

Reliance Nippon Life Asset Management

BUY

Opex control drives strong beat

Led by a 47.1/25.6% YoY/QoQ drop in other expenses RNAM reported an EBITDA of Rs 1.14bn (+4.5/19.7% YoY/QoQ) and 17.7% above our estimates. We expect exit of ADAG to positively impact both performance. We value RNAM at 26x on its FY21E NOPLAT + value of investments to arrive at TP of Rs 254 (+29.7%) i.e. 5.5% of FY21E AUM.

HIGHLIGHTS OF THE QUARTER

- Revenues declined 21.7%/1.9% YoY/QoQ to Rs 3.43bn, +1.6% vs. est; while expenses dropped 33.3/12.9% YoY/QoQ to Rs 2.01bn. Consequently, EBITDA at Rs 1.41bn was (+4.5/19.7% YoY/QoQ) i.e. +17.6% vs. est.
- Fees and expenses declined 39.2/13.8% YoY/QoQ to Rs 628mn as payment of upfront commission has stopped. Management also stated that only Rs 500mn is the unamortized balance.
- Other expenses declined 47.1/25.6% to Rs 622mn as outsourced expenses are now paid at the scheme level; management also stated that it had lowered costs by controlling discretionary expenditure.
- While, equity QAAUM rose 3.6/1.3% YoY/QoQ to Rs 913bn, T. QAAUM fell 4.6/1.2% YoY/QoQ to Rs 2.34tn.

FINANCIAL SUMMARY

(Rs mn)	4QFY19	4QFY18	YoY(%)	3QFY19	QoQ(%)	FY18	FY19P	FY20E	FY21E
Revenue	3,432	4,381	-21.7	3,499	-1.9	15,917	14,786	13,963	15,280
EBIT	1,393	1,330	4.7	1,092	27.5	5,009	5,289	6,514	7,442
EBIT Margin (%)	40.6	30.4	1022bps	31.2	936bps	31.5	35.8	46.6	48.7
PAT	1,381	996	38.7	1,095	26.1	4,594	4,870	5,604	6,342
EPS	2.5	2.7	-8.9	1.8	38.0	7.5	7.9	9.1	10.3
EV/NOPLAT (x)						28.8	26.4	21.2	18.1
P/E (x)						26.1	24.8	21.6	19.1
ROIC (%)						81.1	102.8	165.9	223.5

Source: Company, HDFC sec Inst Research estimates

- Adoption of IND-AS resulted in reversal of amortization of GSAM purchase. Adjusted for the same APAT at Rs 1.38bn was +38.7/21.2% YoY/QoQ.
- Management stated that it has passed on 80-90% of TER cut to distributors and the impact on its profits would be 2-3bps; it further opined that over the medium term industry would move to TER sharing.
- According to the management, RCAP is expected to announce sale of RNAM in 4-6 weeks. In Apr-19 RCAP has pledged 8.6% stake in RNAM.
- Another positive was that RNAM's exposure to ADAG through ICDs has reduced to Rs 3.8bn (Rs 4.3bn FY18).
- Outlook: Stock to move up as profitability improves and as sale of RCAP's stake in RNAM looks imminent.**

STANCE

We are encouraged by the cost control shown in 4QFY19 and hope that it continues into the future. Additionally, we are excited by the prospects of exit of ADAG as promoter, which we believe will aid fund raising from HNIs and institutions. We revise our FY20E/21E EBIT estimates upwards by 14.5/9.1%.

