Nippon Life India Asset Management Ltd.

27th July 2022

Too much pessimism priced-in

Nippon Life India AMC (NAM) is the 6th largest Asset Management Company in India and the 2nd largest non-bank AMC with mutual fund Asset Under Management (AUM) of Rs. 2.83 Trn (as of 31st Mar'22), commanding a market share of 7.4%. It also manages PMS/AIF/offshore advisory mandates, representing 20% of its total AUM but contributing ~11% to its topline. The Company follows the 'Investor First' philosophy and launches schemes to cater to investors' varied and diverse needs. Currently, the Company is focused on growing its retail franchise and remaining a relevant player in the ETF space. We initiate coverage on Nippon Life India Asset Management with a BUY rating and a target price of Rs. 411

Strong retail franchise in favourable in AUM mix

The share of retail investors in the AUM mix of NAM has increased from 13.6% in FY14 to 27.5% in FY22. A similar number for the industry is 23.3%. Retail investors tend to be more inclined toward equity products and are more sticky than other investor classes. A rising share of retail investors bodes well for AMC's AUM yield. NAM has a higher market share in the retail segment at 8.7% vs. 7.4% overall market share.

Recent equity fund performance showing encouraging sign

NAM has shown smart recovery in scheme performance. They have managed to improve their ranking from 20/30+ rank in 3 & 5-year performance to amongst the top performers in that category in last one year. Generally, improvement in scheme performance is followed by market share gain.

NAM continues to be a relevant player in ETF space

The company has one of the industry's most extensive suites of passive products, with 25-30 ETF schemes and 6 Index Funds. NAM has almost 58% of the industry's folio market share in the passive category. NAM's ETF schemes contribute ~68% of exchange ETF volumes. NAM has a 13.5% market share of overall ETF AUM.

Strong parentage

Nippon Life India Asset management has a sturdy parentage, given they have a global presence in the insurance and asset management business. The life insurance business is complementary to the asset management business as besides having underwriting skills, you need a good asset manager to make the insurance business profitable. Nippon Life group has rich experience in asset management and risk management.

View & Valuation

We initiate coverage on Nippon Life India Asset Management with a BUY rating and a target of Rs. 411 (28x FY23 earnings). Since erstwhile promoter Reliance Capital defaulted, the company's growth has underperformed the industry, but with the enhancement in market share in the last few quarters and a massive improvement in scheme performance, we expect NAM to grow at least in line with the industry going ahead. Given that NAM is trading at – 1 standard deviation of its trailing PE, chances of Re-rating are High, and the downside from current levels seems limited.

BUY

CMP Rs. 285

TARGET Rs. 411 (+44.2%)

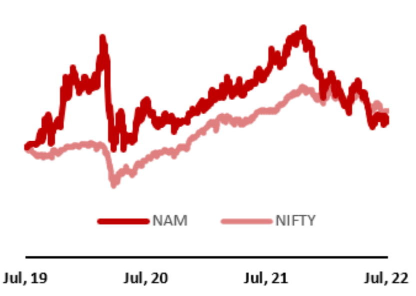
Company Data

MCAP (Rs. Mn)	1,77,049
O/S Shares (Mn)	623
52w High/Low	477 / 259
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	173.6

Shareholding Pattern %

	Mar 22	Dec 21	Sep 21
Promoters	73.8	73.8	74.0
FIIs	6.7	7.2	6.6
DIIs	8.8	8.4	8.8
Non-Institutional	10.7	10.7	10.6

NAM vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY22	FY23E	FY24E
Revenue	13,066	14,816	16,765
EBITDA	7,902	9,046	10,357
Net Profit	7,434	9,122	10,196
Total Assets	37,965	39,200	40,336
ROCE (%)	24%	26%	28%
ROE (%)	23%	26%	28%

Source: Company, Keynote Capitals Ltd.

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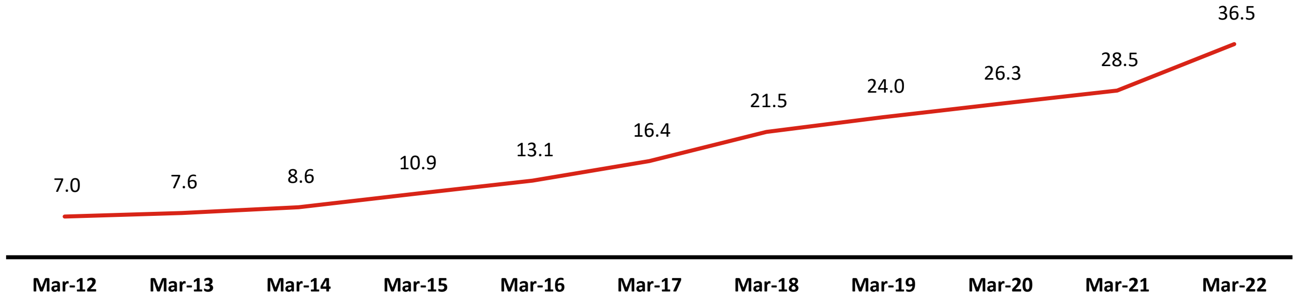
Industry Overview

In 1963, the Indian mutual fund industry commenced operations with the formation of the Unit trust of India ("UTI") by an Act of Parliament. UTI remained the only player in the mutual fund industry for over twenty-five years, and its AUM increased from Rs. 250 million in 1965 to Rs. 67 Bn in 1988. In 1993, the mutual fund industry was opened for private players. Many Banks and foreign mutual fund houses participated in the industry. By the end of February 2003, there were 33 AMCs with total assets of Rs. 1.22 Trn. Since then, the industry has grown at a CAGR of 19.6% (Upto March 2022). Over the last decade, the mutual fund industry has maintained its growth rate and has increased at an 18.0% CAGR from Rs. 7 Trn in FY12 to Rs. 36.5 Trn in FY22.

Mutual Fund Industry's AUM (Rs Trn) has grown at 18.0% CAGR

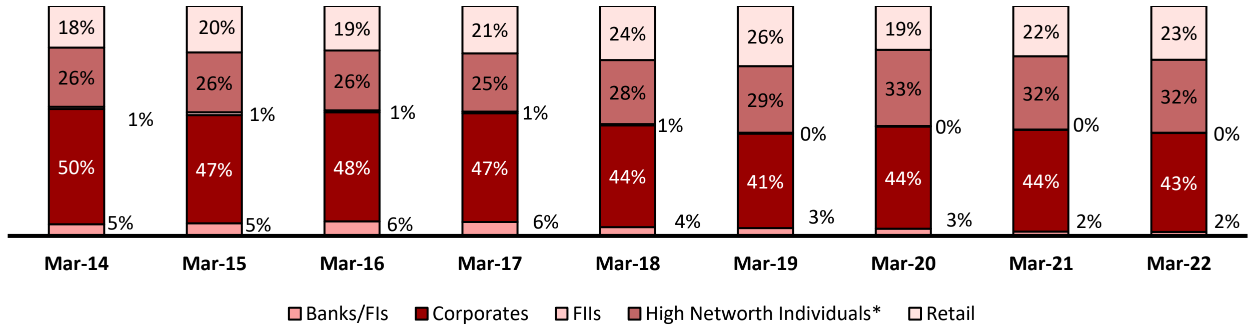


Source: AMFI, Keynote Capitals Ltd.

Retail Investors are contributing to the growth…

The industry's investor base can be broadly categorized as Retail, High Net worth Individuals (HNI), and Institutional Investors. Participation from retail investors increased from 18.1% in Mar 2014 to 23.3% in Mar 2022. Retail and institutional investors tend to have a higher contribution towards equity.

Retail Investors contribution to Industry AUM rising consistently

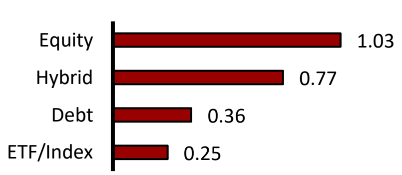


Source: AMFI, Keynote Capitals Ltd.

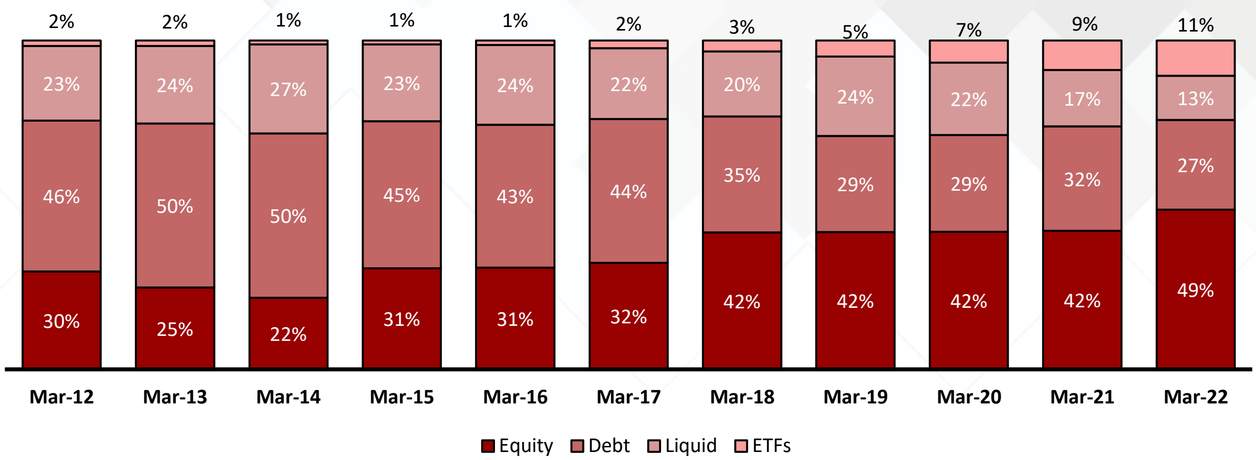
Increasing equity mix bodes well for AMCs…

Equity AUM as the proportion of total industry AUM rose from 29.8% in March 2012 to 48.6% in Mar 2022, which can be attributed to increasing awareness, financialization of savings, rise in SIPs, etc. Even increasing contribution from retail investors (who have a high inclination towards equities) has contributed to a surge in equity AUM in the overall mix. Increasing equity mix bodes well for the AMCs since they get better yield compared to debt/liquid/passive products.

Top 15 AMCs category wise average yields (%)



Source: Valueresearch, Keynote Capitals Ltd.

