

CMP: ₹ 640

Target: ₹ 750 (17%)

Target Period: 12 months

BUY

July 22, 2024

Strong performance driven by equities; core strategy healthy

About the stock: Nippon Life India AMC is among the largest asset managers in India with an AUM size of ₹ 6 lakh crore. Focus on strong distribution network (~104300+ distributors) and passive schemes (Market share of ~17.8% on QAAUM basis) remains key strategy.

- Market share as on Q1FY25 was at 8.2% on QAAUM basis
- Strong presence in B-30 cities that contribute to 19.6% of total AUM

Q1FY25 performance: Nippon Life AMC reported robust set of numbers amid rising equities and gain in market share. AUM growth reported at 12% QoQ to ₹ 4.8 lakh crore, driven by growth in equity AUM (14% QoQ) and ETF (16% QoQ). Revenue from operation increased 43% YoY and 8% QoQ to ₹ 505 crore. Blended yields saw a minor contraction of 1bps QoQ on QAAUM at 42 bps, owing to cut in TER with higher AUM. PAT came in at ₹ 332 crore, aided by strong operational performance though declined sequentially due to lower tax in Q4FY25. PAT as percentage of QAAUM declined at ~27-28 bps.

Investment Rationale

- Strategy to focus on core with gain in market share to aid revenue: Consistent focus on strategy towards equities and ETF has led to gain in market share at ~8.2% (blended basis) and ~17.8% for ETF. Further, sustained performance, robust SIP flows (market share at ~9%) and accretion in unique customer base (market share at 37.4%). Continued focus on distribution in B-30 locations (~70% of branches in B-30 locations), MTM gains, continued SIP inflow and emphasis on passive schemes is expected to aid AUM growth with further increase in share of equity AUM.
- Sustained healthy AUM growth and steady operational performance to aid profitability: Addition of manpower (in distribution), increments and variable payouts has led to an increase of 35% YoY and 19% QoQ in employee cost. While opex is expected to remain steady with continued investment in distribution and manpower, sustained growth in AUM with gradual increase in proportion of equity AUM is expected to mitigate pressure of TER cuts resulting in overall sustained performance. Expect PAT to increase at ~11% CAGR in FY25-26E.

Rating and Target Price

- Buoyant equities, improved performance & SIP inflows coupled with focus on passive business led to strong growth in AUM. Focus on strengthening distribution, customer accretion and performance is expected to drive AUM traction. Realignment of distribution structure to share impact of TER cut could act a catalyst in near term, limiting pressure of declining yield on bottom-line. Valuing the stock at ~34x FY26E EPS, we assign a target of ₹ 750, and recommend a Buy rating on the stock.

Key Financial Summary

₹ Crore	FY21	FY22	FY23	FY24	3 year CAGR (FY20-FY23)	FY25E	FY26E	2 year CAGR (FY24-26)
Net Profit (l crore)	679.4	743.4	722.0	1104.2	18%	1239.3	1361.7	11%
EPS (l)	11.0	12.0	11.6	17.8	17%	19.9	21.9	11%
P/E (x)	58.1	53.6	55.1	36.1		32.1	29.2	
AUM /share (l)	3708.0	4554.5	4713.7	6933.9		8667.3	9967.4	
P/AUM (%)	17.3	14.1	13.6	9.2		7.4	6.4	
DPS (l)	8.0	11.0	11.5	16.5		0.0	0.0	
RoE (%)	18.7	17.0	14.2	21.7		0.0	0.0	

Source: Company, ICICI Direct Research



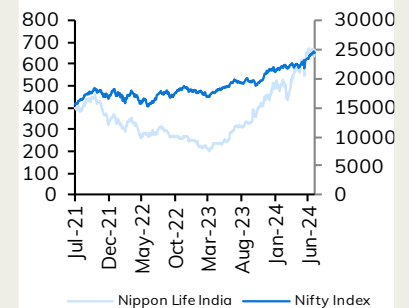
Particulars

Particulars	Amount
Market Capitalisation	₹ 40,398 crore
Networth	₹ 3,982 crore
52 week H/L	687 / 303
Face Value	₹ 10

Shareholding pattern

	Jun 23	Sep 23	Dec 23	Mar 24	Jun 24
Promoter	73.6	73.5	73.1	72.9	72.7
FII	4.8	5.1	5.5	5.5	6.6
DII	10.2	14.6	14.2	14.4	14.3
Others	11.3	6.9	7.2	7.3	6.4

Price Chart



Key risks

- Regulatory decline in TER
- Heightened volatility in equities and thus AUM

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Concall highlights and outlook

