

October 30, 2023

**RESULT REPORT Q2 FY24** | Sector: Asset Managers

# Nippon Life India AMC

## Yield stagnant despite rise in share of equity

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

- **Revenue:** Revenue from operations at Rs 3,975mn was up 12.2% QoQ and 19.9% YoY, matching/ lagging 12% QoQ and 23% YoY growth in QAAUM
- **Share of Equity in AUM:** Share of Equity in AUM (including Hybrid funds) at 47% was up 230bps QoQ and 337 bps YoY (calculated on rounded off figures)
- **Share of B-30 in AUM:** Share of B-30 in AUM at 19.9% was up 60bps/170bps QoQ/YoY
- **Channel mix:** In overall AUM, the share of direct channel was 53%. Share of MFDs, Banks and NDs within distributed assets was 58%, 22% and 20%, respectively
- **Operating profit margin:** Operating profit margin for the quarter, at 60.7%, was up 357 bps QoQ and 237 bps YoY

### Our view – Slab rules reduce benefit from gain in net equity flows

**Standalone yield has declined on sequential basis despite improvement in asset class mix in AUM:** The decline in yield is on account of rapid growth in equity AUM, which was up 18% QoQ, which has caused several funds to move into the next TER slab (with lower limit). There has been no change in distribution commission payouts on sequential basis. The competitive pressure on yield has largely reduced and the company is earning more on new equity NFOs than the on-book equity yield. However, there will a compression of overall yield amounting to 2-3 bps every year for the next 3-4 years.

**Market share in net equity inflows reached a healthy double-digit level for the quarter:** Annualised net sales for 2Q has been 3x of entire last financial year. The market share in gross flows in 2Q has amounted to 7.5% whereas the market share in net flows in 2Q has been 11%.

**We maintain a less-than-bullish 'ADD' rating on NAM with a revised price target of Rs 435:** We value NAM at 26x FY25 P/E, at which the stock would trade at a P/B of 6.9x.

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

### Exhibit 1: Result table

Rs mn	Q2FY24	Q2FY23	YoY	Q1FY24	QoQ
Revenue from operation	3,975	3,316	19.9%	3,542	12.2%
As % of QAUM <sup>^</sup>	0.45%	0.47%	-1bps	0.45%	0bps
Fees and Commission Expenses	156	139	12.6%	135	15.2%
As % of revenue	3.9%	4.2%	-25bps	3.8%	10bps
Employee Benefit Expenses	799	765	4.4%	780	2.5%
As % of revenue	20.1%	23.1%	-297bps	22.0%	-191bps
Other Expenses	606	477	27.0%	602	0.6%
As % of revenue	15.2%	14.4%	86bps	17.0%	-176bps
<b>Total Expense</b>	<b>1,561</b>	<b>1,381</b>	<b>13.1%</b>	<b>1,517</b>	<b>2.9%</b>
<b>Operating Profit</b>	<b>2,414</b>	<b>1,935</b>	<b>24.7%</b>	<b>2,024</b>	<b>19.2%</b>
As % of QAUM <sup>^</sup>	0.3%	0.3%	0bps	0.3%	2bps
As % of revenue	60.7%	58.4%	237bps	57.2%	357bps
Other Income	779	819	-4.9%	1,169	-33.4%
Finance cost	17	8	113.9%	13	31.0%
Depreciation	72	71	1.6%	81	-11.1%
<b>Profit before Tax</b>	<b>3,104</b>	<b>2,676</b>	<b>16.0%</b>	<b>3,099</b>	<b>0.1%</b>
Tax Expense	661	615	7.5%	746	-11.3%
<b>Profit After Tax</b>	<b>2,443</b>	<b>2,060</b>	<b>18.5%</b>	<b>2,354</b>	<b>3.8%</b>
As % of QAUM <sup>^</sup>	0.3%	0.3%	-1bps	0.3%	-2bps
As % of revenue	61.4%	62.1%	-69bps	66.5%	-501bps

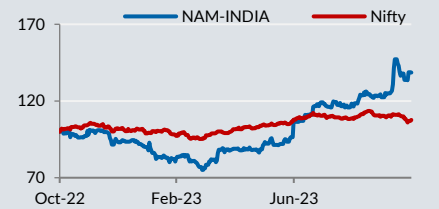
Source: Company, YES Sec-Research, <sup>^</sup>Annualised

Recommendation	: ADD
Current Price	: Rs 371
Target Price	: Rs 435
Potential Return	: +17%