INDUSTRY	AMC
CMP (as on 30 Apr 2019)	Rs 198
Target Price	Rs 254
Nifty	11,748
Sensex	39,032

KEY STOCK DATA

Bloomberg	RNAM IN
No. of Shares (mn)	612
MCap (Rs bn) / (\$ mn)	121/1,740
6m avg traded value (Rs mn)	95

STOCK PERFORMANCE (%)

52 Week high / low	Rs 279/120		
	3M	6M	12M
Absolute (%)	45.2	18.7	(22.1)
Relative (%)	35.5	4.1	(33.7)

SHAREHOLDING PATTERN (%)

	Dec-18	Mar-19
Promoters	85.8	85.8
FIs & Local MFs	7.5	6.8
FPIs	2.7	3.0
Public & Others	4.1	4.5
Pledged Shares	Nil	Nil

Source : BSE

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RNAMC Results Summary: 4QFY19

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ(%)
Revenue	3,432	4,381	(21.7)	3,499	(1.9)
Staff cost	768	818	(6.2)	753	2.0
Admin & other opex	622	1,175	(47.1)	836	(25.6)
Fee and commission	628	1,034	(39.2)	729	(13.8)
Total expenses	2,018	3,026	(33.3)	2,317	(12.9)
EBITDA	1,415	1,354	4.5	1,182	19.7
Depreciation and amortization	22	24	(9.5)	90	(75.5)
EBIT	1,393	1,330	4.7	1,092	27.5
Other income	543	21	2,447.9	541	0.3
PBT	1,935	1,351	43.2	1,633	18.5
Tax	548	325	68.7	536	2.4
PAT (pre-minority interest)	1,387	1,026	35.2	1,097	26.4
Share of profit/ (loss) in associate	4.3	(1.0)	NM	(2)	NM
Minority interest	10.1	29.2	(65.4)	-	NM
APAT	1,381	996	38.7	1,095	26.1
Adjustments (post-tax)*	130	130	-	-	NM
RPAT	1,511	1,126	34.2	1,095	38.0
Margins and tax rate (%)					
EBITDA	41.2	30.9	1030bps	33.8	744bps
EBIT	40.6	30.4	1022bps	31.2	936bps
NOPLAT	29.1	23.1	602bps	21.0	810bps
PBT	56.4	30.8	2554bps	46.7	970bps
PAT	40.2	22.7	1751bps	31.3	893bps
Tax rate (%)	28.3	24.1	428bps	32.8	-447bps

Source: Company, HDFC sec Inst Research

*Because of IND AS transition, the company has written back amortization charged to P&L A/c in FY18 and FY19 in 4QFY18 and 4QFY19. APAT is not comparable on a QoQ basis. Adjusting for impact of writeback APAT is up 21.2% QoQ.

The revised SEBI guidelines restrict payment of upfront commissions, resulting in a fall in both revenues and expenses.

Consequentially, revenues declined (21.7/1.9% YoY/QoQ) to Rs 3.43bn.

Fall in total expenses (-33.3/12.9% YoY/QoQ) to Rs 2.01bn was higher than estimates.

Led by sharp decline in Other opex, EBITDA came in at Rs 1.41bn (4.5/19.7% YoY/QoQ).

Increase in PAT was accentuated by a reduced tax rate of 28.3% i.e. 447bps QoQ.

NOPLAT improved ~5bps YoY to 17.1bps.

Staff costs continue to remain elevated at 13.1bps of AUM in 4QFY19 as against 5.7bps for HDFC AMC in the same period.

Retail AUM (believed to be stickier) continues to grow at a healthy pace and outpaced total AUM growth leading to higher retail share.

RNAM is the industry leader in retail assets.

Operating Metrics

As % of QAAUM (bps) (Annualised)	4QFY19	4QFY18	YoY	3QFY19	QoQ
Revenue	58.8	71.5	-13bps	59.2	0bps
Staff cost	13.1	13.4	0bps	12.7	0bps
Admin & other opex	10.6	19.2	-9bps	14.1	-3bps
Fee and commissions	10.8	16.9	-6bps	12.3	-2bps
EBITDA	24.2	22.1	2bps	20.0	4bps
EBIT	23.8	21.7	2bps	18.5	5bps
NOPLAT	17.1	16.5	1bps	12.4	5bps
PBT	33.1	22.1	11bps	27.6	5bps
PAT	23.7	16.8	7bps	18.6	5bps

