

Nippon Life

Refer to important disclosures at the end of this report

Surge in inflows but revenue yields still lag behind

- NAM India saw a surge in QAAUM to Rs2,404bn in Q1 (+33.5% yoy, +5.2% qoq), mainly due to steady demand for debt schemes, MTM gain in equity AUM and rising demand for ETFs. However, revenue yields fell to ~50bps from ~53bps in Q4FY21 due to weak equity flows. PAT stood at Rs1.8bn and was above our estimate of Rs1.6bn.
- Although we see the surge in overall flows and market share gain of ~13bps in the quarter as positive, profitability of the current AUM mix (elevated share of low-yield products - debt funds and ETFs) remains a challenge. We also believe that operational leverage has peaked already, and only an increase in revenue yields can boost profitability now.
- We increase our FY23/24 AUM estimates by ~19.8% for each year, which in turn make us upgrade our PAT estimates by ~15.0%/12.2%. The shift to a more profitable product mix and an improvement in yields would be the key monitorables. We raise our TP from Rs335 to Rs410 (~28x P/Sep'23E EPS). Maintain Hold and EW stance in EAP.
- On valuation front, the discounting between NAM India and HDFC AMC has narrowed down significantly in spite of superior return ratios of the later. For further valuation upside, we believe that the company needs to maintain consistency in flows along with profitable AUM Mix resulting in superior RoEs. (refer Exhibit 4)

Focus remains on the granularity of flows: NAM India's management has been upbeat on increasing flows from B-30 and B-100 cities. Management's consistent efforts to acquire AUM from Tier-2 and Tier-3 cities should augur well for the company as these assets tend to be stickier. The contribution from B30 cities has remained healthy at 19% vs. the industry average of ~16.3%. The company's advanced technology platform has ensured smooth operations amid the physical dislocation in the last few quarters due to Covid.

SIP inflows continue to decline: The Company's SIP book declined to Rs5.9bn in Q1FY22 from Rs6.6bn in Q4FY20. The dip in AUM was due to the rise in lower-ticket SIPs as overall folios (accounts) have witnessed a surge to 3.4mn (+9% yoy). The SIP book provides a more sustainable source of inflows, and we would keenly await for stability in the book in the coming quarters.

Outlook and valuation: We appreciate management's efforts to rationalize expenses, which in turn will boost profitability. However, in our view, market share gains would be key trigger for further stock momentum. We increase our FY23/24 AUM estimates by ~19.8% for each year, which in turn make us upgrade our PAT estimates by ~15.0%/12.2%. The shift to a more profitable product mix and an improvement in yields would be the key monitorables. We raise our TP from Rs335 to Rs410 (~28x P/Sep'23E EPS). Maintain Hold and EW stance in EAP.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(Page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Total Revenue	11,932	14,193	15,448	18,345	20,839
Net Profit	4,153	6,803	7,393	8,536	9,601
EPS (Rs)	6.8	11.1	12.1	13.9	15.7
AAAUM (Rsbn)	2,091	2,054	2,606	2,987	3,375
ROE (%)	16.1	23.9	23.3	25.8	27.8
PE (x)	61.7	37.7	34.7	30.1	26.7
Mkt cap/AUM (x)	0.1	0.1	0.1	0.1	0.1

Source: Company, Emkay Research

CMP	Target Price
Rs 406 as of (July 20, 2021)	Rs 410 (▲) 12 months
Rating	Upside
HOLD (■)	1.0 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	18.2/15.0
Target Price change (%)	22.4
Target Period (Months)	12
Previous Reco	HOLD

Stock Details

Bloomberg Code	NAM IN
Face Value (Rs)	10
Shares outstanding (mn)	618
52 Week H/L	439 / 249
M Cap (Rs bn/USD bn)	259 / 3.47
Daily Avg Volume (nos.)	1,071,425
Daily Avg Turnover (US\$ mn)	5.2