### Stock data (as on October 30, 2023)

Nifty	19,141
52 Week h/l (Rs)	398 / 197
Market cap (Rs/USD mn)	232329 / 2791
Outstanding Shares (mn)	625
6m Avg t/o (Rs mn):	217
Div yield (%):	3.2
Bloomberg code:	NAM IN
NSE code:	NAM-INDIA

### Stock performance



	1M	3M	1Y
Absolute return	13.1%	16.3%	38.5%

### Shareholding pattern (As of Sept'23 end)

Promoter	73.5%
FII+DII	19.6%
Others	6.9%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	435	400

### Financial Summary

Rs mn	FY24E	FY25E	FY26E
Net Revenue	16,289	18,482	21,289
YoY Growth	20.7%	13.5%	15.2%
EBIDTA Margin	62.7%	64.0%	65.7%
PAT	9,235	10,541	12,282
YoY Growth	27.7%	14.1%	16.5%
ROE	25.6%	27.7%	30.5%
EPS (Rs)	14.8	16.9	19.7
P/E (x)	25.0	21.9	18.8
BV (Rs)	59.4	62.8	66.7
P/BV (x)	6.2	5.9	5.6

### Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	14.8	16.9	19.7
EPS (Old)	13.6	15.5	18.1
% change	8.9%	8.9%	8.8%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### Revenue yield

- **Decline in overall standalone yield**
  - Standalone yield has declined on sequential basis despite slight improvement in asset class mix in AUM.
  - The decline in yield is on account of rapid growth in equity AUM, which was up 17% QoQ, which has caused several funds to move into the next TER slab (with lower limit).
  - There has been no change in distribution commission payouts on sequential basis.
- **Segment-wise on-book yield in 2Q**
  - Equity – 70 odd bps.
  - Debt – 25-30 bps
  - Liquid – 15-20 bps
  - ETF – 15-20 bps
- **Sequential decline in equity yield**
  - Equity yield in 1Q was 74-75 bps.
- **Yield outlook**
  - The competitive pressure on yield has largely reduced and the company is earning more on new equity NFOs than the on-book equity yield.
  - However, there will a compression of overall yield amounting to 2-3 bps every year for the next 3-4 years.

### Equity business

- **Equity sales / Flows**
  - Annualised net sales for 2Q has been 3x of entire last financial year.
  - The market share in gross flows in 2Q has amounted to 7.5%.
  - The market share in net flows in 2Q has been 11%.
- **Hybrid funds**
  - Money is flowing in a healthy manner into the area of hybrid funds.
  - Hybrid funds that hold more than 65% equity are treated as equity funds (and have the same TER structure).

### Debt business

- Money is flowing primarily into ultra-short term and liquid funds.
- Money is also flowing into senior citizens savings scheme.

### ETF business

- **EPFO business**
  - The EPFO business is a Rs 150bn per annum opportunity for each participant AMC.
  - The company charges 4 bps for this business, which translates to a Rs 50-60mn bottomline.

### Other income

- Other income for the quarter has benefited from MTM.

(Con call takeaways continue on the next page)

- 92% of the investible surplus is into financial investments.
- There were no one-offs in other income for the quarter.

## Operating expenses

- **Higher expenses**
  - Last quarter, the company has upped investments for the future.
  - **Areas of higher expenses**
    - Marketing spends
    - IT investment including Data Lake for AI
    - Outsourcing and consultant cost – for reducing manpower (on roll)
  - These areas of higher expenses are discretionary in nature and can be switched off when required.
- **Employee count**
  - Employee count has declined from a peak of 1200 odd people as of FY19 to 985 as of now.
  - The recent change in employee count has not been that significant, with 15 employees added, on net basis, over the past 12 months.

