

July 19, 2024

**RESULT REPORT Q1 FY25** | Sector: Asset Managers

# Nippon Life India AMC

## Strong equity flows continue to support

### Our view – Yield erosion partly offset by rise in share of equity

**Revenue Yield** – Equity AUM share improves but revenue yield inches lower: NAM's equity AUM (ex-ETF) market share has improved during the quarter by 12bps QoQ and stood at 6.88%. With 14% sequential growth in equity QAAUM as against 12% sequential growth in total QAAUM, the share of equity in total QAAUM has also improved by 60bps QoQ. However, due to telescopic pricing formula as prescribed by SEBI, the equity AUM revenue yield has dropped by -3bps QoQ to 60bps. Hence, the blended yield for 1QFY25 was down by around 1bp QoQ.

**Operating Expenses** – Operating expenses growth to remain elevated: The employee cost for 1QFY25 has increased by 34.8% YoY, driven by fresh ESOPs granted in 1Q, increase in headcount in sales, distribution and alternatives business and higher than average annual increments. The other operating cost for 1Q has increased by 13.1% YoY. The management has guided that both the employee expense and other operating expense would grow by 12-13% YoY in FY25.

**We maintain ADD rating on NAM with an unchanged price target of Rs 725:** We value NAM at 39x FY26 P/E, at which the stock would trade at a P/B of 10.3x.

*(See Comprehensive con call takeaways on page 2 for significant incremental colour.)*

### Result Highlights (See "Our View" above for elaboration and insight)

- **Revenue:** Revenue from operations at Rs 5,050mn was up 7.8% QoQ and 42.6% YoY, lagging 12% QoQ and 54% YoY growth in QAAUM
- **Share of Equity in AUM:** Share of Equity in AUM (including Hybrid funds) at 50% was up 60bps QoQ and 530bps YoY (calculated on rounded off figures)
- **Share of B-30 in AUM:** Share of B-30 in AUM at 19.6% was up 10bps/30bps QoQ/YoY
- **Channel mix:** In overall AUM, the share of direct channel was 54%. Share of MFDs, Banks and NDs within distributed assets was 57%, 24% and 19%, respectively
- **Operating profit margin:** Operating profit margin for the quarter, at 62.7%, was up 57 bps QoQ and 550 bps YoY

### Exhibit 1: Result table

Rs mn	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Revenue from operation	5,050	3,542	42.6%	4,683	7.8%
As % of QAUM <sup>^</sup>	0.42%	0.45%	-3bps	0.43%	-2bps
Fees and Commission Expenses	179	135	32.4%	172	3.9%
As % of revenue	3.5%	3.8%	-27bps	3.7%	-13bps
Employee Benefit Expenses	1,051	780	34.8%	886	18.6%
As % of revenue	20.8%	22.0%	-120bps	18.9%	189bps
Other Expenses	655	602	8.8%	717	-8.6%
As % of revenue	13.0%	17.0%	-403bps	15.3%	-233bps
<b>Total Expense</b>	<b>1,886</b>	<b>1,517</b>	<b>24.3%</b>	<b>1,775</b>	<b>6.2%</b>
<b>Operating Profit</b>	<b>3,164</b>	<b>2,024</b>	<b>56.3%</b>	<b>2,908</b>	<b>8.8%</b>
As % of QAUM <sup>^</sup>	0.3%	0.3%	0bps	0.3%	-1bps
As % of revenue	62.7%	57.2%	550bps	62.1%	57bps
Other Income	1,308	1,169	11.9%	923	41.7%
Finance cost	16	13	26.4%	16	1.9%
Depreciation	68	81	-15.6%	73	-6.9%
<b>Profit before Tax</b>	<b>4,388</b>	<b>3,099</b>	<b>41.6%</b>	<b>3,741</b>	<b>17.3%</b>
Tax Expense	1,066	746	42.9%	315	238.6%
<b>Profit After Tax</b>	<b>3,322</b>	<b>2,354</b>	<b>41.1%</b>	<b>3,426</b>	<b>-3.1%</b>
As % of QAUM <sup>^</sup>	0.3%	0.3%	-3bps	0.3%	-4bps
As % of revenue	65.8%	66.5%	-68bps	73.2%	-739bps

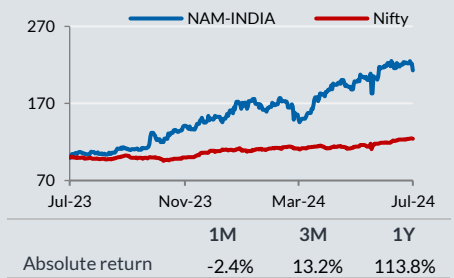
Source: Company, YES Sec-Research, <sup>^</sup> Annualised

