

October 26, 2021

RESULT REPORT Q2 FY22 | Sector: Asset Managers

Nippon Life India AMC

Improved equity fund performance augurs well

Result Highlights

- ✓ **Revenue:** Revenue from operations at Rs 3279mn was up 8.5%/26.8% QoQ/YoY, somewhat lagging the growth of QAAUM at 10%/33% QoQ/YoY
- ✓ **Share of Equity in AUM:** Share of Equity in AUM (including Hybrid funds) at 43% was up 200 bps QoQ and 400 bps YoY (calculated on rounded off figures)
- ✓ **Share of B-30 in AUM:** Share of B-30 in AUM at 18% was down 110 bps QoQ and 30 bps YoY
- ✓ **Channel mix:** Share of MFDs, Banks and NDs was 57%, 22% and 21%, respectively in overall AUM
- ✓ **Operating profit margin:** Operating profit margin for the quarter, at 59.0%, was up 28 bps QoQ and 625 bps YoY

Our view – Improved equity fund performance augurs well

Management expects share of equity in AUM to rise with a lag, given improved equity fund performance: Management stated that investor count has already started to rise in this regard and inflows are also happening and share of equity in AUM should rise in due course.

Management also explained that yield has been soft on QoQ basis mainly due to new flows coming in at higher cost: They further stated that NAM will not be launching NFOs at the cost of profitability. Out of the 8 products filed with SEBI, 7 are ETFs. For the ETF business, excluding CPSE and Gold, the yield is 15-17 bps.

We maintain 'BUY' rating on NAM with a revised price target of Rs 547: We value NAM at 34x FY23 P/E for an FY21-24E EPS CAGR of 21%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Exhibit 1: Result table

Rs mn	Q2FY22	Q2FY21	YoY	Q1FY22	QoQ
Revenue from operation	3,279	2,587	26.8%	3,023	8.5%
As % of QAUM [^]	0.5%	0.5%	-2bps	0.5%	-1bps
Fees and Commission Expenses	119	97	23.0%	117	1.8%
As % of revenue	3.6%	3.7%	-11bps	3.9%	-24bps
Employee Benefit Expenses	732	679	7.8%	697	5.1%
As % of revenue	22.3%	26.3%	-394bps	23.0%	-72bps
Other Expenses	495	447	10.6%	436	13.6%
As % of revenue	15.1%	17.3%	-220bps	14.4%	68bps
Total Expense	1,346	1,223	10.0%	1,249	7.7%
Operating Profit	1,933	1,363	41.8%	1,774	9.0%
As % of QAUM [^]	0.3%	0.3%	2bps	0.3%	0bps
As % of revenue	59.0%	52.7%	625bps	58.7%	28bps
Other Income	972	637	52.6%	669	45.3%
Finance cost	11	12	-3.4%	9	21.5%
Depreciation	66	79	-16.8%	73	-10.1%
Profit before Tax	2,828	1,910	48.1%	2,360	19.8%
Tax Expense	696	457	52.2%	547	27.4%
Profit After Tax	2,132	1,452	46.8%	1,814	17.5%
As % of QAUM [^]	0.3%	0.3%	3bps	0.3%	2bps
As % of revenue	65.0%	56.1%	888bps	60.0%	502bps

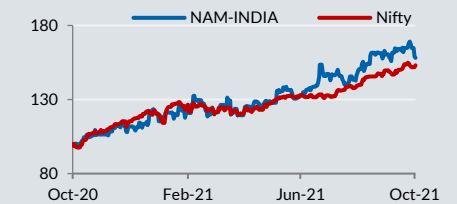
 Source: Company, YES Sec-Research, [^]Annualised

Reco	: BUY
CMP	: Rs 431
Target Price	: Rs 547
Potential Return	: 27%

Stock data (as on Oct 26, 2021)

Nifty	18,268
52 Week h/l (Rs)	476 / 267
Market cap (Rs/USD mn)	267341 / 3567
Outstanding Shares (mn)	620
6m Avg t/o (Rs mn):	575
Div yield (%):	1.9
Bloomberg code:	NAM IN
NSE code:	NAM-INDIA

Stock performance



	1M	3M	1Y
Absolute return	-1.5%	8.5%	62.1%

Shareholding pattern (As of Sept'21 end)

Promoter	73.97%
FII+DII	15.41%
Others	10.63%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	547	520

Financial Summary

Rs mn	FY22E	FY23E	FY24E
Net Revenue	13,918	17,031	20,107
YoY Growth	31.0%	22.4%	18.1%
EBIDTA Margin	61.2%	66.7%	70.4%
PAT	7,772	9,917	12,157
YoY Growth	14.4%	27.6%	22.6%
ROE	24.3%	29.0%	33.2%
EPS (Rs)	12.6	16.1	19.7
P/E (x)	34.1	26.8	21.8
BV (Rs)	53.4	57.5	61.4
P/BV (x)	8.1	7.5	7.0

