

BUY

TP: Rs 305 | ▲ 30%

NIPPON LIFE INDIA AMC | NBFC

26 April 2023

MTM losses mar quarter

- **MTM loss on other income led to 7% sequential decline in Q4 total income and 10% drop in pre-tax profit**
- **Market rank improvement and top-quartile scheme performance remain key positives**
- **TP reduced to Rs 305 (vs. Rs 347) as we cut FY24/FY25 PAT by 5%/4% and now value the stock at 22x FY25E EPS (vs. 24x)**

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Dull quarter: Nippon AMC's total income declined 7% QoQ (+4% YoY) in Q4FY23 to Rs 3.9bn, coming in 11% below our estimate. This was primarily due to a 36% QoQ drop in other income owing to MTM losses on fixed income schemes. PBT fell 10% QoQ to Rs 2.4bn, missing our estimate by 15%. Owing to a lower effective tax rate, net profit declined by a lower 3.5% QoQ to ~Rs 2bn (flattish vs. our forecast). QAAUM grew 3.5% YoY to Rs 2.9tn (a 5% miss), with debt funds declining 27% and equity rising 9%. For FY23, net profit of Rs 7.2bn was in line with our expectations. We bake in the Q4 print by paring our AUM and net profit estimates by 4-5% each for FY24 and FY25.

Market share rank improves: Nippon AMC has moved up one spot to the #4 rank in MAAUM with 7.3% market share in FY23. Its equity MAAUM rank has also improved from #7 to #6 with 6.4% market share. The company indicated that it is pursuing further market share gains. Moreover, it is a leader in the ETF industry with 70%/61% volume/folio share on both exchanges (NSE, BSE) at end-Mar'23. ETFs within its QAAUM swelled from 6% (Rs 125bn) at end-FY17 to 23% (Rs 700bn) at end-FY23 backed by a comprehensive product suite.

Yields under pressure: The overall yield (calc.) was flattish YoY at 48bps as the share of equity in QAAUM increased from 42% in the year-ago quarter to 44%, offset by a decline in the share of debt from 26% to 18%. FY23 saw no NFOs (active side) though the company pointed to a pipeline of new offers for the near future.

Cut estimates; maintain BUY: The stock is currently trading at 17x FY25E EPS. Apart from paring our estimates, we also value the stock at a lower 22x FY25E EPS from 24x earlier to bake in industry headwinds. Our multiple is at a 20% discount to the long-term mean and translates to a revised TP of Rs 305 (vs. Rs 347), offering 30% upside. We maintain BUY given the company's growing market share, ETF leadership, strong scheme performance and steady equity AUM. Regulatory headwinds from potential TER revision along with lower net flows for the industry in FY23 could pose downside risks.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	NAM IN/Rs 235
Market cap	US\$ 1.8bn
Free float	12%
3M ADV	US\$ 1.4mn
52wk high/low	Rs 335/Rs 197
Promoter/FPI/DII	74%/6%/9%

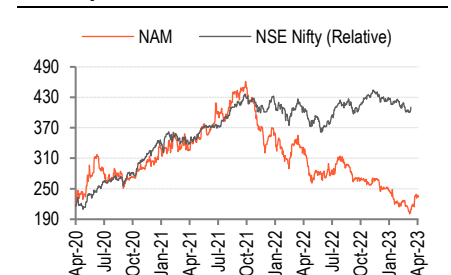
Source: NSE | Price as of 25 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Core PBT (Rs mn)	7,610	8,055	9,011
Core PBT (YoY)	0.2	5.8	11.9
Adj. net profit (Rs mn)	7,229	7,744	8,699
EPS (Rs)	11.5	12.4	13.9
Consensus EPS (Rs)	11.5	13.6	15.7
MCap/AAAUM (%)	5.0	4.6	4.1
ROAAAUM (bps)	24.7	24.1	24.2
ROE (%)	20.7	21.6	23.2
P/E (x)	20.4	19.0	16.9

