



# NIPPON INDIA MUTUAL FUND EQUITY REPORT





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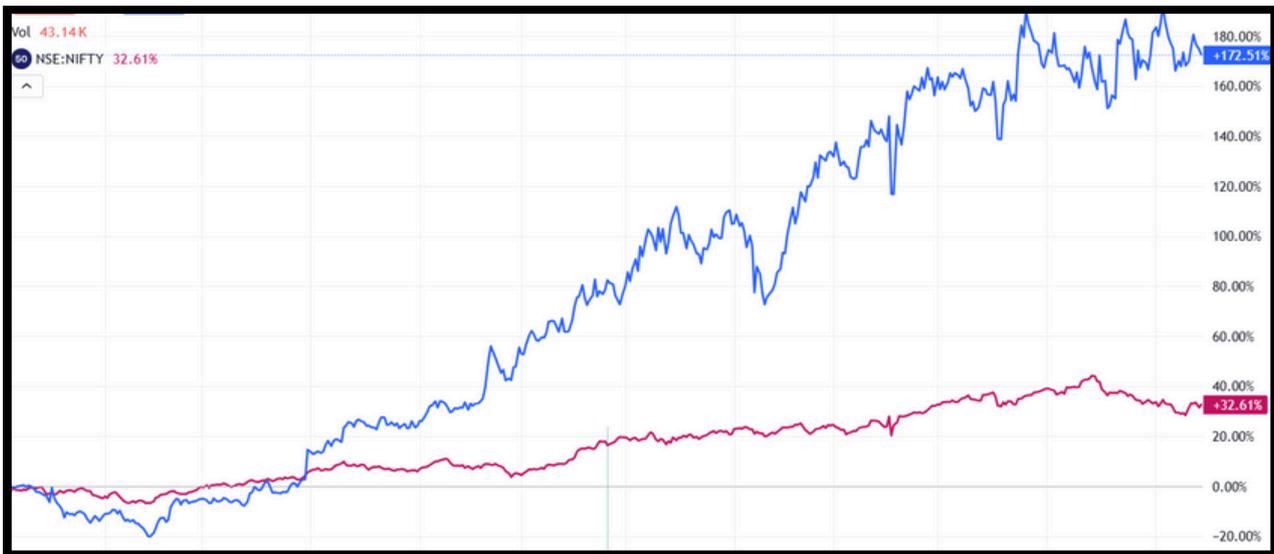


# OVERVIEW

Nippon Life India Asset Management Limited (NAM India or 'the Company'), established in 1995, is a leading asset management firm with a long track record in the Indian market. It offers a comprehensive suite of investment products, such as Mutual Funds, Managed Accounts, and Offshore Business, catering to a diverse client base. The purpose of the company is to play a dominant role in spreading financial literacy and prosperity across India with a future-ready approach.

## Financial Metrics of Nippon Life :

P/E Ratio	33.5
P/B Ratio	10.83
ROCE%	36.2%
ROE%	29.5%
PEG	1.87
Dividend Yield%	2.41%
Face Value	₹10



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# REASONS FOR STOCK BEING BULLISH

## 1. Strong Financial Performance and Growth Trajectory:

- **Revenue Growth:** Nippon Life has reported a significant increase in its revenue for the latest quarter on a year-over-year basis. For the quarter ending Sep-24, the company reported revenue of 571 crores, up from 397 crores in the same quarter last year, leading to an increase of 43.83% on a year-over-year basis. This growth reflects the company's major future upside potential and increased demand for its offerings.
- **Profitability Metrics:** The company's net profit also witnessed a significant jump from 723 crores in FY-23 to 1106 crores in FY-24, demonstrating an increase of 52.97%. This has been mainly due to effective cost management and efficiency in operations by the company. The company also reported a 30% Return On Equity last year, surpassing the past 10 years' average of 23%.
- **CAGR Projections:** We forecast a Compound Annual Growth Rate (CAGR) of 20% for the next few years, which will be mainly due to increased store expansion and cost-effective strategies.

## 2. Growth Opportunities in the Indian Insurance Market:

- **Increasing Insurance Penetration:** The Indian insurance market is still underpenetrated, with a penetration rate of around 4%. As India's economy grows, there is significant potential for increased insurance penetration.
- **Rising Disposable Incomes:** As India's economy continues to grow, disposable incomes are increasing, leading to higher demand for insurance products. India's GDP growth rate has been consistently strong, averaging around 7% in recent years.
- **Government Initiatives:** Government initiatives to promote financial inclusion and insurance awareness, such as Pradhan Mantri Jeevan Jyoti Bima Yojana and Pradhan Mantri Suraksha Bima Yojana, are creating favourable conditions for the insurance industry.



# SWOT ANALYSIS

## Strengths:

- **Strong Retail Investor Base:** Nippon Life has a robust presence in the retail segment, with one of the highest retail AAUM contributions in the industry at 30%. Over two decades, it has built substantial assets, providing long-term wealth creation for retail investors.
- **Stable Systematic Inflows:** Nippon Life's SIP and STP inflows have grown significantly, totalling ₹21,081 crore in FY24, up 92% YoY. This stable inflow fosters disciplined investing among investors, with 78.2 lakh SIP/STP folios showing a 61% growth in FY24.
- **Leadership in Passive Products:** NIMF leads the industry in passive investment products, managing ₹1.11 lakh crore in ETFS and holding a 60% market share in folios. Its diverse offerings attract both retail and HNI investors, with passive AUM crossing ₹1 lakh crore.
- **Expanding Nationwide Presence:** With 263 locations, NIMF has one of the broadest networks in India. It focuses on B-30 cities, where assets show higher persistence and profitability.

## Weaknesses:

- **Low Market Cap:** A low market cap often suggests that Nippon Life is smaller and may struggle to grow quickly. It can also make investors less confident, as it typically signals that the company is less established and might carry a higher risk of failure.
- **Intense Competition:** The asset management industry is very competitive, with many companies, both big and small, offering similar products. Nippon Life Asset Management competes with well-known financial institutions and newer, faster-growing fintech companies. This competition makes it harder for Nippon Life to keep its customers and lowers its profits.
- **High Cost:** To stay competitive in an industry with many rules and new technology, Nippon Life Asset Management needs to spend a lot of money on things like technology, protecting data, and hiring skilled workers. These costs are important, but they can make it harder to earn high profits.



