

Nippon India AMC

BUY

CMP Rs 340

Target Rs 452

Upside 33%

Result Highlights

- ✓ **Revenue** – Management Fees was at Rs.3bn was higher than our estimates of Rs.2.9bn. Management fees increased by 10% yoy and witnessed a growth of 12% on sequential basis.
- ✓ **Yield on Management fees** - The Yield on Management fees was at 0.53%, which was a fall of 1bp YoY, against our estimate of 0.51%.
- ✓ **Operating Profit** -Operating profit came at Rs.1.66bn which was in line with our estimates of Rs.1.6bn due to higher than expected operating cost.
- ✓ **Profits** – PAT stood at Rs.1.7bn v/s our estimates of Rs.1.98bn led by sharply lower other income on qoq basis.
- ✓ **Valuations** - The stock currently trades at FY23E P/E of 24x.
- ✓ **Dividend:** The Board has recommended a final dividend of Rs5 per share

Our view: Nippon India AMC delivered better than expected performance on most operating parameters. Given our house view of a significant rally in Indian equity markets in the near term, we expect AUM growth of the industry to remain strong. This shift of product mix towards higher share of equity AUM shall lead to better profitability as yields on Equity AUM is 2x of the overall yields. NAM has demonstrated improvement in cost efficiencies, which will further boost profitability as operating leverage kicks in. Market share recovery is also expected with recent improvement in fund performance. We have raised our estimates by 8% and 6% respectively for FY22E and FY23E respectively driven by better than forecasted AUM performance in Feb and March. Retain our BUY rating with a revised price target of Rs452 (earlier Rs426).

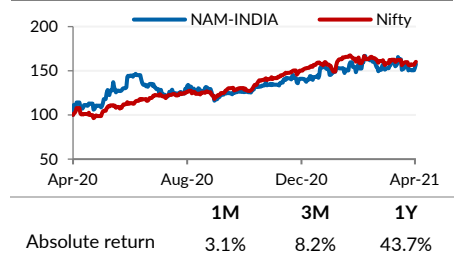
Exhibit 1: Result Table

	Q4FY21	Q4FY20	YoY	Q3FY21	QoQ
Revenue from operation	3,019	2,745	10%	2,685	12%
As % of QAUM	0.53%	0.54%	-1bps	0.50%	2bps
Fees and Commission	141	198	-29%	101	39%
As % of revenues	4.66%	7.21%	-255bps	3.78%	88bps
Employee costs	654	529	24%	665	-2%
As % of revenues	21.7%	19.3%	240bps	24.8%	-310bps
Other Expenses	566	402	41%	449	26%
As % of revenues	18.7%	14.6%	410bps	16.7%	202bps
Total Expense	1,360	1,129	21%	1,215	12%
Operating Profit	1,659	1,617	3%	1,470	13%
As % of QAUM	0.29%	0.32%	-3bps	0.28%	1bps
As % of revenues	54.9%	58.9%	-395bps	54.7%	20bps
Other Income	601	-1,249	-148%	1,304	-54%
Finance cost	10	5	107%	11	-10%
Depreciation	71	89	-20%	78	-9%
Profit before Tax	2,179	274	697%	2,685	-19%
Tax Expense	514	232	121%	570	-10%
Profit After Tax	1,665	41	3932%	2,115	-21%
As % of QAUM	0.29%	0.01%	28bps	0.40%	-11bps
As % of revenues	55.2%	1.5%	5365bps	78.8%	-2364bps

Stock data (as on April 27, 2021)

Sensex:	14,653
52 Week h/l (Rs)	375 / 210
Market cap (Rs/USD mn)	210012 / 2813
Outstanding Shares	617
6m Avg t/o (Rs mn):	324
Div yield (%):	2.3
Bloomberg code:	NAM IN
NSE code:	NAM-INDIA

Stock performance



Shareholding pattern (As of Dec'20 end)

Promoter	74.95%
FII+DII	11.44%
Others	13.62%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	452	426

Financial Summary

	FY22E	FY23E	FY24E
Net Revenue	13,566	15,947	18,960
YoY Growth	27.7%	17.6%	18.9%
EBIDTA Margin	60.9%	66.0%	69.8%
PAT	7,478	9,284	11,446
YoY Growth	10.1%	24.1%	23.3%
ROE	23.4%	27.3%	31.5%
EPS	12.1	15.1	18.6
P/E	28.0	22.6	18.3
BV	53.3	57.1	60.8
P/BV	6.4	6.0	5.6

Δ in earnings estimates

Rs	FY22e	FY23e
EPS (New)	12.1	15.1
EPS (Old)	11.2	14.2
% change	8.0%	6.2%

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Exhibit 2: Other Business Parameters

