

## Cautious outlook for NBFCs; AMC, life insurers to fare better

- Expect SBI Life to deliver continued cost efficiency and high margins in Q4; remains our top pick among life insurers
- 360 One projected to post 12% YoY AUM growth in Q4 on strong recurring flows, with IIFL One being a major pillar
- Nippon AMC and UTI AMC likely to see a strong quarter; both remain our top picks among asset managers

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**Life insurance:** We maintain a positive stance on the life insurance industry as a focus on profitable non-participating and protection products is expected to help our coverage companies maintain robust VNB margins (SBI Life, HDFC Life, IPRU) in Q4FY23. We project gross premium growth of 16% YoY for top pick SBI Life (BUY, TP Rs 1,459) and a total cost ratio of less than 10% even after baking in an increase of 50-60bps YoY. We believe **budgetary announcements** remain directionally negative for the sector.

**Asset management:** We are cautious on AMC stocks due to (a) SEBI initiating a detailed study of the fees and expenses charged by mutual funds, and (b) the abrupt removal of long-term tax benefits for debt mutual funds. We had **initiated** on the sector with an upbeat outlook on **UTI AMC** (BUY, TP Rs 983) and **Nippon AMC** (BUY, TP Rs 347). For Q4, we believe a focus on equity funds, SIPs, and higher yielding B-30 cities will continue to drive topline growth whereas cost rationalisation should aid the bottom-line. Commentary on the impact of changing regulations is a key monitorable.

**Wealth management:** We expect 360 One to post 12% YoY AUM growth in Q4FY23 boosted by fresh fund flows and MTM gains despite high volatility in equity markets. Recurring AUM is forecast to constitute 58% of the mix (55% at end-FY22) with IIFL One being a key pillar. Revenue could be flattish as estimated increases of 13% YoY in recurring revenue and 7% YoY in other income are likely to be offset by a decline in transactional revenue. We expect the company to have a cost-to-income ratio of 44.8% and deliver PAT growth of 3% YoY.

**Credit cards:** Sectoral credit card spends continued to gain traction in January and February, crossing the Rs 1tn mark in each of these months. SBI Card regained second position and we estimate 16% YoY growth in spends for the company in Q4. Its market share stood at ~20% in credit cards outstanding and ~18% in spends at the end of February. Net receivables are forecast to grow 30% YoY. We believe NIM would take time to return to pre-Covid levels. Provisions are expected to remain low (+30bps YoY, -7bps QoQ), and we place credit cost at 5.7%. Data on operating costs, revolver balances and credit cost would be key to watch.

### Recommendation snapshot

Ticker	Price	Target	Rating
360ONE IN	439	591	BUY
ABSLAMC IN	317	488	HOLD
HDFCAMC IN	1,678	2,310	BUY
HDFCLIFE IN	496	549	HOLD
IPRU IN	427	487	BUY
NAM IN	204	347	BUY
SBICARD IN	720	1,034	BUY
SBILIFE IN	1,099	1,459	BUY
UTIAM IN	616	983	BUY