Recommendation	: ADD
Current Price	: Rs 635
Target Price	: Rs 725
Potential Return	: +14%

### Stock data (as on July 19, 2024)

Nifty	24,531
52 Week h/l (Rs)	686 / 296
Market cap (Rs/USD mn)	418241 / 4997
Outstanding Shares (mn)	631
6m Avg t/o (Rs mn):	506
Div yield (%):	2.5
Bloomberg code:	NAM IN
NSE code:	NAM-INDIA

### Stock performance



### Shareholding pattern (As of Mar'24 end)

Promoter	72.9%
FII+DII	19.9%
Others	7.3%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	725	725

### Financial Summary

Rs mn	FY24	FY25E	FY26E
Net Revenue	16,432	18,372	21,334
YoY Growth	21.7%	11.8%	16.1%
EBIDTA Margin	60.5%	58.8%	60.4%
PAT	11,063	9,970	11,650
YoY Growth	53.0%	-9.9%	16.8%
ROE	29.5%	24.5%	27.1%
EPS (Rs)	17.6	15.8	18.5
P/E (x)	36.1	40.1	34.3
BV (Rs)	63.2	66.4	70.1
P/BV (x)	10.0	9.6	9.1

### Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	NA	15.8	18.5
EPS (Old)	NA	15.9	18.6
% change	NA	-0.3%	-0.4%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### Revenue Yield

- **Blended yield evolution**
  - The blended revenue yield has declined by about 1 bp QoQ
- **Reasons for decline in yield**
  - **Telescopic pricing**
    - Sequentially the equity AUM has risen by 14% and with the rise in AUM the SEBI telescopic pricing formula kicks in.
- **Flow Yields**
  - The flow equity yield is marginally lower than stock yield.
- **Segmental stock yield**
  - Equity – 60 bps
  - Debt – 25 bps
  - Liquid – 10-12 bps
  - ETF – 15 bps

### Operating Expenses

- **Employee expenses**
  - The employee expense for the quarter was Rs 1.05bn up 18.6% QoQ and 34.8% YoY.
  - **Reasons for the YoY increase**
    - Fresh issue of ESOPs amounting to Rs 83mn.
    - Increments were at 12-13%, higher than past year's increments.
    - Provision for variable pay in 1QFY25 was higher than 1QFY24.
    - Higher spend towards annual employee engagement activity.
  - YTD FY25 the company has added 94 employees
  - **Guidance**
    - The employee expense in FY25 would increase by around 12-13% YoY, excluding the ESOP cost.
    - The ESOP cost in FY25 would be around Rs 450mn.
    - The company will increase its employee base by around 10% every year.
- **Other Operating expenses**
  - The operating expense have grown 13.1% YoY but have de-grown -6.2% QoQ.
  - **Branches**
    - The company is currently present across 263 locations and 70% of these are in B30 locations.
  - **Guidance**
    - The other operating expense in FY25 would increase by around 12-13% YoY.
    - The company would not be aggressive on branch expansion and add around 5-10 new branches every year.
- **Fees and Commission Expense**
  - The company replicates the impact of telescopic TER movement in the commissions paid.
  - The company has same structure of commissions for Lump-sum and SIPs.

### Other income

- The other income for 1QFY25 was at Rs 1,308 mn, up by 12% YoY and 42% QoQ.

(Con call takeaways continue on the next page)

- The healthy other income is due to MTM impact driven by strong markets.

## On SEBI's Proposed New Asset Class

- The Company is currently evaluating the proposal
- The Company is currently cautious on the new asset class

## New Launches

- The Company is not planning to launch any NFOs on the active fund side and will focus on growth of existing schemes
- The company would launch new funds in the passive category

