

Strong AUM Growth Offsets Yield Pressure; Growth Across Key Parameters
Est. Vs. Actual for Q4FY24: Revenue –**INLINE**; Operating Profit – **INLINE**; PAT – **BEAT**
Changes in Estimates post Q4FY24
FY25E/FY26E: Revenue 0.3%/3.3%; Operating profit -0.2%/3.1%; PAT -0.8%/2.2%

Recommendation Rationale

- **Healthy SIP momentum:** The company's sustainable growth strategy focuses on targeting smaller ticket sizes of Systematic Investment Plan (SIP) flows. This approach has led to 63% of the NAM's SIP Assets Under Management (AUM) being aged over 5 years, compared to just 27% in the industry. Additionally, the company boasts an impressive retention rate of ~70% in SIP investments. This has helped NAM gain market share for the 4th consecutive quarter with the total average AUM market share standing at 7.97%, up 30bps QoQ and double-digit market share in net flows for the Equity and Hybrid category in Q4FY24. We believe NAM will continue to gain market share going forward as well.
- **Yields to remain under marginal pressure:** Yields declined marginally by 1bps sequentially on mutual fund AUM. We have factored in 4-5% yield compression annually. Yield compression is predominantly attributed to the rise in prices of equity Assets Under Management (AUM), primarily influenced by the telescopic pricing formula outlined by SEBI. Additionally, an uptick in the proportion of new assets, which incur higher acquisition costs compared to older assets, has contributed to this trend. However, it's worth noting that ETFs exhibited robust yields of 12-13 bps.
- **New ESOP Grant:** The company granted ESOPs worth 8.5-9 Cr over the next 4 years but roughly half of it would be seen on FY25 numbers.

Sector Outlook: Positive

Company Outlook & Guidance: With the lower penetration of mutual funds in India, NAM can continue to drive strong AUM growth. The company is one of the fastest growing AMC in B-30 cities and has grown its distributor base to 1,01,400. NAM is not planning to launch any NFOs on the active fund side and will focus on growing existing schemes and expects total operating expense to increase by ~10% YoY, excluding the impact of ESOP cost which will be offset by operating leverage.

Current Valuation: 27x FY26E (Earlier Valuation: 27x Sep'26E)

Current TP: Rs625/share (Earlier TP: Rs 585/share)

Recommendation: We maintain our HOLD recommendation on the stock.

Financial Performance

AUM growth reported strong growth at 47%/14% YoY/QoQ. Yields declined marginally by 1bps sequentially, majorly due to a marginal decline in equity yields. With healthy growth in AUM, revenue grew by 34.4/10.6% YoY/QoQ. The company gained market share across segments with equity market share increasing by 30bps sequentially to 7.97%. Other income was significantly higher in the current quarter due to mark-to-market movements. Operating expenses increased by 17/5% YoY/QoQ, majorly driven by an increase in staff expense by 17/9% YoY/QoQ. Share of B-30 in AUM: Share of B-30 in AUM at 19.5% was down/up -60bps/50bps QoQ/YoY. Channel mix: In the overall AUM, the share of direct channels was 55%. Share of MFDs, Banks and NDs within distributed assets stood at 57%, 23% and 20% respectively

Outlook

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. NAM grew its B-30 AUM to 19.5% and is one of the fastest-growing players in B30. Although yields may compress over the next 3-4 years, the high revenue growth and operational leverage will improve profitability. With sustained growth in the retail market share, an increase in the share of the higher-yielding equity mix, and healthy growth in SIP, we believe NAM is a great bet amongst AMCs. Moving forward, differentiated and transparent product suites and innovative digital strategies along with strong top-quartile fund performances are expected to drive the growth of the company moving ahead.

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Revenue	468	10.6	34.4	473	-1.00%
Operating Profit	291	12.2	39.2	290	0.26%
PAT	343	20.6	73.3	286	19.80%
EPS	5.4	19.1	71.1	4.6	18.23%

Source: Company, Axis Research

(CMP as of 25th April, 2024)

CMP (Rs)	581
Upside /Downside (%)	7%
High/Low (Rs)	623/230
Market cap (Cr)	36,658
Avg. daily vol. (1m) Shrs.	1647.299
No. of shares (Cr)	62

Shareholding (%)

	Sept-23	Dec-23	Mar-24
Promoter	73.5	73.1	72.9
FIIs	5.1	5.5	5.49
MFs / UTI	14.6	14.2	14.4
Others	6.9	7.2	7.26

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
MF AUM	4,31,308	5,39,135	6,52,353
Revenue	1,604	1,977	2,351
Net Profit	1106.3	1161.9	1456.2
Profit (% of AUM)	0.3	0.2	0.2
EPS (Rs)	17.6	18.4	23.1
Change (%)	50.9	5.0	25.3
ROE (%)	29.5	28.7	33.8

Change in Estimates (%)

