

Nippon Life India AM Q2FY21

Financial Results & Highlights

Brief Company Introduction

Nippon Life India Asset Management Limited (NAM India) is the asset manager of Nippon India Mutual Fund (NIMF). Nippon Life Insurance Company are the promoters of NAM India and currently hold 75 of its total issued and paid-up equity share capital while Reliance Capital holds 0.93% of shares in the company. Equity Shares of NAM India are listed on BSE Limited and National Stock Exchange of India Limited.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	302	307	-1.63%	314	-3.82%	617	650	-5.08%
PBT	186	157	18.47%	192	-3.13%	378	335	12.84%
PAT	141	134	5.22%	150	-6.00%	290	257	12.84%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	322	323	-0.31%	336	-4.17%	659	683	-3.51%
PBT	191	158	20.89%	200	-4.50%	391	339	15.34%
PAT	145	137	5.84%	156	-7.05%	301	262	14.89%

Detailed Results:

1. Revenues were flat YoY in Q2. Profits rose for the company with Q2 PAT rising 6% YoY.
2. As of 30th Sep 2020, AUM was at Rs 2.77 trillion.
3. Mutual Fund AUM was at Rs 1,929 billion
4. Total Operating expenses were down 20% YoY in Q2. Employee costs fell by 21% YoY.
5. NIMF added over 151,600 folios in Q2. NIMF has 6.2 million Unique Investors which represents 29% of the MF industry market share.
6. Digital transactions now account for 48% of all transactions.
7. The company saw 3.12 lac SIP registrations in Q2.
8. Equity assets grew to 39% of total AUM. Retail Assets were at Rs 520 bn which 26% of total AUM vs an industry average of 20%.
9. Fixed income (Debt + Liquid) assets have grown 12% YoY and account for 47% of total AUM.
10. Successfully launched Nippon India Multi-Asset Fund, Nippon India ETF Nifty IT & Nippon India Nifty Smallcap 250 Index Fund in Q2.
11. The company enjoyed a market share of 13% in ETF space with an AUM of Rs 286 bn. It also has a volume share of 70% and 33% share of folios in the ETF space.
12. B30 assets accounted for 18.2% of overall MF AUM vs industry average of 16.1%.
13. Tenure of SIP book was > 5 years for 84% and >10 years for 79% of the SIP book.
14. The overall distribution mix was 53% direct and 47% distributed assets. In distributed assets, Banks were at 26%, National Distributors were at 20% and IFAs were at 54%.

15. Individual AUM was at Rs 753 billion which accounted for 79% of distributed assets which is 47% of total MF AUM.
16. The offshore business has AUM of Rs 93 bn.
17. NIAIF has raised commitments of Rs 34 bn as of Sep '20.

Investor Conference Call Details:

1. NAM India received a mandate to manage Post Office Life Insurance and rural post office insurance funds.
2. Nippon India Digital Innovation Fund has committed funds in excess of USD 100 billion and has initiated investment activities.
3. The company added over 400 IFAs in this quarter to take the IFA base to over 77,000.
4. The fall in yields is mainly from the change in the mix in the fixed income category and the decline of the credit risk & long duration segments which were big margin generators.
5. The company has seen both additions of fund managers & realignment of portfolios, which have been implemented with the feedback of Nippon Life on the risk management side from Japan.
6. The company has started issuing ESOPs as variable pay and this has led to a fall in employee costs.
7. The management admits that there is a slowdown in equity flows in the industry currently.
8. The management remains confident of attracting investors with the launch of the new products in the year so far.
9. The post office mandate is expected to add Rs 50,000-60,000 Cr to the company's AUM. Out of this, around 10% is in equity schemes and 90% is in debt.
10. On the international mandates, the company expects to see a drawdown of \$100 million from the Indo-Japanese Tech Fund in the AIF segment in the next 2-3 years.
11. Realization in debt has fallen from 22 bps in Q1 to 20.5 bps in Q2.
12. The rise in other income in Q2 was mainly due to the reversal of the company's investment in its own equity and ETF schemes which yielded losses in Q4FY20.
13. The share of equity in total AUM has risen due to the rise in markets in Q2.
14. The company has almost 40% market share ex of EPFO money in the ETF space. It has 19 products spread across equity, both domestic and foreign, sectoral, and also fixed-income in the ETF segment currently.
15. The company is looking to launch more ETFs in Q3. It has already got SEBI approval for certain more ETFs.
16. The company sees opportunities in asset management arising from strategic partnerships in the financial industry.
17. The management stresses that execution is going to be the key for the company to enhance its market share and add newer investors.
18. The company is not looking to push to capture temporary market share by paying extra incentives. It is looking to provide a complete package of products, uniqueness of product, performance, and execution capability.
19. The management has stated that investors in India are warming up to ETFs especially family offices. A major factor behind the growing preference for ETFs over regular MFs is the liquidity and the absence of the exit load.

Analyst Views:

Nippon India Life Asset Management is one of the leading asset managers in the country. The company has done well to bounce back after the rebranding last year. This was evident from the number of investor additions in Q2FY21 as well as the launch of new products like Nippon India Multi-Asset Fund, Nippon India ETF Nifty IT & Nippon India Nifty Smallcap 250 Index Fund. The company continues to have a good hold in the IFA space with this channel being the largest distribution channel for the company. It is also looking to capitalize on its expertise on ETFs and will continue to launch ETF products and bring in new investors to this space. It has also done well to win the post office mandate which cements its credentials as an institutional asset manager. It remains to be seen whether the company will be able to match the pace of growth of its prime competitor HDFC AMC in this space and whether it will be able to maintain its growth momentum going forward. Nonetheless, given the company's market positioning and its competitive advantage in the ETF and AIF space, Nippon Life India Asset Management is a must-watch stock for every investor interested in the AMC space.

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