Δ in earnings estimates

Rs.	FY22E	FY23E	FY24E
EPS (New)	12.6	16.1	19.7
EPS (Old)	11.5	14.3	17.7
% change	9.8%	12.6%	11.5%

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COMPREHENSIVE CON-CALL TAKEAWAYS

AUM traction and aspects

- ✓ **Growth and market share**
 - The market share for NAM stood at 7.33%, up 21 bps compared with March.
 - NAM has added 2.4mn customers over a 12-month period.
 - AUM rose 10% driven by improved performance and wider distribution, among other factors.
 - The focus has been on smaller-ticket and B-30 customers.
 - **ETF business**
 - About 60% of new ETF accounts opened for the industry have come to NAM.
 - NAM will cross sell other products to the ETF customer.
- ✓ **Other key aspects**
 - **Retail AUM**
 - Proportion of retail AUM is 28% compared with the market at 23%.
 - 68% of retail AUM has a vintage of more than 12 months.
 - **Proportion of B-30 AUM**
 - This is 18% compared with the market at 16%.
 - Recent inflows have a 24% share from B-30.
 - **Equity market share**
 - Fund performance has been delivered and now, market share rise should happen with a lag.
 - Investor count has already started to rise in this regard.
 - Inflows are also happening and share of equity should rise in due course.
 - **Schemes per customer**
 - This metric stands at less than 2.
- ✓ **Non-MF business**
 - There are Rs 1.3 trn of assets in the Non-MF business.
 - Of this, Rs 117bn are in offshore assets.

Pipeline

- ✓ The Taiwan Equity Fund has received SEBI approval and will be launched.
- ✓ 8 funds have been filed for approval with SEBI.

Distribution mix

- ✓ **MFDs**
 - There are 81700 MFDs, up 2000 QoQ.
- ✓ **New-age sourcing entities**
 - Most of the customers sourced from companies like Zerodha are ETF customers.

Yield

- ✓ **Operating profit to AUM**
 - This has moved up from 25 bps to 28 bps YoY.
 - Yield has been soft on QoQ basis mainly due to new flows coming in at higher cost.
 - Accounting changes would have impacted yield by 1 bp in equity schemes.

(Con call takeaways continue on the next page)

- **Other factors**
 - There will be marginal decline in yield as asset size rises.
 - Furthermore, new assets are coming in at full trail commission.
- ✓ **NFO pricing**
 - NAM will not be launching NFOs just for the sake of doing so and at the cost of profitability.
 - Out of the 8 products filed with SEBI, 7 are ETFs, which have no fees.
 - New NFOs have contributed roughly 50% to inflows but NAM has stayed away since these have come at a high cost.
- ✓ **ETF products**
 - Excluding CPSE and Gold, the yield is 15-17 bps.
 - Yield varies depending on the product and competitive intensity.
- ✓ **Scheme-level yield**
 - Some scheme-related expenses have been changed, rising in some and declining in others, with no net impact on yield.

Operating expenses

- ✓ **Staff cost**
 - There was a Rs 46.4mn hit due to ESOP cost during the quarter.
 - The hit is higher in the initial quarters and declines from the second year onwards.
- ✓ **Other opex**
 - Other opex has increased due increased human mobility and launch of NFO.
- ✓ **Network expansion**
 - NAM is re-thinking network expansion.
 - The focus is now on using digital channels to garner B-30 customers.
 - NAM is already present in 200 odd cities.
 - Current branch count of 270 is good enough to service 1000 towns.

Other income

- ✓ **Equity MTM**
 - Equity MTM is the key reason for strength in Other Income.
 - The Equity investment has been pared significantly and the Equity MTM will be range-bound going forward.
- ✓ **Interest on debt investments**
 - The yield on debt investments was also on the higher side, particularly on corporate debt and credit risk funds.
- ✓ **Recovery**
 - There was some recovery on stressed assets as well.

