

**BUY**

TP: Rs 444 | ▲ 20%

NIPPON LIFE INDIA AMC | NBFC

30 October 2023

## Strong show continues

- QAAUM growth robust at 23% YoY in Q2 fuelled by 11% share of industry-wide net equity flows (ex-arbitrage and index)
- Market share improved across categories, rising one spot to #5 in equity QAAUM, with overall industry ranking steady at #4
- TP raised to Rs 444 (vs. Rs 365) as we increase FY24/FY25 PAT 4%/8% and value the stock at 27x FY25E EPS (vs. 24x); maintain BUY

**Strong quarter:** Nippon AMC's revenue from operations increased 20% YoY to Rs 3.5bn and other income, which represents MTM gains on its own investments, dipped 5% to Rs 779mn. At Rs 2.4bn, PAT beat our estimate by 11% and grew 19% YoY while core PAT (ex-MTM impact) increased 28% YoY to Rs 1.8bn.

**AUM up 23% YoY:** QAAUM grew at a robust 23% YoY to Rs 3.5tn wherein equity assets climbed 32% YoY and debt was up 20%. Nippon AMC accounted for 11% of industry net equity flows (except arbitrage and index) in Q2 as compared to 20% in Q1 but saw higher absolute flows. ETFs formed 23% of the company's QAAUM and 14% of the industry mix, reinforcing its category leadership. We bake in Q2 print by raising our FY24/FY25 AUM estimates by 9%/13% and PAT estimates by 4%/8%.

**Market share rises; equity rank improves:** QAAUM-based market share increased 18bps QoQ to 7.46% in Q2. Equity market share grew 26bps QoQ to 6.53% while the liquid and ETF segments clocked increases of 33bps and 16bps respectively. The company maintained its fourth rank overall and moved up one spot in equity QAAUM to fifth place.

**Yields under pressure:** Yield (calc.) was fairly stable QoQ at ~45bps in Q2 but declined ~1bps YoY due to the slab-wise system whereby TER declines as AUM rises. Equity yield slipped from 74-75bps in Q1 to ~70bps in Q2 owing to the larger fund size. We believe pressure on yields will continue and cut our blended yield forecasts to 40bps/39bps for FY24/FY25 (vs. 42bps/41bps earlier).

**Maintain BUY:** The stock is currently trading at 23x FY25E EPS. Factoring in robust equity flows, SIP flows, rising market share and continued ETF leadership, we increase our target P/E multiple from 24x to 27x FY25E EPS – in line with the long-term mean. Together with estimate changes, this translates to a revised TP of Rs 444 (vs. Rs 365) which offers 20% upside. Nippon AMC remains our top pick in the asset management space – maintain BUY. Regulatory headwinds from potential TER revision along with lower net flows for the industry could pose downside risks.

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## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	NAM IN/Rs 371
Market cap	US\$ 2.8bn
Free float	12%
3M ADV	US\$ 3.7mn
52wk high/low	Rs 398/Rs 197
Promoter/FPI/DII	74%/6%/9%

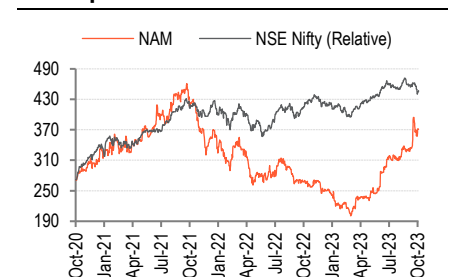
Source: NSE | Price as of 30 Oct 2023

## 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	13.5	15.0
MCap/AAAUM (%)	7.9	6.4	5.4
ROAAAUM (bps)	24.7	25.5	23.7
ROE (%)	20.7	26.1	27.6
P/E (x)	32.2	24.9	22.5

