Nippon Life India Asset Management (NAM IN)

Rating: BUY | CMP: Rs680 | TP: Rs820

October 25, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		BUY	
Target Price	820		700	
Sales (Rs. m)	26,118	29,593	24,582	28,399
% Chg	*6.2*	*4.2*		
Opex (Rs. m)	9,511	10,441	8,797	9,736
% Chg	*8.1*	*7.2*		
Core EPS (Rs.)	20.2	23.3	19.3	22.8
% Chg	*4.7*	*2.1*		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Revenue (Rs m)	16,432	23,006	26,118	29,593
Opex	6,849	8,435	9,511	10,441
Employee	3,360	4,352	4,923	5,413
Others	3,489	4,082	4,588	5,027
Core Inc. (Rs m)	9,584	14,571	16,607	19,152
PAT (Rs mn)	11,062	13,311	15,462	17,677
Core PAT (Rs m)	7,839	10,928	12,787	14,747
Core EPS (Rs.)	12.4	17.3	20.2	23.3
Gr. (%)	*30.8*	*38.7*	*17.0*	*15.3*
AAuM (Rs bn)	3,683	5,514	6,660	7,980
Gr. (%)	*28.0*	*49.7*	*20.8*	*19.8*
Core RoAAuM (%)	0.21	0.20	0.19	0.18
Core RoE (%)	35.6	46.8	52.1	56.9
P/Core EPS (x)	17.5	36.0	30.5	26.1

Key Data	**NIPF.BO | NAM IN**
52-W High / Low	Rs.749 / Rs.345
Sensex / Nifty	79,402 / 24,180
Market Cap	Rs.431.6bn/ $ 5,133.1m
Shares Outstanding	633.2m
3M Avg. Daily Value	Rs.771.2m

Shareholding Pattern (%)

Promoter's	72.49
Foreign	7.73
Domestic Institution	13.48
Public & Others	6.31
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.4)	15.1	87.9
Relative	4.8	7.0	60.3

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Higher equity share led to better blended yields

Quick Pointers:

- Core income beat due to better revenue led by increase in equity share
- Equity market share further enhanced by 8bps QoQ to 7.04%

NAM saw a good quarter with core income 2% higher due to 2.7% beat on revenue led by better blended yields as equity share inched up by 1.3% QoQ, while debt/liquid declined by 50/76bps. As per NAM, profitability would be preferred over market share, suggesting that incremental net flows would be compromised if they dilute yields. Led by better performance, net equity flow market share that rose from 5.3% in FY23 to 12% in FY24, is sustaining well. Hence, equity market share further expanded to 7.0% (+8bps QoQ). We raise core EPS for FY25E/FY26E by 10%/5% due to upgrade in FY25E closing equity AuM for the industry from 27% earlier to 40% since equity growth from Mar-Sep'24 has been strong at 30% (8% flows and 22% MTM). Over FY24-26E, we see healthy core PAT CAGR of 28% (earlier 25%). Stock is valued at 28x on Sep'26 core EPS. We maintain multiple at 33x, but raise TP to Rs820 from Rs700 as we roll forward to Sep'26 core EPS. Retain 'BUY'.

- **Good quarter; PAT beat due to higher revenue yields, lower tax:** QAAuM was in-line at Rs5,493bn (+13.5% QoQ), while equity (incl. bal) at Rs2,581bn grew by 16.8% QoQ. Revenue was higher at Rs5.71bn (PLe Rs5.56bn) led by better revenue yields at 41.6bps (PLe 40.5bps). Opex was also higher at Rs2.1bn (PLe Rs2bn) due to tad higher staff cost at Rs1.1bn and other opex at Rs782mn (PLe Rs750mn). ESOP cost was Rs110mn (Rs89mn in Q1FY25). Core income was a beat at Rs3.7bn (PLe Rs3.6bn), resulting in operating yields of 26.6bps (PLe 26.1bps). Other income was ahead at Rs1.2bn (PLe Rs1.1bn). Tax rate was stable at 25.9% (PLe 32%), despite withdrawal of indexation benefit for debt funds. Hence, core PAT was Rs2.71bn (PLe Rs2.43bn) and core PAT yields were 19.7bps (PLe 17.7bps). PAT was 14.3% ahead of PLe at Rs3.6bn due to higher revenue and lower tax.

