

India

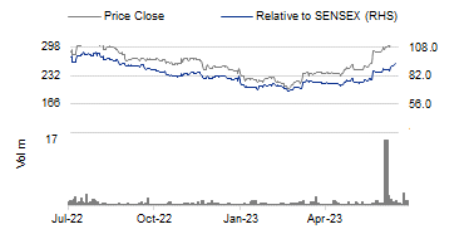
ADD (no change)

Consensus ratings*: Buy 15 Hold 3 Sell 0

Current price:	Rs317
Target price: ▲	Rs360
Previous target:	Rs300
Up/downside:	13.6%
InCred Research / Consensus:	23.0%
Reuters:	
Bloomberg:	NAM IN
Market cap:	US\$2,721m Rs197,555m
Average daily turnover:	US\$2.5m Rs184.5m
Current shares o/s:	0.0m
Free float:	46.0%
*Source: Bloomberg	

Key changes in this note

► Equity market share witnessed sequential stability at ~6.26%, but the inflow in debt funds is a key positive surprise for the quarter.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	22.8	33.9	11.3
Relative (%)	18.4	23.5	(4.5)

Major shareholders	% held
Nippon Life Insurance	30.0
LIC	5.5
Baron	2.3

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InCred Research

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Nippon Life India Asset Management Ltd

Healthy performance even in volatile times

- NAM India reported a better-than-estimated 1Q PAT of Rs2.35bn (+19% qoq), despite a qoq decline in yields, as investment income supports total revenue.
- Equity funds market share witnessed sequential stability at ~6.26%, but the inflow in debt funds is a key positive surprise for the quarter.
- We feel the worst is already over and the probable yield decline, post new SEBI norms, is already factored in. Retain ADD rating with a higher TP of Rs360.

Market share trend encouraging; pressure on revenue yields visible

NAM India witnessed ~4bp qoq rise in overall AUM market share to ~7.28% in 1QFY24 with a rise in equity funds' market share qoq by ~7bp to ~6.26%. Interestingly, debt fund AUM of the company saw an increase, after several quarters, by ~24.3% qoq to Rs658.6bn amid monetary tightening by the Reserve Bank of India likely to have peaked. The company saw a surge in revenue by 21% qoq, despite the fall in yields qoq, as investment income went up. Management attributed the decline in yields to the rise in assets under management or AUM size as well as intense competition, but we believe the company is already gearing up for a probable change in the Securities and Exchange Board of India or SEBI norms. We are confident of the company's ability to manage its market share considering the focused client approach and improving performance of its schemes.

Focus on granularity of inflow; SIP inflow depicts a realistic picture

Systematic investment plan or SIP AUM increased by ~43% yoy to Rs686bn, led by growth in folios by ~27% yoy to 5.2m folios. The share of SIPs of more than five years stands at 63% for NAM India, higher than the industry average of 25%, indicating stickiness in SIP inflow. NAM India added 0.4m SIP folios during the quarter, with the quarterly inflow at Rs34.3bn against Rs32.2bn in the previous quarter.

We estimate ~6bps decline in revenue yield under new SEBI norm

Our scheme-wise analysis for Nippon Life India Asset Management (NAM India) shows that it is operating at an equity TER (total expense ratio) of ~160bp vs. the new SEBI norm of ~178bp. This allows it to have headroom of ~18-20bp. Our base assumption is that the AMC will be able to pass on ~50% of the TER cut to its distributors and can even moderate the overall portfolio churn, which indicates ~6bp impact on FY24F revenue yield.

Outlook & valuation

We adjust our estimates for the surge in other income and, accordingly, increase our estimates by 19.8%/23.3% for FY24F/25F respectively. We have revised our target price to Rs360 from Rs300 earlier, corresponding to ~25.8x FY25F EPS. We retain ADD rating on NAM India as we are optimistic on its ability to improve market share with a limited impact on profitability. Downside risks: Weak inflow & underperformance of its schemes.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	0	0	0	0	0
Total Non-Interest Income (Rsm)	15,356	15,166	15,812	18,524	21,510
Operating Revenue (Rsm)	15,356	15,166	15,812	18,524	21,510
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	7,444	7,239	7,382	8,819	10,298
Core EPS (Rs)	12.07	11.74	11.97	0.00	0.00
Core EPS Growth	9%	(3%)	2%	0%	0%
FD Core P/E (x)	26.25	26.99	26.47	0.00	0.00
DPS (Rs)	0.00	0.00	0.00	0.00	0.00
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
BVPS (Rs)	52.7	55.4	58.5	0.0	0.0
P/BV (x)	6.01	5.72	5.42	0.00	0.00
ROE	23.4%	21.7%	21.0%	0.0%	0.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Total revenue from operations	3,161	3,316	3,538	3,483	3,542	12.0%	1.7%
Other income	-167	819	619	397	1,169	-798.6%	194.5%
Total revenue (Rs m)	2,994	4,135	4,157	3,880	4,710	57.3%	21.4%
Total expenditure	1,448	1,459	1,494	1,488	1,611	11.3%	8.2%
<i>Cost-to-income (%)</i>	48.4%	35.3%	35.9%	38.4%	34.2%		
Profit before tax	1,546	2,676	2,664	2,392	3,099	100.5%	29.6%
Tax	403	615	616	415	746	85.2%	79.8%
<i>Tax rate (%)</i>	26.0%	23.0%	23.1%	17.3%	24.1%		
Profit after tax	1,143	2,060	2,048	1,977	2,354	105.9%	19.0%