Financials & AUM

- Quarterly AUM growth of 9% was driven by strong inflows in equity funds, with a focus on scaling up long-term products and maintaining market share increases in various segments.
- NAM India closed the quarter with total assets under management of INR 6.04 trillion, showing growth and improvement in market share across all categories.
- The company's closing AUM breakup:
 - Equity - ₹2.6 lac crores
 - Debt - ₹73,300 crores
 - Liquid - ₹33,600 crores
 - ETF - ₹1.4 lac crore
- Market share in incremental SIP flow improved at ~11%. Share in ETF folio at ~60%.
- Contraction in yield was mainly due to increase in AUM, 1 bps contraction sequentially; equity yield was about 60bps, debt was 25bps, liquid about 10-12bps and ETFs about 8-10 bps
- SIP flows remain diversified across small, mid and sectoral schemes. Contribution of B30 location is higher than the industry. One-fourth of inflows is seen in large and multi-cap funds.
- Quarterly systematic flows rose by 7.5% QoQ to ₹ 7530 crore. Yield on new business remains lower than the stock.
- Increase in employee cost attributable to employee addition (primarily in distribution), ESOP (₹8.3 crore), increments (~13%) and higher variable payouts. ESOP cost for FY25E is estimated at ₹45 crore.
- Added 91 employees (45 in Q1FY25) with major proportion in distribution and AIF. Going ahead, management indicates employee base could increase by 100 in next 2-3 years. Employee expense could increase by 12-13% every year in next 2-3 years. Employee expenses form ~53% of total cost, of which ~25% is variable in nature, while other expense including depreciation are largely fixed.

Strategy

- The company is focusing on broadening market share through various channels, derisking the business by expanding into new investor segments, and maintaining stable yields by adjusting commission payouts and utilizing various levers
- Nippon India avoided launching of new sectoral schemes as experience indicates that such flows are less sticky. Hence, focus continued on existing flagship products including passive funds
- Management is evaluating regulator paper on new asset class. The company might launch such products with higher than prescribed ticket size (₹10 lakh) to ensure onboarding of customers with understanding of inherent risk
- Realignment of distribution structure could be one of the levers to mitigate impact of cut in TER
- Focus is on improving efficiency of existing branch rather than opening new branches with additions of 10-15 branches per year, mainly because a lot of business comes digitally even from B30 locations

Exhibit 1: Variance Analysis

₹ crore	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ	Comments
Revenue from Operations	505.0	354.1	43%	468.3	8%	Faster growth in equity AUM with gain in market share
Revenue/AUM	0.42	0.45	-4bps	0.43	-2bps	Growth in ETF and telescopic TER led to decline in yield
Other Income	130.8	116.9	12%	92.3	42%	MTM gains across segment drive other income
Net Total Income	635.8	471.0	35%	560.6	13%	
Staff Cost	105.1	78.0	35%	88.6	19%	Staff addition, ESOP and increments resulted in increase in employee cost
Other Operating Expenses	91.8	83.1	10%	97.8	-6%	
Total Expenses	196.9	161.1	22%	186.5	6%	
PBT	438.9	309.9	42%	374.1	17%	
Tax Outgo	106.6	74.6	43%	31.5	239%	Tax rate normalised in Q1FY25
PAT	332.3	235.3	41%	342.6	-3%	YoY growth strong; lower tax rate in Q4FY24 distorts sequential trend
MF- AAUM	483800	313600	54%	431300	12%	Market share steady at 8.2% on QAAUM

Financial Summary

Exhibit 2: Profit & Loss Account				
	₹ crore			
(₹ crores)	FY23	FY24	FY25E	FY26E
Revenue from Operations	1,349.8	1,642.3	2,117.9	2,432.2
Growth (%)	3.3%	21.7%	29.0%	14.8%
Other Income	166.8	394.0	340.0	290.0
Total Revenue	1,516.6	2,036.3	2,457.9	2,722.2
Employee Benefit Expenses	300.1	337.0	416.9	472.7
Depreciation & Amortization E	29.8	29.1	29.1	29.1
Other Expenses (incl fees)	259.9	319.7	359.4	404.7
Total Expenses	589.8	685.9	805.4	906.6
Profit Before Tax	926.8	1,350.4	1,652.4	1,815.6
Taxes	204.8	246.2	413.1	453.9
Profit After Tax	722.0	1,104.2	1,239.3	1,361.7
EPS (₹)	11.6	17.8	19.9	21.9

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios				
	FY23	FY24	FY25E	FY26E
Valuation				
No of Equity shares (crore)	62.2	62.2	62.2	62.2
EPS	11.6	17.8	19.9	21.9
DPS	11.5	16.5	17.9	19.7
BVPS	56.5	64.0	66.0	68.2
P/E	55.1	36.1	32.1	29.2
P/BV	11.3	10.0	9.7	9.4
Operating Ratios (%)				
Rev/AUM	0.46	0.38	0.39	0.39
EBITDA/AUM	0.26	0.22	0.24	0.25
PAT/AUM	0.25	0.26	0.23	0.22
Return Ratios (%)				
RoNW	14.2%	21.7%	24.3%	26.7%
NAV per equity share	56.5	64.0	66.0	68.2

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(₹ crores)	FY23	FY24	FY25E	FY26E
Sources of Funds				
Share capital	623.2	630.0	630.0	630.0
Reserves and surplus	2892.2	3352.2	3476.1	3612.3
Total Equity	3515.4	3982.2	4106.1	4242.3
Trade payables				
	66.2	50.1	52.6	55.2
Others	279.3	342.8	377.1	414.8
Total Liabilities	3860.9	4375.0	4535.8	4712.3
Applications of Funds				
Property, plant and equipment	11.6	16.8	16.8	16.8
Intangible assets	293.2	314.4	314.4	314.4
Cash and bank balance	272.7	270.6	303.0	339.4
Investments	3023.1	3512.7	3636.6	3772.8
Recieveables	96.9	130.3	130.3	130.3
Others	163.4	130.3	134.6	138.6
Total Assets	3860.9	4375.0	4535.8	4712.3

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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