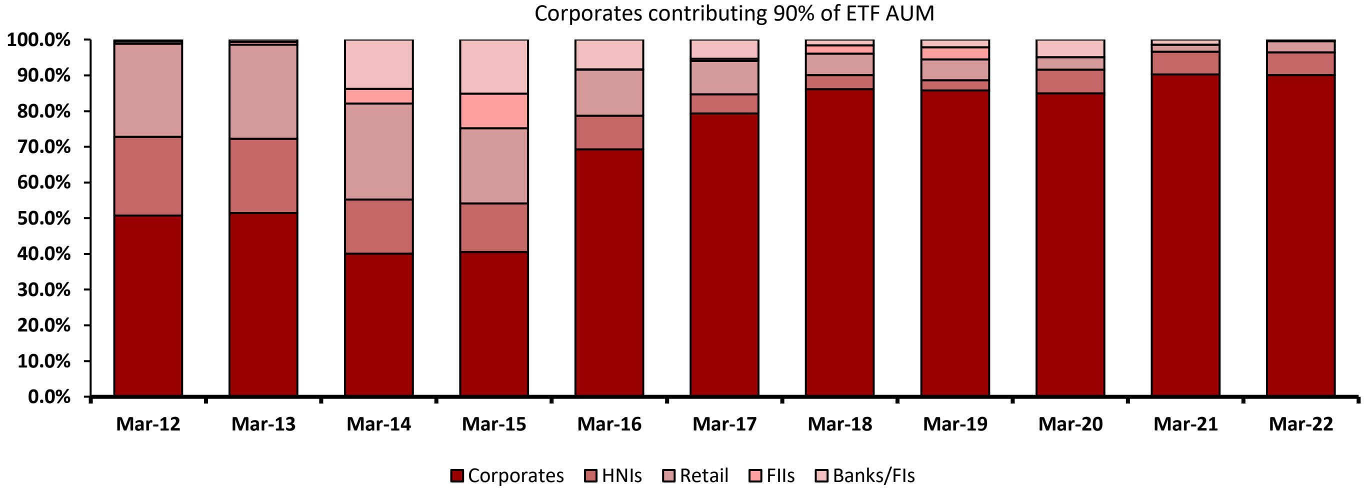


Notes: Equity includes equity funds, ELSS, index funds, solution-oriented funds, and balanced funds. Debt funds include gilt, income, conservative hybrid, floater funds, and FoFs investing overseas. ETF includes gold ETFs and other ETFs. Liquid/ money market includes liquid funds, overnight funds, and money market funds.

Source: Aditya Birla RHP, Keynote Capitals Ltd.

EPFO contributing to the growth of passive products…

With rising awareness and preference for passive funds, the contribution of ETFs has also increased tremendously from 1.7% in March 2012 to 10.8% in Mar 2022. Since Mar 2012, ETFs have posted the highest growth, with assets swelling at 43.7% CAGR (on a low base). Institutional investors such as Employee's Provident Fund Organization (EPFO) began investing a portfolio (currently 15%) of their fresh accretion/incremental deposits into equities via passively managed funds. Of the ETF AUM, the majority is contributed by corporates (~90% as of Mar 2022), whereas retail & HNI combined contribute ~10% of the AUM (Mar 2022).



Source: AMFI, Keynote Capitals Ltd.

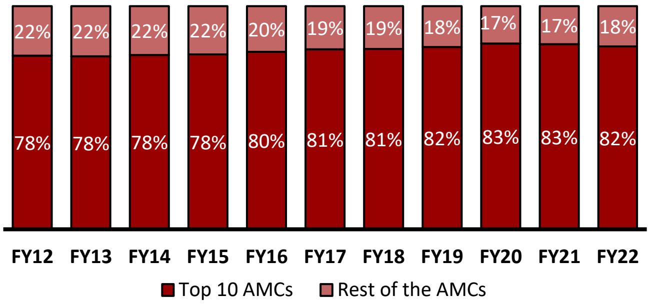
SBI and UTI are the major AMCs in passive funds, driven by high ticket mandates from public sector funds to manage investments in passive funds.

In the previous year, ETF AUM from retail has grown 2.4x owing to discounts provided via government disinvestment schemes (CPSE ETF and Bharat 22), aimed at increasing retail investor participation.

The expense ratio of passive ETFs and index funds is lower than actively managed funds, and increasing the contribution of passive products in the overall AUM mix can dent yields for AMCs. Though passive AUM may grow at a faster pace compared to other categories, the revenue contribution of passive products in AMC's overall revenue mix will remain the same.

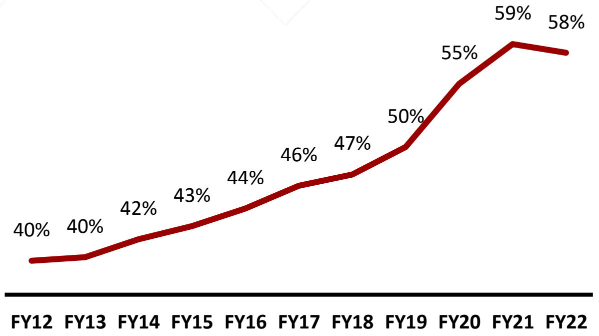
The Indian mutual fund industry has 45 AMCs comprising bank-sponsored and private AMCs. Despite this, the industry continues to remain consolidated, with the top 10 AMCs accounting for more than 80% of industry AUM. Bank-sponsored AMCs continue to gain market share on the back of the better distribution network of their parent.

Top 10 AMCs contribution remains intact



Source: AMFI, Keynote Capitals Ltd.

Bank-sponsored AMCs gaining market share



Source: AMFI, Keynote Capitals Ltd.

Top 10 AMCs' growth (18.6%) has been in line with the industry (18.0%) in the last ten years.

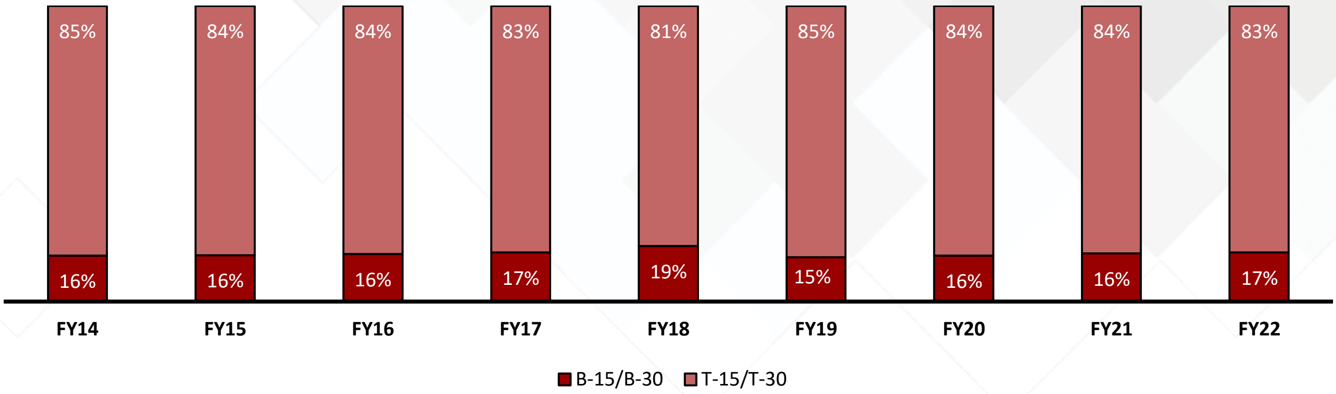
Bank-sponsored AMCs have grown at a much faster pace of 22.4% since Mar-2012, increasing their market share from 40% in FY12 to 58% in FY22.

B-30 cities to be the next growth driver for AMCs, and bank-sponsored AMCs have the upper hand…

Historically, AUM has been concentrated in the Top 30 (T-30) cities due to the presence of institutional investors, and they have a high concentration of assets in non-equity schemes. The T-30 cities hold the majority of mutual fund assets with a share of 83.4%, whereas Beyond 30 (B-30), cities held 16.6% of assets as of 31st March 2022. AUM from B-30 has a higher equity asset composition than T-30 cities. Further, B-30 cities are gaining significance in the industry AUM mix as the SEBI provides impetus to mutual fund penetration in B-30 cities by allowing additional Total Expense Ratio (TER). Most investors from B-30 tend to be individual investors with high exposure to equity via SIPs.

Given the higher concentration of retail investors in equity products, increased B-30 market penetration should further increase the overall proportion of equity AUM in the aggregate industry AUMs. AMCs with a higher share in B-30 cities are less susceptible to overall margin pressure than their T-30-focused peers.
Gaining market share in B-30 cities is more manageable for those AMCs with better brand recall among retail investors. Banks tend to have the upper hand over non-bank-sponsored AMCs.

Industry AUM breakup between T-15/T-30 and B-15/B-30 cities



Source: Nippon AMC Investor Presentation and Keynote Capitals Ltd.
Data for FY14 - FY18 is for T-15/B-15 cities and from FY19 onwards is for T-30/B-30 cities

SIPs bringing sustainability to inflows

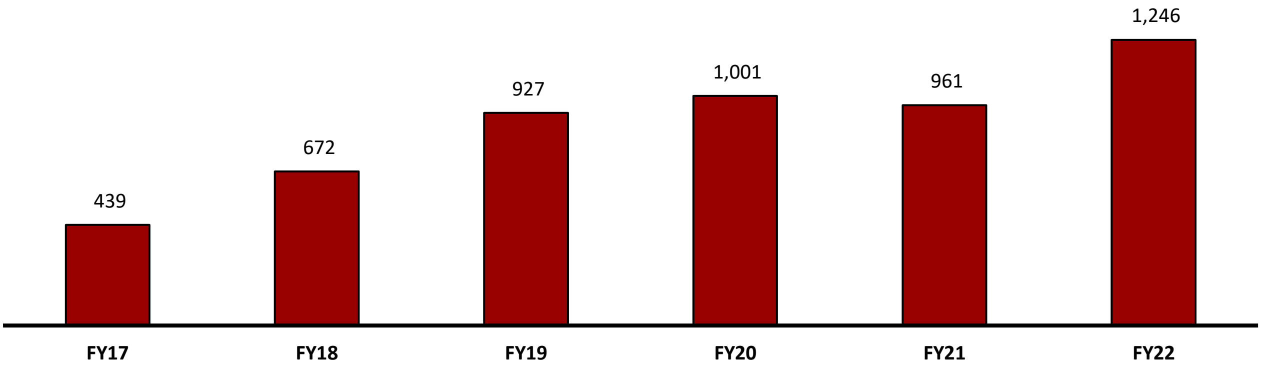
SIPs have helped further helped to increase retail investors participation in the mutual fund space. A significant benefit of SIP is avoidance of behavioral weakness during uncertain periods as it helps in Rupee Cost Averaging and invest in a disciplined manner without worrying about market's volatility and timing the market. It is one of the strong pillars of the industry and provides long-term sustainable inflows. It also inculcates a 'savings habit' among investors and ensures a steady, disciplined approach to investing rather than ad-hoc. SIPs have increased accessibility to lower-income households.

SIPs are far more profitable due to inflows' stability and have a high inclination towards equities.

Mutual Fund SIP's annual contribution has increased by 2.8x from Rs. 439 Bn in FY17 to Rs. 1.25 Trn in FY22.

The popularity of equity funds, rising participation of investors, recent investor education initiatives, and apparent benefits of SIPs to households that traditionally did not invest in mutual funds indicate that growth in inflows from SIPs will accelerate over the foreseeable future. This would make SIPs an increasingly important component in overall AUM growth.

Mutual Fund SIP's annual contribution (Rs. Bn)



Source: AMFI, Keynote Capitals Ltd.

Direct channel sourcing is gaining prominence…

Direct channel's contribution of MF assets stood at 45.6% as of March 2022. Most of the debt AUM is invested via a direct channel as it is the preferred route by institutional investors. Digitalization and increased adoption of fintech apps like Zerodha coin, Paytm money, etc., which has made investing in direct mutual funds an easy process, and increased awareness between regular and direct plans led to the rise in direct mutual funds. As more and more investors prefer to Do it Yourself (DIY) compared to advisory professionals, we believe, this new set of DIY investors will unduly give more weight to past returns, known brands, and the Total Expense Ratio (TER) of the fund. The probability of them abandoning will be very high during a short period of underperformance as no professional guides them through their investment journey. Given the pickup in DIY trend, AMCs will have to educate investors during extreme volatility. Hence, AMCs in the future, managing to do that efficiently might lead in retail participation.

Distribution Mix %	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Through Direct Plan	35.0%	33.9%	38.4%	42.0%	40.7%	41.1%	45.4%	45.4%	45.6%
Through Non-Associate Distributors	59.3%	58.6%	55.6%	51.0%	51.2%	50.8%	46.8%	47.3%	47.2%
Through Associate Distributors	5.7%	7.6%	6.0%	7.0%	8.1%	8.2%	7.8%	7.3%	7.2%

Source: AMFI, Keynote Capitals Ltd.

