

Nippon Life

Refer to important disclosures at the end of this report

Inflows weak but operational performance steady

- NAM India has reported ~4.2% yoy (+6.5% qoq) growth in MF QAAUM to Rs2,130bn in Q3FY21, mainly supported by stability in debt AUMs. However, operating revenues remained flat sequentially amid declining revenue yields. PAT outperformance during the quarter was aided by treasury gains due to a rebound in equity markets.
- Going forward, though the quantum of outflows might subside, revenue yields will be affected by a change in portfolio mix toward the rising share of liquid schemes over equity, which will hurt profitability. We expect the overall trend to improve in the coming quarters with normalization of inflows.
- We like the AMC business due to the limited credit risk; however, we remain concerned about the volatility in revenues/profitability in the near term. We are confident about the company's liquidity position during current volatile times, considering its healthy AUM mix, timely support from banks and strong parentage.
- We appreciate management's efforts to rationalize expenses, which in turn will support profitability. However, the rise in equity flows would be a key trigger for the stock. We maintain Hold with a revised TP of Rs306 (Rs282 earlier), corresponding to 25x P/Mar'23E EPS. We maintain EW stance in our NBFC EAP.

Current volatility and economic slowdown to impact inflows: Being the largest retail AMC with retail/total MF AUM of ~26% and steady SIP flows, NAM India's management has been upbeat about increasing flows from B30 and B100 cities. Management's consistent efforts to acquire wealth in Tier-2 and Tier-3 cities should bear fruit.

SIP flows depicting more realistic picture: The company has restated its SIP inflow numbers, which are significantly lower than previous reporting as the recognition of SIP has now shifted to actual receipt basis against accrual basis earlier. The company's SIP book has seen a steady decline over quarters, falling to Rs6.6bn in Q3FY21 from Rs7.1bn in Q3FY20.

Focus remains on granularity of flows: NAM India's management focuses on Tier-2 and Tier-3 cities to pave way for growth as these assets tend to be stickier. It continues to enjoy increasing flows from B30 and B100 cities. Contribution from B30 cities has remained healthy at 17.5% against the industry average of ~16%. The company's advanced technology platform has ensured smooth operations amid physical dislocation in the last quarter.

Outlook and valuation: We appreciate management's efforts to rationalize expenses, which in turn will support profitability. However, the rise in equity flows would be a key trigger for the stock. We maintain hold with a revised TP of Rs306 (Rs282 earlier), corresponding to 25x P/Mar'23E EPS. We maintain EW stance in our NBFC EAP.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(page 7\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue	16,499	11,932	13,868	14,695	16,779
Net Profit	4,869	4,158	6,701	6,584	7,473
EPS (Rs)	7.9	6.8	10.9	10.7	12.2
AAAUM (Rs bn)	2,382	2,091	2,222	2,431	2,689
ROE (%)	19.7	16.1	25.5	24.1	26.9
PE (x)	39.6	46.3	28.8	29.3	25.8

Source: Company, Emkay Research

CMP Rs 314 as of (January 27, 2021)	Target Price Rs 306 (▲) 12 months
Rating HOLD (■)	Upside (2.5) %

Change in Estimates

EPS Chg FY21E/FY22E (%)	9/7
Target Price change (%)	8.7
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	10.9	10.7
Consensus	8.9	9.9
Mean Consensus TP (12M)	Rs 315	

Stock Details

Bloomberg Code	NAM IN
Face Value (Rs)	10
Shares outstanding (mn)	613
52 Week H/L	453 / 201
M Cap (Rs bn/USD bn)	193 / 2.64
Daily Avg Volume (nos.)	1,119,617
Daily Avg Turnover (US\$ mn)	4.7

Shareholding Pattern Dec '20

Promoters	75.8%
FIIs	5.4%
DIIIs	6.6%
Public and Others	12.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	15	12	(13)
Rel. to Nifty	-	(3)	(12)	(25)

