

January 30, 2024

RESULT REPORT Q3 FY24 | Sector: Asset Managers

Nippon Life India AMC

NAM maintains healthy share in net equity flows

Our view – NAM has outperformed the industry on net largecap flows

Equity net flows continue to be healthy on the back of fund performance, among other factors: The market share in net equity flows including hybrid funds remains in excess of 10%. The healthy flows are driven by fund performance, among other reasons. Net flows are being witnessed across equity schemes including largecap, midcap and others. 25% of the net flows have come into the largecap category since the company has de-risked flows and flow are not merely driven by mid and smallcap category.

Revenue yield erosion continue largely along expected lines: The blended revenue yield has declined about 0.4 bps QoQ to 40-41 bps. This is in line with prior guidance of blended yield compression of about 2-3 bps per annum. The decline in yield was driven by the equity segment. As the size of the equity AUM rose, the SEBI telescopic pricing formula kicked in. Furthermore, new equity assets are coming at a higher cost and net sales have been healthy and as much as 2.2x last year's level.

We maintain an 'ADD' rating on NAM with a revised price target of Rs 625: We value NAM at 34x FY25 P/E, at which the stock would trade at a P/B of 9.9x.

(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 4,233mn was up 6.5% QoQ and 19.6% YoY, lagging 8% QoQ and 29% YoY growth in QAAUM
- **Share of Equity in AUM:** Share of Equity in AUM (including Hybrid funds) at 49% was up 180bps QoQ and 416 bps YoY (calculated on rounded off figures)
- **Share of B-30 in AUM:** Share of B-30 in AUM at 20.1% was up 20bps/90bps QoQ/YoY
- **Channel mix:** In overall AUM, the share of direct channel was 52%. Share of MFDs, Banks and NDs within distributed assets was 57%, 23% and 20%, respectively
- **Operating profit margin:** Operating profit margin for the quarter, at 61.2%, was up 49 bps QoQ and 94 bps YoY

Exhibit 1: Result table

Rs mn	Q3FY24	Q3FY23	YoY	Q2FY24	QoQ
Revenue from operation	4,233	3,538	19.6%	3,975	6.5%
As % of QAUM [^]	0.45%	0.48%	-3bps	0.45%	-1bps
Fees and Commission Expenses	156	126	23.8%	156	0.1%
As % of revenue	3.7%	3.6%	12bps	3.9%	-24bps
Employee Benefit Expenses	875	747	17.1%	799	9.4%
As % of revenue	20.7%	21.1%	-45bps	20.1%	56bps
Other Expenses	611	533	14.8%	606	0.8%
As % of revenue	14.4%	15.1%	-61bps	15.2%	-81bps
Total Expense	1,642	1,405	16.8%	1,561	5.2%
Operating Profit	2,592	2,133	21.5%	2,414	7.4%
As % of QAUM [^]	0.3%	0.3%	-2bps	0.3%	0bps
As % of revenue	61.2%	60.3%	94bps	60.7%	49bps
Other Income	1,071	619	72.9%	779	37.5%
Finance cost	17	11	53.7%	17	-1.8%
Depreciation	65	77	-15.8%	72	-9.3%
Profit before Tax	3,581	2,664	34.4%	3,104	15.4%
Tax Expense	741	616	20.3%	661	12.0%
Profit After Tax	2,840	2,048	38.7%	2,443	16.3%
As % of QAUM [^]	0.3%	0.3%	2bps	0.3%	2bps
As % of revenue	67.1%	57.9%	920bps	61.4%	564bps

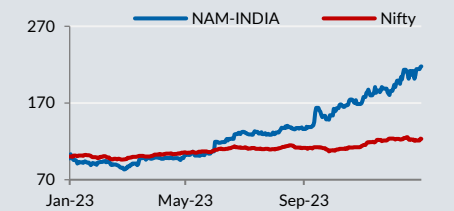
Source: Company, YES Sec-Research, [^]Annualised

Recommendation	: ADD
Current Price	: Rs 534
Target Price	: Rs 625
Potential Return	: +17%

Stock data (as on January 30, 2024)

