

HOLD

TP: Rs 580 | ▲ 11%

NIPPON LIFE INDIA AMC | NBFC

30 January 2024

Strong growth but upside capped – cut to HOLD

- QAAUM growth robust at 29% YoY in Q3 fuelled by 10%+ share of industry-wide net equity flows (ex-arbitrage and index)
- Market share expands across categories with overall QAAUM share at 7.67% and equity share at 6.67%
- Downgrade from BUY to HOLD despite raising TP to Rs 580 (vs. Rs 513), owing to recent stock run-up

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Strong growth continues: Nippon AMC's revenue from operations increased 20% YoY to Rs 4.2bn at end-Q3FY24 (+17% YoY to Rs 11.8bn at end-9M) and other income, which represents MTM gains on its own investments, grew 73% to Rs 1.1bn. At Rs 2.8bn, PAT beat our estimate by 6% and grew 39% YoY, while core PAT (ex-MTM impact) increased 27% YoY to Rs 2bn.

AUM growth robust: QAAUM grew at a robust 29% YoY to Rs 3.8tn, wherein equity assets jumped 41% YoY and debt was up 26%. Nippon AMC saw sustained demand traction and accounted for 10%+ of industry net equity flows (except arbitrage and index) in Q3 as compared to 11% in Q1. ETFs formed 25% of the company's QAAUM. We bake in the Q3 print by raising our FY24/FY25/FY26 AUM and net profit estimates by 5% and 9% respectively for each of the years.

Market share rises: The company maintained its fourth rank on overall basis with an uptick in market share. QAAUM-based share increased 21bps QoQ from 7.46% in Q2FY24 to 7.67% in Q3. Equity market share improved 15bps QoQ to 6.67% and ETF share grew the most at 134bps QoQ to 15.4% with the company retaining a dominant chunk of volumes and folios.

Yields under pressure: Yield (calc.) was stable QoQ at ~45bps in Q3 but declined 3bps YoY due to the regulatory slab system, whereby TER declines as AUM rises. Equity yields have corrected and are now in the mid-60s owing to the company's large fund size. Management believes the pressure on yields will continue for 3-4 years. We bake in 40bps/39bps/38bps on blended basis for FY24/FY25/FY26.

Downgrade to HOLD post rally: The stock is trading at 25x FY26E EPS. Factoring in robust equity flows, SIP flows, rising market share and continued ETF leadership, we increase our target P/E multiple from 27x to 28x on FY26E EPS – a 7% premium to the long-term mean. Together with our estimate changes, we have a revised TP of Rs 580 (vs. Rs 513). Following the 40% run-up in stock price over the last three months, our new TP carries limited upside potential of 11%, leading us to downgrade our rating from BUY to HOLD.

Key changes

Target	Rating
▲	▼

Ticker/Price	NAM IN/Rs 521
Market cap	US\$ 4.0bn
Free float	12%
3M ADV	US\$ 5.3mn
52wk high/low	Rs 541/Rs 197
Promoter/FPI/DII	74%/6%/9%

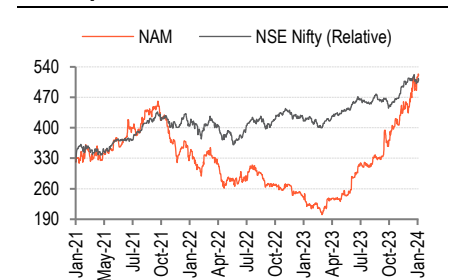
Source: NSE | Price as of 30 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Core PBT (Rs mn)	7,610	9,473	11,495
Core PBT (YoY)	0.2	24.5	21.3
Adj. net profit (Rs mn)	7,229	10,191	11,271
EPS (Rs)	11.5	16.3	18.0
Consensus EPS (Rs)	11.5	15.4	17.2
MCap/AAAUM (%)	11.2	8.5	7.2
ROAAAUM (bps)	24.7	26.6	24.7
ROE (%)	20.7	28.4	30.0
P/E (x)	45.1	32.0	29.0

