

CMP: ₹ 682

Target: ₹ 800 (17%)

Target Period: 12 months

BUY

October 27, 2024

## Strong performance, market share gain, focus on profitability

About the stock: Nippon Life India AMC is among the largest asset managers in India with an AUM size of ₹ 6.54 lakh crore. Focus on strong distribution network (~107800+ distributors) and passive schemes (Market share of ~17.8% on QAAUM basis) remains key strategy.

- Market share as on Q2FY25 was at 8.29% on QAAUM basis
- Strong presence in B-30 cities that contributes to 19% of total AUM

Q2FY25 performance: Nippon Life reported robust performance with QAUM growth at ₹5.5 lakh crore, up 57% YoY, backed by strong inflow (amid customer accretion) and MTM gains. This has resulted in 83 bps YoY and 9 bps QoQ improvement in market share at 8.29%. Robust AUM traction and increase in equity mix has led revenue growth of 44% YoY to ₹ 571 crore (Yield at 41.5 bps on closing AUM) and 47% YoY in earnings at ₹ 360.1 crore (26 bps on closing AUM).

### Investment Rationale

- Strategy to focus on core with gain in market share to aid revenue: Consistent focus on strategy towards equities coupled with industry tailwind led to gain in market share at ~8.29% (blended basis) and ~18.3% for ETF. Good scheme performance, robust SIP flows (market share increased 60 bps QoQ at ~12.6%) and accretion in unique customer base (market share at 37.7%). Continued focus on distribution in B-30 locations (contributing 19% of AUM), SIP inflow and emphasis on existing active and passive schemes is expected to aid AUM growth.
- Higher equity mix, rationalization of commission & steady opex to aid profitability: Building distribution strength through addition of manpower & investment in tech along with business growth has led to 26% YoY rise in opex. While traction in opex is expected to remain steady ahead with continued investment in distribution & manpower, sustained proportion of equity mix is expected to mitigate pressure of TER cuts, thereby aiding profitability. Expect PAT to increase at ~13% CAGR in FY25-27E.

### Rating and Target Price

- Buoyant equities, improved performance & SIP inflows coupled with focus on passive business led to strong growth in AUM and gain in market share. 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.
- Though the stock has witnessed an uptick in recent past, considering relatively higher business growth without any balance sheet risk, we remain positive on the stock. Valuing the stock at ~31x FY27E EPS, we revise our target at ₹800 (earlier ₹750), and recommend a Buy rating.



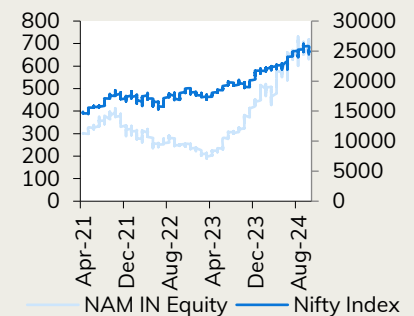
### Particulars

Particulars	Amount
Market Capitalisation	₹ 43,158 crore
Networth	₹ 4,375 crore
52 week H/L	749 / 368
Face Value	₹ 10
DII Holding (%)	13.47
FII Holding (%)	6.3

### Shareholding pattern

	Sep 23	Dec 23	Mar 24	Jun 24	Sep 24
Promoter	73.5	73.1	72.9	72.7	72.5
FII	5.1	5.5	5.5	6.6	7.7
DII	14.6	14.2	14.4	14.3	13.5
Others	6.9	7.2	7.3	6.4	6.3

### Price Chart



### Key risks

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

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### Key Financial Summary

₹ Crore	FY22	FY23	FY24	3 year CAGR (FY20-FY23)	FY25E	FY26E	FY27E	2 year CAGR (FY24-26)
Net Profit (₹ crore)	870.5	743.2	1105.4	9%	1394.2	1518.7	1614.9	13%
EPS (₹)	14.0	11.9	17.8	8%	22.4	24.4	26.0	13%
P/E (x)	48.7	57.1	38.4		30.4	27.9	26.3	
AUM /share (₹)	4555.5	4713.0	6934.0		9568.9	11482.7	13205.1	
P/AUM (%)	15.0	14.5	9.8		7.1	5.9	5.2	
DPS (₹)	11.0	11.5	16.5		20.2	22.0	23.4	
RoE (%)	29.9	25.4	37.1		46.8	50.9	54.2	

## Concall highlights and outlook

### Financials & AUM

- Quarterly AUM growth of 14% 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 ₹ 6.54 trillion, showing growth and improvement in market share across all categories.
- Nippon AMC's QAAUM grew 57% YoY (+14% QoQ) to ₹ 5.5 lakhs crore in Q2FY25, with equity assets constituting 51% of total AUM compared to 46.8% a year ago.
- Nippon AMC's market share based on QAAUM increased 83 bps YoY and 9 bps QoQ to 8.29% in Q2FY25. This is the sixth consecutive quarter for market share increase. It's equity market share increased by 43 bps YoY and 8 bps QoQ to 6.29%, which remains highest market share increase across peers.
- The company forecasted effective tax rate of roughly 26% for the year, of which full impact of change in tax rate and the indexation benefit are taken and reflected in half-yearly result.
- SIP AUM grew 74% YoY to ₹ 1.4 lakhs crore as systematic flows grew 91% YoY to ₹ 90.3 bn at end Q2FY25. The company saw its market share in flow increasing by 50 bps QoQ driven by combination of digital and mutual fund distributor channel.
- Management reiterated that yield will remain under pressure due to telescopic pricing. Yield on asset classes: Equity: 58 bps, Debt: 25 bps, Liquid: 10-12 bps, ETFs: 15 bps
- Headcount increased to 1,131 in Q2FY25 vs 1,046 in Q1FY25.

