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Q4FY21 results review and earnings revision

Financial Services

Target price Rs396

Earnings revision

(%)	FY22E	FY23E
Revenue	↓ 10.0	↓ 3.0
PAT	↓ 13.0	↓ 5.2
Core PAT	↓ 13.9	↓ 2.9

Target price revision

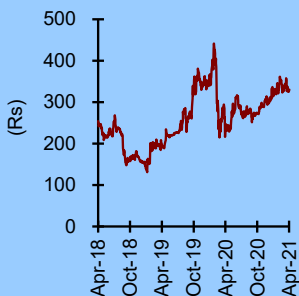
Rs396 from Rs385

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	75.9	75.8	74.5
Institutional investors			
MFs and others	11.4	12.0	12.6
Banks / FIs	3.1	2.7	1.9
Insurance	0.0	0.0	0.0
FIs	0.4	1.7	2.7
Others	7.9	7.6	8.0
Others	12.7	12.2	12.9

Source: BSE

Price chart



Research Analysts:

Ansuman Deb

ansuman.deb@icicisecurities.com
+91 22 6637 7312

Ravin Kurwa

ravin.kurwa@icicisecurities.com
+91 22 2277 7653

INDIA

ICICI Securities

Nippon Life India Asset Management

BUY

Maintain

Rs341

Strong execution; building on growth optionalities

The combination of a) strong revenue growth of 10% YoY and 12% QoQ in Q4FY21 as well as strong cost performance in FY21 (15% YoY decline in operating expenses in FY21), b) growth optionalities through non-MF product portfolio (AUM Rs1.32trn) and c) improvement in retail traction (of the total 2mn unique investors added by MF industry in FY21, 0.9mn were added by NAM) are the healthy business indicators for Nippon Life Asset Management (NAM). Maintain BUY with a revised target price of Rs396 (earlier: Rs385) based on 35x core EPS of Rs9.8 and add cash & investments of Rs54 /share.

- Q4/FY21 outperformed expectations on core level:** NAM reported revenue growth of 12% QoQ driven by 7% QoQ growth in QAAUM and better yields. Overall, operating expenses declined 15% YoY in FY21. However, in Q4FY21, operating expenses rose 12% QoQ on the back of higher other expenses (26% QoQ) while employee costs stood at Rs654mn (down 2% QoQ). Other income declined sharply by 54% QoQ resulting in a PAT decline of 21% QoQ. Core PAT (excluding the impact of other income) grew 11% QoQ.
- NAM expects to have a competitive edge in the passive segment:** The intrinsic importance of volumes in ETF is lending a meaningful headstart to NAM's passive strategy. Company has the industry's largest bouquet of 22 ETFs (AUM of Rs373bn with 13% market share) spread across equities, debt and gold. NAM has the industry's highest investor folios (~42% market share in ETF folios) and has witnessed sustained increase in its HNI share. With 72% market share in ETF volumes on NSE and BSE in Q4FY21, NAM is poised to play the volume game in the segment. Although profitability is low, higher volumes in the ETF segment can deliver Rs350mn-400mn (based on 10bps yield) to the profitability
- Non-MF AUM and new initiatives continues to provide growth optionalities:** NAM manages assets worth Rs1.26bn related to government mandates. In the AIF segment, it has raised commitments of Rs37bn across funds as on Mar'21. On the offshore business side, NAM manages and provides advisory services towards AUMs of Rs70bn and Rs33bn respectively. Company has also signed an Lol with Cathay SITE (Taiwan's largest asset manager) to expand its product portfolio to Indian and international investors. The Lol also envisages joint exploration of areas for developing, managing, marketing and distributing bespoke investment products in India and Taiwan.
- Retail traction gradually improving.** NAM added 0.9mn new users in FY21 vs 2mn added by the industry. It has a higher composition of retail assets (28% as at Mar'21) in its AUM vs industry average of 22%. Its number of folios grew from 8.7mn in FY20 to 10mn in FY21. This should help further build momentum. SIP book however declined from Rs97bn in FY20 to Rs79bn in FY21.