Source: Company, HDFC sec Inst Research

5 Quarters At A Glance

MF QAAUM (Rs bn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (%)	QoQ (%)
Equity	882	889	906	901	914	3.6	1.3
Debt	980	1,034	943	838	779	(20.5)	(7.0)
Liquid	465	361	477	455	432	(7.1)	(5.1)
ETFs	122	120	122	169	211	72.5	25.0
Total	2,449	2,404	2,448	2,363	2,336	(4.6)	(1.2)
Retail AUM (Rs bn)	732	780	837	830	899	22.8	8.3
Share in AUM (%)							
Equity	36.0	37.0	37.0	38.1	39.1	310bps	97bps
Debt	40.0	43.0	38.5	35.4	33.3	-665bps	-209bps
Liquid	19.0	15.0	19.5	19.3	18.5	-50bps	-77bps
ETFs	5.0	5.0	5.0	7.2	9.0	404bps	189bps
Total	100.0	100.0	100.0	100.0	100.0		
Retail AUM as % of total AUM	29.9	32.4	34.2	35.1	38.5	859bps	336bps

Source: Company, HDFC sec Inst Research

Total QAAUM declined by 4.6/1.2% YoY/QoQ to Rs 2.34tn.

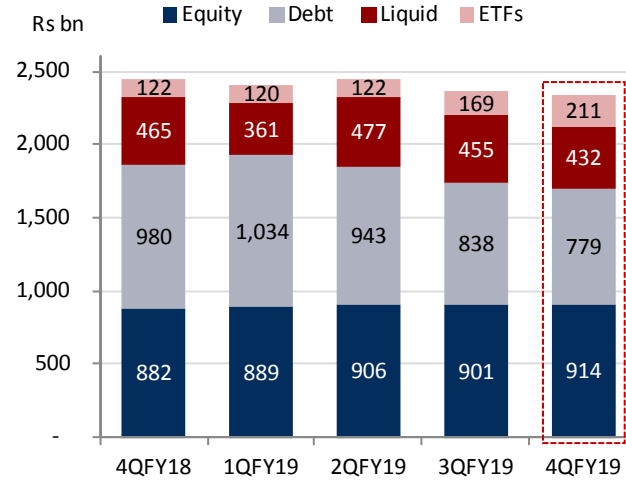
ETFs continue to see traction as AUM grew 72.5/25.0% YoY/QoQ to Rs 211bn.

Monthly avg. SIP inflows were at Rs 8.6bn (+2.3% QoQ); Avg. SIP contribution/folio is at Rs 2,771 (-4.6% QoQ).

The company has been able to maintain its SIP market share of ~11%

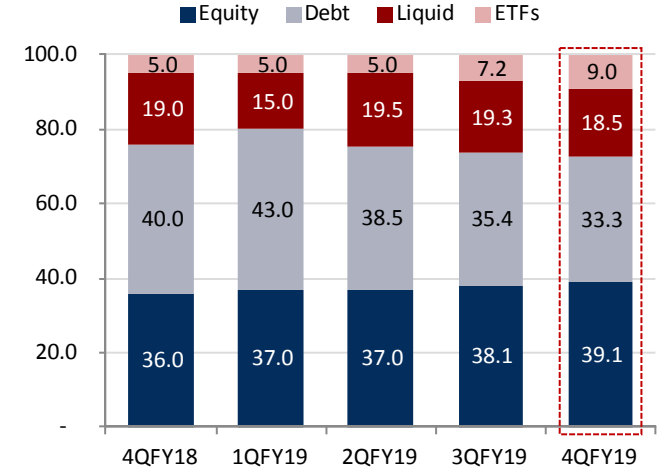
Retail AUM grew at 22.8/8.3% YoY/QoQ to Rs 899bn and share of retail AUM increased by 859/336bps YoY/QoQ to 38.5% (industry leading).

