

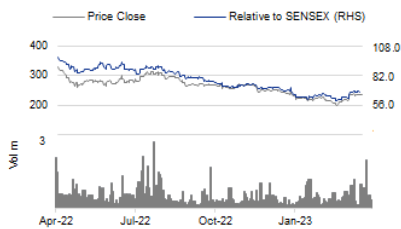
India

ADD (no change)

Consensus ratings*: Buy 15 Hold 2 Sell 0

Current price:	Rs236
Target price: ▲	Rs270
Previous target:	Rs250
Up/downside:	14.4%
InCred Research / Consensus:	-11.6%
Reuters:	
Bloomberg:	NAM IN
Market cap:	US\$2,027m Rs147,166m
Average daily turnover:	US\$1.5m Rs110.0m
Current shares o/s:	0.0m
Free float:	46.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	14.6	(2.3)	(28.1)
Relative (%)	9.6	(3.9)	(32.3)

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

Nippon Life India Asset Management Ltd

In-line 4Q; increase in dividend payout

- NAM India reported in-line 4QFY23 PAT of Rs1.9bn (+13.1% yoy) led by stable yields and lower opex. It declared a 100% dividend payout (Rs11.5 per share).
- Our scheme-wise analysis for AMC's indicates that NAM India is most vulnerable on the profitability front due to the proposed change in TER norms.
- Though we feel the worst is already priced in, uncertainty over regulatory change weighs over the sector. Retain ADD rating with a higher TP of Rs270.

Holds qoq market share in equity funds; debt fund outflow continues

NAM India witnessed ~14bp yoy/~3bp qoq fall in overall assets under management or AUM market share to ~7.24% in 4QFY23 but could manage to hold equity market share qoq to ~6.19%. Quarterly average AUM grew 2.5%yoy/-0.9%qoq to Rs2.93tr. Debt AUM of NAM India witnessed a decline of ~28.3% yoy to Rs527.7bn amid tightening of monetary policy by the Reserve Bank of India (RBI) but to compensate for the same, ETF AUM surged 31.9% yoy to Rs659bn. We remain confident of the company's ability to manage its market share considering its 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 ~13% yoy to Rs580bn led by the growth in folios by 22% yoy to 4.8m. The share of SIP of more than five years is 60% for NAM India, which is higher than the industry average of 24%, indicating stickiness in SIP inflow. NAM India added 0.2m SIP folios during 4QFY23, with the quarterly inflow at Rs32.2bn against Rs29.1bn in the previous quarter whereas the overall SIP book stood at Rs580bn (+13% yoy) as at end-Mar 2023.

NAM India most vulnerable to a probable change in TER norms

Our scenario analysis on a probable total expense ratio (TER) cut and the AMC's ability to pass on the same to distributors/brokers indicated that profitability of NAM India is most vulnerable to any such TER cut. Our scheme-wise analysis indicates that NAM India is currently functioning with larger schemes operated at an elevated TER. Our base-case assumption is a TER cap of 1.5% and pass-on to distributors of 50%, which led to a sharp cut in our FY24F earnings estimates. Though there has been a correction in the stock price in the past four months, we feel the worst is already priced in and that the uncertainty over regulatory changes will weigh over the sector.

Outlook & valuation

We keep our estimates intact based on our scenario analysis, but we introduce FY26F estimates. NAM India has declared a 100% dividend payout for the first time and hence, we have revised our dividend payout estimates upwards. Accordingly, we revise our target price to Rs270 (Rs250 earlier), or ~27x FY25F EPS. We retain ADD rating on the stock. Downside risks: Weak inflow and underperformance of its schemes.

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Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Non-Interest Income (Rsm)	15,356	15,166	11,445	12,708	14,451
Operating Revenue (Rsm)	15,356	15,166	11,445	12,708	14,451
Net Profit (Rsm)	7,444	7,239	5,933	6,365	7,186
Core EPS (Rs)	12.07	11.74	9.62	0.00	0.00
Core EPS Growth	9%	(3%)	(18%)	0%	0%
FD Core P/E (x)	19.56	20.11	24.54	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)	4.48	4.26	4.04	0.00	0.00
ROE	23.4%	21.7%	16.9%	0.0%	0.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs m	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
Total revenue from operations	3,380	3,161	3,316	3,538	3,483	3.1%	-1.5%
Other income	345	-167	819	619	397	15.1%	-35.9%
Total revenue (Rs m)	3,724	2,994	4,135	4,157	3,880	4.2%	-6.7%
Total expenditure	1,381	1,448	1,459	1,494	1,488	7.7%	-0.4%
<i>Cost-to-income (%)</i>	<i>37.1%</i>	<i>48.4%</i>	<i>35.3%</i>	<i>35.9%</i>	<i>38.4%</i>		
Profit before tax	2,343	1,546	2,676	2,664	2,392	2.1%	-10.2%
Tax	595	403	615	616	415	-30.3%	-32.7%
<i>Tax rate (%)</i>	<i>25.4%</i>	<i>26.0%</i>	<i>23.0%</i>	<i>23.1%</i>	<i>17.3%</i>		
Profit after tax	1,748	1,143	2,060	2,048	1,977	13.1%	-3.5%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 2: Our revised estimates