Rs. Mn	Q4FY21	Q4FY20	YoY	Q3FY21	QoQ
QAUM Mix					
Equity	41%	42%	-100bps	39%	200bps
Debt	31%	28%	300bps	32%	-100bps
Liquid	12%	16%	-400bps	14%	-200bps
ETFs	16%	14%	200bps	15%	100bps

CON-CALL HIGHLIGHTS

Market share and AUM

- ✓ 9 lakh new unique investors added, whereas industry added 20 lakh customers 30% market share, 350 institutional investors added in FY21
- ✓ Launch 9 NFOs, product launches to continue
- ✓ Non MF AUM: Rs1.3 trillion AUM in non MF, Rs103bn offshore, Cathay Taiwan signed
- ✓ Digital assets 53% of new business, Direct channel 54%
- ✓ Leveraging Nippon Life – 2 real estate funds launched in Japan, Cathay tie up also, expect many such steps going ahead
- ✓ HNI market share recovery has started, next 3-4 quarters will see positive lag effect of fund performance
- ✓ SIP market share loss: SIP size lower than industry which drives stickiness, SIPs directly correlated with performance and it has started improving in the past couple of quarters, with sustenance of performance expect recovery, very deep into retailing getting into B30, very strong into digital footprint will add volumes
- ✓ Not affiliated with bank – has most diversified distribution mix, doesn't see any risk because of this, banca has an advantage in insurance but not in MFs
- ✓ Trend in market share decline has plateaued, ultra short term and short term categories are seeing increasing market share

ETF

- ✓ Liquidity impact – 3-5% impact cost for customers, liquidity is a pre-requisite to attract investors, ETFs will be a volume game, Ex-EPFO 19bps gross revenue yields, adds Rs500mn to profitability, net yield 11-12bps
- ✓ In ETF customers does not diversify the way they do in active funds
- ✓ ETF growth has been primarily from institutions, retail has started picking up
- ✓ Some distributors prefer ETFs but for conventional distributors have launched passive funds

B30

- ✓ 18% of assets as against 16% of the industry, B30 market share was flat in the quarter but expect to increase going ahead
- ✓ Execution has been strong, entry barriers are high but will continue to leverage strong distribution network of IFAs and digital network

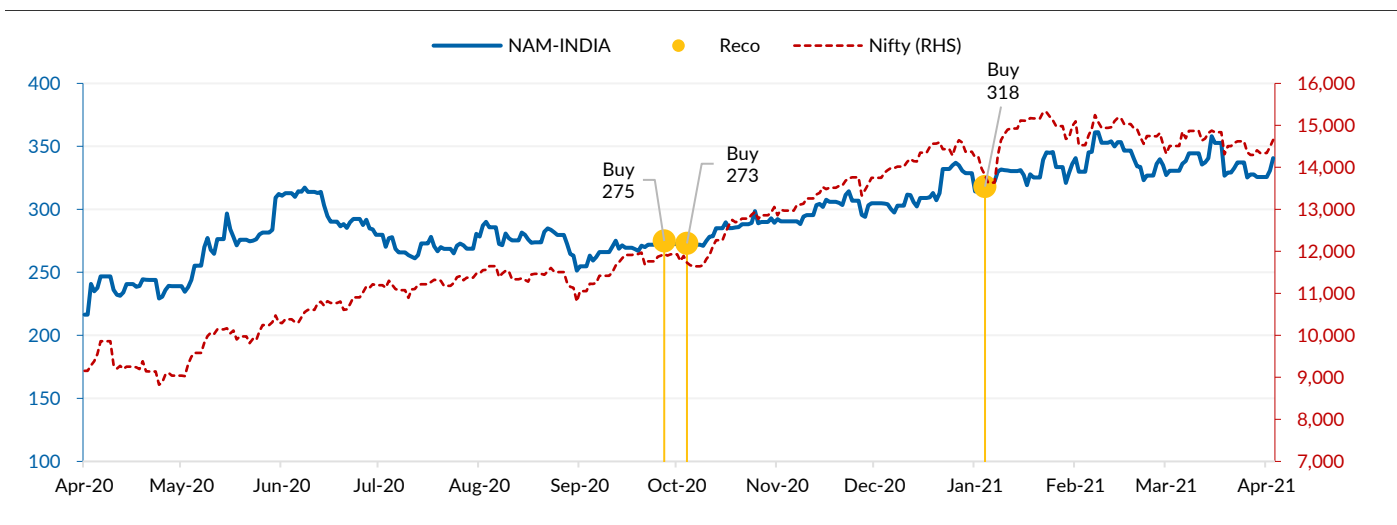
Distribution

- ✓ Banca is coming off not much left and hence pushing other products, Investors are moving to direct, equity share of direct moved from 13% to 18%

Expenses

- ✓ Q4 increase in other expenses is one off, COVID times digital and technological infra, transitioned out to own IT infrastructure

Recommendation Tracker



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BUY: Potential return >15% over 12 months

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