

## Expect a robust quarter across segments

- Early AUM data points to strong Q2 profits for BAF – our top pick among NBFCs
- SBILIFE – our pick among life insurers – expected to fare well with sustained efficiencies and a steady VNB margin
- AUM growth, especially equity inflows, likely to aid core revenue growth for our AMC coverage

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**NBFC:** Early data released by BAF shows 33% YoY growth in its H1 AUM, tracking above the full-year guidance of 29-31%, implying strong profitability in Q2FY24. We bake in a 27% YoY rise in PAT. The company's decision to raise Rs 100bn points to high demand potential, which is also fuelling competition in the NBFC space. NIM contraction is likely to continue due to a higher cost of funds, whereas we expect credit cost to stay low. In the credit card space, we believe SBICARD will witness a surge in card spends and account openings. Net receivables are projected to rise 26% YoY, NIM is expected to contract, and credit cost could stay high, in line with the Q1 trend.

**Life insurance:** Within the private space, we expect SBILIFE/HDFCLIFE to post NBP growth of 30%/14% YoY in Q2FY24, followed by a 11% tick-up from IPRU. LIC is likely to experience a subpar quarter marked by an estimated 38% YoY drop in NBP. We project VNB growth of 20% YoY for SBILIFE and 9% for HDFCLIFE, with a flat performance for IPRU and a 7% decline for LIC. Profitable non-par and protection items remain focus segments for life insurers, likely enabling a sequential rise in VNB margin (but a fall YoY) for all companies under coverage. In light of robust systemic credit growth during the quarter, we anticipate high demand for credit life products.

**AMC:** Given the rise in AUM, we anticipate positive core revenue growth from listed AMCs. Gross revenue yields should benefit from a rising equity share in AUM, but the inverse relationship to TER could limit yields (regulations require that TER reduce as the asset base grows). Equity inflows, particularly through the SIP mode, would be a key driver of profitability. Due to the increase in bond yields, other income is expected to remain modest. Also, SEBI's avowed intent to regulate fees charged to mutual fund investors remains an overhang on the sector.

**Wealth management:** We pencil in a 16% YoY rise in AUM for 360ONE in Q2, helped by new fund inflows and MTM gains. The mix is expected to consist of 67% recurring AUM (61% at end-FY23), led by the 360 One Plus and AMC businesses. Recurring revenue is forecast to grow 25% YoY after absorbing a decline in transaction and other income. We model for a QoQ decline in cost-to-income ratio to 45% and PAT growth of 7% YoY for the quarter.

### Recommendation snapshot

Ticker	Price	Target	Rating
360ONE IN	508	611	BUY
ABSLAMC IN	434	425	HOLD
BAF IN	8,169	9,105	BUY
HDFCAMC IN	2,726	2,445	HOLD
HDFCLIFE IN	631	700	HOLD
IPRU IN	559	518	SELL
LICI IN	644	770	BUY
NAM IN	335	365	BUY
SBICARD IN	798	1,011	BUY
SBILIFE IN	1,283	1,500	BUY
UTIAM IN	789	815	HOLD

Price & Target in Rupees | Price as of 6 Oct 2023



**Fig 1 – BOBCAPS NBFC universe: Q2FY24 estimates**

Company (Rs mn)	Q2FY24E	Q2FY23	Q1FY24	YoY (%)	QoQ (%)	Comments
NBFC						
SBI Card						
Spends	795,000	623,060	739,120	27.6	7.6	We expect spends to grow 28% YoY in Q2FY24, loans to rise 26% and NIM to contract (but improve QoQ). Costs are forecast to remain high, as per the seasonal trend during the second quarter. Credit cost is likely to stay elevated in Q2. Data on receivables mix, credit cost and C/I ratio would be key to watch.
Loans	459,897	364,998	418,130	26.0	10.0	
NII	13,396	11,168	12,332	20.0	8.6	
NIM (%)	11.7	11.9	11.1	(23bps)	62bps	
PPOP	15,046	12,517	15,151	20.2	(0.7)	
Credit costs (%)	6.9	6.4	7.1	53bps	(18bps)	
PAT	5,590	5,256	5,933	6.3	(5.8)	
360 One WM						
AUM	3,112,114	2,682,857	2,922,926	16.0	6.5	We expect AUM to grow 16% YoY to Rs 3.1tn with ARR revenue rising 25% despite our expectations of lower transactional and other income. C/I ratio is likely to reduce sequentially, which will be a key positive. Commentary on exploring new geographies in FY24 alongside global expansion would be key to watch.
Total revenue	4,409	4,286	4,342	2.9	1.5	
C/I (%)	45.0	41.9	48.4	315bps	(344bps)	
PAT	1,855	1,727	1,813	7.4	2.3	
Yield (Overall) (%)	0.56	0.59	0.57	(3bps)	(1bps)	
Bajaj Finance						
Spends	2,902,000	2,182,610	2,700,970	33.0	7.4	BAF has reported AUM growth of 33% YoY and 7% QoQ as at end-Q2FY24. We project 32% YoY growth in loans while NIM is forecast to contract 10bps YoY and 28bps QoQ. C/I is expected to remain flat QoQ and to decline YoY. On the credit cost front, we anticipate a rise of 22bps YoY and a flat sequential showing.
Loans	2,807,918	2,127,211	2,652,960	32.0	5.8	
NII	70,383	55,376	67,186	27.1	4.8	
NIM (%)	10.3	10.4	10.6	(10bps)	(28bps)	
PPOP	58,042	44,865	55,437	29.4	4.7	
Credit costs (%)	1.6	1.4	1.6	22bps	3bps	
PAT	35,246	27,807	34,369	26.8	2.6	
LIFE INSURANCE						
SBI Life						
NBP	97,220	74,971	62,071	29.7	56.6	SBILIFE is likely to see sustained strong growth momentum in NBP with 30% YoY growth led by non-par, protection, and annuity plans. We expect VNB margin of 29% as cost efficiencies likely remain best-in-class.
Gross Premium	204,391	166,211	135,551	23.0	50.8	
APE	51,309	39,300	30,300	30.6	69.3	
Total cost (%)	10.1	9.4	10.8	63bps	(73bps)	
VNB	14,880	12,400	8,700	20.0	71.0	
VNB Margin	29.0	31.6	28.7	(255bps)	29bps	
HDFC Life						
NBP	72,845	63,760	58,687	14.2	24.1	NBP is expected to post healthy growth of 14% YoY at end-Q2 with gross premium up 15%. Total cost ratio is projected at 19%, declining 60bps QoQ. VNB growth is likely to be driven by higher APE growth, and VNB margin is forecast to improve sequentially.
Gross Premium	153,337	132,826	116,728	15.4	31.4	
APE	31,532	24,900	23,300	26.6	35.3	
Total cost (%)	19.0	19.0	19.6	2bps	(60bps)	
VNB	8,514	7,790	6,100	9.3	39.6	
VNB Margin	27.0	31.3	26.2	(429bps)	82bps	
ICICI Prudential Life						
NBP	47,243	42,530	32,173	11.1	46.8	We estimate 11% YoY growth in NBP with gross premium as well as APE rising in single digits. VNB is expected to remain flat YoY with margins forecast to hold QoQ at 30% due to the company's focus on profitable products such as non-par and protection plans.
Gross Premium	103,174	98,956	73,748	4.3	39.9	
APE	20,696	19,990	14,610	3.5	41.7	
Total cost (%)	17.0	14.8	20.3	216bps	(329bps)	
VNB	6,209	6,210	4,380.0	(0.0)	41.8	
VNB Margin	30.0	31.1	30.0	(107bps)	2bps	