- **Healthy equity momentum continues:** During Q2FY25, due to strong equity market growth, share of equity (incl. balanced) in QAAuM increased by 133bps QoQ to 47%, while debt/liquid declined by 50/76bps QoQ to 13.0%/7.7%. Blended revenue yield was higher due to rise in equity share owing to stronger-than-industry equity growth. Driven by superior equity performance leading to market share gains in net equity flows, market share in equity+bal QAAuM has been rising post Q3FY23; it improved QoQ by 8bps to 7.04%. As of Sep'24 basis weighted avg equity performance, NAM remains one of the top performing funds (rank 2 or 3) in the 1 and 3-yr buckets. Share in SIP flows increased from 10% in Q2FY24 to 12.7% in Q2FY25. Strong B-30 franchise has also supported healthy SIP flows.

- **Focus on profitability over market share:** As per the company, AMCs that emphasize on market share would continue to pay higher commissions but for NAM, profitability will be the guiding factor, suggesting that incremental net flows would be compromised if they dilute profitability. Staff cost was high as 55 management trainees were recruited in Q2FY25. NAM is done with most of its recruiting and does not expect a material increase in headcount in H2FY25. ESOP cost for FY25 is expected to be between Rs420-450mn. Expenses (ex-ESOP) are expected to grow by 15% in the next 6-12 months.

Exhibit 1: PAT beat at Rs3.6bn led by higher revenue & lower taxes

Financials (Rs m)	Q2FY25	Q2FY24	YoY gr. (%)	Q1FY25	QoQ gr. (%)	Q2FY25E	% Var.
Revenue	**5,713**	**3,975**	***43.7***	**5,050**	***13.1***	**5,560**	*2.7*
Total Expenses	**2,060**	**1,650**	***24.9***	**1,970**	***4.6***	**1,981**	*4.0*
Employees	959	780	*22.9*	969	*(1.0)*	920	*4.2*
Other expenses	782	678	*15.4*	723	*8.1*	750	*4.4*
Operating Income	3,653	2,325	*57.1*	3,080	*18.6*	3,580	*2.0*
Other Income	1,208	779	*55.1*	1,308	*(7.7)*	1,050	*15.0*
Profit before tax	**4,861**	**3,104**	***56.6***	**4,388**	***10.8***	**4,630**	***5.0***
Tax	1,261	661	*90.6*	1,066	*18.3*	1,482	*(14.9)*
Profit after tax	**3,600**	**2,443**	***47.4***	**3,322**	***8.4***	**3,148**	***14.3***
Core PAT	**2,705**	**1,830**	***47.9***	**2,331**	***16.0***	**2,434**	***11.1***
Profitability ratios (bps)							
Revenue yield	41.6	45.3	*(4.7)*	41.7	*(0.1)*	40.5	*3*
Employee to AuM	7.0	8.9	*(2.9)*	8.0	*(1.0)*	6.7	*4*
Opex to AuM	15.0	18.8	*(4.8)*	16.3	*(1.3)*	14.4	*4*
Core income/AuM	26.6	26.5	*(0.9)*	25.5	*1.1*	26.1	*2*
PAT/AuM	26.2	27.9	*(2.6)*	27.5	*(1.2)*	22.9	*14*
Core PAT/AuM	19.7	20.9	*(2.2)*	19.3	*0.4*	17.7	*11*
QAAuM (Rs. mn)	**54,92,960**	**35,06,854**	***56.6***	**48,38,329**	***13.5***	**54,91,737**	***0***
Equity	23,66,268	13,62,867	*73.6*	20,15,964	*17.4*	23,55,580	*0*
Balanced	2,14,785	1,52,427	*40.9*	1,93,215	*11.2*	2,13,916	*0*
Debt	7,14,450	6,14,007	*16.4*	6,57,501	*8.7*	7,16,676	*(0)*
Liquid	4,23,699	3,84,518	*10.2*	4,10,188	*3.3*	4,36,850	*(3)*
ETF	14,81,377	8,08,048	*83.3*	12,95,360	*14.4*	14,80,961	*0*
Index	1,36,345	83,084	*64.1*	1,16,653	*16.9*	1,35,317	*1*
Arbitrage	1,56,037	1,01,902	*53.1*	1,49,448	*4.4*	1,52,437	*2*

Source: Company, PL.

