

Nippon Life India AMC

NAM continues to revise commission structure

Our view – Revised commission structure to reduce pace of yield erosion

Revenue Yield – Yield was stable on sequential basis while equity business held on: Calculated consolidated revenue yield remained broadly stable QoQ at 41 bps. Commissions were rationalized at the fag end of the quarter. Due to the proportional sharing approach, the pace of dilution of yield will be lower going forward. The smallcap, largecap and multicap funds have been addressed, which comprise about 45-50% of overall AUM. In the Equity business, the early trends in January have not seen a distortion and are more or less at par with flows seen in December. The company has maintained double digit market share in equity flows (presumably net equity flows).

Operating Expenses – Operating expenses growth was relatively elevated on YoY basis: The total operating expense stood at Rs. 2.02bn, up by 2.7% QoQ and 23.2% YoY. The employee expense for the quarter was Rs 1.06bn down -0.4% QoQ but up 21.8% YoY. The non-staff expenses have grown 25% YoY and 6.3% QoQ. The non-staff expenses were driven by investment in technology and in the AIF business. The endeavour is to keep overall expenses growth, excluding ESOP expense at 15-17%.

We maintain ADD rating on NAM with a revised price target of Rs 750: We value NAM at 36x FY26 P/E, at which the stock would trade at a P/B of 10.5x.

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

Other Highlights (See “Our View” above for elaboration and insight)

- **Revenue:** Revenue from operations at Rs 5,879mn was up 2.9% QoQ and 38.9% YoY, lagging 4% QoQ and 51% YoY growth in QAAUM
- **Share of Equity in AUM:** Share of Equity in AUM (including Hybrid funds) at 51% was flat QoQ but up 250bps YoY (calculated on rounded off figures)
- **Share of B-30 in AUM:** Share of B-30 in AUM at 20.4% was down/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 56%, 25% and 19%, respectively
- **Operating profit margin:** Operating profit margin for the quarter, at 65.6%, was up 8 bps QoQ and 438 bps YoY

Exhibit 1: Result table

Rs mn	Q3FY25	Q3FY24	YoY	Q2FY25	QoQ
Revenue from operation	5,879	4,233	38.9%	5,713	2.9%
As % of QAUM^	0.41%	0.45%	-4bps	0.42%	0bps
Fees and Commission Expenses	187	156	20.1%	192	-2.7%
As % of revenue	3.2%	3.7%	-50bps	3.4%	-18bps
Employee Benefit Expenses	1,065	875	21.8%	1,069	-0.4%
As % of revenue	18.1%	20.7%	-254bps	18.7%	-60bps
Other Expenses	770	611	26.0%	708	8.7%
As % of revenue	13.1%	14.4%	-134bps	12.4%	70bps
Total Expense	2,022	1,642	23.2%	1,969	2.7%
Operating Profit	3,857	2,592	48.8%	3,744	3.0%
As % of QAUM^	0.3%	0.3%	0bps	0.3%	0bps
As % of revenue	65.6%	61.2%	438bps	65.5%	8bps
Other Income	154	1,071	-85.6%	1,208	-87.2%
Finance cost	17	17	-0.6%	17	-0.6%
Depreciation	77	65	18.7%	74	4.2%
Profit before Tax	3,917	3,581	9.4%	4,861	-19.4%
Tax Expense	965	741	30.2%	1,261	-23.5%
Profit After Tax	2,953	2,840	4.0%	3,600	-18.0%
As % of QAUM^	0.2%	0.3%	-9bps	0.3%	-5bps
As % of revenue	50.2%	67.1%	-1687bps	63.0%	-1279bps

Source: Company, YES Sec-Research, ^Annualised

Recommendation : **ADD**

Current Price : Rs 654

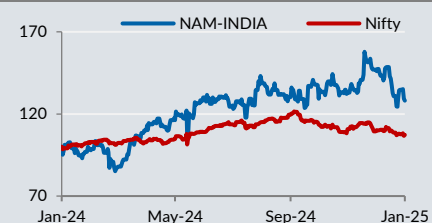
Target Price : Rs 750

Potential Return : +15%

Stock data (as on January 23, 2025)

Nifty	23,205
52 Week h/l (Rs)	816 / 430
Market cap (Rs/USD mn)	407430 / 4716
Outstanding Shares (mn)	634
6m Avg t/o (Rs mn):	694
Div yield (%):	2.6
Bloomberg code:	NAM IN
NSE code:	NAM-INDIA

