

Nippon Life India Asset Management Ltd.

28 October 2020

Reuters: NIPF.NS; Bloomberg: NAMIN

Yields stable; opex cut and other income aid net earnings

Nippon Life India Asset Management Ltd (NAM) has reported revenue in line with expectations at Rs2,587mn, down 14% YoY and up 11% QoQ. Fixed income yields declined due to investors shifting towards safer shorter duration funds from longer duration funds and credit risk funds. Equity yields were stable QoQ at 90-95bps. MF QAAUM was down 2.5% YoY but up 11% QoQ. PMS and SMA AUM was down 48% YoY and 2% QoQ. Opex control was better than expected. Reduction in opex over the last few quarters has been commendable and in line with the management's guidance. One could see another 5-10% decline in employee costs due to rundown of ESOP expenses but the scope for large decline in admin/others expenses going forward is low. EBITDA at Rs1,352mn (7% above estimate) declined by 6% YoY but grew by 26% QoQ. PAT at Rs1,452mn was 25% above estimate primarily due to better opex run-rate and higher-than-expected other income, which was driven by MTM gains as equity prices recovered in 1HFY21. Over 1HFY21, MTM gains constituted ~50% of the total other income. We believe that the overall earnings delivery during the quarter was of high quality (in terms of sustainability), led by control in AUM decline (post Nippon takeover) and execution on the opex front. Per se on key financial items, NAM reported revenue decline of 14% YoY at Rs2,587mn, EBITDA decline of 6% at Rs1,352mn and PAT growth of 6% YoY. We have retained BUY rating on NAM, revising estimates for FY21/FY22/FY23 and our target price to Rs334, valuing the stock at 28x 1HFY23E P/E.

AUM and flows stabilizing; ETFs a big opportunity: Equity constitutes 39% of QAAUM (down 400bps YoY/up 100bps QoQ), debt 30% (up 100bps YoY/100bps QoQ) and liquid funds 17% (up 300bps YoY/down 200bps QoQ). Liquid funds QAAUM witnessed robust growth of ~24% YoY due to investors' risk aversion post the Franklin Templeton incident. The management believes that investors will eventually return to longer duration funds. Retail AAUM stood at Rs520bn, up 0.2% YoY and 13% QoQ. Over the last 12 months, ~600 institutional investors have been activated in addition to 0.28mn retail folios. Steps are being taken to address the investment performance of the flagship schemes and as a part of this exercise new fund managers would be hired and portfolios would be realigned in line with the feedback from Nippon Life. The management intends to explore strategic partnerships and acquisitions. Further, with a market share of 13.5%, NAM is one of the largest ETF players (AUM ~Rs286bn). Ex-EPFO money, market share stands at ~40%. Passive fund offering was further expanded through a small cap index fund and new ETF products will be launched going forward. B15 contribution for NAM stands at 25% while AAUM from B30 cities constitutes 18.2% of total AAUM.

Equity yields largely stable; PAT boosted by other income: Overall decline in yields was led by lower debt realisation, which was led by migration of funds from high-fee credit risk/long duration funds to low risk/ultra-low duration funds. Yield on debt funds dropped to 20.5bps in 2QFY21 (from 22bps in 1QFY21). Equity AUM yields have been stable at ~90-95bps. As risk aversion subsides, investors are likely to return to longer-term debt funds. Further, other income grew 1.8x YoY mainly on account of MTM gains. ~50% of 1HFY21 other income was due to MTM gains. Paring down of balance sheet equity and ETF exposure is expected to lower the volatility in other income.

Reduction in opex run-rate sustainable and in line with management guidance: Employee expenses were down 21% YoY and 5% QoQ. There could be another 5-10% decline in employee costs due to rundown of ESOP costs. Given the distribution network and measures on cost control, the company is positioned well to capitalize on growth opportunities as and when investors return to participate in the market, leading to higher profits. Digital transactions were up 31% YoY and contributed ~48% to total new purchase transactions. New digital SIP purchases witnessed 117% YoY growth in 2QFY21. Digital NFO for the Multi Asset Fund was completed in August, with funds from 80,000 investors (60% through digital channel).

