

## Nippon Life India Asset Management Ltd.

26<sup>th</sup> April 2024

## Too much optimism priced in

Nippon Life India AMC (NAM) has improved its market share by 30 bps (sequentially) during the quarter for a fourth quarter in a row, driven by market share gains across all asset class. NAM's MF AUM grew by 14.2% sequentially and 47.1% on a YoY basis. During the quarter, revenue growth of 10.6% on a QoQ basis was slightly lower than AUM growth of 14.2% on a QoQ basis. We believe NAM will continue to maintain or gain market share on the back of granular and sticky AUM.

## Consistently improving market share

NAM has consistently gained market share in the last few quarters, improving from a low of 7.2% (in Q4 FY23) to 8.0% (in Q4 FY24), driven by market share gains in the Equity, ETF, and Debt categories. The majority of the market share gain is driven by the ETF category, where NAM has been appointed as one of the AMCs for managing EPFO corpus that will flow towards its Nifty and Sensex ETF, which commenced in July 2023.

Further market share gain within the equity category has been driven by a strong focus on granular AUM, particularly the SIP book, which has started yielding tangible benefits to the Company. NAM's market share in incremental flows is much better than the current market share. Hence, we expect NAM to maintain or further gain market share.

## NAM growing on the back of granular AUM growth

NAM continues to focus on granular and sticky AUM growth, with retail & HNI investor's combined contributions to the overall AUM mix rising from 55.5% in Q4FY23 to 58.3% in Q4FY24. The Company has one of the largest unique investor base of 16.5 Mn. Share from B-30 cities, which tend to have higher equity concentration, is at 19.5% vis-à-vis 17.9% for the industry.

## View &amp; Valuation

We believe NAM should continue with its current business momentum and grow in line with or better than the industry, as evident in the last few quarters. Simultaneously, we also feel that currently, a lot of optimism in its underlying fundamentals and growth potential has been priced in, which has resulted in unfavorable risk-reward at the current valuations. While the Company's long-term prospects remain promising, the market appears to have extrapolated recent performance too far into the future, which is not likely to be sustained, considering the volatile nature of the equity markets. Based on recent business performance and considering the business valuation, we have revised our estimates and changed our rating from REDUCE to SELL with a target price of Rs. 497 (~32.5x FY25 core earnings).

## SELL

CMP Rs. 580

TARGET Rs. 497 (-14.3%)

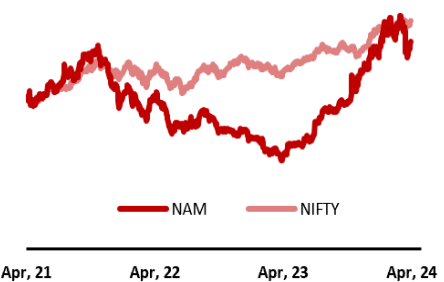
## Company Data

Bloomberg Code	NAM IN
MCAP (Rs. Mn)	365,360
O/S Shares (Mn)	628
52w High/Low	623 / 230
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	575

## Shareholding Pattern %

	Mar'24	Dec'23	Sep'23
Promoters	72.9	73.1	73.5
FIIIs	5.5	5.5	5.1
DIIIs	14.4	14.2	14.6
Non-Institutional	7.3	7.2	6.9

## NAM vs Nifty



Source: Keynote Capitals Ltd.