Source: Company, Bloomberg, BOBCAPS Research

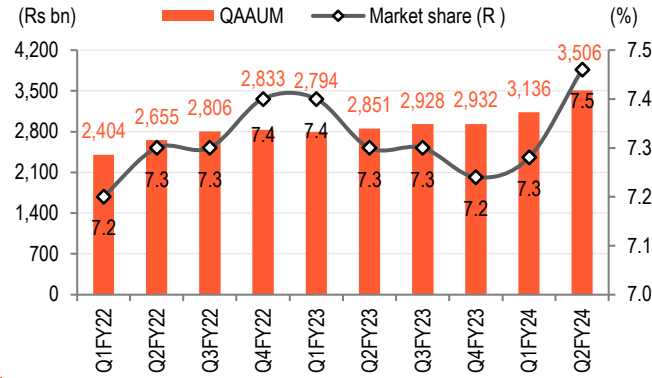
## Stock performance



Source: NSE

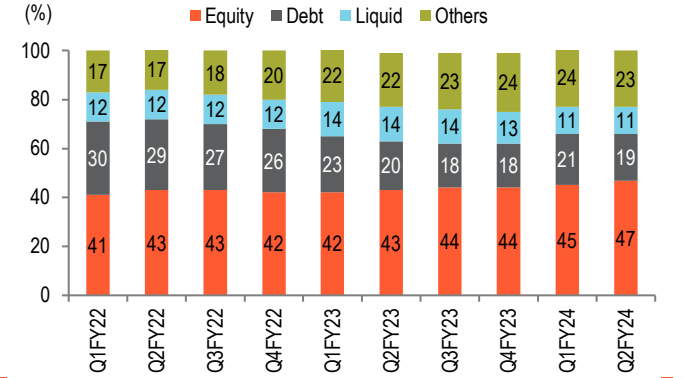


**Fig 1 – Strong growth in Q2FY24 AUM along with market share gains**



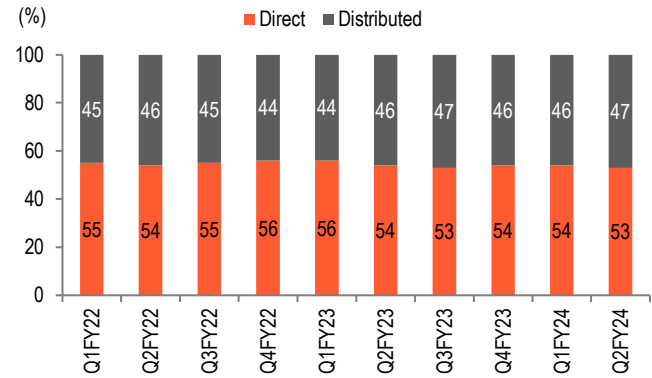
Source: Company, BOBCAPS Research

**Fig 2 – Equity component rises QoQ to 47% of QAAUM at end-Q2**



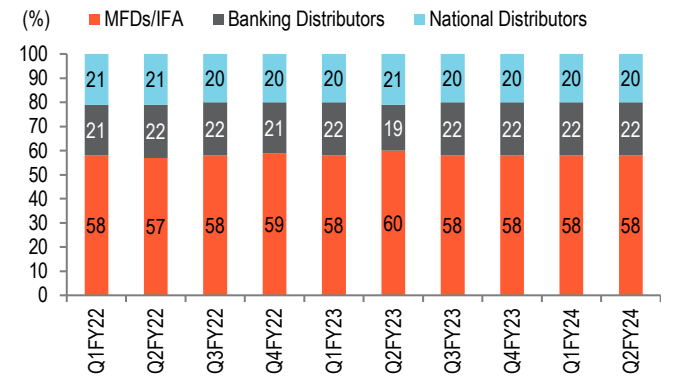
Source: Company, BOBCAPS Research

**Fig 3 – Direct channel >50% of QAAUM distribution mix**



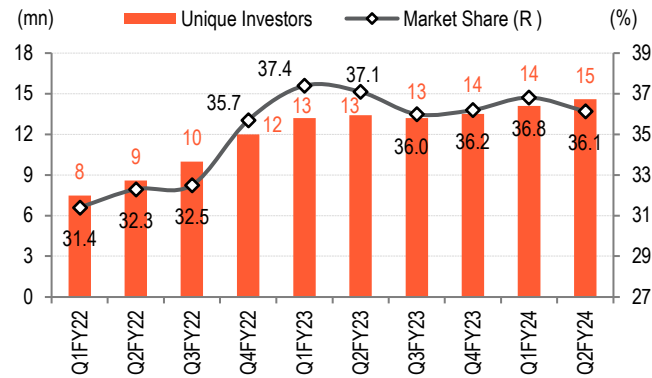
Source: Company, BOBCAPS Research

**Fig 4 – Distributed assets largely dependent on MFDs**



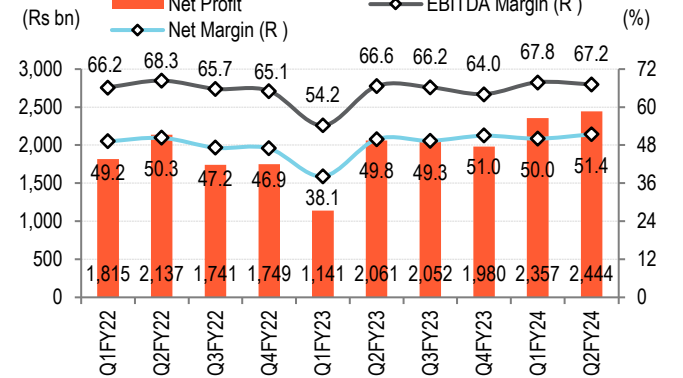
Source: Company, BOBCAPS Research

**Fig 5 – Unique investors increasing but slight loss of market share QoQ**



Source: Company, BOBCAPS Research

**Fig 6 – EBITDA margin dips QoQ but net profit and margin expand**



Source: Company, BOBCAPS Research

**Fig 7 – P&L account – Consolidated**

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
<b>Revenue from Operations</b>								
Asset Management Services	3,975	3,316	19.9	3,542	12.2	7,516	6,477	16.1
Other Income	779	819	(4.9)	1,169	(33.4)	1,948	652	198.8
<b>Total Income</b>	<b>4,754</b>	<b>4,135</b>	<b>15.0</b>	<b>4,710</b>	<b>0.9</b>	<b>9,464</b>	<b>7,128</b>	<b>32.8</b>
<b>Expenses</b>								
Fees and Commission Expenses	156	139	12.6	135	15.2	291	253	15.3
Employee Benefits Expenses	799	765	4.4	780	2.5	1,579	1,546	2.1
Other Expenses	606	477	27.0	602	0.6	1,208	953	26.8