BUY

Sector: Asset Management

CMP: Rs272

Target Price:Rs334

Upside: 23%

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Key Data

Current Shares O/S (mn)	612.6
Mkt Cap (Rsbn/US\$bn)	167.4/2.3
52 Wk H / L (Rs)	453/201
Daily Vol. (3M NSE Avg.)	989,222

Price Performance (%)

	1 M	6 M	1 Yr
Nippon Life AMC	7.3	13.5	(17.2)
Nifty Index	7.6	28.1	2.3

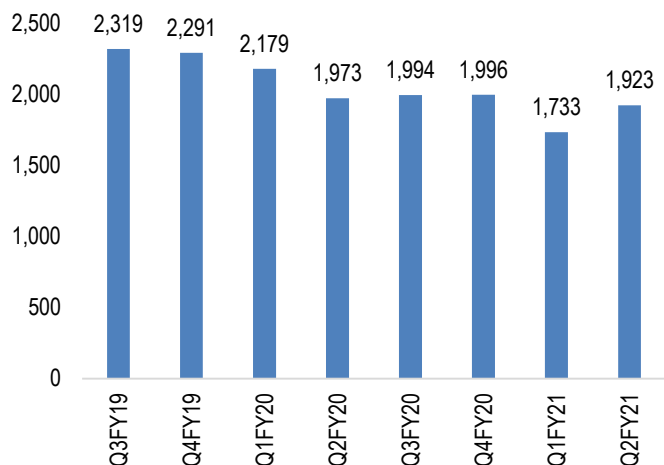
Source: Bloomberg

Y/E March (Rsmn)	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)
Revenue from asset management services	2,587	3,002	2,331	(13.8)	11.0
Fees and commission expenses	97	135	94	(28.6)	3.2
Employee expenses	679	856	715	(20.7)	(5.0)
Other expenses	459	576	451	(20.3)	1.8
EBITDA	1,352	1,435	1,071	(5.8)	26.2
Depreciation	79	76	105	3.9	(24.8)
EBIT	1,273	1,359	966	(6.4)	31.7
Other income	637	224	1,031	184.8	(38.2)
PBT	1,910	1,583	1,997	20.6	(4.4)
Tax expense	457	216	436	112.2	5.0
PAT	1,452	1,367	1,561	6.2	(7.0)
MF AUM (Rs bn)	1,929	1,886	1,881	2.3	2.6

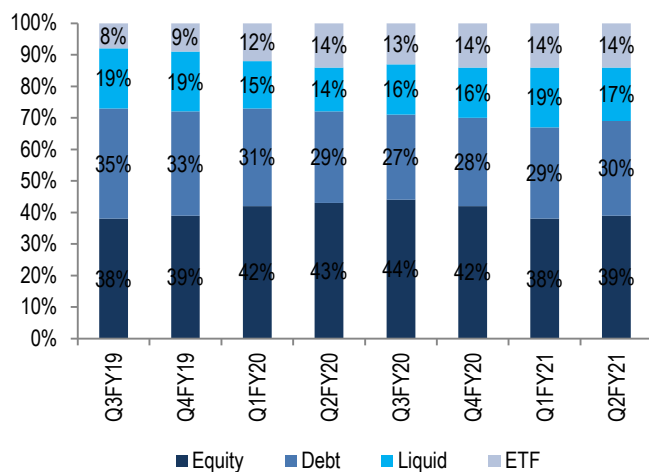
Source: Company, Nirmal Bang Institutional Equities Research