Relative price chart



Source: Bloomberg

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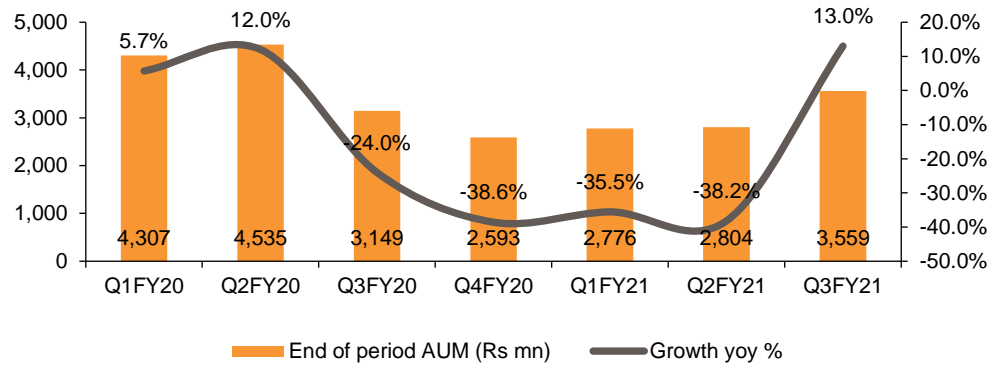
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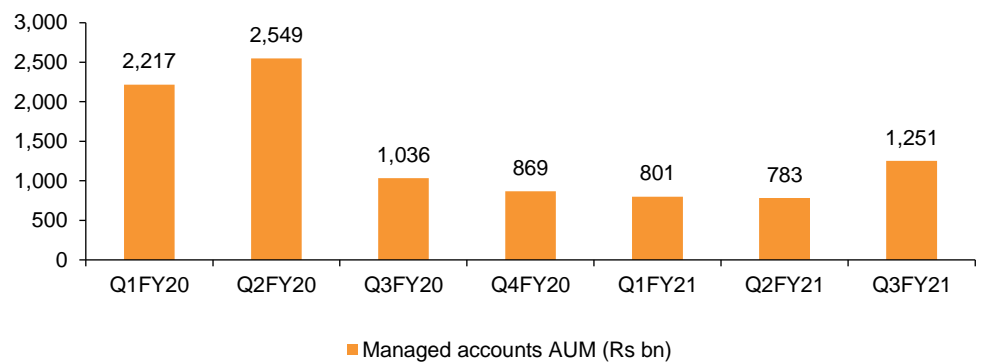
Story in Charts

