

Slight Improvement in Yields; Overall an Inline Quarter

NAM Q2FY23 reported an inline set of operating performance with revenues growing slightly better than AUM on a sequential basis as overall yields improved QoQ. Yields improved marginally owing to higher yield realization on Debt and a shift in composition in AUM mix to equity. Revenues grew 1.1/4.9% YoY/QoQ to Rs 331 Cr (largely in line with our expectations) vis-a-vis growth in QAAUM at 7.4/2.0% YoY/QoQ. Overall AUM's market share declined slightly in Q2FY23 to 7.3% from 7.4% in Q1FY23. Its share of the direct channel was 54% in AUM while the share of MFDs, Banks, and NDs within distributed assets was 60%, 19% and 21% respectively. Sequentially, slightly better yields and a decline in staff cost (by 2%) improved the company's operating profit margins to 58.4% from 56.6% QoQ. Aided by other income, the company reported better-than-expected growth in PAT (our and street's estimates), which was up 80.2% sequentially.

While the management indicated that a slight improvement in yields is sustainable, we believe the overall yields could remain slightly compressed in the near term due to a change in the composition of the AUM mix and new competitors entering the marketplace. However, growth in the investor base and consistently higher quarterly SIP flows indicate investors' confidence in mutual funds for long-term wealth creation. The management's priority is to be future-ready and capture long-term opportunities. Thus, it is focused on digital and marketing initiatives and will continue to spend in the same as the results are quite impressive with a digital contribution to the total company's purchase transaction standing at 56% in Q2FY23. Furthermore, the management is focused on the passive category and is looking forward to introducing new products to suit investors in this segment. As per management, formalization of the economy, digitization and higher share of mutuals funds in savings are expected to be key drivers for the growth of industry going forward. For NAM, Retail share and B30 share remain better than the industry average. On sustained cost controls, improved overall outlook and inexpensive valuation, **we maintain our BUY rating with a target price of Rs 360 (24x FY24E EPS), implying an upside of 35% from the CMP.**

Key Result Highlights

- Consistent AUM growth:** Overall AUM has improved 7% YoY to Rs 2,85,054 Cr. The share of B-30 folios remains robust at 11.7%. The company's share of industry-wide unique investors has grown to 37.1% in Q2FY23 from 32.3% in Q2FY22. It added 0.3 Mn folios in Q2FY23 with a continuous focus on the retail segment. Retail AUM stood at Rs 84,685 Cr which is 29.7% of the total AUM.
- Stable market share:** Overall market share moderated slightly in Q2FY23 to 7.3% which marks the end of the sequential rise in the company's market share over the last 6 consecutive quarters. Even with the slight moderation in the market share, the company's industry ranking went up from 6th to 4th position (on the QAAUM basis)
- Passive Fund's Leadership:** The company enjoys a leadership position in the ETF domain with ~71% share in ETF volumes on the NSE and BSE. It offers the largest number of ETFs (25) in the industry and commands a 14% market share.
- Operating Leverage:** With the company's increased focus on ETF, ETF has remained one of the key drivers of its AUM growth. Given that ETFs are low-yield products by design, it has focused on rationalizing its cost structure significantly to improve profitability. For Q2FY23, the operating margin improves by 171bps sequentially.

Financials (Consolidated)

(Rs Cr)	FY22	FY23E	FY24E	FY25E
MF AUM	2,83,300	3,39,960	4,07,952	4,81,383
Revenue	1,263	1,393	1,599	1,784
Revenue (% of AUM)	0.45	0.41	0.39	0.37
Net Profit	743.4	762.2	936.7	1040.1
Profit (% of AUM)	0.26	0.22	0.23	0.22
EPS (Rs)	12.0	12.3	15.1	16.7
Change (%)	8.4	2.5	22.9	11.0
ROE (%)	22.6	21.7	25.8	27.2

Source: company, Axis Research

(CMP as of Oct 19, 2022)

