

Nippon Life India Asset Management | BUY

Strong AUM growth; market share uptick key positive

NAM reported an operating PBT of INR 2.3bn (+25% YoY, +20% QoQ; in-line vs JMFe) driven by a) strong AUM growth of 23% YoY, b) steady top-line yields of 45bps (flat QoQ) and controlled opex (+13% YoY). Overall MF QAAUM witnessed a growth of +12% QoQ (+23% YoY) with strong growth in equity and ETFs (+31.5% and +33% YoY resp) on back of buoyant markets and market share gains; further, even debt AUM witnessed a growth of +24% YoY. Monthly SIP flows improved to INR 17.3bn in Sep'23 vs INR 12.2bn in Jun'23 and SIP flow market share improved to 10.5% (+220bps QoQ). Top-line yields were held steady at 45bps despite favourable AUM mix as equity yields continue to see moderation as new lower yielding AUM continues to replace old higher yielding AUM and also as scheme AUM size is increasing. NAM has started to see equity market share gains (6.7% in Sep'23, +25bps QoQ) on the back of strong uptick in net equity flows and management indicated that this trend should subsist. NAM has seen a sharp bounce back since the lows seen post SEBI discussion paper on proposed TER changes given that SEBI has indicated that a revised discussion paper is in works. While there is a broad expectation that the new discussion paper will be much more positive for AMCs, we remain watchful of the key changes. Maintain BUY with a TP of INR 430.

- In-line core operating performance:** Operating revenue yields were steady at 45bps despite favourable AUM mix as equity yields continue to see moderation as new lower yielding AUM continues to replace old higher yielding AUM and also as scheme AUM size is increasing. Opex was controlled (+13% YoY; +2.4% QoQ) and management indicated that there are one-off discretionary expenses over the last quarter which they can stop as needed. Operating PBT of INR 2.3bn (+25% YoY, +20% QoQ) was in-line with JMFe with core PBT margins improving +2bps QoQ to 27bps aided by operating leverage. Other income was strong at INR 0.8bn (vs INR 1.2bn QoQ).
- Strong AUM growth subsists:** Overall MF QAAUM witnessed a growth of +12% QoQ (+23% YoY) with strong growth in equity and ETFs (+31.5% and +33% YoY resp) on back of buoyant markets and market share gains; further, even debt AUM witnessed a growth of +24% YoY. Monthly SIP flows improved to INR 17.3bn in Sep'23 vs INR 12.2bn in Jun'23 and SIP flow market share improved to 10.5% (+220bps QoQ). NAM's equity market share, which was steady around 6.3-6.4% levels for last 5-6 quarters, has started to see gains (6.7% in Sep'23, +25bps QoQ) on the back of strong uptick in net equity flows and management indicated that this trend should subsist. Management indicated that equity flows, unlike 1Q24 wherein they were concentrated in small/mid cap schemes, were more diversified this time with top 5 schemes contributing 80% of the flows. We remain watchful on the sustainability of market share gains going ahead.
- Valuation:** NAM has seen a sharp bounce back since the lows seen post SEBI discussion paper on proposed TER changes given that SEBI has indicated that a revised discussion paper is in works. While there is a broad expectation that the new discussion paper will be much more positive for AMCs, we remain watchful of the key changes. Maintain BUY with a TP of INR 430.


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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	430
Upside/(Downside)	15.9%
Previous Price Target	365
Change	17.8%

Key Data – NAM IN

Current Market Price	INR371
Market cap (bn)	INR231.8/US\$2.8
Free Float	20%
Shares in issue (mn)	612.0
Diluted share (mn)	
3-mon avg daily val (mn)	INR316.9/US\$3.8
52-week range	398/197
Sensex/Nifty	64,113/19,141
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	13.1	55.7	38.5
Relative*	16.1	48.4	31.2