Exhibit 1: Recovery in equity and debt markets drives AUM growth



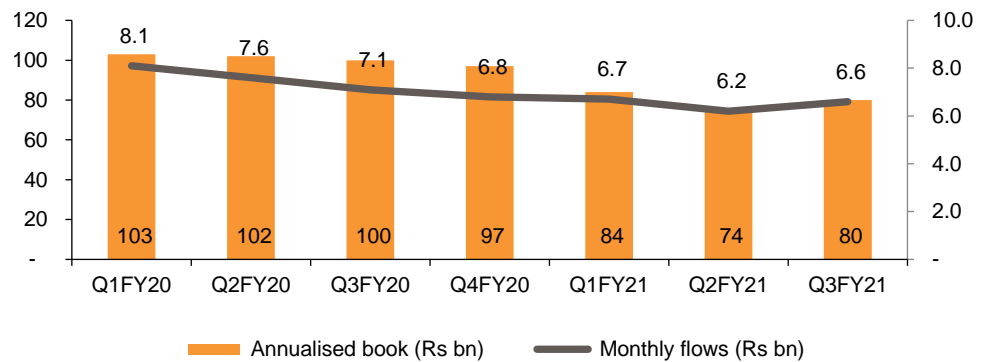
Source: Company, Emkay Research

Exhibit 2: Managed accounts increase in winning government mandates



Source: Company, Emkay Research

Exhibit 3: Volatile markets keep SIPs under pressure



Source: Company, Emkay Research

Exhibit 4: Quarterly financials

Rs mn	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Total Revenue from operations	3,031	2,745	2,331	2,587	2,685	-11	4	12,030	10,443	-13
Other income	575	(1,249)	1,031	637	1,304			(98)	3,425	
Total Revenue	3,606	1,496	3,362	3,224	3,988	11	24	11,932	13,868	16
Employee Expense	814	529	715	679	665	-18	-2			
Other Expense	747	583	532	544	550	-26	1			
Depreciation	91	91	105	79	78	-15	-2			
Total Expense	1,670	1,222	1,365	1,314	1,303	-22	-1	6,334	5,277	-17
Profit before tax	1,936	274	1,997	1,910	2,685	39	41	5,598	8,591	53
Taxes	443	232	436	457	570	29	25	1,441	1,890	31
Tax rate (%)	23	85	22	24	21	-7	-11	26	22	
Profit after tax	1,493	41	1,561	1,452	2,115	42	46	4,158	6,701	61
Share of profit/ (loss) in associate	0	0	2	1	4	2,000	425			
Net Profit after tax	1,493	42	1,563	1,453	2,120	42	46	4,158	6,701	61

AUM data (Rs.bn.)										
End of period AUM	3,149	2,593	2,776	2,804	3,559	13	27	2,593	2,776	7
Mutual Fund QAAUM	2,044	2,049	1,801	2,000	2,130	4	6	2,049	1,801	-12
Retail Assets MAAUM	546	444	460	520	554	1	6	444	460	4

Source: Company, Emkay Research

Exhibit 5: Revision in earnings estimates

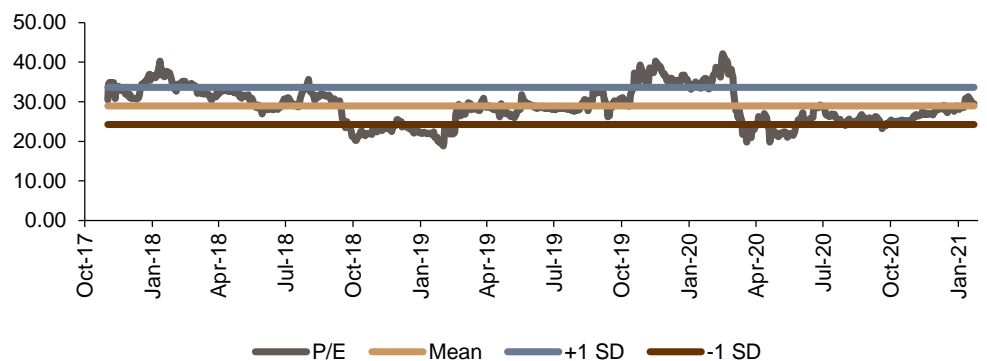
Y/e Mar (Rs m)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
AAAUM (Rs bn)	2,167	2,222	2.5%	2,315	2,431	5.0%	2,551	2,689	5.4%
Revenue	13,001	13,868	6.7%	14,555	14,695	1.0%	16,604	16,779	1.1%
PAT	6,151	6,701	8.9%	6,184	6,584	6.5%	6,879	7,473	8.6%
EPS (Rs)	10.0	10.9	8.9%	10.1	10.7	6.5%	11.2	12.2	8.8%

Source: Company, Emkay Research

Exhibit 6: Key assumptions table

(in %)	FY20	FY21E	FY22E	FY23E
AAAUM of MF's (Rs bn)	2,086	2,222	2,431	2,689
Revenue on MF AUM	0.58%	0.47%	0.52%	0.54%
Total expense on MF AUM	0.30%	0.24%	0.24%	0.25%

Source: Emkay Research

Exhibit 7: The stock currently trades at 30x 1-year forward P/E

Source: Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue from Operations	14,786	12,030	10,443	12,641	14,519
Other income	1,712	(98)	3,425	2,055	2,260
Total Revenue	16,499	11,932	13,868	14,695	16,779
Operating Expenses	9,497	6,334	5,277	5,834	6,722
Employee costs	2,934	3,024	2,666	3,160	3,495
Profit before tax	7,002	5,598	8,591	8,861	10,057
Tax	2,132	1,441	1,890	2,277	2,585
Tax rate (%)	30	26	22	26	26
Profit after tax	4,869	4,158	6,701	6,584	7,473