## Opportunities:

- **Annuity Income:** By building a significant block of assets under management (AUM), Nippon Life can generate steady annuity income. For instance, as of FY2023, Nippon India Mutual Fund has an AUM of approximately ₹3.5 lakh crore. A sustained annual growth rate of 10-15% in AUM could significantly boost profitability.
- **Increase Per Capita GDP:** India's per capita GDP, currently at \$2,600 (2023), is projected to grow to \$3,500 by 2027, driven by economic reforms and growth. By offering quality investment options and taking advantage of favourable tax policies, Nippon Life can attract a larger investor base and contribute to wealth creation in households. A 5% increase in market penetration could translate into additional AUM growth worth ₹50,000 crore.
- **Increase in Investors for SIPs:** The number of SIP accounts in India has crossed 6.5 crore, with monthly inflows reaching ₹15,000 crore (March 2023). If Nippon Life captures an additional 2% share of SIP inflows, it could add over ₹300 crore per month to its AUM, further boosting growth through compounding returns.
- **Rise in Flows from Smaller Cities and Towns:** Smaller towns and cities, classified as B30 locations, contribute around 16-20% of the industry's AUM. With increased financial literacy and accessibility, Nippon Life can expand its B30 footprint. For instance, capturing just 5% of incremental flows from these regions, which amount to ₹20,000 crore annually, can yield additional AUM growth of ₹1,000 crore annually.

## Threats:

- **Impact of rising inflation on household savings and corporate earnings:** Nippon Life can face a serious threat from rising inflation. Rising Inflation can harm household savings, as it results in reducing the purchasing power of households, generates lower returns on savings and increases financial distress.
- **The rise in the culture of direct investing has a short-term impact on equity flows:** The operations of Nippon Life can be adversely affected by the rise in direct investment, as it results in decreased reliance on traditional channels like mutual funds. It also causes increased short-term volatility in equity markets as the firms react quickly to news and trends.
- **Impact of regulatory intervention on fees, charges, and reduction of exit loads:** Regulatory interventions on fees, charges and reduction of exit loads can serve as a serious downfall for Nippon's profitability, as these may lead to revenue compression, reduced flexibility in pricing and increased pressure on cost management.



# PORTER'S FIVE FORCE ANALYSIS

## 1. Threat of New Entrants:

- **Lower Investment Requirements:** While AMCs can be established with low capital, the legal compliances and licenses can serve as a threat to new players entering the market.
- **Brand Loyalty and Trust:** Nippon Life has established a good brand name and reputation in the market by building a good customer base over the years. So it becomes difficult for new entrants to acquire market share due to its brand reputation and goodwill.
- **Increased barriers in distribution:** Any AMC will require a robust network to reach its clients effectively. New entrants will face difficulties in the initial stages, thereby serving as an advantage for Nippon Life.

## 2. Threat of Competitors:

- **Stiff Competition:** Nippon Life, being a well-established firm, faces stiff competition from leading players like HDFC, ICICI Prudential, etc, making its operations difficult and also not enabling it to differentiate from others in the market.
- **Price wars and fee reduction:** To attract prospective customers, companies use strategic pricing policies, primarily reducing the management fees to stay intact. This increases rivalry, especially in low-fee categories like Index Funds and ETFs.
- **Marketing and Brand Differentiation:** Innovative marketing strategies and increased promotional activities by the competitors trigger Nippon Life to come out with innovative and creative ideas, to maintain its market position. Rival firms often focus on acquiring a large customer base through digital marketing, high-yield offerings and indulging in various partnerships to make the rivalry more intense.



### 3. Buyer Power:

- **Consumer Choices:** In countries where Nippon Life operates (such as Japan, India, and other Asian markets), there are numerous established local and international competitors (e.g., MetLife, HDFC, ICICI Prudential, and others) that offer similar products, making it easier for consumers to change providers.
- **Increased Financial Literacy:** As financial literacy and awareness grow, consumers become more empowered to make informed choices. With access to information through digital platforms, comparison websites, and financial advisors, consumers are better equipped to evaluate life insurance products on parameters like premiums, coverage, terms, and company financial stability.

### 4. Supplier Power:

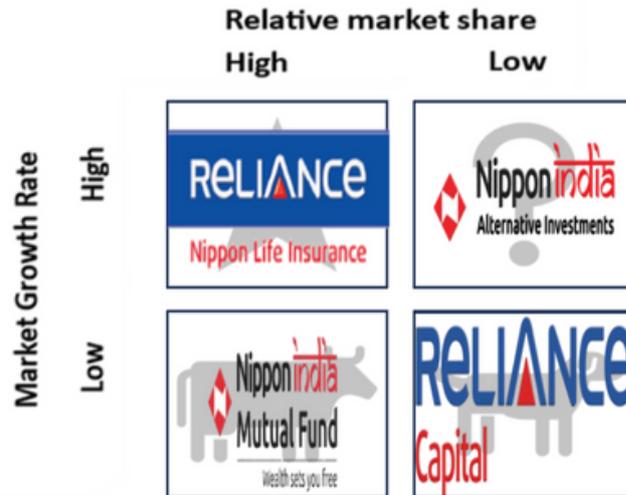
- Technology suppliers play a pivotal role in the operation of modern life insurance companies like Nippon Life, especially in areas like policy administration systems, customer relationship management (CRM), claims processing, data analytics, and cybersecurity. Supplier power is high if Nippon Life is heavily reliant on specialised or proprietary technology providers.
- Distribution partners, such as insurance brokers, agents, and bancassurance partners (banks that sell insurance products), help Nippon Life reach customers. If Nippon Life is highly dependent on a small number of distribution channels (e.g., large bank partnerships for bancassurance), the supplier power of these distributors could be higher.

### 5. Threat of Substitute Products or Services:

- **Alternative Investment Options:** Other investment options like mutual funds, stocks, and bonds can be considered substitutes, but insurance offers unique risk coverage benefits.
- **Government Social Security Schemes:** Government-backed social security schemes can partially substitute for some insurance products, but they often have limitations.