CMP (Rs)	265
Upside /Downside (%)	35%
High/Low (Rs)	476/259
Market cap (Cr)	16,527
Avg. daily vol. (6m) Shrs.	40,761
No. of shares (Cr)	62.20

Shareholding (%)

	Jun-22	Mar-22	Dec-21
Promoter	73.7	73.8	73.8
FIs	6.5	7.0	7.2
MFs / UTI	2.2	2.1	2.0
Banks / Fls	0.0	6.8	5.6
Others	17.6	10.3	11.4

Financial & Valuations

Y/E Mar (RsCr)	FY23E	FY24E	FY25E
MF AUM	3,39,960	4,07,952	4,81,383
Revenue	1,393	1,599	1,784
Revenue (% of AUM)	0.41	0.39	0.37
Net Profit	762.2	936.7	1040.1
Profit (% of AUM)	0.2	0.2	0.2
EPS (Rs)	12.3	15.1	16.7
Change (%)	2.5	22.9	11.0
ROE (%)	21.7	25.8	27.2

Change in Estimates (%)

Y/E Mar	FY23E	FY24E
Revenue	2.3	3.2
OP	3.8	5.4
PAT	3.4	4.3

Axis vs Consensus

EPS Estimates	2023E	2024E	2025E
Axis	12.3	15.1	16.7
Consensus	11.8	13.8	16.9
Mean Consensus TP (12M)	352		

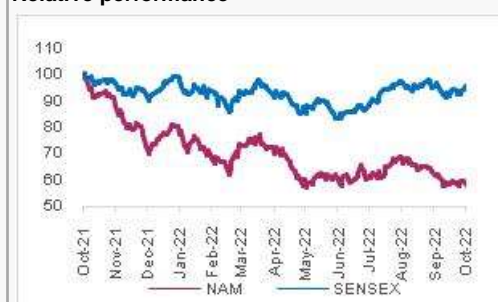
ESG disclosure Score**

Environmental Disclosure Score	0.76
Social Disclosure Score	22.34
Governance Disclosure Score	76.10
Total ESG Disclosure Score	33.12

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2021 disclosures

Relative performance



Source: Capitaline, Axis Securities

Sumit Rathi, CFA

Research Analyst

Email: sumit.rathi@axissecurities.in

Dnyanada Vaidya

Research Analyst

email: dnyanada.vaidya@axissecurities.in

- **Robust Other income:** Other income stood at 81.9 Cr in Q2FY23 as against loss of 16 Cr in Q1FY23, aiding YoY PAT growth of 80%. Management highlighted that, of the total investment cashflow available, about 82% is invested in NAM mutual funds itself. So as and when the yields go up company's realization increases aiding the other income.
- **Fees and commission expense:** Fees and commission expense for the quarter was up 16.6/21.4% YoY/QoQ. Management highlighted that higher fee and commission expense largely pertains to AIF and PMS business. Under AIF, NAM pays upfront commission which would have resulted in marginal increase, however, as the corresponding revenue comes with lag effect, operating leverage would be higher in coming quarters.
- **Commentary on Yields trajectory:** Management indicated that as more new money replaces the old assets, NAM would see a decline in equity yields of about 2-3 bps. At the same time as flows in fixed income improves, NAM's realization would be better and as the yields goes up, NAM's propensity to charge improves. Thus overall yields would be largely sustainable.
- **Other Highlights:** In the past six months hybrid funds recorded a robust growth. This was as the result of high volatility in the capital markets. Management expects that continuous volatility would cause people to shift in hybrid fund. Going forward, introduction of new funds in International and passive category would aid in AUM growth. Asset mix has improved to longer term high yielding asset this quarter. About 53% of the assets are more than 5 years. NAM continues to exploit upsell opportunities and focuses to attract customers which will create longevity assets. Management's commentary on share of equity expected to further go up couple of quarters down the line was impressive. Management indicated that there is strong inflow in SIP wherein 60% of business coming from Mutual fund distributor and 40% from fintech. Management is focused on keeping distribution commission sustainable and not to go overboard by providing higher commission for faster growth.

