

Reliance Capital (RELCAP)

₹ 431

Businesses growing, return ratios improving...

- Reliance Capital reported a PAT of ₹ 428 crore reporting growth of 2% YoY, 36% QoQ led by gain of ₹ 100 crore from Sula Vineyards sale. Marginally slower growth was seen on the consolidated topline front with revenues declining 2% YoY to ₹ 5008 crore on impact of AMC IPO and lower life NBP premiums. One-time capital gains continued from IPO in AMC in FY18 with PAT numbers growing 21% YoY to ₹ 1309 crore. Home finance, general insurance and AMC recorded strong growth in PBT
- For Reliance AMC (listed), topline and PAT grew 20% and 24% YoY to ₹ 489 crore and ₹ 153 crore, respectively. It grew 24% YoY to ₹ 130 crore. Due to market correction, MF AUM grew 16% YoY to ₹ 245000 crore vs. a surge of 24% YoY in Q3
- The home finance business (listed) continued the healthy growth of 46% YoY in AUM to ₹ 16379 crore. Nil and PBT came in at ₹ 141.8 crore, up 16% YoY and ₹ 90 crore, up 119% YoY, respectively. PAT appears lower at ₹ 57 crore in Q4FY18 vs. ₹ 108 crore in Q4FY17 mainly due to tax write-back in Q4FY17
- General insurance reported growth of 36% YoY in gross written premium at ₹ 1081 crore. PAT grew 9% YoY to ₹ 46 crore. Combined ratio in Q4 was at 113%, increasing from 114% QoQ. It was 104% in Q1. The IPO is seen coming in the near term
- Commercial finance and life insurance remained subdued. LI reported marginal PAT of ₹ 34 crore for Q4 and ₹ 1 crore for FY18

Standalone company turns core investment company from FY17

Reliance Capital has demerged its home finance. The standalone company is a pure core investment company (CIC) three businesses, general insurance (pending), HFC (done) AMC (done) were to be listed.

Exhibit 1: Revenue, PBT of various segments (AMC no longer a subsidiary)

Contribution to P/L (₹ crore)	Q4FY18		
	Revenue	PBT	consolidation in PBT
Reliance Life	1076.0	1.0	0.5
Reliance general insurance	1081.0	46.0	46.0
Reliance broking	101.3	15.6	15.6
Reliance AMC	489.0	210.2	96.7
Reliance commercial Fin	554.1	64.0	64.0
Reliance Housing Finance	450.0	90.0	45.9

Source: Company, ICICI Direct Research, AMC shown here is not consolidated from Q2FY18

Individual businesses trading well, investments, debt overhang stays

Individual subsidiaries have reported strong earnings and a continuous improvement trajectory. Housing finance and AMC are already listed while general insurance is expected to come soon. We expect PAT to grow at 17% CAGR in FY18-20E to ₹ 1761 crore. We expect RoE to move to double digit by FY19E with improving RoE of individual businesses. Accordingly, we value the stock at ₹ 660 per share on an SoTP basis. We maintain our **BUY** rating on the stock. The expected IPO of GI is expected in 2018.

The investment in various media companies of the past and group corporate exposure (~₹ 10,000 crore) remain an overhang as debt remains elevated on these exposures. Post the sharp correction in ADAG group stocks including Reliance Capital, the debt settlement plan of Reliance Communications had come as a relief though delays in implementation continue to hamper recovery again. The stock is trading at 0.6x FY20E BV and 6.1x FY20 P/E.

Rating matrix	
Rating	Buy
Target	₹ 660
Target Period	12 months
Potential Upside	53%

What's Changed?	
Target	Unchanged
EPS FY19E	Changed from ₹ 58.9 to ₹ 64.9
EPS FY20E	Changed from ₹ 67 to ₹ 69.6
Rating	Unchanged

Quarterly Performance					
₹ Crore	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ(%)
Income from oper.	5007	5086	-1.5	4771	4.9
Total expenditure	4515	4613	-2.1	4377	3.2
PBT	492	473	4.1	394	24.8
Tax + Minority	64	56	14.7	79	-19.3
PAT	428	417	2.7	315	35.9