## AUM growth and related aspects

- **Total MF AUM**
  - Total MF QAAUM rose 23% YoY to Rs 3,506bn as of 2QFY24.
  - Total average AUM market share stood at 7.46%, up 18bps QoQ.
- **Equity AUM**
  - Equity AUM rose 33% YoY to Rs 1.64trn as of 2QFY24.
  - Equity AUM (ex-ETF) market share stood at 6.53%, up 26bps QoQ.
  - The company is now ranked 5<sup>th</sup> in terms of total equity AUM.
  - The net flows have increased for NAM even after stopping lump-sum flows in Small-cap fund in July 2023.
  - **NFOs**
    - The company has completed the NFO of Nippon India Innovation fund with AUM of Rs 9.6bn as of 2QFY24.
  - **SIP business**
    - The outstanding SIP accounts for the company are 6.0mn, up 39% YoY
    - SIP AUM as of 2QFY24 stood at Rs 779 bn, up 40% YoY.
    - The annualised SIP book was at 208 bn.
    - Unique SIP transactions were at around 12.8mn, up 20% QoQ.
    - 64% of NAM's SIP AUM has continued for over 5 years as against 26% for the industry.
    - 16% of NAM's SIP folios has continued for more than 5 years as against 12% for the industry.
    - The AMC is adding about 1mn new SIP registrations per quarter.
- **Retail AUM**
  - Share of retail investors in total AUM stood at 30%, up 100bps YoY.
- **HNI AUM**
  - NAM's HNI AUM stood at Rs 981 bn, up 43% YoY.
  - NAM's HNI market share has improved 30bps QoQ to 6.3%.
- **Passive AUM**
  - ETF AUM stood at Rs 808bn as of 2QFY24.

(Con call takeaways continue on the next page)

- **Gold ETF**
  - Gold ETF AUM stood at Rs 78 bn as of 2QFY24.
- ETF market share stood at 14%, up 16bps QoQ.
- NAM's share in the industry ETF folios stood at 61%.
- NAM has 67% market share of ETF volumes in NSE and BSE.
- The inflows from EPFO to NAM has commenced in July 2023 and the company expects 1/4<sup>th</sup> of the incremental EPFO flows going forward.
- **B-30 AUM**
  - Contribution in total AUM stood at 19.9%, up 60bps QoQ.
- **Folios**
  - NAM has added a total of 1.2mn new folios in 2QFY24.
  - NAM has the largest investor base in the mutual fund industry with 14.6mn unique investors.
  - NAM's share in Unique investors in the industry was at 36.2%, up 70bps QoQ.

## AIF business

- NAM has Total commitment of Rs. 57.8bn.
- In 1QFY24, NAM appointed Mr. Ashish Chugani as Head of AIF business.
- In 2QFY24, elevated Mr. Ashwin Duggal as Deputy Head of Business.
- NAM has recently launched Nippon India Equity Opportunities AIF Scheme 9, a Category III Long only Equity AIF.
- The fund raising is also underway for Structured Credit AIF, Nippon India Credit Opportunities AIF Scheme 1.

## Profit aspects

- **Operating Profit**
  - Operating profit for 2QFY24 was Rs. 2.32bn, up 25% YoY
- **Profit After Tax**
  - PAT for 2QFY24 was Rs. 2.44 bn, up 19% YoY

## Distribution aspects

- The company added 2,600 new distributors in 2QFY24.
- NAM has over 95,600 distributors as of 2QFY24.
- **Digital Initiatives**
  - The total Digital transactions were at 2.55mn in 1HFY24, up 64% YoY.
  - Digital channel constitutes 56% of total new purchase transactions for 1HFY24.

## Exhibit 2: Other Business Parameters

Rs mn	Q2FY24	Q2FY23	YoY	Q1FY24	QoQ
QAAUM	3,505,644	2,850,539	23%	3,135,982	12%
Retail share	30%	29%	100bps	30%	0bps
SIP Flows	47,200	25,600	84%	34,300	38%
<b>QAAUM Mix</b>					
Equity	1,640,642	1,238,113	33%	1,395,512	18%
Debt	673,084	575,867	17%	642,876	5%
Liquid	385,621	403,107	-4%	357,502	8%
ETFs	806,298	633,453	27%	736,956	9%
<b>QAAUM Mix (% proportion)</b>					
Equity	47%	43%	337bps	45%	230bps
Debt	19%	20%	-100bps	21%	-130bps
Liquid	11%	14%	-314bps	11%	-40bps
ETFs	23%	22%	78bps	24%	-50bps
<b>Channel Mix (% proportion)</b>					
Direct	53%	54%	-100bps	54%	-100bps
Distributed Assets	47%	46%	100bps	46%	100bps
MFDs	58%	60%	-200bps	58%	0bps
Banks	22%	19%	300bps	22%	0bps
National Distributors	20%	21%	-100bps	20%	0bps
<b>Geographical Spread</b>					
T-30	80.1%	81.8%	-170bps	80.7%	-60bps
B-30	19.9%	18.2%	170bps	19.3%	60bps

Source: Company, YES Sec – Research

## Exhibit 3: Quarterly Actuals Vs Estimates

Q2FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Revenue	3,975	3,959	0.4
Operating profit	2,414	2,277	6.0
Profit after tax	2,443	2,062	18.4