Exhibit 2: Other Business Parameters

Rs mn	Q2FY22	Q2FY21	YoY	Q1FY22	QoQ
QAAUM	2,654,590	2,000,000	33%	2,404,000	10%
Retail share	28%	26%	200bps	28%	0bps
SIP Flows	18,800	18,900	-1%	17,500	7%
QAAUM Mix					
Equity	1,128,201	780,000	45%	985,640	14%
Debt	756,558	600,000	26%	721,200	5%
Liquid	318,551	340,000	-6%	288,480	10%
ETFs	451,280	280,000	61%	408,680	10%
QAAUM Mix (% proportion)					
Equity	43%	39%	400bps	41%	200bps
Debt	29%	30%	-100bps	30%	-100bps
Liquid	12%	17%	-500bps	12%	0bps
ETFs	17%	14%	300bps	17%	0bps
Channel Mix (% proportion)					
MFDs	57%	54%	300bps	58%	-100bps
Banks	22%	20%	200bps	21%	100bps
National Distributors	21%	26%	-500bps	21%	0bps
Geographical Spread					
T-30	82%	82%	30bps	81%	110bps
B-30	18%	18%	-30bps	19%	-110bps

Source: Company, YES Sec – Research

Exhibit 3: Quarterly Actuals Vs Estimates

Q2FY22 (Rs. mn)	Actuals	Estimates	Diff, %
Revenue	3,279	3,349	(2.1)
Operating profit	1,933	1,845	4.8
Profit after tax	2,132	1,852	15.1

Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 4: Balance Sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	6,121	6,165	6,165	6,165	6,165
Total Reserves	19,809	24,844	26,784	29,265	31,698
Shareholder's Funds	25,931	31,009	32,949	35,430	37,863
Long Term Provisions	393	234	234	234	234
Other Non Current Liabilities	422	856	601	705	817
Total Non - Current Liabilities	815	1,090	835	939	1,051
Trade Payables	677	629	824	1,008	1,190
Other Current Liabilities	1,386	1,195	1,561	1,831	2,123
Total Current Liabilities	2,063	1,824	2,384	2,839	3,313
Total Liabilities and Equity	28,808	33,922	36,168	39,208	42,228
Net Block	3,236	3,008	3,208	3,408	3,608
Capital Work in Progress	20	13	0	0	0
Non Current Investments	18,846	25,500	27,250	29,484	31,674
Long Term Loans & Advances	998	774	1,010	1,185	1,374
Other Non Current Assets	192	352	460	539	625
Total Non-Current Assets	23,292	29,646	31,928	34,615	37,281
Sundry Debtors	593	459	601	736	869
Cash and Bank	4,633	3,606	3,364	3,535	3,706
Other Current Assets	282	204	266	312	362
Short Term Loans and Advances	9	7	8	9	10
Total Current Assets	5,517	4,276	4,240	4,592	4,947
Total Assets	28,808	33,922	36,168	39,208	42,228

Source: Company, YES Sec - Research

Exhibit 5: Profit and Loss Statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Investment Management Fees	11,636	10,199	13,301	16,364	19,373
Portfolio Management Fees	394	423	617	667	734
Operating Income	12,030	10,621	13,918	17,031	20,107
Fees and Commission	705	432	429	440	438
Employee Expense	3,024	2,713	2,917	3,092	3,277
Other Expenses	2,217	1,901	2,049	2,141	2,238
Total Expenses	5,945	5,046	5,395	5,674	5,953
Operating Profit	6,085	5,575	8,523	11,358	14,154
Other Income	(98)	3,572	2,068	2,076	2,247
Depreciation	333	333	321	341	361
Finance Cost	57	44	44	44	44
Profit before Tax	5,598	8,770	10,226	13,048	15,996
Tax	1,441	1,976	2,454	3,132	3,839
Net Profit	4,158	6,794	7,772	9,917	12,157

Source: Company, YES Sec - Research

Exhibit 6: Cash flow statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT	5,598	8,770	10,226	13,048	15,996
Depreciation	333	333	321	341	361
Change in working cap	5,609	313	(244)	122	128
Tax paid	1,441	1,976	2,454	3,132	3,839
Others	(868)	3,172	4	9	9
Cash flow from operations	9,231	10,612	7,853	10,389	12,655
Capex	(1,021)	(97)	(508)	(541)	(561)
Change in investments	(5,946)	(6,654)	(1,751)	(2,233)	(2,190)
Others	0	0	0	0	0
Cash flow from investments	(6,966)	(6,751)	(2,258)	(2,774)	(2,751)
Free cash flow	2,265	3,861	5,594	7,615	9,905
Equity raised/(repaid)	1	44	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl tax)	3,061	4,932	5,836	7,445	9,733
Others	0	0	0	0	0
Cash flow from financing	(3,059)	(4,888)	(5,836)	(7,445)	(9,733)
Net change in cash	(794)	(1,027)	(242)	171	171

Source: Company, YES Sec – Research

Exhibit 7: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	13,918	17,031	20,107	12,951	15,542	18,463	7.5	9.6	8.9
Operating Profit	8,523	11,358	14,154	7,589	9,910	12,548	12.3	14.6	12.8
Profit After Tax	7,772	9,917	12,157	7,062	8,806	10,912	10.1	12.6	11.4