Source: Company, Bloomberg, BOBCAPS Research

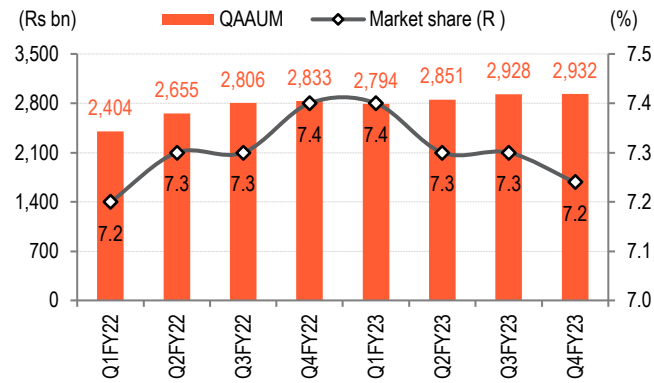
Stock performance



Source: NSE

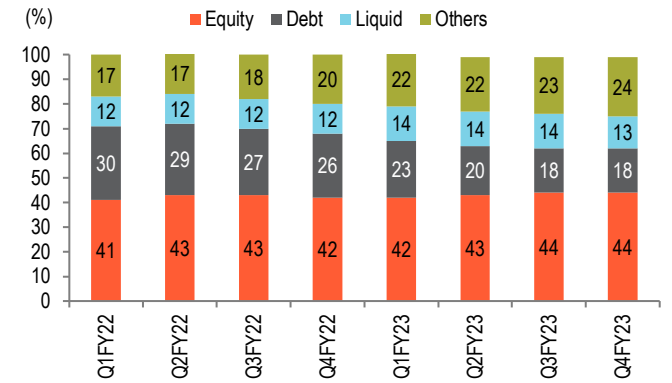


Fig 1 – Market share rangebound



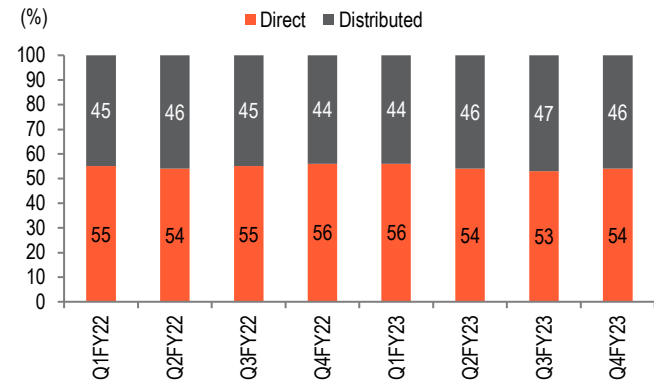
Source: Company, BOBCAPS Research

Fig 2 – Equity component at 44% at end-FY23



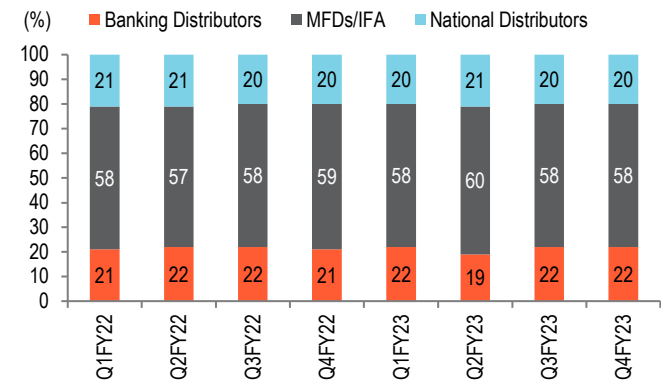
Source: Company, BOBCAPS Research

Fig 3 – Direct channel plays an important role in QAAUM distribution mix



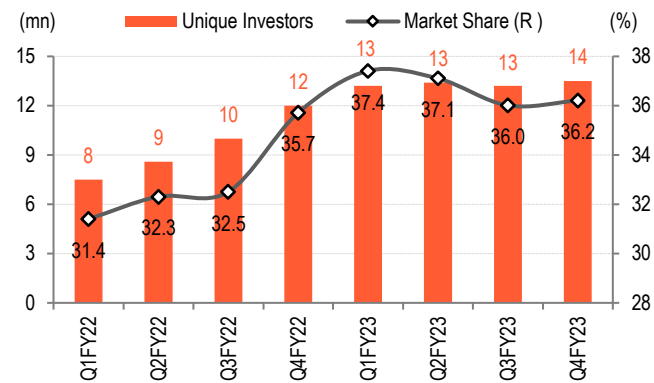
Source: Company, BOBCAPS Research

Fig 4 – Distributed assets largely dependent on mutual fund distributors (MFD)