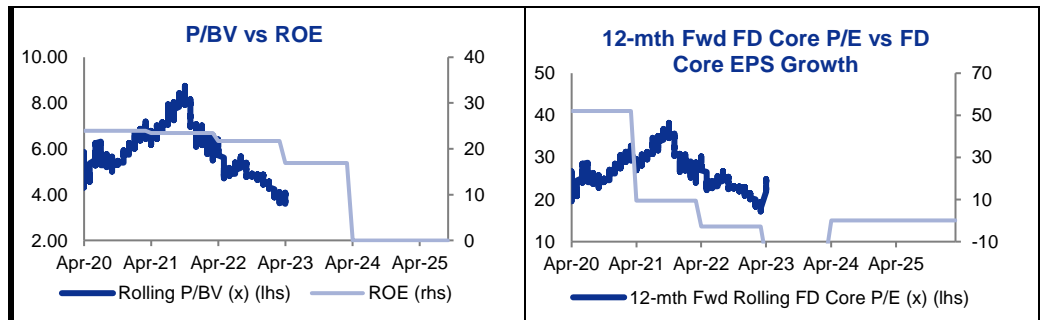
Y/e Mar (Rs m)	FY24F			FY25F			FY26F
	Earlier	Revised	% change	Earlier	Revised	% change	
Revenue from operations	11,242	11,445	1.8%	13,146	12,708	-3.3%	14,451
Total other income	1,924	1,751	-9.0%	2,020	1,839	-9.0%	1,931
PAT	5,757	5,933	2.9%	6,531	6,365	-2.7%	7,186
EPS (Rs)	9.1	9.4	2.9%	10	10.1	-2.7%	11.4
Dividend payout (%)	90	90	0.0%	90	90	0.0%	90
QAAUM (Rs tr)	3.4	3.3	-3.3%	4	3.8	-3.2%	4.4

SOURCE: INCRED RESEARCH

Conference-call highlights

- The payout ratio to distributors has moderated.
- The yield on equity funds is 70-75bp, on debt funds it is 23-30bp & on liquid funds it is 15-20bp.
- NAM India added 2.6m folios in FY23, out of which ~1-1.4m folios are for SIP.
- NAM India has 50% of its SIP book that is older than five years, which is higher than the industry average of 24%.
- The share of digital truncation in new business is 58%.
- Mark-to-market on fixed-income investments led to a loss in other income.
- NAM India is witnessing lower churn in its AUM due to better scheme-wise performance.
- The yield is impacted by replacement of new funds by old while newer funds have a higher cost of acquisition.

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	11,445	12,708	14,451
Operating Revenue	15,356	15,166	11,445	12,708	14,451
Total Non-Interest Expenses	(5,469)	(5,889)	(3,752)	(4,455)	(5,131)
Pre-provision Operating Profit	9,887	9,277	7,692	8,254	9,320
Total Provision Charges					
Operating Profit After Provisions	9,887	9,277	7,692	8,254	9,320
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	9,887	9,277	7,692	8,254	9,320
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	9,887	9,277	7,692	8,254	9,320
Exceptional Items					
Pre-tax Profit	9,887	9,277	7,692	8,254	9,320
Taxation	(2,453)	(2,048)	(1,769)	(1,898)	(2,144)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	7,434	7,229	5,923	6,355	7,176
Minority Interests	10	10	10	10	10
Prof. & Special Div					
FX And Other Adj.					
Net Profit	7,444	7,239	5,933	6,365	7,186
Recurring Net Profit					

Balance Sheet

(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 & Provns/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%)	(17.1%)	7.3%	12.9%
Pretax Profit Growth	13%	(6%)	(17%)	7%	13%
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%	13.76%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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