Earnings Call Takeaways

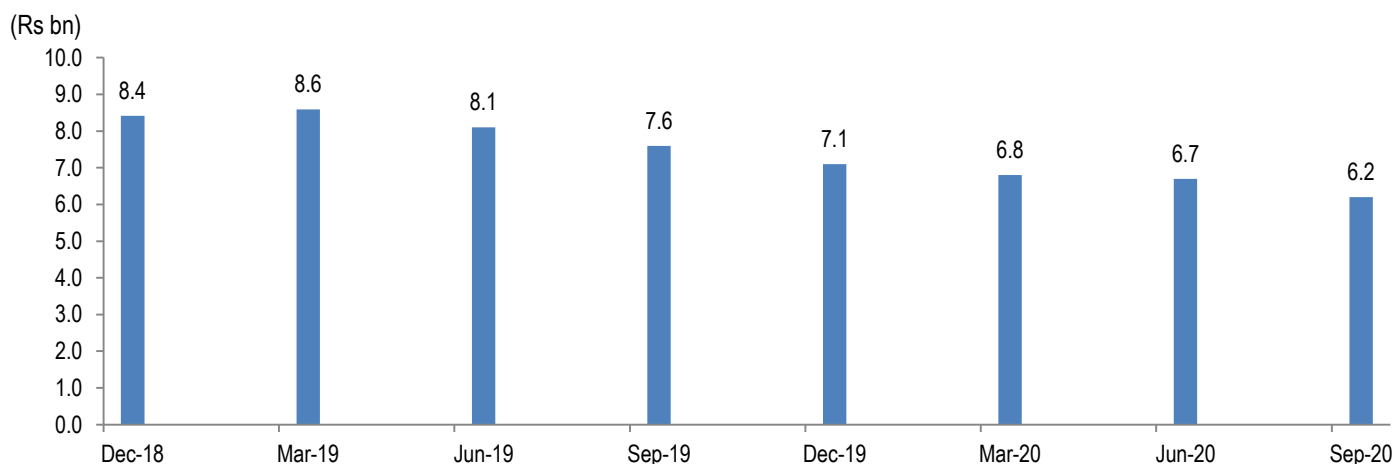
- Equity realization (yields) remained same as last year. Post the Franklin Templeton incident, yields in the fixed income segment have dropped due to shift of money from long duration and credit risk funds to ultra-short term and liquid funds. This has affected the overall/blended yields. Investors are unlikely to remain invested in short-term liquid funds for a long time. As risk aversion subsides and investors return to longer-term funds, yields would improve.
- The yield on debt funds dropped from 22bps in 1QFY21 to 20.5bps in 2QFY21.
- Some of the flagship equity funds have not delivered good returns but given some of the changes that the company has undertaken, the performance is expected to improve. The company has indicated that it may add some FMs going forward and realign portfolios in line with the feedback from Nippon Life.
- The company has reiterated that it does not believe in acquiring business/flows by paying higher distributor commissions.
- 1/3rd of employee expenses is variable in nature. Also, earlier the company did not have an ESOP scheme but now 15% of the company is covered through ESOPs, which also affects employee expenses.
- The company believes that it is adequately staffed as of now and is done taking rationalization measures that were required. As the business grows going forward, costs are unlikely to go up. There could be another 5-10% decline in absolute value of employee costs due to rundown of ESOP costs. In terms of other expenses, the effort will be to become more efficient, but as business grows, the marginal reduction in admin costs may be lower.
- In line with industry trends, the equity flows have been affected for the company as well. But, given the distribution network and measures on cost control, the company is positioned well to capitalize on growth opportunities as and when investors return to participate in the market, leading to higher profits. The outflows witnessed a couple of years ago due to issues at the group company level have been arrested and flows have now stabilized. The company is confident of growing at a disproportionately higher rate when the industry trends turn favorable.
- Post office mandate – Rs500-600bn of total AUM, out of which 10% is equity.
- Yield on Indo-Japanese tech fund is 1% fixed fee and carry above benchmark. The drawdown in the tech fund has started and should be 100% drawn down over the next 3 years. Drawdown period is ~2 years for other funds.
- Other income has been led by recovery in broader markets.
- The company has changed its SIP flows data reporting from commitments received to actual cash received, which the management believes is in line with improving disclosure standards. SIPs registered with the company stand at 3.2mn.
- The company has stated that ETFs will be an important part of the overall business strategy as the market opportunity is big.
- Propensity for large decline in admin costs going forward is low.
- Excluding EPFO money, the company has ~40% market share in ETFs.