## Key Financial Data

(Rs Mn)	FY23	FY24	FY25E
Revenue	13,498	16,432	19,107
EBITDA	7,938	9,937	11,483
Net Profit	7,233	11,073	9,819
Total Assets	38,609	43,750	44,830
ROCE (%)	22%	30%	25%
ROE (%)	21%	30%	24%

Source: Company, Keynote Capitals Ltd Estimates

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## Nippon Life India Asset | Quarterly Update

### Q4FY24 Result Update

#### Result Highlights (Rs. Mn)

Particulars	Q4FY24	Q4FY23	Change % (Y-o-Y)	Q3FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
QAAUM	4,313,080	2,931,587	47%	3,776,542	14%	3,682,812	2,876,117	28%
<b>Yield</b>	<b>43</b>	<b>48</b>	<b>-4 Bps</b>	<b>45</b>	<b>-1 Bps</b>	<b>45</b>	<b>47</b>	<b>-2 Bps</b>
Revenue	4,683	3,483	34%	4,233	11%	16,432	13,498	22%
Employee Cost	886	725	22%	875	1%	3340	3018	11%
Other Opex	889	670	33%	767	16%	3,155	2,533	25%
EBITDA	2,908	2,088	39%	2,592	12.2%	9,937	7,947	25%
<b>EBITDA %</b>	<b>62%</b>	<b>60%</b>	<b>214 Bps</b>	<b>61%</b>	<b>87 Bps</b>	<b>60%</b>	<b>59%</b>	<b>160 Bps</b>
Depreciation	73	82	-10%	65	13%	291	298	-2%
EBIT	2,834	2,007	41%	2,526	12%	9,646	7,649	26%
<b>EBIT %</b>	<b>61%</b>	<b>58%</b>	<b>291 Bps</b>	<b>60%</b>	<b>84 Bps</b>	<b>59%</b>	<b>57%</b>	<b>203 Bps</b>
Finance Cost	16	12	38%	17	-4%	62	40	57%
Other Income	923	397	133%	1,071	-14%	3,941	1,668	136%
PBT	3,741	2,392	56%	3,581	4%	13,525	9,277	46%
Tax	315	415	-24%	741	-57%	2462	2048	20%
Share of Associate	0.3	0.4		0.2		0.8	0.1	
<b>PAT</b>	<b>3,426</b>	<b>1,977</b>	<b>73%</b>	<b>2,840</b>	<b>21%</b>	<b>11,063</b>	<b>7,229</b>	<b>53%</b>
<b>EPS</b>	<b>5.37</b>	<b>3.17</b>	<b>69%</b>	<b>4.48</b>	<b>20%</b>	<b>17.5</b>	<b>11.5</b>	<b>52%</b>

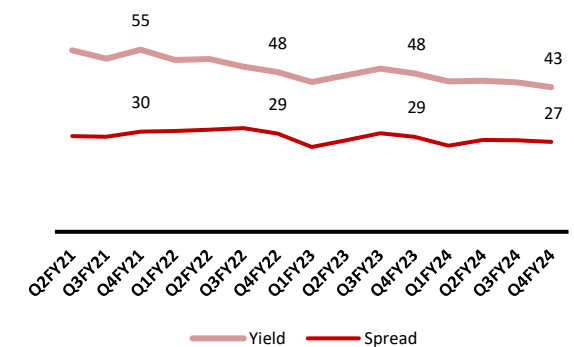
Source: Company, Keynote Capitals Ltd.

#### Operating Metrics (Rs. Mn)

Particulars	Q4FY24	Q4FY23	Change % (Y-o-Y)	Q3FY24	Change % (Q-o-Q)
<b>QAAUM Mix</b>					
Equity	2,175,711	1,327,584	64%	1,886,795	15%
ETF	1,115,423	700,244	59%	929,013	20%
Debt	494,283	403,632	22%	496,172	0%
Liquid	527,663	500,127	6%	464,561	14%
<b>QAAUM Mix (%)</b>					
Equity	50%	45%	516 Bps	50%	48 Bps
ETF	26%	24%	198 Bps	25%	126 Bps
Debt	11%	14%	-231 Bps	13%	-168 Bps
Liquid	12%	17%	-483 Bps	12%	-7 Bps
<b>Channel Mix (%)</b>					
Direct	54%	54%	-14 Bps	52%	170 Bps
Non-Associate Distributors	46%	46%	14 Bps	48%	-170 Bps
Associate Distributors	0%	0%	0 Bps	0%	0 Bps
<b>Geographical Spread (%)</b>					
T30	80%	81%	-49 Bps	80%	57 Bps
B30	20%	19%	49 Bps	20%	-57 Bps
<b>Investor Mix (%)</b>					
Retail Investor	30.2%	29.1%	105 Bps	31.1%	-89 Bps
HNIs	28.1%	26.4%	173 Bps	28.6%	-48 Bps
FIs/FPis	0.2%	0.2%	0 Bps	0.2%	-1 Bps
Corporates	40.1%	43.1%	-305 Bps	38.8%	122 Bps
Banks/FIs	1.4%	1.2%	26 Bps	1.3%	15 Bps