## AUM aspects

- **Total MF**
  - Total MF QAAUM rose 54% YoY to Rs 4,838bn as of 1QFY25.
  - Total average AUM market share stood at 8.20%, up 24bps QoQ
  - NAM's market share has increased for the 5<sup>th</sup> consecutive quarter
  - On QoQ basis, NAM is the fastest growing AMC amongst the top 10 large AMCs
- **Equity AUM**
  - Equity AUM rose 73% YoY to Rs 2.41trn as of 1QFY25.
  - Equity AUM (ex-ETF) market share stood at 6.88%, up 12bps QoQ.
  - NAM holds double digit market share in net flows for Equity and Hybrid category in Q1FY25
  - **SIP business**
    - The outstanding SIP accounts for the company are 8.4mn, up 63% YoY
    - SIP AUM as of 1QFY25 stood at Rs 1,200 bn, up 76% YoY
    - NAM holds 11% market share in incremental SIP flows
    - SIP market share increased by 28bps from Mar'24 to Jun'24 and stood at 9.36%
    - The annualised SIP book was at Rs 310 bn.
    - 59% of NAMs SIP AUM has continued for over 5 years as against 28% for the industry.
    - 15% of NAMs SIP folios has continued for more than 5 years as against 12% for the industry.
- **Individual AUM**
  - NAM's Individual AUM grew 16% QoQ to Rs. 2,980bn
  - NAM's Individual market share has improved 21bps QoQ to 7.95%.
- **Retail AUM**
  - Share of retail investors in total AUM stood at 30%, flat YoY.
- **HNI AUM**
  - NAM's HNI AUM stood at Rs 1,440 bn, up 70% YoY.
- **Passive AUM**
  - ETF AUM stood at Rs 1,300bn as of 1QFY25.
  - **Gold ETF**
    - Gold ETF AUM stood at Rs 109 bn as of 1QFY25.
  - ETF market share stood at 17.79%, up 108bps QoQ.
  - NAM's share in the industry ETF folios stood at 60%.

(Con call takeaways continue on the next page)

- NAM has 61% market share of ETF volumes in NSE and BSE.
- **B-30 AUM**
  - Contribution in total AUM stood at 19.6%, up 10bps QoQ.
  - B-30 market share increased by 20bps QoQ to 8.98%
- **Folios**
  - NAM has the largest investor base in the mutual fund industry with 17.5mn unique investors.
  - NAM's share in Unique investors in the industry was at 37.4%.

## AIF

- NAM has Total commitment of Rs. 65.1bn.
- The fund raising is also underway for Nippon India Equity Opportunities AIF Scheme 9, Nippon India Credit Opportunities AIF Scheme 1 Nippon India Yield Plus AIF Scheme 4 and Nippon India Digital Innovation AIF Scheme 2A

## Profitability aspects

- **Operating Profit**
  - Operating profit for 1QFY25 was Rs. 3.16bn, up 56.3% YoY
- **Profit After Tax**
  - PAT for 1QFY25 was Rs. 3.32 bn, up 41.1% YoY

## Distribution aspects

- Company is present across 263 locations in the country
- The company added 2,900 new distributors in 1QFY25.
- **Digital Initiatives**
  - The total Digital transactions were at 2.82mn in 1QFY25, up 170% YoY
  - Digital channel constitute 68% of total new purchase transactions for 1QFY25.

## Exhibit 2: Other Business Parameters

Rs mn	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
QAAUM	4,838,000	3,135,982	54%	4,313,080	12%
Retail share	30%	30%	0bps	30%	0bps
SIP Flows	75,300	34,300	120%	70,100	7%
<b>QAAUM Mix</b>					
Equity	2,409,324	1,395,512	73%	2,122,035	14%
Debt	720,862	642,876	12%	681,467	6%
Liquid	411,230	357,502	15%	392,490	5%
ETFs	1,296,584	736,956	76%	1,117,088	16%
<b>QAAUM Mix (% proportion)</b>					
Equity	50%	45%	530bps	49%	60bps
Debt	15%	21%	-560bps	16%	-90bps
Liquid	9%	11%	-290bps	9%	-60bps
ETFs	27%	24%	330bps	26%	90bps
<b>Channel Mix (% proportion)</b>					
Direct	54%	54%	0bps	54%	0bps
Distributed Assets	46%	46%	0bps	46%	0bps
MFDs	57%	58%	-100bps	57%	-43bps
Banks	24%	22%	200bps	23%	123bps
National Distributors	19%	20%	-100bps	20%	-80bps
<b>Geographical Spread</b>					
T-30	80.4%	80.7%	-30bps	80.5%	-10bps
B-30	19.6%	19.3%	30bps	19.5%	10bps

Source: Company, YES Sec – Research

## Exhibit 3: Quarterly Actuals Vs Estimates

Q1FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Revenue	5,050	5,268	(4.2)
Operating profit	3,164	3,293	(3.9)
Profit after tax	3,322	3,301	0.6

