

CMP: ₹ 398

Target: ₹ 480 (21%)

Target Period: 12 months

BUY

July 12, 2021

Retail participation robust; inflows should improve

About the stock: Nippon Life India AMC is among the largest asset managers in India with an AUM size of ₹ 3.79 lakh crore. The company has a strong distribution network with ~80000 distributors.

- Market share as on Q1FY22 was at 7.2%
- Strong presence in B-30 cities that contribute to ~19% of total AUM

Q1FY22 Results: Steady quarter with marginal uptick in market share

- QAAUM up 33% YoY, 5% QoQ to ₹ 240400 crore
- Revenue from operations flat QoQ at ₹ 302 crore; yields down 3 bps QoQ
- PAT up 16% YoY, 9% QoQ to ₹ 181 crore, aided by controlled costs

What should investors do? Nippon Life India AMC share price has grown by over 41% since its listing in November 2017.

- We upgrade the stock from HOLD to BUY recommendation

Target Price and Valuation: We value Nippon AMC at ~38x FY23 EPS to arrive at a revised target price of ₹ 480 per share from ₹ 360 earlier.

Key triggers for future price performance:

- Focus on individual business & non MF initiatives to aid AUM expansion
- Strong brand franchise, distribution strength and operational capabilities
- AUM growth to offset competitive pressure & passive products aiding yield

Alternate Stock Idea: Apart from Nippon Life AMC, in our coverage we like MCX.

- MCX is a leader in commodity derivative exchanges in India with over 96% market share in commodities future space as on FY21
- BUY with target price of ₹ 2000



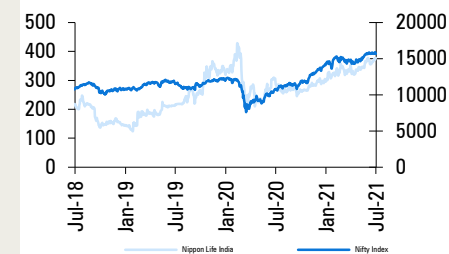
Particulars

	Amount
Market Capitalisation	₹ 24599 crore
Networth (Q4FY21)	₹ 2803 crore
52 week H/L	439/249
Face Value	₹ 10
DII Holding (%)	7.46
FII Holding (%)	6.21

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	June 21
Promoter	75.9	75.9	75.8	74.5	74.2
FII	5.8	5.1	5.4	5.9	6.2
DII	6.2	6.3	6.6	6.7	7.5
Others	12.1	12.7	12.2	12.9	12.1

Price Chart



Recent Event & key risk

- QAAUM saw healthy sequential growth of 5% QoQ at ₹ 2.4 lakh crore
- Key Risk:** Increasing competitive pressure to keep yields subdued

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Key Financial Summary

₹ Crore	FY18	FY19	FY20	FY21E	4 year CAGR (FY17-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Profit (₹ crore)	456	485.7	415.4	679.4	14%	686.3	783.4	7%
EPS (₹)	7.4	7.9	6.8	11.0	14%	11.1	12.7	7%
P/E (x)	45.5	50.1	58.6	36.1		35.7	31.3	
AUM /share (₹)	4002	3817.0	3347.4	3708.0		4264.2	4861.2	
P/AUM (%)	8.5	10.4	11.9	10.7		9.3	8.2	
DPS (₹)	6.0	6.0	5.0	8.0		8.1	9.2	
RoE (%)	19.5	19.2	14.1	18.7		15.9	15.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Growth remains healthy; yields remain stagnant

- AUM growth of 33% YoY, 5% QoQ was led by 44% YoY and 5.2% QoQ rise in equity AUM while ETFs also increased 11.7% QoQ
- Other income declined 35% YoY to ₹ 67 crore, mainly due to higher MTM in base year
- Yields declined ~3 bps QoQ to 50 bps mainly on account of lower TER due to increase in fund size, higher flows into passive and short duration debt funds, which are low yielding
- SIP book declined sequentially from ₹ 660 crore to ₹ 590 crore, owing to incremental ticket size being lower in newer folios. This is expected to increase with improvement in fund performance
- Operating expense declined 8% QoQ, 2% YoY, which can be partly attributed to lower staff movement and related expenses. Also, last year there were some Esop related cost in employee expenses
- Opex is expected to be under control and should be below topline growth. In turn, this should provide operating leverage ahead
- The company has a strong presence beyond 30 cities (B-30) with 19% of AUM coming from this segment compared to industry average of 16.3%
- The company has gained AUM market share on an overall basis by ~13 bps sequentially to 7.25%
- Number of unique investors for the company has increased from 69 lakh to 75 lakh QoQ while market share in terms of adding unique investors has increased from 30% to 31% QoQ

Peer comparison

Exhibit 1: ICICI Direct coverage universe (AMC)

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HDFC AMC (HDFAMC)	2,880	3,150	Hold	614	62.2	64.6	73.7	46.3	44.6	39.1	12.8	11.4	10.0	27.8	25.5	25.7
Nippon AMC (RELNIP)	398	480	Buy	245	11.1	11.2	12.7	35.9	35.5	31.3	7.9	7.4	6.9	18.7	15.9	15.3

Source: Company, ICICI Direct Research

We remain positive on the strong brand franchise and efficient operational strength and, thus, upgrade our rating from HOLD to BUY.

