

## Nippon Life India Asset Management Ltd.

22<sup>nd</sup> July 2024

## Beat on all estimates

Nippon Life India AMC (NAM) has improved its market share by 24 bps (sequentially) during the quarter (for a fifth consecutive quarter) driven by market share gains across all asset class. NAM's MF AUM grew by 12.2% sequentially and 54.3% on a YoY basis. During the quarter, revenue growth of 7.8% on a QoQ basis was lower than AUM growth of 12.2% 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 8.2% (in Q1 FY25), 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 56.3% in Q1FY24 to 58.5% in Q1FY25. The Company has one of the largest unique investor base of 17.5 Mn. Share from B-30 cities, which tend to have higher equity concentration, is at 19.6% vis-à-vis 18.1% 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. However, based on stronger than expected recent business performance, we have revised our estimates and changed our rating from SELL to REDUCE with a target price of Rs. 595 (~32.5x FY25 core earnings).

## REDUCE

CMP Rs. 639

TARGET Rs. 595 (-6.8%)

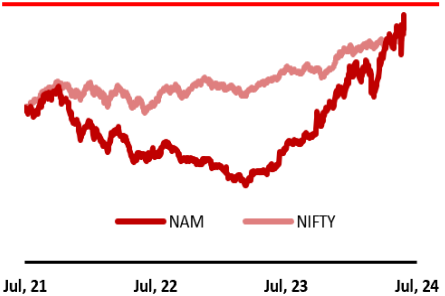
## Company Data

Bloomberg Code	NAM IN
MCAP (Rs. Mn)	403,980
O/S Shares (Mn)	628
52w High/Low	687 / 303
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	616

## Shareholding Pattern %

	Jun'24	Mar'24	Dec'23
Promoters	72.7	72.9	73.1
FII's	6.6	5.5	5.5
DII's	14.3	14.4	14.2
Non-Institutional	6.4	7.3	7.2

## NAM vs Nifty



Source: Keynote Capitals Ltd.

## Key Financial Data

(Rs Mn)	FY24	FY25E	FY26E
Revenue	16,432	21,989	25,405
EBITDA	9,935	13,989	16,095
Net Profit	11,073	11,707	13,324
Total Assets	43,750	45,090	46,527
ROCE (%)	30%	29%	32%
ROE (%)	30%	29%	32%

Source: Company, Keynote Capitals Ltd Estimates

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## Nippon Life India Asset | Quarterly Update

### Q1FY25 Result Update

#### Result Highlights (Rs. Mn)

Particulars	Q1FY25	Q1FY24	Change % (Y-o-Y)	Q4FY24	Change % (Q-o-Q)	FY24
QAAUM	4,837,914	3,135,982	54%	4,313,080	12%	3,682,812
<b>Yield</b>	<b>42</b>	<b>45</b>	<b>-3 Bps</b>	<b>43</b>	<b>-2 Bps</b>	<b>45</b>
Revenue	5,050	3,542	43%	4,683	7.8%	16,432
Employee Cost	1051	780	35%	886	19%	3340
Other Opex	834	737	13%	889	-6%	3,155
EBITDA	3,164	2,024	56%	2,908	8.8%	9,937
<b>EBITDA %</b>	<b>63%</b>	<b>57%</b>	<b>550 Bps</b>	<b>62%</b>	<b>57 Bps</b>	<b>60%</b>
Depreciation	68	81	-16%	73	-7%	291
EBIT	3,096	1,944	59%	2,834	9%	9,646
<b>EBIT %</b>	<b>61%</b>	<b>55%</b>	<b>643 Bps</b>	<b>61%</b>	<b>79 Bps</b>	<b>59%</b>
Finance Cost	16	13	26%	16	2%	62
Other Income	1,308	1,169	12%	923	42%	3,941
PBT	4,388	3,099	42%	3,741	17%	13,525
Tax	1066	746	43%	315	239%	2462
Share of Associate	0.2	0.3		0.3		0.8
<b>PAT</b>	<b>3,322</b>	<b>2,354</b>	<b>41%</b>	<b>3,426</b>	<b>-3%</b>	<b>11,063</b>
<b>EPS</b>	<b>5.18</b>	<b>3.77</b>		<b>5.37</b>		<b>17.5</b>