# BCG MATRIX



### STARS: Reliance Nippon Life Insurance

As people become more financially literate, there has been a significant increase in demand for insurance and related products. The industry now has considerable potential for continued expansion, as more individuals seek financial security and protection against unforeseen events. LIC of India continues to be the market leader in FY2024 with 58.9% market share in New Business Premium.

### QUESTION MARK: Nippon India AIF

These AIFs are typically targeted at high-net-worth individuals (HNWI), institutional investors, and family offices, offering them access to real estate, private equity, and other niche investment opportunities. While the exact AUM in AIFs isn't always clearly broken out separately, Nippon India AIFs have been growing, especially with an emphasis on real estate, private equity, and infrastructure investments. However, the share of AIFs within Nippon India's total AUM would likely be a smaller percentage compared to its mutual fund AUM.

### CASH COW :Nippon India Mutual Fund

As financial literacy improves among the general public, more people are becoming aware of the benefits of mutual funds, including their diversification, professional management, and potential for higher returns compared to traditional savings accounts or fixed deposits. Mutual funds are currently not fully tapped by the market, but they have significant potential to capture a much larger market share.

### DOGS: Reliance Capital Pension Fund Ltd.

Pension funds are experiencing significant growth, but their growth rate is slower compared to other insurance products. This is because pension funds are primarily linked to employed individuals, and their market share remains relatively low. While employment rates are rising, they are still not at their peak, which limits the potential reach of pension funds. As a result, the share of pension funds in the overall market remains smaller compared to other financial products.



# PLC ANALYSIS

Nippon Life India Asset Management (NAM-INDIA) is currently in the growth stage of its product life cycle (PLC). Here's a breakdown of the PLC analysis for the company:

## **Growth Stage:**

- **Present:** The company has successfully expanded its product range to cater to a wider range of investors, including retail investors. It has also invested heavily in marketing and distribution to increase brand awareness.
- **Key Characteristics:**
  - Rapid sales growth
  - Increasing market share
  - High profitability
  - Intense competition

## **Factors Responsible for the Growth Stage of the Company:**

### **Expanding Market:**

- India's life insurance sector is still experiencing significant growth, especially when compared to more developed markets like Japan or the U.S. The penetration of life insurance in India is still low, with insurance density (premiums per capita) and penetration (premiums as a percentage of GDP) being below global averages.
- Urbanisation, a growing middle class, and increasing awareness about financial planning and the need for life insurance are driving demand.
- With a large, young population and increasing disposable incomes, the market for life insurance continues to expand, which means that insurance companies like Nippon Life India are tapping into new consumer segments.

### **Product Diversification:**

- Nippon Life India offers a variety of life insurance products, including traditional plans (e.g., endowment policies, term insurance), unit-linked insurance plans (ULIPs), health insurance, pension plans, and group insurance.
- This diversification helps Nippon Life India cater to different market segments, from young professionals looking for wealth creation to older individuals seeking retirement planning.



### Increasing Competition:

- As the life insurance market in India grows, competition is also intensifying. The company faces competition from other private players like HDFC Life, ICICI Prudential, SBI Life, and international insurance firms. This competitive environment is typical of the growth stage of the PLC.
- Nippon Life India has been working on strengthening its brand and building trust with customers to differentiate itself in the increasingly crowded market.

### Growing Awareness and Financial Literacy:

- While life insurance is still a relatively new concept for many in rural India, the government's initiatives, such as financial literacy programs and digital penetration, have made it easier for people to learn about and purchase life insurance.
- The rise of digital distribution channels and financial advisors has made it easier for customers to access life insurance products, helping companies like Nippon Life India grow their customer base.

### Regulatory Support:

- The regulatory framework in India, managed by the **Insurance Regulatory and Development Authority of India (IRDAI)**, is supportive of the sector's growth, with rules that encourage foreign investments, increased transparency, and better consumer protection.
- These regulations help to strengthen the insurance market and create opportunities for companies like Nippon Life India to establish themselves as reliable brands.

### Digital Transformation:

- Nippon Life India is also investing in digital transformation, which includes online policy purchases, mobile apps for customer service, and data analytics to improve underwriting and claims processing.
- This use of technology helps them tap into the digital-savvy younger generation and provides a smoother, more efficient customer experience.



Values are in Million INR.



# QUALITY OF MANAGEMENT TEAM

## **Chairman and Independent Director**

Mr. Upendra Kumar Sinha: Mr Upendra Kumar Sinha is serving as the Chairman and Independent Director of Nippon Life. Mr Sinha has been an honorary IAS officer of the Bihar cadre, which has enabled him to hold several responsible government positions in India, including Joint Secretary (Banking) and Joint Secretary (Capital Markets) in the Ministry of Finance. He was also the Chairman of the Working Group on Foreign Investment in India and also in the Securities and Exchange Board of India (SEBI). He has actively contributed to the financial sector reforms in the country and is also recognised for the micro pension movement in India. Mr. Sinha holds a Master's degree in Science and also a degree in Law.

## **Independent Director**

Gen. Ved Prakash Mallik (Retd.): General Ved Prakash Mallik (Retd.) is an Independent director and advisor at Nippon Life. He has contributed significantly to the company's growth and expansion, making it reach greater heights. He had been a part of the Indian Army (1997-2000), where he served as the chief of the Army Staff. He held a twin responsibility of serving as the commander of the strong Indian army, as well as an advisor to the government, thereby fulfilling its national role and assigned missions. He has also been honoured with prestigious awards like Ati Vishishta Seva Medal (1986) and Param Vishishta Seva Medal (1996).

## **Executive Director and CEO**

Mr. Sundeep Sikka: Mr. Sundeep Sikka has been a part of Nippon Life since 2003, where he held various positions before being promoted in 2009, where he became one of the youngest CEOs of India. He possesses 28 years of rich experience in the financial services domain with core expertise in the asset management business. He had also served in both the Chairman and the Vice Chairman positions of the Association of Mutual Funds in India (AMFI). Having an in-depth and great financial experience, Sundeep went on to lead Nippon Life towards tremendous growth of assets and emerge as one of the trusted mutual fund houses in India. He has grown the Nippon Life toll-around brand.