Source: Company, Bloomberg, BOBCAPS Research

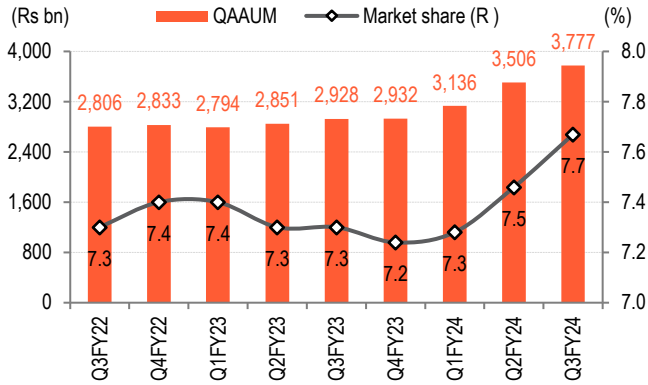
Stock performance



Source: NSE

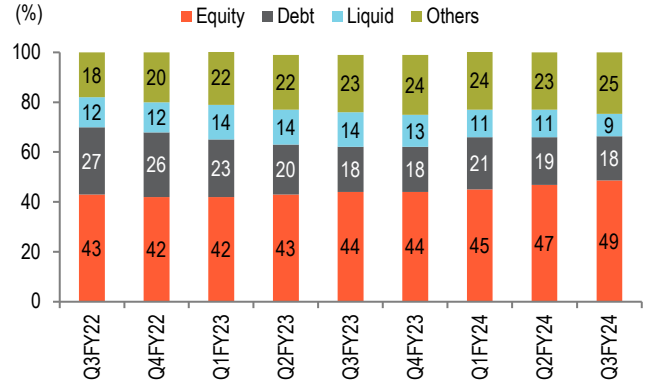


Fig 1 – Strong growth in Q3FY24 AUM along with market share gains



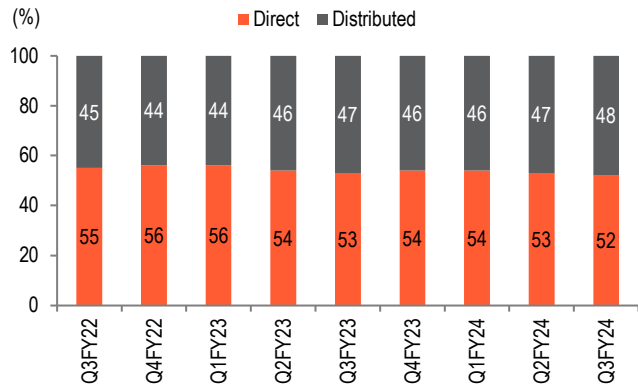
Source: Company, BOBCAPS Research

Fig 2 – Equity component rises QoQ to 49% of QAAUM at end-Q3



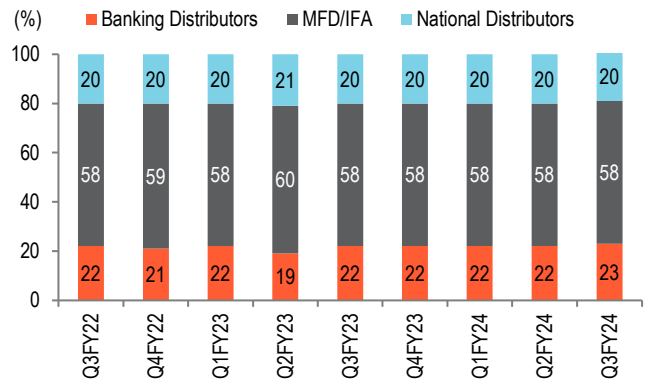
Source: Company, BOBCAPS Research

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



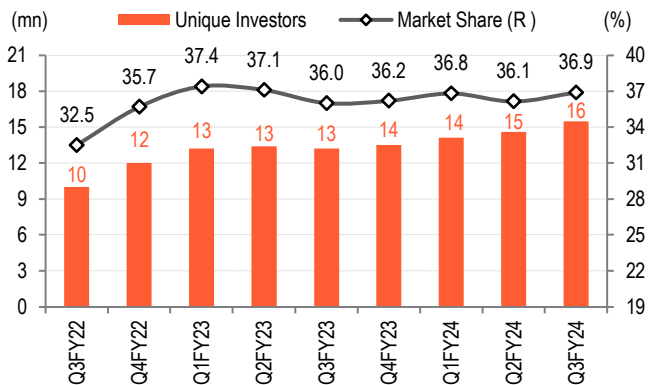
Source: Company, BOBCAPS Research

Fig 4 – Distributed assets largely dependent on MFDs



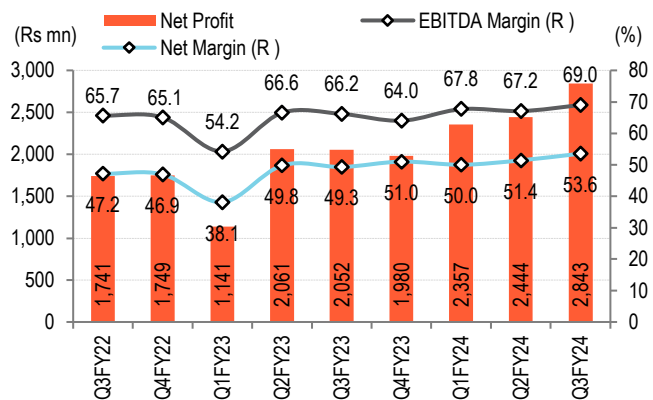
Source: Company, BOBCAPS Research

Fig 5 – Unique investors increasing with higher market share QoQ



Source: Company, BOBCAPS Research

Fig 6 – Net profit expands along with margins



Source: Company, BOBCAPS Research

Fig 7 – P&L account – Consolidated

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue from Operations								
Asset Management Services	4,233	3,538	19.6	3,975	6.5	11,750	10,015	17.3
Other Income	1,071	619	72.9	779	37.5	3,018	1,271	137.5
Total Income	5,304	4,157	27.6	4,754	11.6	14,768	11,286	30.9
Expenses								
Fees and Commission Expenses	156	126	23.8	156	0.1	447	379	18.1
Employee Benefits Expenses	875	747	17.1	799	9.4	2,453	2,293	7.0
Other Expenses	611	533	14.8	606	0.8	1,819	1,485	22.5
Total Operating Expenses	1,642	1,405	16.8	1,561	5.2	4,720	4,156	13.6