Change in Estimates

	Revised		Old		%Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	1,448	1,660	1,416	1,608	2.3	3.2
Operating Profit	916	1,080	883	1,025	3.8	5.4
PAT	762	937	737	898	3.4	4.3
EPS	12.3	15.1	11.8	14.4	3.8	4.6

Source: company, Axis Securities

Valuation & Outlook

We expect NAM's revenue yields could gain ground once the risk-averse environment normalises gradually. The company is looking to scale up its AIF/PMS businesses which should increase the share of these segments in the AUM mix. The market in India is still highly underpenetrated and continuous improvement in the fund performance will increase inflows. Long-term prospects of the Indian AMC industry remain intact given the low penetration levels in India vis-à-vis developed countries and is a play on the financialisation of savings in India. It also intends to leverage Nippon Life's global network to scale up its offshore business. NAM is focused on the passive side and is looking forward to introducing new products in the said category with a robust pipeline. Increasing marketing initiatives will aid NAM in customer acquisition as well as in cross-sell. At present, volatility in the capital market, increasing inflation, and higher intensity of competition in the industry pose a challenge to NAM. **However, with sustained growth in retail market share, SIP inflows increasing an improved outlook and an inexpensive current valuation, we maintain a BUY with a target price of Rs 360 (24x FY24E EPS), implying an upside of 35% from the CMP.**

Result Update (Consolidated)
(Rs Cr)

Y/E March	Q2FY23	Q2FY22	% YoY	Q1FY23	% QoQ
Total Op. Income	331.6	327.9	1.1	316.1	4.9
Total Op. Expenses	138.1	134.6	2.6	137.0	0.7
Staff costs	76.5	73.2	4.5	78.1	-2.0
Fee & Commission	13.9	11.9	16.6	11.4	21.4
Other Op. Expenses	47.7	49.5	-3.6	47.6	0.3
Operating profit	193.5	193.3	0.1	179.1	8.1
Other income	81.9	97.2	-15.7	-16.7	-589.5
EBITDA	275.4	290.5	-5.2	162.3	69.7
Depreciation	7.1	6.6	7.8	6.8	4.0
PBIT	268.3	283.9	-5.5	155.5	72.5
Interest	0.8	1.1	-30.1	0.9	-16.0
PBT	267.6	282.8	-5.4	154.6	73.1
Tax	61.5	70.1	-12.3	40.3	52.8
Reported PAT	206.0	213.7	-3.6	114.3	80.2
EPS (Rs)	3.3	3.5	-5.1	1.8	80.2
OPM (%)	58.4	59.0		56.6	
EBIDTA (%)	66.6	68.3		54.2	
PATM(%)	49.8	50.3		38.2	
MF AUM	2,85,054	2,65,500	7.4	2,79,431	2.0

Source: company, Axis Securities

Financials (Consolidated)
Profit & Loss
(Rs Cr)

Y/E March	FY22	FY23E	FY24E	FY25E
Investment Management Fees	1,263	1,393	1,599	1,784
Total Operating Income	44	55	61	67
Growth (%)	1,307	1,448	1,660	1,851
Employee Expenses	23	11	15	12
Brokerage	290	290	315	352
Total Expenses	51	54	57	59
Operating Profit	516	532	579	643
OPM (%)	791	916	1,080	1,209
OP Growth (%)	61	63	65	65
Depreciation	42	16	18	12
EBIT	27	27	27	27
Other Income	764	889	1,053	1,182
Interest	229	131	200	210
Exceptional Items	4	4	5	5
PBT	0	0	0	0
Tax	989	1,016	1,249	1,387
RPAT	245	254	312	347
RPAT Growth (%)	743	762	937	1,040
EO items (net of tax)	9	3	23	11
APAT	0	0	0	0
APAT Growth (%)	743	762	937	1,040
EPS	9	3	23	11
EPS Growth (%)	12	12	15	17

