

## FIRST LIGHT

04 January 2024

### RESEARCH

#### DIVERSIFIED FINANCIALS | Q3FY24 PREVIEW

Expect sustained growth momentum

### SUMMARY

#### DIVERSIFIED FINANCIALS: Q3FY24 PREVIEW

- Positive market sentiment should augment AUM, PAT growth for AMCs; Nippon AMC continues as our top pick
- Positive market sentiment should augment AUM, PAT growth for AMCs; Nippon AMC continues as our top pick
- Strong AUM growth likely to drive profitability for BAF – our preferred buy among NBFCs

[Click here](#) for the full report.

#### Daily macro indicators

| Indicator                  | 1-Jan         | 2-Jan        | Chg (%)            |
|----------------------------|---------------|--------------|--------------------|
| US 10Y yield (%)           | 3.88          | 3.93         | 5bps               |
| India 10Y yield (%)        | 7.17          | 7.21         | 3bps               |
| USD/INR                    | 83.21         | 83.32        | (0.1)              |
| Brent Crude (US\$/bbl)     | 77.0          | 75.9         | (1.5)              |
| Dow                        | 37,690        | 37,715       | 0.1                |
| Hang Seng                  | 17,047        | 16,789       | (1.5)              |
| Sensex                     | 72,272        | 71,892       | (0.5)              |
| <b>India FII (US\$ mn)</b> | <b>29-Dec</b> | <b>1-Jan</b> | <b>Chg (\$ mn)</b> |
| FII-D                      | 164.3         | 10.4         | (153.9)            |
| FII-E                      | 253.6         | 30.4         | (223.1)            |

Source: Bank of Baroda Economics Research

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## Expect sustained growth momentum

- **SBI Life forecast to deliver strong growth and steady VNB margins in Q3; remains our top life insurance pick**
- **Positive market sentiment should augment AUM, PAT growth for AMCs; Nippon AMC continues as our top pick**
- **Strong AUM growth likely to drive profitability for BAF – our preferred buy among NBFCs**

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**Life insurance:** Within the private space, we expect SBI Life/IPRU to post NBP growth of 16%/12% YoY in Q3FY24, followed by HDFC Life at 10%. LIC is likely to experience a subpar quarter marked by an estimated 15% YoY drop in NBP. We project VNB growth of 12% YoY for SBI Life and increases of 7%/6%/2% for IPRU/HDFC Life/LIC. Life insurers saw non-par business decline in Q2 accompanied by an uptick in ULIP sales, and we expect this trend to continue in Q3. Retail protection could also gain traction and we anticipate high demand for credit life products considering robust systemic credit growth in Q3.

**AMC:** Positive market sentiment should spur AUM growth and hence positive core revenue growth for listed AMCs. Equity inflows, particularly through the SIP mode, would be a key driver of profitability. Other income should benefit positively from the strong equity market while expenses are expected to remain stable. Thus, all companies under coverage are expected to post a YoY increase in net profit.

**Wealth management:** We pencil in a 30% YoY rise in recurring AUM for 360 One in Q3, helped by new fund inflows and MTM gains, particularly in the 360 One Plus and AMC businesses. Annual recurring revenue (ARR) is forecast to grow 12% YoY and non-ARR revenue 5%. The company's cost-to-income ratio is likely to remain high but we still project YoY PAT growth in early double digits in Q3.

**NBFC:** We estimate 30% YoY growth in BAF's AUM for Q3, tracking within the full-year guidance of 29-31%, and expect 25% YoY growth in PAT. NIM contraction is likely to continue due to a higher cost of funds, whereas we expect credit cost to stay low. The RBI's recent decision to temporarily halt the issuance of existing member identification (EMI) cards is unlikely to have a material impact. In the credit card space, we believe SBI Card will see a record surge in card spends due to the festive season.

**Target price revision:** We roll valuations for our life insurer coverage to Mar'26E, leading to revised targets for SBI Life (BUY) at Rs 1,970 vs. Rs 1,650, IPRU (HOLD) at Rs 604 vs. Rs 518, HDFC Life (raised to BUY) at Rs 822 vs. Rs 700, and LIC (BUY) at Rs 965 vs. Rs 767. For 360 One (cut to HOLD), we move to Rs 747 vs. Rs 615.

### Recommendation snapshot

| Ticker      | Price | Target | Rating |
|-------------|-------|--------|--------|
| 360ONE IN   | 677   | 747    | HOLD   |
| ABSLAMC IN  | 469   | 497    | HOLD   |
| BAF IN      | 7,430 | 9,605  | BUY    |
| HDFCAMC IN  | 3,261 | 3,150  | HOLD   |
| HDFCLIFE IN | 646   | 822    | BUY    |
| IPRU IN     | 534   | 604    | HOLD   |
| LICI IN     | 838   | 965    | BUY    |
| NAM IN      | 467   | 513    | BUY    |
| SBICARD IN  | 773   | 910    | BUY    |
| SBILIFE IN  | 1,438 | 1,970  | BUY    |
| UTIAM IN    | 868   | 920    | HOLD   |

Price &amp; Target in Rupees | Price as of 2 Jan 2024



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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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