<b>Total Operating Expenses</b>	<b>1,561</b>	<b>1,381</b>	<b>13.1</b>	<b>1,517</b>	<b>2.9</b>	<b>3,078</b>	<b>2,751</b>	<b>11.9</b>
<b>EBITDA</b>	<b>3,193</b>	<b>2,754</b>	<b>15.9</b>	<b>3,193</b>	<b>(0.0)</b>	<b>6,386</b>	<b>4,378</b>	<b>45.9</b>
Depreciation, Amortisation and Impairment	72	71	1.6	81	(11.1)	153	139	10.0
Finance Costs	17	8	113.9	13	31.0	30	17	72.3
<b>Profit Before Tax</b>	<b>3,104</b>	<b>2,676</b>	<b>16.0</b>	<b>3,099</b>	<b>0.1</b>	<b>6,203</b>	<b>4,221</b>	<b>46.9</b>
<b>Tax Expense</b>								
Current Tax	700	645	8.4	737	(5.1)	1,437	1,147	25.3
Deferred Tax Charge/(Credit)	(38)	(30)	27.2	8	(556.0)	(30)	(129)	(76.9)
<b>Total Tax Expense</b>	<b>661</b>	<b>615</b>	<b>7.5</b>	<b>746</b>	<b>(11.3)</b>	<b>1,407</b>	<b>1,018</b>	<b>38.3</b>
<b>Profit After Tax</b>	<b>2,443</b>	<b>2,060</b>	<b>18.5</b>	<b>2,354</b>	<b>3.8</b>	<b>4,796</b>	<b>3,204</b>	<b>49.7</b>

Source: Company, BOBCAPS Research

**Fig 8 – AUM breakup**

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
<b>QAAUM (Rs bn)</b>	<b>3,506</b>	<b>2,851</b>	<b>23.0</b>	<b>3,136</b>	<b>11.8</b>	<b>3,506</b>	<b>2,851</b>	<b>23.0</b>
- Equity-oriented	1,641	1,240	32.3	1,397	17.5	1,641	1,240	32.3
- Debt	673	563	19.5	644	4.5	673	563	19.5
- Liquid	385	410	(6.1)	357	7.8	385	410	(6.1)
- ETF	808	638	26.6	738	9.5	808	638	26.6
Unique Investors (mn)	14.6	13.4	9.0	14.1	3.5	14.6	13.4	9.0
Systematic Transactions - Quarterly Book (Rs bn)	47.2	25.6	84.4	34.3	37.6	NA	NA	NA
SIP AUM (Rs bn)	779	555	40.4	686	13.6	779	555	40.4