Nifty	21,710
52 Week h/l (Rs)	531 / 197
Market cap (Rs/USD mn)	324345 / 3903
Outstanding Shares (mn)	628
6m Avg t/o (Rs mn):	320
Div yield (%):	2.3
Bloomberg code:	NAM IN
NSE code:	NAM-INDIA

Stock performance



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	625	550

Financial Summary

Rs mn	FY24E	FY25E	FY26E
Net Revenue	17,339	19,680	22,679
YoY Growth	28.5%	13.5%	15.2%
EBIDTA Margin	64.9%	66.1%	67.7%
PAT	10,016	11,439	13,331
YoY Growth	38.5%	14.2%	16.5%
ROE	27.7%	29.9%	32.7%
EPS (Rs)	16.1	18.4	21.4
P/E (x)	33.2	29.1	24.9
BV (Rs)	59.6	63.3	67.6
P/BV (x)	8.9	8.4	7.9

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	16.1	18.4	21.4
EPS (Old)	14.8	16.9	19.7
% change	8.4%	8.5%	8.5%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Colour on Equity business

- **Net flows**
 - **Market share**
 - The market share in net equity flows including hybrid funds remains in excess of 10%.
 - The healthy flows are driven by fund performance, among other reasons.
 - **Broad-based contribution**
 - Net flows are being witnessed across equity schemes including largecap, midcap and others.
 - 25% of the net flows have come into the largecap category since the company has de-risked flows and flow are not merely driven by mid and smallcap category, the latter being more of an industry phenomenon.
 - At the industry level, the largecap category has turned positive only in December.
 - Within SIP, the top 5 funds contribute about 80% share.
- **Granular sourcing**
 - ~75% of SIPs in value and ~95% of SIP investors are below Rs 10,000 ticket size.
 - Focus on granular sourcing is also why the market share in banks and national distributors has not seen significant traction.
 - The company is present in many locations and the share of sourcing from mutual fund distributors is high.
 - The flows from B30 locations is strong, which has added to granularity.
 - **Stickiness in SIP**
 - The smaller the ticket size, the more sticky the SIP customer.
 - The net retention of SIP customers is 70% on a customer count basis.
 - 63% of the SIP has continued for 5 years.
- **SIP registrations**
 - New SIP registrations have amounted to 0.38mn on a monthly basis and about 1mn for the quarter.

Colour on Revenue Yield

- **Blended yield evolution**
 - The blended revenue yield has declined about 0.4 bps QoQ to 40-41 bps.
 - This is in line with prior guidance of blended yield compression of about 2-3 bps per annum.
 - Yield erosion is expected to continue for 3-4 more years on a conservative basis.
 - Excluding ETFs, the blended yield has improved on sequential basis.
- **Reasons for decline in yield**
 - **Telescopic pricing**
 - As the size of the equity AUM rises, SEBI telescopic pricing formula kicks in.
 - The impact on equity yield is despite the rationalization of cost in one of the flagship equity schemes.
 - The company will evaluate pricing other schemes from a rationalization standpoint.
 - **New assets**
 - New equity assets are coming at a higher cost and net sales have been healthy and as much as 2.2x last year.

(Con call takeaways continue on the next page)

- The share of old assets in AUM is about 30%.
- The flow equity yield is marginally lower than stock yield.
- **Other asset classes**
 - There is no change in yield for other asset classes.
- **Segmental stock yield**
 - Equity – Mid 60s bps
 - Debt – 25-28 bps
 - Liquid – 10-12 bps
 - ETF – 15-20 bps

Colour on ETF business

- **EPFO business**
 - The EPFO business started recently in July last year and is hence, still small in size.
 - The EPFO will be investing about Rs 150bn per annum.
- **Market share**
 - The company is being able to broadly maintain market share despite new players coming in, which may cause market share of fluctuate in the near term.
 - High volume and liquidity of Nippon ETFs is key in helping the company maintain market share.
 - This is despite not launching ETFs at lower cost just to generate volumes.

Colour on opex

- **Employee expenses**
 - The rise in employee expenses has been driven by provisions on performance-linked incentive (PLI).
 - Management does not see any substantial change in employee expenses except due to PLI and ESOP, as and when the latter is issued.
 - There should not be much incremental impact due to employee addition.