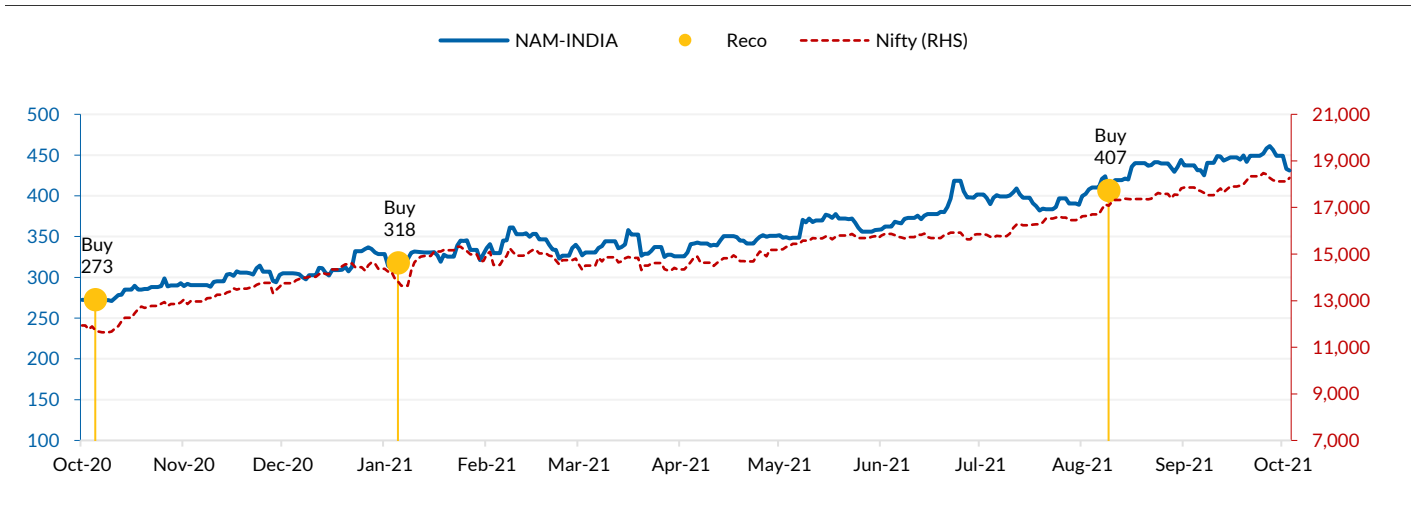
Source: Company, YES Sec – Research

Exhibit 8: Ratios

Y/e 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
Growth ratios (%)					
AAUM	-12.6%	-1.5%	30.6%	17.3%	16.0%
Management Fees	-19.6%	-12.3%	30.4%	23.0%	18.4%
PMS & Advisory Fees	22.3%	7.3%	46.0%	8.1%	10.1%
Staff Cost	3.0%	-10.3%	7.5%	6.0%	6.0%
Total Operating Expenses	-36.7%	-15.1%	6.9%	5.2%	4.9%
Profit Before Tax	-20.1%	56.7%	16.6%	27.6%	22.6%
Net profit	-14.6%	63.4%	14.4%	27.6%	22.6%
As a % of Avg AUM					
Investment Management Fees	0.56%	0.50%	0.50%	0.52%	0.53%
Staff Cost	0.14%	0.13%	0.11%	0.10%	0.09%
Other Expenses	0.11%	0.09%	0.08%	0.07%	0.06%
PBT	0.27%	0.43%	0.38%	0.41%	0.44%
Net profit	0.20%	0.20%	0.33%	0.29%	0.32%
Operating Ratios					
Operating Profit Margin	50.6%	52.5%	61.2%	66.7%	70.4%
PBT Margin	46.5%	82.6%	73.5%	76.6%	79.6%
PAT Margin	34.6%	64.0%	55.8%	58.2%	60.5%
ROE	16.1%	23.9%	24.3%	29.0%	33.2%
Dividend Payout Ratio	73.7%	72.5%	75.0%	75.0%	80.0%
Per share					
EPS	6.8	11.0	12.6	16.1	19.7
Book Value	42.4	50.3	53.4	57.5	61.4
Valuation Ratios					
P/E	63.5	39.1	34.1	26.8	21.8
P/BV	10.2	8.6	8.1	7.5	7.0
Mcap to AUM	12.7%	12.9%	9.9%	8.4%	7.3%
Dividend Yield	1.2%	1.9%	2.2%	2.8%	3.7%

Source: Company, YES Sec – Research

Recommendation Tracker



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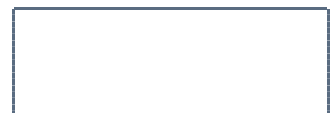
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