

BUY

TP: Rs 513 | ▲ 12%

NIPPON LIFE INDIA AMC | NBFC

14 December 2023

Management call: MF industry to grow at smart clip

- Management expects India's MF industry to grow 15% in medium term assuming 10% rise in annual inflows
- Active management backed by large investment team vs. passive approach by entrants cited as strong moat for Nippon AMC
- TP retained at Rs 513 based on unchanged 27x FY26E P/E multiple; maintain BUY

Mohit Mangal

research@bobcaps.in

We hosted Prateek Jain, CFO & head offshore biz of Nippon AMC. Key takeaways:

Industry AUM growth led by equity while debt lags: India's mutual fund AUM crossed the Rs 49tn mark in November (vs. Rs 39tn in March), with equity AUM constituting 55% of the total (vs. 51%). Debt assets have fallen from 29% of AUM to 23% over eight months, continuing the downward spiral of the past few years, owing to volatile interest rates, new tax legislation that restricts the long-term capital gain benefit on debt funds, and higher deposit rates offered by banks.

Hybrid funds could bridge the gap: Nippon AMC believes growing traction in hybrid funds can help bridge the divide between debt and equity flows, even as the softening of yields could lure corporates back to debt funds. Management expects the MF industry to grow 15% in the medium term assuming 10% incremental inflows each year and market appreciation of 5-7%.

Eye on non-MF products: AMCs are increasingly targeting lucrative non-core products, such as PMS (portfolio management services) and AIFs (alternative investment funds). Nippon AMC has employed senior personnel to capitalise on this revenue stream and hopes its presence in the upcoming financial hub of Gift City, Gujarat, will attract more investments.

Competitive moats: Despite newer entrants flocking to the AMC industry, Nippon AMC remains the #4 player and believes its competitive edge stems from (a) active fund management backed by a large investment team, as against a focus on passive schemes by newer players that rely on third-party research, and (b) 70%+ share in exchange-traded fund (ETF) volumes. Moreover, it was among the early players to have a separate risk team and audit done at both the AMC and scheme level.

Maintain BUY: The stock is trading at 24x FY26E EPS. Factoring in robust equity flows (including SIPs), rising market share and sustained ETF leadership, we continue to value the company at 27x FY26E EPS – in line with the long-term mean – for an unchanged TP of Rs 513. Nippon AMC remains our top pick – BUY.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	NAM IN/Rs 460
Market cap	US\$ 3.5bn
Free float	12%
3M ADV	US\$ 4.2mn
52wk high/low	Rs 473/Rs 197
Promoter/FPI/DII	74%/6%/9%

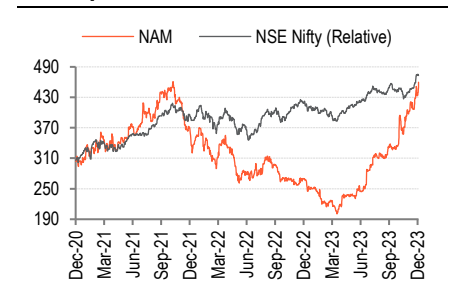
Source: NSE | Price as of 13 Dec 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	7,610	8,935	10,836
Core PBT (YoY)	0.2	17.4	21.3
Adj. net profit (Rs mn)	7,229	9,340	10,319
EPS (Rs)	11.5	14.9	16.5
Consensus EPS (Rs)	11.5	14.2	16.4
MCap/AAAUM (%)	9.9	7.9	6.6
ROAAAUM (bps)	24.7	25.5	23.7
ROE (%)	20.7	26.1	27.6
P/E (x)	39.9	30.9	27.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Investment mgmt. fees	13,066	13,498	15,542	18,048	20,609
YoY (%)	23.0	3.3	15.1	16.1	14.2
Operating expenses	5,159	5,551	6,253	6,827	7,637
Core operating profits	7,907	7,947	9,289	11,221	12,972
Core operating profits growth (%)	41.8	0.5	16.9	20.8	15.6
Depreciation and Interest	310	338	355	385	423
Core PBT	7,597	7,610	8,935	10,836	12,549
Core PBT growth (%)	46.1	0.2	17.4	21.3	15.8
Other income	2,290	1,668	3,519	2,923	3,340
PBT	9,887	9,277	12,454	13,759	15,889
PBT growth (%)	12.7	(6.2)	34.2	10.5	15.5
Tax	2,453	2,048	3,113	3,440	3,972
Tax rate (%)	24.8	22.1	25.0	25.0	25.0
Reported PAT	7,434	7,229	9,340	10,319	11,917