Colour on Other income

- **Investment book**
 - 10% of the company's networth is in equity investments and the remaining in fixed income.
 - 100% of the equity investment is in Nippon AMC equity schemes.
- **MTM impact**
 - The healthy other income is due to MTM impact driven by strong markets.

AUM aspects

- **Total MF AUM**
 - Total MF QAAUM rose 29% YoY to Rs 3,777bn as of 3QFY24.
 - Total average AUM market share stood at 7.67%, up 21bps QoQ.
 - NAM's market share has increased for the 3rd consecutive quarter.
 - On YTD basis, NAM is the fastest growing AMC amongst the top 10 large AMCs.
- **Equity AUM**
 - Equity AUM rose 41% YoY to Rs 1.84trn as of 3QFY24.
 - Equity AUM (ex-ETF) market share stood at 6.67%, up 15bps QoQ.

(Con call takeaways continue on the next page)

- **SIP business**
 - The outstanding SIP accounts for the company are 6.8mn, up 48% YoY.
 - SIP AUM as of 3QFY24 stood at Rs 914 bn, up 57% YoY.
 - NAM holds 18% market share in incremental SIP flows.
 - SIP market share increased by 260bps from Mar'23 to Dec'23 and stood at 8.7%
 - The annualised SIP book was at Rs 252 bn.
 - SIP transactions were at around 15.2mn, up 18% QoQ.
 - 15% of NAMs SIP folios has continued for more than 5 years as against 12% for the industry.
- **Retail AUM**
 - Share of retail investors in total AUM stood at 31%, up 100bps YoY.
- **HNI AUM**
 - NAM's HNI AUM stood at Rs 1,095 bn, up 50% YoY.
 - NAM's HNI market share has improved 30bps QoQ to 6.6%.
- **Passive AUM**
 - ETF AUM stood at Rs 929bn as of 3QFY24.
 - **Gold ETF**
 - Gold ETF AUM stood at Rs 84 bn as of 3QFY24.
 - ETF market share stood at 15.4%, up 134bps QoQ.
 - NAM's share in the industry ETF folios stood at 61%.
 - NAM has 64% market share of ETF volumes in NSE and BSE.
 - Mr. Arun Sundaresan, has been promoted as head of ETF
- **B-30 AUM**
 - Contribution in total AUM stood at 20.1%, up 20bps QoQ.
 - B-30 market share increased by 13bps QoQ to 8.71%
- **Folios**
 - NAM has the largest investor base in the mutual fund industry with 15.5mn unique investors.
 - NAM's share in Unique investors in the industry was at 36.9%, up 70bps QoQ.

AIF business

- NAM has Total commitment of Rs. 60.3bn.
- NAM has recently undertaken final closing of Nippon India Equity Opportunities AIF Scheme 8 a Category III Long only Equity AIF
- The fund raising is also underway for Nippon India Equity Opportunities AIF Scheme 9, Nippon India Credit Opportunities AIF Scheme 1 and Nippon India Yield Plus AIF Scheme 4.

Profitability aspects

- **Operating Profit**
 - Operating profit for 3QFY24 was Rs. 2.51bn, up 23% YoY
- **Profit After Tax**
 - PAT for 3QFY24 was Rs. 2.84 bn, up 39% YoY

Interim CFO

- Mr. Amol Bilagi has been appointed as interim CFO

(Con call takeaways continue on the next page)

Distribution aspects

- The company added 2,400 new distributors in 3QFY24.
- NAM has over 98,000 distributors as of 3QFY24.
- **Digital Initiatives**
 - The total Digital transactions were at 1.7mn in 3QFY24.
 - Digital channel constitutes 61% of total new purchase transactions for 3QFY24.

