

# NIPPON Life India Asset Management

BUY

CMP Rs318

Target Rs 426

Upside 34%

## Miss in terms of revenue, PAT supported by strong other Income

- ✓ **Revenue** – Management Fees was at Rs.2.68bn was lower than our estimates of Rs. 2.79bn. Management fees declined by 11% yoy and witnessed a growth of 4% on sequential basis.
- ✓ **Yield on Management fees** - The Yield on Management fees stood at 0.5% v/s our estimate of 0.53%. It declined by 9bps on YoY basis and 1bps on sequential basis.
- ✓ **Operating Profit** - Operating profit came at Rs. 1.47bn which was lower than our estimates of Rs. 1.53bn mainly on back lower revenue. Despite expenses been slightly lower than our estimates.
- ✓ **Profits** – PAT stood at Rs. 2.1bn v/s our estimates of Rs. 1.6bn led by strong other income.
- ✓ **Dividends** – Declared interim dividend of Rs. 3 per share
- ✓ **Change in forecasts** – EPS for 9MFY21 stands at Rs. 8.4, which is 92% of our estimate of Rs. 9 for FY21.
- ✓ **Valuations** - The stock currently trades at FY23E P/E of 23x.

**Our view:** 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. On the same grounds we have raised our MTM gains impact on Equity AUM from 12% to 15% for the next three years. 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. Rising investment book and higher equity MTM gains has translated into a very strong other income, which was much ahead of our estimates. It has also demonstrated improvement in cost efficiencies, which were better than our estimates, guarding the operating margin despite the contraction in yields. Building these factors into our forecast, we have raised our earnings estimates by around 5-6% and have raised our multiple to 30x from 29x FY23E EPS leading to our target price increase from Rs364 to R426. Retain our BUY rating.

### Concall Takeways

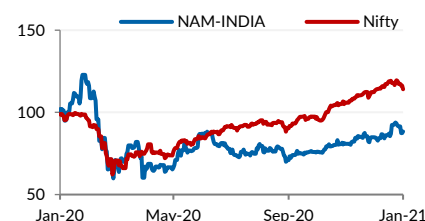
#### AUM

- ✓ Growth in Equity AUM largely due to MTM gain and increase in Debt AUM largely due to strong inflows by institutional investors.
- ✓ Gross flow market share – (1) Fixed income: lot of positivity, downfall has stopped, (2) ETFs – Market share continues to rise (3) Equities – lost a bit of market share there, expect the trajectory is become positive.
- ✓ SIP
  - Increase in December to some extent is owing to holiday season in November.
  - September to December SIP flows remained flat for NAM. SIP amount – 660crs actually collected for Dec 2020 and Rs. 620crs for Sept
- ✓ Institutional market share – post the brand change family offices and HNI are coming back. Some are coming back to FIs and some to ETFs, out of top 100 companies 25 companies have resumed business with NAM, gaining market share with MNCs where relatively lower presence, Japanese companies in India will also be looked to target.

#### Stock data (as on Jan 27, 2021)

Nifty	13,968
52 Week h/l (Rs)	453 / 208
Market cap (Rs/USD mn)	194704 / 2670
Outstanding Shares (mn)	613
6m Avg t/o (Rs mn):	288
Div yield (%):	1.6
Bloomberg code:	NAM IN
NSE code:	NAM-INDIA

#### Stock performance



	1M	3M	1Y
Absolute return	4.2%	16.2%	-12.0%

#### Shareholding pattern (As of Sept'20 end)

Promoter	74.95%
FII+DII	11.44%
Others	13.62%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	426	364

#### Financial Summary

	FY20	FY21	FY22
AAUM	2,086,199	2,045,879	2,447,666
YoY	-12.6%	-1.9%	19.6%
Revenue	12,030	10,491	13,372
YoY	-18.6%	-12.8%	27.5%
EBIDTA	6,085	5,280	7,903
YoY	12.9%	-13.2%	49.7%
PAT	4,158	6,569	6,891
YoY	-14.6%	58.0%	4.9%
ROE	16.1%	24.4%	23.9%
EPS	6.8	10.7	11.2
P/E	46.9	29.7	28.3
BV	42.4	45.6	48.4
P/BV	7.5	7.0	6.6

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# NIPPON Life India Asset Management

- ✓ Strategy to garner foreign funds –Nippon Life shall continue to support, wherever Nippon Life do not have present in India so far, its present treasuries can look to invest in India, current fund is Rs10,000crore almost 50% contributed by Nippon.
- ✓ Brand remains strong in Institutional and HNIs category. Strong retail fund through distributors.
- ✓ Steps taken to improve fund performance has yielded some results, 1 new FM in Fixed Income and Equity each to be added in this quarter.

## Yields

- ✓ Equity yields have dropped in this quarter – Likely to see 2-3bps decline with old assets getting replaced by newer assets, Distribution of new NFOs done at a slightly higher price.
- ✓ Within the debt fund the shift from Long term to Short term funds have impacted yields. Trend can change very fast as risk averseness amongst customers is reducing.

## Cost

- ✓ Opex has gone down significantly as focus is on improving operating efficiencies.
- ✓ Not opening any new branches and utilizing Digitalization to reach to new cities, will be calibrated towards expansion
- ✓ Pre-dominantly the expenses are fixed in nature and do not see any significant increase post normalization of the economy.
- ✓ Employee costs – 80-85% of the ESOP costs absorbed. Overall number of employees have gone down driven by automation, compensation structure has been relooked with introduction of ESOPs reducing the variable component
- ✓ Incrementally do not see major reduction in opex costs, from now on operating leverage benefits shall kick in.

