

CMP: ₹ 236

Target: ₹ 270 (14%)

Target Period: 12 months

HOLD

April 27, 2023

Steady performance; regulatory uncertainty overhang

About the stock: Nippon Life India AMC is among the largest asset managers in India with an AUM size of ₹ 3.63 lakh crore. The company has a strong distribution network with 91000+ distributors.

- Market share as on Q4FY23 was at 7.2%
- Strong presence in B-30 cities that contribute to 19% of total AUM

Q4FY23 Results: Steady quarter with a stable market share.

- QAAUM was at ₹ 293200 crore, up 3% YoY and flat QoQ. Market share was steady at ~7.2%
- Revenue declined 2% QoQ at ₹ 348 crore; YoY it was up 3% mainly due to steady yields at ~47 bps
- Lower other income led to 3% QoQ decline in PAT at ₹ 198 crore

What should investors do? Nippon Life India AMC's share price has remained volatile in the recent past due to subdued movement in industry AUM and uncertainty related to regulatory change.

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: Steady market share provides comfort. However, regulatory change may impact yields and result in lower earnings. Thus, we value Nippon AMC at ~4.7% FY25E AUM and revise our target price from ₹ 300 to ₹ 270 per share.

Key triggers for future price performance:

- Better performance is expected to aid a gradual improvement in market share and, thus, AUM growth
- Significant presence in ETF segment (vs. peers) and focus on non-MF business is seen to improve operational capabilities and earnings growth
- Uncertainty on revision in TER rates, structure to remain an earnings risk. Fresh flows in debt schemes, after tax amendments, needs 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 ~96.8% market share in terms of commodity futures turnover
- BUY with a target price of ₹ 1700



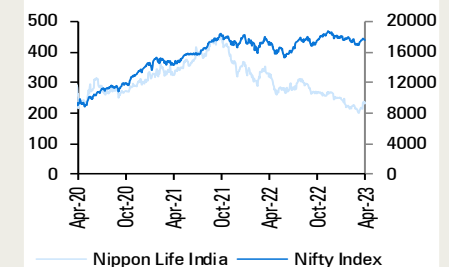
Particulars

	Amount
Market Capitalisation	₹ 14669 crore
Networth	₹ 3515 crore
52 week H/L	334/197
Face Value	₹ 10
DII Holding (%)	9.4
FII Holding (%)	5.0

Shareholding pattern

	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Promoter	73.8	73.7	73.7	73.7	73.7
FII	6.7	6.5	6.4	5.8	5.0
DII	8.8	9.2	9.1	9.1	9.4
Others	10.7	10.5	10.8	11.5	12.0

Price Chart



Recent Event & key risk

- QAAUM steady QoQ at ₹ ~2.93 lakh crore
- Key Risk:** i) Regulatory changes could mar yields ii) Weaker performance could impact market share

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Pravin Mule
pravin.mule@icicisecurities.com

Key Financial Summary

₹ Crore	FY20	FY21	FY22	FY23	3 year CAGR (FY20-FY23)	FY24E	FY25E	2 year CAGR (FY23-FY25)
Net Profit (₹ crore)	415.4	679.4	743.4	722.0	20%	786.3	856.4	9%
EPS (₹)	6.8	11.0	12.0	11.6	20%	12.6	13.8	9%
P/E (x)	34.8	21.4	19.7	20.3		18.7	17.1	
AUM /share (₹)	3347.4	3708.0	4554.5	4713.7		5279.3	5912.8	
P/AUM (%)	7.1	6.4	5.2	5.0		4.5	4.0	
DPS (₹)	5.0	8.0	11.0	11.5		11.6	12.7	
RoE (%)	14.1	18.7	17.0	14.2		15.4	16.8	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Steady operational performance