Exhibit 2: Other Business Parameters

Rs mn	Q3FY24	Q3FY23	YoY	Q2FY24	QoQ
QAAUM	3,776,542	2,928,026	29%	3,505,644	8%
Retail share	31%	30%	100bps	30%	100bps
SIP Flows	59,300	29,100	104%	47,200	26%
QAAUM Mix					
Equity	1,835,399	1,301,345	41%	1,640,642	12%
Debt	672,224	532,368	26%	673,084	0%
Liquid	339,889	414,064	-18%	385,621	-12%
ETFs	929,029	680,248	37%	806,298	15%
QAAUM Mix (% proportion)					
Equity	49%	44%	416bps	47%	180bps
Debt	18%	18%	-38bps	19%	-140bps
Liquid	9%	14%	-514bps	11%	-200bps
ETFs	25%	23%	137bps	23%	160bps
Channel Mix (% proportion)					
Direct	52%	53%	-100bps	53%	-100bps
Distributed Assets	48%	47%	100bps	47%	100bps
MFDs	57%	58%	-57bps	58%	-57bps
Banks	23%	22%	77bps	22%	77bps
National Distributors	20%	20%	-20bps	20%	-20bps
Geographical Spread					
T-30	79.9%	80.8%	-90bps	80.1%	-20bps
B-30	20.1%	19.2%	90bps	19.9%	20bps

Source: Company, YES Sec – Research

Exhibit 3: Quarterly Actuals Vs Estimates

Q3FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Revenue	4,233	4,334	(2.3)
Operating profit	2,592	2,635	(1.6)
Profit after tax	2,840	2,660	6.8

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	30,926	33,215	35,882
Shareholder's Funds	34,786	35,156	37,158	39,446	42,113
Long Term Provisions	154	127	127	127	127
Other Non Current Liabilities	1,240	1,428	1,628	1,773	1,942
Total Non - Current Liabilities	1,394	1,555	1,755	1,900	2,069
Trade Payables	560	662	850	965	1,112
Other Current Liabilities	1,226	1,236	1,578	1,827	2,117
Total Current Liabilities	1,785	1,898	2,428	2,792	3,229
Total Liabilities and Equity	37,965	38,609	41,340	44,138	47,411
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	32,035	34,095	36,495
Long Term Loans & Advances	838	1,164	1,486	1,721	1,994
Other Non Current Assets	376	206	263	304	353
Total Non-Current Assets	33,593	34,674	37,032	39,568	42,490
Sundry Debtors	754	969	1,244	1,412	1,628
Cash and Bank	3,384	2,727	2,759	2,805	2,885
Other Current Assets	231	239	305	353	409
Short Term Loans and Advances	4	1	1	1	1
Total Current Assets	4,373	3,935	4,309	4,570	4,922
Total Assets	37,965	38,609	41,340	44,138	47,411

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	17,339	19,680	22,679
Fees and Commission	513	501	588	681	789
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	6,093	6,681	7,329
Operating Profit	7,907	7,947	11,246	12,999	15,350
Other Income	2,290	1,668	2,297	2,437	2,596
Depreciation	272	298	325	345	365
Finance Cost	38	40	40	40	40
Profit before Tax	9,887	9,277	13,179	15,052	17,541
Tax	2,453	2,048	3,163	3,612	4,210
Net Profit	7,434	7,229	10,016	11,439	13,331

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	13,179	15,052	17,541
Depreciation	272	298	325	345	365
Change in working cap	(142)	(101)	9	17	13
Tax paid	2,453	2,048	3,163	3,612	4,210
Others	3,131	296	1	4	4
Cash flow from operations	10,695	7,722	10,351	11,805	13,713
Capex	(213)	(410)	(500)	(545)	(565)
Change in investments	(3,918)	(814)	(1,804)	(2,060)	(2,400)
Others	0	0	0	0	0
Cash flow from investments	(4,130)	(1,224)	(2,303)	(2,605)	(2,965)
Free cash flow	6,565	6,498	8,047	9,200	10,748
Equity raised/(repaid)	55	12	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl tax)	6,842	7,167	8,016	9,155	10,668
Others	0	0	0	0	0
Cash flow from financing	(6,787)	(7,155)	(8,016)	(9,155)	(10,668)
Net change in cash	(222)	(657)	32	46	80

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	17,339	19,680	22,679	16,289	18,482	21,289	6.4	6.5	6.5
Operating Profit	11,246	12,999	15,350	10,219	11,828	13,993	10.1	9.9	9.7
Profit After Tax	10,016	11,439	13,331	9,235	10,541	12,282	8.5	8.5	8.5