## **Independent Director**

Mr. B Sriram: Mr. B Sriram is serving as an Independent Director at Nippon Life. He has over 37 years of experience in all areas of banking and finance. He worked with the State Bank of India in 1981. He conducted various key assignments within the bank and the Group In Credit and Risk Retail, Operations, IT, Treasury, Investment Banking and Internal Operations. With a strong financial acumen and great industry knowledge, he also served as the Managing Director and CEO of IDBI Bank Ltd. (June 2018- September 2018). He was also the Managing Director of SBI (July 2014- June 2018).



**Independent Director  
Gen. Ved Prakash Mallik (Retd.)**



**Chairman and Independent Director  
Mr. Upendra Kumar Sinha**



**Executive Director and CEO  
Mr. Sundeep Sikka**



**Independent Director  
Mr. B Sriram**

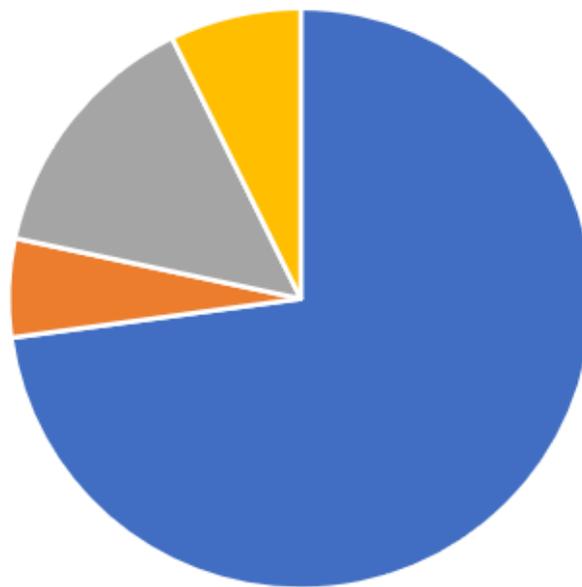


# SHAREHOLDING PATTERN



Holders	Mar-22	Mar-23	Mar-24	Sep-24
Promoters	73.80%	73.66%	72.86%	72.49%
FIIs	6.69%	4.95%	5.49%	7.73%
DIIs	8.83%	9.41%	14.40%	13.47%
Public	10.68%	11.97%	7.26%	6.31%

SHAREHOLDING



■ Promoters ■ FIIs ■ DIIs ■ Public



# RISKS AND CHALLENGES

- **High competition:** The Indian mutual fund industry is highly competitive, with numerous players, including large domestic companies (e.g., HDFC Asset Management, ICICI Prudential, SBI Mutual Fund) and international players like Vanguard and BlackRock. Increasing competition could put pressure on NAM India to lower its fees and improve fund performance to attract and retain investors.
- **Competitors with Diverse Product Offerings:** HDFC AMC, Bajaj Allianz, and others often offer a wide variety of products, ranging from equity funds, hybrid funds, debt funds, ETFS, sectoral funds, and retirement plans, appealing to a broad spectrum of investor needs. If NAM India does not keep pace by launching new products or enhancing its existing ones to cater to changing investor preferences, it risks losing customers to competitors who are more agile and innovative.
- **Brand Loyalty:** AMCS, like HDFC, Bajaj Finance, etc, have a strong brand presence and decades of trust built with investors. In contrast, NAM India, while well-established, may not have the same level of brand loyalty. Investors are more likely to stick with brands they are familiar with, and this brand loyalty could give HDFC and Bajaj Allianz an advantage in retaining assets. Even in periods of market volatility, established brands often retain more investors because of their credibility and long-standing reputation. Nippon India Asset Management Limited (NAM India) currently ranks 8th in terms of market capitalisation (market cap) among its peer competitors, which places it behind larger, more dominant competitors like Bajaj Finance, Bajaj Finserv, HDFC Asset Management, etc. Given this relatively low market cap, the company faces several risks if it doesn't keep up with its competitors.
- **Investor Behaviour Shifts:** Shifts in investor behaviour towards more conservative investment products or away from mutual funds to other investment vehicles like direct equities, fixed deposits, or digital investment platforms could limit the growth potential for NAM India's funds.
- **Economic Slowdown or Recession:** In the event of an economic slowdown or recession, investor confidence might drop, leading to reduced inflows into mutual funds. The Indian economy, while resilient, could face external shocks (e.g., global recession, trade wars) that may negatively affect market sentiment, leading to lower AUM growth and potential outflows from equity funds.



# EXPANSION PLAN

Nippon Life Insurance India has been actively pursuing expansion plans to strengthen its market position and cater to the growing insurance needs of Indian consumers. Some of their recent initiatives include:

- **Product Launches:**

- **Nishchit Pension:** A new deferred annuity plan designed to provide guaranteed income during retirement. This product aligns with the increasing demand for retirement planning solutions in India.
- **Other Products:** The company continues to introduce innovative products across various categories like savings, protection, and investment to meet diverse customer needs.

- **Digital Initiatives:**

- **Digi Daftar:** A unique app that empowers financial advisors with digital tools to enhance customer engagement and service delivery.
- **Digital Transformation:** The company is investing in digital technologies to improve operational efficiency, customer experience, and reach a wider audience.

- **Network Expansion:**

- **Branch Network:** Nippon Life is expanding its branch network to reach more customers across India, especially in tier-II and tier-III cities.
- **Distribution Channels:** The company is leveraging various distribution channels, including bancassurance, direct sales, and agency partnerships, to broaden its reach.

- **Strategic Partnerships:**

- **Collaborations:** Nippon Life is exploring strategic partnerships with banks, financial institutions, and other organizations to offer comprehensive financial solutions.

## **How These Plans Benefit Investors:**

- **Increased Revenue and Profitability:** By expanding its product offerings, leveraging technology, and expanding its distribution network, the company can generate higher revenue and improve profitability. This can translate into higher returns for investors in the form of dividends or capital appreciation.
- **Enhanced Market Position:** A stronger market position and increased market share can lead to a more stable and sustainable business, reducing risks associated with market fluctuations.
- **Long-Term Growth Potential:** The company's focus on innovation, digital transformation, and strategic partnerships positions it for long-term growth in the Indian life insurance market. This can create significant value for investors over the long term.



