Stock Update

Company Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Nippon Life India Asset Management Ltd

Sector tailwinds aiding growth

AMC	Sharekhan code: NAM-INDIA		
Reco/View: **Buy** ↔	CMP: **Rs. 698**	Price Target: **Rs. 840** ↑	

↑ 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		↔	

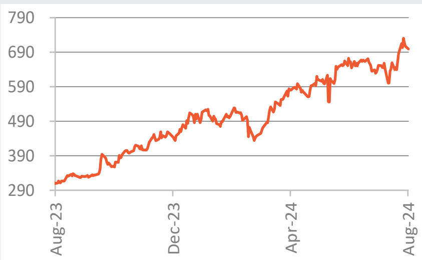
Company details

Market cap:	Rs. 44,190 cr
52-week high/low:	Rs. 740 / 309
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	7.1	15.0	31.9	125.2
Relative to Sensex	6.5	6.5	18.8	99.3

Sharekhan Research, Bloomberg

Summary

- Strong retail flows led by buoyant equity markets and launch of new/innovative passive schemes is driving strong performance.
- The company has relatively higher retail investor mix than industry (driven by higher share in AUM from B-30 vs Industry) and steady delivery will likely support the valuation in near to medium term.
- The company has been consistently gaining market share across segments and the focus remains on increasing mix towards equities & ETF.
- We maintain a Buy with a revised PT of Rs. 840. At CMP, the stock trades at 34.1x/ 30.5x/ 27.7x its FY2025E / FY2026E/ FY2027 EPS.

Nippon Life India Asset Management Ltd (NAM India) has been seeing strong growth across its segments leading to strong market gains on the back of buoyant market. Also, its equity funds have been delivering better performance versus peers which is also driving improvement in net inflows. The company has stayed away from launching new funds in sectoral/thematic categories, while focusing on gathering SIP flows in existing products. Thus, robust SIP inflows and emphasis on new/caliberated passive schemes is expected to aid AUM growth with further increase in share of equity AUM while the company has been trying to offset yield pressure (from lower TERs) through realignment of commission structure on new flows and partly by higher AUM growth.

AUM growth to be healthy: We expect AUM growth to remain healthy at ~22-24% over FY24-27E. The company is focusing on broadening its market share through various channels, derisking the business by expanding into new investor segments, and maintaining yields by adjusting commission payouts. The company has consciously avoided launching new sectoral schemes as experience indicates that such flows are less sticky. Hence, focus remains on existing flagship products including passive funds. Equity AUM is now contributing 50% of AUM versus 45% y-o-y. SIP flows market share has improved 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 the company to deliver better-than-industry AUM growth led by higher retail share and new/innovative passive products. The recently launched NFO for Nifty 500 Equal Weight Index Fund is gaining traction.

Yields to moderate, albeit strong revenue growth: Blended revenue yields on MF QAAUM are expected to be lower by 2-3 bps over the coming years due to the telescopic pricing formula outlined by SEBI. But 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. Going forward the company has been trying to offset yield pressure (from lower TERs) through realignment of commission structure on new flows.

Opex growth to remain contained: NAM India expects opex to increase by 12-13% (ex-ESOP cost) over the next 2-3 years. Focus is on improving efficiency of existing branch rather than opening new branches with additions of 10-15 branches per year, mainly because a lot of business comes digitally even from B30 locations. On the employee headcount, it would add about 100 employees in next 2-3 years.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 840: We believe strong retail flows and new/innovative passive schemes are likely to support strong AUM growth going forward. The company has relatively higher retail investor mix than industry (driven by higher share in AUM from B-30 vs Industry) and steady delivery will likely support the valuation in near to medium term. We expect core revenue/PAT to grow at a 20%/ 13% CAGR over FY24-27E. We maintain a Buy on NAM India with a revised PT of Rs. 840 on the back of continued healthy performance and consistent market share gains.