EBITDA	3,662	2,752	33.1	3,193	14.7	10,048	7,130	40.9
Depreciation, Amortisation and Impairment	65	77	(15.8)	72	(9.3)	218	216	0.8
Finance Costs	17	11	53.7	17	(1.8)	46	28	65.1
Profit Before Tax	3,581	2,664	34.4	3,104	15.4	9,784	6,885	42.1
Tax Expense								
Current Tax	613	506	21.3	700	(12.4)	2,050	1,653	24.1
Deferred Tax Charge/(Credit)	127	110	15.4	(38)	(432.4)	97	(19)	(609.9)
Total Tax Expense	741	616	20.3	661	12.0	2,148	1,633	31.5
Share of profit in associate	3	4	-22.9	2	68.8	8	1	550.0
Profit After Tax	2,843	2,052	38.6	2,444	16.3	7,644	5,253	45.5

Source: Company, BOBCAPS Research

Fig 8 – AUM breakup

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
QAAUM (Rs bn)	3,777	2,928	29.0	3,506	7.7	3,777	2,928	29.0
- Equity-oriented	1,835	1,302	40.9	1,641	11.8	1,835	1,302	40.9
- Debt	671	532	26.1	673	(0.3)	671	532	26.1
- Liquid	342	411	(16.8)	385	(11.2)	342	411	(16.8)
- ETF	929	683	36.0	808	15.0	929	683	36.0
Unique Investors (mn)	15.5	13.2	17.4	14.6	6.2	15.5	13.2	17.4
Systematic Transactions - Quarterly Book (Rs bn)	59.3	29.1	103.8	47.2	25.6	59.3	29.1	103.8
SIP AUM (Rs bn)	996	675	47.6	779	27.8	996	675	47.6

Source: Company, BOBCAPS Research

Fig 9 – Margin indicators

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
EBITDA margin (%)	69.0	66.2	285bps	67.2	189bps	68.0	63.2	487bps
Net margin (%)	53.6	49.3	425bps	51.4	218bps	51.8	46.5	522bps
Revenue yield (bps)	44.8	48.3	(3bps)	45.3	(1bps)	41.4	45.5	(4bps)