- NAM India reported a steady operational performance in Q4FY23. Revenue from operations declined 2% QoQ at ₹ 348 crore
- Other income witnessed a sharp decline at ₹ 39.7 crore vs ₹ 61.9 crore in Q3FY23, related to MTM loss on investment portfolio
- Operating expense were flat sequentially at ₹ 148 crore. However, due to subdued topline and lower other income. The company reported a 3% sequential decline in PAT at ₹ 198 crore
- AAUM was flat at ₹ 3.63 lakh crore (in line with industry AAUM growth QoQ). The AUM market share on an overall basis was steady at 7.2%
- SIP book increased sequentially from ₹ 2910 crore to ₹ 3220 crore (cumulative for quarter) in Q4FY23, with number of folios increasing from 46 lakh in Q3FY23 to 48 lakh in Q4FY23 (vs. 40 lakh in Q4FY22)
- Number of unique investors inched up marginally QoQ to 1.35 crore
- The company has a strong presence in beyond 30 cities (B-30) with 19% of AUM coming from this segment compared to industry average of 17%

Nippon Life AMC - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	0.8	3.9	6.6
Social	22.3	22.3	24.4
Governance	76.1	76.1	76.1
Overall ESG Score	33.1	34.2	35.8

Source: Bloomberg; ICICI Direct Research * score ranges from 0-100 with a high score indicating higher ESG disclosure

Q4FY23 Earnings Conference Call highlights

- Industry AAUM growth steady with 0.5% QoQ uptick at ₹ 40.51 lakh crore. SIP contribution for FY23 at ₹ 1.56 lakh crore with growth of 25% YoY. Debt segment witnessed an outflow of ₹ 1.5 lakh crore on account of a rise in interest rates. ETF flows were healthy during the year
- NAM India AUM growth was flat with stable market share. The management aims to increase equity market share, going ahead
- Individual AUM (mix of retail & HNI) forms 56% of total MF AUM. HNI AUM grew 25% YoY and market share increased 66 bps
- SIP grew 52% YoY to ₹ 1115 crore. Total 60% of SIP AUM continued for five years vs. 24% for the industry. Total 15% of SIP folios continued for five years vs. 11% industry average
- Share in industry ETF folio is 61%. ETF daily volume across funds remains higher compared with industry. Have AIF commitment of ₹ 5,615 crore across various schemes
- Yields were largely steady due to replacement of old assets vs. new assets (cost of acquisition of new assets is high compared with old assets) and due to increase in size. Management aim to maintain yields at current levels
- Payout ratio to distributor has moderated vs. last year and, hence, able to maintain yields at current levels. Expense growth is in range of 6-7% and will continue to grow in that range. Effective tax rate to be 22-23% vs. 25%
- Employee cost down due to moderation in PLI provisions. Other income fell due to MTM impact (carry ₹ 2200 crore of net worth in fixed income schemes)
- Just 30% of assets are now at the old pricing, rest already being churned. More than three years old assets are 30% of total equity assets and most of it is a part of continuing SIP book

Peer comparison

Exhibit 1: Peer comparison

Sector / Company	CMP		M Cap	EPS (₹)				P/E (x)				P/ABV (x)			RoE (%)				
	(₹)	TP(₹) Rating		(₹ bn)	FY22E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E
HDFC AMC (HDFAMC)	1,765	2,050 Buy	376	66.4	67.9	72.5	80.8	26.6	26.0	24.3	21.8	6.7	6.1	5.6	5.2	25.2	23.3	23.2	24.0
Nippon AMC (RELNIP)	236	270 Hold	146	12.0	11.6	12.6	13.8	19.7	20.3	18.7	17.1	4.2	4.2	4.1	4.0	17.0	14.2	15.4	16.8
MCX	1,386	1,700 Buy	71	28.2	31.1	46.9	59.8	49.2	44.6	29.6	23.2	5.0	4.8	4.1	3.5	10.1	10.8	14.0	15.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