Over the last decade, there has been a gradual increase in net financial savings, and its share in the overall household savings in India has stabilized with an upward bias. Also, the share of mutual fund assets in gross financial household assets in India rose in the last few years.

Although India’s mutual fund penetration (AUM to GDP) rose to 12.1%, it is still much lower than the world average of 63%. It is also lower than many developed economies such as the United States (120%), Canada (81%), France (80%), and the UK (67%), and emerging economies such as Brazil (68%) and South Africa (48%).

As India advances, favorable demographic, formalization of the economy, growing financial inclusion, higher disposable income, and investable surplus, increasing financial savings, higher investor awareness, investor-friendly regulations, a wide range of transparent and investor-friendly products, ease of investing, tax incentives, expanding distribution coverage, digitalization, and perception of mutual funds as long-term wealth creators, are expected to be key drivers for the growth of the Mutual Fund industry.

Competition Intensifying

SEBI's recent relaxation of the AMC license issuance norm has paved the way for many new AMCs applying for licenses. The new norms have eliminated profitability as a criterion as long as companies obtain new licenses and maintain Rs. 1 Bn in capital until they become profitable in five years.

Many new fintech companies like Zerodha, Phonepe, etc., have also applied for the license. We expect their offering to be more focused towards passive or rule-based offerings.

Company	Application Date	Process Stage
Frontline Capital Services	03-Aug-17	In-principal approval granted
Samco Securities	07-Jun-18	Launched MF
Zerodha	05-Feb-20	In-principal approval granted
Bajaj Finserv	28-Sep-20	In-principal approval granted
Wizemarkets analytics	29-Dec-20	Under Process
Unifi Capital	31-Dec-20	Under Process
Alchemy Capital	01-Jan-21	Under Process
Helios Capital	25-Feb-21	Under Process
Old Bridge Capital	15-Jul-21	Under Process
Angel One Limited	28-Sep-21	Under Process
Phonepe Pvt Ltd	31-Dec-21	Under Process

Source: SEBI, Keynote Capitals Ltd.

AMC's revenue yield under pressure

Most of the listed AMCs have stated pressure on their revenue yields in the last one year owing to multiple reasons:

- Due to the inverted pricing structure, a rise in AUM leads to lower TER
- Rising competition among AMCs getting into AUM gathering rather than focusing on profitable growth has resulted in pricing indiscipline. Many new NFOs are being priced at higher commissions, and AMCs are getting lower yields. For example, in May 2021, Aditya Birla launched its Multi Cap fund (Aditya Birla Multi Cap Fund) with a total expense ratio of 2.12% for the regular scheme and 0.19% for the direct scheme. They are paying 1.93% commission to distributors against ~1% being the industry trend.
- Old assets with higher yields are getting replaced by newer assets with lower yield.
- Passive funds are the fastest growing category that carries the lowest yields for the AMCs.

Hence, yields for AMCs are likely to remain under pressure for the foreseeable future.

Compression in Yield from Apr'2020 to May 2022

AMC	Large Cap Fund	Mid Cap Fund	Small Cap Fund	ELSS
Aditya Birla AMC	-2 Bps	- 6 Bps	2 Bps	3 Bps
HDFC AMC	- 8 Bps	- 24 Bps	-5 Bps	- 14 Bps
ICICI Pru AMC	- 17 Bps	- 16 Bps	2 Bps	- 23 Bps
Nippon Life India AMC	+ 3 Bps	- 48 Bps	-16 Bps	- 44 Bps
SBI AMC	- 8 Bps	- 18 Bps	- 16 Bps	- 12 Bps
UTI AMC	- 11 Bps	- 33 Bps	-	- 27 Bps

Source: Ace MF, Keynote Capitals Ltd.

Major regulatory changes in the industry

Capping on Total Expense Ratio (TER) from 1st April 2019

From 1st Apr'19, TER has been capped based on fund size. Revised Total Expense Ratio for open-ended schemes:

AUM Slabs (Rs. Bn)	TER for equity-oriented schemes	TER for other schemes (excl. Index, ETFs, and Fund of Funds)
0-5	2.25%	2.00%
5-7.5	2.00%	1.75%
7.5-20	1.75%	1.50%
20-50	1.60%	1.35%
50-100	1.50%	1.25%
100-500	TER reduction of 0.05% for every increase in AUM by Rs. 50 Bn or part thereof	TER reduction of 0.05% for every increase in AUM by Rs. 50 Bn or part thereof
> 500	1.05%	0.80%

Source: SEBI, Keynote Capitals Ltd.

Prior Total Expense Ratio:

AUM Slabs (Rs. Bn)	TER for equity-oriented schemes	TER for other schemes (excl. Index, ETFs, and Fund of Funds)
0-1	2.50%	2.25%
1-4	2.25%	2.00%
4-7	2.00%	1.75%
> 7	1.75%	1.50%

Source: SEBI, Keynote Capitals Ltd.

Reclassification of Mutual Fund Schemes

SEBI classified all open-ended schemes under five groups:

a. Equity
b. Debt
c. Hybrid
d. Solution Oriented; and
e. Others (Index, ETFs, FoFs)

For equity funds, ten categories are specified (based on market cap orientation and investment style), 16 for debt funds (by portfolio duration, type of securities, and credit risk), 6 for hybrid funds (by asset mix), and two each for solution-oriented and other fund groups. Only one scheme per category is permitted. However, Index funds, ETFs, FoFs, and sectoral or thematic funds were exempted from the one product per category limit. So each AMC can have a maximum of 34 schemes apart from passive, sectoral, and thematic funds.

Discontinuation of upfront commission to distributors

SEBI banned upfront commission in mutual funds to stop the practice of unnecessary churning in mutual fund portfolio, especially in B-30 cities. The upfront commission is a one-time payment that an AMC pays a distributor on selling a mutual fund scheme to an investor. Trail commission, on the other hand, is a recurring fee paid to a distributor until the investment is withdrawn. Trailing commission is calculated on a yearly basis and settled every month.

Additional TER of upto 30 Bps for penetration in B-30 cities

SEBI permitted additional TER up to 30 bps on daily net assets of the scheme based on inflows from B-30 cities subject to certain minimum inflows. Please note that this additional TER can be charged based on inflows from retail investors from B-30 cities. Thus, inflows from corporates and institutions from B-30 cities would not attract the additional 30 bps TER.

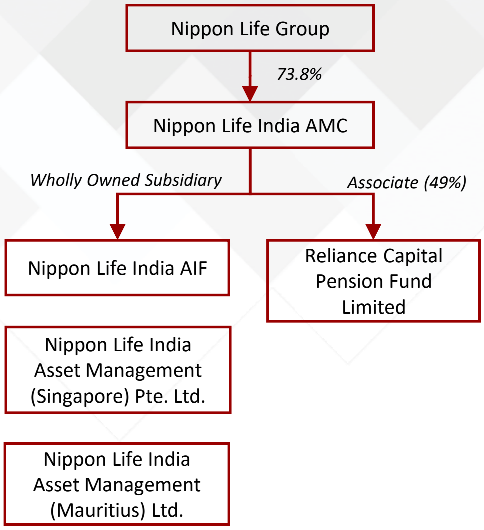
Improving penetration beyond the top cities requires establishing more branch networks and empanel distributors. Prior to this, AUM growth in B-30 cities does not compensate for additional operational costs. With additional TER, the market regulator tried to incentive the same.

Scheme related expenses will not be charged on AMC books

All the scheme-related expenses which were borne by AMCs out of their pocket earlier have to be shifted to the scheme now. Hence, the difference in TER of the regular and direct plans will be the commission paid to distributors.

Company Background

Nippon Life India Asset Management (NAM) is a subsidiary of Nippon Life Insurance Company (NLI) which currently holds 73.8% of its outstanding shares. NLI, a fortune 500 Company, is one of the largest life insurers in the world, managing assets of over USD 700 Bn. NLI has an extensive global network with a presence across the US, Europe, Asia, and Australia, a 130-year track record in the Life Insurance business, and global investments across Asset Management companies.



Nippon Life India AMC is the 6th largest AMC in India and the 2nd largest non-bank AMC with mutual fund Asset Under Management of Rs. 2.83 Trn (as of 31st Mar'22), commanding a market share of 7.4%.

The company is primarily involved in managing:

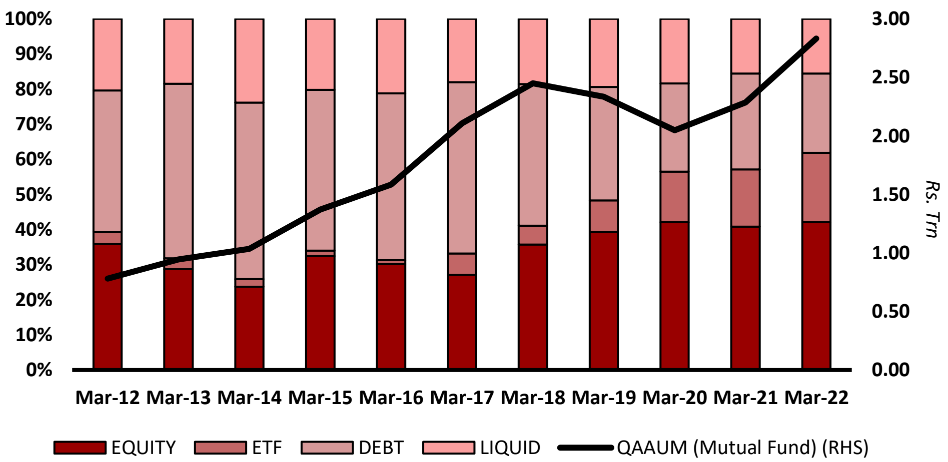
1. Mutual Fund, including exchange-traded funds (ETFs)
2. Managed accounts, which include Portfolio Management Services (PMS), Alternate Investment Funds (AIFs), and Pension funds
3. Offshore funds and advisory mandates

Mutual Fund business (80% of overall AUM)

Nippon Life India Mutual Fund manages 122 schemes and has a Quarterly Average AUM of Rs. 2.83 Trn as on 31st March 2022. In the last decade, its AUM has grown at a CAGR of 9.2%

AUM mix for the company is summarized below:

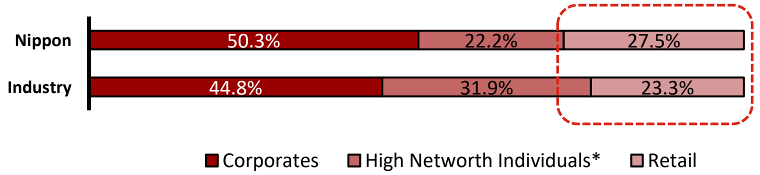
NAM's Mutual Fund AUM and AUM mix



Equity mix has increased from 35.9% (Mar-12) to 42.1% (Mar-22).