Key Financials				
₹ crore	FY17E	FY18E	FY19E	FY20E
Revenues	17640	20103	21078	23510
PBT	1538	1672	2152	2249
Adjusted PAT	1086	1309	1642	1761

Valuation summary				
	FY17E	FY18E	FY19E	FY20E
P/E	9.9	8.2	6.5	6.1
Target P/E	15.4	12.8	10.2	9.5
P/ABV	0.8	0.8	0.8	0.7
Target P/ABV	1.3	1.3	1.2	1.1
RoE	8.7	10.0	12.0	11.9
RoA	1.5	1.5	1.7	1.6

Stock data	
Market Capitalisation	₹10887 crore
Net worth (FY18)	₹16960 crore
52 week H/L	797/370
Equity capital	₹ 253 Crore
Face value	₹ 10
DII Holding (%)	12.6
FII Holding (%)	16.0

Price performance (%)				
Return %	1M	3M	6M	12M
Reliance capital	4.3	-15.5	-25.3	-19.2
HDFC LTD	3.3	-3.1	10.2	19.4
LIC housing	5.2	-1.6	-11.6	-18.9

Research Analyst	
Kajal Gandhi	kajal.gandhi@icicisecurities.com
Vasant Lohiya	vasant.lohiya@icicisecurities.com
Vishal Narnolia	vishal.narnolia@icicisecurities.com

Variance analysis

	Q4FY18	Q4FY18E	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Comments
Interest Income	1,876.8	2,019.7	1,502.5	24.9	1,836.1	2.2	Loan book growth remained strong in housing at 46% YoY while the commercial finance loan book remained a drag. NIMs have improved YoY in both businesses due to better cost of funds and business expansion and were stable sequentially
Capital Gains/Dividend	390.4	620.0	433.0	-9.8	625.6	-37.6	Booked capital gains of ₹ 100 crore (net of tax) from Sula Vineyards stake sale worth ₹ 275 crore
Premium Earned	2,467.2	2,500.0	2,104.8	17.2	2,075.3	18.9	Growth of 36% YoY in general insurance premium while consolidation of life insurance business continued
Mgmt & Advisory Fees	14	12	380	-96.3	13	9.3	
Brokerage and Commissions	131	120	143	-8.9	114	15.0	
Other Income	128	126	522	-75.5	108	18.6	
Total Income	5,007.0	5,397.7	5,085.6	-1.5	4,771.3	4.9	
Interest and Finance Charges	1,026.3	1,090.0	830.0	23.7	1,021.0	0.5	Overall debt continued to remain high, gradual scale down is expected
Other Exp	3,488.7	3,821.9	3,783.0	-7.8	3,356.0	4.0	
Total Expenses	4,515.0	4,911.9	4,613.0	-2.1	4,377.0	3.2	
PBT	492.0	485.8	473.0	4.0	394.0	24.9	
PAT	428.0	378.9	416.8	2.7	315.0	35.9	Higher capital gains led to high profit growth than expected

Source: Company, ICICI Direct Research, YoY numbers not comparable on fees front due to AMC not consolidated from Q2FY18

Change in estimates

(₹ Crore)	FY19E		% Change	FY20E		% Change
	Old	reworked		Old	reworked	
Total Income*	21,399.3	21,633.4	1.1	24,176.0	23,349.2	
PBT*	2,178.0	2,143.7	-1.6	2,520.0	2,273.0	
PAT (incl subs and associates)*	1,491.0	1,642.6	10.2	1,719.0	1,761.1	
ABV (₹)	609.1	560.7	-7.9	657.0	611.9	

Source: Company, ICICI Direct Research

*Capital gain from stake sale in Life insurance and AMC have not factored in estimates

Assumptions

	Current				Earlier		
	FY17E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Commercial Finance growth (%)	7.7	7.7	15.0	20.0	16.0	20.0	20.0
Life Ins Premium growth (%)	-32.5	-15.5	14.9	16.7	16.4	14.9	16.7
General Ins GWP growth (%)	40.3	29.7	18.0	16.3	19.7	18.0	16.3
AUM growth (%)	22.0	16.0	16.0	16.0	16.0	16.0	16.0

Source: Company, ICICI Direct Research

Company Analysis

Business interests...

