% q-o-q. SIP flows rose ~7.5% q-o-q in Q1, boosting market share to ~11% versus ~8% y-o-y. SIP accounts continuing for >5 years is 59% for NAM India, higher than the industry average of 28% indicating stickiness in SIP inflows. We expect Nippon to deliver better-than-industry AUM growth. Strong returns across schemes is expected to drive market share gains in flows and in overall AUMs.**

### Key positives

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

### Key negatives

- Blended revenue yields were lower at 42 bps versus 45 bps y-o-y and 43 bps q-o-q.
- Staff cost was higher (up 35% y-o-y/ 19% q-o q) led by addition of employees, annual increments, variable pay and ESOP costs.

### Management Commentary

- Q1FY25 was the fifth consecutive quarter for the company to see market share gain across equity AUM and overall AUM led by healthy performance from most of the equity schemes along with strong distribution network, digital capabilities and strong risk management.
- Company guided that equity yields on the book are at ~60bps, debt yields at ~25 bps, liquid and ETF yields at 10-12 bps and 15 bps, respectively.
- Company added 45 employees in Q1 and 50 management trainees in July '24 leading to a total headcount increase to 95 employees. Of the total increased majority are on account of increasing the team size in sales, distribution and AI functions.

### Our Call

**Valuation – Maintain Buy with a revised PT of Rs. 750:** The effect of lower equity yields on core revenues has been partly managed by strong growth in the AUM led by strong market share gains. We maintain a Buy on NAM India with a revised PT of Rs. 750 on the back of sustained strong broad-based flows across segment driven by strong market share gains.

### 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 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|
| Revenue | 1,307 | 1,350 | 1,643 | 2,200 | 2,500 |
| PAT | 744 | 723 | 1,107 | 1,300 | 1,450 |
| EPS (Rs.) | 12.0 | 11.5 | 17.5 | 20.6 | 23.0 |
| P/E (x) | 53.1 | 55.1 | 36.2 | 30.8 | 27.6 |
| P/B (x) | 11.4 | 11.1 | 10.0 | 9.8 | 9.5 |
| ROE (%) | 22.6 | 20.7 | 29.5 | 32.0 | 32.5 |

*Source: Company; Sharekhan estimates*

## Key concall highlights

- Q1FY25 was the fifth consecutive quarter where NAM India is improving its market share in equity AUM and overall AUM.
- Nippon is among the fastest-growing AMCs in B-30 cities (market share at ~9% -up 20 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 17.5 million.
- There has been a continuous uptick in SIP flows over the past 12 quarters which is leading to an increase in market share.
- Equity yields on book are at ~60 bps, debt yields at ~25 bps, liquid ~10-12 bps and ETF yields at ~15 bps.
- SEBI`s telescopic pricing formula for charging total expense ratio (TER) is impacting equity yields. Even though the proportion of equity goes up, the overall blended yield comes down due to the pricing formula. Blended revenue yields were lower at 42 bps versus 45 bps y-o-y and 43 bps q-o-q.
- Company has over 1,04,300 + distributors in total and added 2,900 distributors during the quarter.
- The company has added 45 employees in Q1 and 50 management trainees in July '24 leading to a total headcount increase to 95 employees. Of the total increased majority are on account of increasing the team size in sales, distribution and AI function.
- Company has launched credit AIF and long only small cap equity AIF. Fund raising is underway and both funds have undertaken their initial closing. The company recently undertook the first closing of tech VC AIF named Nippon India Digital Innovation Fund Scheme 2A to target early to growth-stage startups. The company has seen good equity inflow in the offshore funds during the quarter from various international geographies.

**Results (Consolidated)** Rs cr

| Particulars | Q1FY25 | Q1FY24 | Q4FY24 | Y-o-Y (%) | Q-o-Q (%) |
|---|---|---|---|---|---|
| AAUM (Rs.bn) | 4,838 | 3,136 | 4,313 | 54.3 | 12.2 |
| Core Revenue | 505 | 354 | 468 | 42.6 | 7.8 |
| Other Income | 131 | 117 | 92 | 11.9 | 41.7 |
| Revenue Yield (%) | 0.42 | 0.45 | 0.43 | -0.0 | -0.0 |
| Operating Cost (% of AAUM) | 0.16 | 0.19 | 0.16 | | |
| EBITDA (%) | 88.6 | 67.8 | 81.8 | | |
| PBT | 439 | 310 | 374 | 41.6 | 17.3 |
| Tax Rate (%) | 24.3 | 24.1 | 8.4 | | |
| PAT | 332 | 236 | 343 | 41.0 | -3.1 |

*Source: Company; Sharekhan Research*

## Outlook and Valuation

### ■ Sector Outlook – Strong growth potential

Mutual fund flows are growing strongly 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 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. 750

The effect of lower equity yields on core revenues has been partly managed by strong growth in the AUM led by strong market share gains. We maintain a Buy on NAM India with a revised PT of Rs. 750 on the back of sustained strong broad-based flows across segment driven by strong market share gains.

## 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

NAM India has been witnessing strong growth across segments led by strong market gains. Equity markets, fund performance and wide reach (Strong presence in B-30 segment) are supporting overall flows.

## 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. Saugata CHATTERJEE | Chief Business Officer |
| Mr. Amol Bilagi | Interim CFO |

*Source: Company Website*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | Nippon Life Insurance Co | 72.86 |
| 2 | Life Insurance Corp of India | 6.06 |
| 3 | HDFC Asset Management Co Ltd | 1.70 |
| 4 | Baron Capital Inc | 1.63 |
| 5 | SBI Funds Management Ltd | 1.46 |
| 6 | ICICI Prudential Asset Management | 1.13 |
| 7 | Vanguard Group Inc | 0.92 |
| 8 | UTI Asset Management Co Ltd | 0.81 |
| 9 | Tata Asset Management Pvt Ltd | 0.59 |
| 10 | BlackRock Inc | 0.43 |

*Source: Bloomberg data, as of April 2024*

## 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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