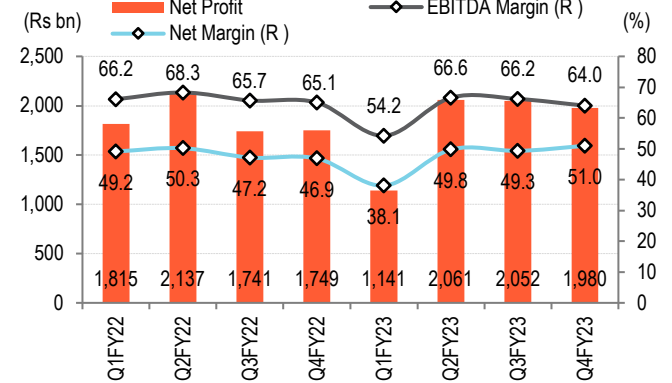
Source: Company, BOBCAPS Research

Fig 5 – Unique investors increasing and market share for the same inched up marginally in Q4



Source: Company, BOBCAPS Research

Fig 6 – Net profit declined sequentially in Q4



Source: Company, BOBCAPS Research

Fig 7 – P&L account – Consolidated

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue from Operations								
Asset Management Services	3,483	3,380	3.1	3,538	(1.5)	13,498	13,066	3.3
Other Income	397	345	15.1	619	(35.9)	1,668	2,290	(27.2)
Total Income	3,880	3,724	4.2	4,157	(6.7)	15,166	15,356	(1.2)
Expenses								
Fees and Commission Expenses	122	160	(23.6)	126	(3.3)	501	513	(2.4)
Employee Benefits Expenses	712	745	(4.5)	747	(4.7)	3,004	2,903	3.5
Other Expenses	562	396	41.9	533	5.4	2,047	1,743	17.4
Total Operating Expenses	1,395	1,301	7.3	1,405	(0.7)	5,551	5,159	7.6
EBITDA	2,485	2,424	2.5	2,752	(9.7)	9,615	10,197	(5.7)
Depreciation, Amortisation and Impairment	82	69	18.4	77	5.4	298	272	9.4
Finance Costs	12	11	4.5	11	7.4	40	38	3.9
Profit Before Tax	2,392	2,344	2.1	2,664	(10.2)	9,277	9,887	(6.2)
Tax Expense								
Current Tax	469	461	1.8	506	(7.2)	2,121	2,067	2.7
Deferred Tax Charge/(Credit)	(54)	135	(140.2)	110	(149.1)	(73)	386	(119.0)
Total Tax Expense	415	595	(30.3)	616	(32.7)	2,048	2,453	(16.5)
Profit After Tax	1,977	1,748	13.1	2,048	(3.5)	7,229	7,434	(2.7)

Source: Company, BOBCAPS Research

Fig 8 – AUM breakup

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
QAAUM (Rs bn)	2,932	2,833	3.5	2,928	0.1	2,932	2,833	3.5
- Equity-oriented	1,300	1,191	9.2	1,302	(0.2)	1,300	1,191	9.2
- Debt	540	732	(26.2)	532	1.5	540	732	(26.2)
- Liquid	390	352	10.8	411	(5.1)	390	352	10.8
- ETF	700	558	25.4	683	2.5	700	558	25.4
Unique Investors (mn)	13.5	12.0	12.5	13.2	2.3	13.5	12.0	12.5
Systematic Transactions - Quarterly Book (Rs bn)	32.2	21.3	51.2	29.1	10.7	NA	NA	NA
SIP AUM (Rs bn)	580	514	12.8	583	(0.5)	580	514	13

Source: Company, BOBCAPS Research

Fig 9 – Margin indicators

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
EBITDA margin (%)	64.0	65.1	(103bps)	66.2	(215bps)	63.4	66.4	(301bps)
Net margin (%)	51.0	46.9	408bps	49.3	168bps	47.7	48.4	(74bps)
Revenue yield (bps)	47.5	47.7	(20bps)	48.3	(81bps)	46	46	(1bps)