ETF mix has increased from 3.4% (Mar-12) to 19.7% (Mar-22)

NAM Vs Industry AUM breakup by Investor type



Retail investors contribute 27.5% to the AUM compared to 23.3% for the industry

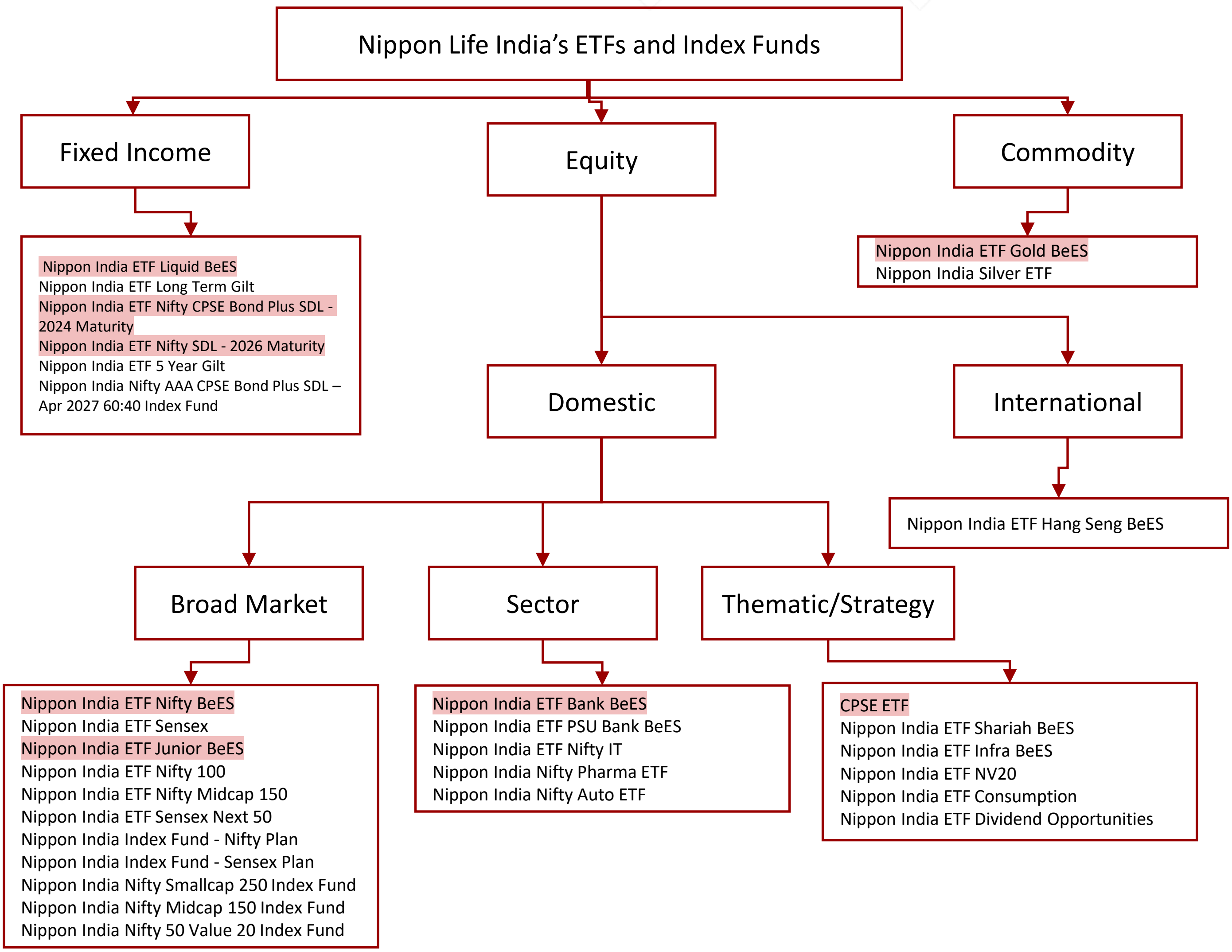
Notes: Equity includes equity funds, ELSS, index funds, solution-oriented funds, and balanced funds. Debt funds include gilt, income, conservative hybrid, floater funds, and FoFs investing overseas. ETF includes gold ETFs and other ETFs. Liquid/ money market includes liquid funds, overnight funds, and money market funds.

Source: AMFI, Keynote Capitals Ltd.

NAM remains among the leaders in the 'Beyond Top 30 cities' segment or B-30 locations. B-30 locations have a higher share of equity assets. This segment contributed an AUM of Rs. 478 Bn, of which 76% were equity assets. 17% of its total assets are sourced from B-30 cities, higher than the industry average.

NAM has a dominant market share (14%) of the ETF market with assets of Rs. 557 Bn as of 31st March 2022. The company has a product basket of 25-30 ETF schemes and 6 Index Funds. NAM's ETF schemes contribute ~68% of the ETF exchange volumes. When choosing an ETF, the liquidity of an ETF plays a pivot role in deciding the ETF since the impact cost of acquisition is reduced substantially. NAM is comfortably placed in ETF space.

Nippon Life India Passive Product Basket



Highlighted ETFs have AUM greater than Rs. 10 Bn

Source: NAM Investor Presentation, Keynote Capitals Ltd.

Managed Accounts (17% of overall AUM)

In addition to MFs, AMC also offers Portfolio Management Services (PMS), Alternative Investment Funds (AIF), and offshore management/advisory services to investors as alternate investments. These services usually generate higher yields and create additional revenue opportunity for the company.

Alternate Investment Funds:

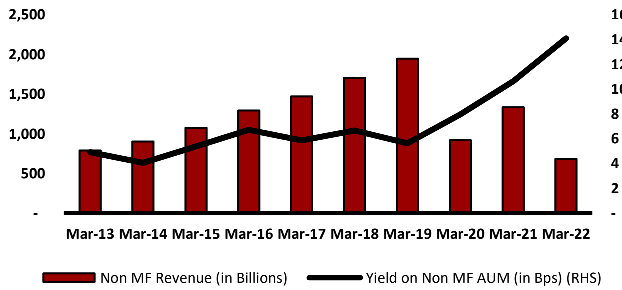
NAM manages 16 Alternative Investment Funds (AIFs) schemes across Category II and Category III via its subsidiary, Nippon Life India AIF Management Limited (NIAIF). NIAIF offers various strategies under Listed Equity, High Yield Real Estate Debt, Credit, and Tech / VC FoF, which are privately pooled investment vehicles registered with SEBI.

The total commitments raised across all schemes is Rs. 4.4 Bn as of March 31, 2022.

Portfolio Management Service (PMS):

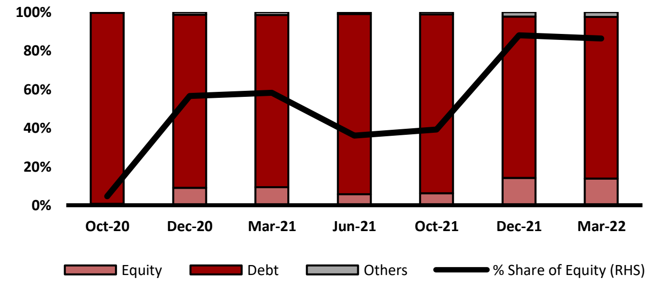
NAM offers four equity strategies to its investors. As of March 31, 2022, the Company's total AUM is Rs. 550 Bn. The company also manages two prestigious government mandates, i.e., Postal Life Insurance and Rural Postal Life Insurance.

Non Mutual Fund business has been erratic in last few years and company has high Debt AUM resulting in low yields



Source: Keynote Capitals Ltd.

PMS AUM mix and rising share of Equity contributing to increase in yields



Source: SEBI, Keynote Capitals Ltd.

Generally, for AMCs, PMS and AIF products are yield accretive as they earn a much higher yield than mutual funds. But as per SEBI monthly disclosure, ~85% of PMS AUM of Nippon Life India AMC is in the non-Discretionary debt segment. Hence, AMC is not getting much benefit from a higher yield in PMS products. They are currently earning a yield of ~10-15 bps from PMS products. But the share of equity mix in PMS has been rising, which has increased from 0.7% in Oct 2020 to 13.8% in Mar-22, which has contributed to a steady increase in yields from 8 bps in Mar-2020 to 14 bps in Mar 2022.

Offshore funds and advisory mandates (2.5% of overall AUM)

The Company manages offshore funds & distribution through its subsidiaries in Singapore and Mauritius and has a representative office in Dubai. The overseas subsidiaries help to cater to institutional and HNIs across Asia, Australia, the Middle East, the UK, the US, and Europe.

As of March 31, 2022, the company had a total AUM of Rs. 87.6 Bn as part of its international offshore managed portfolio. The Company also acts as an Investment Advisor for India-focused equity and fixed income funds in Japan and a Nifty 50 ETF in Australia.

Further, as of March 31, 2022, the Company had a total AUM of Rs. 26.8 Bn as international advisory mandates. NAM India, in collaboration with BBL Asset Management Company Ltd., an affiliated company of Bangkok Bank (BBL), the largest Thai Commercial Bank, has launched Bualuang Bharata Fund in Thailand for institutional investors and high net worth investors.

Peaking into the past

From 2012 to 2018, NAM was among the second or third largest AMC in India after HDFC AMC and ICICI Pru AMC. Due to default by erstwhile promoter Reliance Capital coupled with scheme underperformance hampered their market share from 11.5% in Mar 2015 to 7.6% in Mar 2020.

Post default, in Sep 2019, NAM took over as the sole promoter with 73.8% of the outstanding shares and rebranded the company as 'Nippon Life Asset Management'. Market share has stabilized since then and bottomed out in Mar 2021 at 7.1%; since then, they have managed to improve overall market share to 7.4% in Mar 2022 owing to improved fund performance, better risk management, and further investment into the distribution network.

The main focus area for the management has been increasing the contribution of retail investors in their overall mix and penetrating further into B-30 cities, which has largely remained untapped by the mutual fund industry. Along with this, they continue to focus on passive offering to remain a relevant player in the passive management space. Management follows the 'Investor First' philosophy and would launch schemes to cater to investors' varied and diverse needs.

Nippon Life Group subsidiaries and Associates

Nippon Life Group

Domestic Insurance Business

Taiju Life Insurance (85%) – Operates Life Insurance business in Japan

Nippon Wealth Life Insurance (85.11%) - Operates as an insurance company in Japan. They offer illness, hospitalization, nursing, death, pension, and other insurance products.

Hanasaku Life Insurance Co. Ltd (100%) – Operates insurance business in Japan. Underwrites medical insurances and income security insurances.

Asset Management Business

Nissay Asset Management Corporation (100%) – Asset management company operating in Japan

Nippon Life India Asset Management Ltd (73.8%) – Manages mutual fund, PMS and AIF in India

The TCW Group, Inc (24.75%) – Asset management firm with strong fixed income operations. Manages largest investment trust in the US.

Post Advisory Group (19.33%) – Provides investment products focused on high-yield corporate bonds, to the US and Japanese institutional investors.

Overseas Insurance Business

Nippon Life Insurance Company of America (96.96%) – Provides medical insurance in New York, Los Angeles, Chicago and other cities

MLC Limited (80%) – Operates Life Insurance business in Australia

Reliance Nippon Life Insurance Company (49%) – Operates Life Insurance business in India with JV partner Reliance

Guard Guardian Nippon Life Insurance Co. (35%) – Offers Endowment, travel, and agricultural insurances through corporate channels

Great Wall Changsheng Life Insurance Co (30%) – Operates insurance business in Shanghai with a JV partner Great Wall Changsheng Life Insurance

Bangkok Life Assurance Public Company (24.21%) – Offers Life & General insurance, mutual funds, loans etc. in Bangkok.

PT Asuransi Jiwa Sequis Life (20%) – Offers Life and Health insurance in Indonesia

Nippon Life India Asset management has a sturdy parentage, given they are a global player in the insurance and asset management business.

More so, the life insurance business is complementary to the asset management business. As apart from having good underwriting skills, you need a good asset manager to make the insurance business profitable. We think Nippon Life group has rich experience in asset management and risk management.

Source: Company, Keynote Capitals Ltd.