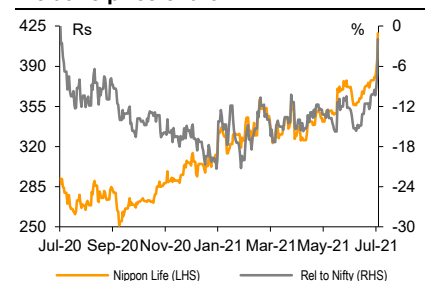
Shareholding Pattern Jun '21

Promoters	74.2%
FIIIs	6.2%
DIIIs	7.5%
Public and Others	12.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	14	24	26	44
Rel. to Nifty	13	14	14	(3)

Relative price chart



Source: Bloomberg

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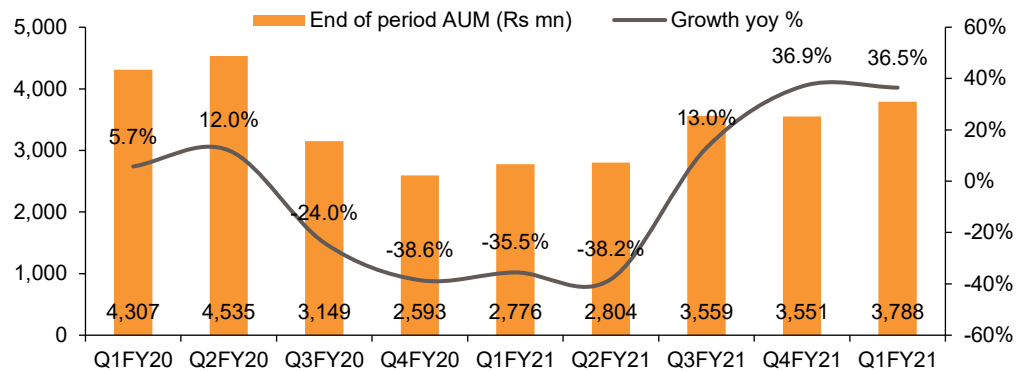
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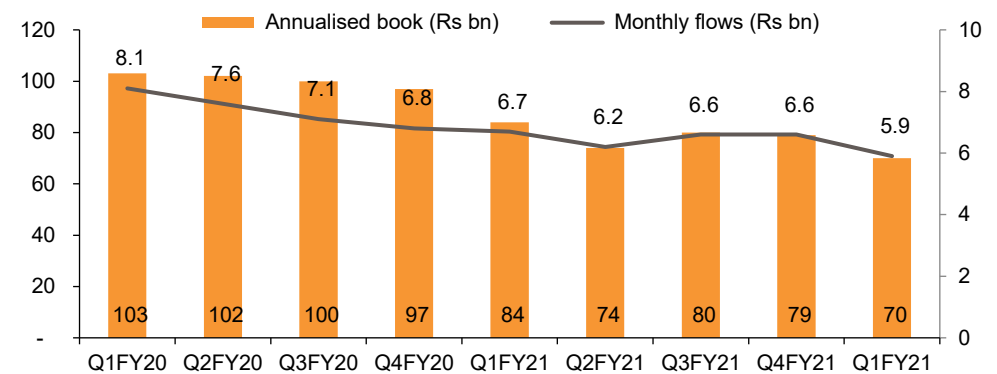
Story in Charts

Exhibit 1: Demand for debt funds and MTM gains in equity drive AUM growth



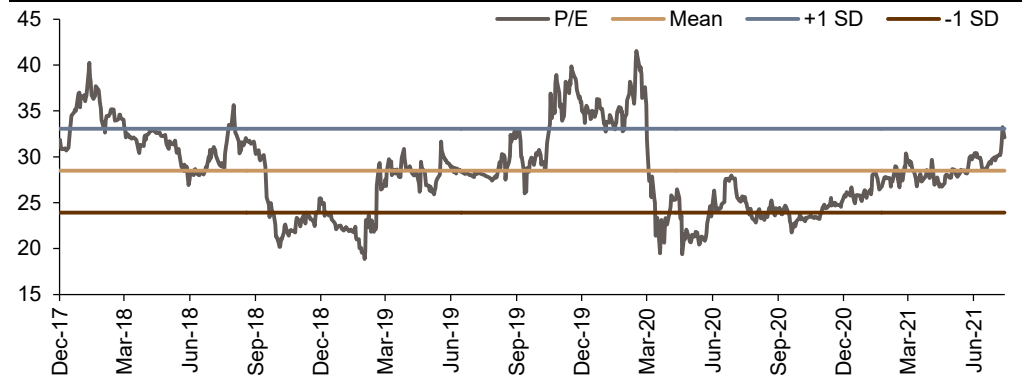
Source: Company, Emkay Research

Exhibit 2: SIP book declines despite an increase in SIP volumes due to lower ticket sizes