Source: company, Axis Securities

Balance Sheet
(Rs Cr)

Y/E March	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS				
Share Capital	622	622	622	622
Reserves	2,857	2,916	3,106	3,296
Total Shareholders' Funds	3,479	3,538	3,728	3,918
Provisions	15	17	19	21
Other current liabilities	303	319	336	356
Total liabilities	3,797	3,874	4,083	4,294
Net fixed assets	296	311	326	343
Investments	2,942	3,236	3,398	3,737
Other assets	559	327	359	214
Total assets	3,797	3,874	4,083	4,294

Source: company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY22	FY23E	FY24E	FY25E
PROFITABILITY (%)				
Operating Margin	60.5	63.3	65.1	65.3
RPAT Margin	48.4	48.3	50.4	50.5
RoE	22.6	21.7	25.8	27.2
AUM				
MF AUM	2,83,300	3,39,960	4,07,952	4,81,383
MF AUM YoY Growth(%)	23.9	20.0	20.0	18.0
STRUCTURAL (%)				
Investment Fees (% of AUM)	0.45	0.41	0.39	0.37
Operating Costs (% of AUM)	0.18	0.16	0.14	0.13
Staff costs (% of Operating Income)	22.2	20.0	19.0	19.0
Staff costs (% of Operating Costs)	56.3	54.5	54.4	54.7
Brokerage (% of Operating Income)	3.9	3.7	3.4	3.2
Brokerage (% of Operating Costs)	9.9	10.1	9.8	9.2
Profit (% to AUM)	0.26	0.22	0.23	0.22
PER SHARE DATA				
EPS	12.0	12.3	15.1	16.7
EPS Growth (%)	8.4	2.5	22.9	11.0
BV	55.9	56.9	58.9	61.0
DPS	11.0	11.5	13.0	14.0
Dividend Payout (%)	90.6	92.3	84.9	82.4
VALUATION				
P/E (x)	21.9	21.4	17.4	15.7
P/BV (x)	4.8	4.7	4.5	4.4
Dividend Yield (%)	4.1	4.3	4.9	5.3

Source: company, Axis Securities

Nippon Life India Price Chart and Recommendation History



Date	Reco	TP	Research
18-May-20	HOLD	266	Result Update
28-Jul-20	HOLD	260	Result Update
28-Oct-20	HOLD	284	Result Update
28-Jan-21	BUY	360	Result Update
28-Apr-21	BUY	390	Result Update
19-Jul-21	BUY	455	Result Update
01-Sep-21	BUY	455	Company Update
06-Sep-21	BUY	485	AAA
27-Oct-21	BUY	485	Result Update
28-Jan-22	BUY	440	Result Update
27-Apr-22	BUY	410	Result Update
29-Jul-22	BUY	360	Result Update
29-Aug-22	BUY	360	Result Update
20-Oct-22	BUY	360	Result Update

Source: Axis Securities

About the analyst**Analyst:** Sumit Rathi, CFA**Contact Details:** sumit.rathi@axissecurities.in**Sector:** BFSI**Analyst Bio:** Sumit Rathi is MBA (Finance) and CFA Charter holder with over 6 years of research experience covering and tracking various sectors including Banking/NBFC sector.**About the Analyst****Analyst:** Dnyanada Vaidya**Contact Details:** dnyanada.vaidya@axissecurities.in**Sector:** BFSI**Analyst Bio:** Dnyanada Vaidya is M.M.S (Finance) with over 4 years of research experience in the Banking/NBFC sector.**Disclosures:**

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, Sumit Rathi, CFA, MBA - (Finance), author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period. Any holding in stock – No
5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or; Managed or co-managed public offering of the securities from the subject company of this research report and / or; Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report; ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term & Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- 1st Floor, I-Rise Building, Q Parc, Loma Park, Thane, Ghansoli, Navi Mumbai-400701, Regd. off.- Axis House,8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-49212706