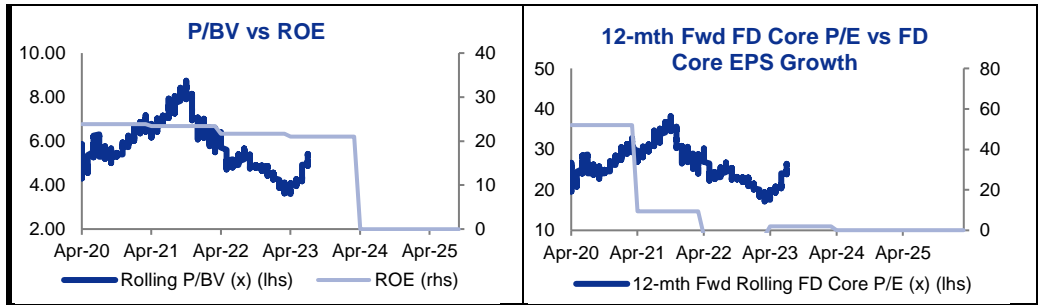
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/e Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Revenue from operations	12,476	12,476	0.0%	14,521	14,521	0.0%	16,706	16,706	0.0%
Total other income	1,751	3,336	90.5%	1,839	4,003	117.7%	1,931	4,804	148.8%
PAT	6,152	7,372	19.8%	7,143	8,809	23.3%	8,076	10,288	27.4%
EPS (Rs)	9.8	11.7	19.8%	11.3	14.0	23.3%	12.8	16.3	27.4%
Dividend payout (%)	90	90	0.0%	90	90	0.0%	90	90	0.0%
QAAUM (Rs tn)	3.3	3.3	0.0%	3.8	3.8	0.0%	4.4	4.4	0.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income					
Total Non-Interest Income	15,356	15,166	15,812	18,524	21,510
Operating Revenue	15,356	15,166	15,812	18,524	21,510
Total Non-Interest Expenses	(5,469)	(5,889)	(6,238)	(7,083)	(8,149)
Pre-provision Operating Profit	9,887	9,277	9,574	11,440	13,360
Total Provision Charges					
Operating Profit After Provisions	9,887	9,277	9,574	11,440	13,360
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	9,887	9,277	9,574	11,440	13,360
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	9,887	9,277	9,574	11,440	13,360
Exceptional Items					
Pre-tax Profit	9,887	9,277	9,574	11,440	13,360
Taxation	(2,453)	(2,048)	(2,202)	(2,631)	(3,073)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	7,434	7,229	7,372	8,809	10,288
Minority Interests	10	10	10	10	10
Pref. & Special Div					
FX And Other Adj.					
Net Profit	7,444	7,239	7,382	8,819	10,298
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	87.3%	88.9%	88.1%		
Avg Liquid Assets/Avg IEAs	113.7%	112.8%	112.0%		
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provsns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans					
Liquid Assets & Invst. (Current)	28,559	31,987	35,825		
Other Int. Earning Assets					
Total Gross Int. Earning Assets	28,559	31,987	35,825		
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	28,559	31,987	35,825		
Intangible Assets					
Other Non-Interest Earning Assets	782	764	1,842		
Total Non-Interest Earning Assets	4,105	4,419	5,862		
Cash And Marketable Securities	3,786	3,976	4,175		
Long-term Investments					
Total Assets	36,451	40,381	45,862		
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities					
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	3,947	6,213	9,813		
Total Liabilities	3,947	6,213	9,813		
Shareholders Equity	32,504	34,168	36,049		
Minority Interests					
Total Equity	32,504	34,168	36,049		

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth					
Operating Profit Growth	12.7%	(6.2%)	3.2%	19.5%	16.8%
Pretax Profit Growth	13%	(6%)	3%	19%	17%
Net Interest To Total Income					
Cost Of Funds					
Return On Interest Earning Assets					
Net Interest Spread					
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit					
Interest Return On Average Assets					
Effective Tax Rate	24.8%	22.1%	23.0%	23.0%	23.0%
Net Dividend Payout Ratio					
Return On Average Assets	21.16%	18.84%	17.12%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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