

India

ADD (no change)

Consensus ratings*: Buy 15 Hold 3 Sell 0	
Current price:	Rs524
Target price: ▲	Rs600
Previous target:	Rs430
Up/downside:	14.5%
InCred Research / Consensus:	31.4%
Reuters:	NIPF.NS
Bloomberg:	NAM IN
Market cap:	US\$3,954m Rs328,740m
Average daily turnover:	US\$5.2m Rs436.4m
Current shares o/s:	0.0m
Free float:	46.0%
*Source: Bloomberg	

Key changes in this note

- Equity funds' market share has witnessed a sequential improvement of ~15bp to ~6.67% whereas the overall AUM market share rose by ~21bp qoq to ~7.67%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	16.9	40.8	117.1
Relative (%)	15.9	23.6	81.7

Major shareholders	% held
Nippon Life Insurance	73.1
LIC	6.1
HDFC MF	1.8

Nippon Life India Asset Management Ltd

Encouraging performance continues

- NAM India posted a better-than-expected 3Q PAT of Rs2.84bn backed by steady revenue yield (~18bp) amid healthy equity AUM & higher other income.
- Equity funds' market share witnessed a sequential improvement of ~15bp to ~6.67% whereas the overall AUM market share rose by ~21bp qoq to ~7.67%.
- Assuming a delay in the new TER norms & healthy equity AUM, we raise FY24F earnings by ~27%. Retain ADD rating on the stock with a TP of Rs600.

Market share trend encouraging; pressure on revenue yields visible

NAM India witnessed ~21bp qoq (+40bp yoy) improvement in overall assets under management or AUM market share to ~7.67% in 3QFY24, with a rise in equity funds' market share sequentially by ~15bp to ~6.67%. The company managed to hold revenue yield intact at ~45bp despite intense competition which, coupled with a surge in other income (due to healthy market performance), resulted in +6.5% qoq growth (+19.6% annual) in revenue sequentially. We remain confident of the company's ability to manage market share, considering its focused client approach and improving performance of its schemes.

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

The systematic investment plan or SIP AUM increased by ~57% yoy to Rs914bn led by the growth in folios by ~47% yoy to ~6.8m. While the share of SIPs of more than five years is ~63% for NAM India, higher than the industry average of 27% and indicates stickiness in SIP inflow. NAM India added 0.8m SIP folios during the quarter, with the quarterly inflow at Rs59.3bn against Rs47.2bn in the previous quarter.

Outlook & valuation

We believe the new TER norms will be applicable only from FY25F and also assume the market share gain in equity AUM will continue. Accordingly, we have increased our earnings estimates by ~25.3%/28.3% for FY25F/26F, respectively. We have also increased our target price to Rs600, from Rs430 earlier, corresponding to ~32.1x FY25F EPS. We maintain our ADD rating on the stock as we remain optimistic on NAM India's ability to improve its market share with a limited impact on profitability. Downside risks: Weak inflow & underperformance of various schemes.

