

# Nippon Life India Asset Management | BUY

## Strong equity gains to drive earnings into FY26

NAM has benefited the most from the gains in mid- and small-caps in recent quarters, with its flagship SmallCap Fund accounting for 21%+ of equity AUM. While this makes it most susceptible to a drawdown, we expect SIP flows to be resilient, even if we see net lumpsum outflows. It has capitalised on superior scheme performances to almost double its share of SIP inflows to 12.2% in 4Q24 from 6.3% in 1Q23. Even with benign equity appreciation from 2Q25 to 4Q26, we expect revenue yields in FY26 to hold up at FY24 levels of 46bps of average AUM. An uptick in costs is expected as a result of an INR 900mn ESOP scheme for senior employees, and we build 50% of the impact to be seen in FY25 itself, with employee (and overall) expenses growth to moderate in FY26 before it normalises going forward. The key risk today is a drawdown in mid- and small-caps, to which NAM appears most susceptible in our coverage. At CMP, the stock is richly valued at 30.1/25.8x FY25/FY26e EPS. In our opinion, the discount to HDFC AMC is justified by lower operating margins, and a higher susceptibility of recent gains to a drawdown. With strong equity gains into 1Q, we upgrade FY25/FY26e earnings by 7.0%/15.4%. We continue to value the franchise at 31x FY26e EPS to arrive at a revised Target Price of INR 800. Maintain BUY.

- Strong revenue growth led by growth in inflow market share:** NAM has seen a strong uptick in SIP market share over last 2 years – almost doubling from 6.3% in 1Q23 to 12.2% in 4Q24. During the same period, despite telescopic pricing, revenue yields rose by 4bps to 49bps of QAAUM in 4Q24. Improvement in equity mix was lower than HDFC AMC due to the large passive book it has organically built. However, with the expanded base of equity AUM, we expect revenue yields to hold up at 46bps of AUM by FY26. As the pioneer in passive schemes, it had a high, 30%, share of passive funds in its Mar'24 AUM mix, hence, headline yields appear low.
- Expected uptick in employee expenses in FY25e:** The company came out with an INR 900mn ESOP plan for its employees, on account of which we build in an additional INR 450mn/INR 225mn in employee expenses in FY25/FY26e, over a secular 9% growth in other employee expenses. With this, we build in 22.4%/2.5% growth in employee expenses and 13.8%/6.3% in total expenses over FY25/FY26e.
- Most susceptible to a downturn in small- caps:** The largest equity scheme of NAM India is its Small Cap Fund – accounting for 21.3% of its equity AUM. Further, the gain in SIP inflows market share has coincided with pick-up in mid- and small-caps in last few quarters. We believe that the market is educated in benefits of SIPs, however, lumpsum flows can turn negative. Drawdown in prices and outflows can precipitate an operating deleverage.
- Valuation and view:** At CMP, the stock trades at 30.1/25.8x FY25/FY26 JMFe EPS. While SEBI has refrained from enacting another round of caps on TER, we remain watchful of the larger funds crossing TER slabs, translating into lower yields for the company. At the same time, the AUM growth brings in a step-increase in core revenues going forward. We maintain BUY with a revised target price of INR 800, valuing the company at 31x FY26e PAT of INR 15.7bn.



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### Recommendation and Price Target

|                            |        |
|----------------------------|--------|
| Current Reco.              | BUY    |
| Previous Reco.             | BUY    |
| Current Price Target (12M) | 800    |
| Upside/(Downside)          | +20.7% |
| Previous Price Target      | 650    |
| Change                     | 23.1%  |

### Key Data – NAM IN

|                          |                  |
|--------------------------|------------------|
| Current Market Price     | INR663           |
| Market cap (bn)          | INR419.0/US\$5.0 |
| Free Float               | 21%              |
| Shares in issue (mn)     | 612.0            |
| Diluted share (mn)       |                  |
| 3-mon avg daily val (mn) | INR673.3/US\$8.1 |
| 52-week range            | 687/285          |
| Sensex/Nifty             | 80,352/24,433    |
| INR/US\$                 | 83.5             |

### Price Performance

| %         | 1M  | 6M   | 12M   |
|-----------|-----|------|-------|
| Absolute  | 9.2 | 34.9 | 131.5 |
| Relative* | 3.9 | 20.3 | 88.2  |

\* To the BSE Sensex

### Financial Summary

|   | (INR mn)     |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|
| Y/E March                               | FY22A        | FY23A        | FY24A        | FY25E        | FY26E        |
| Mutual Fund AUM (closing basis, INR bn) | 2,774        | 2,869        | 4,313        | 5,309        | 6,026        |
| YoY growth (%)                          | 25%          | 3%           | 50%          | 23%          | 13%          |
| % of equity MF AUM (closing basis)      | 42%          | 44%          | 49%          | 55%          | 58%          |
| Operating Revenues (INR mn)             | 15,356       | 15,166       | 20,373       | 25,538       | 28,969       |
| Total operating expenses (INR mn)       | 5,470        | 5,889        | 6,849        | 7,792        | 8,286        |
| PAT (INR mn)                            | 7,434        | 7,229        | 11,063       | 13,487       | 15,719       |
| YoY growth (%)                          | 9%           | -3%          | 53%          | 22%          | 17%          |
| <b>PAT / Avg. MF AUM (RoAUM) (%)</b>    | <b>0.30%</b> | <b>0.26%</b> | <b>0.31%</b> | <b>0.28%</b> | <b>0.28%</b> |
| RoE (%)                                 | 22.6%        | 20.7%        | 29.5%        | 32.6%        | 34.6%        |
| EPS (INR)                               | 12.1         | 11.8         | 18.1         | 22.0         | 25.7         |
| <b>P/E (x)</b>                          | <b>54.9</b>  | <b>56.5</b>  | <b>36.9</b>  | <b>30.1</b>  | <b>25.8</b>  |

Source: Company data, JM Financial. Note: Valuations as of 09/July/2024

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