Source: Company, BOBCAPS Research

**Fig 9 – Margin indicators**

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
EBITDA margin (%)	67.2	66.6	55bps	67.8	(63bps)	67.5	61.4	607bps
Net margin (%)	51.4	49.8	158bps	50.0	137bps	50.7	44.9	582bps
Revenue yield (bps)	45.3	46.5	(1bps)	45.2	0bps	43	45	(3bps)

Source: BOBCAPS Research | Note: The above data is based on consolidated P&amp;L numbers

## Earnings call takeaways

### Business highlights

- Nippon AMC's QAAUM grew 23% YoY (+12% QoQ) to Rs 3.5tn in Q2FY24, with the share of equity assets constituting 47% of the total vs. 43% a year ago and 45% last quarter. The company accounted for 11% of industry net equity flows (except arbitrage and index) vs. 20% in Q1 but posted higher absolute numbers on a sequential basis. Apart from the small-cap category, its other schemes such as mid-cap, large-cap, multi-cap and some hybrids are also attracting inflows.
- In terms of customer mix, individual AUM (retail plus HNI) accounted for 59% of the total at Rs 2.1tn. By geography, B30 locations contributed 20% of AUM at Rs 719bn vs. 17.5% for the industry, translating to 8.6% market share. Category-wise, Nippon AMC remains one of the largest ETF players in India with ETF AUM of Rs 808bn and 14% market share.
- The company's SIP AUM grew 40% YoY to Rs 779bn as systematic flows swelled 84% to Rs 47.2bn. The company's top five funds draw 80% of the systematic flows.
- In terms of tenure, 16% of Nippon AMC's SIP folios have run for over five years against the industry average of 12%.
- Subsidiary Nippon India Alternate Investments (NIAIF) reported an investment commitment of Rs 57.8bn as on Q2FY24. During the quarter, the company launched an India equity opportunities AIF as a long-only fund. In addition, fund raising is underway for three AIFs in the public equity, structured credit and real estate segments.
- Nippon AMC's market share based on QAAUM increased 18bps QoQ from 7.28% in Q1FY24 to 7.46% in Q2 despite the company halting lumpsum inflows into its small-cap fund in July. Equity market share increased 26bps QoQ to 6.53%.
- Unique customers in the mutual fund industry grew 12% YoY to 40.4mn, of which the company has ~36% share.
- During the quarter, the company completed the NFO of its India Innovation Fund with AUM of Rs 9.6bn.
- Nippon AMC, along with three other fund houses, has been appointed as an asset manager to the EPFO corpus for ETFs, where investments commenced in Jul'23. The company expects to be appointed as manager for another Rs 150bn EPFO fund that would earn it 4bps in fees.

### Yields

- Operating yield (calc.) was fairly stable QoQ at ~45bps in Q2 but declined 1bps YoY due to the slab-wise TER system whereby TER declines as AUM rises.
- Equity funds earned a yield of ~70bps in Q2 (74-75bps in Q1), debt funds 25-30bps, liquid funds 15-20bps and ETFs (including gold) 15-20bps.

**Key financial metrics**

- Nippon AMC's total revenue from operations increased 20% YoY to Rs 4bn in Q2, whereas total income grew 15% to Rs 4.7bn. PAT increased 19% YoY to Rs 2.4bn.
- Other income is comprised purely of MTM gains and can vary depending on market movements. As much as 85% of the company's net capital of ~Rs 35bn is invested in its own mutual funds and the balance in other financial instruments. Other income reflects the MTM impact on these investments.
- Operating expenses increased 13% YoY to Rs 1.6bn as other expenses rose 27% to Rs 606mn and employee cost was up 4% to Rs 799mn.
- The company announced an interim dividend of Rs 5.5/sh, an increase of 38% YoY over the interim payout of Rs 4/sh last year (Rs 11.5/sh for full-year FY23).