Equity AUM Grew At Only 3.6% YoY



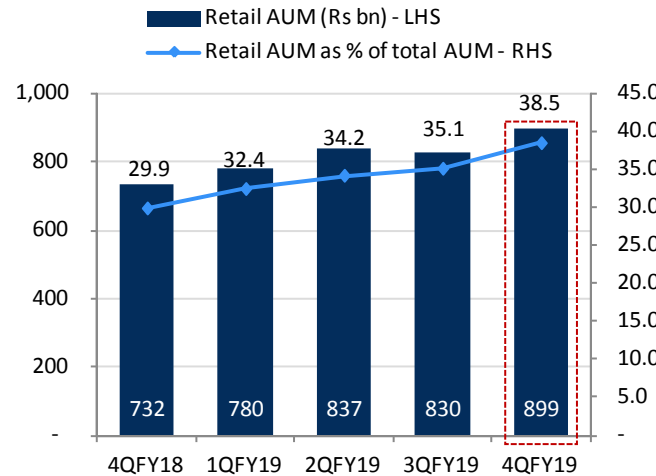
Source: Company, HDFC sec Inst Research

ETFs Gained AUM Share



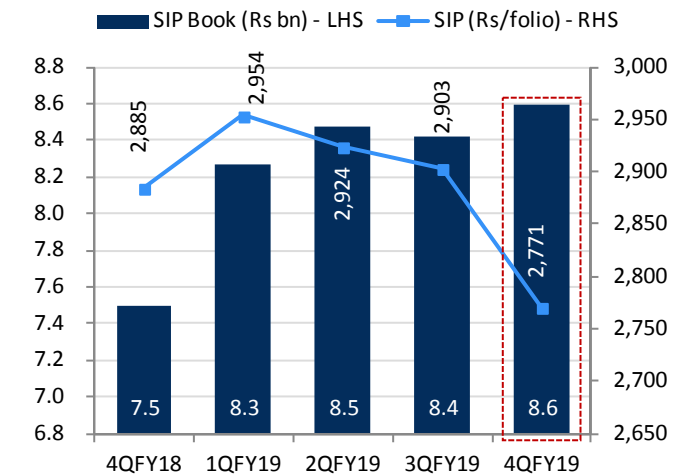
Source: Company, HDFC sec Inst Research

Rising Retail Participation



Source: Company, HDFC sec Inst Research

SIP Book Growth Stagnated In FY19

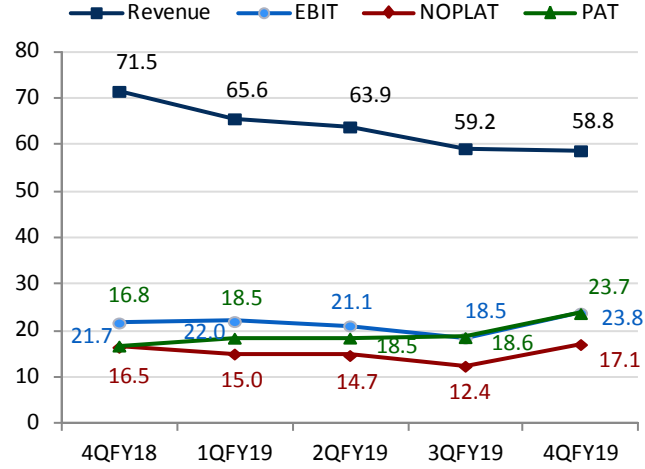


Source: Company, HDFC sec Inst Research

Revenue as % of AUM fell due to regulatory change and also because of change in mix with rise in ETFs share (low yielding product)

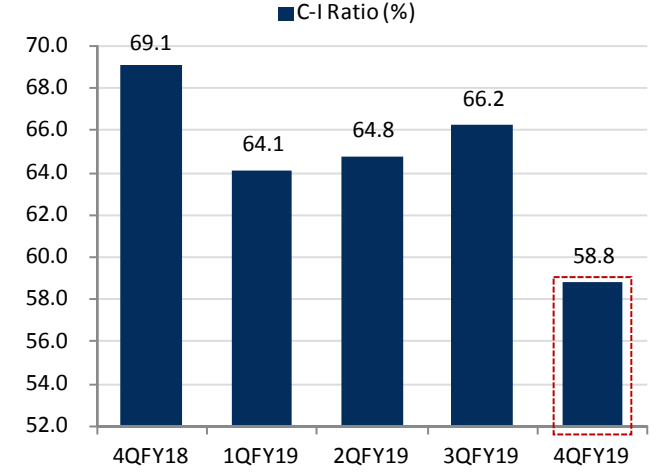
CI ratio decreased by ~744bps QoQ to 55.8%.