Source: Company, YES Sec – Research

## ANNUAL FINANCIALS

### Exhibit 4: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	6,220	6,232	6,232	6,232	6,232
Total Reserves	28,566	28,925	30,770	32,879	35,336
Shareholder's Funds	34,786	35,156	37,002	39,111	41,568
Long Term Provisions	154	127	127	127	127
Other Non Current Liabilities	1,240	1,428	1,592	1,730	1,890
Total Non - Current Liabilities	1,394	1,555	1,719	1,857	2,017
Trade Payables	560	662	799	906	1,044
Other Current Liabilities	1,226	1,236	1,517	1,754	2,028
Total Current Liabilities	1,785	1,898	2,316	2,660	3,072
<b>Total Liabilities and Equity</b>	<b>37,965</b>	<b>38,609</b>	<b>41,037</b>	<b>43,627</b>	<b>46,657</b>
Net Block	2,960	3,048	3,248	3,448	3,648
Capital Work in Progress	1	25	0	0	0
Non Current Investments	29,417	30,231	31,894	33,793	36,004
Long Term Loans & Advances	838	1,164	1,429	1,652	1,910
Other Non Current Assets	376	206	253	292	338
Total Non-Current Assets	33,593	34,674	36,824	39,184	41,900
Sundry Debtors	754	969	1,169	1,327	1,528
Cash and Bank	3,384	2,727	2,750	2,778	2,837
Other Current Assets	231	239	293	338	391
Short Term Loans and Advances	4	1	1	1	1
Total Current Assets	4,373	3,935	4,213	4,443	4,757
<b>Total Assets</b>	<b>37,965</b>	<b>38,609</b>	<b>41,037</b>	<b>43,627</b>	<b>46,657</b>

Source: Company, YES Sec - Research

### Exhibit 5: Profit and Loss Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Operating Income	13,066	13,498	16,289	18,482	21,289
Fees and Commission	513	501	565	653	755
Employee Expense	2,903	3,004	3,274	3,569	3,890
Other Expenses	1,743	2,047	2,231	2,431	2,650
Total Expenses	5,159	5,551	6,070	6,654	7,296
<b>Operating Profit</b>	<b>7,907</b>	<b>7,947</b>	<b>10,219</b>	<b>11,828</b>	<b>13,993</b>
Other Income	2,290	1,668	2,297	2,426	2,572
Depreciation	272	298	325	345	365
Finance Cost	38	40	40	40	40
Profit before Tax	9,887	9,277	12,152	13,870	16,160
Tax	2,453	2,048	2,916	3,329	3,878
<b>Net Profit</b>	<b>7,434</b>	<b>7,229</b>	<b>9,235</b>	<b>10,541</b>	<b>12,282</b>

Source: Company, YES Sec - Research

## Exhibit 6: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	9,887	9,277	12,152	13,870	16,160
Depreciation	272	298	325	345	365
Change in working cap	(142)	(101)	16	17	13
Tax paid	2,453	2,048	2,916	3,329	3,878
Others	3,131	296	1	4	4
<b>Cash flow from operations</b>	<b>10,695</b>	<b>7,722</b>	<b>9,577</b>	<b>10,906</b>	<b>12,664</b>
Capex	(213)	(410)	(500)	(545)	(565)
Change in investments	(3,918)	(814)	(1,663)	(1,898)	(2,211)
Others	0	0	0	0	0
<b>Cash flow from investments</b>	<b>(4,130)</b>	<b>(1,224)</b>	<b>(2,163)</b>	<b>(2,443)</b>	<b>(2,776)</b>
Free cash flow	6,565	6,498	7,414	8,464	9,888
Equity raised/(repaid)	55	12	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl tax)	6,842	7,167	7,391	8,436	9,829
Others	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(6,787)</b>	<b>(7,155)</b>	<b>(7,391)</b>	<b>(8,436)</b>	<b>(9,829)</b>
<b>Net change in cash</b>	<b>(222)</b>	<b>(657)</b>	<b>23</b>	<b>27</b>	<b>59</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	16,289	18,482	21,289	15,270	17,331	19,962	6.7	6.6	6.6
Operating Profit	10,219	11,828	13,993	9,229	10,711	12,705	10.7	10.4	10.1
Profit After Tax	9,235	10,541	12,282	8,483	9,683	11,285	8.9	8.9	8.8