* To the BSE Sensex

Financial Summary

Y/E March	FY21A	FY22A	FY23A	FY25E	FY25E
Mutual Fund AUM (closing basis, INR bn)	2,218	2,774	2,869	3,624	4,253
YoY growth (%)	36%	25%	3%	26%	17%
% of equity MF AUM (closing basis)	42%	42%	44%	47%	48%
Consol. Revenues (INR mn)	14,193	15,356	15,166	17,985	21,073
Total operating expenses (INR mn)	5,423	5,470	5,889	6,575	7,290
Consol. PAT (INR mn)	6,794	7,434	7,229	8,672	10,475
YoY growth (%)	63%	9%	-3%	20%	21%
Consol PAT / Avg. AUM (RoAUM) (%)	0.35%	0.30%	0.26%	0.27%	0.27%
RoE (%)	23.9%	22.6%	20.7%	24.2%	27.3%
EPS (INR)	11.1	12.1	11.8	14.2	17.1
P/E (x)	33.4	30.5	31.4	26.2	21.7

Source: Company data, JM Financial. Note: Valuations as of 30/Oct/2023

JM Financial Research is also available on:
 Bloomberg - JMFR <GO>,
 Thomson Publisher & Reuters,
 S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Key Quarterly Trends

Exhibit 1. NAM 2Q24: Key Quarterly Highlights

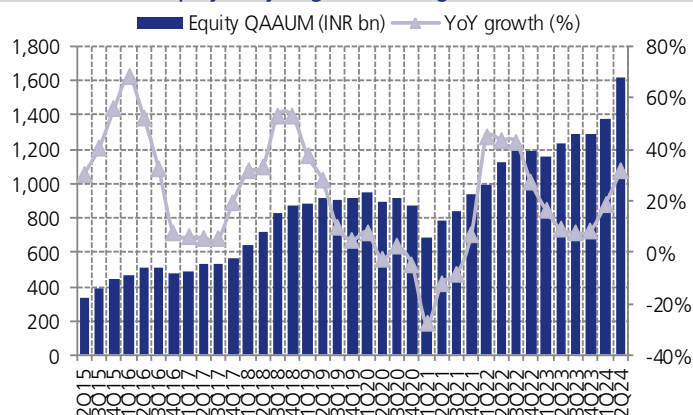
Consolidated P&L (INR mn)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)
Revenue from operations	3,316	3,542	3,975	12.2%	19.9%
Employee benefits expense	765	780	799	2.5%	4.4%
Marketing & publicity expense	139	135	156	15.2%	12.6%
Other operating expenses	556	696	695	-0.2%	25.0%
Total expenses	1,459	1,611	1,650	2.4%	13.1%
Operating PBT	1,857	1,931	2,325	20.4%	25.2%
Other income	819	1,169	779	-33.4%	-4.9%
PBT	2,676	3,099	3,104	0.1%	16.0%
PAT	2,061	2,357	2,444	3.7%	18.6%

QAAUM (INR bn)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)
Equity	1,229	1,379	1,616	17.2%	31.5%
Debt	337	400	419	4.8%	24.3%
Liquid	616	543	580	6.7%	-6.0%
Other	668	814	891	9.4%	33.4%
Overall	2,851	3,136	3,506	11.8%	23.0%

Dupont analysis	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)
Revenue / QAAUM (%)	0.47%	0.45%	0.45%	0.00%	-0.01%
Employee exp / QAAUM (%)	0.11%	0.10%	0.09%	-0.01%	-0.02%
Marketing & publicity exp / QAAUM (%)	0.02%	0.02%	0.02%	0.00%	0.00%
Total cost / QAAUM (%)	0.20%	0.21%	0.19%	-0.02%	-0.02%
Operating PBT / QAAUM (%)	0.26%	0.25%	0.27%	0.02%	0.00%
Other income / QAAUM (%)	0.11%	0.15%	0.09%	-0.06%	-0.03%
PBT / QAAUM (%)	0.38%	0.40%	0.35%	-0.04%	-0.02%
PAT / QAAUM (%)	0.29%	0.30%	0.28%	-0.02%	-0.01%