Company (Rs mn)	Q2FY24E	Q2FY23	Q1FY24	YoY (%)	QoQ (%)	Comments
LIC						
NBP	472,890	760,258	448,712	(37.8)	5.4	LIC's NBP and gross premium growth are forecast to remain soft YoY, with APE also likely to decline, albeit at a slower rate. The company continues to focus on non-par products, which form a lower share of its product mix as compared to peers. Sequential VNB margin accretion looks set to continue. We build in a cost ratio to decline YoY but an uptick QoQ.
Gross Premium	1,062,528	1,321,817	985,094	(19.6)	7.9	
APE	141,730	149,580	95,320	(5.2)	48.7	
Total cost (%)	13.3	18.2	12.9	(495bps)	45bps	
VNB	21,259	22,866	13,059	(7.0)	62.8	
VNB Margin	15.0	15.3	13.7	(29bps)	130bps	
AMC						
Nippon AMC						
AUM (Rs bn)	3,550	2,851	3,136	24.5	13.2	NAM's AUM is expected to climb 25% YoY on the back of robust inflows. We project revenue growth of 11% YoY with core revenue increasing 18%. EBITDA is estimated to rise 9% YoY and PAT 7%.
Total revenue	4,605	4,135	4,710	11.4	(2.2)	
EBITDA	2,993	2,754	3,193	8.7	(6.3)	
PAT	2,206	2,061	2,357	7.1	(6.4)	
UTI AMC						
AUM (Rs bn)	2,700	2,336	2,481	15.6	8.8	We project a healthy 16% YoY increase in AUM but flattish revenue and a low core revenue yield of 37bps vs. 40bps YoY (flat QoQ). Revenue from subsidiaries is likely to remain stable. We pencil in a 25% QoQ drop in PAT (-13% YoY) due to higher other income and a lower tax rate in Q1.
Total revenue	4,383	4,399	4,686	(0.4)	(6.5)	
EBITDA	2,410	2,749	3,006	(12.3)	(19.8)	
PAT	1,756	2,028	2,344	(13.4)	(25.1)	
HDFC AMC						
AUM (Rs bn)	5,200	4,293	4,857	21.1	7.1	AUM is forecast to increase by a strong 21% YoY with revenue and EBITDA rising 9% YoY each. We expect other income to dip 4% YoY. PAT is likely to decrease 15% QoQ (+11% YoY) as we do not anticipate any deferred tax credit in Q2.
Total revenue	7,045	6,489	7,326	8.6	(3.8)	
EBITDA	5,566	5,088	5,865	9.4	(5.1)	
PAT	4,053	3,641	4,774	11.3	(15.1)	
ABSL AMC						
AUM (Rs bn)	3,120	2,826	2,969	10.4	5.1	We model for AUM growth of 10% YoY. Revenue yield is estimated at 42bps vs. 44bps/42bps in Q2FY23/Q1FY24, with core revenue growth of 5% YoY but a 4% dip in overall revenue due to lower other income. Thus, EBITDA and PAT are forecast to decline both sequentially and annually.
Total revenue	3,726	3,877	3,889	(3.9)	(4.2)	
EBITDA	2,310	2,588	2,477	(10.8)	(6.7)	
PAT	1,682	1,917	1,846	(12.2)	(8.8)	

Source: Company, BOBCAPS Research

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