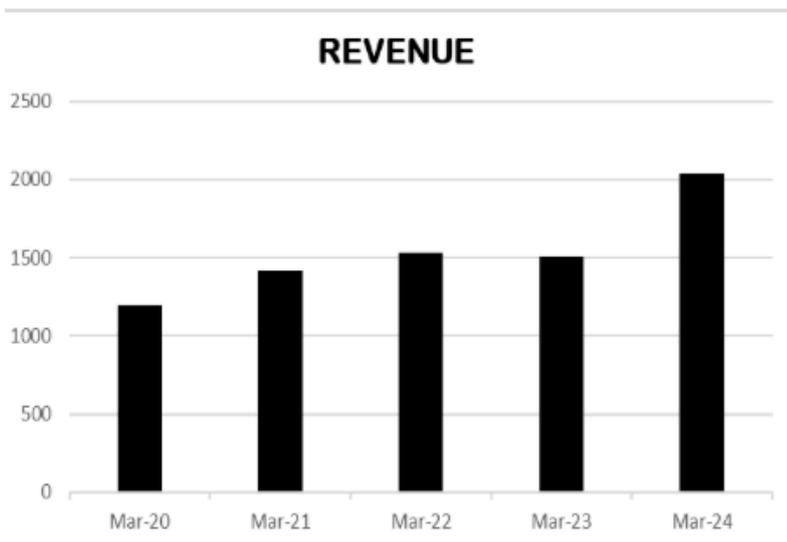
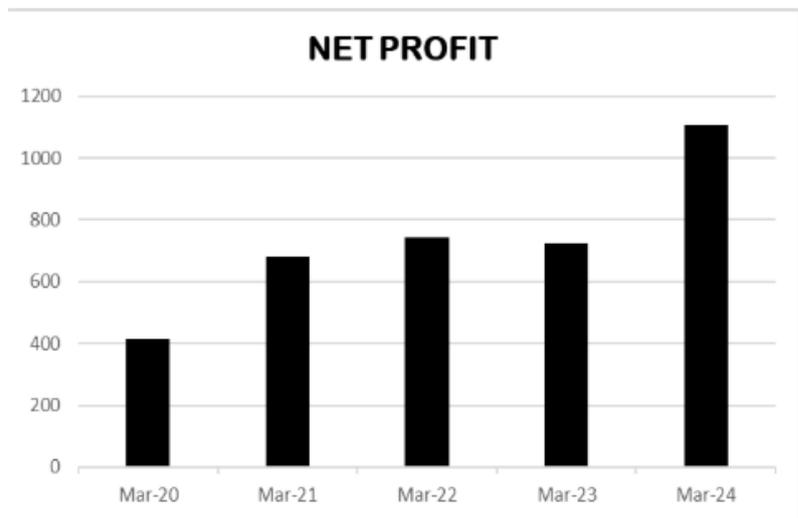
# INCOME STATEMENT ANALYSIS

- Nippon Life has reflected positive signs and increased growth rates over the past few years, particularly after the COVID-19 pandemic. With the Revenue witnessing a steep decline in the pandemic period for Mar-20, representing sales of ₹1192 crores in contrast to Mar-19, where the number was ₹1647 crores, the sales witnessed a decline of -27.59%. Post-COVID-19 Era, the numbers saw a huge increase from ₹1419 crores in Mar-21 to ₹1533 crores in Mar-22 with a sales growth of 18.96% and 8.09% respectively. Although it witnessed a small decline in Mar-23 with reported revenue of ₹1532 crores and a negative growth rate of -1.41%, it witnessed a robust increase in Mar-24 with revenue of ₹ 2036 crores and a sales growth rate of 34.66%. This has been the highest revenue generated by the company over the past 10 years, witnessing a compounded sales growth of 10% over the past 10 years.
- Nippon Life's expenses have also been reduced since the start of the COVID-19 era, which ultimately indicates a good sign for the company's massive growth in revenue. Although the overall expenses have increased from 555 crores in Mar-23 to 649 crores in Mar-24, the company has been operationally efficient enough that the increase in revenue was much higher than the increase in expenses. The company has also witnessed a decline in various expenses like employee cost, decreasing from 20.03% in Mar-23 to 16.51% in Mar-24. It also witnessed a decline in Manufacturing cost and other costs from 6.02% to 5.58% and from 10.67% to 9.82%, respectively.
- Declined Expenses and Increased Revenue have shown good numbers in operating profits of the company from 598 crores in Mar-20 to 914 crores in Mar-21 to 1017 crores in Mar-22. Although it witnessed a slight decline to 957 crores in Mar-23, a massive increase was witnessed in the operating profit to ₹1386 crores in Mar-24. The company has been generating these profits mainly from its core operations only as the other income sources are quite minimal in contrast to the reported operating profits, constituting around 0.1% to 0.5%
- Interest expense of Nippon Life has also been substantially lower over the years, reflecting that the company has been operating with minimal leverage over the years. Other expenses like depreciation have also been minimal over the year, resulting in the company's increased net profit.



- Nippon Life's net profit has been showing major signs of growth and increased profitability post-COVID-19 era. The figure jumped from 415 crores in Mar-20 to 680 crores in Mar-21 and 744 crores in Mar-22, to 1107 crores in Mar-24. The compounded net profit growth of the company for the past 10 years has been 15%, indicating a bright future for the company. Despite rapid rises in net profits over the years, the company has witnessed a rapid decline in EPS over the past few years because of increased equity capital financing. Being advantageous on one side for the company, from being risk-free of having no borrowed debt, but on the other hand, it has resulted in losing shareholders' confidence in the company. The decline in EPS has also given a major jump to the Dividend Payout Ratio from 72% in Mar-21 to 94% in Mar-24.

Overall, Nippon Life has reflected successful growth rates over the years and has been much more growth-centric in the post-COVID era. Continuing like this, the company has increased potential for achieving increased long-term growth rates, growing profitability and increased market share.