₹ crore	Q4FY23	Q4FY22	YoY	Q3FY23	QoQ	Comments
Revenue from Operations	348.3	338.0	3%	353.8	-2%	Subdued revenue growth led by flattish AUM & steady yields
Revenue/AUM	0.48	0.48	-1bps	0.48	-1bps	Stable market share led to steady yield
Other Income	39.7	34.5	15%	61.9	-36%	MTM loss impacted other income
Net Total Income	388.0	372.4	4%	415.7	-7%	
Staff Cost	71.2	74.5	-5%	74.7	-5%	
Other Operating Expenses	77.7	63.5	22%	74.7	4%	
Total Expenses	148.8	138.1	8%	149.4	0%	Opex largely flat with no offs
PBT	239.2	234.4	2%	266.4	-10%	
Tax Outgo	41.5	59.5	-30%	61.6	-33%	
PAT	198.0	174.8	13%	205.2	-3%	Lower other income led to QoQ decline in PAT
MF- AAUM	293200	283300	3%	292800	0%	Overall market share steady at 7.2%

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ crore)	FY24E			FY25E		
	Old	New	Change %	Old	New	Change %
Revenue from Operations	1453.0	1445.5	-0.5%	1612.6	1579.1	-2.1%
PBT	1075.8	1048.4	-2.6%	1175.3	1141.8	-2.8%
PAT	806.9	786.3	-2.6%	881.5	856.4	-2.8%
EPS (₹)	13.0	12.6		14.2	13.8	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit & Loss Statement

(₹ crores)	FY21	FY22	FY23	FY24E	FY25E
Revenue from Operations	1,062.1	1,306.6	1,349.8	1,445.5	1,579.1
Growth (%)	-11.7%	23.0%	3.3%	7.1%	9.2%
Other Income	357.2	229.0	166.8	220.0	240.0
Total Revenue	1,419.3	1,535.6	1,516.6	1,665.5	1,819.1
Employee Benefit Expenses	271.3	290.3	300.1	326.9	341.8
Depreciation & Amortization Expense	33.3	27.2	29.8	29.8	29.8
Other Expenses (incl fees)	237.7	229.4	259.9	260.4	305.7
Total Expenses	542.3	547.0	589.8	617.1	677.3
Profit Before Tax	877.0	988.7	926.8	1,048.4	1,141.8
Taxes	197.6	245.3	204.8	262.1	285.5
Profit After Tax	679.4	743.4	722.0	786.3	856.4
EPS (₹)	11.0	12.0	11.6	12.6	13.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet

(₹ crores)	FY21	FY22	FY23	FY24E	FY25E
Sources of Funds					
Share capital	616.5	622.0	623.2	623.2	623.2
Reserves and surplus	2483.8	2855.8	2892.2	2955.1	3023.6
Total Equity	3100.3	3477.8	3515.4	3578.3	3646.8
Trade payables					
	62.9	56.0	66.2	69.5	73.0
Others					
	229.0	262.8	279.3	307.3	338.0
Total Liabilities + Equity	3392.2	3796.5	3860.9	3955.1	4057.8
Applications of Funds					
Property, plant and equipment	12.1	10.1	11.6	11.6	11.6
Intangible assets	290.0	286.0	293.2	293.2	293.2
Cash and bank balance	360.6	338.4	272.7	305.5	342.1
Investments	2550.0	2941.7	3023.1	3086.0	3154.6
Receivables	45.9	75.4	96.9	96.9	96.9
Others	133.7	144.9	163.4	161.9	159.4
Total Assets	3392.2	3796.5	3860.9	3955.1	4057.8

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

	FY21	FY22E	FY23	FY24E	FY25E
Valuation					
No of Equity shares (crore)	61.7	62.2	62.2	62.2	62.2
EPS	11.0	12.0	11.6	12.6	13.8
DPS	8.0	11.0	11.5	11.6	12.7
BVPS	50.3	55.9	56.5	57.5	58.6
P/E	21.4	19.7	20.3	18.7	17.1
P/BV	4.7	4.2	4.2	4.1	4.0
Operating Ratios (%)					
Rev/AUM	0.46	0.46	0.46	0.44	0.43
EBITDA/AUM	0.23	0.27	0.26	0.25	0.25
PAT/AUM	0.30	0.26	0.25	0.24	0.23
Return Ratios (%)					
RoNW	18.7%	17.0%	14.2%	15.4%	16.8%
NAV per equity share	50.3	55.9	56.5	57.5	58.6

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, Akruiti 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 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.