Exhibit 1: QAAUM (Rsbn)


Source: Company, Nirmal Bang Institutional Equities Research

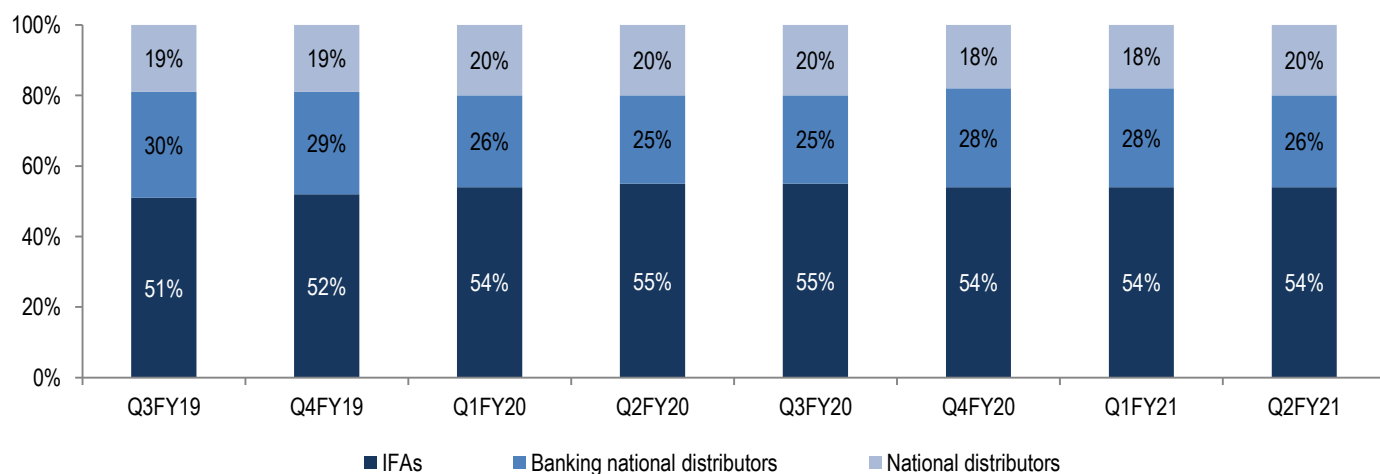
Exhibit 2: QAAUM mix (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: SIP Book (Rsbn)


*SIPs have been reclassified from Jun '19 onwards in line with latest AMFI guidelines.

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Distribution mix (%) (excl. direct AUM)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Financial summary

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	14,786	12,030	10,530	12,286	14,125
EBITDA	5,390	6,085	5,440	7,381	8,909
PAT	4,871	4,158	5,670	6,650	7,946
MF AUM (Rs bn)	2,336	2,049	2,192	2,521	2,899
ROE (%)	19.7	16.1	21.5	24.3	27.9
P/E (x)	32.3	40.0	29.4	25.0	21.0
P/B (x)	6.1	6.4	6.2	6.0	5.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Actual performance versus our estimates

(Rsmn)	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)	Q2FY21E	Devi. (%)
Net revenue	2,587	3,002	2,331	(13.8)	11.0	2,592	-0.2
EBITDA	1,352	1,435	1,071	(5.8)	26.2	1,258	7.4
PAT	1,452	1,367	1,561	6.2	(7.0)	1,163	24.9