**Others**

- Employee numbers have dipped slightly from 1,000 in Q1FY24 to 985 in Q2 but does not reflect an intent to reduce manpower. Management indicated that it continues to invest in people and technology.
- The number of branches has reduced from 275 in Q2FY23 to 265 due to a clubbing of touchpoints. Strategy-wise, the company intends to continue with its digital plus physical outreach.

## Valuation methodology

Nippon AMC continues to attract robust flows and to deliver top-quartile scheme performance across the large-, mid- and small-cap equity categories. The company has increased its AUM market share by 18bps QoQ to 7.46% during Q2FY24, with gains across categories and continued leadership in ETFs (67% volume share and 61% folio share at end-Q2). SIP AUM has shown robust growth of 40% YoY to Rs 779bn as systematic flows swelled 84%.

Following the strong Q2 print, we increase our FY24/FY25 AUM estimates by 9%/13%. Our net profit forecasts for these years rise by 4%/8% after factoring in a cut in blended yield assumptions to 40bps/39bps from 42bps/41bps earlier.

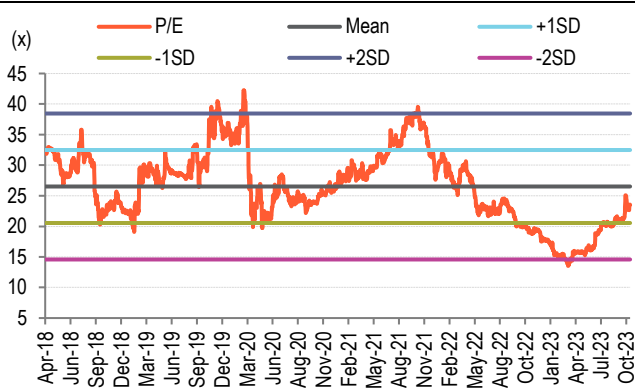
The stock is currently trading at 23x FY25E EPS. We raise our target P/E multiple from 24x to 27x on FY25E EPS – in line with stock’s long-term mean – for a revised TP of Rs 444 (vs. Rs 365) that offers 20% upside. Our new multiple factors in robust equity flows, strong growth in the SIP book, rising market share, and continued ETF leadership. Nippon AMC remains our top pick in the AMC space – maintain BUY.

**Fig 10 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	19,061	20,971	18,523	19,543	2.9	7.3
EBITDA	12,808	14,144	12,250	13,035	4.6	8.5
Profit After Tax (PAT)	9,340	10,319	8,953	9,528	4.3	8.3
AUM (Rs bn)	3,664	4,349	3,359	3,846	9.1	13.1
EBITDA Margin (%)	67.2	67.4	66.1	66.7	107bps	75bps
Net Margin (%)	49.0	49.2	48.3	48.8	67bps	45bps