Key Risks

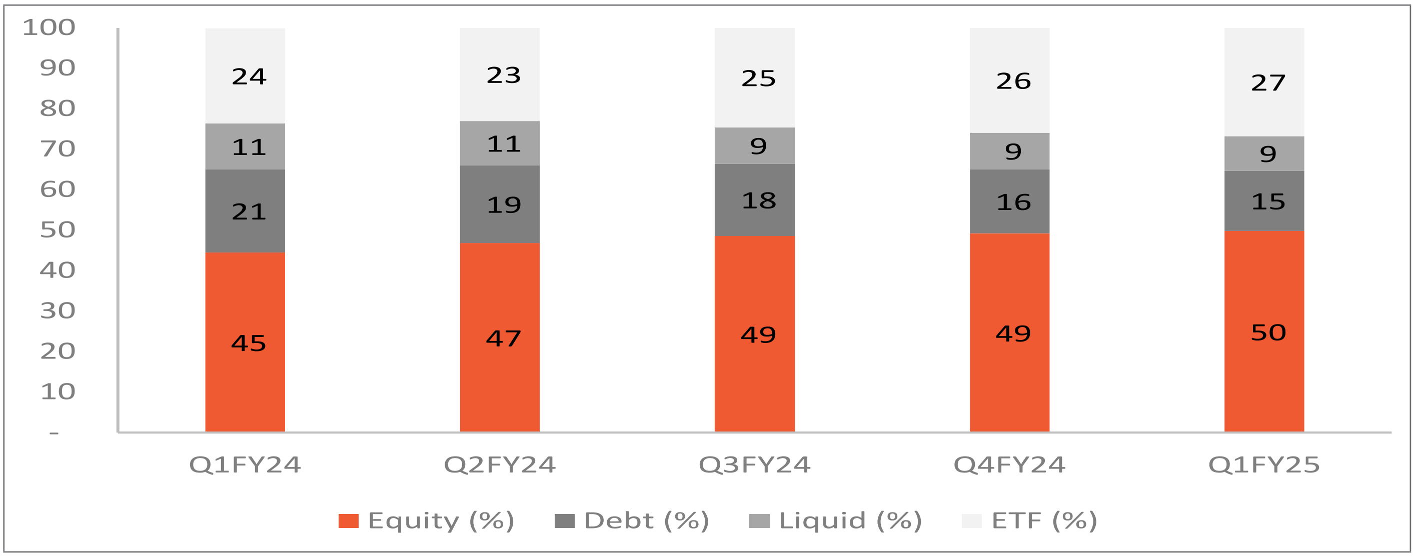
Slower AUM growth due to increased competition, prolonged period of outflows due to weakness in market and regulatory risks.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	1,350	1,643	2,200	2,500	2,800
PAT	723	1,107	1,300	1,450	1,600
EPS (Rs.)	11.5	17.5	20.6	23.0	25.4
P/E (x)	61.0	40.1	34.1	30.5	27.7
P/B (x)	12.3	11.1	10.8	10.5	10.2
ROE (%)	20.7	29.5	32.0	32.5	34.0