Q2FY25 Concall Highlights

Industry

- Nifty moved up by 7.5% QoQ, while Nifty mid-cap and small-cap indices rose by 7.1% and 7.6%, respectively. RBI held the repo rate steady at 6.50%, while the 10-yr G-sec yield moderated by 26bps QoQ to 6.75%.
- Strong momentum in the equity segment was sustained as share of equity in overall AuM continued to increase, ending at 60.9% for Q2 FY25, up from 53.5% in Q2FY24.
- Both gross and net inflows were higher QoQ for the fifth successive quarter. Sectoral, thematic, multi-cap and multi-asset allocation funds recorded the highest inflows.

Financial Performance

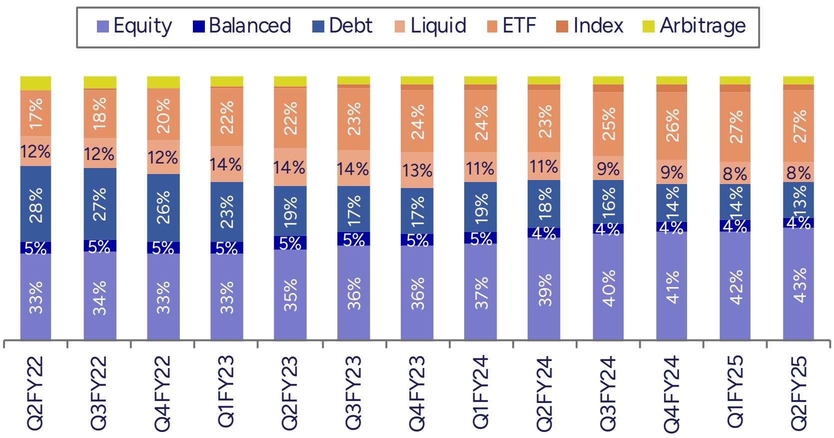
- Product-wise yields were as follows: equity - 58bps, debt - 25bps, liquid - 12bps and ETF - 15bps. Yields in the AIF business are at 0.5-1.5%.
- A strong franchise of B-30 channels has helped increase SIP flows for Nippon.
- The company has undertaken commission rationalization in small-cap funds and reiterated its focus on existing schemes, rather than new NFOs, as preference is towards bottom line growth.
- As per the management, generally, AMCs that emphasize more on market share will continue to pay higher commission. For NAM, bottom line, i.e., profitability, will be the guiding factor. Hence, NAM may prefer to compromise on incremental flows if they do not add to profitability.
- 55 management trainees were recruited in Q2FY25. The management is done with most part of the recruiting and does not expect material increase in headcount in H2FY25.
- ESOP cost for FY25 is expected to be Rs420-450mn. Expenses, ex-ESOP, are expected to grow at 15% in the next 6-12 months.
- Other income increased for Q2FY25 due to MTM gains, which also helped lower tax rate for the company.
- Managed accounts saw flat growth QoQ as fundraise in this book has been offset by some maturities, and the trend is expected to continue for the next few quarters. The management is building a strong foundation for this book, which may take time to be visible.
- In terms of international fundraising, the company is receiving a lot of interest from Japan, and in the next 6-9 months, new funds may be launched in Japan.

Others

- Two new products in index category were launched, namely Nippon India Nifty 500 Equal Weight Index Fund and Nippon India Nifty 500 Momentum 50 Index Fund.

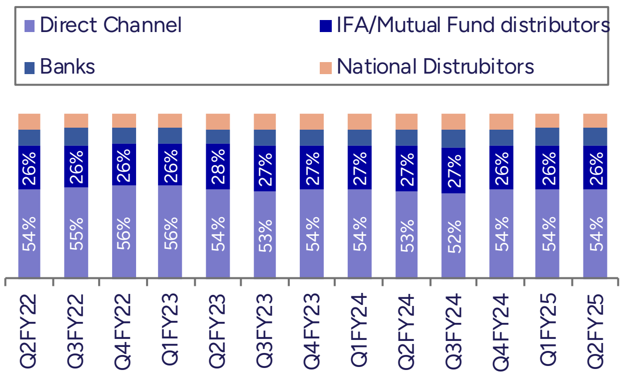
- Nippon India Mutual Fund was a part of the first ever mutual fund transaction on ONDC platform that happened at the Global Fintech Fest Aug'24. ONDC is a GOI initiative to help MFs reach small investors digitally.
- Under Nippon India AIF, fund raising is underway for a listed equity AIF, performing credit AIF, and direct venture fund. During the quarter, one of real estate credit AIFs was closed.