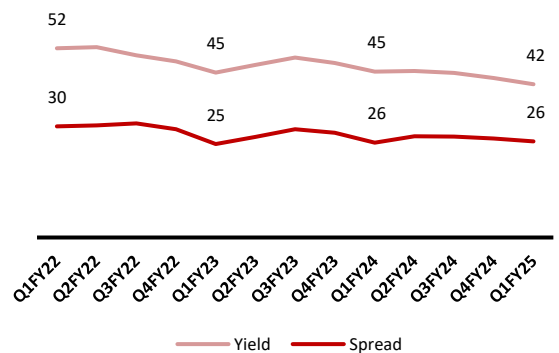
Source: Company, Keynote Capitals Ltd.

#### Operating Metrics (Rs. Mn)

Particulars	Q1FY25	Q1FY24	Change % (Y-o-Y)	Q4FY24	Change % (Q-o-Q)
<b>QAAUM Mix</b>					
Equity	2,467,106	1,447,117	70%	2,175,711	13%
ETF	1,295,232	738,306	75%	1,115,423	16%
Debt	510,482	479,907	6%	494,283	3%
Liquid	565,094	470,652	20%	527,663	7%
<b>QAAUM Mix (%)</b>					
Equity	51%	46%	485 Bps	50%	55 Bps
ETF	27%	24%	323 Bps	26%	91 Bps
Debt	11%	15%	-475 Bps	11%	-91 Bps
Liquid	12%	15%	-333 Bps	12%	-55 Bps
<b>Channel Mix (%)</b>					
Direct	54%	54%	49 Bps	54%	4 Bps
Non-Associate Distributors	46%	46%	-49 Bps	46%	-4 Bps
Associate Distributors	0%	0%	0 Bps	0%	0 Bps
<b>Geographical Spread (%)</b>					
T30	80%	81%	-27 Bps	80%	-11 Bps
B30	20%	19%	27 Bps	19.5%	11 Bps
<b>Investor Mix (%)</b>					
Retail Investor	30.3%	29.6%	70 Bps	30.2%	6 Bps
HNIs	28.2%	26.7%	149 Bps	28.1%	9 Bps
FIs/FPIs	0.2%	0.2%	-1 Bps	0.2%	0 Bps
Corporates	40.1%	41.6%	-147 Bps	40.1%	5 Bps
Banks/FIs	1.2%	2.0%	-72 Bps	1.4%	-20 Bps

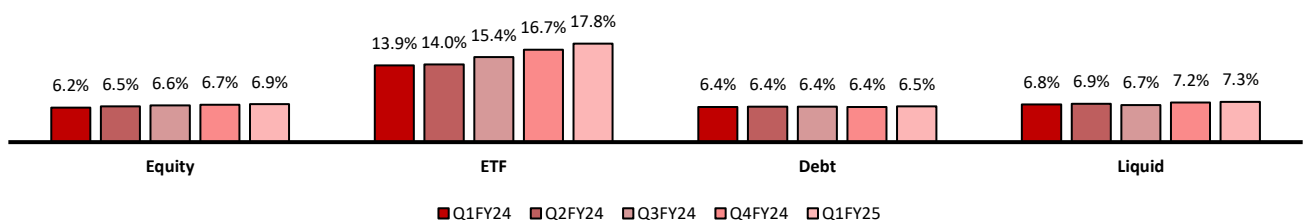
Source: Company, Keynote Capitals Ltd.

#### Yield and Spread (%)



Source: Company, Keynote Capitals Ltd.

#### Market Share Trend %



Source: Company, Keynote Capitals Ltd.

# Nippon Life India Asset | Quarterly Update

## Q1 FY25 Conference Call Takeaways

### Mutual Fund Business

- Current yields on equity are 60 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 24 Bps and 93 Bps on a QoQ and YoY basis to reach 8.2%. NAM has seen consecutive market share improvements in the last five quarters.
- Individual AUM contributes 58% of NAM's AUM with an AUM of Rs. 2,980 Bn.
- NAM is one of the largest retail assets in the industry, with Rs. 1540 Bn, contributing 30% of its AUM vs. the industry average of 27%.
- Digital purchase transactions rose to 2.8 Mn in Q1 FY25, up from 1.06 Mn in Q1 FY23. Digital channels contributed 68% of new purchase transactions in Q1 FY25.
- NAM has an incremental market share of 11% in SIP flows. SIP market share has improved by 28 Bps in Q1 FY25 to 9.36%.
- NAM has a geographical presence in 263 locations across India and 70% of its branches are in B-30 locations. Management might add 5-10 branches in a year and follow hub and spoke model. As they are focused on bringing inflows via digital channels.