## Distribution

- ✓ Digital channel contributed to 55% of the AUM.

## Other Income

- ✓ Equity investment is purely into own schemes and intent to bring it down systematically.

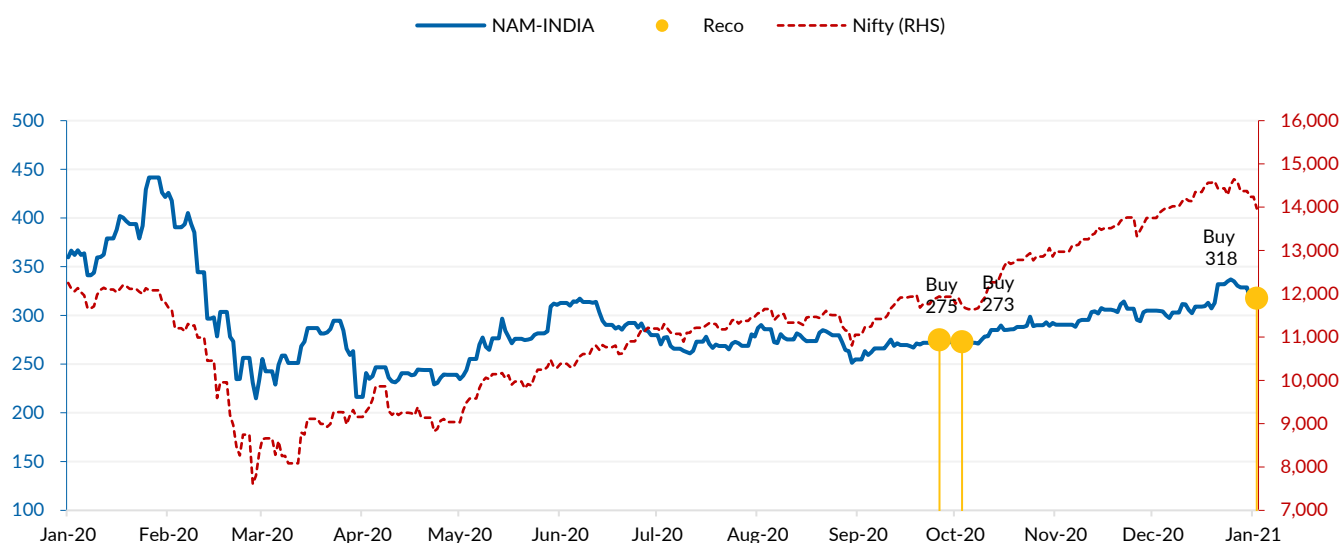
## Others

- ✓ Focus will be on retail and SIPs where profitability is higher
- ✓ Stable market share of 29% in Unique Investors.
- ✓ New Digital SIP Purchase grew 62% in Q3 FY21 vis-à-vis Q3 FY20
- ✓ Added over 150,000 ETF folios in Q3FY21.
- ✓ IPO Proceeds + networth allow for any strategic acquisition in MFs, AIFs PMS along with Fintech. Nothing on serious discussions right now. Aim is to create value for minority shareholders.

## Exhibit 1: Result Table

	Q3FY21	Q3FY20	YoY	Q2FY21	QoQ	Q3FY21E
Revenue from operation	2,685	3,031	-11%	2,587	4%	2,796
As % of QAUM	0.50%	0.59%	-9bps	0.52%	-1bps	0.53%
<b>Fees and Commission Expenses</b>	101	120	-15%	97	5%	96
As % of revenues	3.78%	3.95%	-17bps	3.73%	4bps	3.43%
<b>Employee Benefit Expenses</b>	665	814	-18%	679	-2%	698
As % of revenues	24.8%	26.8%	-208bps	26.3%	-151bps	25.0%
<b>Other Expenses</b>	449	627	-28%	447	0%	474
As % of revenues	16.7%	20.7%	-395bps	17.3%	-57bps	17.0%
<b>Total Expense</b>	<b>1,215</b>	<b>1,560</b>	<b>-22%</b>	<b>1,223</b>	<b>-1%</b>	<b>1,268</b>
<b>Operating Profit</b>	<b>1,470</b>	<b>1,471</b>	<b>0%</b>	<b>1,363</b>	<b>8%</b>	<b>1,529</b>
As % of QAUM	0.28%	0.29%	-1bps	0.27%	0bps	0.29%
As % of revenues	54.7%	48.5%	620bps	52.7%	204bps	54.7%
<b>Other Income</b>	1,304	575	127%	637	105%	719
<b>Finance cost</b>	11	19	-44%	12	-10%	12
<b>Depreciation</b>	78	91	-15%	79	-2%	83
<b>Profit before Tax</b>	2,685	1,936	39%	1,910	41%	2,153
<b>Tax Expense</b>	570	443	29%	457	25%	517
<b>Profit After Tax</b>	<b>2,115</b>	<b>1,493</b>	<b>42%</b>	<b>1,452</b>	<b>46%</b>	<b>1,636</b>
As % of QAUM	0.40%	0.29%	11bps	0.29%	11bps	0.31%
As % of revenues	78.8%	49.3%	2954bps	56.1%	2265bps	58.5%
<b>QAUM</b>	<b>2,130,000</b>	<b>2,044,000</b>	<b>4%</b>	<b>2,000,000</b>	<b>6%</b>	<b>2,130,332</b>

## Recommendation Tracker



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