

CMP: ₹ 280

Target: ₹ 330 (18%)

Target Period: 12 months

BUY

July 31, 2022

Market share steady; other income impacted PAT...

About the stock: Nippon Life India AMC is among the largest asset managers in India with an AUM size of ₹ 3.31 lakh crore. The company has a strong distribution network with 85500+ distributors.

- Market share as on Q1FY23 was at 7.4%
- Strong presence in B-30 cities that contribute to 17.8% of total AUM

Q1FY23 Results: Weak quarter with marginal uptick in market share

- QAAUM was at ₹ 279400 crore, up 16% YoY, declined QoQ. Market share was up 16 bps
- Revenue up 5% YoY at ₹ 316 crore; QoQ de-growth due to lower yields
- PAT declined 37% YoY, 35% QoQ at ₹ 114.3 crore, due to weak other income

What should investors do? Nippon Life India AMC's share price has grown by over 10% since its listing in November 2017.

- We maintain **BUY** rating on the stock

Target Price and Valuation: Steady market share with structural opportunity and improving operational efficiency hold key. We value Nippon AMC at ~5.6% FY24E AUM and revise our target price from ₹ 400 to ₹ 330 per share.

Key triggers for future price performance:

- Management expect decent flows in equity segment which is likely to ease pressure on yields
- Product launch and focus on passive funds to aid market share growth
- Strong base of retail customers, stable inflows in SIP, distribution strength and operational capabilities

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

- HDFC AMC is among the largest and profitable mutual funds with an QAAUM of ~₹ 4.1 lakh crore as on June 2022
- BUY with a target price of ₹ 2200

Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY21-23E)
Net Profit (₹ crore)	485.7	415.4	679.4	743.4	15%	737.7	904.4	10%
EPS (₹)	7.9	6.8	11.0	12.0	15%	11.9	14.5	10%
P/E (x)	35.3	41.3	25.4	23.4		23.6	19.3	
AUM /share (₹)	3817.0	3347.4	3708.0	4554.5		5101.1	5815.2	
P/AUM (%)	7.3	8.4	7.6	6.1		5.5	4.8	
DPS (₹)	6.0	5.0	8.0	8.7		8.6	10.6	
RoE (%)	19.2	14.1	18.7	17.0		14.4	17.7	

Source: Company, ICICI Direct Research



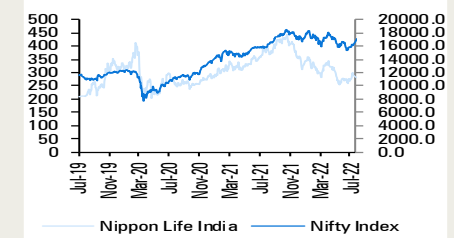
Particulars

Particulars	Amount
Market Capitalisation	₹ 17390 crore
Networth	₹ 3478 crore
52 week H/L	476/259
Face Value	₹ 10
DII Holding (%)	9.2
FII Holding (%)	6.5

Shareholding pattern

	Jun 21	Sep 21	Dec 21	Jun 22
Promoter	74.2	74.0	73.8	73.7
FII	6.2	6.6	6.7	6.5
DII	7.5	8.8	8.8	9.2
Others	12.1	10.6	10.7	10.5

Price Chart



Recent Event & key risk

- QAAUM declined marginally QoQ at ₹ ~2.8 lakh crore
- Key Risk:** i) Trend in market share, ii) increase in competitive intensity

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Sameer Sawant
sameer.sawant@icicisecurities.com

Pravin Mule
Pravin.mule@icicisecurities.com

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Sustained market share; operational performance weak

- Revenue from operations grew 5% YoY at ₹ 316 crore. Other income reported a loss of ₹ 16.7 crore mainly due to MTM during the quarter.
- Operating expense inched up 9% YoY at ₹ 145 crore. Consequently, the company reported a PAT of ₹ 114.3 crore, registering a de-growth of 37% YoY and 35% on a QoQ basis.
- Yields were under pressure mainly on account of change in AUM mix and lower TER.
- AUM growth of 16% YoY at ₹ 279400 crore, was led by 44% YoY & 36% YoY rise in ETFs & liquid schemes while equity AUM increased by 19% YoY.
- SIP book (quarterly) increased QoQ from ₹ ₹ 2130 crore to ₹ 2280 crore in Q1FY23. Number of unique investors has increased by 10% YoY to 1.3 crore
- The company has a strong presence beyond 30 cities (B-30) with 17.8% of AUM coming from this segment compared to industry average of 16.6%
- The company has gained AUM market share on an overall basis by 16 bps sequentially to 7.4%

Q1FY23 Earnings Conference Call highlights

- Industry assets declined marginally by 2% in Q1FY23 after witnessing a positive momentum in earlier quarters. Decline is due to fall in equity & fixed income assets. However, customer addition trend continues to improve.
- NAM India market share improved by 16bps to 7.4%. Added 1.3mn investors in Q1FY23 and continue to have largest investor base in MF industry. NAM India's ETF market share is 60%.
- No equity category has more than 16% of AUM. Majority of funds are jointly managed and no single FM handles more than 23% of AUM.
- 13% of SIP folio continued for 5 years' vs industry average of 9%. Decent amount of inflows can be seen back in equity.
- Other income loss was due to MTM impact of 10-12% in equities. In addition, 10-yr G sec yields down by ~50 bps in Q1FY23 itself. Debt mix – Long term: 30%, Short term: 70%.
- Yields declined due to change in AUM mix. Equity assets declined and incremental growth came from lower yielding liquid and ETF segments. Pressure on downward yields to continue in near time.
- Segment wise yield – Equity – 75-80 bps, debt – blended yields are ~10-12 bps, ETF – 11-12 bps
- AUM Mix – Equity stable at 42%, Debt at 23%, Liquid at 14% and ETFs at 22%. Debt which has declined QoQ from 26% to 23% has gone to ETF & liquid
- Opex has increased due to marketing spends and expect to continue further investment to keep pace of investor accretion. Aim for tighter control on non-discretionary spends.
- The increase in total folio is majorly driven by ETF segment