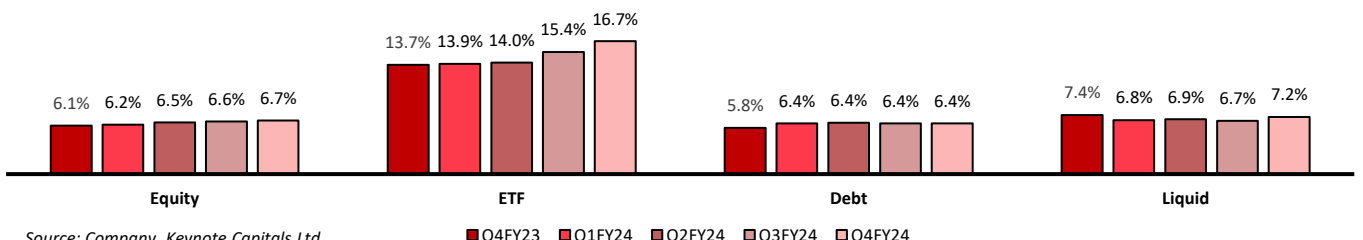
Source: Company, Keynote Capitals Ltd.

#### Yield and Spread (%)



Source: Company, Keynote Capitals Ltd.

#### Market Share trend %



Source: Company, Keynote Capitals Ltd.

## Nippon Life India Asset | Quarterly Update

### Q4 FY24 Conference Call Takeaways

#### Mutual Fund Business

- Current yields on equity are 63 bps; for debt, it is 25 bps; for liquid, it is 10-12 bps; and for ETF, it is ~15 bps.
- NAM improved its market share by 30 bps and 73 Bps on a QoQ and YoY basis to reach 8.0%. NAM has seen consecutive market share improvements in the last four quarters. NAM is the fastest-growing AMC among the top 10 players.
- NAM is one of the largest ETF players with an AUM of Rs. 1,115 Bn and a market share of 16.7%.
- Digital purchase transactions rose to 6.6 Mn in FY24, up from 3.3 Mn in FY23. Digital channels contributed 60% of new purchase transactions in FY24.
- NAM has an incremental market share of 15%+ in SIP flows. SIP market share has improved by 305 Bps in FY24 to 9.1%
- During the quarter, the Company launched the Nippon India Nifty Bank Index and Nippon India Nifty IT Index fund to expand its passive product offering.
- The Company has a presence across 263 cities in India and has added 3,300 distributors during the quarter.

#### Non-MF Business

- Aims to reduce dependence on mutual fund business.
- Nippon India AIF has a total commitment of Rs. 6,193 Bn across various schemes. Recently, it undertook the first closing of the Tech/VC AIF, which invests in early-stage tech VC funds. Fundraising is underway for the Public Equity AIF (long-only small cap fund), Performing Credit AIF, and Real Estate AIF.
- During the quarter, NAM onboarded a new fund manager for the long-only equity AIF scheme.
- Offshore business: Focused on fund raising from international markets and Nippon Group committed to supporting NAM India for its international operations.