### Non-MF Business

- The Company aims to reduce dependence on mutual fund business. Within AIF, management has started broadening its focus across asset class and strategies.
- Nippon India AIF has a total commitment of Rs. 65.1 Bn across various schemes. Currently, fund raising is underway for Public Equity AIF, Performing Credit AIF, Real Estate AIF and Tech/VC AIF.
- Offshore business: Focused on fund raising from international markets and Nippon Group committed to supporting NAM India for its international operations. NAM continues to see interest from conventional markets like Europe, the Middle East, and Japan and from unconventional markets like Latin America, Thailand and Korea.

### Expenses

- Employee cost has increased by 35% on a YoY basis due to multiple reasons. a) NAM has given higher increments this year of ~13%, which is above average; b) higher provision for variable pay; c) Higher spending for annual employee engagement activity; d) New hiring of 45 employees during the quarter for sales and distribution. Further they have hired 50 management trainers in Jul'24, leading to increased headcount of 95 employees.
- ESOP cost during the quarter was Rs. 8.3 Cr and for FY25 is expected to be Rs. 45 Cr.
- Management expects other expenses to increase by 12-13% in FY25. Most of the other expense increase will be to fund future growth via digital advertisement for brand building.

### Financial Statement Analysis

#### Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>13,498</b>	<b>16,432</b>	<b>21,989</b>	<b>25,405</b>	<b>29,798</b>
Growth %	3%	22%	34%	16%	17%
Employee Expenses	3,004	3,360	4,482	5,245	5,995
Other Expenses	2,556	3,137	3,518	4,065	4,768
<b>EBITDA</b>	<b>7,938</b>	<b>9,935</b>	<b>13,989</b>	<b>16,095</b>	<b>19,036</b>
Growth %	0%	25%	41%	15%	18%
Margin%	59%	60%	64%	63%	64%
Depreciation	298	291	304	321	340
<b>EBIT</b>	<b>7,641</b>	<b>9,643</b>	<b>13,685</b>	<b>15,774</b>	<b>18,696</b>
Growth %	0%	26%	42%	15%	19%
Margin%	57%	59%	62%	62%	63%
Interest Paid	40	62	62	62	62
Other Income & exceptional	1,677	3,944	1,973	2,040	2,115
<b>PBT</b>	<b>9,277</b>	<b>13,525</b>	<b>15,595</b>	<b>17,751</b>	<b>20,749</b>
Tax	2,048	2,462	3,899	4,438	5,187
<b>PAT</b>	<b>7,229</b>	<b>11,063</b>	<b>11,696</b>	<b>13,314</b>	<b>15,562</b>
Others (Minorities, Associates)	4	11	11	11	11
<b>Net Profit</b>	<b>7,233</b>	<b>11,073</b>	<b>11,707</b>	<b>13,324</b>	<b>15,572</b>
Growth %	-3%	53%	6%	14%	17%
<b>EPS</b>	<b>11.61</b>	<b>17.58</b>	<b>18.58</b>	<b>21.15</b>	<b>24.72</b>

#### Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	2,727	2,706	4,324	5,645	7,148
Current Investments	0	0	0	0	0
Debtors	969	1,303	1,099	1,269	1,489
Inventory	0	0	0	0	0
Short Term Loans & Advances	109	230	230	230	230
Other Current Assets	1,165	696	696	696	696
<b>Total Current Assets</b>	<b>4,970</b>	<b>4,935</b>	<b>6,348</b>	<b>7,841</b>	<b>9,563</b>
Net Block & CWIP	3,073	3,328	3,244	3,177	3,135
Long Term Investments	30,231	35,127	35,138	35,148	35,159
Other Non-current Assets	335	361	361	361	361
<b>Total Assets</b>	<b>38,609</b>	<b>43,750</b>	<b>45,090</b>	<b>46,527</b>	<b>48,218</b>
Creditors	662	501	670	774	908
Provision	37	39	39	39	39
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	1,703	2,382	2,382	2,382	2,382
<b>Total Current Liabilities</b>	<b>2,401</b>	<b>2,922</b>	<b>3,091</b>	<b>3,195</b>	<b>3,329</b>
Long Term Debt	0	0	0	0	0
Deffered Tax Liabilities	708	894	894	894	894
Other Long Term Liabilities	343	113	113	113	113
<b>Total Non Current Liabilities</b>	<b>1,052</b>	<b>1,007</b>	<b>1,007</b>	<b>1,007</b>	<b>1,007</b>
Paid-up Capital	6,232	6,300	6,300	6,300	6,300
Reserves & Surplus	28,925	33,522	34,693	36,025	37,582
Shareholders' Equity	35,156	39,822	40,993	42,325	43,882
Non Controlling Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>38,609</b>	<b>43,750</b>	<b>45,090</b>	<b>46,527</b>	<b>48,218</b>

Source: Company, Keynote Capitals Ltd Estimates

#### Cash Flow

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	9,277	13,525	15,595	17,751	20,749
Adjustments	-1,105	-3,518	-1,607	-1,657	-1,713
Change in Working Capital	-640	274	374	-67	-86
Total Tax Paid	-1,692	-2,506	-3,899	-4,438	-5,187
<b>Cash flow from operating Activities</b>	<b>5,841</b>	<b>7,775</b>	<b>10,464</b>	<b>11,590</b>	<b>13,763</b>
Net Capital Expenditure	-102	-116	-220	-254	-298
Change in investments	793	-1,201	0	0	0
Other investing activities	318	278	1,973	2,040	2,115
<b>Cash flow from investing activities</b>	<b>1,009</b>	<b>-1,038</b>	<b>1,753</b>	<b>1,786</b>	<b>1,817</b>
Equity raised / (repaid)	256.7	1646.3	0	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	-7,161	-8,112	-10,536	-11,992	-14,015
Other financing activities	-212	-242	-62	-62	-62
<b>Cash flow from financing activities</b>	<b>-7,117</b>	<b>-6,707</b>	<b>-10,599</b>	<b>-12,054</b>	<b>-14,078</b>
<b>Net Change in cash</b>	<b>-267</b>	<b>30</b>	<b>1,618</b>	<b>1,322</b>	<b>1,503</b>

#### Key Ratios

	FY23	FY24	FY25E	FY26E	FY27E
<b>Per Share Data</b>					
EPS	12	18	19	21	25
Growth %	-3%	51%	6%	14%	17%
Book Value Per Share	56	63	65	67	70
<b>Return Ratios</b>					
Return on Assets (%)	19%	27%	26%	29%	33%
Return on Equity (%)	21%	30%	29%	32%	36%
Return on Capital Employed (%)	22%	30%	29%	32%	36%
<b>Operating Metrics</b>					
Average QAAUM (in Bn)	2.9	3.7	5.2	6.1	7.1
Revenue Yield (in Bps)	37.4	36.2	35.5	35.0	35.0
Operating Profit Yield (in Bps)	27.6	27.0	27.0	26.5	26.8
PAT Yield (in Bps)	25.1	30.1	22.6	22.0	21.9
<b>AQAUM Mix%</b>					
Equity	45.3%	48.9%	52.1%	52.5%	52.9%
ETF	23.9%	24.4%	26.0%	26.9%	27.7%
Debt	13.8%	13.4%	10.8%	10.1%	9.5%
Liquid	17.1%	13.3%	11.2%	10.5%	9.9%
<b>Valuation</b>					
PE (x)	18.1	27.7	26.2	23.0	19.7
Annual QAAUM/Mcap (x)	3.6%	6.8%	4.9%	4.2%	3.6%
Earnings Yield (%)	5.5%	3.6%	3.8%	4.3%	5.1%
Price to Sales (x)	9.7	18.7	13.9	12.1	10.3
Price to Book (x)	3.7	7.7	7.5	7.2	7.0
EV/EBITDA (x)	16.1	30.6	21.7	18.9	16.0
EV/Sales (x)	9.5	18.5	13.8	12.0	10.2

## 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%
22 <sup>nd</sup> July 2024	REDUCE	639	-6.8%

## 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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