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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	19,881	23,115	26,552
Operating Revenue (Rsm)	15,356	15,166	19,881	23,115	26,552
Total Provision Charges (Rsm)	0	0	0	0	0
Net Profit (Rsm)	7,426	7,221	10,323	11,740	13,662
Core EPS (Rs)	12.05	11.59	16.57	18.84	21.93
Core EPS Growth	9%	(4%)	43%	14%	16%
FD Core P/E (x)	43.46	45.16	31.59	27.78	23.87
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)	53.8	56.4	58.1	60.0	62.2
P/BV (x)	9.73	9.28	9.01	8.73	8.42
ROE	23.1%	21.1%	28.9%	31.9%	35.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Total revenue from operations	3,161	3,316	3,538	3,483	3,542	3,975	4,233	19.6%	6.5%
Other income	-167	819	619	397	1,169	779	1,071	72.9%	37.5%
Total revenue (Rs m)	2,994	4,135	4,157	3,880	4,710	4,754	5,304	27.6%	11.6%
Total expenditure	1,448	1,459	1,494	1,488	1,611	1,650	1,723	15.4%	4.5%
<i>Cost-to-income (%)</i>	<i>48.4%</i>	<i>35.3%</i>	<i>35.9%</i>	<i>38.4%</i>	<i>34.2%</i>	<i>34.7%</i>	<i>32.5%</i>		
Profit before tax	1,546	2,676	2,664	2,392	3,099	3,104	3,581	34.4%	15.4%
Tax	403	615	616	415	746	661	741	20.3%	12.0%
<i>Tax rate (%)</i>	<i>26.0%</i>	<i>23.0%</i>	<i>23.1%</i>	<i>17.3%</i>	<i>24.1%</i>	<i>21.3%</i>	<i>20.7%</i>		
Profit after tax	1,143	2,060	2,048	1,977	2,354	2,443	2,840	38.7%	16.3%
QAAUM (Rs tr)	2.79	2.85	2.93	2.93	3.14	3.51	3.78	29.0%	7.7%

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	15,476	16,128	4.2%	16,444	18,612	13.2%	18,658	21,508	15.3%
Total other income	3,336	3,753	12.5%	4,003	4,503	12.5%	4,804	5,044	5.0%
PAT	9,364	10,331	10.3%	9,413	11,748	24.8%	10,698	13,670	27.8%
EPS (Rs)	14.8	16.5	10.8%	14.9	18.7	25.3%	17.0	21.8	28.3%
Dividend payout (%)	90	90	0.0%	90	90	0.0%	90	90	0.0%
QAAUM (Rs tr)	3.8	3.8	-0.2%	4.4	4.5	1.3%	5.1	5.3	2.9%

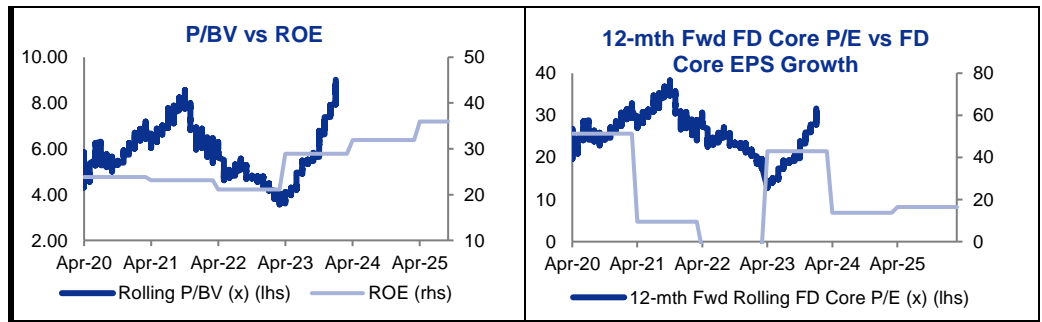
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

- The yield earned on a blended basis has been on a decline to around 4bp QoQ, in line with EBITDA. The yield compression is due to an increase in the size of equity AUM because as the size of AUM rises, the yield falls and also due to telescopic pricing, a formula set by the Securities and Exchange Board of India or SEBI. The rise in the equity component is to the extent of four times as compared to last year.
- The yield in equity funds' AUM is within the range of 60-70bp currently while debt funds continue to have a yield of around 25-20bp. Liquid funds have a yield of 10-12bp. In the case of exchange traded funds or ETFs, the yield is 20-50bp. These yields are expected to continue for three-to-four years.
- The Employees Provident Fund Organisation or EPFO will be investing roughly around Rs150bn in ETFs.
- Overall employee expenses remain the same in percentage terms. The rise in the absolute number is due to the performance-linked incentive or PLI. As and when the profit rises, the PLI also follows suit.
- Management expects an inflow across categories, with a granular approach. In small-cap funds, the inflow was on hold. The inflow was affected by the distribution system, but it's well in place now, as per management.
- 75% of SIP inflow is from below the Rs10,000 ticket size.
- Customers having more than one scheme of NAM India are between 1.5-1.8 in number, on an average.
- Execution will be the growth driver.
- Net inflow market share is above 10%. NAM India continues to register a double-digit growth on MoM as well as QoQ basis. The top five funds account for 80% of the AUM.
- Most of the business comes from mutual fund distributors and digital fintech platforms who are witnessing a strong inflow from the retail segment. The other categories are banks and nationwide distributors. There is no focus on a particular distribution channel, it is just the natural inflow of business. NAM India has a strong market share in B-30 cities.
- Smaller ticket size SIPs have a much longer holding period and that's the reason why NAM India has a 70% retention ratio, which is much higher as compared to the industry's 27% ratio, for a continuous period of five years.