#### Expenses

- Expenses are projected to increase by 8-10%, excluding ESOP costs, which are expected to be 800-900 Mn over the next 4 years. Close to 50% of ESOP costs will be charged in FY25 itself. The ESOP cost in FY24 was Rs. 70 Mn.
- Within admin expenses, 30-35% one-off expenses and the remainder in marketing and tech business.
- Lower tax rate during the quarter is on account of the reversal of tax provision from the previous year and the shift from short-term to long-term investments.

### Financial Statement Analysis

#### Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
<b>Net Sales</b>	<b>13,066</b>	<b>13,498</b>	<b>16,432</b>	<b>19,107</b>	<b>21,619</b>
Growth %	9%	3%	22%	16%	13%
Employee Expenses	2,903	3,004	3,360	4,146	4,786
Other Expenses	2,261	2,556	3,135	3,477	3,827
<b>EBITDA</b>	<b>7,902</b>	<b>7,938</b>	<b>9,937</b>	<b>11,483</b>	<b>13,007</b>
Growth %	54%	0%	25%	16%	13%
Margin%	60%	59%	60%	60%	60%
Depreciation	272	298	291	318	328
<b>EBIT</b>	<b>7,630</b>	<b>7,641</b>	<b>9,646</b>	<b>11,165</b>	<b>12,678</b>
Growth %	46%	0%	26%	16%	14%
Margin%	58%	57%	59%	58%	59%
Interest Paid	38	40	62	62	62
Other Income & exceptional	2,295	1,677	3,941	1,975	2,033
<b>PBT</b>	<b>9,887</b>	<b>9,277</b>	<b>13,525</b>	<b>13,077</b>	<b>14,649</b>
Tax	2,453	2,048	2,462	3,269	3,662
<b>PAT</b>	<b>7,434</b>	<b>7,229</b>	<b>11,063</b>	<b>9,808</b>	<b>10,987</b>
Others (Minorities, Associates)	8	4	11	11	11
<b>Net Profit</b>	<b>7,442</b>	<b>7,233</b>	<b>11,073</b>	<b>9,819</b>	<b>10,997</b>
Growth %	79%	-3%	53%	-11%	12%
<b>EPS</b>	<b>11.96</b>	<b>11.61</b>	<b>17.77</b>	<b>15.76</b>	<b>17.65</b>

#### Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Cash, Cash equivalents & Bank	3,384	2,727	2,706	4,358	5,510
Current Investments	0	0	0	0	0
Debtors	754	969	1,303	955	1,080
Inventory	0	0	0	0	0
Short Term Loans & Advances	91	109	184	184	184
Other Current Assets	877	1,165	847	847	847
<b>Total Current Assets</b>	<b>5,107</b>	<b>4,970</b>	<b>5,041</b>	<b>6,345</b>	<b>7,622</b>
Net Block & CWIP	2,961	3,073	3,328	3,092	2,980
Long Term Investments	29,417	30,231	35,127	35,138	35,148
Other Non-current Assets	481	335	255	255	255
<b>Total Assets</b>	<b>37,965</b>	<b>38,609</b>	<b>43,750</b>	<b>44,830</b>	<b>46,006</b>
Creditors	560	662	501	582	659
Provision	36	37	84	84	84
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	1,684	1,703	1,770	1,770	1,770
<b>Total Current Liabilities</b>	<b>2,280</b>	<b>2,401</b>	<b>2,354</b>	<b>2,436</b>	<b>2,512</b>
Long Term Debt	0	0	0	0	0
Deffered Tax Liabilities	782	708	894	894	894
Other Long Term Liabilities	118	343	680	680	680
<b>Total Non Current Liabilities</b>	<b>899</b>	<b>1,052</b>	<b>1,574</b>	<b>1,574</b>	<b>1,574</b>
Paid-up Capital	6,220	6,232	6,300	6,300	6,300
Reserves & Surplus	28,566	28,925	33,522	34,519	35,619
Shareholders' Equity	34,786	35,156	39,822	40,819	41,919
Non Controlling Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>37,965</b>	<b>38,609</b>	<b>43,750</b>	<b>44,830</b>	<b>46,006</b>