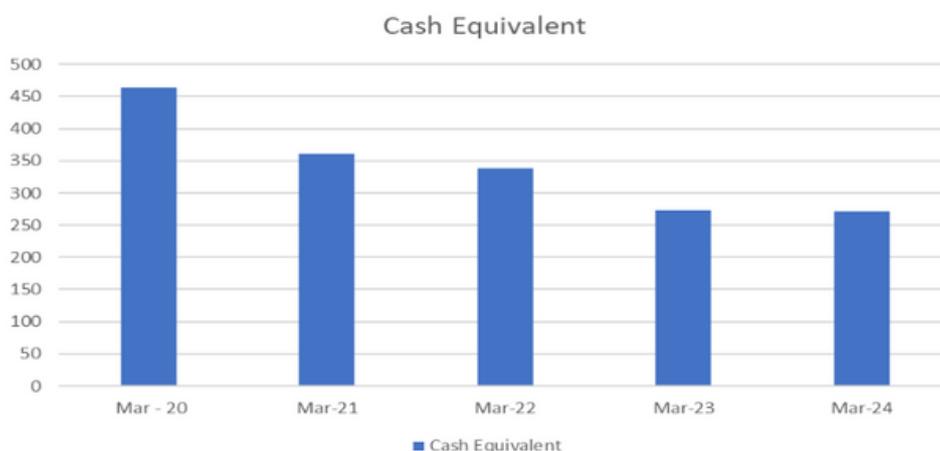




# BALANCE SHEET

## Assets:

- **Investments:** The company's investments constitute a major portion of its total assets. Investments comprise 80% of the asset base. This is again reflective of the orientation toward good asset management and strategically making the best use of investment-related activities. The investment increased by approximately 35.27% in FY 21 but grew by only 2% in FY 23. The current investment for FY 24 stands at ₹3,513 crore.
- **Cash and Cash Equivalents:** Besides cash on hand, cash equivalents include unrestricted bank deposits or chequing accounts, as well as other liquid short-term investments maturing in three months or less. These have high liquidity while exposing the company to a negligible level of risk on value fluctuations, hence providing a perfect indication of its ability to meet its short-term obligations. The cash equivalents of Nippon Life India Asset Management Ltd. have been declining over the past five years. It had 463 crore in FY 20, which decreased to 271 crore in FY 23.
- **Impact of Changes in Net Asset Value (NAV):** The information below represents the impact of the fluctuations of NAV on the mutual fund investment of the company and the profit during the period. It considers an increase of 5% or a decrease of 5% in the NAV while keeping everything else constant. This is a sensitivity analysis of how changes in the market value of mutual fund investments in the books can affect the bottom line of the company:
  - Upswing in NAV by 5%: [Impact of the upswings on NAV and profit]
  - Downswing in NAV by 5%: [Impact of the downswing on NAV and profit]



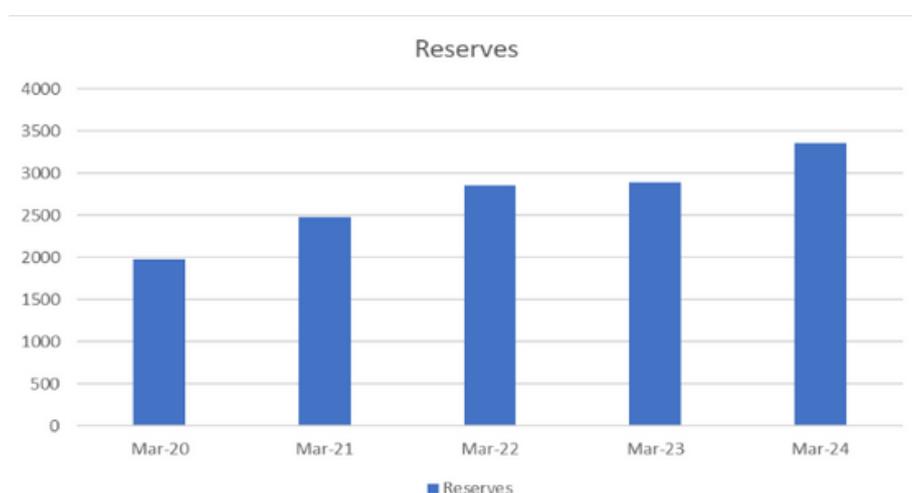


## Liabilities:

- **Reserves and Liabilities:** Huge liability constituents through reserves, which reflect acumen in finance. Since its structure is primarily comprised of reserves, it is debt-free, and it owes no loans, further elevating its safety level of finance. It has maintained these reserves on the back of its prudent dividend policy. In economic downturn cycles or recessions, the company tries to retain a larger share of profits in its books to accumulate its reserves, which enables the company to be better equipped to face future adversities and protect the health of its finances. The Reserves of the company for the last five years are illustrated below with the help of the following bar diagram :
- **Trade Payables:** Trade payables comprise dues to creditors that are not included in micro and small enterprises. Thereby, the amount is ₹50 crore, which corresponds to the current liability of the company toward its suppliers and vendors that are being serviced within the operational cycle of the company.
- **Depreciation:** Depreciation is calculated using the straight-line method. Depreciation is spread over the net cost of assets with fewer residual values on estimated useful lives. In respect of some of the leasehold furniture, fittings and equipment, depreciation is calculated over the smaller lease period. As of March 24, total depreciation is Rs 111 crore of depreciable fixed assets, as mentioned above.

## Conclusion:

- **Liquidity and Financial Health:** The company has no long-term external borrowings and sufficient cash and liquid investments to meet its payment obligations. In the absence of debt obligations, the company positions itself with an excellent financial base that provides it with greater flexibility and stability in handling operations and softening its ability to adapt to any potential market uncertainties.





# RATIO ANALYSIS

## Valuation Ratios:

- **EPS:** Nippon Life reported an EPS of 17.58 in FY-24, having witnessed a significant jump from 6.78 in FY-20. This has been a result of the company's increased profitability over the years, which ultimately enhanced the shareholders' confidence as well.
- **P/E Ratio:** As of November 24, Nippon Life reported a P/E Ratio of 33.2, which ultimately creates a potential for the prices to rise, leading to higher returns and thereby pushing investors' sentiments.

## Liquidity Ratios:

- **Current Ratio:** At FY-24, Nippon Life had a Current Ratio of 1.87, depicting that the company has been able to have effective management of its short-term obligations.
- **Quick Ratio:** Nippon Life reported a quick Ratio of 1.87, the same as its current ratio. This has been a result of adjusting for its inventory, which is almost negligible, thereby depicting that the company has done proper cash management as well, by not blocking its cash on the inventory levels.

