

CMP: ₹ 271

Target: ₹ 300 (11%)

Target Period: 12 months

HOLD

October 20, 2022

## Steady market share; yield trajectory to be watched....

**About the stock:** Nippon Life India AMC is among the largest asset managers in India with an AUM size of ₹ 3.49 lakh crore. The company has a strong distribution network with 87200+ distributors.

- Market share as on Q2FY23 was at 7.3%
- Strong presence in B-30 cities that contribute to 18.2% of total AUM

**Q2FY23 Results:** Steady quarter; other income aided PAT growth.

- QAAUM was at ₹ 285100 crore, up 7% YoY, 2% QoQ. Market share was steady at ~7.3%
- Revenue up 5% QoQ at ₹ 331 crore; YoY it was flat as yields declined
- PAT grew 1.8x QoQ to ₹ 206 crore, aided by other income

**What should investors do?** Nippon Life India AMC's share price was volatile in the recent past due to subdued movement in industry AUM.

- We downgrade the stock from BUY to **HOLD**

**Target Price and Valuation:** Steady market share & superior performance bode well. However, pressure in equity yields remains an overhang. Thus, we value Nippon AMC at ~5.2% FY24E AUM and revise our target price from ₹ 330 to ₹ 300 per share.

**Key triggers for future price performance:**

- Superior fund performance and anticipated tailwind in debt flows is expected to aid AUM trend
- Dominant presence in ETF segment, strong distribution strength and operational capabilities to support earnings
- Anticipation of a gradual fall in yield remains an overhang. Traction in PMS, AIF need to be watched

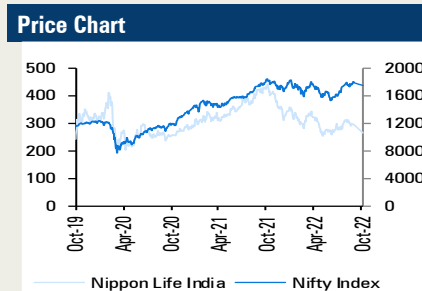
**Alternate Stock Idea:** Apart from Nippon Life, in our coverage we like MCX.

- MCX is the leader in commodity derivatives exchanges in India with ~94% market share in terms of commodity futures turnover
- BUY with a target price of ₹ 1600



Particulars	Amount
Market Capitalisation	₹ 16554 crore
Networth	₹ 3347 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



- Recent Event & key risk**
- QAAUM increased QoQ at ₹ ~2.8 lakh crore
  - Key Risk:** i) Trend of flow in debt schemes, ii) yield trajectory inching southwards

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## Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY21-24E)
Net Profit (₹ crore)	485.7	415.4	679.4	743.4	15%	730.3	806.9	4%
EPS (₹)	7.9	6.8	11.0	12.0	15%	11.7	13.0	4%
P/E (x)	34.1	39.9	24.6	22.7		23.1	20.9	
AUM /share (₹)	3817.0	3347.4	3708.0	4554.5		5101.1	5662.2	
P/AUM (%)	7.1	8.1	7.3	6.0		5.3	4.8	
DPS (₹)	6.0	5.0	8.0	8.7		8.5	9.4	
RoE (%)	19.2	14.1	18.7	17.0		14.3	15.8	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q2FY23 Results: Muted operational performance

- NAM India reported a muted operational performance in Q2FY23. Revenue from operations was up 5% QoQ at ₹ 331 crore
- Yields were under pressure, mainly on account of lower TER despite increase in fund size
- Other income was at ₹ 81.9 crore vs. a loss of ₹ 16.7 crore in Q1FY23
- Operating expense largely flat sequentially at ₹ 146 crore. Consequently, the company reported PAT of ₹ 206 crore, registering growth of 1.8x QoQ and de-growth of 3% YoY
- AAUM growth slowed down to 2% on a QoQ basis at ₹ 285100 crore (industry AAUM grew 3% QoQ). ETFs & liquid schemes grew 7% and 2% QoQ, respectively
- AUM market share on an overall basis was steady at 7.3%. Number of unique investors was at same levels QoQ to 1.34 crore
- SIP book increased sequentially from ₹ 2280 crore to ₹ 2560 crore in Q2FY23, with number of folios increasing from 41 lakh in Q1FY23 to 43 lakh in Q2FY23 (vs. 36 lakh in Q2FY22)
- The company has a strong presence beyond 30 cities (B-30) with 18.2% of AUM coming from this segment compared to industry average of 16.9%

### Q2FY23 Earnings Conference Call highlights

- Despite volatile market during the quarter, the industry maintained a healthy growth momentum driven by higher retail awareness and participation. Industry AUM growth was mainly driven by equity and ETF schemes
- Total 14% of SIP AUM continued for more than five years compared to 10% of the industry. Lower ticket size has shown longer vintage
- In Q2, it added 8000 investors who accounted for 92% of total industry ETF addition. ETF average daily volume across two funds remained far ahead of industry
- Digital platforms contributed 56% of total new purchase transaction
- With focus on organic growth, the management is open to strategic partnerships for growth
- Debt flows have reduced at the industry level as well as for NAM India, mainly due to rise in yields. Shift was seen from long dated debt into overnight & liquid schemes
- As interest rate is picking up from here, inflows are likely to come into fixed income category from corporate and institutional investors
- Realisation improved and will be maintained at current levels. Fixed income realisation could also witness an increase with incremental inflows in debt schemes
- In most banking channels, the company has approvals in place, which are now getting converted to business volumes on the equity side
- More thematic, international or passive funds launches likely
- Fee and commission expense pertains to AIF and PMS business while the corresponding revenue will come with a lag effect
- Out of total cash flow available, 82% of those assets are invested in own funds across category
- Sequentially, there was a marginal decline in staff cost as incentive cost was not there in Q2FY23