Source: Company, Keynote Capitals Ltd Estimates

#### Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	9,887	9,277	13,525	13,077	14,649
Adjustments	-1,590	-1,105	-3,518	-1,594	-1,642
Change in Working Capital	-411	-640	274	430	-49
Total Tax Paid	-2,090	-1,692	-2,506	-3,269	-3,662
<b>Cash flow from operating Activities</b>	<b>5,796</b>	<b>5,841</b>	<b>7,775</b>	<b>8,644</b>	<b>9,295</b>
Net Capital Expenditure	-68	-102	-107	-67	-216
Change in investments	-1,397	793	-1,253	0	0
Other investing activities	220	318	321	1,975	2,033
<b>Cash flow from investing activities</b>	<b>-1,245</b>	<b>1,009</b>	<b>-1,038</b>	<b>1,908</b>	<b>1,817</b>
Equity raised / (repaid)	1225.5	256.7	1646.3	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	-5,263	-7,161	-8,112	-8,837	-9,898
Other financing activities	-221	-212	-242	-62	-62
<b>Cash flow from financing activities</b>	<b>-4,259</b>	<b>-7,117</b>	<b>-6,707</b>	<b>-8,899</b>	<b>-9,960</b>
<b>Net Change in cash</b>	<b>291</b>	<b>-267</b>	<b>30</b>	<b>1,653</b>	<b>1,152</b>

#### Key Ratios

	FY22	FY23	FY24	FY25E	FY26E
<b>Per Share Data</b>					
EPS	12	12	18	16	18
Growth %	8%	-3%	53%	-11%	12%
Book Value Per Share	56	56	64	66	67
<b>Return Ratios</b>					
Return on Assets (%)	21%	19%	27%	22%	24%
Return on Equity (%)	23%	21%	30%	24%	27%
Return on Capital Employed (%)	24%	22%	30%	25%	27%
<b>Operating Metrics</b>					
Average QAAUM (in Bn)	2.7	2.9	3.7	4.3	5.0
Revenue Yield (in Bps)	38.9	37.4	36.2	36.0	35.0
Operating Profit Yield (in Bps)	29.5	27.6	27.0	26.6	25.8
PAT Yield (in Bps)	27.8	25.1	30.1	22.7	21.8
<b>AQAUM Mix%</b>					
Equity	42.1%	45.3%	48.9%	49.1%	49.7%
ETF	19.7%	23.9%	24.4%	25.1%	26.0%
Debt	22.6%	13.8%	13.4%	12.9%	12.2%
Liquid	15.5%	17.1%	13.3%	12.8%	12.1%
<b>Valuation</b>					
PE (x)	29.1	45.9	30.0	33.8	30.2
Annual QAAUM/Mcap (x)	6.4%	9.1%	7.2%	6.2%	5.3%
Earnings Yield (%)	3.4%	2.2%	3.3%	3.0%	3.3%
Price to Sales (x)	16.5	16.0	19.9	17.1	15.1
Price to Book (x)	6.2	9.3	8.2	8.0	7.8
EV/EBITDA (x)	26.9	40.8	32.6	28.2	24.9
EV/Sales (x)	16.3	24.0	19.7	17.0	15.0

## KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
27 <sup>th</sup> July 2022	BUY	285	+44.2%
1 <sup>st</sup> August 2022	BUY	282	+45.7%
20 <sup>th</sup> October 2022	BUY	269	+38.6%
31 <sup>st</sup> January 2023	BUY	250	+51.6%
27 <sup>th</sup> April 2023	BUY	237	+26.5%
28 <sup>th</sup> July 2023	NEUTRAL	321	+2.8%
31 <sup>st</sup> October 2023	NEUTRAL	371	+2.5%
31 <sup>st</sup> January 2024	REDUCE	525	-9.0%
26 <sup>th</sup> April 2024	SELL	581	-14.4%

## 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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