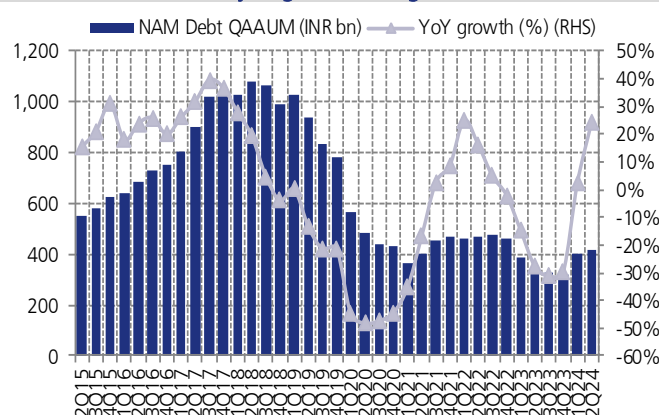
Source: JM Financial, Company

Exhibit 2. NAM: Equity Qtrly Avg AUM and growth (%)



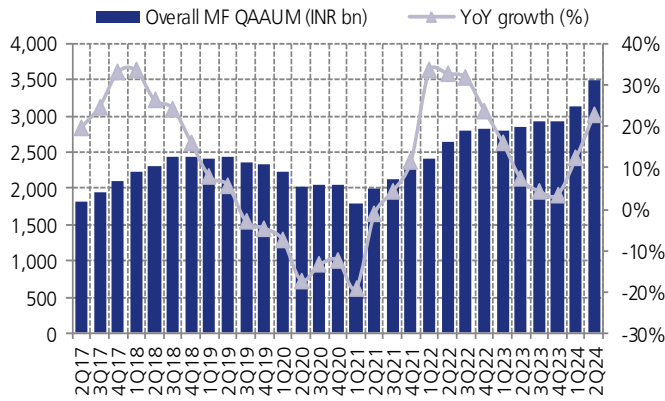
Source: Company, JM Financial

Exhibit 3. NAM: Debt Qtrly Avg AUM and growth (%)



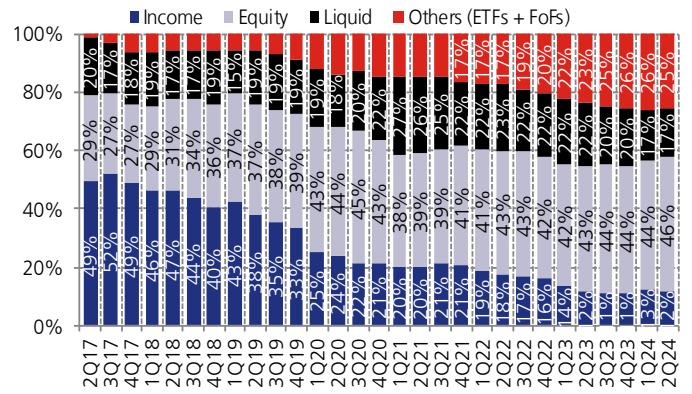
Source: Company, JM Financial

Exhibit 4. NAM: Overall MF Qtrly Avg AUM growth



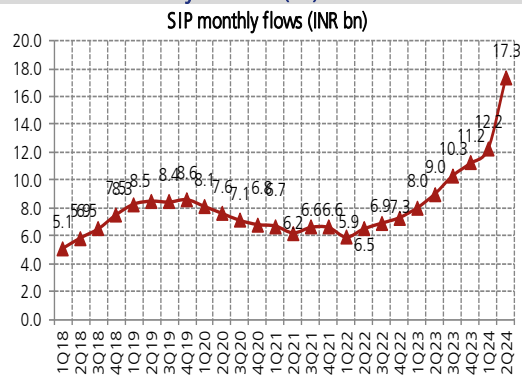
Source: Company, JM Financial

Exhibit 5. NAM: Overall MF Qtrly Avg AUM mix (%)



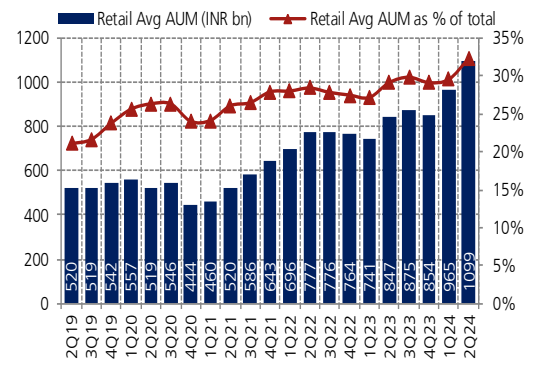
Source: Company, JM Financial

Exhibit 6. NAM: SIP monthly inflows (%)