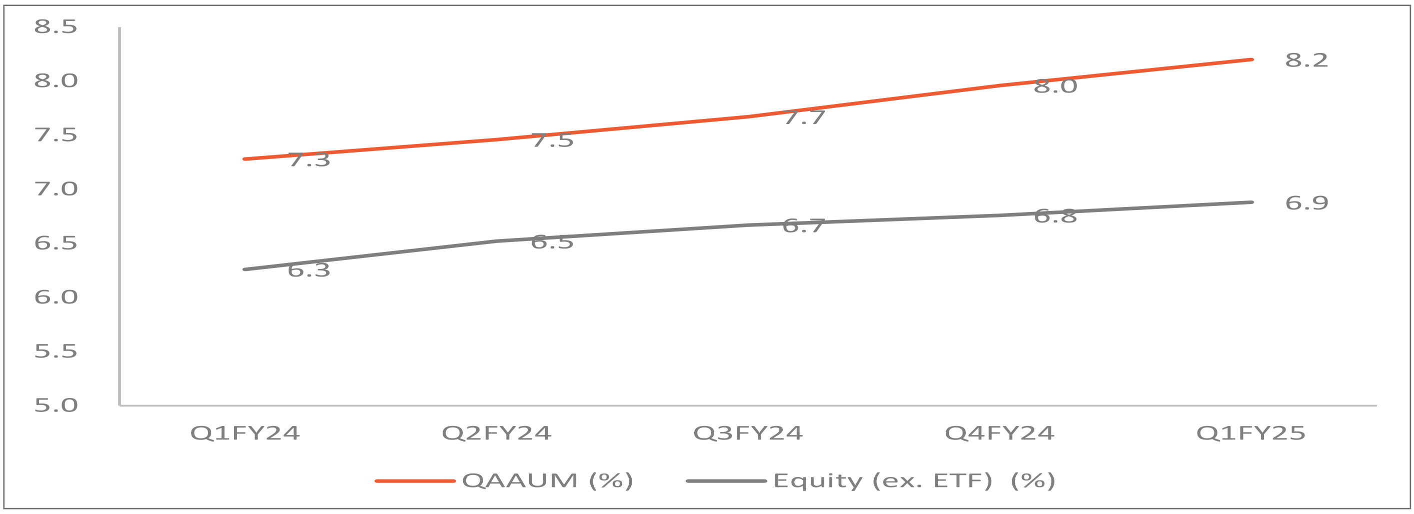
Source: Company; Sharekhan estimates

Trend in MF AUM Mix



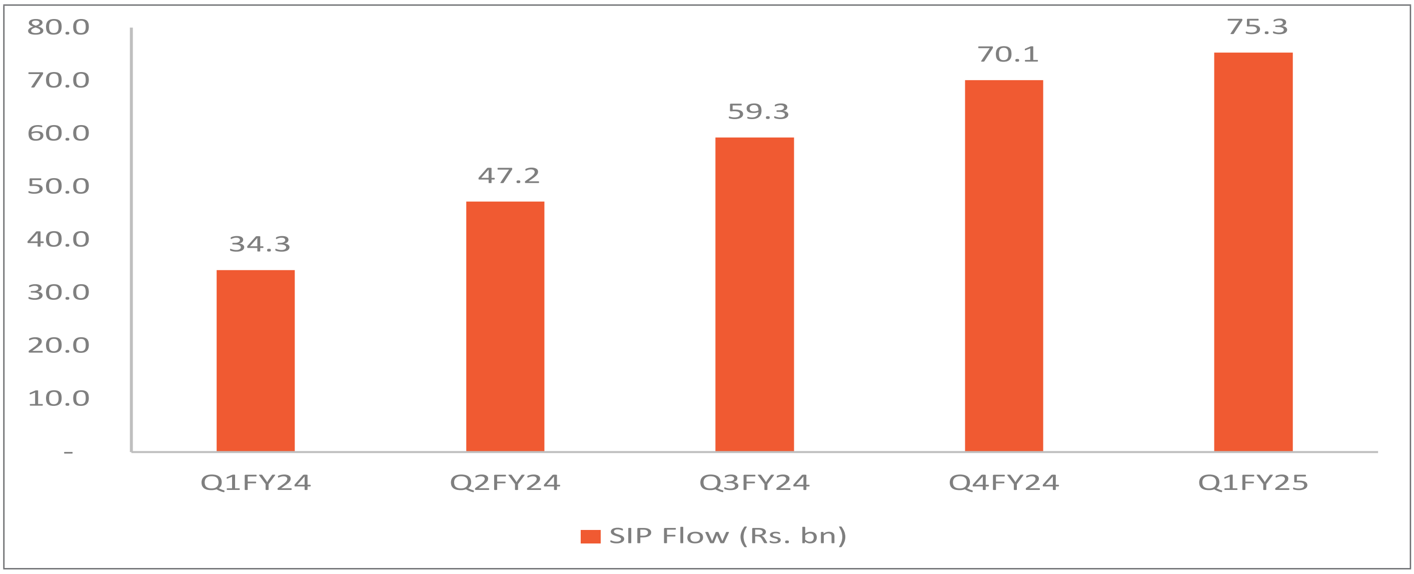
Source: Company data, Sharekhan Research