Board of Directors and Top Management

The company is currently headed by Mr. Sundeep Sikka, who has been with the company since 2003 and CEO since 2009. Most of the company's top management has been with NAM for more than 10-15 years, and most have more than 20 years of relevant industry experience.

Name	Position Held at NAM	Years with NAM	Total Relevant Experience	Education Qualification	Other Comments
Sundeep Sikka	Executive Director & CEO	18-19 Years	22 Years	Graduated from Harvard Business School	Held various influential position at regulatory bodies like AMFI, RBI, NDSL, FICCI etc.
Manish Gunwani	CIO – Equity Investments	4-5 Years	25 Years	Graduated from IIT, Madras and IIM Bangalore	Held Sr. Fund manager position at ICICI Pru for 7 years.
Amit Tripathi	CIO – Fixed Income Investments	18-19 Years	18-19 Years	Graduated from Fore School of Management, New Delhi	
Prateek Jain	Chief Financial Officer	9-10 Years	~24 Years	CA, CS, ICWA	Previously worked with AIG Investments, Howden India and ICICI Lombard.
Rishi Garg	Chief Risk Officer	<1 Year	~25 Years	Graduated from IIM, Lucknow	Worked with eminent organisations like ABN AMRO, Royal Bank of Scoltand, CRISIL, Tata Motors and Daiwa Capital
Samir Rachh	Fund Manager	~14-15 Years	~32 Years	Graduated in Commerce from Mumbai University	Manages Nippon India Small Cap Fund with AUM of Rs. 180-190 Bn
Sailesh Raj Bhan	Deputy CIO – Equity	~15 Years	~24 Years	MBA (Finance), CFA (ICFAI)	Manages Nippon India Large Cap, Multi Cap and Pharma Fund with cumulative AUM of Rs. 270 Bn

Source: Company, Keynote Capitals Ltd.

Churn in Board of Directors

Particulars	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
No. of BoD	4	5	5	6	8	9	8	7	9	9	9
% of BoD for 3 Years or More	50%	20%	20%	67%	25%	22%	25%	71%	56%	56%	78%

Source: Company, Keynote Capitals Ltd.

NAM has seen high churn in its Board of Directors in the initial years as less than 20-30% of the Board of Directors were with the company for three years or more. But in the last few years, things have stabilized, and more than 50-70% of the Board of Directors have been with the company for three years or more. This is a very healthy sign.

Skin in the game and Top Shareholders

The Company was incorporated as 'Reliance Capital Asset Management' in Feb'1995. In 2012, Nippon Life made a strategic investment of 26% in Reliance Capital Asset Management. Subsequently, Nippon Life holding was further increased, and in 2015 company was renamed 'Reliance Nippon Life Asset Management Ltd.' Eventually, the name was rechanged to 'Reliance Nippon Life Asset Management' in May'2016. Post-IPO, both promoters held a 42.9% stake in the Company. Later on, due to default by ADAG group, they sold their holding to Nippon Life, making them the sole promoter of the Company. Nippon Life rebranded the Company to 'Nippon Life India Asset Management,' and they own 73.8% of the Company.

Particulars	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Reliance Capital Ltd.	42.88	42.88	0.93	-	-
Nippon Life Insurance Company	42.88	42.88	74.99	74.46	73.80
Total Promoter Holding	**85.76**	**85.76**	**75.92**	**74.46**	**73.80**

Source: Company, Keynote Capitals Ltd.

Top Shareholders %

Particulars	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Baron Emerging Markets Fund	-	-	1.49	1.85	2.17
HDFC Trustee Company Ltd.	3.29	2.35	1.62	1.59	1.36
IndusInd Bank Ltd.	-	-	3.35	3.32	3.30
Life Insurance Corporation of India	-	-	-	2.59	5.79
IIFL Special Opportunities Fund	1.31	1.31	1.16	-	-
Valiant Mauritius Partners FDI Limited	3.52	1.76	2.14	1.06	-

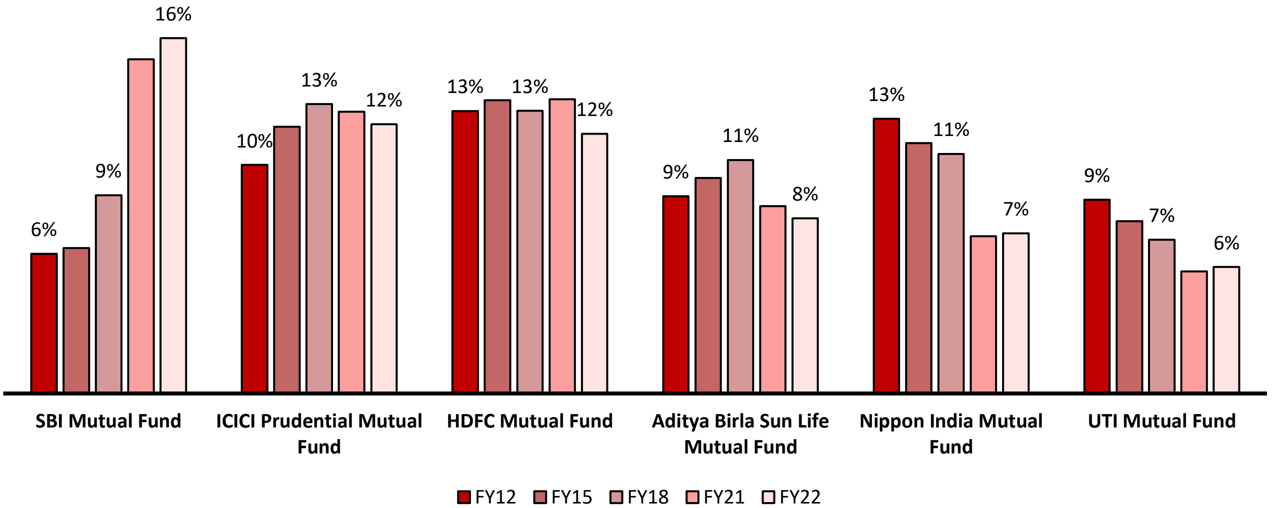
Source: Company, Keynote Capitals Ltd.

Where does NAM stand against its peers?

We have taken 6 AMCs (including NAM) for our analysis, representing 60-65% of industry AUM.

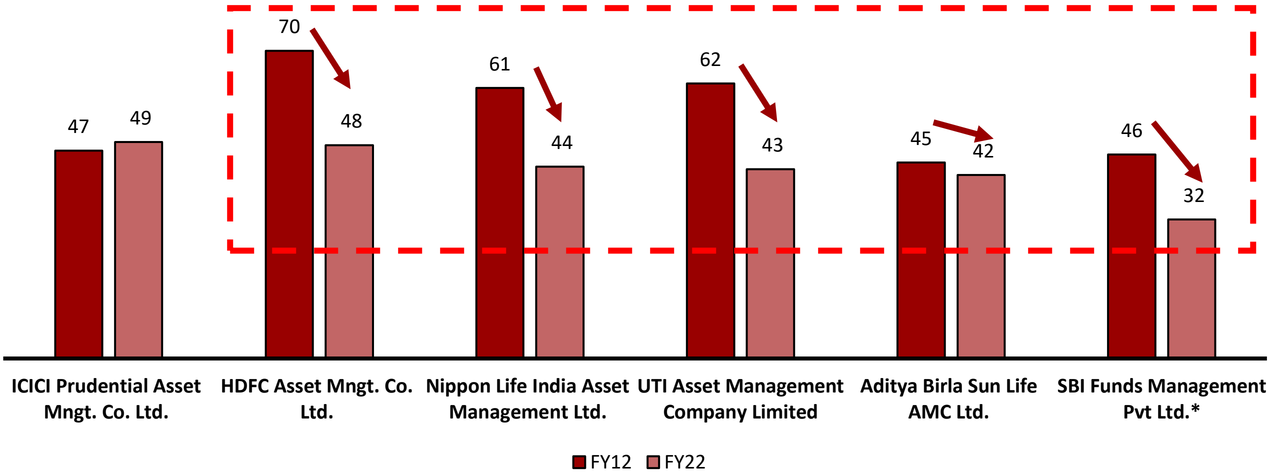
SBI AMC has gained outstanding market share among our chosen peers in the last decade across all asset classes (Equity/Debt/ETF and Liquid). All the other AMCs have ceded market share in the last decade except SBI and ICICI Pru AMC. HDFC AMC has lost significant market share in the equity segment due to the poor performance of their schemes and the absence of few sector funds. NAM has lost market share across all segments in the last decade.

Market share (%) of peers, SBI & ICICI Pru have gained market share



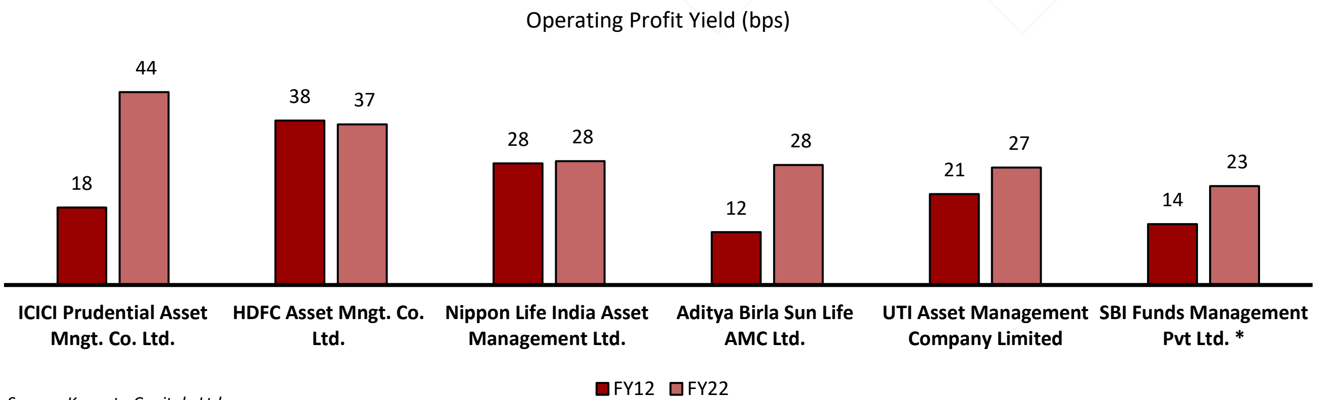
Source: AMFI, Keynote Capitals Ltd.