Reliance Capital is a key financial services company of the Reliance ADAG group with interests in insurance (life and general), asset management, consumer loans, private equity and brokerage. In the insurance space, Reliance Life is growing fast within private. Current stakes are: life insurance (51%) and general insurance (100%), commercial finance (100%) and AMC (51%). Overall profit came from the core businesses with no one-offs. We expect the trend to continue.

Consistently, Reliance Capital has been divesting stakes and utilising funds to clean the B/S. We believe most of the pain has been taken while the current equity book is in profit.

With profit expansion seen at 16% CAGR to ₹ 1760 crore by FY20E, we can see adjusted RoEs reaching 9% in a couple of years. FY17 consolidated PAT was at ₹ 1085 crore similar to (₹ 1100 crore and ₹ 1002 crore in FY16 and FY15, respectively). Strong capital gains continued to remain a strong component of past profits. This is expected to moderate gradually with core profits improving.

Exhibit 2: Consolidated profit summary

Particulars	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Interest Income	996	1041	1099	1099	1003	1302	1369	1413	1503	1720	1734	1836	1877
Capital Gains/Dividend	413	107	79	90	652	293	410	201	433	426	580	626	390
Premium Earned	663	862	749	664	667	1559	2523	1833	2105	1976	2656	2075	2467
Mgmt & Advisory Fees	260	297	306	311	313	296	349	336	380	375	11	13	14
Brokerage and Commissions	61	75	16	53	60	82	134	58	143	92	158	114	131
Other Income	134	76	113	100	133	132	141	123	522	269	115	108	128
Total Income	2527	2457	2361	2318	2828	3663	4926	3964	5086	4857	5254	4771	5007
Interest and Finance Charges	632	685	701	708	727	709	749	781	830	955	988	1021	1026
Other Exp	1368	1492	1299	1241	1379	2629	3780	2841	3783	3536	3822	3356	3489
Total Expenses	1999	2177	2000	1950	2106	3338	4528	3621	4613	4491	4810	4377	4515
PBT	528	280	361	369	722	325	398	342	473	366	444	394	492
PAT	407	201	250	235	415	207	253	210	417	238	352	315	428

Source: Company, ICICI Direct Research

Reliance Capital reported PAT of ₹ 428 crore reporting growth of 2% YoY, 36% QoQ led by gain of ₹ 100 crore from the Sulla Vineyards sale. Marginally slower growth was seen in consolidated topline front with revenues declining 2% YoY to ₹ 5008 crore due to the impact of AMC IPO and lower life NBP premiums. One time capital gains continued from IPO in AMC in FY18 with PAT numbers growing 21% YoY to ₹ 1309 crore. Home finance, general insurance and AMC recorded strong growth in PBT. Around ~₹ 275 crore from the Sula Vineyards stake sale led to a surge in Q4 PAT to ₹ 428 crore, flat YoY.

We believe profits will start picking up for life for FY19E factoring in an improved product mix and high NBAP margins of 37%.

The AMC is expected to continue reporting strong revenue with PBT expected to grow to ₹ 771 crore by FY19E with AUM growth of ~16%.

The commercial finance loan book started growing post consolidation in the last two years. However, profits declined to ~₹ 280 crore due to clean-up. We expect loans to grow further at 15-16% CAGR. Housing finance has been reporting strong growth in the last two years with AUM of ₹ 11174 crore in FY17 and ₹ 16379 crore in FY18. We expect 42% growth over the next two years.

Reliance AMC maintains healthy performance...

Due to market correction, MF AUM grew 16% YoY to ₹ 245000 crore vs. surge of 24% YoY in Q3. Its SIP book has grown 70% in FY18. Retail debt, on an average, forms ~30% of overall debt AUMs.

In Q4FY18, the topline and PBT grew 20% and 31% YoY to ₹ 489 crore and ₹ 210 crore, respectively. PAT grew 24% YoY to ₹ 153 crore. Total AUM also witnessed growth at 19% YoY at ₹ 381510 crore led by a continued surge in debt, equity and pension funds. RoE of AMC is strong at 25%. We assume 16% CAGR in total MF AUM over FY18-20E.