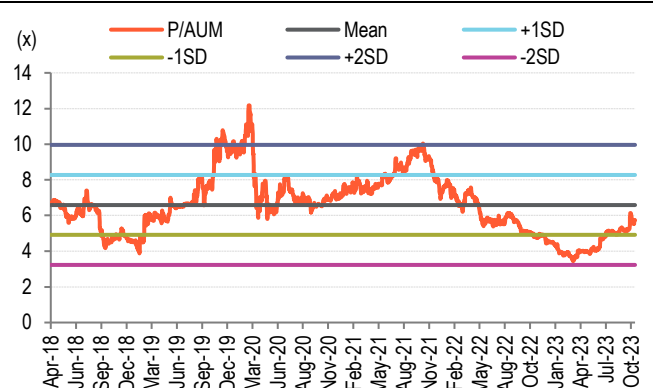
Source: Company, BOBCAPS Research

**Fig 11 – 1Y fwd P/E band – Trading close to mean**



Source: BOBCAPS Research

**Fig 12 – 1Y fwd P/AUM band – Trading close to mean**



Source: BOBCAPS Research

## Key risks

- **Decline in AUM growth due to increased competition:** Nippon AMC has witnessed intense competitive pressure in the AUM industry. Higher competition coupled with new entrants could dampen AUM growth and hurt revenue.
- **Prolonged weakness in equity markets:** Equity assets constitute a significant portion of the company's AUM. Thus, a fall in Indian equity markets would cause AUM to decline directly as the value of underlying securities falls, and indirectly as securities investments become less attractive for investors, resulting in net outflows or redemptions. Any decrease in AUM will impact fees and consequently net profit.
- **Regulatory risks:** AMCs are regulated by SEBI and could be adversely impacted in the event of unfavourable policy changes. For instance, should the regulator mandate a further decline in total expense ratio, yields could weaken even more.
- **Covid-like disruptions:** While Covid-related lockdowns are unlikely to be unduly harsh in future, we believe that any such lockdowns/disruptions due to any pandemic/virus mutations would be a risk to retail customer acquisition and could also result in higher redemptions.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Aditya Birla Sun Life AMC	ABSLAMC IN	1.5	440	440	HOLD
HDFC AMC	HDFCAMC IN	7.0	2,708	2,814	HOLD
Nippon Life India AMC	NAM IN	2.8	371	444	BUY
UTI AMC	UTIAM IN	1.2	754	835	HOLD

Source: BOBCAPS Research, NSE | Price as of 30 Oct 2023

## Glossary

Glossary			
<b>AUM</b>	Assets Under Management	<b>MF</b>	Mutual Fund
<b>AAAUM</b>	Average Annual Assets Under Management	<b>MFD</b>	Mutual Fund Distributor
<b>AIF</b>	Alternate Investment Fund	<b>MTM</b>	Mark to Market
<b>B30</b>	Beyond the Top 30 cities	<b>NFO</b>	New Fund Offer
<b>eKYC</b>	Electronic Know Your Customer	<b>PMS</b>	Portfolio Management Services
<b>EPFO</b>	Employees' Provident Fund Organisation	<b>QAAUM</b>	Quarterly Average Assets Under Management
<b>ETF</b>	Exchange Traded Funds	<b>SIP</b>	Systematic Investment Plan
<b>FOF</b>	Fund of Funds	<b>STP</b>	Systematic Transfer Plan
<b>HNI</b>	High Net-worth Individual	<b>T30</b>	Top 30 cities
<b>IFA</b>	Independent Financial Advisor	<b>TER</b>	Total Expense Ratio
<b>MAAUM</b>	Monthly Average Assets Under Management		

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Investment mgmt. fees</b>	<b>10,621</b>	<b>13,066</b>	<b>13,498</b>	<b>15,542</b>	<b>18,048</b>
YoY (%)	(11.7)	23.0	3.3	15.1	16.1
Operating expenses	5,046	5,159	5,551	6,253	6,827
Core operating profits	5,575	7,907	7,947	9,289	11,221
Core operating profits growth (%)	(8.4)	41.8	0.5	16.9	20.8
Depreciation and Interest	377	310	338	355	385
Core PBT	5,198	7,597	7,610	8,935	10,836
Core PBT growth (%)	(8.7)	46.1	0.2	17.4	21.3
Other income	3,572	2,290	1,668	3,519	2,923
PBT	8,770	9,887	9,277	12,454	13,759
PBT growth (%)	56.7	12.7	(6.2)	34.2	10.5
Tax	1,976	2,453	2,048	3,113	3,440
Tax rate (%)	22.5	24.8	22.1	25.0	25.0
<b>Reported PAT</b>	<b>6,794</b>	<b>7,434</b>	<b>7,229</b>	<b>9,340</b>	<b>10,319</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity capital	6,170	6,228	6,234	6,232	6,232
Reserves & surplus	24,838	28,558	28,922	30,323	31,871
Net worth	31,009	34,786	35,156	36,555	38,103
Borrowings	0	0	0	0	0
Other liab. & provisions	2,914	3,179	3,453	4,052	5,164
<b>Total liab. &amp; equities</b>	<b>33,922</b>	<b>37,965</b>	<b>38,609</b>	<b>40,606</b>	<b>43,267</b>
Cash & bank balance	29,106	32,801	32,959	35,520	38,737
Fixed & Other assets	4,457	4,784	5,444	5,087	4,530
<b>Total assets</b>	<b>33,922</b>	<b>37,965</b>	<b>38,609</b>	<b>40,606</b>	<b>43,267</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	10.9	11.8	11.5	14.9	16.5
Dividend per share	8.0	11.0	11.5	12.8	14.1
Book value per share	49.7	55.2	56.1	58.3	60.8