Stock performance



	1M	3M	1Y
Absolute return	-12.3%	-5.2%	34.5%

Shareholding pattern (As of Sep'24 end)

Promoter	72.5%
FII+DII	21.2%
Others	6.3%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	750	850

Financial Summary

Rs mn	FY25E	FY26E	FY27E
Net Revenue	22,501	24,370	27,759
YoY Growth	36.9%	8.3%	13.9%
EBIDTA Margin	64.9%	63.6%	64.0%
PAT	12,951	13,231	15,208
YoY Growth	17.1%	2.2%	14.9%
ROE	31.5%	30.3%	32.7%
EPS (Rs)	20.6	21.0	24.2
P/E (x)	31.8	31.1	27.1
BV (Rs)	67.3	71.5	76.4
P/BV (x)	9.7	9.1	8.6

Δ in earnings estimates

Rs.	FY25E	FY26E	FY27E
EPS (New)	20.6	21.0	24.2
EPS (Old)	19.2	21.2	25.2
% change	7.2%	-0.9%	-4.0%

SHIVAJI THAPLIYAL

Head of Research (Overall)
& Lead Sector Research Analyst

📞 +91 22 6992 2932



SIDDHARTH RAJPUROHIT, Analyst

SURAJ SINGHANIA, Associate

COMPREHENSIVE CON-CALL TAKEAWAYS

Revenue yield

- **Segmental book yield**
 - Equity – 57 bps
 - Debt – 25 bps
 - Liquid – 10-12 bps
 - ETF – 15 bps
 - Blended – 37 bps
- **Commission rationalisation**
 - Commissions were rationalized at the fag end of the quarter.
 - The company is carrying out rationalisation as it is focused on profitable growth.
 - Due to the proportional sharing approach, the pace of dilution of yield will be lower going forward.
 - The smallcap, largecap and multicap funds have been addressed, which comprise about 45-50% of overall AUM.

Equity business

- **Fund flows**
 - The early trends in January have not seen a distortion and are more or less at par with flows seen in December.
 - When markets turn volatile, HNI segment flows have been seen to be impacted but not retail and SIP flows unless there is a long-term market downturn.
 - Lump sum flows can potentially get impacted by market volatility.
 - The company had maintained double digit market share in equity flows (presumably net equity flows).
- **SIP business**
 - **Discontinuation**
 - The industry saw higher percentage discontinuation in the month of December, with the number reaching 70%.
 - The company's discontinuation is much lower than the industry.
 - The company has a more retail and "fragmented" customer base, leading to better retention.
 - Furthermore, the company is harnessing artificial intelligence, carrying out centralized handholding and improving the quality of sourcing to minimize discontinuation.
 - **Market share**
 - The company's SIP market share has improved from about 5% to about 10% over the last 24 months.
- **Product pipeline**
 - Management has taken the view that the company will not launch any active mega NFO.
 - The intention is to build track record for existing active funds and mega NFOs distract the company and impact flows on existing funds, which are generally more stable.

Passive business

- The company will continue to launch a couple schemes in the passive business.
- The share of ETF has risen to about 26-27% of overall AUM.
- Customer retention in the passive business is better than for liquid.

(Con call takeaways continue on the next page)

- Both the active and passive businesses will grow and these are two different sets of investors.
- Even globally, it has been seen that the top 2-3 players tend to command high market share as customers do not tend to diversify.

International business

- The long-term goal is to garner offshore money.
- In recent times, the effort was on consolidating the mutual fund business.
- The company is working with Nippon and its associate companies and expects positive flows both from a topline and bottomline perspective.

AIF business

- NAM has Total commitment of Rs. 69.8bn.
- The Fund raising is currently underway for Public Equity AIF Nippon India Equity Opportunities AIF Scheme 9, Performing Credit AIF Nippon India Credit Opportunities AIF Scheme 1" and Tech/VC AIF Nippon India Digital Innovation AIF Scheme 2A.
- NAM has launched its first GIFT Fund, Nippon India Large Cap Fund GIFT in January 2025.