Market Cap	Rs210bn/US\$2.8bn	Year to Mar	FY20	FY21P	FY22E	FY23E
Reuters/ Bloomberg	NIPC.BO / NAM IN	Revenue (Rs mn)	12,030	10,621	12,263	13,584
Shares Outstanding (mn)	616.5	EBITDA(Rs mn)	6,085	5,575	7,225	8,382
52-week Range (Rs)	361/229	Net Income (Rs mn)	4,158	6,794	6,619	7,657
Free Float (%)	25.5	Core PAT	4,230	4,027	5,123	6,012
FII (%)	8.0	EPS (Rs)	6.8	11.1	10.8	12.5
Daily Volume (US\$'000)	4,639	P/E (x)	50.2	30.7	31.5	27.3
Absolute Return 3m (%)	8.2	Core EPS (Rs)	6.9	6.5	8.3	9.8
Absolute Return 12m (%)	43.7	Core PE (Rs)	49.7	52.2	41.0	35.0
Sensex Return 3m (%)	3.4	Dividend Yield	1.5%	2.5%	2.2%	2.6%
Sensex Return 12m (%)	55.8	RoE (%)	16.1	23.9	20.8	22.8

Please refer to important disclosures at the end of this report

- **Maintain BUY with a revised target price of Rs396 based on 35x FY23E core EPS of Rs9.8, and cash & investments of Rs54.** We factor-in 17% AUM growth between FY21-end and FY23-end with aggregate yields moderating from 49bps in Q4FY21 to 48bps in FY22E and 46bps in FY23E. This accounts for possible improvement in performance/flows in equities and debt. We expect FY22E operating costs to remained at FY21 levels of Rs5bn and increase to Rs5.3bn in FY23E, which will lead to increase in operating margins (% AAUM) from 27bps in FY21 to 29/-30%bps in FY22E + 23E.

Table 1: Q4FY21 result review*(Rs mn)*

	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %
Total Revenue from Operation	3,019	2,745	10%	2,685	12%
Other Income	601	-1,249	nm	1,304	-54%
Total Revenue	3,620	1,496	nm	3,988	-9%
Employee Expense	654	529	24%	665	-2%
Fees and Commission Expenses	141	198	-29%	101	39%
Other Expense	566	402	41%	449	26%
Total Operating expense	1,360	1,129	21%	1,215	12%
EBITDA	2,259	367	nm	2,773	-19%
Core EBITDA	1,659	1,617	3%	1,470	13%
Depreciation and Amortisation	71	89	-20%	78	-9%
Finance Cost	10	5	107%	11	-10%
PBT	2,179	274	nm	2,685	-19%
PAT	1,665	41	nm	2,115	-21%
Core PAT	1,206	230	nm	1,088	10.8%
EPS (Rs)	2.7	0.1	nm	3.5	-21%

Source: Company data, I-Sec research

Table 2: AUM break and mix

<i>(Rs bn)</i>	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ	YoY
QAUM breakup										
Equity	42.0%	42.0%	44.0%	42.0%	38.0%	39.0%	39.1%	40.2%	1.1%	-1.8%
Debt	31.0%	28.0%	27.0%	28.0%	29.0%	30.0%	32.0%	31.2%	-0.8%	3.2%
Liquid	15.0%	16.0%	16.0%	16.0%	19.0%	17.0%	14.0%	12.1%	-1.9%	-3.9%
Others	12.0%	14.0%	13.0%	14.0%	14.0%	14.0%	15.0%	16.5%	1.5%	2.5%
QAAUM breakup										
Equity	935	861	899	861	684	780	833	925	11%	8%
Debt	690	574	552	574	522	600	682	718	5%	25%
Liquid	334	328	327	328	342	340	298	279	-7%	-15%
Others	267	287	266	287	252	280	320	380	19%	33%
Total	2,226	2,049	2,043	2,049	1,801	2,000	2,130	2,302	8%	12%

Source: Company data, I-Sec research

Financial summary

Table 3: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21P	FY22E	FY23E
MF AUM	2,278	1,635	2,044	2,350	2,585
Revenue from operations	14,786	12,030	10,621	12,263	13,584
Investment management fees	14,464	11,636	10,221	11,733	12,928
Portfolio management fees	322	394	400	530	656
Other income	1,713	-98	3,572	2,000	2,200
Total income	16,499	11,932	14,193	14,263	15,784
Operating expenses					
Employee expense	2,935	3,024	2,713	2,803	2,971
Other expenses	6,461	2,921	2,333	2,235	2,230
Total Opex	9,396	5,945	5,046	5,038	5,201
EBITDA (ex-other income)	5,390	6,085	5,575	7,225	8,382
Depreciation and amortization expenses	101	333	333	332	301
PBT	7,002	5,598	8,770	8,848	10,237
Core PBT (ex-other income)	5,290	5,696	5,198	6,848	8,037
Tax	2,132	1,441	1,976	2,230	2,580
PAT	4,871	4,158	6,794	6,619	7,657
Core PAT	3,679	4,230	4,027	5,123	6,012