Exhibit 2: Equity + bal share increases to ~47%; debt declines to ~13%



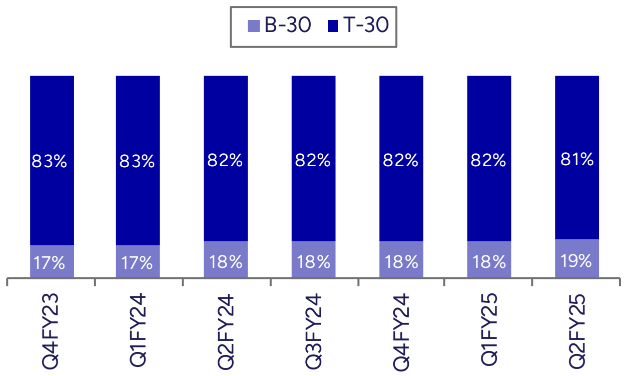
Source: Company, PL

Exhibit 3: Total distribution – Direct dominates at 54%



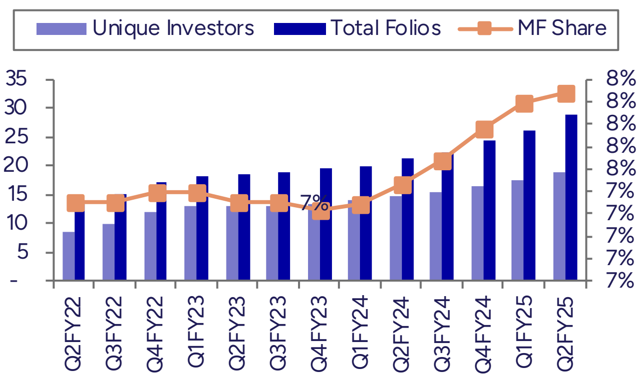
Source: Company, PL

Exhibit 4: B-30/T-30 mix constant



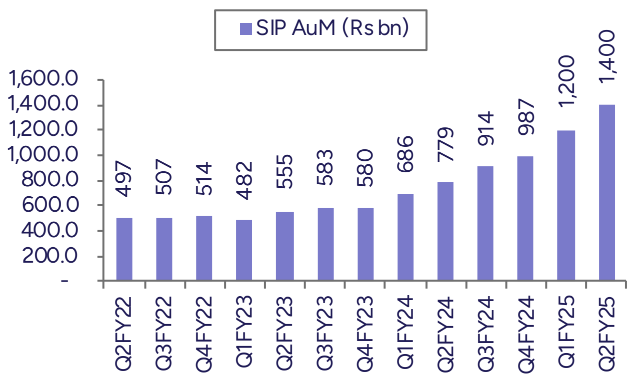
Source: Company, PL

Exhibit 5: Consistently growing share and investors



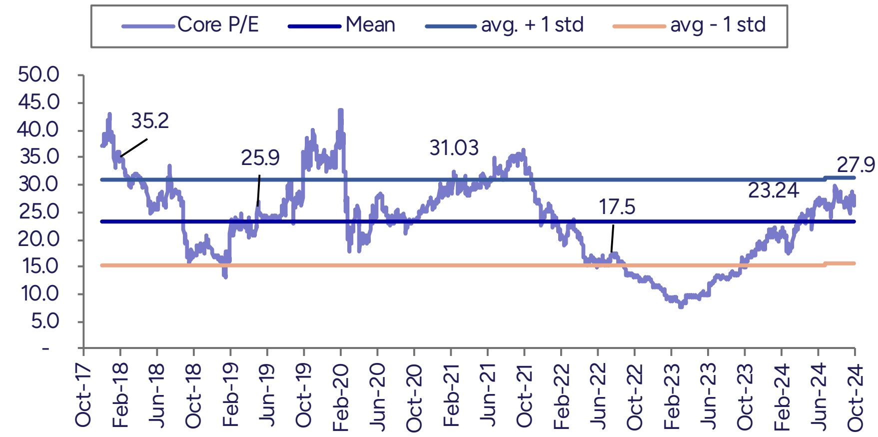
Source: Company, PL

Exhibit 6: SIP AuM continues to grow (+79% YoY/17% QoQ)



