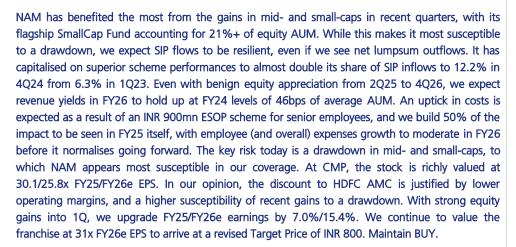
Nippon Life India Asset Management | BUY

Strong equity gains to drive earnings into FY26



- 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			FY24A	FY25E	(INR mn) FY26E
Y/E March	FY22A	FY23A			
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%
PAT / Avg. MF AUM (RoAUM) (%)	0.30%	0.26%	0.31%	0.28%	0.28%
RoE (%)	22.6%	20.7%	29.5%	32.6%	34.6%
EPS (INR)	12.1	11.8	18.1	22.0	25.7
P/E (x)	54.9	56.5	36.9	30.1	25.8

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

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.