Source: Company, YES Sec – Research

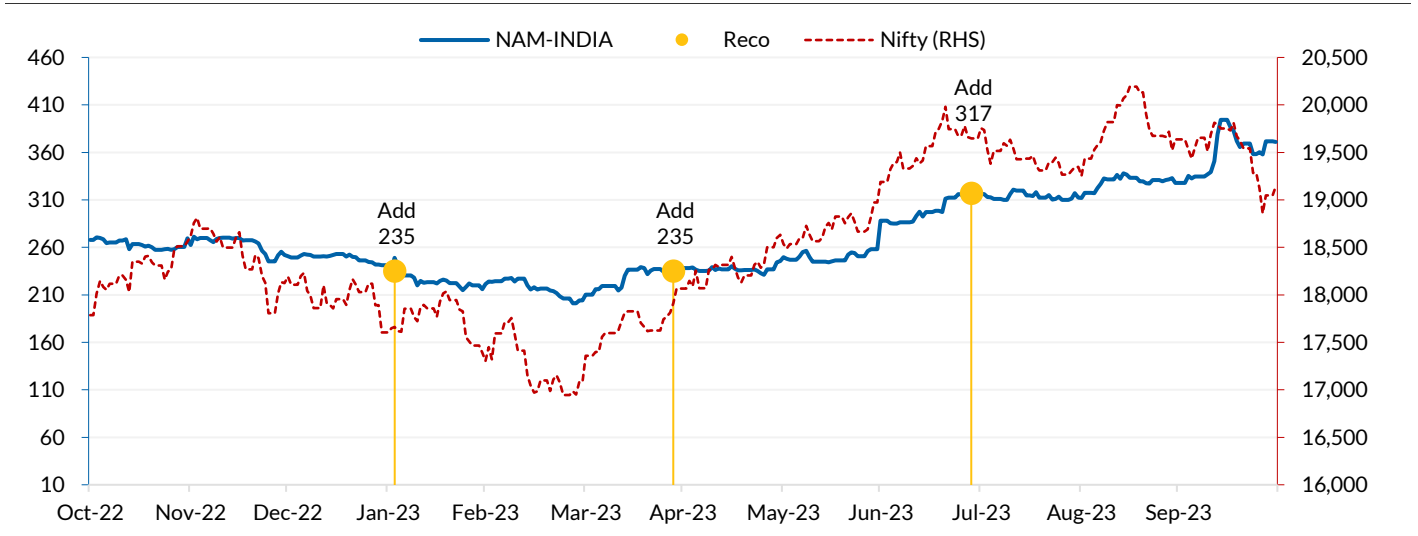
## Exhibit 8: Ratios

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth ratios (%)</b>					
AAUM	30.2%	7.5%	22.8%	15.6%	15.7%
Management Fees	23.8%	4.5%	19.3%	13.6%	15.4%
PMS & Advisory Fees	3.9%	-32.0%	80.1%	10.2%	10.2%
Staff Cost	7.0%	3.5%	9.0%	9.0%	9.0%
Total Operating Expenses	2.2%	7.6%	9.4%	9.6%	9.7%
Profit Before Tax	12.7%	-6.2%	31.0%	14.1%	16.5%
Net profit	9.4%	-2.7%	27.7%	14.1%	16.5%
<b>As a % of Avg AUM</b>					
Investment Management Fees	0.47%	0.46%	0.45%	0.44%	0.44%
Staff Cost	0.11%	0.10%	0.09%	0.09%	0.08%
Other Expenses	0.07%	0.07%	0.06%	0.06%	0.06%
PBT	0.37%	0.32%	0.34%	0.34%	0.34%
Net profit	0.33%	0.28%	0.25%	0.26%	0.26%
<b>Operating Ratios</b>					
Operating Profit Margin	60.5%	58.9%	62.7%	64.0%	65.7%
PBT Margin	75.7%	68.7%	74.6%	75.0%	75.9%
PAT Margin	56.9%	53.6%	56.7%	57.0%	57.7%
ROE	22.6%	20.7%	25.6%	27.7%	30.5%
Dividend Payout Ratio	91.9%	99.1%	80.0%	80.0%	80.0%
<b>Per share (Rs)</b>					
EPS	12.0	11.6	14.8	16.9	19.7
Book Value	55.9	56.4	59.4	62.8	66.7
<b>Valuation Ratios</b>					
P/E (x)	31.0	32.0	25.0	21.9	18.8
P/BV (x)	6.6	6.6	6.2	5.9	5.6
Mcap to AUM	8.6%	8.0%	6.5%	5.7%	4.9%
Dividend Yield	3.0%	3.1%	3.2%	3.6%	4.3%

Source: Company, YES Sec – Research



## Recommendation Tracker



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