Source: Company, Emkay Research

Exhibit 3: The stock currently trades at 32x 1-year forward P/E



Source: Emkay Research

Exhibit 4: Peers Valuation

	EPS				RoE (%)				P/E			
	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
NAM AMC	11.1	12.1	13.9	15.7	23.9	23.3	25.8	27.8	36.6	33.7	29.2	25.9
HDFC AMC*	62.3	69.2	79.1	90.4	30.1	29.2	29.3	30.1	48.0	43.3	37.8	33.1
UTI AMC*	39.0	35.8	42.5	55.8	16.5	14.1	15.5	19.3	23.0	25.0	21.1	16.0

Source: Company, Emkay Research, * Bloomberg consensus

Exhibit 5: Quarterly financials

Rs mn	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Total Revenue from operations	2,331	2,587	2,685	3,019	3,023	30	0	10,621	12,769	20
Other income	1,031	637	1,304	601	669	(35)	11	3,572	2,679	(25)
Total Revenue	3,362	3,224	3,988	3,620	3,692	10	2	14,193	15,448	9
Employee Expense	715	679	665	654	697	(3)	7			
Other Expense	532	544	550	707	552	4	(22)			
Depreciation	105	79	78	71	73	(30)	3			
Total Expense	1,365	1,314	1,303	1,441	1,332	(2)	(8)	5,423	5,733	6
Profit before tax	1,997	1,910	2,685	2,179	2,360	18	8	8,770	9,715	11
Taxes	436	457	570	514	547	25	6	1,976	2,332	18
Tax rate (%)	22	24	21	24	23			23	24	
Profit after tax	1,561	1,452	2,115	1,665	1,814	16	9	6,794	7,383	9
Share of profit/ (loss) in associate	2	1	4	3	2	(11)	(38)	9	10	6
Net Profit after tax	1,563	1,453	2,120	1,668	1,815	16	9	6,803	7,393	9
AUM data (Rs.bn.)										
End of period AUM	2,776	2,804	3,559	3,551	3,788	36	7	3,551	3,802	7
Mutual Fund QAAUM	1,801	2,000	2,130	2,286	2,404	33	5	2,286	2,606	14
Retail Assets MAAUM	460	520	554	640	673	46	5			

Source: Company, Emkay Research

Exhibit 6: Revision in earnings estimates

Y/E Mar	FY22E			FY23E			FY24E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
AAAUM (Rs bn)	2,227	2,606	17.0%	2,493	2,987	19.8%	2,818	3,375	19.8%
Revenue (Rs mn)	13,722	15,448	12.6%	15,711	18,345	16.8%	17,928	20,839	16.2%
PAT (Rs mn)	6,234	7,393	18.6%	7,423	8,536	15.0%	8,557	9,601	12.2%
EPS (Rs)	10.2	12.1	18.2%	12.1	13.9	15.0%	14.0	15.7	11.9%

Source: Company, Emkay Research

Exhibit 7: Key assumptions table

(in %)	FY21	FY22E	FY23E	FY24E
AAAUM of MF's (Rs bn)	2,054	2,606	2,987	3,375
Revenue on MF AUM	0.52%	0.49%	0.52%	0.53%
Total expense on MF AUM	0.26%	0.22%	0.23%	0.24%