Exhibit 2: Variance Analysis

₹ crore	Q1FY22	Q1FY21	YoY	Q4FY21	QoQ	Comments
Revenue from Operations	302.27	233.12	30%	301.9	0%	Flattish revenue growth sequentially due to fall in yields
Revenue/AUM	0.50	0.52	-2bps	0.53	-3bps	Yields decline due to higher inflows in low yielding products and reduction in TER
Other Income	66.91	103.06	-35%	60.06	11%	YoY fall in other income due to lower MTM gains
Net Total Income	369.18	336.18	10%	361.96	2%	
Staff Cost	69.67	71.54	-3%	65.39	7%	
Other Operating Expenses	63.48	64.97	-2%	78.7	-19%	
Total Expenses	133.15	136.51	-2%	144.09	-8%	Tight cost control, lower on business activity help contain expenses
PBT	236.03	199.67	18%	217.87	8%	
Tax Outgo	54.65	43.55	25%	51.36	6%	
PAT	181.38	156.12	16%	166.51	9%	
MF- AAUM	240400	180100	33%	228600	5%	Healthy AAUM growth with market share gains

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ crore)	FY22E			FY23		
	Old	New	Change %	Old	New	Change %
Revenue from Operations	1239.5	1239.4	0%	1380.2	1404.7	2%
PBT	920.5	921.3	0%	1043.7	1051.6	1%
PAT	685.8	686.3	0%	777.6	783.4	1%
EPS (₹)	11.2	11.1	-1%	12.7	12.7	0%

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit & Loss Statement

(₹ crores)	FY19	FY20	FY21	FY22E	FY23E
Revenue from Operations	1,478.5	1,203.1	1,062.1	1,239.4	1,404.7
Growth (%)	-7.1%	-18.6%	-11.7%	16.7%	13.3%
Other Income	171.3	(9.8)	357.2	220.0	225.0
Total Revenue	1,649.8	1,193.3	1,419.3	1,459.4	1,629.7
Employee Benefit Expenses	293.5	302.4	271.3	279.8	287.4
Depreciation & Amortization Expense	10.1	32.6	33.3	33.3	33.3
Other Expenses (incl fees)	646.0	297.9	237.7	225.1	257.4
Total Expenses	949.6	632.9	542.3	538.2	578.1
Profit Before Tax	700.2	560.4	877.0	921.3	1,051.6
Taxes	214.5	145.0	197.6	234.9	268.2
Profit After Tax	485.7	415.4	679.4	686.3	783.4
EPS (₹)	7.9	6.8	11.0	11.1	12.7

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet

(₹ crores)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share capital	612.0	612.1	616.5	616.5	616.5
Reserves and surplus	1958.0	1980.9	2483.8	2671.9	2886.6
Total Equity	2570.0	2593.1	3100.3	3288.4	3503.1
Trade payables					
	47.4	67.7	62.9	66.0	69.3
Others					
	158.5	220.1	228.5	251.4	276.5
Total Liabilities + Equity	2775.8	2880.8	3391.7	3605.8	3848.9
Applications of Funds					
Property, plant and equipment	12.5	11.2	12.1	12.1	12.1
Intangible assets	243.6	314.4	290.0	290.0	290.0
Cash and bank balance	30.0	463.3	360.6	403.9	452.3
Investments	1290.0	1884.6	2550.0	2669.4	2844.9
Receivables	102.6	59.3	45.9	45.9	45.9
Deferred tax assets (net)	0.0	0.7	0.0	0.0	0.0
Others	1097.2	147.3	133.2	184.5	203.7
Total Assets	2775.8	2880.8	3391.7	3605.8	3848.9

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No of Equity shares (crore)	61.2	61.2	61.7	61.7	61.7
EPS	7.9	6.8	11.0	11.1	12.7
DPS	6.0	5.0	8.0	8.1	9.2
BVPS	42.0	42.4	50.3	53.3	56.8
P/E	50.1	58.6	36.1	35.7	31.3
P/BV	9.5	9.4	7.9	7.5	7.0
Operating Ratios (%)					
Rev/AUM	0.3	0.4	0.3	0.3	0.3
EBITDA/AUM	0.1	0.2	0.2	0.3	0.3
PAT/AUM	0.1	0.1	0.3	0.3	0.3
Return Ratios (%)					
RoNW	19.2%	14.1%	18.7%	15.9%	15.4%
NAV per equity share	42.0	42.4	50.3	53.3	56.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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