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

Earnings call highlights

Business highlights

- Nippon AMC's QAAUM grew 3.5% YoY (flat QoQ) to Rs 2.9tn in Q4FY23 with the share of equity assets constituting 44% of the total. B-30 AUM increased 16.4% YoY to Rs 556bn, forming 19% of the company's AUM vis-à-vis 17% for the industry. Individual AUM (retail + HNI) was at Rs 1.6tn, an increase of 17.7%, contributing 56% to AUM. Nippon AMC remains one of the largest ETF players in India with AUM of Rs 700bn and 14% market share.
- Under alternative funds, Nippon India AIF offers Category II and Category III Alternative Investment Funds and has a total commitment of over Rs 56bn across various schemes
- For Q4FY23, Nippon AMC's total income increased 4.2% YoY (-6.7% QoQ) to Rs 3.9bn. PAT grew 13% YoY (-3.5% QoQ) to Rs 1.98bn.
- For FY23, total income remained flattish YoY at Rs 15.2bn whereas PAT declined 3% to Rs 7.2bn.
- Dividend stood at Rs 11.5/sh for FY23 with a dividend payout ratio of ~100%.

Yields

- Yields declined from 44bps in FY22 to 42bps in FY23 due to (i) replacement of old assets by new ones, (ii) higher cost of acquisition of the newer assets, and (iii) an increase in fund size. However, the pace of this decline has come down due to lower churn amid a good equity performance and completion of a bulk of the asset replacement (only 30% of assets are under the old pricing).
- Management expects debt yields to rise because the net return to investors has gone up, which in turn gives the company the flexibility to charge extra.
- Nippon AMC earns equity yields in the high 70s to early 80s (bps), with debt yields at 23-30bps and liquid funds earning 15-20bps.
- Non-MF business can be broadly classified into (i) a government mandate where Rs 600bn of assets are managed but the yield is minimal, (ii) PMS and AIF (US\$ 800mn) where net retention is 100bps, (iii) offshore funds which total ~US\$ 1.8bn and earn 33-67bps depending on sub-advising or managing. For retail offshore business, the net realisation is in excess of 100bps.

Financials

- Employee costs declined 4.5% YoY and 4.7% QoQ in Q4 to Rs 712mn. The company intends to work on operational efficiency via digitalisation.
- Other income fell 36% QoQ to Rs 397mn primarily due to MTM losses as the company carries close to Rs 22bn of net worth in fixed income schemes.
- The effective tax rate was 17% in Q4 is due to the favourable tax treatment the company received on both fixed income and equity investments as they turned long term.

SIP

- Monthly systematic flows have increased 50% in FY23 to Rs 11bn.
- SIP AUM saw a sequential decline from Rs 583bn to Rs 580bn at end-Q4 only due to MTM losses.
- For the company, 15% of SIP folios have continued for over five years against an industry average of 11%.

Others

- Per management, mutual funds will remain a superior product owing to flexibility in redemption and back-ended taxation (levied only at the time of redemption).
- The company has had 90%+ dividend payout over the last two years (100% in FY23), at the upper end of its policy range of 60-100%.

Valuation methodology

The stock is currently trading at 17x FY25E EPS. We cut our AUM and net profit estimates by 5% each for FY24 and 4% each for FY25 to bake in the Q4FY23 results while trimming our target P/E multiple to 22x FY25E EPS from 24x given industry-wide regulatory headwinds. Our multiple is at a 20% discount to the stock's long-term mean and translates to a revised TP of Rs 305 (vs. Rs 347), offering 30% upside.

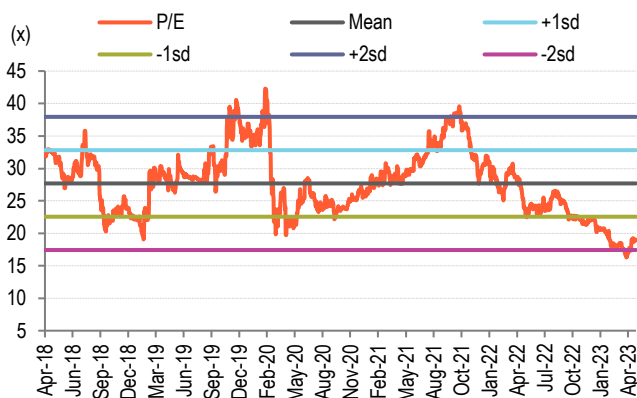
We maintain BUY given Nippon AMC's growing market share, ETF leadership, top-quartile scheme performance across the large-, mid- and small-cap equity space, and steady equity AUM. The company has moved up a spot to the #4 rank in MAAUM with 7.3% market share in FY23. Its equity MAAUM rank has also improved from #7 to #6 with 6.4% market share. Moreover, it is a leader in the ETF industry with 70%/61% volume/folio share on both exchanges at end-Mar'23 (see our [19Apr report](#) for details). Regulatory headwinds from potential TER revision along with lower net flows for the industry in FY23 could pose downside risks.