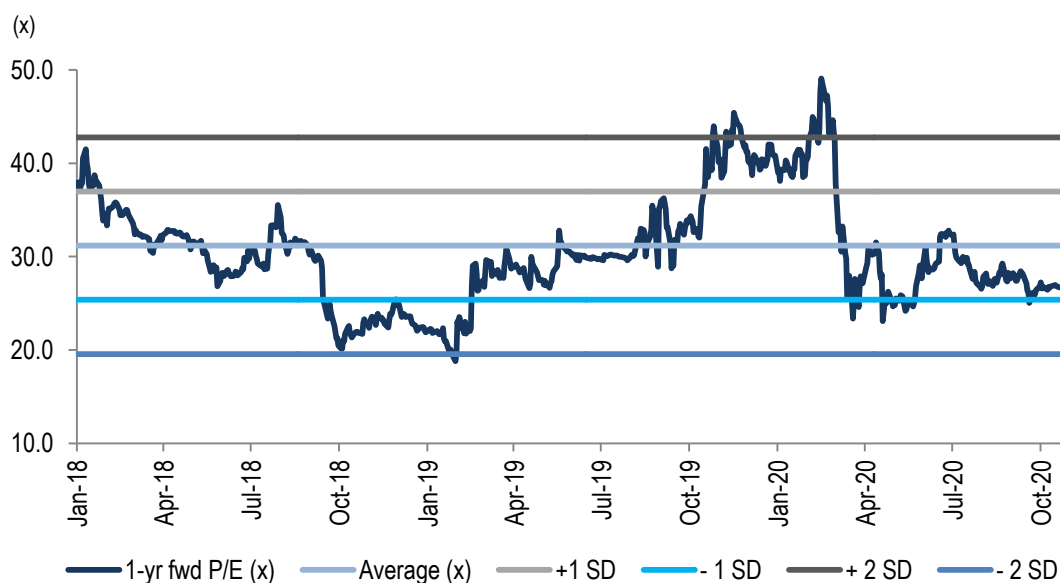
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Change in our estimates

(Rsmn)	Revised estimates			Earlier estimates			% Revision		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net revenue	10,530	12,286	14,125	10,385	11,724	13,479	1.4	4.8	4.8
EBITDA	5,440	7,381	8,909	5,653	6,910	8,361	-3.8	6.8	6.6
PAT	5,670	6,650	7,946	5,071	6,246	7,478	11.8	6.5	6.3
MF AUM (Rs bn)	2,192	2,521	2,899	2,090	2,403	2,764	4.9	4.9	4.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: One-year forward P/E



Source: Company, Nirmal Bang Institutional Equities Research

Financials
Exhibit 9: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net revenue	14,786	12,030	10,530	12,286	14,125
Employee expenses	2,935	3,024	2,782	2,921	3,067
Other expenses	6,461	2,921	2,308	1,984	2,149
EBITDA	5,390	6,085	5,440	7,381	8,909
Depreciation	101	333	360	401	407
EBIT	5,290	5,753	5,080	6,980	8,503
Interest/financial charges	0	57	50	50	50
Other income	1,713	-98	2,431	1,820	2,003
PBT	7,002	5,598	7,460	8,750	10,455
Tax expense	2,132	1,441	1,790	2,100	2,509
PAT	4,871	4,158	5,670	6,650	7,946

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS					
Share capital	6,120	6,121	6,120	6,120	6,120
Reserves & surplus	19,580	19,809	20,702	21,750	23,001
Shareholders' funds	25,700	25,931	26,822	27,870	29,121
Other liabilities	2,058	2,878	2,164	2,147	2,185
Total equity and liabilities	27,758	28,808	28,986	30,016	31,306
APPLICATION OF FUNDS					
Investments	12,900	18,846	21,672	23,840	26,224
Fixed and other assets	14,859	9,963	7,314	6,177	5,082
Total assets	27,758	28,808	28,986	30,016	31,306

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Cash Flow Statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Cash flow from operating activities					
PBT	7,002	5,598	7,460	8,750	10,455
Op. profit before WC changes	5,624	6,523	5,430	7,370	8,899
Net cash from operating activities	3,861	6,050	3,960	5,142	6,248
Cashflow from investing activities					
Net purchase of investments	-2,392	-6,812	-1,500	-600	-900
Net cash used in investing activities	-348	365	397	680	563
Cashflow from financing activities					
Proceeds from issue of share capital	0	24	0	0	0
Dividend paid (including taxes)	-2,923	-4,427	-4,777	-5,603	-6,694
Net cash from financing activities	-3,587	-4,680	-4,777	-5,603	-6,694
Net increase/(decrease) in cash/equivalents	-74	1,735	-420	220	116
Opening cash/equivalents	374	300	2,035	1,615	1,835
Closing cash/equivalents	300	2,035	1,615	1,835	1,952