Source: Emkay Research

Con-call highlights

- The company's extensive distribution network and diversified product portfolio helped to add more than 0.6mn investors out of the total 2.1mn added by the industry in Q1FY22 (market share of 29%).
- NAM has strong presence in ETFs, with 73% volume share and 13% market share.
- It has 28% of AAUM coming from the retail segment vs. 23% for the industry. Though the company has a strong retail franchise, it is weak in the HNI and corporate segments due to the lack of a strong banca-partner.
- NAM's brand is getting traction among HNIs, Family funds, banks and corporates. Hence, management hopes that its overall market share will increase.
- The company is focused on building a strong franchise in B-30 cities, and has 19% of its AAUM coming from B-30 cities vs. the industry average of 16.3% (B-30 segment is stickier than others).
- AUM mix based on distribution channel: 55% direct and 45% distributed assets. In distributed assets, 21% is from banks, 21% is from national distributors and 58% is from MF distributors.
- There was a marginal decline in SIP value in Q1 and the growth rate was slower than the industry. Although SIP volume increased for NAM, lower ticket-sizes led to a decline overall SIP value.
- Yields are lower due to the higher exposure to the debt segment, especially to low-duration and ultra-short funds.
- Management said it has the advantage of operating leverage and should maintain a lower cost-to-income ratio.
- Other costs: The Company expects a few variable components within other costs (technology, digital cost, marketing cost, etc.) to increase in line with the market cycle and other factors.

Key Financials (Consolidated)**Income Statement**

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Total Revenue from Operations	12,030	10,621	12,769	15,532	17,886
Other income	(98)	3,572	2,679	2,813	2,954
Total Revenue	11,932	14,193	15,448	18,345	20,839
Operating Expenses	6,334	5,423	5,733	6,870	7,930
Employee costs	3,024	2,713	3,388	3,883	4,387
Profit before tax	5,598	8,770	9,715	11,475	12,909
Tax	1,441	1,976	2,332	2,949	3,318
Tax rate (%)	26	23	24	26	26
Profit after tax	4,153	6,803	7,393	8,536	9,601

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	6,120	6,165	6,165	6,165	6,165
Reserves & Surplus	19,809	24,838	26,315	27,594	29,033
Net worth	25,929	31,003	32,480	33,759	35,198
Provisions	393	234	293	366	457
Other current liabilities	2,485	2,284	3,655	5,847	9,356
Total Liabilities	28,807	33,522	36,427	39,972	45,010
Net fixed assets	3,256	3,021	3,323	3,655	4,020
Investments	18,846	25,500	28,559	31,987	35,825
Other assets	7,492	6,212	4,545	4,330	5,165
Total assets	29,594	34,732	36,427	39,972	45,010

AAAUM

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
Equity	886.4	808.1	1,050.5	1,176.6	1,294.2
Debt	969.6	941.8	1,098.8	1,216.9	1,338.6
ETF	235.3	304.4	456.5	593.5	741.9
Total AAAUM	2,091.3	2,054.3	2,605.8	2,986.9	3,374.6

End of Period AUM

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
Mutual funds	1,635.0	2,218.0	2,328.9	2,445.3	2,567.6
Managed accounts	869.0	1,263.0	1,389.3	1,528.2	1,681.1
Offshore funds & adv mandates	48.0	70.0	84.0	100.8	121.0
Total	2,552.0	3,551.0	3,802.2	4,074.4	4,369.6

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
Revenue from operations/ AAAUM	0.58	0.52	0.49	0.52	0.53
Total Revenue/ AAAUM	0.57	0.69	0.59	0.61	0.62
Cost	0.30	0.26	0.22	0.23	0.24
PBT/AAAUM	0.27	0.43	0.37	0.38	0.38
PAT/AAAUM	0.20	0.33	0.28	0.29	0.28
ROE	16.09	23.90	23.29	25.77	27.85

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	6.8	11.1	12.1	13.9	15.7
BVPS	42.4	50.3	52.7	54.8	0.8
DPS	5.0	8.0	9.7	11.8	13.3

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PE	61.7	37.7	34.7	30.1	26.7
P/BV	9.9	8.3	7.9	7.6	493.9
Mkt cap/AUM	0.12	0.12	0.10	0.09	0.08
Dividend yield (%)	1.2	1.9	2.3	2.8	3.2

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Total Revenue	(27.7)	19.0	8.8	18.8	13.6
Cost	(33.3)	(14.4)	5.7	19.8	15.4
PAT	(14.7)	63.8	8.7	15.5	12.5
QAAUM	(12.3)	11.6	14.0	14.6	13.0