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	16,660	18,287	17,218	18,765	(3.2)	(2.5)
EBITDA	10,672	11,971	11,240	12,484	(5.1)	(4.1)
Profit After Tax (PAT)	7,744	8,699	8,177	9,091	(5.3)	(4.3)
AUM	3,212	3,588	3,398	3,749	(5.5)	(4.3)
EBITDA Margin (%)	64.1	65.5	65.3	66.5	(123bps)	(107bps)
Net Margin (%)	46.5	47.6	47.5	48.4	(101bps)	(87bps)

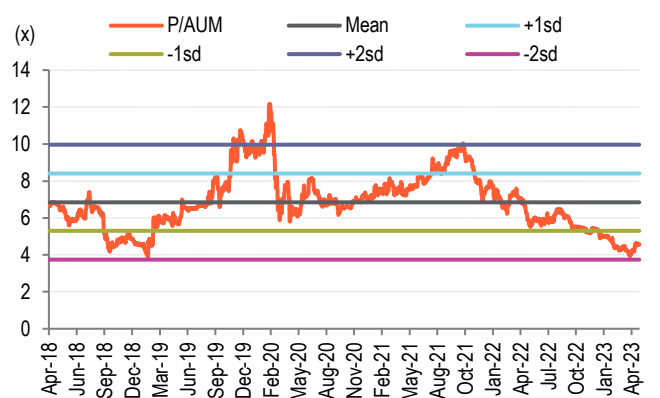
Source: Company, BOBCAPS Research

Fig 11 – 1Y fwd P/E band



Source: BOBCAPS Research

Fig 12 – 1Y fwd P/AUM band



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 Nippon AMC'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.
 - Should the regulator mandate a further decline in total expense ratio, yields could weaken even more.
 - SEBI in Apr'22 had barred fund houses from floating new schemes till the industry complied with its direction to discontinue mutual fund investments by distributors and brokers from their pool accounts.
- **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	1.2	339	488	HOLD
HDFC AMC	HDFCAMC IN	4.6	1,766	1,946	HOLD
Nippon Life India AMC	NAM IN	1.8	235	305	BUY
UTI AMC	UTIAM IN	1.0	663	983	BUY

Source: BOBCAPS Research, NSE | Price as of 25 Apr 2023

Glossary

Glossary	
AUM	Assets Under Management
B30	Beyond the Top 30 cities
ETF	Exchange Traded Funds
MAAUM	Monthly Average Assets Under Management
MF	Mutual Fund
MFD	Mutual Fund Distributor
NFO	New Fund Offer
QAAUM	Quarterly Average Assets Under Management
SIP	Systematic Investment Plan
T30	Top 30 cities
TER	Total Expense Ratio

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Investment mgmt. fees	10,621	13,066	13,498	14,390	15,699
YoY (%)	(11.7)	23.0	3.3	6.6	9.1
Operating expenses	5,046	5,159	5,551	5,988	6,316
Core operating profits	5,575	7,907	7,947	8,402	9,383
Core operating profits growth (%)	(8.4)	41.8	0.5	5.7	11.7
Depreciation and Interest	377	310	338	347	372
Core PBT	5,198	7,597	7,610	8,055	9,011
Core PBT growth (%)	(8.7)	46.1	0.2	5.8	11.9
Other income	3,572	2,290	1,668	2,270	2,588
PBT	8,770	9,887	9,277	10,325	11,599
PBT growth (%)	56.7	12.7	(6.2)	11.3	12.3
Tax	1,976	2,453	2,048	2,581	2,900
Tax rate (%)	22.5	24.8	22.1	25.0	25.0
Reported PAT	6,794	7,434	7,229	7,744	8,699

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Equity capital	6,170	6,228	6,234	6,220	6,220
Reserves & surplus	24,838	28,558	28,922	30,471	32,211
Net worth	31,009	34,786	35,156	36,691	38,431
Borrowings	0	0	0	0	0
Other liab. & provisions	2,914	3,179	3,453	3,315	3,472
Total liab. & equities	33,922	37,965	38,609	40,006	41,903
Cash & bank balance	29,106	32,801	32,959	35,012	37,146
Fixed & Other assets	4,457	4,784	5,444	4,994	4,757
Total assets	33,922	37,965	38,609	40,006	41,903