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	34.0	31.4	32.2	24.9	22.5
P/BV	7.5	6.7	6.6	6.4	6.1
Dividend yield (%)	2.2	3.0	3.1	3.4	3.8

### DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23A	FY24E	FY25E
Operating income	46.5	46.1	46.0	42.4	41.5
Operating expenses	22.1	18.2	18.9	17.1	15.7
EBITDA	40.0	36.0	32.8	35.0	32.5
Depreciation and Others	1.6	1.1	1.2	1.0	0.9
Core PBT	22.7	26.8	26.0	24.4	24.9
Other income	15.6	8.1	5.7	9.6	6.7
PBT	38.4	34.9	31.6	34.0	31.6
Tax	8.6	8.7	7.0	8.5	7.9
<b>ROAAAUM</b>	<b>29.7</b>	<b>26.2</b>	<b>24.7</b>	<b>25.5</b>	<b>23.7</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Investment mgmt. fees	(11.7)	23.0	3.3	15.1	16.1
Core operating profit	(8.4)	41.8	0.5	16.9	20.8
EPS	62.9	8.3	(2.3)	29.2	10.5
<b>Profitability &amp; Return ratios (%)</b>					
Operating income to Total inc.	74.8	85.1	89.0	81.5	86.1
Cost to Core income ratio	47.5	39.5	41.1	40.2	37.8
EBITDA margin	64.4	66.4	63.4	67.2	67.4
Core PBT margin	36.6	49.5	50.2	46.9	51.7
PBT margin (on total inc.)	61.8	64.4	61.2	65.3	65.6
ROE	23.9	22.6	20.7	26.1	27.6
<b>Dividend payout ratio</b>	<b>73.4</b>	<b>93.2</b>	<b>99.7</b>	<b>85.0</b>	<b>85.0</b>

### Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
AAAUM (Rs bn)	2,286	2,832	2,932	3,664	4,349
YoY Growth (%)	11.6	23.9	3.5	24.9	18.7
<b>% of AAAUM</b>					
Equity	41	42	44	47	47
Debt	31	26	18	19	19
Liquid	12	12	13	10	9
Others	16	20	24	24	25

Source: Company, BOBCAPS Research



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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**

Logo: 

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

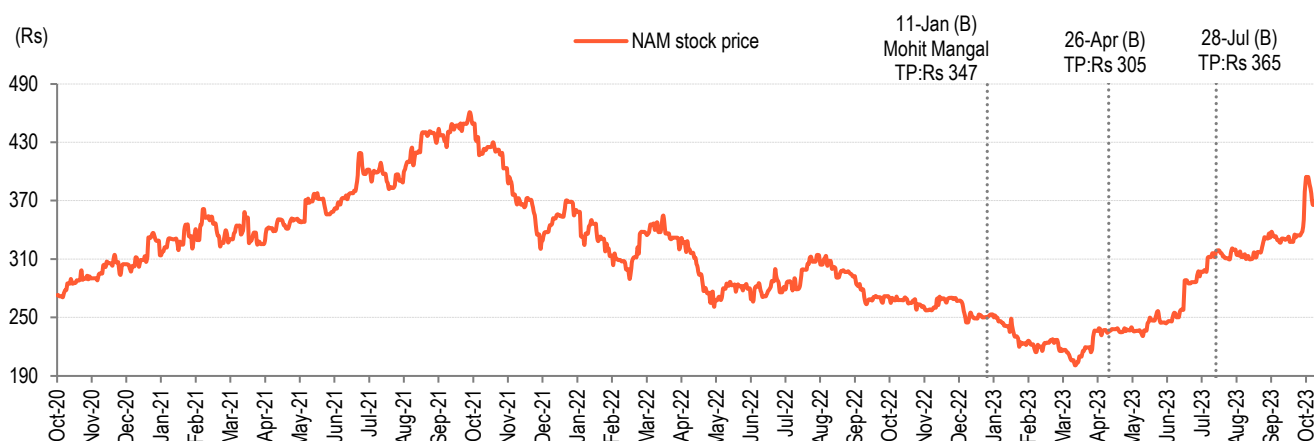
**HOLD** – Expected return from -6% to +15%

**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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