Operating expenses

- The total operating expense stood at Rs. 2.02bn, up by 2.7% QoQ and 23.2% YoY.
- **Staff expenses**
 - The employee expense for the quarter was Rs 1.06bn down -0.4% QoQ but up 21.8% YoY.
 - **ESOP cost**
 - The ESOP cost for the quarter is Rs 0.11bn and for 9M is Rs 0.31bn.
- **Non-staff expenses**
 - The non-staff expenses have grown 25% YoY and 6.3% QoQ.
 - The non-staff expenses were driven by investment in technology and in the AIF business.
 - **Branch addition**
 - The company is focused on improving efficiency of branches and also focusing on online business.
 - The intention is not to open multiple branches.
- **Overall expenses guidance**
 - The endeavour is to keep overall expenses growth, excluding ESOP expense, in the range 15-17%.

Other income

- The other income for 3QFY25 was at Rs 154 mn, down by -86% YoY.
- The movement in other income was due to MTM impact on investment book which was impacted by adverse capital market movement during the quarter.
- The material negative MTM impact on equity exposure is explained by equity exposure in the alternate assets business, which has seed capital invested in schemes, which are also invested in listed equity.

(Con call takeaways continue on the next page)

AUM aspects

- **Total MF**
 - Total MF QAAUM rose 51% YoY to Rs 5,700bn as of 3QFY25.
 - Total average AUM market share stood at 8.31%, up 1bp QoQ and 63bps YoY.
 - NAM had the highest YoY increase in market share amongst all asset managers.
 - NAM's market share has increased for the 7th consecutive quarter.
- **Equity AUM**
 - Equity AUM rose 59% YoY to Rs 2.9trn as of 3QFY25.
 - Equity AUM (ex-ETF) market share stood at 6.99%, up 3bps QoQ and 31bps YoY.
 - NAM's 3Q equity market share is the highest market share post December 2020.
 - In 3QFY25, NAM holds high single digit market share in net flows and excluding NFOs double digit market share in Equity segment.
 - **SIP business**
 - SIP market share increased by 12bps QoQ and stood at 10%.
 - SIP AUM as of 3QFY25 stood at Rs 1,400 bn, up 48% YoY.
 - Monthly SIP Book was up 7% QoQ and 60% YoY to Rs 33.6bn for December 2024.
 - The annualised SIP book was at Rs 404 bn.
 - 56% of NAMs SIP AUM has continued for over 5 years as against 29% for the industry.
 - 13% of NAMs SIP folios has continued for more than 5 years as against 12% for the industry.
- **Passive AUM**
 - ETF AUM stood at Rs 1,502bn as of 3QFY25.
 - **Gold ETF**
 - Gold ETF AUM stood at Rs 148 bn as of 3QFY25.
 - ETF market share stood at 18%.
 - NAM's share in the industry ETF folios stood at 55%.
 - NAM has 55% market share of ETF volumes in NSE and BSE.
 - **New Funds**
 - 2 new funds were launched in the Index fund category during 3QFY25.
- **B-30 AUM**
 - Contribution in total AUM stood at 11.8%, up 10bps QoQ.
 - B-30 market share increased by 10bps QoQ to 9.2%.
- **Folios**
 - NAM has the largest investor base in the mutual fund industry with 20mn unique investors.
 - NAM's share in Unique investors in the industry was at 38%.

Profitability aspects

- **Operating Profit**
 - Operating profit for 3QFY25 was Rs. 3.76bn, up 50% YoY
- **Profit After Tax**
 - PAT for 3QFY25 was Rs. 2.95 bn, up 4% YoY

Distribution aspects

- The company is present across 265 locations in the country.
- The company has 1,11,400 plus distributors.

(Con call takeaways continue on the next page)

- **Digital Initiatives**

- The total Digital transactions were at 4.08mn in 3QFY25.
- Digital channel constitutes 73% of total new purchase transactions for 3QFY25.

Exhibit 2: Other Business Parameters

Rs mn	Q3FY25	Q3FY24	YoY	Q2FY25	QoQ
QAAUM	5,699,535	3,776,542	51%	5,492,000	4%
Retail share	31%	31%	0bps	31%	0bps
Systematic Flows	99,100	59,300	67%	90,300	10%
Equity Market Share	7.0%	6.7%	32bps	7.0%	3bps

QAAUM Mix

Equity	2,912,463	1,835,399	59%	2,806,412	4%
Debt	866,329	672,224	29%	779,864	11%
Liquid	416,066	339,889	22%	422,884	-2%
ETFs	1,504,677	929,029	62%	1,482,840	1%

QAAUM Mix (% proportion)

Equity	51%	49%	250bps	51%	0bps
Debt	15%	18%	-260bps	14%	100bps
Liquid	7%	9%	-170bps	8%	-40bps
ETFs	26%	25%	180bps	27%	-60bps