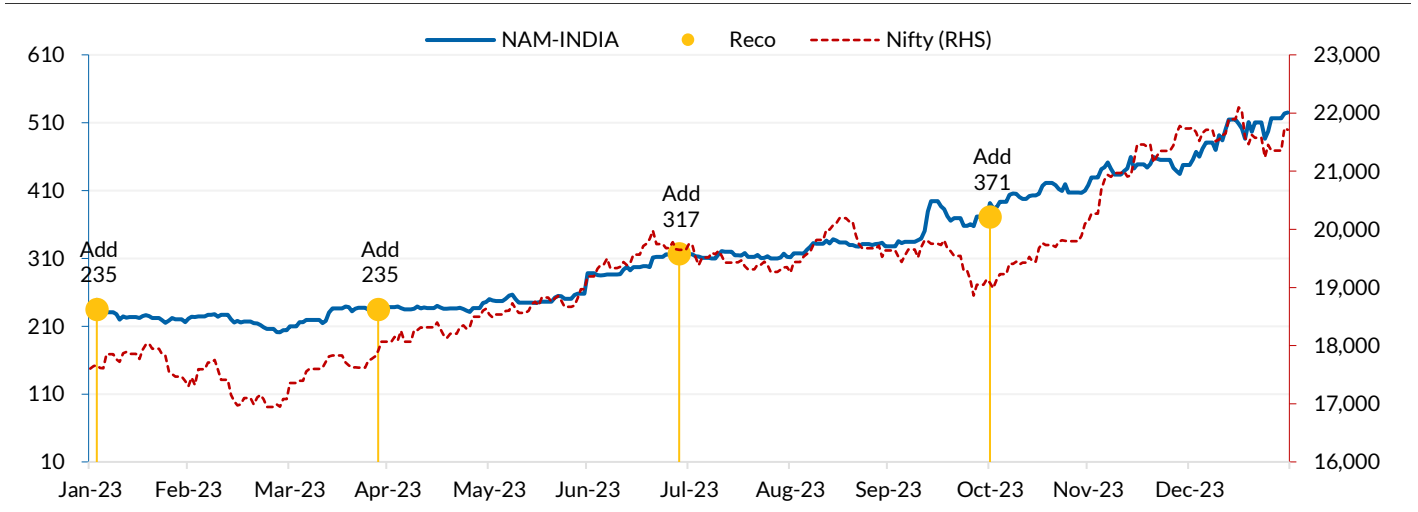
Source: Company, YES Sec – Research

Exhibit 8: Ratios

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth ratios (%)					
AAUM	30.2%	7.5%	27.7%	15.8%	15.9%
Management Fees	23.8%	4.5%	27.3%	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%	9.8%	9.7%	9.7%
Profit Before Tax	12.7%	-6.2%	42.1%	14.2%	16.5%
Net profit	9.4%	-2.7%	38.5%	14.2%	16.5%
As a % of Avg AUM					
Investment Management Fees	0.47%	0.46%	0.46%	0.45%	0.45%
Staff Cost	0.11%	0.10%	0.09%	0.08%	0.08%
Other Expenses	0.07%	0.07%	0.06%	0.06%	0.05%
PBT	0.37%	0.32%	0.36%	0.35%	0.36%
Net profit	0.33%	0.28%	0.25%	0.27%	0.27%
Operating Ratios					
Operating Profit Margin	60.5%	58.9%	64.9%	66.1%	67.7%
PBT Margin	75.7%	68.7%	76.0%	76.5%	77.3%
PAT Margin	56.9%	53.6%	57.8%	58.1%	58.8%
ROE	22.6%	20.7%	27.7%	29.9%	32.7%
Dividend Payout Ratio	91.9%	99.1%	80.0%	80.0%	80.0%
Per share (Rs)					
EPS	12.0	11.6	16.1	18.4	21.4
Book Value	55.9	56.4	59.6	63.3	67.6
Valuation Ratios					
P/E (x)	44.6	46.0	33.2	29.1	24.9
P/BV (x)	9.5	9.5	8.9	8.4	7.9
Mcap to AUM	12.4%	11.6%	9.1%	7.8%	6.7%
Dividend Yield	2.1%	2.2%	2.4%	2.8%	3.2%

Source: Company, YES Sec – Research

Recommendation Tracker



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BUY: Upside greater than 20% over 12 months

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