As A % Of QAAUM



Source: Company, HDFC sec Inst Research

C/I Ratio Improved Materially



Source: Company, HDFC sec Inst Research

We expect MF AUM to grow at 11.3% CAGR for FY 19-21E.

Due to restriction on payment of upfront commissions, we expect brokerage expenses to come down from 11bps in FY19 to 1bp by FY21E.

Assumptions

	FY17	FY18	FY19E	FY20E	FY21E
Closing AUM (Rs bn)					
Mutual fund	2,036	2,261	2,291	2,527	2,836
Managed accounts	26	32	35	38	41
Offshore funds and advisory	19	28	31	33	36
Pension	1,425	1,643	1,840	2,024	2,227
Total	3,506	3,964	4,197	4,623	5,140
MF AAUM (Rs bn)					
Equity	533	768	903	1,029	1,204
Debt	939	1,040	899	952	1,029
Liquid	362	421	432	475	522
ETFs	64	128	156	179	202
Total	1,899	2,357	2,388	2,635	2,957
Growth(%)					
Equity	9	44	18	14	17
Debt	34	11	(14)	6	8
Liquid	12	16	2	10	10
ETFs	250	101	21	15	13
Total	24	24	1	10	12
Share(%)					
Equity	28	33	38	39	41
Debt	49	44	38	36	35
Liquid	19	18	18	18	18
ETFs	3	5	7	7	7
Total	100	100	100	100	100
As % of MF AAUM (bps)					
Revenue	69	68	62	53	52
Staff cost	10	11	12	13	13
Admin & other opex	13	35	27	15	14
Marketing expenses	7	7	6	6	6
Brokerage expenses	14	13	11	2	1
EBITDA	25	22	23	25	26
EBIT	24	21	22	25	25
NOPLAT	16	15	15	17	17
PBT	31	28	29	31	31
PAT	21	19	20	21	21
C/I Ratio (%)	66	69	64	53	51
Tax Rate (%)	31	30	30	31	31

Source: Company, HDFC sec Inst Research estimates

Our revised estimates mean a FY20E/21E increase in EBIT by 14.5/9.1% over our previous estimates.

Change In Estimates

(Rs mn)	FY20E			FY21E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Revenues	13,963	13,980	-0.1	15,280	15,309	-0.2
EBIT	6,514	5,688	14.5	7,442	6,822	9.1
EBIT margin (%)	46.6	40.7	596bps	48.7	44.6	414bps
PAT	5,604	5,234	7.1	6,342	6,115	3.7
ROE (%)	20.6	21.2	-63bps	21.9	22.8	-91bps
ROIC (%)	165.9	131.7	3420bps	223.5	180.1	4337bps

Source: Company, HDFC sec Inst Research estimates

Income Statement

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	13,074	15,917	14,786	13,963	15,280
Growth (%)	9.0%	21.7%	-7.1%	-5.6%	9.4%
Employee Benefits Expenses	1,957	2,572	2,935	3,375	3,713
Operating Expenses	6,451	8,251	6,461	3,971	4,020
EBITDA	4,665	5,094	5,390	6,617	7,547
EBITDA Margin (%)	35.7	32.0	36.5	47.4	49.4
EBITDA Growth (%)	12.0%	9.2%	5.8%	22.8%	14.1%
Depreciation	179	85	101	104	105
EBIT	4,486	5,009	5,289	6,514	7,442
Other Income (includes treasury)	1,326	1,569	1,713	1,608	1,750
Interest & Financial Charges	-	-	-	-	-
PBT	5,812	6,578	7,002	8,122	9,192
Tax	1,786	1,984	2,132	2,518	2,849
RPAT	4,026	4,594	4,870	5,604	6,342
APAT	4,026	4,594	4,870	5,604	6,342
APAT Growth (%)	1.2%	14.1%	6.0%	15.1%	13.2%
AEPS	6.9	7.5	7.9	9.1	10.3
EPS Growth (%)	1.2%	9.5%	5.2%	15.1%	13.2%