Channel Mix (% proportion)

Direct	54%	52%	200bps	54%	0bps
Distributed Assets	46%	48%	-200bps	46%	0bps
MFDs	56%	57%	-143bps	57%	-100bps
Banks	25%	23%	223bps	24%	100bps
National Distributors	19%	20%	-80bps	19%	0bps

Geographical Spread

T-30	79.6%	79.9%	-30bps	79.5%	10bps
B-30	20.4%	20.1%	30bps	20.5%	-10bps

Source: Company, YES Sec – Research

Exhibit 3: Quarterly Actuals Vs Estimates

Q3FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Revenue	5,879	5,871	0.1
Operating profit	3,857	3,816	1.1
Profit after tax	2,953	3,098	(4.7)

Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 4: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	6,232	6,300	6,300	6,300	6,300
Total Reserves	28,925	33,522	36,114	38,763	41,806
Shareholder's Funds	35,156	39,822	42,414	45,063	48,106
Long Term Provisions	127	84	84	84	84
Other Non Current Liabilities	1,428	1,574	1,890	2,046	2,228
Total Non - Current Liabilities	1,555	1,658	1,974	2,130	2,312
Trade Payables	662	501	686	743	846
Other Current Liabilities	1,236	1,770	2,590	2,998	3,472
Total Current Liabilities	1,898	2,270	3,276	3,740	4,317
Total Liabilities and Equity	38,609	43,750	47,664	50,933	54,736
Net Block	3,048	3,312	3,512	3,712	3,912
Capital Work in Progress	25	16	0	0	0
Non Current Investments	30,231	35,127	37,460	39,843	42,583
Long Term Loans & Advances	1,164	847	1,240	1,435	1,662
Other Non Current Assets	206	255	373	432	500
Total Non-Current Assets	34,674	39,557	42,585	45,423	48,657
Sundry Debtors	969	1,303	1,785	1,933	2,202
Cash and Bank	2,727	2,706	3,024	3,265	3,515
Other Current Assets	239	184	270	312	362
Short Term Loans and Advances	1	0	0	0	0
Total Current Assets	3,935	4,193	5,079	5,511	6,079
Total Assets	38,609	43,750	47,664	50,933	54,736

Source: Company, YES Sec – Research

Exhibit 5: Profit and Loss Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Operating Income	13,498	16,432	22,501	24,370	27,759
Fees and Commission	501	620	809	936	1,084
Employee Expense	3,029	3,360	4,240	4,802	5,414
Other Expenses	2,022	2,515	2,859	3,140	3,498
Total Expenses	5,551	6,495	7,908	8,877	9,996
Operating Profit	7,947	9,937	14,593	15,493	17,764
Other Income	1,668	3,941	3,019	2,276	2,622
Depreciation	298	291	281	297	313
Finance Cost	40	62	62	62	62
Profit before Tax	9,277	13,525	17,268	17,409	20,010
Tax	2,048	2,462	4,317	4,178	4,802
Net Profit	7,229	11,063	12,951	13,231	15,208

Source: Company, YES Sec – Research

Exhibit 6: Cash flow statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	9,277	13,525	17,268	17,409	20,010
Depreciation	298	291	281	297	313
Change in working cap	40	62	62	62	62
Tax paid	(616)	274	243	176	146
Others	(1,692)	(2,506)	(4,317)	(4,178)	(4,802)
Cash flow from operations	(1,442)	(3,872)	(3,019)	(2,276)	(2,622)
Capex	5,866	7,775	10,519	11,491	13,107
Change in investments	(126)	(107)	(465)	(497)	(513)
Others	803	(1,201)	(2,333)	(2,384)	(2,739)
Cash flow from investments	308	270	3,030	2,286	2,633
Free cash flow	984	(1,038)	232	(594)	(619)
Equity raised/(repaid)	262	1,553	0	0	0
Debt raised/(repaid)	(40)	62	(62)	(62)	(62)
Dividend (incl tax)	(7,161)	(8,112)	(10,370)	(10,593)	(12,175)
Others	(178)	(210)	0	0	0
Cash flow from financing	(7,117)	(6,707)	(10,432)	(10,656)	(12,237)
Net change in cash	(267)	30	318	241	250

Source: Company, YES Sec – Research

Exhibit 7: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	22,501	24,370	27,759	20,256	23,792	27,947	11.1	2.4	(0.7)
Operating Profit	14,593	15,493	17,764	12,460	15,100	18,208	17.1	2.6	(2.4)
Profit After Tax	12,951	13,231	15,208	12,076	13,353	15,843	7.3	(0.9)	(4.0)