- ETFs' market share has declined in terms of overall volume market share due to the rise in competition, However, management sees them as strongly positioned.
- New SIP addition is at 3,80,000 monthly.
- NAM India's 10% net worth is invested in equity schemes due to seed capital requirements. The remaining is mostly invested in debt schemes.
- The rise in distribution of mutual funds by banks is due to a reclassification.
- Other income is mostly mark-to-market or MTM on equity schemes, as the rally in the equity market leads to an upward movement in other income.
- Management expects revenue growth for the next three-to-four years, with a conservative estimate of 2-3% per year.
- The focus is across asset classes, including the launch of a credit alternate investment fund or AIF and a long-bond equity fund, for which the raising of funds is currently underway.

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	19,881	23,115	26,552
Operating Revenue	15,356	15,166	19,881	23,115	26,552
Total Non-Interest Expenses	(5,469)	(5,889)	(6,720)	(7,858)	(8,799)
Pre-provision Operating Profit	9,887	9,277	13,161	15,257	17,753
Total Provision Charges					
Operating Profit After Provisions	9,887	9,277	13,161	15,257	17,753
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	9,887	9,277	13,161	15,257	17,753
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	9,887	9,277	13,161	15,257	17,753
Exceptional Items					
Pre-tax Profit	9,887	9,277	13,161	15,257	17,753
Taxation	(2,453)	(2,048)	(2,830)	(3,509)	(4,083)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	7,434	7,229	10,331	11,748	13,670
Minority Interests	(8)	(8)	(8)	(8)	(8)
Prof. & Special Div					
FX And Other Adj.					
Net Profit	7,426	7,221	10,323	11,740	13,662
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	86.5%	87.0%	86.9%	85.4%	80.9%
Avg Liquid Assets/Avg IEAs	113.7%	112.8%	112.0%	111.3%	110.6%
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	40,124	44,939
Other Int. Earning Assets					
Total Gross Int. Earning Assets	28,559	31,987	35,825	40,124	44,939
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	28,559	31,987	35,825	40,124	44,939
Intangible Assets					
Other Non-Interest Earning Assets	1,453	1,748	1,978	3,971	8,986
Total Non-Interest Earning Assets	4,776	5,403	5,998	8,393	13,850
Cash And Marketable Securities	3,786	3,976	4,175	4,383	4,602
Long-term Investments					
Total Assets	37,121	41,365	45,998	52,900	63,392
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	15,541	24,665
Total Liabilities	3,947	6,213	9,813	15,541	24,665
Shareholders Equity	33,174	35,152	36,185	37,360	38,727
Minority Interests					
Total Equity	33,174	35,152	36,185	37,360	38,727

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth					
Operating Profit Growth	12.7%	(6.2%)	41.9%	15.9%	16.4%
Pretax Profit Growth	13%	(6%)	42%	16%	16%
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%	21.5%	23.0%	23.0%
Net Dividend Payout Ratio					
Return On Average Assets	20.91%	18.40%	23.63%	23.74%	23.50%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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