## Efficiency Ratio :

- **Asset Turnover Ratio:** Nippon Life reported a consistent asset turnover ratio of 0.4% for FY 2023-24. Over the past 10 years, this ratio has remained stable, fluctuating between 0.3% and 0.7%. This suggests that the company is not utilising its assets efficiently to generate revenue.



# CASH FLOW STATEMENT ANALYSIS

## Cash Flow from Operating Activities:

**Consistent Positive Cash Flow:** Nippon Life India has consistently generated positive cash flow from its core operations, indicating strong profitability and efficient working capital management.

- **2023:** ₹5,865.6 crore
- **2022:** ₹5,795.5 crore
- **2021:** ₹4,559.7 crore

**Year-over-Year Improvement:** The company's cash flow from operations has shown improvement over the past few years.

## Cash Flow from Investing Activities:

**Fluctuating Cash Flows:** The cash flow from investing activities has been volatile, with both significant inflows and outflows.

- **2023:** ₹984.3 crore
- **2022:** -₹1,245.4 crore
- **2021:** -₹4,016.1 crore

**Investment in Growth:** The company has invested in various assets and securities to drive growth and generate returns for its investors.

## Cash Flow from Financing Activities:

**Negative Cash Flow:** The company has consistently reported negative cash flow from financing activities, primarily due to debt repayments, dividend payments, and equity issuances.

- **2023:** -₹7,116.5 crore
- **2022:** -₹4,258.7 crore
- **2021:** -₹2,391.2 crore

**Debt and Equity Financing:** Nippon Life India relies on debt and equity financing to fund its operations and investments.



### Overall Cash Position:

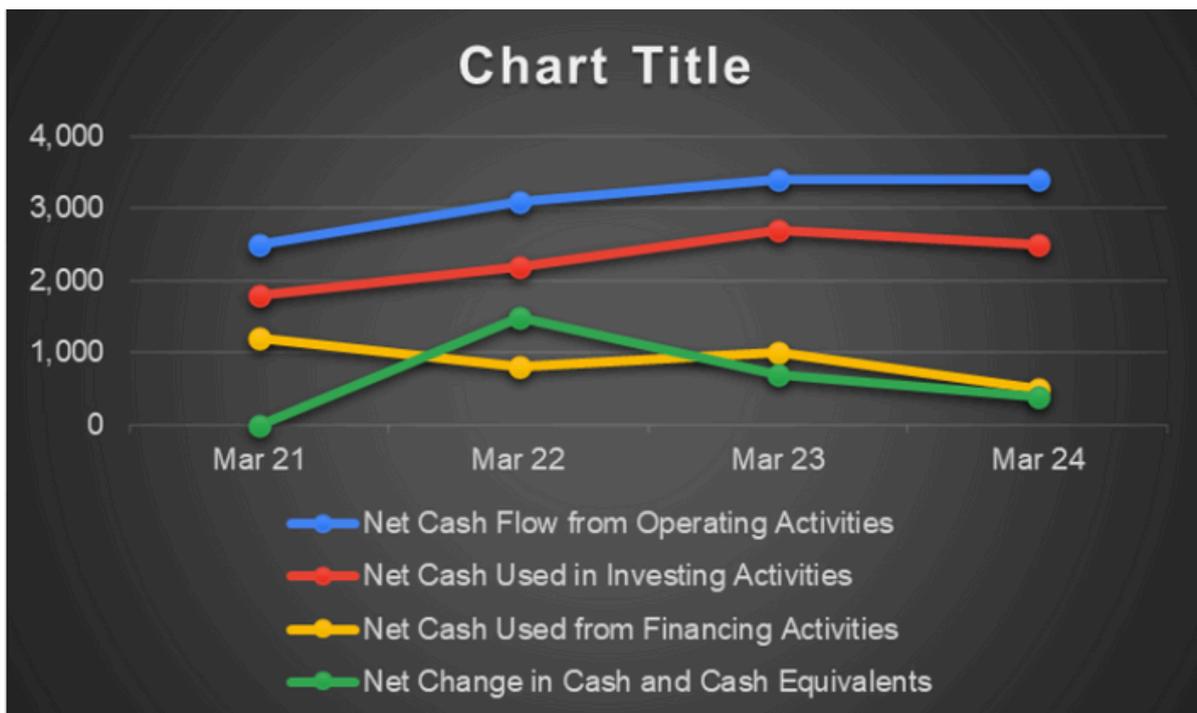
**Mixed Results:** The net change in cash has varied over the years, with both positive and negative figures.

- **2023:** -₹266.6 crore
- **2022:** ₹291.4 crore
- **2021:** -₹1,847.6 crore

**Impact of Financing Activities:** The negative cash flow from financing activities has significantly impacted the overall cash position.

### Conclusion:

Nippon Life India Asset Management Ltd. has a solid foundation with consistent positive operating cash flow. However, the company's reliance on debt and equity financing to fund its growth initiatives is a factor to consider. Investors should monitor the company's debt levels, interest expenses, and dividend payout policies.





# CATALYSTS

1. **Growth in Asset Under Management (AUM):** Nippon Life AMC can have a potential benefit from increased participation of retail and institutional investors in the equity markets. Many campaigns have significantly improved awareness of mutual funds, leading to a rise in SIP inflows and the growth of AUM. The company can also focus on expanding its international AUM by catering to global investors, seeking exposure to India's growth story.

2. **Diversification of Offerings:** Expanding its product portfolio in investments like ETFs, hybrid funds, and investment-focused funds can help Nippon Life AMC attract diverse investors. ESG funds appeal to environmentally conscious and socially responsible investors. Thematic funds can target niche markets, allowing the company to capture emerging trends. By launching tailored investment solutions for HNIs and corporates, Nippon can cater to a larger audience while at the same time enhancing its brand value.

3. **Economic growth and demographic trends:** India's strong economic growth and rise in the levels of income create significant opportunities for investing in mutual funds. Increasing financial literacy and higher awareness about wealth creation are inviting more people in Tier-2 and Tier-3 cities to invest in the Mutual Funds Market. With the younger population getting into the workforce, Nippon Life can capitalise on this demographic shift to increase its investor base and drive inflows.