Trend in Market share gains



Source: Company data, Sharekhan Research

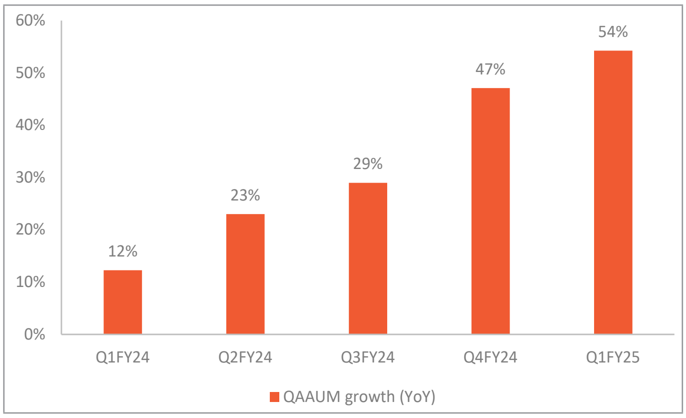
Trend in SIP flow



Source: Company data, Sharekhan Research

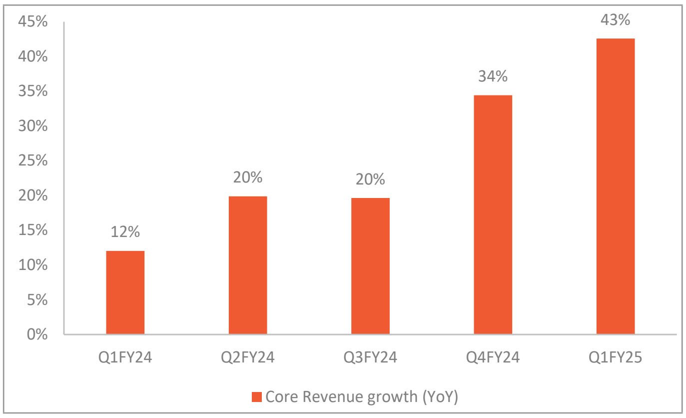
Financials in charts

Trend in QAAUM growth



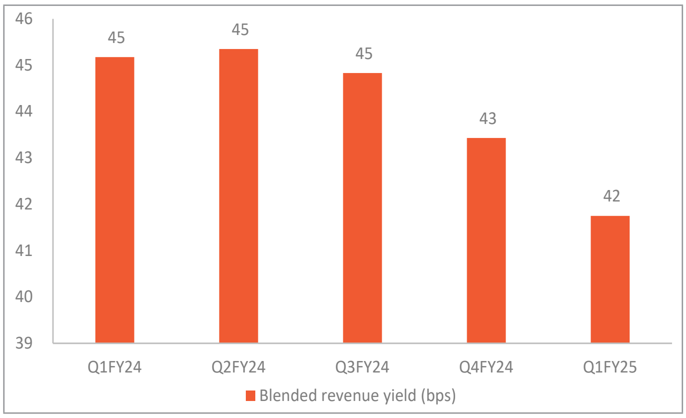
Source: Company, Sharekhan Research

Trend in Core Revenue growth



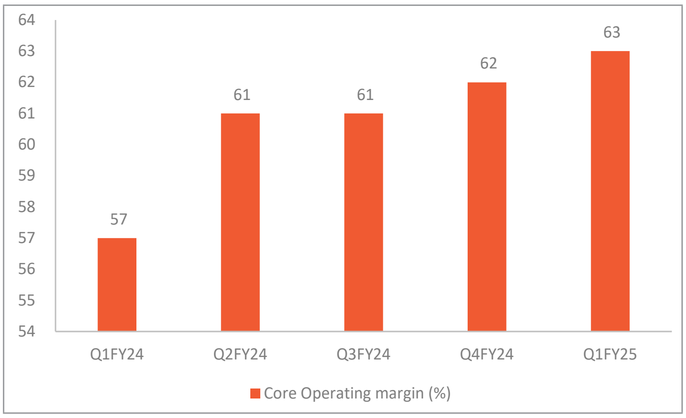
Source: Company, Sharekhan Research

Trend in blended revenue yield



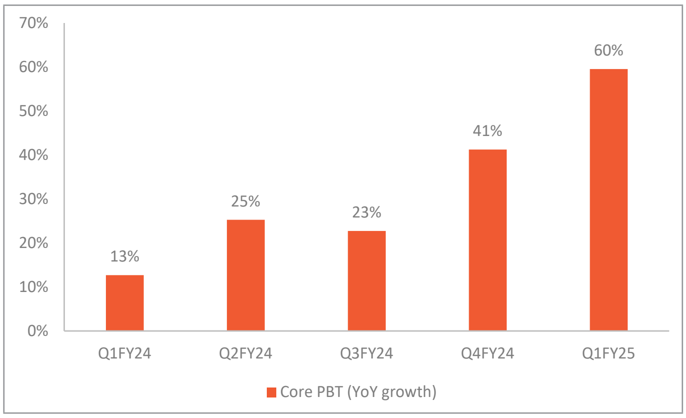
Source: Company, Sharekhan Research

Trend in Operating Margin



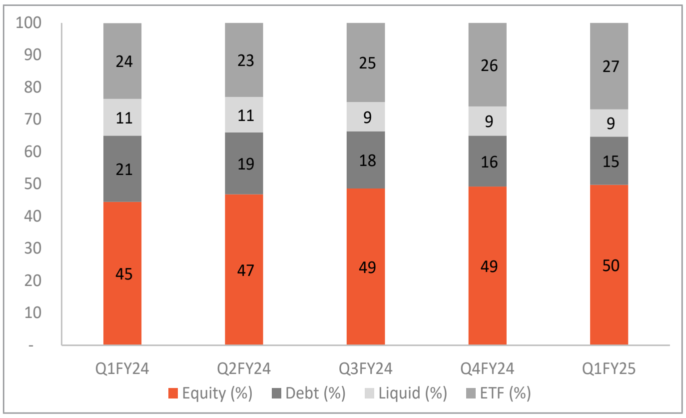
Source: Company, Sharekhan Research

Trend in Core PBT growth



Source: Company, Sharekhan Research

Trend in MF AUM Mix



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Strong growth potential but regulatory risk is higher

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 – Market share gains across segments, outlook Healthy

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. 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.

■ Valuation – Maintain Buy with a revised PT of Rs. 840

We believe strong retail flows and new/innovative passive schemes are likely to support strong AUM growth going forward. The company has relatively higher retail investor mix than industry (driven by higher share in AUM from B-30 vs Industry) and steady delivery will likely support the valuation in near to medium term. We expect core revenue/ PAT to grow at a 20%/ 13% CAGR over FY24-27E. We maintain a Buy on NAM India with a revised PT of Rs. 840 on the back of continued healthy performance and consistent market share gains.

About the 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

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

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	72.54
2	Life Insurance Corp of India	5.39
3	HDFC Asset Management Co Ltd	1.74
4	SBI Funds Management Ltd	1.34
5	Vanguard Group Inc	1.04
6	Baron Capital Inc	1.02
7	ICICI Prudential Asset Management	0.99
8	DSP Investment Managers Pvt Ltd	0.98
9	HSBC Asset Management India Pvt Ltd	0.57
10	L&T Mutual Fund Trustee Ltd	0.56

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

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