## 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	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
HDFC AMC (HDFAMC)	1,960	2,200	Hold	418	63.2	66.4	68.5	79.3	31.0	29.5	28.6	24.7	8.6	7.4	6.8	6.2	28.1	25.2	23.7	24.9
Nippon AMC (RELNIP)	271	300	Hold	168	11.0	12.0	11.7	13.0	24.6	22.7	23.1	20.9	5.4	4.8	4.6	4.3	18.7	17.0	14.3	15.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

₹ crore	Q2FY23	Q2FY22	YoY	Q1FY23	QoQ	Comments
Revenue from Operations	331.6	327.9	1%	316.1	5%	Subdued revenue growth led by steady yields
Revenue/AUM	0.47	0.49	-4bps	0.45	1bps	Yields steady despite change in asset mix
Other Income	81.9	97.2	-16%	-16.7	-590%	
Net Total Income	413.5	425.1	-3%	299.4	38%	
Staff Cost	76.5	73.2	4%	78.1	-2%	
Other Operating Expenses	69.4	69.1	1%	66.7	4%	
Total Expenses	145.9	142.3	3%	144.8	1%	No major cost incurred during the quarter
PBT	267.6	282.8	-5%	154.6	73%	
Tax Outgo	61.5	69.6	-12%	40.3	53%	
PAT	206.0	213.2	-3%	114.3	80%	Other income aids PAT growth
MF- AAUM	285100	265500	7%	279400	2%	Overall market share steady at 7.3%

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ crore)	FY23E			FY24E		
	Old	New	Change %	Old	New	Change %
Revenue from Operations	1387.9	1374.6	-1.0%	1596.3	1453.0	-9.0%
PBT	983.7	973.8	-1.0%	1205.9	1075.8	-10.8%
PAT	737.7	730.3	-1.0%	904.4	806.9	-10.8%
EPS (₹)	11.9	11.7		14.5	13.0	

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	1,374.6	1,453.0
Growth (%)	-18.6%	-11.7%	23.0%	5.2%	5.7%
Other Income	(9.8)	357.2	229.0	164.0	240.0
Total Revenue	1,193.3	1,419.3	1,535.6	1,538.6	1,693.0
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	234.1	272.4
Total Expenses	632.9	542.3	547.0	564.8	617.2
Profit Before Tax	560.4	877.0	988.7	973.8	1,075.8
Taxes	145.0	197.6	245.3	243.4	269.0
Profit After Tax	415.4	679.4	743.4	730.3	806.9
EPS (₹)	6.8	11.0	12.0	11.7	13.0

Source: Company, ICICI Direct Research

### Exhibit 5: Balance Sheet

(₹ crores)	FY20	FY21	FY22	FY23E	FY24E
<b>Sources of Funds</b>					
Share capital	612.1	616.5	622.0	622.0	622.0
Reserves and surplus	1980.9	2483.8	2855.8	3055.9	3277.1
<b>Total Equity</b>	<b>2593.1</b>	<b>3100.3</b>	<b>3477.8</b>	<b>3678.0</b>	<b>3899.1</b>
<b>Trade payables</b>					
Trade payables	67.7	62.9	56.0	58.7	61.7
Others	220.1	229.0	262.8	289.1	318.0
<b>Total Liabilities + Equity</b>	<b>2880.8</b>	<b>3392.2</b>	<b>3796.5</b>	<b>4025.8</b>	<b>4278.7</b>
<b>Applications of Funds</b>					
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	3141.9	3363.0
Receivables	59.3	45.9	75.4	75.4	75.4
Others	147.3	133.7	144.9	133.4	119.7
<b>Total Assets</b>	<b>2880.8</b>	<b>3392.2</b>	<b>3796.5</b>	<b>4025.8</b>	<b>4278.7</b>

Source: Company, ICICI Direct Research

### Exhibit 6: Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
<b>Valuation</b>					
No of Equity shares (crore)	61.2	61.7	62.2	62.2	62.2
EPS	6.8	11.0	12.0	11.7	13.0
DPS	5.0	8.0	8.7	8.5	9.4
BVPS	42.4	50.3	55.9	59.1	62.7
P/E	39.9	24.6	22.7	23.1	20.9
P/BV	6.4	5.4	4.8	4.6	4.3
<b>Operating Ratios (%)</b>					
Rev/AUM	0.59	0.46	0.46	0.43	0.41
EBITDA/AUM	0.19	0.23	0.27	0.26	0.24
PAT/AUM	0.14	0.30	0.26	0.23	0.23
<b>Return Ratios (%)</b>					
RoNW	14.1%	18.7%	17.0%	14.3%	15.8%
NAV per equity share	42.4	50.3	55.9	59.1	62.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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