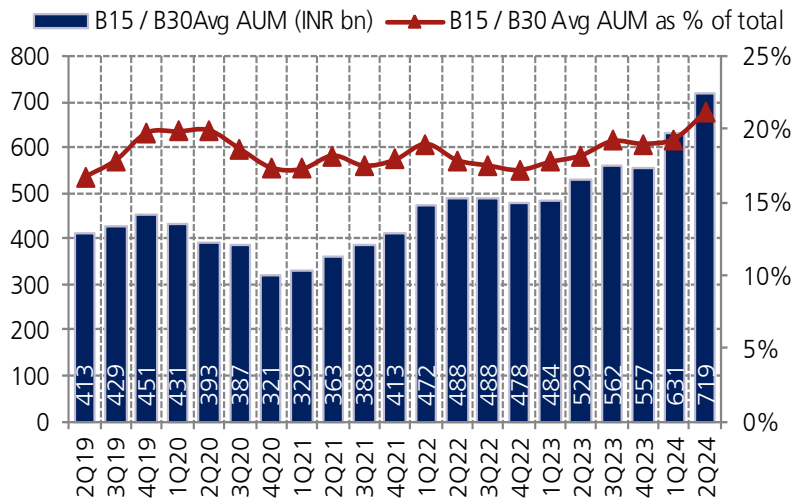
Source: Company, JM Financial; SIP book restated from 2QFY20 to show actual money received

Exhibit 7. NAM: Retail AAUM as % of total (%)