Source: Company, YES Sec – Research

## ANNUAL FINANCIALS

### Exhibit 4: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share Capital	6,220	6,232	6,300	6,300	6,300
Total Reserves	28,566	28,925	33,522	35,518	37,850
Shareholder's Funds	34,786	35,156	39,822	41,818	44,150
Long Term Provisions	154	127	84	84	84
Other Non Current Liabilities	1,240	1,428	1,574	1,720	1,870
Total Non - Current Liabilities	1,394	1,555	1,658	1,804	1,954
Trade Payables	560	662	501	560	650
Other Current Liabilities	1,226	1,236	1,770	2,150	2,540
Total Current Liabilities	1,785	1,898	2,270	2,710	3,190
<b>Total Liabilities and Equity</b>	<b>37,965</b>	<b>38,609</b>	<b>43,750</b>	<b>46,332</b>	<b>49,294</b>
Net Block	2,960	3,048	3,312	3,512	3,712
Capital Work in Progress	1	25	16	0	0
Non Current Investments	29,417	30,231	35,127	36,923	39,022
Long Term Loans & Advances	838	1,164	847	1,029	1,216
Other Non Current Assets	376	206	255	310	366
Total Non-Current Assets	33,593	34,674	39,557	41,774	44,316
Sundry Debtors	754	969	1,303	1,457	1,692
Cash and Bank	3,384	2,727	2,706	2,876	3,021
Other Current Assets	231	239	184	224	264
Short Term Loans and Advances	4	1	0	0	0
Total Current Assets	4,373	3,935	4,193	4,558	4,978
<b>Total Assets</b>	<b>37,965</b>	<b>38,609</b>	<b>43,750</b>	<b>46,332</b>	<b>49,294</b>

Source: Company, YES Sec - Research

### Exhibit 5: Profit and Loss Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Operating Income	13,066	13,498	16,432	18,372	21,334
Fees and Commission	513	501	620	716	793
Employee Expense	2,903	3,029	3,360	4,113	4,663
Other Expenses	1,743	2,022	2,515	2,741	2,988
Total Expenses	5,159	5,551	6,495	7,570	8,444
<b>Operating Profit</b>	<b>7,907</b>	<b>7,947</b>	<b>9,937</b>	<b>10,802</b>	<b>12,890</b>
Other Income	2,290	1,668	3,941	2,660	2,798
Depreciation	272	298	291	281	297
Finance Cost	38	40	62	62	62
Profit before Tax	9,887	9,277	13,525	13,119	15,329
Tax	2,453	2,048	2,462	3,149	3,679
<b>Net Profit</b>	<b>7,434</b>	<b>7,229</b>	<b>11,063</b>	<b>9,970</b>	<b>11,650</b>

Source: Company, YES Sec - Research

## Exhibit 6: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	9,887	9,277	13,525	13,119	15,329
Depreciation	272	298	291	281	297
Change in working cap	38	40	62	62	62
Tax paid	(424)	(616)	274	155	112
Others	(2,090)	(1,692)	(2,506)	(3,149)	(3,679)
<b>Cash flow from operations</b>	<b>(1,900)</b>	<b>(1,442)</b>	<b>(3,872)</b>	<b>(2,660)</b>	<b>(2,798)</b>
Capex	<b>5,783</b>	<b>5,866</b>	<b>7,775</b>	<b>7,808</b>	<b>9,323</b>
Change in investments	(55)	(126)	(107)	(465)	(497)
Others	(1,388)	803	(1,201)	(1,797)	(2,099)
<b>Cash flow from investments</b>	<b>210</b>	<b>308</b>	<b>270</b>	<b>2,671</b>	<b>2,809</b>
Free cash flow	<b>(1,233)</b>	<b>984</b>	<b>(1,038)</b>	<b>410</b>	<b>213</b>
Equity raised/(repaid)	1,223	262	1,553	0	0
Debt raised/(repaid)	(38)	(40)	62	(62)	(62)
Dividend (incl tax)	(5,263)	(7,161)	(8,112)	(7,985)	(9,328)
Others	(180)	(178)	(210)	0	0
<b>Cash flow from financing</b>	<b>(4,259)</b>	<b>(7,117)</b>	<b>(6,707)</b>	<b>(8,047)</b>	<b>(9,391)</b>
<b>Net change in cash</b>	<b>291</b>	<b>(267)</b>	<b>30</b>	<b>171</b>	<b>145</b>

Source: Company, YES Sec – Research

## Exhibit 7: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	NA	18,372	21,334	NA	18,385	21,369	NA	(0.1)	(0.2)
Operating Profit	NA	10,802	12,890	NA	10,835	12,948	NA	(0.3)	(0.4)
Profit After Tax	NA	9,970	11,650	NA	9,996	11,694	NA	(0.3)	(0.4)