Price & Target in Rupees | Price as of 29 Mar 2023



**Fig 1 – BOBCAPS NBFC universe: Q4FY23 estimates**

Company (Rs mn)	Q4FY23E	Q4FY22	Q3FY23	YoY (%)	QoQ (%)	Comments
NBFC						
SBI Card						
Spends	6,26,282	5,41,350	6,88,350	15.7	(9.0)	We expect 30% YoY loan growth which should positively impact NII, but NIM is likely to be low on account of weaker revolver balances and a higher cost of funds. Higher operating expenses are likely to offset an increase in revenue which will lead to a YoY decline in the net profit. Data on receivable mix, operating cost and credit cost would be key to watch.
Loans	3,92,832	3,01,873	3,73,540	30.1	5.2	
NII	11,884	9,987	11,446	19.0	3.8	
NIM (%)	11.4	12.6	11.3	(126bps)	5bps	
PPOP	12,652	11,720	12,174	8.0	3.9	
Credit costs (%)	5.7	5.4	5.8	30bps	(7bps)	
PAT	5,441	5,809	5,095	(6.3)	6.8	
360 One WM						
AUM	29,18,453	26,17,447	27,51,336	11.5	6.1	AUM is projected to grow 11.5% YoY to Rs 2.9tn. However, we expect net revenue to inch up only 2% despite forecasting 13% YoY growth in recurring revenue, as non-recurring revenue is projected to decline 17%. A likely reduction in cost-to-income ratio would be a key positive. Commentary around exploring new geographies in FY24 would be key to watch.
Total revenue	4,562	4,493	4,096	1.5	11.4	
C/I (%)	44.8	52.3	45.5	(750bps)	(66bps)	
PAT	1,727	1,678	1,801	2.9	(4.1)	
Yield (Overall) (%)	0.60	0.72	0.60	(13bps)	(1bps)	
Company (Rs mn) Q4FY23E Q4FY22 Q3FY23 YoY (%) QoQ (%) Comments						
LIFE INSURANCE						
SBI Life						
Gross Premium	2,03,736	1,75,085	1,93,319	16.4	5.4	We expect 16% YoY (5% QoQ) growth in gross premium led by a renewed focus on non-par products and sale of protection products. Cost can continue to remain on the higher side but should still clock in below 10%.
Total cost (%)	9.6	9.0	9.1	62bps	53bps	
Profit after tax (Shareholder)	9,850	6,722	3,041	46.5	223.9	
HDFC Life						
Gross Premium	1,52,542	1,44,213	1,45,750	5.8	4.7	Gross premium is expected to rise 6% YoY. We forecast total cost at 18%, lower than the previous quarter but higher on an annual basis.
Total cost (%)	18.1	16.8	19.3	124bps	(121bps)	
Profit after tax (Shareholder)	2,672	3,575	3,152	(25.3)	(15.2)	
IPRU						
Gross Premium	1,19,836	1,17,106	97,805	2.3	22.5	Gross premium is likely to increase 2% YoY with the company focusing on maintaining a favourable product mix. Total cost looks set to decline both YoY and QoQ.
Total cost (%)	13.6	15.8	14.7	(226bps)	(110bps)	
Profit after tax (Shareholder)	3,266	1,847	2,206	76.8	48.0	
Company (Rs mn) Q4FY23E Q4FY22 Q3FY23 YoY (%) QoQ (%) Comments						
AMC						
Nippon AMC						
AUM (Rs bn)	3,087	2,832	2,928	9.0	5.4	We model for a 9% YoY rise in AUM and the share of equity at 44% vs. 42% in the year-ago quarter. Revenue is expected to grow 17% YoY, operating expenses at 15% and PAT at a healthy 15%.
Total revenue	4,362	3,724	4,157	17.1	4.9	
EBITDA	2,863	2,424	2,752	18.1	4.0	
PAT	2,007	1,749	2,052	14.8	(2.2)	
UTI AMC						
AUM (Rs bn)	2,391	2,238	2,408	6.8	(0.7)	We anticipate a 7% YoY rise in AUM. Revenue is projected to clock higher growth of 18% YoY as other income likely soars on a low base. PAT is expected to more than double YoY driven by higher revenue and a decline in operating expenses.
Total revenue	3,605	3,050	2,934	18.2	22.9	
EBITDA	1,918	1,244	1,323	54.1	44.9	
PAT	1,718	539	600	218.7	186.3	
HDFC AMC						
AUM (Rs bn)	4,620	4,321	4,448	6.9	3.9	We forecast 7% YoY growth in AUM and a 22% increase in revenue as other income rises sharply. PAT is thus expected to grow 18% YoY.
Total revenue	7,082	5,809	6,629	21.9	6.8	
EBITDA	5,807	4,581	5,165	26.8	12.4	
PAT	4,047	3,436	3,694	17.8	9.6	

Company (Rs mn)	Q4FY23E	Q4FY22	Q3FY23	YoY (%)	QoQ (%)	Comments
<b>ABSL AMC</b>						
AUM (Rs bn)	3,051	2,958	2,817	3.1	8.3	We model for PAT growth in the early double digits, in line with revenue growth. AUM is anticipated to rise 3% YoY and equity in the AUM mix is projected to grow to 42% vs. 41% in the year-ago quarter.
Total revenue	3,816	3,471	3,632	10.0	5.1	
EBITDA	2,459	2,194	2,323	12.1	5.9	
PAT	1,746	1,585	1,663	10.1	5.0	

Source: Company, BOBCAPS Research

## Glossary

### Glossary of Abbreviations

<b>AUM:</b> Assets Under Management	<b>B30:</b> Beyond the Top 30 cities
<b>AMC:</b> Asset Management Company	<b>KYC:</b> Know Your Customer
<b>T30:</b> Top 30 cities	<b>MF:</b> Mutual Fund
<b>TER:</b> Total Expense Ratio	<b>SIP:</b> Systematic Investment Plan
<b>APE:</b> Average Premium Equivalent	<b>NBP:</b> New Business Premium
<b>EV:</b> Embedded Value	<b>ULIP:</b> Unit Linked Insurance Plan
<b>IRDA:</b> Insurance Regulatory and Development Authority	<b>VNB:</b> Value of New Business

Source: BOBCAPS Research

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**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

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