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity capital	6,228	6,234	6,232	6,232	6,232
Reserves & surplus	28,558	28,922	30,323	31,871	33,658
Net worth	34,786	35,156	36,555	38,103	39,890
Borrowings	0	0	0	0	0
Other liab. & provisions	3,179	3,453	4,052	5,164	6,489
Total liab. & equities	37,965	38,609	40,606	43,267	46,379
Cash & bank balance	32,801	32,959	35,520	38,737	42,271
Fixed & Other assets	4,784	5,444	5,087	4,530	4,108
Total assets	37,965	38,609	40,606	43,267	46,379

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	11.8	11.5	14.9	16.5	19.0
Dividend per share	11.0	11.5	12.8	14.1	16.3
Book value per share	55.2	56.1	58.3	60.8	63.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	39.0	39.9	30.9	27.9	24.2
P/BV	8.3	8.2	7.9	7.6	7.2
Dividend yield (%)	2.4	2.5	2.8	3.1	3.5

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	46.1	46.1	42.4	41.5	40.2
Operating expenses	18.2	18.9	17.1	15.7	14.9
EBITDA	36.0	32.8	35.0	32.5	31.8
Depreciation and Others	1.1	1.2	1.0	0.9	0.8
Core PBT	26.8	26.0	24.4	24.9	24.5
Other income	8.1	5.7	9.6	6.7	6.5
PBT	34.9	31.7	34.0	31.6	31.0
Tax	8.7	7.0	8.5	7.9	7.8
ROAAAUM	26.2	24.7	25.5	23.7	23.3

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Investment mgmt. fees	23.0	3.3	15.1	16.1	14.2
Core operating profit	41.8	0.5	16.9	20.8	15.6
EPS	62.9	8.3	(2.3)	29.2	10.5
Profitability & Return ratios (%)					
Operating income to Total inc.	85.1	89.0	81.5	86.1	86.1
Cost to Core income ratio	39.5	41.1	40.2	37.8	37.1
EBITDA margin	66.4	63.4	67.2	67.4	68.1
Core PBT margin	49.5	50.2	46.9	51.7	52.4
PBT margin (on total inc.)	64.4	61.2	65.3	65.6	66.3
ROE	22.6	20.7	26.1	27.6	30.6
Dividend payout ratio	93.2	99.7	85.0	85.0	85.0

Annual Average AUM

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
AAAUM (Rs bn)	2,832	2,930	3,664	4,349	5,122
YoY Growth (%)	23.9	3.5	25.0	18.7	17.8
% of AAAUM					
Equity	42	44	47	47	48
Debt	26	18	19	19	18
Liquid	12	13	10	9	8
Others	20	24	24	25	26

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

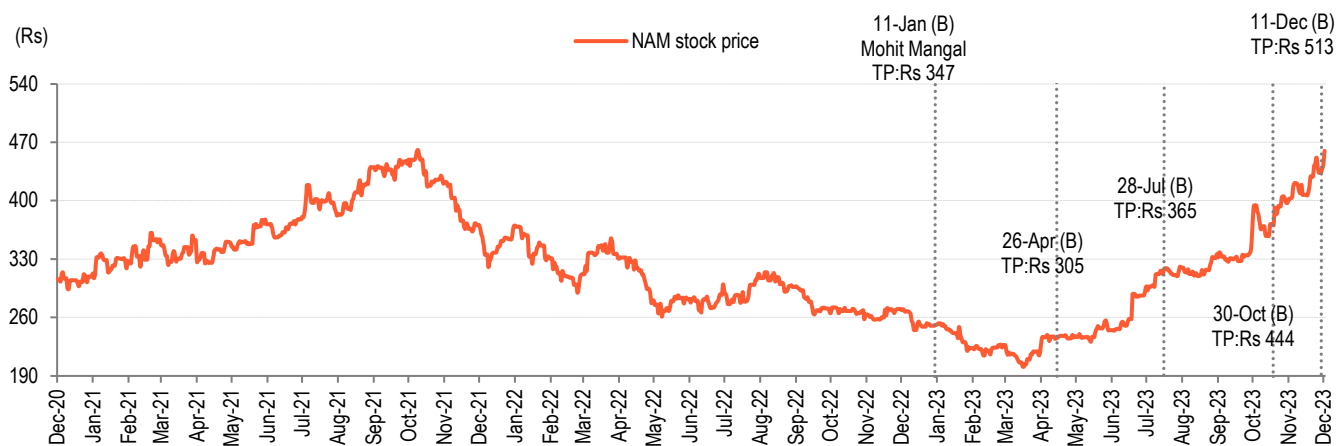
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): NIPPON LIFE INDIA AMC (NAM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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