

Healthy quarter likely for NBFCs and life insurers

- IIFL Wealth projected to post Q3 AUM/PAT growth of 9%/12% YoY on higher operating leverage and strong recurring flows
- SBI Card's spends expected to grow 18% YoY with a 43% rise in PAT on higher income and lower credit costs
- SBI Life remains our top life insurance pick given its cost efficiency and high margins

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Wealth management: We expect IIFL Wealth to post 9% YoY AUM growth in Q3FY23 boosted by fresh fund flows and mark-to-market gains despite high volatility in equity markets. Recurring AUM is forecast to constitute 59% of the mix (53% in the year-ago quarter). Revenue could be flattish as an estimated 12% YoY increase in recurring revenue is likely to be offset by a decline in transactional revenue and other income.

We expect the company to have a cost-to-income ratio of 45% and deliver PAT growth of 12% YoY. Key monitorables include AUM growth and commentary on recurring business, especially IIFL One, as well as management's insights into new market forays planned for FY24.

Credit cards: Sectoral credit card spends continued to gain traction in October and November, crossing the Rs 1tn mark in each of these months. SBI Card saw market share gains in November, and we estimate 18% YoY growth in its spends for Q3, which will be reflected in income from fees and services.

The company continues to maintain ~19% market share in credit cards outstanding at the end of November. Net receivables is forecast to grow 35% YoY. We believe NIM would take time to return to pre-Covid levels. Provisions are expected to be lower and we place credit cost at 5.7%, down 370bps YoY and 70bps QoQ, which should boost PAT. Data on revolvers and credit cost would be key to watch.

Insurance: We maintain our positive stance on the life insurance industry and believe that the ongoing focus on profitable products would aid sustained margin gains for our coverage stocks (SBI Life, HDFC Life, IPRU) in Q3FY23. Our gross premium growth projections for covered companies ranges from 5-21% YoY in Q3FY23.

Cost ratios for HDFC Life and IPRU are likely to decline sequentially. Solvency ratios should hold in line with regulatory requirements. Market leader **SBI Life** (BUY, TP Rs 1,512) remains our top pick.

Recommendation snapshot

| Ticker | Price | Target | Rating |
|-------------|-------|--------|--------|
| HDFCLIFE IN | 566 | 691 | BUY |
| IIFLWAM IN | 1,777 | 2,206 | BUY |
| IPRU IN | 451 | 645 | BUY |
| SBICARD IN | 796 | 1,139 | BUY |
| SBILIFE IN | 1,231 | 1,512 | BUY |

Price & Target in Rupees | Price as of 30 Dec 2022



Fig 1 – BOBCAPS NBFC universe: Q3FY23 estimates

| Company (Rs mn) | Q3FY23E | Q3FY22 | Q2FY23 | YoY (%) | QoQ (%) | Comments |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|--|
| NBFC | | | | | | |
| SBI Card | | | | | | |
| Spends | 6,53,685 | 5,53,970 | 6,23,060 | 18.0 | 4.9 | We expect 35% YoY loan growth which should positively impact net interest income (NII). Net interest margin (NIM) is likely to be muted on account of lower revolvers in the mix and a higher cost of funds. Lower credit cost (YoY) is forecast to boost net profit. Data on the receivable mix and credit cost are key monitorables. |
| Loans | 3,77,582 | 2,79,690 | 3,64,998 | 35.0 | 3.4 | |
| NII | 11,650 | 9,965 | 11,168 | 16.9 | 4.3 | |
| NIM (%) | 12.0 | 13.8 | 11.9 | (176bps) | 10bps | |
| PPOP | 12,640 | 11,440 | 12,517 | 10.5 | 1.0 | |
| Credit costs (%) | 5.7 | 9.4 | 6.4 | (372bps) | (71bps) | |
| PAT | 5,525 | 3,858 | 5,256 | 43.2 | 5.1 | |
| IIFL Wealth | | | | | | |
| AUM | 28,52,814 | 26,27,798 | 26,82,857 | 8.6 | 6.3 | We project 12% YoY growth in net profit stemming from 9% AUM growth coupled with a lower cost-to-income ratio. Growth in IIFL One and yields would be key to watch, as will management commentary on exploring new geographies in FY24. |
| Total revenue | 4,207 | 4,201 | 4,049 | 0.1 | 3.9 | |
| C/I (%) | 45.0 | 52.9 | 44.3 | (791bps) | 70bps | |
| PAT | 1,731 | 1,549 | 1,727 | 11.7 | 0.2 | |
| Yield (Overall) (%) | 0.55 | 0.64 | 0.57 | (9bps) | (2bps) | |
| Company (Rs mn) | Q3FY23E | Q3FY22 | Q2FY23 | YoY (%) | QoQ (%) | Comments |
| LIFE INSURANCE | | | | | | |
| SBI Life | | | | | | |
| Gross Premium | 1,91,378 | 1,81,558 | 1,66,211 | 5.4 | 15.1 | Gross premium is estimated to increase 5% YoY (15% QoQ) led by a renewed focus on non-participating products as well as sales of protection products. Cost ratio can continue to be on the higher side but should still hold below 10%. |
| Total cost (%) | 9.6 | 7.7 | 9.4 | 187bps | 17bps | |
| Profit after tax (Shareholder) | 4,520 | 3,641 | 3,767 | 24.2 | 20.0 | |
| HDFC Life | | | | | | |
| Gross Premium | 1,48,064 | 1,22,548 | 1,32,826 | 20.8 | 11.5 | Gross premium is projected to rise 21% YoY. Total cost as a percentage of gross premium is expected at 14.8%, lower than the previous year and previous quarter. |
| Total cost (%) | 14.8 | 16.4 | 19.0 | (160 bps) | (418 bps) | |
| Profit after tax (Shareholder) | 4,001 | 2,737 | 3,262 | 46.2 | 22.6 | |
| IPRU | | | | | | |
| Gross Premium | 1,06,004 | 93,442 | 98,956 | 13.4 | 7.1 | Gross premium is expected to increase 13% YoY as the company focuses on maintaining a favourable product mix. |
| Total cost (%) | 13.8 | 13.5 | 14.8 | 34bps | (102bps) | |
| Profit after tax (Shareholder) | 3,215 | 3,106 | 1,995 | 3.5 | 61.2 | |

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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