All AMCs have reported decline in Revenue Yields (in bps) except ICICI Pru AMC

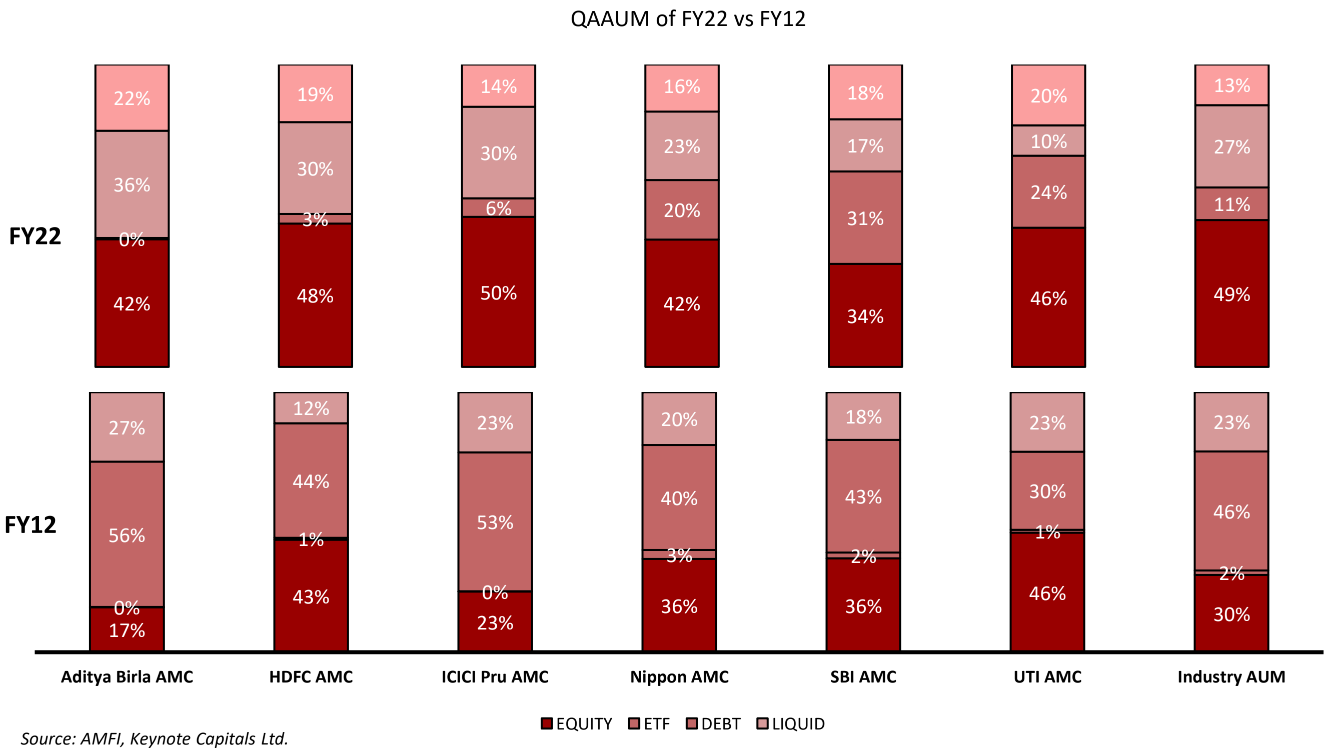


Source: Keynote Capitals Ltd.
**FY21 Numbers for SBI Funds Management*

ICICI Pru AMC has the highest revenue yield among the chosen peers owning to a high equity mix of ~50% (which are the highest yielding) and very minimal ETF exposure at ~6% (which are the lowest yielding). ICICI Pru is the only AMC that has managed to improve its yield in the last ten years. All other AMCs have seen an erosion of yields. With a ban on upfront commission to distributors and the adoption of trailing commission, revenue yields have declined for AMCs. However, expenses related to the schemes are expensed from the mutual fund schemes and hence had a limited impact on operating profit yields. All AMCs have managed to maintain their operating profit in last decade. Revenue yield will continue to remain under pressure for all AMCs as old AUM (at high yields) gets replaced with new AUM at lower yields, but due to significant operating leverage in AMC business, the impact on profitability will be limited.



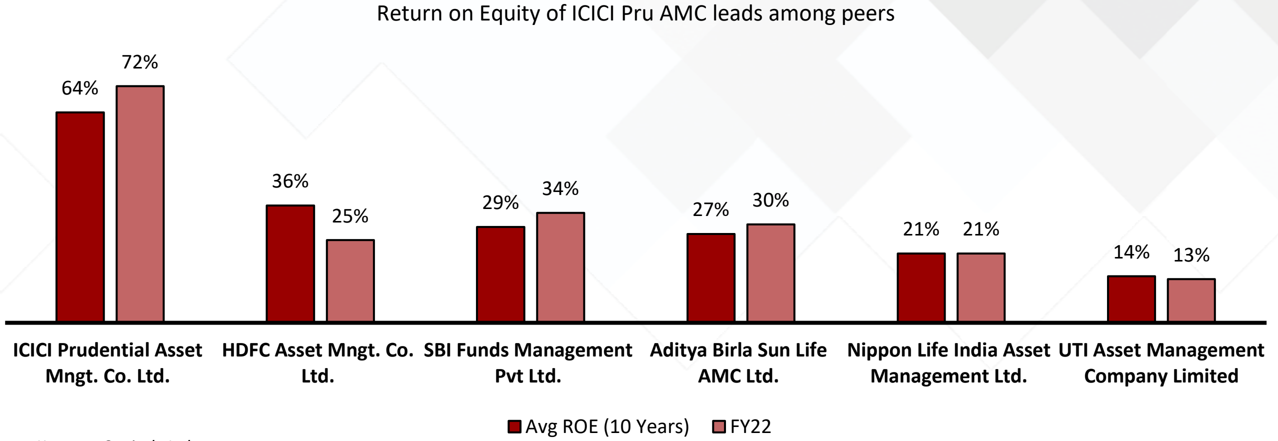
Source: Keynote Capitals Ltd.
**FY21 Numbers for SBI Funds Management*



Source: AMFI, Keynote Capitals Ltd.

ETF contribution for SBI and UTI has increased owing to EPFO contribution. All of these AMCs have shown improvement in equity mix in the last decade except SBI and UTI AMC. Aditya Birla AMC & ICIC Pru AMC has significantly improved the equity mix from 17% and 23% in March 2012 to 42% and 50%, respectively.

ICICI Pru has the highest ROE among its peers, owing to high operating profit and revenue yield.



Source: Keynote Capitals Ltd.
**FY21 Numbers for SBI Funds Management*

Ideal AUM mix for an AMC

According to our understanding, we believe for maximizing AUM yield for an AMC; they need to meet all or most of the below criteria.

Criteria	Share required	Rationale
Retail share in overall AUM	High	They have high inclination towards equity compared to institutional investors
Equity mix in overall AUM	High	Equity offer better mix compared to other asset class
Contribution through direct plan	High	AMC's reliance on distributors reduces, and they are better placed to charge higher fees. AMCs also get direct access to their client base.
Penetration in B-30 cities	High	It allows AMC to charge additional 30 bps on AUM, which improves yield

AMC	Retail Share%		Equity Mix%		Through Direct Plan%		Penetration in B-30		Yield (10Y Average)
	%	Rank	%	Rank	%	Rank	%	Rank	
UTI AMC	28.60%	1	46.00%	3	30.30%	6	23.20%	1	57 Bps
NAM	27.50%	2	42.10%	5	55.70%	2	17.20%	3	60 Bps
HDFC AMC	24.30%	3	47.50%	2	43.00%	5	16.50%	4	62 Bps
SBI AMC	14.60%	6	34.10%	6	59.10%	1	20.80%	2	51 Bps
ICICI Pru AMC	18.40%	5	49.70%	1	45.10%	4	14.50%	6	53 Bps
ABSL AMC	22.60%	4	42.30%	4	49.40%	3	15.90%	5	48 Bps
Industry	23.30%		48.60%		45.60%		16.60%		

Source: Keynote Capitals Ltd.

NAM has a higher share of retail investors (27.5%) compared to the industry (23.3%), higher sourcing from direct channels (55.7%) vs. industry (45.6%), and higher penetration in B-30 cities (17.2%) vs. industry (16.6%). All these are yield-enhancing as it can be seen that NAM has the second highest ten-year average yield after HDFCAMC.

Ranking of scheme performance in their respective category for Listed AMCs

AMC	Equity Linked Savings Scheme				Equity Large Cap				Equity Mid Cap				Equity Small Cap			
	% of Total Equity AUM	1 Year Returns	3 Year Returns	5 Year Returns	% of Total Equity AUM	1 Year Returns	3 Year Returns	5 Year Returns	% of Total Equity AUM	1 Year Returns	3 Year Returns	5 Year Returns	% of Total Equity AUM	1 Year Returns	3 Year Returns	5 Year Returns
NAM	10.0%	5	32	33	9.2%	1	19	8	9.9%	5	8	6	15.7%	4	6	4
HDFC AMC	4.5%	1	24	26	10.3%	3	24	14	15.2%	7	14	15	6.4%	17	17	8
Aditya Birla AMC	11.2%	34	35	32	17.2%	6	13	18	2.7%	6	17	19	2.3%	22	20	15
UTI AMC	2.8%	28	9	14	9.3%	11	4	5	6.5%	12	6	11	1.9%	8		

Source: Keynote Capitals Ltd.
Returns computed as of 14th May 2022

NAM and HDFC AMC have shown smart recovery in scheme performance. They have managed to improve their ranking from 20/30+ rank in 3 & 5-year performance to top performer in that category in last one year.

Generally, improvement in scheme performance is followed by market share gain; hence, it bodes well for NAM and HDFC AMC, who have been losing market share in the last few years due to scheme underperformance.

We believe scheme outperformance is essential to attract equity fund inflows, especially from DIY retail investors who tend to give unequal weight to recent scheme performance to zero down on a scheme.

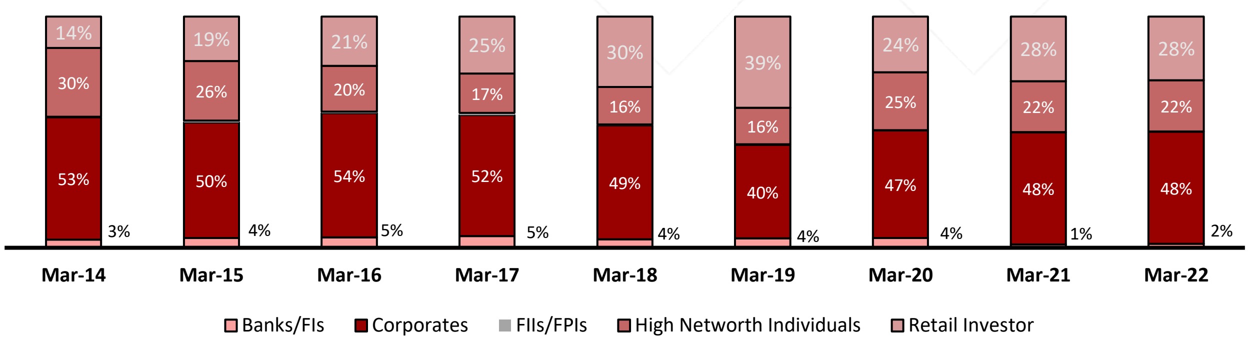
An important thing to note is that NAM and HDFC AMC have outperformed their peer group during a period when markets have been extremely volatile and have not performed well.

Opportunities

Strong retail franchise

The share of retail investors in the AUM mix of NAM has increased from 13.6% in FY14 to 27.5% in FY22. A similar number in the industry is 23.3%. Retail investors tend to be more inclined towards equity products and are more sticky than other investor classes. A rising share of retail investors bodes well for AMC's AUM yield. NAM has a higher market share in the retail segment at 8.7% vs. 7.4% overall market share.

NAM's Retail Investors contribution consistently increasing

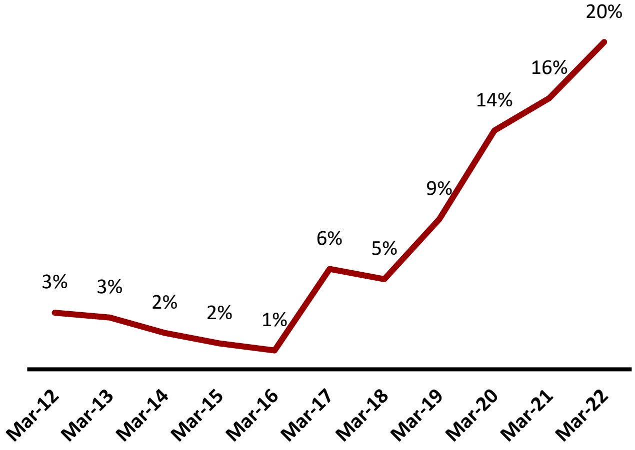


Source: AMFI, Keynote Capitals Ltd.