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

Earnings call takeaways

Business highlights

- Nippon AMC's QAAUM grew 29% YoY (+8% QoQ) to Rs 3.8tn in Q3FY24, with equity assets constituting 48.6% of the total from 44.5% a year ago and 46.8% last quarter. On a YTD basis, the company has been the fastest growing AMC amongst the top 10 players, with 29% growth over Mar'23. Moreover, it maintained its fourth rank in the AMC industry.
- The company continued to attract higher flows, accounting for 10%+ of industry net equity flows (except arbitrage and index) vs. 11% in Q2.
- In terms of customer mix, individual AUM (retail plus HNI) accounted for 60% of the total at Rs 2.4tn, rising 12% QoQ. By geography, B30 locations contributed 20% of AUM at Rs 791bn vs. 17.8% for the industry, translating to 8.7% market share. Category-wise, Nippon AMC remains one of the largest ETF players in India, with ETF AUM of Rs 929bn and 15% market share.
- The company's SIP AUM grew 48% YoY to Rs 996bn as systematic flows swelled 104% to Rs 59.3bn. About 76% of SIPs in volume and 90% in value terms are below Rs 10,000 and they are spread across various categories. The company stated that it has 70% retention in monthly SIPs by folio count. New SIP registrations totalled 3.8mn in Q3 and the top 5 funds contributed to 80% of flows.
- Nippon AMC has 61% share in industry ETF folios and 64% share of ETF volumes on NSE and BSE.
- In terms of volatility, the company observed that folios with lower ticket size typically demonstrate longer vintage.
- Subsidiary Nippon India Alternate Investments (NIAIF) reported an investment commitment of Rs 60.3bn as on Q3FY24. The company conducted the final closing of the Nippon India Equity Opportunities AIF Scheme 8, a Category III long-only equity AIF.
- Nippon AMC's market share based on QAAUM increased 21bps QoQ from 7.46% in Q2FY24 to 7.67% in Q3. Equity QAAUM market share also improved 15bps QoQ to 6.67%.
- Unique customers in the mutual fund industry grew to 42mn, of which the company has ~37% share.

Yields

- Operating yield (calc.) was fairly stable QoQ at ~45bps in Q3 but declined 3bps YoY due to the slab-wise TER system, whereby TER declines as AUM rises.
- Equity yield was in the mid-60s, debt at 25-28bps liquid funds at 10-12bps and ETFs at 15-20bps.
- Per management, it will take 3-4 years for the compression in blended mutual fund yields to halt.

Key financial metrics

- Nippon AMC's total revenue from operations increased 20% YoY to Rs 4.2bn in Q3, whereas total income grew 28% to Rs 5.3bn. PAT increased 39% YoY to Rs 2.8bn.
- Other income consists purely of MTM gains and can vary depending on market movements.
- Operating expenses increased 17% YoY to Rs 1.6bn as other expenses rose 15% to Rs 611mn and employee cost was up 17% to Rs 875mn. Higher employee cost stemmed from provisions for PLI.

Others

- Employee numbers inched up from 985 in Q2 to 989 in Q3. Management indicated that it continues to invest in people and technology.
- Digital purchases (lumpsum + new) grew 76% YoY to 4.25mn transactions at end-9MFY24.

Valuation methodology

Nippon AMC, the #4 player in the asset management industry by QAAUM, continues to attract robust flows and deliver top-quartile scheme performance across the large-, mid- and small-cap equity categories. The company’s AUM market share increased 21bps QoQ to 7.67% during Q3FY24, while equity QAAUM market share also improved 15bps to 6.67%. Its continued leadership in the growing ETF space is another positive, with 64% volume share and 61% folio share at end-Q3. SIP AUM too has grown at a robust 48% YoY to Rs 996bn as systematic flows swelled 104% to Rs 59.3bn.

Following the strong Q3FY24 print, we increase our FY24/FY25/FY26 AUM estimates by 5% each. Our net profit forecasts for these years rise by 9% each after factoring in blended yield assumptions to 40bps/39bps/38bps.