Source: Company, PL

Exhibit 7: NAM India 2-yr fwd. P/Core EPS trades at 28x



Source: Company, PL

Financials

Exhibit 8: Quarterly Financials

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Revenue	**3,316**	**3,538**	**3,483**	**3,542**	**3,975**	**4,233**	**4,683**	**5,050**	**5,713**
Expenses	**1,459**	**1,494**	**1,488**	**1,611**	**1,650**	**1,723**	**1,865**	**1,970**	**2,060**
Employee	765	747	725	761	780	863	868	969	959
Others	623	669	681	750	779	777	905	851	917
Depreciation	71	77	82	81	72	65	73	68	74
Core Income	**1,857**	**2,045**	**1,995**	**1,931**	**2,325**	**2,510**	**2,818**	**3,080**	**3,653**
Other Income	819	619	397	1,169	779	1,071	923	1,308	1,208
PBT	**2,676**	**2,664**	**2,392**	**3,099**	**3,104**	**3,581**	**3,741**	**4,388**	**4,861**
Tax	615	616	415	746	661	741	315	1,066	1,261
PAT	**2,060**	**2,048**	**1,977**	**2,354**	**2,443**	**2,840**	**3,426**	**3,322**	**3,600**
Core PAT	**1,430**	**1,572**	**1,649**	**1,466**	**1,830**	**1,991**	**2,581**	**2,331**	**2,705**
QAAuM	**28,51,110**	**29,28,422**	**29,32,258**	**31,36,285**	**35,06,854**	**37,76,159**	**43,14,041**	**48,38,329**	**54,92,960**
Equity	34.8%	36.2%	36.0%	36.6%	38.9%	40.4%	41.0%	41.7%	43.1%
Balanced	4.9%	4.9%	4.8%	4.6%	4.3%	4.3%	4.2%	4.0%	3.9%
Debt	19.1%	17.3%	17.3%	18.7%	17.5%	16.2%	14.4%	13.6%	13.0%
Liquid	14.4%	14.0%	13.3%	11.4%	11.0%	9.0%	9.1%	8.5%	7.7%
ETF	22.4%	23.3%	23.9%	23.5%	23.0%	24.6%	25.9%	26.8%	27.0%
Index	1.0%	1.2%	1.6%	2.4%	2.4%	2.4%	2.3%	2.4%	2.5%
Market share (%)	**7.30**	**7.27**	**7.24**	**7.28**	**7.46**	**7.67**	**7.97**	**8.20**	**8.29**
Equity	6.89	6.94	6.95	7.05	7.40	7.63	7.77	7.93	8.02
Balanced	3.21	3.18	3.12	3.07	3.04	3.01	2.99	2.96	2.99
Eq+Bal	**6.04**	**6.08**	**6.07**	**6.17**	**6.46**	**6.65**	**6.77**	**6.92**	**7.04**
Debt	6.83	6.64	6.61	7.01	6.92	6.92	7.03	7.07	7.09
Liquid	7.34	7.44	7.02	6.32	6.65	6.29	6.76	6.91	6.79
ETF	13.85	13.51	13.74	13.86	14.03	15.36	16.69	17.79	18.16
Index	3.0	3.1	3.5	4.4	4.6	4.7	4.9	5.1	5.3
QAAuM Growth (%)	**2.0**	**2.7**	**0.1**	**7.0**	**11.8**	**7.7**	**14.2**	**12.2**	**13.5**
Equity	7.9	6.8	-0.2	8.7	18.6	12.0	15.9	13.9	17.4
Balanced	4.0	2.8	-2.2	1.9	6.7	6.0	10.8	7.9	11.2
Eq+Bal	7.4	6.3	-0.4	7.9	17.3	11.4	15.4	13.4	16.8
Debt	7.8	0.3	-5.2	-8.5	7.7	-11.1	15.3	4.1	3.3
Liquid	6.3	7.0	2.5	5.4	9.5	15.0	20.1	16.1	14.4
ETF	40.7	23.9	31.2	58.9	9.6	7.8	12.9	15.4	16.9
Index	-9.2	-11.1	3.1	-3.2	16.6	14.3	15.3	11.2	4.4
Dupont (bps)									
Revenue yield	46.5	48.3	47.5	45.2	45.3	44.8	43.4	41.7	41.6
Opex to AuM	20.5	20.4	20.3	20.5	18.8	18.3	17.3	16.3	15.0
Staff cost	10.7	10.2	9.9	9.7	8.9	9.1	8.0	8.0	7.0
Other opex	8.7	9.1	9.3	9.6	8.9	8.2	8.4	7.0	6.7
Depreciation	1.0	1.1	1.1	1.0	0.8	0.7	0.7	0.6	0.5
Core income/AuM	26.0	27.9	27.2	24.6	26.5	26.6	26.1	25.5	26.6
PAT/AuM	28.9	28.0	27.0	30.0	27.9	30.1	31.8	27.5	26.2
Core PAT/AuM	20.1	21.5	22.5	18.7	20.9	21.1	23.9	19.3	19.7
Profitability (%)									
Staff cost/revenue	23.1	21.1	20.8	21.5	19.6	20.4	18.5	19.2	16.8
Other opex/revenue	18.8	18.9	19.6	21.2	19.6	18.4	19.3	16.8	16.1
Core income/revenue	56.0	57.8	57.3	54.5	58.5	59.3	60.2	61.0	63.9
Tax rate	23.0	23.1	17.3	24.1	21.3	20.7	8.4	24.3	25.9
PAT margin	62.1	57.9	56.8	66.5	61.4	67.1	73.2	65.8	63.0
Core PAT margin	43.1	44.4	47.3	41.4	46.0	47.0	55.1	46.2	47.4