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	6,120	6,120	6,120	6,120	6,120
Reserves & Surplus	19,580	19,706	20,712	21,699	21,699
Net worth	25,700	25,826	26,832	27,819	27,819
Provisions	435	565	706	883	1,104
Other current liabilities	1,623	2,597	4,156	6,649	10,638
Total Liabilities	27,758	28,989	31,694	35,351	39,561
Net fixed assets	2,568	2,825	3,107	3,418	3,760
Investments	12,900	14,190	15,893	17,800	19,936
Other assets	12,400	11,974	12,694	14,133	15,866
Total assets	27,868	28,989	31,694	35,351	39,561

AAAUM

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Equity	907.0	886.4	868.7	920.8	1,012.9
Debt	1,320.2	969.6	1,012.1	1,083.5	1,185.3
ETF	154.6	235.3	341.2	426.5	490.5
Total AAAUM	2,381.7	2,091.3	2,222.0	2,430.9	2,688.7

End of Period AUM

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Mutual funds	2,278.0	1,635.0	1,716.8	1,802.6	1,892.7
Managed accounts	1,913.0	869.0	955.9	1,051.5	1,156.6
Offshore funds & adv mandates	31.0	48.0	57.6	69.1	82.9
Total	4,222.0	2,552.0	2,730.3	2,923.2	3,132.3

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
Revenue from operations/ AAAUM	0.62	0.58	0.47	0.52	0.54
Total Revenue/ AAAUM	0.69	0.57	0.62	0.60	0.62
Cost	0.40	0.30	0.24	0.24	0.25
PBT/AAAUM	0.29	0.27	0.39	0.36	0.37
PAT/AAAUM	0.20	0.20	0.30	0.27	0.28
ROE	19.73	16.14	25.45	24.09	26.86

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	7.9	6.8	10.9	10.7	12.2
BVPS	42.0	42.2	43.8	45.5	45.5
DPS	6.4	5.5	9.3	9.1	10.4

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PE	39.6	46.3	28.8	29.3	25.8
P/BV	7.5	7.4	7.2	6.9	6.9
Mkt cap/AUM	0.08	0.09	0.09	0.08	0.07
Dividend yield (%)	2.0	1.7	3.0	2.9	3.3

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue	(5.6)	(27.7)	16.2	6.0	14.2
Cost	(13.1)	(33.3)	(16.7)	10.6	15.2
PAT	6.9	(14.6)	61.2	(1.7)	13.5
QAAUM	(4.6)	1.0	(5.8)	9.4	10.6

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	3,606	1,496	3,362	3,224	3,988
Total Revenue/ Avg. AUM (%)	0.84	0.35	0.92	0.78	0.87
PAT	1,512	60	1,574	1,464	2,126
PAT/Avg. AUM (%)	0.4	0.0	0.4	0.4	0.5
QAAUM (Rs bn)	1,717	1,721	1,459	1,660	1,832

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	75.9	75.9	75.9	75.0	75.8
FIIIs	5.6	5.3	5.8	5.1	5.4
DIIIs	6.3	6.7	6.2	6.3	6.6
Public and Others	12.1	12.1	12.1	13.6	12.2