Peer comparison

Exhibit 1: ICICI Direct coverage universe (AMC)

Sector / Company	CMP			M Cap		EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	₹	TP(₹)	Rating	(₹ bn)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	
HDFC AMC (HDFAMC)	1,947	2,200	Buy	415	63.2	66.4	69.0	80.0	30.8	29.3	28.2	24.3	8.5	7.4	6.7	6.1	28.1	25.2	23.9	25.1	
Nippon AMC (RELNIP)	287	330	Buy	178	11.0	12.0	11.9	14.5	26.0	24.0	24.2	19.7	5.7	5.1	4.9	4.5	18.7	17.0	14.4	17.7	

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

₹ crore	Q1FY23	Q1FY22	YoY	Q4FY22	QoQ	Comments
Revenue from Operations	316.1	302.3	5%	338.0	-6%	Weak revenue growth sequentially led by lower yields
Revenue/AUM	0.45	0.50	-6bps	0.48	-2bps	Yields declined due to change in AUM mix
Other Income	-16.7	66.9	-125%	34.5	-149%	MTM impacted other income negatively
Net Total Income	299.4	369.2	-19%	372.4	-20%	
Staff Cost	78.1	69.7	12%	74.5	5%	
Other Operating Expenses	66.7	63.5	5%	63.5	5%	
Total Expenses	144.8	133.2	9%	138.1	5%	Largely due to increment given to staff & marketing expenses
PBT	154.6	236.0	-35%	234.4	-34%	
Tax Outgo	40.3	54.7	-26%	59.5	-32%	
PAT	114.3	181.4	-37%	174.8	-35%	Subdued other income leads to degrowth in PAT
MF- AAUM	279400	240400	16%	283300	-1%	Overall market share up by 16 bps

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ crore)	FY23E			FY24E		
	Old	New	Change %	Old	New	Change %
Revenue from Operations	1551.7	1387.9	-10.6%	1819.0	1596.3	-12.2%
PBT	1257.3	983.7	-21.8%	1488.1	1205.9	-19.0%
PAT	936.7	737.7	-21.2%	1108.6	904.4	-18.4%
EPS (₹)	15.1	11.9	-21.2%	17.8	14.5	-18.4%

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit & Loss Statement

(₹ crores)	FY20	FY21	FY22	FY23E	FY24E
Revenue from Operations	1,203.1	1,062.1	1,306.6	1,387.9	1,596.3
Growth (%)	-18.6%	-11.7%	23.0%	6.2%	15.0%
Other Income	(9.8)	357.2	229.0	159.0	230.0
Total Revenue	1,193.3	1,419.3	1,535.6	1,546.9	1,826.3
Employee Benefit Expenses	302.4	271.3	290.3	303.5	317.6
Depreciation & Amortization Expense	32.6	33.3	27.2	27.2	27.2
Other Expenses (incl fees)	297.9	237.7	229.4	232.5	275.6
Total Expenses	632.9	542.3	547.0	563.2	620.5
Profit Before Tax	560.4	877.0	988.7	983.7	1,205.9
Taxes	145.0	197.6	245.3	245.9	301.5
Profit After Tax	415.4	679.4	743.4	737.7	904.4
EPS (₹)	6.8	11.0	12.0	11.9	14.5

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet

(₹ crores)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Share capital	612.1	616.5	622.0	622.0	622.0
Reserves and surplus	1980.9	2483.8	2855.8	3058.0	3305.8
Total Equity	2593.1	3100.3	3477.8	3680.0	3927.9
Trade payables					
	67.7	62.9	56.0	58.7	61.7
Others					
	220.1	229.0	262.8	289.1	318.0
Total Liabilities + Equity	2880.8	3392.2	3796.5	4027.8	4307.5
Applications of Funds					
Property, plant and equipment	11.2	12.1	10.1	10.1	10.1
Intangible assets	314.4	290.0	286.0	286.0	286.0
Cash and bank balance	463.3	360.6	338.4	379.0	424.5
Investments	1884.6	2550.0	2941.7	3143.9	3391.7
Receivables	59.3	45.9	75.4	75.4	75.4
Deferred tax assets (net)	0.7	0.0	0.0	0.0	0.0
Others	147.3	133.7	144.9	133.4	119.7
Total Assets	2880.8	3392.2	3796.5	4027.8	4307.5

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
Valuation					
No of Equity shares (crore)	61.2	61.7	62.2	62.2	62.2
EPS	6.8	11.0	12.0	11.9	14.5
DPS	5.0	8.0	8.7	8.6	10.6
BVPS	42.4	50.3	55.9	59.2	63.1
P/E	41.3	25.4	23.4	23.6	19.3
P/BV	6.6	5.6	5.0	4.7	4.4
Operating Ratios (%)					
Rev/AUM	0.59	0.46	0.46	0.44	0.44
EBITDA/AUM	0.19	0.23	0.27	0.26	0.27
PAT/AUM	0.14	0.30	0.26	0.23	0.25
Return Ratios (%)					
RoNW	14.1%	18.7%	17.0%	14.4%	17.7%
NAV per equity share	42.4	50.3	55.9	59.2	63.1

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Namolia, MBA and Sameer Sawant, MBA, Pravin Mule, MBA, M.com, Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This 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 ICICI Securities 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.