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	415	6,120	6,168	6,168	6,168
Reserves	18,311	17,533	20,522	21,669	23,931
Minority Interest	-	654	-	-	-
Total Shareholders Funds	18,726	24,307	26,690	27,838	30,100
Long-term Debt	-	-	-	-	-
Short-term Debt	-	-	-	-	-
Total Debt	-	-	-	-	-
Other Financial Liabilities & Provisions	216	297	435	115	126
Other Non Current Liabilities	-	-	-	-	-
Net Deferred Tax Liability	(37)	(123)	(110)	(110)	(110)
TOTAL SOURCES OF FUNDS	18,904	24,481	27,014	27,842	30,115
APPLICATION OF FUNDS					
Net Block	2,512	2,603	2,568	2,562	2,564
Loans & Deposits	1,488	3,180	1,476	639	679
Other Non Current Assets	74	-	-	-	-
Total Non-current Assets	4,074	5,783	4,044	3,201	3,243
Current Investments	9,465	9,934	12,900	13,803	14,769
Debtors	432	404	1,026	383	419
Cash & Equivalents	397	6,091	6,418	7,489	8,782
Loans & Advances	5,840	4,246	3,696	3,696	3,696
Other Current Assets	268	602	554	610	671
Total Current Assets	16,402	21,276	24,593	25,980	28,337
Creditors	1,083	1,329	474	191	209
Other Current Liabilities	489	1,249	1,150	1,148	1,256
Total Current Liabilities	1,572	2,578	1,623	1,339	1,465
Net Current Assets	14,830	18,698	22,970	24,641	26,872
TOTAL APPLICATION OF FUNDS	18,904	24,481	27,014	27,842	30,115

Source: Company, HDFC sec Inst Research

Cash Flow

(Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
Reported PBT	5,813	7,258	7,002	8,122	9,192
Non-operating & EO Items	(1,339)	(2,132)	(1,713)	(1,608)	(1,750)
Interest Expenses	-	-	-	-	-
Depreciation	179	336	101	104	105
Working Capital Change	2,474	364	875	821	(0)
Tax Paid	(1,580)	(1,883)	(2,132)	(2,518)	(2,849)
OPERATING CASH FLOW (a)	5,547	3,942	4,133	4,920	4,697
Net Capex	(2,572)	(151)	(66)	(98)	(107)
(Purchase)/sale of net operating financial assets	-	-	-	-	-
<i>Free Cash Flow (FCF)</i>	<i>2,975</i>	<i>3,791</i>	<i>4,067</i>	<i>4,822</i>	<i>4,590</i>
Investments	(1,002)	2,047	(2,966)	(903)	(966)
Non-operating Income	632	953	1,713	1,608	1,750
INVESTING CASH FLOW (b)	(2,942)	2,849	(1,320)	607	677
Debt Issuance/(Repaid)	-	-	-	-	-
Interest Expenses	-	-	-	-	-
<i>FCFE</i>	<i>2,975</i>	<i>3,791</i>	<i>4,067</i>	<i>4,822</i>	<i>4,590</i>
Proceeds From Issue of Share Capital	-	5,869	1,860	-	-
Dividend	(3,003)	(6,686)	(3,683)	(4,456)	(4,080)
Others	-	(280)	(664)	-	-
FINANCING CASH FLOW (c)	(3,003)	(1,097)	(2,487)	(4,456)	(4,080)
NET CASH FLOW (a+b+c)	(398)	5,694	327	1,071	1,294
Opening Cash & Equivalents	795	397	6,091	6,418	7,489
Closing Cash & Equivalents	397	6,091	6,418	7,489	8,782