Source: Company, YES Sec – Research

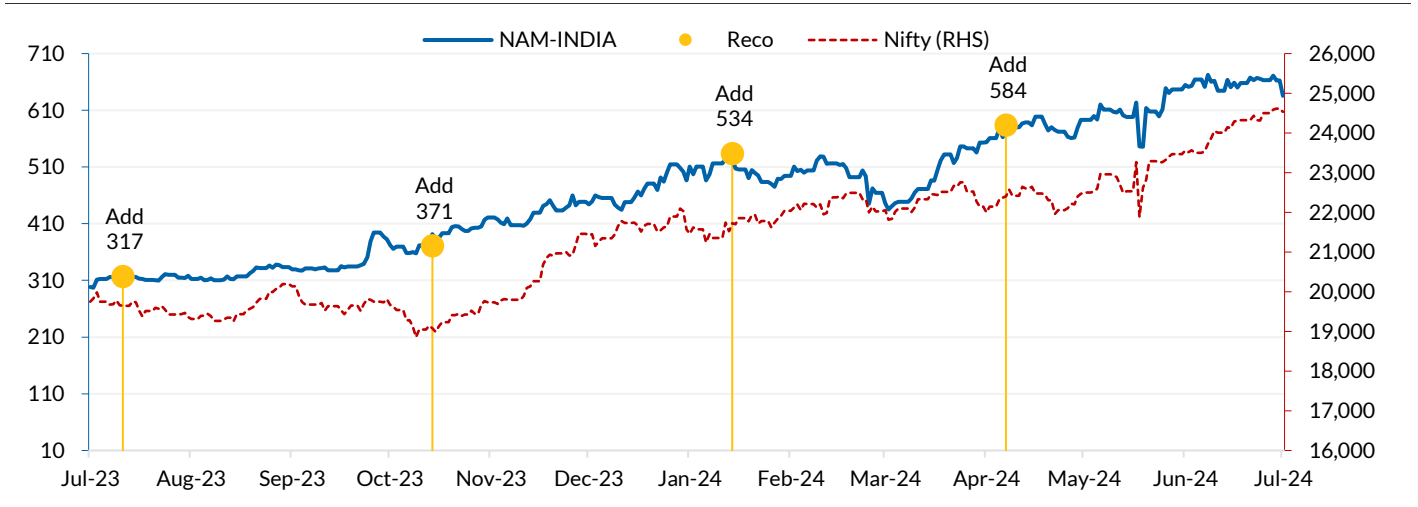
## Exhibit 8: Ratios

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth ratios (%)</b>					
AAUM	30.2%	7.5%	28.0%	21.5%	18.1%
Management Fees	23.8%	4.5%	22.2%	9.3%	16.2%
PMS & Advisory Fees	3.9%	-32.0%	0.3%	148.7%	15.0%
Staff Cost	7.0%	4.3%	11.0%	9.0%	9.0%
Total Operating Expenses	2.2%	7.6%	17.0%	16.6%	11.5%
Profit Before Tax	12.7%	-6.2%	45.8%	-3.0%	16.8%
Net profit	9.4%	-2.7%	53.0%	-9.9%	16.8%
<b>As a % of Avg AUM</b>					
Investment Management Fees	0.47%	0.46%	0.44%	0.39%	0.39%
Staff Cost	0.11%	0.11%	0.09%	0.09%	0.09%
Other Expenses	0.07%	0.07%	0.07%	0.06%	0.06%
PBT	0.37%	0.32%	0.37%	0.29%	0.29%
Net profit	0.33%	0.28%	0.25%	0.30%	0.22%
<b>Operating Ratios</b>					
Operating Profit Margin	60.5%	58.9%	60.5%	58.8%	60.4%
PBT Margin	75.7%	68.7%	82.3%	71.4%	71.9%
PAT Margin	56.9%	53.6%	67.3%	54.3%	54.6%
ROE	22.6%	20.7%	29.5%	24.5%	27.1%
Dividend Payout Ratio	91.9%	99.1%	93.9%	80.0%	80.0%
<b>Per share (Rs)</b>					
EPS	12.0	11.6	17.6	15.8	18.5
Book Value	55.9	56.4	63.2	66.4	70.1
<b>Valuation Ratios</b>					
P/E (x)	53.1	54.7	36.1	40.1	34.3
P/BV (x)	11.4	11.3	10.0	9.6	9.1
Mcap to AUM	14.8%	13.8%	10.7%	8.8%	7.5%
Dividend Yield	1.7%	1.8%	2.6%	2.0%	2.3%

Source: Company, YES Sec – Research



## Recommendation Tracker



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Name of the Research Analyst : Shivaji Thapliyal, Siddharth Rajpurohit, Suraj Singhania

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