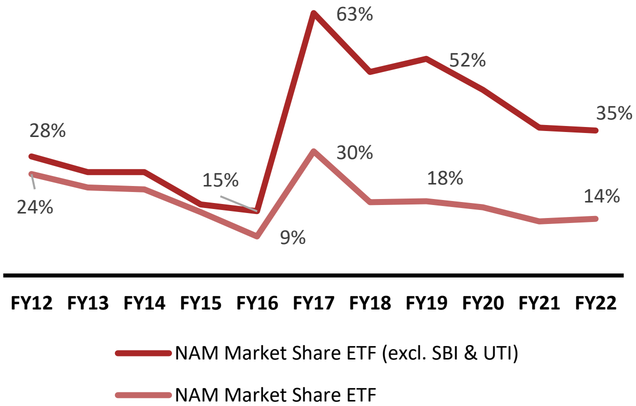
Leadership in passive products:

The company has one of the industry's most extensive suites of passive products with 25-30 ETF schemes and six index funds. NAM has almost 58% of the industry's folio market share in the passive category. Approx. NAM's ETF schemes contribute 68% of exchange ETF volumes. Among all the deciding factors when choosing an ETF, having sufficient liquidity is of the essence; otherwise, impact cost can be up to 2-3%. Hence, NAM is favorably placed in the ETF market. NAM has a 13.5% market share of overall ETF AUM and one-third market share in the ETF space if we exclude SBI & UTI since their AUM is skewed for EPFO contribution, access to which is not available to private players like NAM. NAM's ETF AUM has grown at a CAGR of 35.6% from Mar 2012 to Mar 22.

ETF contribution in NAM's AUM Mix



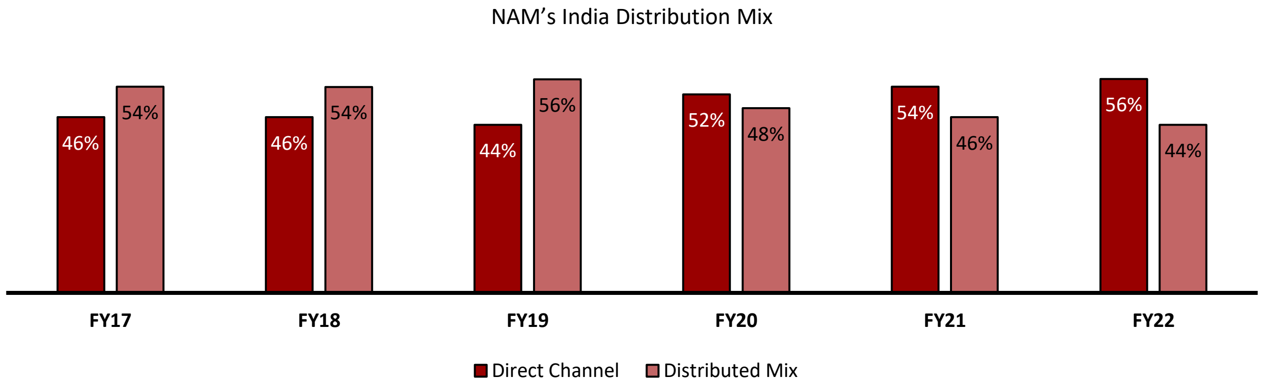
NAM controls one-third of ETF market by AUM, excluding SBI & UTI from the industry AUM



Source: AMFI, Keynote Capitals Ltd.

The loss of market share is warranted since the company was among the few AMCs to launch ETF products initially. Hence, they had a dominant market share, but NAM's market share eroded as other AMCs started expanding their ETF offering. Market share also errored as major AUM is being contributed by EPFO, which invests via SBI and UTI AMC's ETF offering only. The magnitude of the ETF offering by NAM is unmatched by its peers, placing them in a favorable position.

A high share of the direct channel in the distribution mix: NAM has a distribution network of around 160 banks, 95 national distributors, and ~84,100 mutual fund distributors. Of the overall AUM, 56% is sourced via direct channel as of Mar' 2022. It is favorable for the AMC since their reliance on distributors reduces, and they are better placed to charge higher fees. To further strengthen its direct channel reach, they have partnered with 20 digital platforms such as Paytmmoney, Groww, ETMoney, etc. This will give them access to a direct customer base and enable them to cross-sell their offerings.

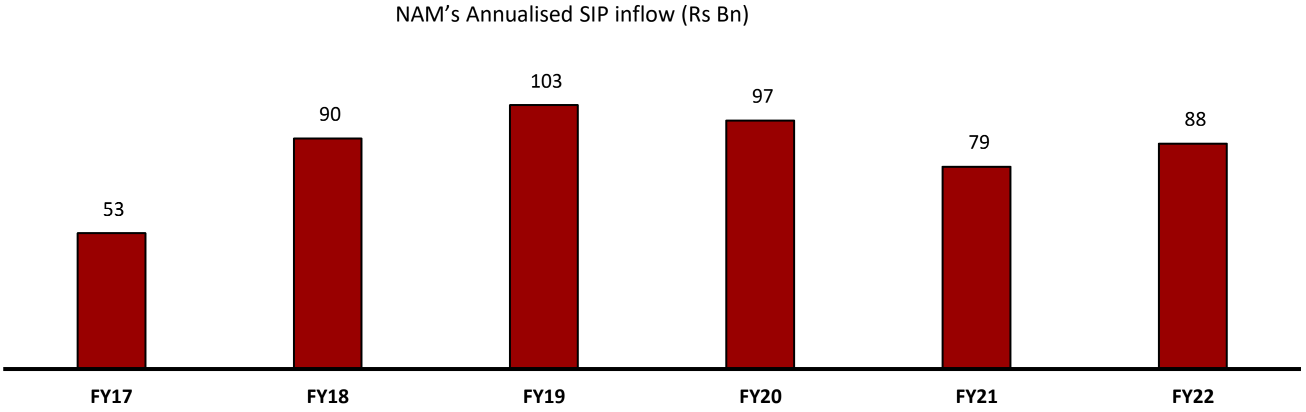


Source: Nippon India Investor Presentation, Keynote Capitals Ltd.

Strong SIP book with better stickiness than the industry

NAM has been focused on strengthening its penetration in B-30 cities via the SIP route as it helps garner retail participation. SIP book of NAM has better stickiness than the industry as SIP accounts continuing for more than five years account for 48% of the AUM compared to 21% for the industry.

Since the default of the erstwhile promoter, SIP inflows have stabilized in FY22. SIP inflow has increased from Rs. 53 Bn in FY17 to Rs. 88 Bn in FY22. Given the improvement in scheme performance, we believe SIP flows will improve strongly going forward.



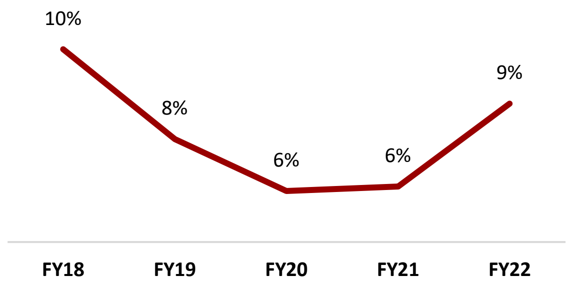
Source: NAM AR, Investor Presentation; Keynote Capitals Ltd.

Liquid category market share improved, equity category to follow

NAM has regained its lost market share in the liquid category in the Apr-Mar 22 period owing to better risk management practices followed by Nippon Group, which has led to improved investor confidence. During FY22, liquid AUM of NAM delivered a growth of 23.6% vs. negative -7.2% growth delivered by industry.

Equity category market share has also stabilized in the last few quarters, and recent improvement in scheme performance should be followed by market share gain for them.

NAM's market share improvement in Liquid category



Source: AMFI; Keynote Capitals Ltd.

NAM's flagship equity schemes outperform the one-year respective category median

Equity Category	Outperformance to Category Median Returns		
	1 Year Ret%	3 Year Ret%	3 Year Ret%
ELSS	3.9	-2.6	-5.3
Equity Large Cap	7.5	-0.7	0.9
Equity Mid Cap	4.3	0.9	1.6
Equity Multi Cap	10.8	-2.1	0.6
Equity Small Cap	3.4	2.8	3.7

Source: Ace MF; Keynote Capitals Ltd.

Challenges

Profitability vs market share, walking a tight rope

With increasing competitive intensity, AMCs face the dilemma of either maintaining their market share or maintaining their profitability. With many AMCs aggressively pricing their offerings, AMCs not matching up with the industry pricing could lead to erosion of market share. NAM has been focused on improving its profitability over market share. Hence, if pricing indiscipline persists for a period greater than anticipated, the AUM growth of NAM could be impacted.

Absence of strong captive banking channel and brand recall

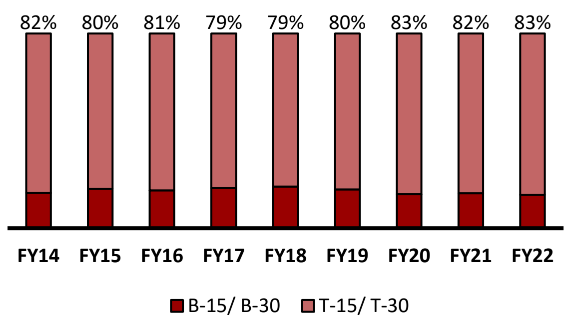
Despite being a non-Bank AMC, Nippon has become the 6th largest AMC in India. But NAM lacks captive banking channel access that all of the banking AMC enjoy. Penetrating the untapped market of B-30 cities will need better brand recall and an extensive distribution network, the benefit of which is available to banking AMCs.

Losing market share in B-30 cities

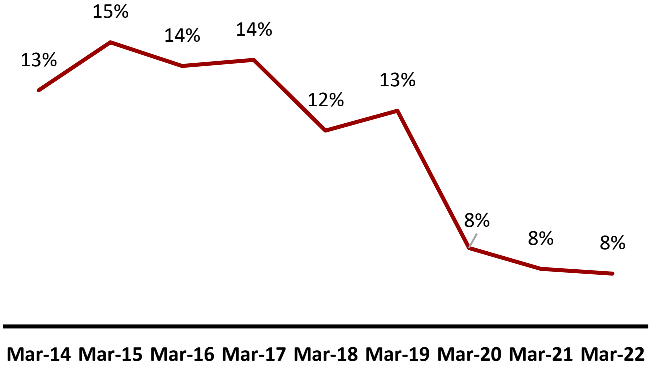
AUM from B-30 cities provides the maximum yield to the AMCs as they tend to have more inclination towards equities, and SEBI allows AMCs to charge a further 30 bps. But in the last decade, the company's AUM contribution from B-30 cities has remained stagnant and has been reducing since 2018 (around the ADAG group default). They have been losing market share from B-30 cities, which decreased to 7.7% in Mar 2022 compared to 12.1% in Mar 2018.

NAM's AUM contribution (17.2%) from B-30 is higher than the industry's (16.6%). NAM's market share from B-30 cities (7.7%) is better than T-30 cities (7.3%) as of Mar-22.

NAM's B-30 contribution to AUM remained stagnant



Nippon Life India losing market share in B-15/B-30 cities



Source: Nippon Investor Presentation, AMFI, Keynote Capitals Ltd.; Data till 2018 is for T-15/B-15 cities and post that is for T-30/B-30 cities.