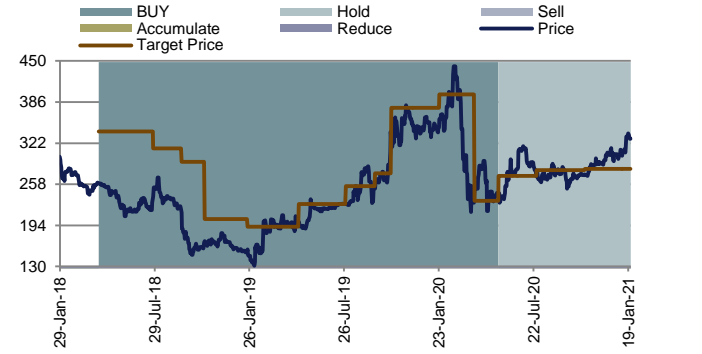
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Oct-20	273	282	12m	Hold	Jignesh Shial
28-Jul-20	277	280	12m	Hold	Jignesh Shial
16-May-20	244	271	12m	Hold	Jignesh Shial
31-Mar-20	249	232	12m	Buy	Jignesh Shial
24-Jan-20	360	398	12m	Buy	Jignesh Shial
24-Oct-19	319	377	12m	Buy	Jignesh Shial
27-Sep-19	266	275	12m	Buy	Jignesh Shial
23-Sep-19	251	275	12m	Buy	Jignesh Shial
29-Jul-19	227	255	12m	Buy	Jignesh Shial
30-Apr-19	198	227	12m	Buy	Jignesh Shial
22-Jan-19	157	192	12m	Buy	Jignesh Shial
01-Nov-18	169	204	12m	Buy	Jignesh Shial
18-Sep-18	214	293	12m	Buy	Jignesh Shial
26-Jul-18	239	314	12m	Buy	Jignesh Shial
03-May-18	246	340	12m	Buy	Ravikant Bhat
13-Apr-18	259	340	12m	Buy	Ravikant Bhat

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-NBFCs



Analyst: Jignesh Shial

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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-NBFCs	8.37	8.37	0%	0	100.00
Bajaj Finance	1.64	1.64	0%	0	19.62
Cholamandalam Investment	0.21	0.23	10%	2	2.75
Edelweiss Financial Services	0.00	0.00	NA	0	0.00
HDFC	5.80	5.82	0%	3	69.56
L&T Finance Holdings	0.09	0.08	-12%	-1	0.94
LIC Housing Finance	0.16	0.16	0%	0	1.90
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.13	0.08	-37%	-5	1.01
Nippon Life	0.06	0.06	0%	0	0.69
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.28	0.30	4%	1	3.53
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	01-Apr-19	27-Jan-20	27-Jul-20	26-Oct-20	24-Dec-20	25-Jan-21
EAP - BFSI-NBFCs	100.0	122.0	93.2	102.5	129.7	133.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	116.6	87.8	96.3	122.0	125.4

*Performance measurement base date 1st April 2019

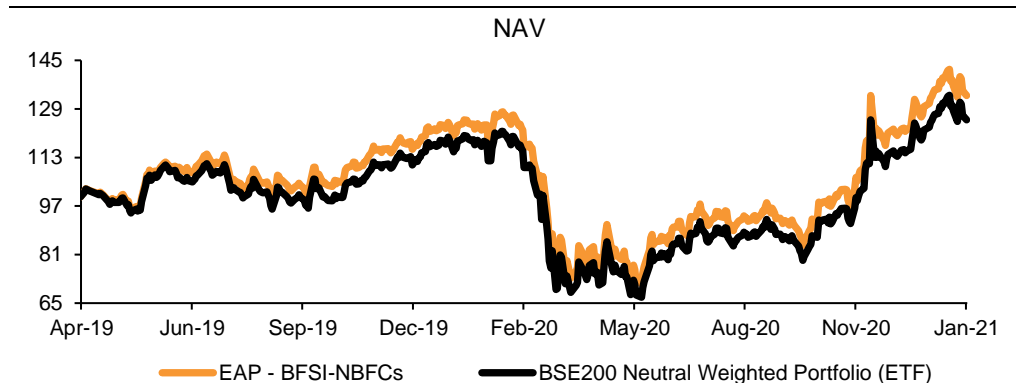
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	2.9%	30.1%	43.1%	9.4%
BSE200 Neutral Weighted Portfolio (ETF)	2.8%	30.3%	42.8%	7.5%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 28 Jan 2021 01:52:10 (SGT)

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