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

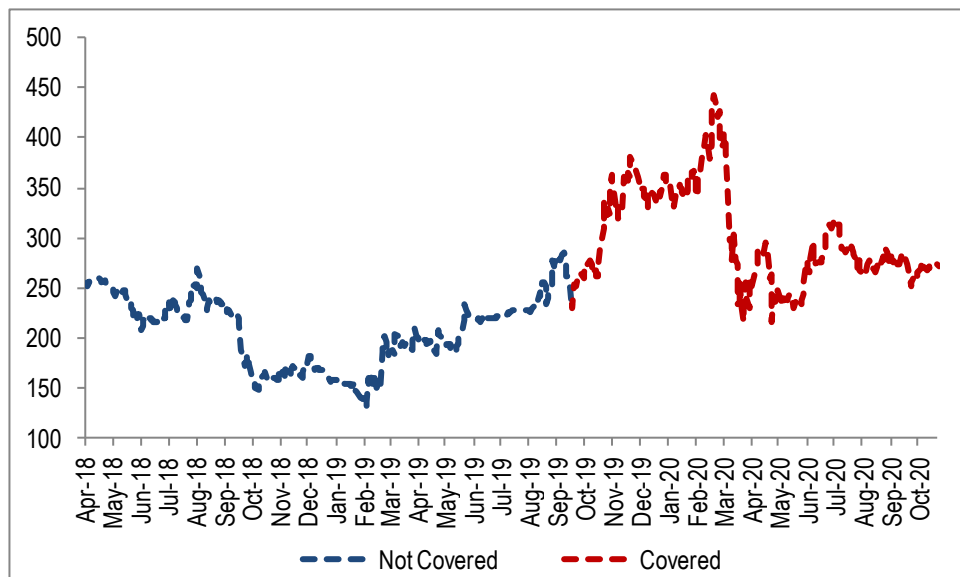
Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Assets under management					
Mutual fund AUM (Rsbn)	2,336	2,049	2,192	2,521	2,899
Advisory services + PMS AUM (Rsbn)	1,999	958	1,006	1,127	1,296
Aggregate AUM (Rsbn)	4,335	3,007	3,198	3,648	4,195
Growth (%)					
Aggregate AUM	3.0	-30.6	6.4	14.1	15.0
Revenue	-7.1	-18.6	-12.5	16.7	15.0
EBITDA	5.8	12.9	-10.6	35.7	20.7
PAT	6.5	-14.6	36.4	17.3	19.5
Shareholders' funds	8.7	0.9	3.4	3.9	4.5
Yields (%)					
Investment mgmt fee	0.60	0.53	0.49	0.51	0.51
PMS & advisory fee	0.02	0.03	0.03	0.03	0.03
Margins (%)					
EBITDA	36.5	50.6	51.7	60.1	63.1
EBIT	35.8	47.8	48.2	56.8	60.2
PBT	42.4	46.9	57.6	62.0	64.8
PAT	29.5	34.8	43.7	47.1	49.3
Profitability (%)					
ROA	17.7	14.7	19.6	22.5	25.9
ROE	19.7	16.1	21.5	24.3	27.9
Per share data (Rs)					
EPS	8.0	6.8	9.3	10.9	13.0
BVPS	42.0	42.4	43.8	45.5	47.6
Valuations					
P/E (x)	32.3	40.0	29.4	25.0	21.0
P/B (x)	6.1	6.4	6.2	6.0	5.7

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
18 September 2019	Accumulate	229	257
7 October 2019	Accumulate	271	281
25 October 2019	Accumulate	319	323
20 November 2019	Accumulate	365	370
8 January 2020	Accumulate	332	370
24 January 2020	Accumulate	347	380
27 March 2020	Buy	243	327
9 April 2020	Buy	273	327
18 May 2020	Accumulate	246	259
9 July 2020	Accumulate	303	319
28 July 2020	Buy	270	312
23 September 2020	Buy	264	325
7 October 2020	Buy	275	325
28 October 2020	Buy	272	334

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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