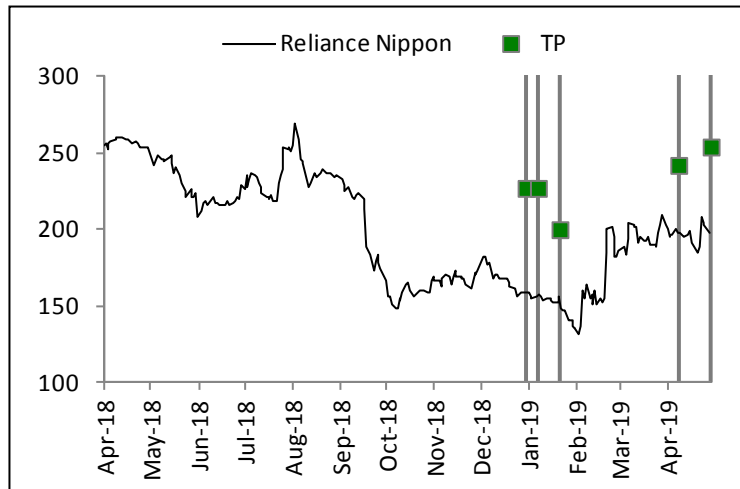
Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY (%)					
EBITDA Margin	35.7	32.0	36.5	47.4	49.4
EBIT Margin	34.3	31.5	35.8	46.6	48.7
APAT Margin	30.8	28.9	32.9	40.1	41.5
RoE	21.9	21.3	19.1	20.6	21.9
Core RoCE	65.1	81.1	102.8	165.9	223.5
EFFICIENCY					
Tax Rate (%)	30.7	30.2	30.4	31.0	31.0
Asset Turnover (x)	9.9	6.2	5.7	5.4	6.0
<i>Inventory (days)</i>					
<i>Debtors (days)</i>	<i>12</i>	<i>9</i>	<i>25</i>	<i>10</i>	<i>10</i>
<i>Other Current Assets (days)</i>	<i>7</i>	<i>14</i>	<i>8</i>	<i>8</i>	<i>8</i>
<i>Payables (days)</i>	<i>30</i>	<i>30</i>	<i>12</i>	<i>5</i>	<i>5</i>
<i>Other Current Liab & Prov (days)</i>	<i>14</i>	<i>29</i>	<i>28</i>	<i>30</i>	<i>30</i>
Working Capital (days)	(24)	(36)	(7)	(18)	(18)
Debt/EBITDA (x)	-	-	-	-	-
Net D/E	(0.0)	(0.3)	(0.2)	(0.3)	(0.3)
Interest Coverage	-	-	-	-	-
PER SHARE DATA					
AEPS (Rs/sh)	6.9	7.5	7.9	9.1	10.3
CEPS (Rs/sh)	7.2	7.6	8.1	9.3	10.5
DPS (Rs/sh)	4.2	5.0	6.0	5.5	6.2
BV (Rs/sh)	31.9	38.6	43.3	45.1	48.8
VALUATION					
P/E	28.6	26.1	24.8	21.6	19.1
P/BV	6.1	5.1	4.5	4.3	4.0
EV/NOPLAT	34.3	28.8	26.4	21.2	18.1
OCF/EV (%)	5.2	3.9	4.2	5.2	5.0
FCF/EV (%)	2.8	3.8	4.2	5.1	4.9
FCFE/MCAP (%)	2.5	3.1	3.4	4.0	3.8
Dividend Yield (%)	2.2	2.6	3.1	2.8	3.2

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
31-Dec-19	159	BUY	227
8-Jan-19	156	BUY	227
23-Jan-19	157	BUY	200
9-Apr-19	200	BUY	242
30-Apr-19	198	BUY	254

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
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