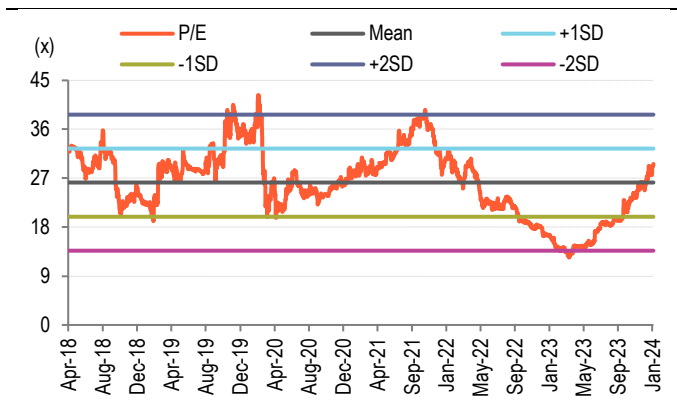
The stock is currently trading at 25x FY26E EPS. We raise our target P/E multiple from 27x to 28x on FY26E EPS – a 7% premium to the stock’s long-term mean – for a revised TP of Rs 580 (vs. Rs 513). Our new multiple factors in robust equity flows, strong growth in the SIP book, rising market share and continued ETF leadership. However, the stock has climbed 40% in the last three months, restricting upside potential – we thus downgrade it from BUY to HOLD.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Total Income	19,825	21,815	24,834	19,061	20,971	23,949	4.0	4.0	3.7
EBITDA	13,416	14,821	17,049	12,808	14,144	16,312	4.7	4.8	4.5
Profit After Tax (PAT)	10,191	11,271	12,978	9,340	10,319	11,917	9.1	9.2	8.9
AUM (Rs bn)	3,833	4,565	5,389	3,664	4,349	5,122	4.6	4.9	5.2
EBITDA Margin (%)	67.7	67.9	68.6	67.2	67.4	68.1	48bps	49bps	54bps
Net Margin (%)	51.4	51.7	52.3	49.0	49.2	49.8	240bps	246bps	250bps

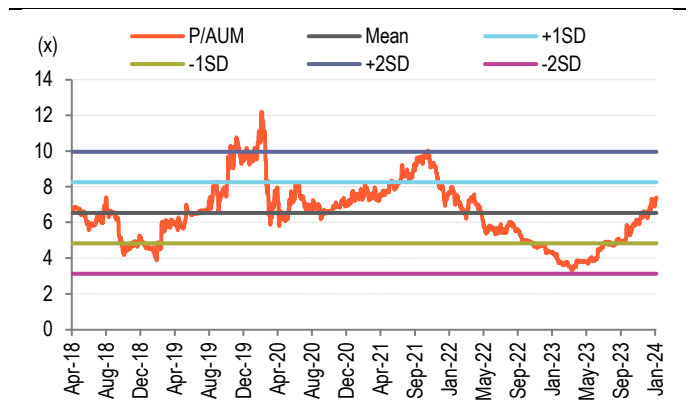
Source: BOBCAPS Research

Fig 11 – 1Y fwd P/E band – Upward trend



Source: BOBCAPS Research

Fig 12 – 1Y fwd P/AUM band – Moving up



Source: BOBCAPS Research

Key risks

Downside 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	1.7	482	497	HOLD
HDFC AMC	HDFCAMC IN	9.1	3,510	3,425	HOLD
Nippon Life India AMC	NAM IN	4.0	521	580	HOLD
UTI AMC	UTIAM IN	1.4	896	909	HOLD

Source: BOBCAPS Research, NSE | Price as of 30 Jan 2024

Glossary

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Investment mgmt. fees	13,066	13,498	16,232	18,861	21,560
YoY (%)	23.0	3.3	20.3	16.2	14.3
Operating expenses	5,159	5,551	6,409	6,994	7,786
Core operating profits	7,907	7,947	9,823	11,866	13,774
Core operating profits growth (%)	41.8	0.5	23.6	20.8	16.1
Depreciation and Interest	310	338	350	372	411
Core PBT	7,597	7,610	9,473	11,495	13,363
Core PBT growth (%)	46.1	0.2	24.5	21.3	16.3
Other income	2,290	1,668	3,593	2,955	3,275
PBT	9,887	9,277	13,066	14,449	16,638
PBT growth (%)	12.7	(6.2)	40.8	10.6	15.1
Tax	2,453	2,048	2,874	3,179	3,660
Tax rate (%)	24.8	22.1	22.0	22.0	22.0
Reported PAT	7,434	7,229	10,191	11,271	12,978