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenue	3,362	3,224	3,988	3,620	3,692
Total Revenue/ Avg. AUM (%)	0.92	0.78	0.87	0.72	0.70
PAT	1,561	1,452	2,115	1,665	1,814
PAT/Avg. AUM (%)	0.4	0.3	0.5	0.3	0.3
QAAUM (Rsbm)	1,459	1,660	1,832	2,012	2,116

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	75.9	75.0	75.8	74.5	74.2
FIIIs	5.8	5.1	5.4	5.9	6.2
DIIIs	6.2	6.3	6.6	6.7	7.5
Public and Others	12.1	13.6	12.2	12.9	12.1

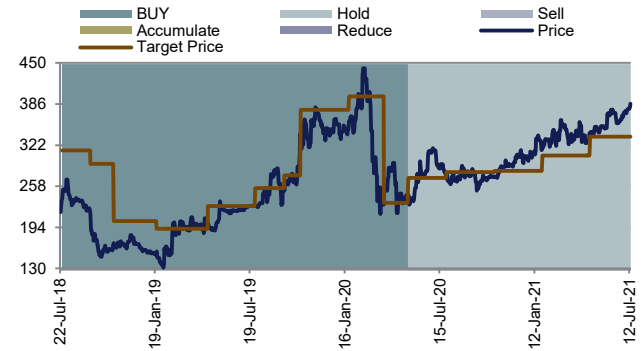
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Apr-21	341	335	12m	Hold	Jignesh Shial
27-Jan-21	318	306	12m	Hold	Jignesh Shial
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-NBFCs



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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 13 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	7.74	7.74	0%	0	100.00
Bajaj Finance	1.78	1.78	0%	0	23.01
Cholamandalam Investment	0.22	0.22	0%	0	2.85
Edelweiss Financial Services	0.00	0.00	NA	0	0.00
HDFC	5.01	5.07	1%	6	65.49
L&T Finance Holdings	0.08	0.08	0%	0	1.07
LIC Housing Finance	0.16	0.16	0%	0	2.00
Magma Fincorp	0.00	0.02	NA	2	0.31
Mahindra Finance	0.11	0.00	-100%	-11	0.00
Nippon Life	0.07	0.07	2%	0	0.89
Shriram City Union Finance	0.00	0.02	NA	2	0.27
Shriram Transport Finance	0.32	0.32	0%	0	4.10
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
	1-Apr-19	17-Jul-20	15-Jan-21	16-Apr-21	16-Jun-21	16-Jul-21
EAP - BFSI-NBFCs	100.0	92.3	136.6	134.4	142.4	142.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	86.8	128.4	126.2	133.7	134.0

*Performance measurement base date 1st April 2019

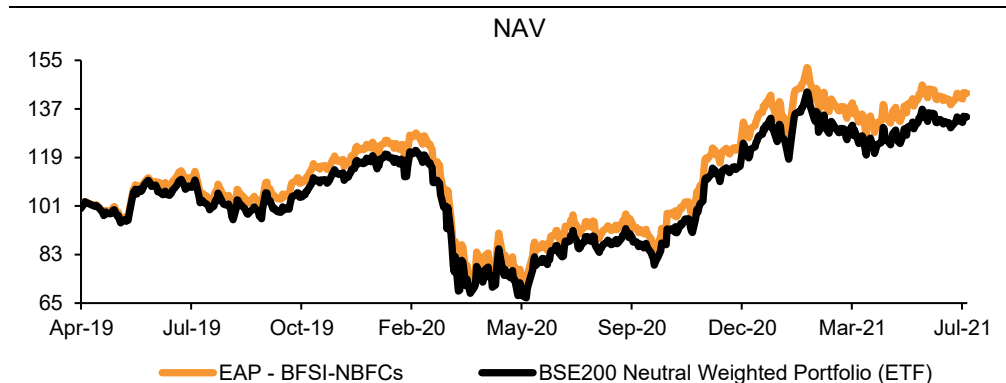
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	0.3%	6.3%	4.5%	54.8%
BSE200 Neutral Weighted Portfolio (ETF)	0.3%	6.2%	4.4%	54.4%

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”

Emkay Rating Distribution

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

Completed Date: 20 Jul 2021 04:40:52 (SGT)

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