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
EPS	10.9	11.8	11.5	12.4	13.9
Dividend per share	8.0	11.0	11.5	9.9	11.2
Book value per share	49.7	55.2	56.1	58.5	61.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
P/E	21.6	19.9	20.4	19.0	16.9
P/BV	4.7	4.3	4.2	4.0	3.8
Dividend yield (%)	3.4	4.7	4.9	4.2	4.8

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23P	FY24E	FY25E
Operating income	46.5	46.1	46.0	44.8	43.8
Operating expenses	22.1	18.2	18.9	18.6	17.6
EBITDA	40.0	36.0	32.8	33.2	33.4
Depreciation and Others	1.6	1.1	1.2	1.1	1.0
Core PBT	22.7	26.8	26.0	25.1	25.1
Other income	15.6	8.1	5.7	7.1	7.2
PBT	38.4	34.9	31.6	32.1	32.3
Tax	8.6	8.7	7.0	8.0	8.1
ROAAAUM	29.7	26.2	24.7	24.1	24.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Investment mgmt. fees	(11.7)	23.0	3.3	6.6	9.1
Core operating profit	(8.4)	41.8	0.5	5.7	11.7
EPS	62.9	8.3	(2.3)	7.1	12.3
Profitability & Return ratios (%)					
Operating income to Total inc.	74.8	85.1	89.0	86.4	85.8
Cost to Core income ratio	47.5	39.5	41.1	41.6	40.2
EBITDA margin	64.4	66.4	63.4	64.1	65.5
Core PBT margin	36.6	49.5	50.2	48.3	49.3
PBT margin (on total inc.)	61.8	64.4	61.2	62.0	63.4
ROE	23.9	22.6	20.7	21.6	23.2
Dividend payout ratio	73.4	93.2	99.7	80.0	80.0

Annual Average AUM

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
AAAUM (Rs bn)	2,286	2,832	2,932	3,212	3,588
YoY Growth (%)	11.6	23.9	3.5	9.5	11.7
% of AAAUM					
Equity	41	42	44	45	45
Debt	31	26	18	15	14
Liquid	12	12	13	13	13
Others	16	20	24	27	28

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

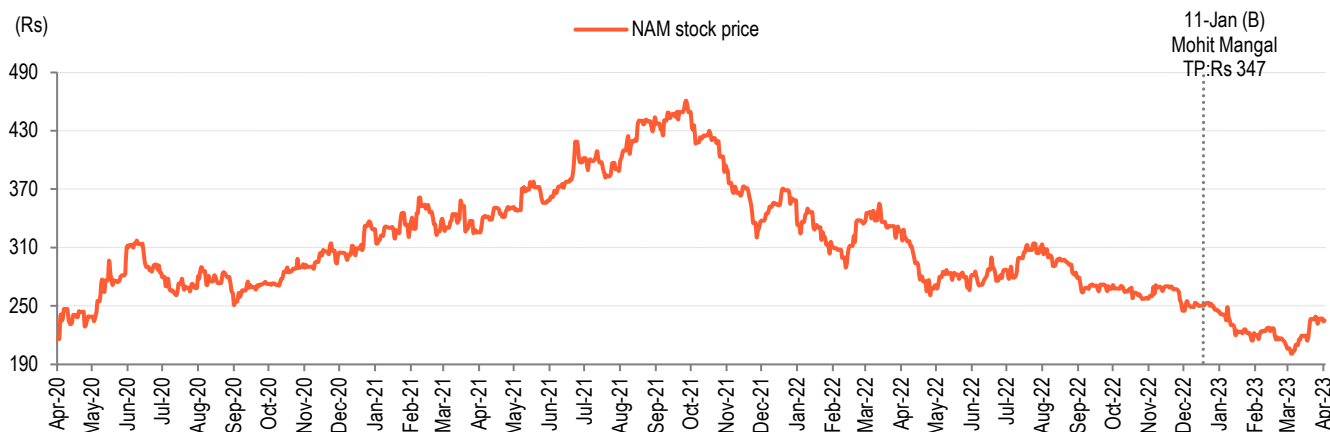
HOLD – Expected return from -6% to +15%

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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