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	30,451	32,141	34,088
Net worth	34,786	35,156	36,682	38,373	40,320
Borrowings	0	0	0	0	0
Other liab. & provisions	3,179	3,453	4,085	5,241	6,619
Total liab. & equities	37,965	38,609	40,767	43,614	46,938
Cash & bank balance	32,801	32,959	35,616	39,004	42,726
Fixed & Other assets	4,784	5,444	5,151	4,610	4,213
Total assets	37,965	38,609	40,767	43,614	46,938

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	11.8	11.5	16.3	18.0	20.7
Dividend per share	11.0	11.5	13.9	15.4	17.7
Book value per share	55.2	56.1	58.5	61.2	64.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	44.1	45.1	32.0	29.0	25.1
P/BV	9.4	9.3	8.9	8.5	8.1
Dividend yield (%)	2.1	2.2	2.7	3.0	3.4

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY22A	FY23A	FY24E	FY25E	FY26E
Operating income	46.1	46.1	42.4	41.3	40.0
Operating expenses	18.2	18.9	16.7	15.3	14.4
EBITDA	36.0	32.8	35.0	32.5	31.6
Depreciation and Others	1.1	1.2	0.9	0.8	0.8
Core PBT	26.8	26.0	24.7	25.2	24.8
Other income	8.1	5.7	9.4	6.5	6.1
PBT	34.9	31.7	34.1	31.7	30.9
Tax	8.7	7.0	7.5	7.0	6.8
ROAAAUM	26.2	24.7	26.6	24.7	24.1

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Investment mgmt. fees	23.0	3.3	20.3	16.2	14.3
Core operating profit	41.8	0.5	23.6	20.8	16.1
EPS	62.9	8.3	(2.3)	41.0	10.6
Profitability & Return ratios (%)					
Operating income to Total inc.	85.1	89.0	81.9	86.5	86.8
Cost to Core income ratio	39.5	41.1	39.5	37.1	36.1
EBITDA margin	66.4	63.4	67.7	67.9	68.6
Core PBT margin	49.5	50.2	47.8	52.7	53.8
PBT margin (on total inc.)	64.4	61.2	65.9	66.2	67.0
ROE	22.6	20.7	28.4	30.0	33.0
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	3,833	4,565	5,389
YoY Growth (%)	23.9	3.5	30.8	19.1	18.1
% of AAAUM					
Equity	42	44	48	49	49
Debt	26	18	18	17	17
Liquid	12	13	9	8	7
Others	20	24	26	27	28

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

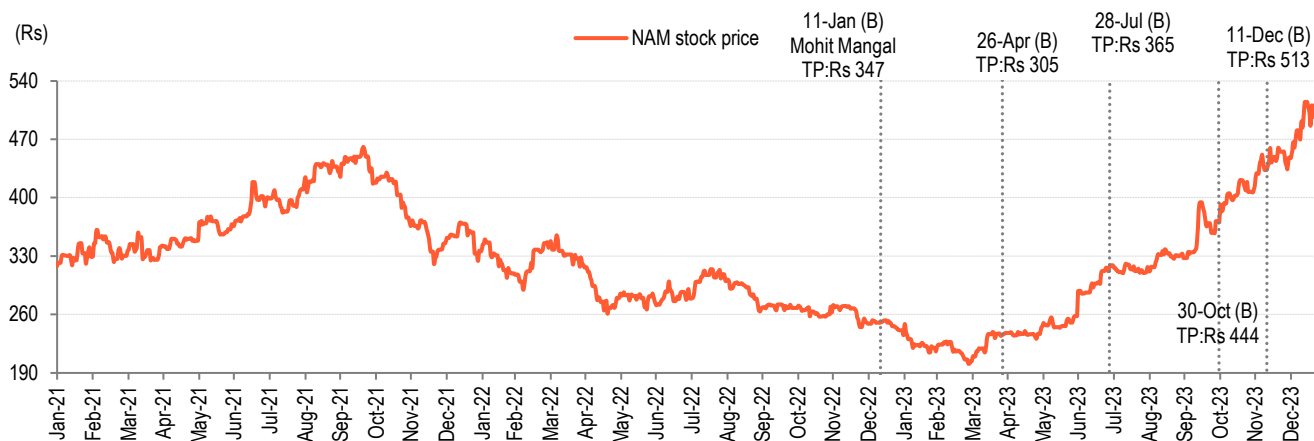
HOLD – Expected return from -6% to +15%

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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