Source: Company, PL

Exhibit 9: Summary Financials (Rs mn)

Particulars	FY24	FY25E	FY26E	FY27E
Profit & Loss				
Revenue	**16,432**	**23,006**	**26,118**	**29,593**
Investment mgmt.	14,793	20,931	23,671	26,886
PMS / Advisory	1,640	2,075	2,447	2,706
Expenses	**6,849**	**8,435**	**9,511**	**10,441**
Employee	3,360	4,352	4,923	5,413
Others	3,197	3,766	4,263	4,692
Depreciation	291	316	326	335
Core Income	**9,584**	**14,571**	**16,607**	**19,152**
Other Income	3,941	3,177	3,474	3,805
PBT	13,525	17,748	20,081	22,957
Tax	2,462	4,437	4,619	5,280
PAT	11,062	13,311	15,462	17,677
Core PAT	**7,839**	**10,928**	**12,787**	**14,747**
Dividend	10,370	12,379	14,380	16,439
Growth ratios (%)				
Revenue	**21.7**	**40.0**	**13.5**	**13.3**
Opex	**16.3**	**23.2**	**12.8**	**9.8**
Employee	11.9	29.5	13.1	10.0
Others	23.5	17.8	13.2	10.1
Core income	**26.0**	**52.0**	**14.0**	**15.3**
PAT	53.0	20.3	16.2	14.3
Core PAT	**32.2**	**39.4**	**17.0**	**15.3**
DuPont analysis (%)				
Revenue	**0.45**	**0.42**	**0.39**	**0.37**
Expenses	**0.19**	**0.15**	**0.14**	**0.13**
Employee	0.09	0.08	0.07	0.07
Others	0.09	0.07	0.06	0.06
Depreciation	0.01	0.01	0.00	0.00
Core Income	**0.26**	**0.26**	**0.25**	**0.24**
Other Income	0.11	0.06	0.05	0.05
PBT	0.37	0.32	0.30	0.29
Tax	0.07	0.08	0.07	0.07
PAT (RoAAuM)	0.30	0.24	0.23	0.22
Core RoAAuM	**0.21**	**0.20**	**0.19**	**0.18**
ROE	29.5	32.0	34.1	35.7
Core RoE	**35.6**	**46.8**	**52.1**	**56.9**
Other Ratios (%)				
Staff cost/revenue	20.4	18.9	18.8	18.3
Other opex/revenue	19.5	16.4	16.3	15.9
Core Income/revenue	58.3	63.3	63.6	64.7
Other Income/revenue	24.0	13.8	13.3	12.9
Yield on Investments	11.2	8.0	8.0	8.0
Effective tax rate	**18.2**	**25.0**	**23.0**	**23.0**
PAT margin	67.3	57.9	59.2	59.7
Core PAT margin	53.0	52.2	54.0	54.8
Dividend payout (%)	**93.7**	**93.0**	**93.0**	**93.0**