### 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
- Commission rationalization is underway, with a system being set up where, as per the TER movement, commission keep going down, this is done for small cap fund. The similar logic will be applied to all the new businesses which come in all the funds.
- Realignment of distribution structure could be one of the levers to mitigate impact of cut in TER
- 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
- The company was a part of the first ever mutual fund transaction on ONDC platform. The company has not made any payment or entered into any financial agreement with the platform.
- The company is on track to launch a couple of new India dedicated funds in Japan in next 6-9 months, based on the high investor interest.

**Exhibit 1: Variance Analysis**

₹ crore	Q2FY25	Q2FY24	YoY	Q1FY25	QoQ	Comments
Revenue from Operations	571.3	397.5	44%	505.0	13%	Faster growth in equity AUM with gain in market share
Revenue/AUM	0.42	0.45	-5bps	0.42	0bps	Yields maintained QoQ
Other Income	120.8	77.9	55%	130.8	-8%	MTM gains across segment drive other income on YoY
Net Total Income	692.1	475.4	46%	635.8	9%	
Staff Cost	106.9	79.9	34%	105.1	2%	
Other Operating Expenses	99.1	85.1	16%	91.9	8%	
Total Expenses	206.0	165.0	25%	197.0	5%	
PBT	486.1	310.4	57%	438.8	11%	
Tax Outgo	126.1	66.1	91%	106.6	18%	Change in capital gain tax & withdrawal of indexation benefit led to higher tax
PAT	360.0	244.3	47%	332.2	8%	YoY growth strong; Healthy growth in revenue aided earnings
MF- AAUM	549200	350600	57%	483800	14%	Market share increased to 8.29%

## Financial Summary

Exhibit 2: Profit & Loss Account					
	₹ crore				
(₹ crores)	FY23	FY24	FY25E	FY26E	FY27E
Revenue from Operations	1,364	1,643	2,210	2,555	2,798
Growth (%)	-4.9%	20.4%	34.5%	15.6%	9.5%
Other Income	172	394	390	320	320
Total Revenue	1,536	2,037	2,600	2,875	3,118
Employee Benefit Expenses	303	336	432	481	532
Depreciation & Amortization Ex	29	30	30	30	30
Other Expenses (incl fees)	256	320	279	339	403
Total Expenses	588	686	741	850	964
Profit Before Tax	948	1,352	1,859	2,025	2,153
Taxes	205	246	465	506	538
Profit After Tax	743	1,105	1,394	1,519	1,615
EPS (₹)	12	18	22	24	26

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios					
	FY23	FY24	FY25E	FY26E	FY27E
<b>Valuation</b>					
No of Equity shares (crore)	62.2	62.2	62.2	62.2	62.2
EPS	11.9	17.8	22.4	24.4	26.0
DPS	11.5	16.5	20.2	22.0	23.4
BVPS	56.5	64.0	66.3	68.7	71.3
P/E	57.1	38.4	30.4	27.9	26.3
P/BV	12.1	10.7	10.3	9.9	9.6
<b>Operating Ratios (%)</b>					
Rev/AUM	0.47	0.38	0.37	0.36	0.34
EBITDA/AUM	0.26	0.22	0.25	0.24	0.22
PAT/AUM	0.25	0.26	0.23	0.21	0.20
<b>Return Ratios (%)</b>					
RoNW	25.4%	37.1%	46.8%	50.9%	54.2%
NAV per equity share	56.5	64.0	66.3	68.7	71.3

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet					
	₹ crore				
(₹ crores)	FY23	FY24	FY25E	FY26E	FY27E
<b>Sources of Funds</b>					
Share capital	623.2	630.0	630.0	630.0	630.0
Reserves and surplus	2892.2	3352.2	3491.6	3643.5	3805.0
<b>Total Equity</b>	<b>3515.4</b>	<b>3982.2</b>	<b>4121.6</b>	<b>4273.5</b>	<b>4435.0</b>
<b>Trade payables</b>					
Trade payables	66.2	50.1	52.6	55.2	58.0
Others	279.3	342.8	377.1	414.8	456.3
<b>Total Liabilities</b>	<b>3860.9</b>	<b>4375.0</b>	<b>4551.2</b>	<b>4743.4</b>	<b>4949.2</b>
<b>Applications of Funds</b>					
Property, plant and equipment	11.6	16.8	16.8	16.8	16.8
Intangible assets	293.2	314.4	314.4	314.4	314.4
Cash and bank balance	272.7	270.6	303.0	339.4	380.1
Investments	3023.1	3512.7	3652.1	3804.0	3965.5
Receivables	96.9	130.3	130.3	130.3	130.3
Others	163.4	130.3	134.6	138.6	142.1
<b>Total Assets</b>	<b>3860.9</b>	<b>4375.0</b>	<b>4551.2</b>	<b>4743.4</b>	<b>4949.2</b>

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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