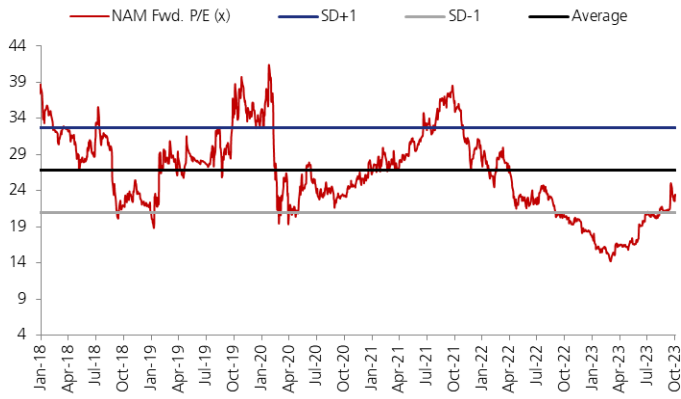
Source: Company, JM Financial

Exhibit 8. NAM: Trends in B15 / B30 AUM



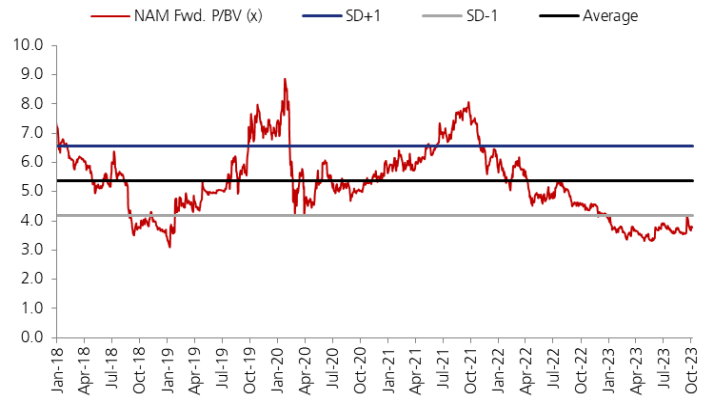
Source: Company, JM Financial

Exhibit 9. NAM: One year forward P/E chart



Source: Company, JM Financial, Bloomberg

Exhibit 10. NAM: One year forward P/B chart



Source: Company, JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement (INR mn)					
	FY21A	FY22A	FY23A	FY24E	FY25E
Invst. Mgmt. Fees	10,199	12,627	13,200	15,281	18,110
PMS Fees	423	439	299	332	385
Share of Profit in LLP	-	-	-	-	-
Investment Management fees	10,621	13,066	13,498	15,613	18,495
Total Other income	3,572	2,290	1,668	2,373	2,578
Total Revenue	14,193	15,356	15,166	17,985	21,073
Employee costs	2,713	2,903	3,004	3,274	3,602
Admin & Other expenses	1,703	1,520	1,709	1,965	2,201
Mktg & publicity expenses	675	774	878	1,009	1,130
Total Operating Expenses	5,091	5,197	5,591	6,249	6,934
Depreciation/Diminution in LT	333	272	298	326	357
Total Expenditure	5,423	5,470	5,889	6,575	7,290
PBT	8,770	9,887	9,277	11,410	13,783
Tax	(1,976)	(2,453)	(2,048)	(2,738)	(3,308)
PAT (Pre-Extraordinaries)	6,794	7,434	7,229	8,672	10,475
Less: MI + Share of Assoc.	9	8	4	-	-
Reported Profit (PAT)	6,803	7,442	7,233	8,672	10,475
Dividend	4,922	6,843	7,166	6,937	8,380
Retained earnings	1,882	599	67	1,734	2,095

Source: Company, JM Financial

Key Ratios					
As a % of Avg AUM	FY21A	FY22A	FY23A	FY24E	FY25E
Core Revenues / Avg. AUM	0.55%	0.52%	0.48%	0.48%	0.47%
Other Revenues / Avg. AUM	0.19%	0.09%	0.06%	0.07%	0.07%
Total Revenues / Avg. AUM	0.74%	0.62%	0.54%	0.55%	0.54%
Employee cost / Avg. AUM	0.14%	0.12%	0.11%	0.10%	0.09%
Brokerage / Avg. AUM	0.02%	0.02%	0.02%	0.02%	0.02%
Operating cost / Avg. AUM	0.28%	0.22%	0.21%	0.20%	0.19%
PBT / Avg. AUM	0.46%	0.40%	0.33%	0.35%	0.35%
PAT / Avg. AUM	0.35%	0.30%	0.26%	0.27%	0.27%
As a % of Balance sheet assets					
Core Revenues / Avg. Assets	34.1%	37.0%	36.0%	40.2%	44.4%
Other Revenues / Avg. Assets	11.5%	6.5%	4.4%	6.1%	6.2%
Total Revenues / Avg. Assets	45.5%	43.4%	40.4%	46.4%	50.6%
Employee cost / Avg. Assets	8.7%	8.2%	8.0%	8.4%	8.7%
Brokerage / Avg. Assets	1.4%	1.5%	1.3%	1.5%	1.5%
Operating cost / Avg. Assets	16.3%	14.7%	14.9%	16.1%	16.7%
PBT / Avg. Assets	28.1%	28.0%	24.7%	29.4%	33.1%
RoA (%)	21.8%	21.0%	19.3%	22.3%	25.2%
Avg Assets/Equity (x)	1.09	1.07	1.07	1.08	1.08
RoE (%)	23.9%	22.6%	20.7%	24.2%	27.3%

Source: Company, JM Financial

Balance Sheet (INR mn)					
	FY21A	FY22A	FY23A	FY24E	FY25E
Share capital	6,165	6,220	6,232	6,232	6,232
Reserves & Surplus	24,838	28,558	28,922	30,427	33,965
Net worth	31,003	34,778	35,154	36,659	40,197
Preference shares	-	-	-	-	-
Minority interest	-	-	-	-	-
Current Liabilities	2,289	2,252	2,620	2,882	3,170
Provisions	234	154	127	159	198
Total Liabilities	33,527	37,184	37,901	39,700	43,565
Net Fixed Assets	3,021	2,961	3,073	3,164	3,265
Non-Current investments	25,500	29,417	30,231	33,105	36,261
Total Non-current assets	29,454	33,042	34,204	36,972	40,048
Total Current investments	-	-	-	-	-
Total Current Assets	4,072	4,142	3,697	2,728	3,517
Total Assets	33,527	37,184	37,901	39,700	43,565