Particulars	FY24	FY25E	FY26E	FY27E
Balance Sheet				
Net Worth	**39,822**	**43,370**	**47,311**	**51,715**
Capital (FV Rs5)	6,300	6,332	6,332	6,332
Reserves	33,522	37,038	40,979	45,383
Employee benefit	84	101	121	145
Others	2,952	3,026	3,102	3,181
Total Liabilities	**42,857**	**46,496**	**50,534**	**55,041**
Cash and Bank	2,706	2,757	2,810	2,864
Investment	35,127	38,584	42,437	46,756
Fixed assets	3,328	3,428	3,530	3,636
Others	1,697	1,728	1,757	1,785
Total Assets	**42,857**	**46,496**	**50,534**	**55,041**
AuM Data				
AAuM	**36,83,335**	**55,14,421**	**66,60,206**	**79,79,584**
Equity	14,51,866	24,54,119	29,77,460	35,32,404
Balanced	1,59,004	2,26,330	2,60,595	2,92,781
Debt	6,08,017	7,45,599	8,35,071	9,35,280
Liquid	3,69,295	3,85,761	4,18,758	4,54,120
ETF	8,97,735	14,41,616	18,53,277	23,86,074
Index	87,390	1,40,033	1,81,818	2,28,892
Arb & FoF	1,10,027	1,20,962	1,33,227	1,50,034
Mix				
Equity	39.4	44.5	44.7	44.3
Balanced	4.3	4.1	3.9	3.7
Debt	16.5	13.5	12.5	11.7
Liquid	10.0	7.0	6.3	5.7
ETF	24.4	26.1	27.8	29.9
Index	2.4	2.5	2.7	2.9
Arb & FoF	3.0	2.2	2.0	1.9
Growth				
Overall	**28.0**	**49.7**	**20.8**	**19.8**
Equity+Bal	40.6	66.4	20.8	18.6
Debt	11.1	22.6	12.0	12.4
Liquid	-7.2	4.5	8.6	18.1
ETF	36.9	60.6	28.6	12.0
Index	160.4	60.2	29.8	28.7
Arb & FoF	14.3	9.9	10.1	25.9
Valuations				
EPS	**17.6**	**21.0**	**24.4**	**27.9**
Core EPS	**12.4**	**17.3**	**20.2**	**23.3**
CPS	60.1	65.3	71.5	78.4
DPS	16.5	19.5	22.7	26.0
Dividend yield	4.5	2.8	3.3	3.8
BVPS	63	68	75	82
P/B	5.7	10.0	9.2	8.4
P/E	**20.6**	**32.7**	**28.1**	**24.6**
P/core EPS	**17.5**	**36.0**	**30.5**	**26.1**

Source: Company, PL

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-24	BUY	615	631
2	22-Jul-24	BUY	700	636
3	09-Jul-24	BUY	615	667
4	25-Apr-24	BUY	615	584
5	10-Apr-24	BUY	610	526
6	07-Mar-24	BUY	610	508

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	1,875	1,745
2	Axis Bank	BUY	1,530	1,132
3	Bank of Baroda	BUY	300	251
4	Can Fin Homes	BUY	1,000	871
5	City Union Bank	BUY	190	150
6	DCB Bank	BUY	180	119
7	Federal Bank	BUY	210	194
8	HDFC Asset Management Company	BUY	5,360	4,555
9	HDFC Bank	BUY	2,000	1,682
10	ICICI Bank	BUY	1,520	1,240
11	IndusInd Bank	BUY	1,600	1,280
12	Kotak Mahindra Bank	BUY	2,230	1,872
13	LIC Housing Finance	Hold	660	618
14	Nippon Life India Asset Management	BUY	615	631
15	State Bank of India	BUY	960	797
16	UTI Asset Management Company	BUY	1,050	1,202

PL's Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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