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	**10,621**	**13,066**	**14,816**	**16,765**	**18,969**
Growth %		23%	13%	13%	13%
Employee Expenses	2,713	2,903	3,251	3,642	4,079
Other Expenses	2,333	2,261	2,519	2,766	3,035
EBITDA	**5,575**	**7,902**	**9,046**	**10,357**	**11,855**
Growth %		42%	14%	14%	14%
Margin%	52%	60%	61%	62%	62%
Depreciation	333	272	275	280	285
EBIT	**5,243**	**7,630**	**8,770**	**10,077**	**11,570**
Growth %		46%	15%	15%	15%
Margin%	49%	58%	59%	60%	61%
Interest Paid	44	38	38	38	38
Other Income & exceptional	3,572	2,295	3,430	3,556	3,695
PBT	**8,770**	**9,887**	**12,163**	**13,595**	**15,227**
Tax	1,976	2,453	3,041	3,399	3,807
PAT	**6,794**	**7,434**	**9,122**	**10,196**	**11,420**
Others (Minorities, Associates)	9	8	8	8	8
Net Profit	**6,803**	**7,442**	**9,130**	**10,204**	**11,428**
Growth %		9%	23%	12%	12%
Margin%	64%	57%	62%	61%	7874%
Shares (Mn)	616.5	622.0	622.0	622.0	622.0
EPS	**11.04**	**11.96**	**14.68**	**16.40**	**18.37**

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	3,606	3,384	4,880	6,131	7,513
Current Investments	0	0	0	0	0
Debtors	459	754	686	777	879
Inventory	0	0	0	0	0
Short Term Loans & Advances	96	91	91	91	91
Other Current Assets	788	877	877	877	877
Total Current Assets	4,950	5,107	6,534	7,876	9,361
Net Block & CWIP	3,021	2,961	2,760	2,546	2,328
Long Term Investments	25,500	29,417	29,425	29,433	29,441
Other Non-current Assets	452	481	481	481	481
Total Assets	**33,922**	**37,965**	**39,200**	**40,336**	**41,610**
Creditors	629	560	881	996	1,127
Provision	87	36	36	36	36
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	1,655	1,684	1,684	1,684	1,684
Total Current Liabilities	2,371	2,280	2,601	2,717	2,848
Long Term Debt	0	0	0	0	0
Deffered Tax Liabilities	396	782	782	782	782
Other Long Term Liabilities	147	118	118	118	118
Total Non Current Liabilities	543	899	899	899	899
Paid-up Capital	6,165	6,220	6,220	6,220	6,220
Reserves & Surplus	24,844	28,566	29,479	30,499	31,642
Shareholders' Equity	31,009	34,786	35,699	36,720	37,862
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	**33,922**	**37,965**	**39,200**	**40,336**	**41,610**

Source: Company, Keynote Capitals Ltd..

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	8,770	9,887	12,163	13,595	15,227
Adjustments	-2,773	-1,590	-3,117	-3,238	-3,372
Change in Working Capital	303	-411	389	26	29
Total Tax Paid	-1,740	-2,090	-3,041	-3,399	-3,807
Cash flow from operating Activities	**4,560**	**5,796**	**6,394**	**6,984**	**8,077**
Net Capital Expenditure	-196	-68	-74	-67	-66
Change in investments	-4,196	-1,397	0	0	0
Other investing activities	377	220	3,430	3,556	3,695
Cash flow from investing activities	**-4,016**	**-1,245**	**3,356**	**3,489**	**3,629**
Equity raised / (repaid)	929	1225.5	0	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	-3,063	-5,263	-8,217	-9,184	-10,285
Other financing activities	-257	-221	-38	-38	-38
Cash flow from financing activities	**-2,391**	**-4,259**	**-8,255**	**-9,222**	**-10,324**
Net Change in cash	-1,848	291	1,495	1,251	1,382

Key Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	11	12	15	16	18
Growth %		8%	23%	12%	12%
Book Value Per Share	50	56	57	59	61
Return Ratios					
Return on Assets (%)	22%	21%	24%	26%	28%
Return on Equity (%)	24%	23%	26%	28%	31%
Return on Capital Employed (%)	25%	24%	26%	28%	31%
Operating Metrics					
Average QAAUM (in Bn)	2.1	2.7	3.1	3.6	4.3
Revenue Yield (in Bps)	31.4	38.9	38.0	37.0	36.0
Operating Profit Yield (in Bps)	27.1	29.5	29.0	28.4	27.8
PAT Yield (in Bps)	33.1	27.8	29.3	28.0	26.8
AQAAUM Mix%					
Equity	40.8%	42.1%	42.6%	43.0%	43.5%
ETF	16.3%	19.7%	20.4%	21.2%	21.9%
Debt	27.3%	22.6%	21.9%	21.2%	20.5%
Liquid	15.6%	15.5%	15.0%	14.6%	14.1%
Valuation					
PE (x)	30.7	29.1	19.4	17.4	15.5
Annual QAAUM/Mcap (x)	6.2%	6.4%	4.5%	3.9%	3.4%
Earnings Yield (%)	3.3%	3.4%	5.2%	5.8%	6.5%
Price to Sales (x)	19.6	16.5	12.0	10.6	9.3
Price to Book (x)	6.7	6.2	5.0	4.8	4.7
EV/EBITDA (x)	36.8	26.9	19.2	16.8	14.7
EV/Sales (x)	19.3	16.3	11.7	10.4	9.2

Valuation & Estimates

Scenario Analysis	FY22	FY23		
Scenario	Current	Bear	Base	Bull
Annual QAAUM (Rs. Mn)	2,674,213	3,692,935	3,898,942	4,028,660
Yields (in Bps)	39	38	38	38
Revenue (Rs. Mn)	13,070	14,033	14,816	15,309
PAT %	57.00%	61.5%	61.6%	61.7%
PAT (Rs. Mn)	7440	8,631	9,130	9,439
EPS (Rs.)	11.96	13.89	14.68	15.18
PE		23	28	30
Target Price (Rs.)		319	411	455
CMP (Rs.)		285	285	285
% Upside/Downside		12%	44%	60%

Source: Company, Keynote Capitals Ltd..

Base Case: We have built an assumption of ~16.2% growth in AUM in FY23, given that the company has managed to stabilize its market share and scheme performance has improved in the last one year.

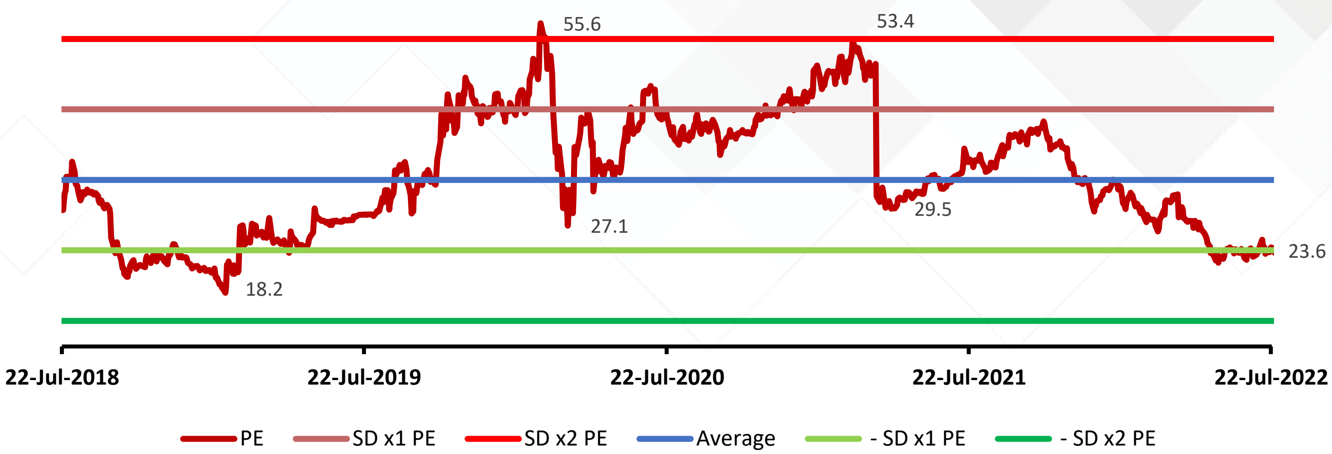
Given the ongoing yield pressure in the industry, we expect blended yields to compress by ~1 bps in FY23. Most of this reduction is owing to increasing competitive intensity in the industry, resulting in higher TER being passed on to the distributors. In this case, trailing PE re-rates to ~28. Based on these assumptions, we arrive at an upside of 44.2%.

Bear Case: We have built an assumption of 10% AUM growth in FY23, assuming NAM continues to lose market share and grows at a pace lesser than the industry. In which case PE of the company continues to trade at a -1 standard deviation. We see an upside of 12% even in the Bear case scenario.

Bull Case: We have built an assumption of 20% AUM growth in FY23, assuming NAM gains market share and grows at a pace higher than the industry. In that case, we are assuming PE re-rates to around 30 (marginally below average trailing PE of 33). Based on these assumptions, we arrive at an upside of 60%.

Valuations and Estimates

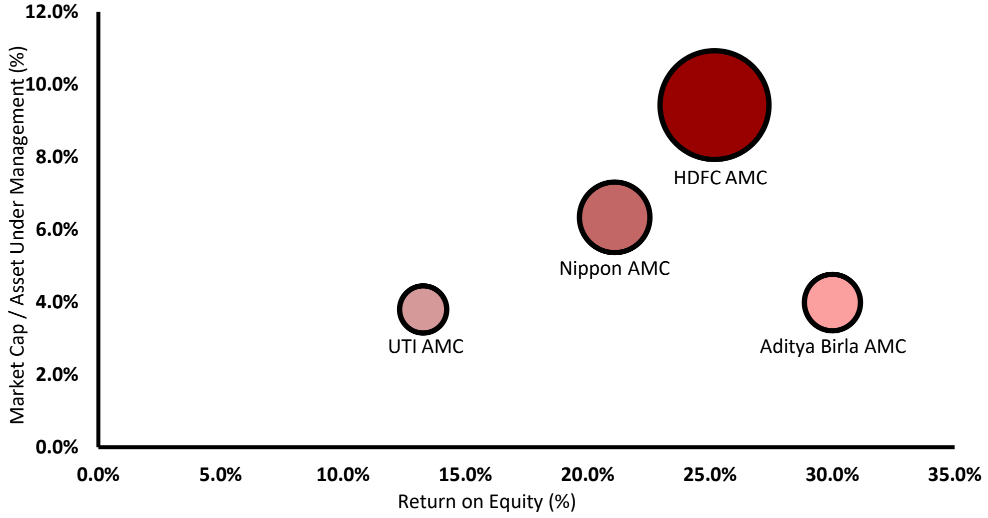
4-Year Trailing PE – NAM is trading at -1 Standard Deviation of its historical range



Source: Company, Keynote Capitals Ltd.

Peer Valuations

Peer Valuation comparison based on RoE and Mcap/AUM



HDFC AMC continues to trade at a premium valuation compared to its peers

Source: Keynote Capitals Ltd.
The size of the circle represents Market Capitalisation of the business

NAM trades at a premium valuation compared to Aditya Birla AMC owing to multiple qualitative aspects like,

- NAM's Leadership in the ETF category with almost one-third of market share by AUM and 66% of traded volumes, whereas Aditya Birla has negligible presence in the ETF space
- NAM's management has guided more than 90-100% dividend payout in the future compared to ~50% dividend payout guidance given by Aditya Birla AMC.
- NAM has strong parentage with a global presence in Insurance and Asset Management. In contrast, Aditya Birla Group is a diversified conglomerate, with Asset Management being a small part of the group's business.

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd./Rating & Fair value under Review/Keynote Capitals Ltd. has suspended coverage

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