Source: Company, JM Financial

Growth ratios (YoY %)					
	FY21A	FY22A	FY23A	FY24E	FY25E
Inv mgmt fees	-11.7%	23.0%	3.3%	15.7%	18.5%
Other income	NM	-35.9%	-27.2%	42.2%	8.7%
Revenue	19.0%	8.2%	-1.2%	18.6%	17.2%
Employee cost	-10.3%	7.0%	3.5%	9.0%	10.0%
Admin & other exp	-2.0%	-10.7%	12.4%	15.0%	12.0%
Marketing & publicity	-45.6%	14.7%	13.4%	15.0%	12.0%
Total operating exp	-15.2%	2.1%	7.6%	11.8%	11.0%
PBT	56.7%	12.7%	-6.2%	23.0%	20.8%
Tax	37.2%	24.1%	-16.5%	33.7%	20.8%
PAT	63.8%	9.4%	-2.8%	19.9%	20.8%
Total Assets	16.4%	10.9%	1.9%	4.7%	9.7%
Equity AUM	49%	26%	7%	35%	21%
Debt AUM	10%	-5%	-7%	12%	11%
Liquid AUM	25%	22%	-22%	14%	13%
Other AUM	57%	58%	29%	27%	17%
Total AUM	36%	25%	3%	26%	17%

Source: Company, JM Financial

Mutual Fund AUM (INR bn)					
Closing AUM	FY21A	FY22A	FY23A	FY24E	FY25E
Equity	933	1,177	1,254	1,692	2,045
Debt	423	403	374	420	466
Liquid	479	586	457	520	585
Others	384	608	784	992	1,157
Total AUM	2,218	2,774	2,869	3,624	4,253

Source: Company, JM Financial

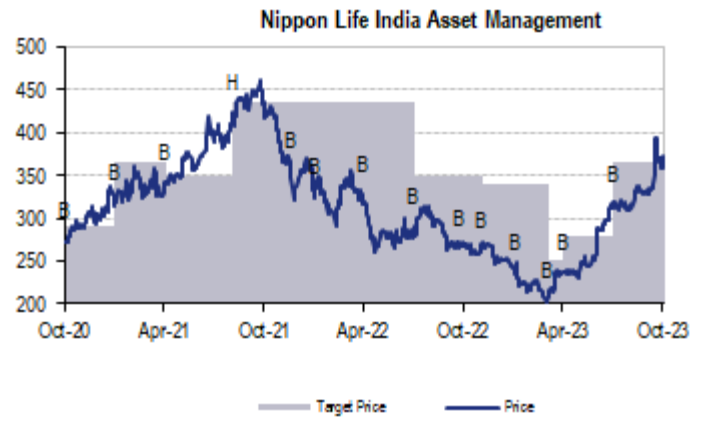
Valuation					
	FY21A	FY22A	FY23A	FY24E	FY25E
Shares in issue (mn)	612.0	612.0	612.0	612.0	612.0
EPS (INR)	11.1	12.1	11.8	14.2	17.1
EPS (YoY) (%)	63%	9%	-3%	20%	21%
PER (x)	33.4	30.5	31.4	26.2	21.7
BV (INR)	50.7	56.8	57.4	59.9	65.7
BV (YoY)	19.6%	12.2%	1.1%	4.3%	9.6%
P/BV (x)	7.3	6.5	6.5	6.2	5.6
DPS (INR)	8.0	11.2	11.7	11.3	13.7
Div. yield (%)	2.5%	3.5%	3.7%	3.6%	4.3%

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
23-Jan-20	Hold	340	
24-Apr-20	Hold	225	-33.8
17-May-20	Hold	225	0.0
28-Jul-20	Hold	225	0.0
30-Sep-20	Buy	290	28.9
27-Oct-20	Buy	290	0.0
27-Jan-21	Buy	365	25.9
28-Apr-21	Buy	350	-4.1
31-Aug-21	Hold	435	24.3
15-Dec-21	Buy	435	0.0
27-Jan-22	Buy	435	0.0
26-Apr-22	Buy	435	0.0
28-Jul-22	Buy	350	-19.5
19-Oct-22	Buy	350	0.0
29-Nov-22	Buy	340	-2.9
30-Jan-23	Buy	340	0.0
29-Mar-23	Buy	250	-26.5
26-Apr-23	Buy	280	12.0
27-Jul-23	Buy	365	30.4

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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