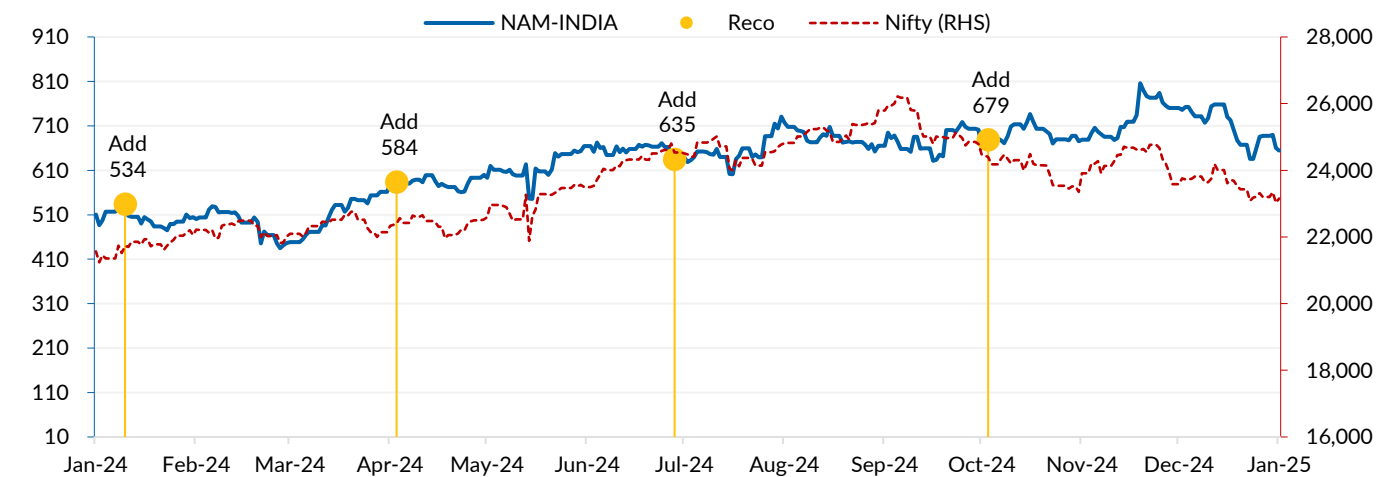
Source: Company, YES Sec – Research

Exhibit 8: Ratios

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Growth ratios (%)					
AAUM	7.5%	28.0%	46.4%	15.7%	15.8%
Management Fees	4.5%	22.2%	34.9%	8.1%	13.9%
PMS & Advisory Fees	-32.0%	0.3%	148.7%	15.0%	15.0%
Staff Cost	4.3%	11.0%	12.8%	9.0%	9.0%
Total Operating Expenses	7.6%	17.0%	21.8%	12.3%	12.6%
Profit Before Tax	-6.2%	45.8%	27.7%	0.8%	14.9%
Net profit	-2.7%	53.0%	17.1%	2.2%	14.9%
As a % of Avg AUM					
Investment Management Fees	0.46%	0.44%	0.40%	0.38%	0.37%
Staff Cost	0.11%	0.09%	0.08%	0.08%	0.07%
Other Expenses	0.07%	0.07%	0.05%	0.05%	0.05%
PBT	0.32%	0.37%	0.32%	0.28%	0.28%
Net profit	0.28%	0.25%	0.30%	0.24%	0.21%
Operating Ratios					
Operating Profit Margin	58.9%	60.5%	64.9%	63.6%	64.0%
PBT Margin	68.7%	82.3%	76.7%	71.4%	72.1%
PAT Margin	53.6%	67.3%	57.6%	54.3%	54.8%
ROE	20.7%	29.5%	31.5%	30.3%	32.7%
Dividend Payout Ratio	99.1%	93.9%	80.0%	80.0%	80.0%
Per share (Rs)					
EPS	11.6	17.6	20.6	21.0	24.2
Book Value	56.4	63.2	67.3	71.5	76.4
Valuation Ratios					
P/E (x)	56.4	37.2	31.8	31.1	27.1
P/BV (x)	11.6	10.3	9.7	9.1	8.6
Mcap to AUM	14.2%	11.1%	7.6%	6.5%	5.6%
Dividend Yield	1.8%	2.5%	2.5%	2.6%	3.0%

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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