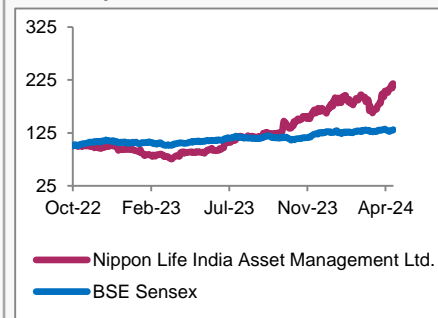
Y/E Mar	FY25E	FY26E
Revenue	0.3	3.3
Operating Profit	-0.2	3.1
PAT	-0.8	2.2

ESG disclosure Score**

Environmental Disclosure	6.6
Social Disclosure Score	22.4
Governance Disclosure	76.1
Total ESG Disclosure Score	35.8
Sector Average	37.5

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 2022 disclosures

Relative performance


Source: Ace Equity, Axis Securities

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Valuation & Recommendation

With the healthy AUM growth and continuous increase in the market share from the last four quarters, we have revised our AUM and revenue growth estimates upwards. **We roll forward our estimates to 27x FY26E with a revised target price of Rs 625/share, implying an upside of 7% from the CMP. We thus revise our rating from BUY to HOLD as valuations have caught up with the recent rally in stock.**

Key Risks to our Estimates and TP

- Slow growth in AUM and pressure on yields would impact our top-line estimates.
- Ongoing global uncertainties, FII outflow and a weak INR/USD outlook may impact some growth momentum and lead to some volatility.
- The asset management industry is strongly regulated and regulatory uncertainty would impact our estimates.

Change in Estimates

(Rs Cr)

	Revised		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	1,977	2,351	1,971	2,275	0.3	3.3
Operating Profit	1,230	1,507	1,233	1,461	-0.2	3.1
PAT	1,162	1,456	1,171	1,425	-0.8	2.2
EPS	18.4	23.1	18.6	23	-0.8	2.2

Source: Company, Axis Securities

Q4FY24 Results Review
(Rs Cr)

Y/E March	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ
Total Op. Income	468.3	348.3	34.4	423.3	10.6
Total Op. Expenses	177.5	139.5	27.3	164.2	8.1
Staff costs	88.6	72.5	22.2	88.1	0.6
Fee & Commission	17.2	12.2	41.4	15.6	10.5
Other Op. Expenses	71.7	54.8	30.8	60.4	18.6
Operating profit	290.8	208.8	39.2	259.2	12.2
Other income	92.3	39.7	132.6	107.1	-13.8
EBITDA	383.1	248.5	54.1	366.2	4.6
Depreciation	7.3	8.2	-10.0	6.5	12.6
PBIT	375.7	240.4	56.3	359.7	4.4
Interest	1.6	1.2	37.9	1.7	-3.6
PBT	374.1	239.2	56.4	358.1	4.5
Tax	31.5	41.5	-24.1	74.1	-57.5
Reported PAT	342.6	197.7	73.3	284.0	20.6
EPS (Rs)	5.4	3.2	71.1	4.6	19.1
OPM (%)	62.1	60.0		61.2	
EBIDTA (%)	68.3	64.0		69.0	
PATM (%)	61.1	51.0		53.5	
MF AUM	4,31,308	2,93,159	47.1	3,77,654	14.2

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total Operating Income	1,350	1,643	1,977	2,351
Growth (%)	3	22	20	19
Employee Expenses	300	336	370	405
Brokerage	50	62	75	87
Total Expenses	553	649	747	844
Operating Profit	797	994	1,230	1,507
OPM (%)	59	60	62	64
OP Growth (%)	1	25	24	22
Depreciation	30	29	31	32
EBIT	767	965	1,200	1,474
Other Income	167	394	297	353
Interest	4	6	7	7
Exceptional Items	-	-	-	-
PBT	930	1,352	1,490	1,820
Tax	205	246	328	364
RPAT	725	1,106	1,162	1,456
RPAT Growth (%)	(2)	53	5	25
EO items (net of tax)	-	-	-	-
APAT	725	1,106	1,162	1,456
APAT Growth (%)	(2)	53	5	25
EPS	11.6	17.6	18.4	23.1
EPS Growth (%)	(3)	51	5	25

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS				
Share Capital	623	630	630	630
Reserves	2,892	3,352	3,475	3,891
Total Shareholders' Funds	3,515	3,982	4,105	4,521
Provisions	13	8	9	10
Other current liabilities	333	384	397	411
Total liabilities	3,861	4,375	4,511	4,943
Net fixed assets	307	333	350	369
Investments	3,023	3,513	3,712	4,166
Other assets	530	530	449	408
Total assets	3,861	4,375	4,511	4,943