4. **Growing Indian Economy:** The long-term growth prospects of the Indian economy provide favourable conditions for the asset management industry. India's GDP growth rate has been consistently strong, averaging around 7% in recent years.

5. **Increasing Investor Awareness:** Growing awareness about mutual funds and other investment instruments among Indian investors. This is driven by increased financial literacy and the rise of digital platforms. The number of mutual fund folios in India has increased significantly, crossing 10 crore in recent years.

6. **Strong Parentage:**

- Backed by the global financial giant, Nippon Life Insurance, one of the world's largest life insurers with assets exceeding JPY 87 trillion ( 47.24 Trillion INR.) as of FY23.
- This provides financial stability and a strong brand reputation.



# VALUATION: DCF BASED ON TARGET PRICE

## METHODOLOGY

The following steps were undertaken in conducting the DCF analysis:

**Step 1-** We took the historic cash flow from operating activities and net capex for the past three years to derive free cash flows. Then, we took the average of the resultant free cash flow figure for these three years.

**Step 2 -** We proceeded with the calculation of the Weighted Average Cost of Capital (WACC). For the calculation of the cost of equity, we have used the Capital Asset Pricing Model (CAPM). The cost of debt was obtained by dividing the interest expense by the total of long-term debt and short-term debt.

**Step 3 -** Further, we projected the future free cash flow for the next ten years, taking the average free cash flow obtained in step 1 as the base. The WACC obtained in Step 2 was used as the discount rate for arriving at the PV of the projected cash flows.

**Step 4 -** We also took a terminal growth rate for discounting perpetual free cash flow after the tenth year.

**Step 5-** The summation of steps 3 and 4 was taken to arrive at the total PV of future free cash flow, which is also the Enterprise Value.

**Step 6-** The resultant value of step 5 was used to arrive at the intrinsic value of the share. We have subtracted the Net Debt from Enterprise Value (refer to step 5) to arrive at equity value. The equity value is divided by the number of shares outstanding to arrive at the intrinsic value per share



# VALUATION: DCF BASED ON TARGET PRICE ASSUMPTIONS

The following were taken in preparing the DCF model:

- 1. Growth Rate:** The Projected Free Cash Flow growth rate for the initial 5 years was derived at 10.40%. This projection takes into account the expected growth of the sector resulting from future performances. For the following five years, the FCF Growth rate is assumed for 18% as the sector is expected to grow considerably.
- 2. Cost of Debt:** The cost of debt is taken to be nil as the company is completely leverage-free, i.e. it is completely bootstrapped.
- 3. Risk Free Rate:** The government 10-year treasury yield rate is utilised as the risk-free rate. This choice is based on the notion that it represents a risk-free and highly secure investment, making it a suitable benchmark for calculating the cost of equity.

<b>Share Price (INR)</b>	<b>1104.26</b>
<b>Model Error leeway</b>	<b>10%</b>
<b>Lower Intrinsic value band</b>	<b>993.8</b>
<b>Upper Intrinsic value band</b>	<b>1,214.7</b>

For detailed workings of the DCF valuation exercise, readers can be referred to the following link: [Nippon- Valuation Model - XFC](#)



# COMPETITION'S VALUATION VERSUS NIPPON LIFE INDIA ASSET MANAGEMENT LTD

## HDFC Asset Management Company Ltd.

**Market Cap:** ₹89,838 Cr.

**Sales:** Reported revenue of about ₹507 crore in FY2024.

**Market Return:** HDFC Asset Management Company Ltd has given a return of 17.62% in the last 3 years. The company has been maintaining a healthy dividend payout of 22.6% but a moderate return on equity of 15.2% over the last 3 years. Its current price is considered reasonable compared to its performance and industry standards.

## UTI Asset Management Company Ltd.

**Market Cap:** ₹16,570 Cr.

**Sales:** Reported revenue of about ₹275 crore in FY2024.

**Market Return:** UTI Asset Management Company Ltd has given a return of 19.62% in the last 3 years. The company has been maintaining a healthy dividend payout of 3.62% and a strong return on equity of 19.79% over the last 3 years. Its current price is considered reasonable compared to its performance and industry standards.

## Aditya Birla Sun Life AMC Ltd.

**Market Cap:** ₹24,949 Cr.

**Sales:** Reported revenue of about ₹1,330 crore in FY2024.

**Market Return:** Aditya Birla Sun Life AMC Ltd has given a return of 28.20% in the last 3 years. The company has been maintaining a healthy dividend payout of 35.58% and a strong return on equity of 31.02% over the last 3 years. Its current price is considered reasonable compared to its performance and industry standards.

## Bajaj Holdings & Investment Ltd

**Market Cap:** ₹ 1,16,501 Cr.

**Sale:** Reported revenue of about ₹1,702 crore in FY2024.

**Market Return:** Bajaj Holdings & Investment Ltd has given a return of 27.62% in the last 3 years.

The company has been maintaining a healthy dividend payout of 26.6% but a low return on equity of 12.2% over the last 3 years. Its current price is very high as compared to Nippon Life Management Ltd, amounting to ₹ 10,468.



# EXECUTIVE SUMMARY

## Summary

Nippon Life Asset Management Company has a significant position in today's AMC market. It has demonstrated significant revenue growth and cost-efficient operations, remarking increased confidence towards the shareholders. The company, through its increased profitability and continued operation, is expected to emerge as a leader in the AMC market. Nippon's focused approach and its inclination towards effective investment strategies allow it to maintain a competitive edge over its competitors.

Concluding, the company's strategic planning process and emphasis on brand loyalty could give it a dominant position in the relevant industry.

## Disclosure

The equity reports provided on this platform are not verified by the Securities and Exchange Board of India (SEBI) and should not be construed as financial advice or a recommendation to buy, sell, or hold any securities. These reports are for informational purposes only and do not constitute professional investment advice. Investors should conduct their due diligence and consult with a qualified financial advisor before making any investment decisions.

## Disclaimer

The data presented in this report is based on information available up until November 30, 2024. Any events, developments, or changes occurring after this date are not reflected in this report.

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