Source: I-Sec research

Table 4: Balance sheet

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21P	FY22E	FY23E
Share Capital	6,120	6,121	6,165	6,165	6,165
Reserves and Surplus	19,580	19,809	24,838	26,323	28,472
Net worth	25,700	25,931	31,003	32,488	34,637
Minority interest	-	-	5		
Trade payables	474	677	629	685	747
Provisions	435	393	234	514	811
Other Liabilities	1,150	1,808	2,051	2,153	2,261
Total Liabilities	27,758	28,808	33,922	35,840	38,456
Assets					
Net block (incl CWIP)	168	856	621	338	87
Asset management rights	2,400	2,400	2,400	2,400	2,400
Investments	18,328	23,479	29,106	30,853	33,590
of which cash and cash equivalents	5,428	4,633	3,606	3,874	4,463
Loans and advances	3,696	9	7	7	7
Other assets	3,167	2,065	1,788	2,242	2,371
Total Assets	27,758	28,808	33,922	35,840	38,456

Source: I-Sec research

Table 5: Cashflow statement*(Rs mn, year ending Mar 31)*

	FY19	FY20	FY21P	FY22E	FY23E
Operating Cashflow ex WC	5,624	6,523	5,997	9,461	10,835
Working Capital Changes	355	1,025	303	-295	40
Cashflow from operations	3,861	6,049	4,559	6,936	8,296
Capital Commitments ex asset sale	-85	-40	-50	-50	-50
Free Cashflow	5,185	5,457	5,644	9,705	10,745
Cash flow from Investing Activities	-347	365	-4,016	-1,529	-2,199
Dividend paid including taxes	-2,923	-4,427	-3,060	-5,134	-5,508
Cashflow from Financing Activities	-3,587	-4,680	-2,391	-5,134	-5,508
Chg. in Cash & Bank balance	-74	1,735	-1,848	273	588

Source: I-Sec research

Table 6: Key ratios*(year ending Mar 31)*

	FY19	FY20	FY21P	FY22E	FY23E
Per Share Data (in Rs)					
EPS(Basic Recurring)	8.0	6.8	11.1	10.8	12.5
Core EPS	6.0	6.9	6.5	8.3	9.8
Dividend per share (DPS)	6.0	5.0	8.4	7.5	9.0
Book Value per share	42.0	42.4	50.7	53.1	56.6
Growth Ratios (%)					
AUM	0.8	-28.2	25.0	15.0	10.0
Total Revenue	-7.1	-18.6	-11.7	15.5	10.8
EBITDA	6.3	12.9	-8.4	29.6	16.0
Recurring Net Income	6.5	-14.6	63.4	-2.6	15.7
Core PAT	5.8	15.0	-4.8	27.2	17.4
Valuation Ratios (x)					
P/E	42.8	50.2	30.7	31.5	27.3
P/BV	8.1	8.0	6.7	6.4	6.0
Core P/E	56.7	49.7	52.2	41.0	35.0
MCap to AUM	9.2	12.9	10.3	8.9	8.1
Operating ratios					
Investment management fees/total income	87.7	97.5	72.0	82.3	81.9
Operating expenses/total income	56.9	49.8	35.6	35.3	33.0
Employee expenses/operating expenses	31.2	50.9	53.8	55.6	57.1
Core PBT margin (of total income)	32.1	47.7	36.6	48.0	50.9
PAT margin (of total income)	29.5	34.8	47.9	46.4	48.5
Tax rate	30.4	25.7	22.5	25.2	25.2
Payout ratio	75%	74%	76%	70%	72%
% of AUM MF AUM (bps)					
Revenue	63.5	71.2	50.0	49.9	50.0
Operating expenses	41.2	36.4	24.7	21.4	20.1
Operating margins	22.2	34.8	25.3	28.5	29.9
PAT	21.4	25.4	33.2	28.2	29.6
Core PAT	16.2	25.9	19.7	21.8	23.3
ROE	19.7	16.1	23.9	20.8	22.8

Source: I-Sec research

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