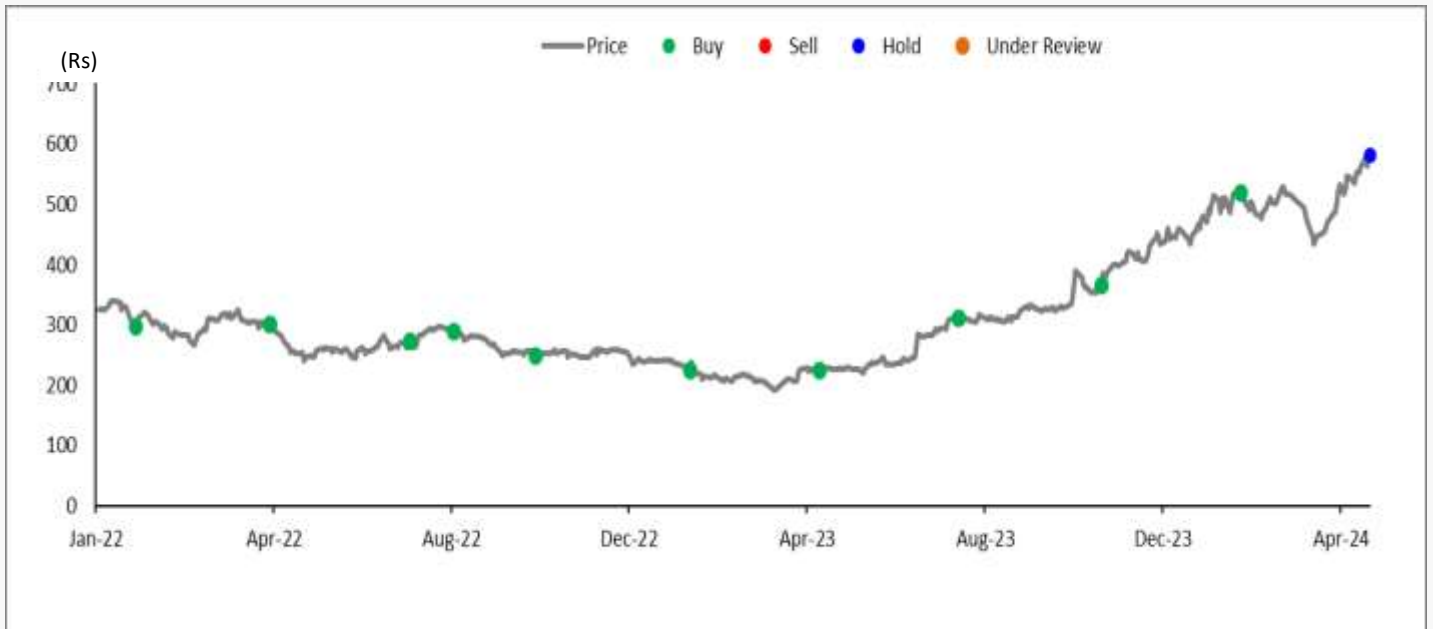
Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY23	FY24E	FY25E	FY26E
PROFITABILITY (%)				
Operating Margin	59.1	60.5	62.2	64.1
RPAT Margin	47.8	54.3	51.1	53.9
RoE	20.7	29.5	28.7	33.8
	59.1	60.5	62.2	64.1
AUM				
MF AUM	2,93,159	4,31,308	5,39,135	6,52,353
MF AUM YoY Growth (%)	3.5	47.1	25.0	21.0
STRUCTURAL (%)				
Investment Fees (% of AUM)	0.45	0.37	0.37	0.36
Operating Costs (% of AUM)	0.19	0.15	0.14	0.13
Staff costs (% of Operating Income)	22.3	20.4	18.7	17.2
Staff costs (% of Operating Costs)	54.4	51.7	49.5	47.9
Brokerage (% of Operating Income)	3.7	3.8	3.8	3.7
Brokerage (% of Operating Costs)	9.1	9.5	10.0	10.3
Profit (% to AUM)	0.25	0.26	0.22	0.22
PER SHARE DATA				
EPS	11.6	17.6	18.4	23.1
EPS Growth (%)	-2.6	50.9	5.0	25.3
BV	56	63	65	72
DPS	11.5	14.0	16.5	16.5
Dividend Payout (%)	97	80	89	71
	49.0	33.1	31.5	25.1
VALUATION				
P/E (x)	10.3	9.2	8.9	8.1
P/BV (x)	2.0	2.4	2.8	2.8
Dividend Yield (%)	0.45	0.37	0.37	0.36
	0.19	0.15	0.14	0.13

Source: Company, Axis Securities

Nippon Life India Price Chart and Recommendation History



Date	Reco	TP	Research
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
31-Jan-23	BUY	320	Result Update
27-Apr-23	BUY	277	Result Update
28-Jul-23	BUY	360	Result Update
31-Oct-23	BUY	430	Result Update
31-Jan-24	BUY	585	Result Update
26-Apr-24	HOLD	625	Result Update

Source: Axis Securities

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.**About the analyst****Analyst:** Prathamesh Sawant, CFA**Contact Details:** prathamesh.sawant@axissecurities.in**Sector:** BFSI**Analyst Bio:** Prathamesh Sawant is a CFA Charter holder with over 7 years of experience in Equity Research & Valuation.**Disclosures:**

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