Nippon Life Insurance has completed acquisition of 49% stake in Reliance Nippon Asset Management Ltd as earlier agreed. Reliance Capital received ₹ 378 crore on completion of transaction in Q2FY18 numbers.

Exhibit 3: AUM movement and profits over quarters

	(₹ crore)														
Particulars	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Income	250	275	313	316	340	341	346	347	361	358	406	395	436	470	489
Expenses	124	149	205	194	199	200	214	215	214	206	246	244	259	282	288
PBT	126	126	108	122	141	141	132	132	147	152	160	150	177	189	210
PAT										104	123	102	122	128	153
AAUM (crore)															
Debt	85530	90570	96440	100270	104130	96820	108970	107030	127490	135720	128100	124260	136000	148596	144470
Equity	38930	45030	46800	51310	51520	47530	48070	51020	54240	53700	60980	69710	74880	82824	87140
Gold and etf	1,600	1,530	1,450	1,340	1,300	1,380	1,370	1,440	1,400	2,240	12,670	28,990	20,550	12,180	13,390
MF AUM	126060	137130	144690	152920	156950	158410	158410	158411	183130	195850	210890	222960	231430	243600	245000
Managed Accounts	1,630	1,560	1,490	1,500	1,470	1,460	1,460	1,480	1,520	1,414	1,280	1,180	1,250	3,000	1,160
Pension Funds	93890	99390	90580	94410	98070	122290	122290	126790	131810	136100	142510	147880	152390	157200	164280
Offshore Funds	7,080	6,040	5,700	5,060	4,110	4,331	4,330	3,950	4,010	1,420	1,910	2,210	2,430	3,100	2,800
Total AAUM	229060	244650	243100	254610	261420	275170	287430	293120	321610	335990	350600	362500	381510	387800	396370

Source: Company, ICICI Direct Research

Finance book expected to grow 15% ahead

Financing is the next highest profit making segment with commercial Finance PBT of ₹ 340 crore with loan growth of 13.7% YoY to ₹ 12440 crore in FY17. AUM also grew 12% YoY to ₹ 16760 crore. NIM was at 5.6% vs. 6% YoY. Home finance AUM and NIM were at ₹ 11170 crore and 3.4%, respectively, in FY17.

We maintain 15% growth estimate in the commercial finance loan book for FY18-19E.

CF book

Commercial finance profitability declined sharply to ₹ 40 crore PBT led by continuous restructuring of portfolio. There was 11% YoY rise in loan book to ₹ 13674 crore. **NNPA hovered at to 2.6% led by write-offs.**

Home finance book

Home finance business (listed) continued healthy growth of 46% YoY in AUM to ₹ 16379 crore. Nil and PBT came in at ₹ 141.8 crore, up 16% YoY, ₹ 90 crore, up 119% YoY, respectively. PAT appears lower at ₹ 57 crore in Q4FY18 vs. ₹ 108 crore in Q4FY17 mainly due to tax write-back in Q4FY17. NPA in home finance business remained stable at 0.8%QoQ. Margins were stable at 3.9% in FY18.

The management has guided for loan growth to remain strong and with a target of ₹ 50000 crore by the end of year 2020. As on FY18, the loan book consists of home loan at 30% of AUM, affordable housing is 21%, loan against property (LAP) is 21% with construction finance of 28%.

Exhibit 4: CF business composition improving

(₹ Crore)	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ(%)
Loan Outstanding	13670.0	12436.0	9.9	13970.0	-2.1
Disbursements	NA	3,834.9	NA	NA	NA
Net Interest Income	200.0	186.6	7.2	205.4	-2.6
Total Income	554.1	493.9	12.2	579.5	-4.4
Total Expenses	108.8	103.3	5.4	108.8	0.0
Interest expenses	277.2	240.0	15.5	279.2	-0.7
Provisions	102.4	45.2	126.5	105.0	-2.5
PBT	64.0	105.5	-39.3	86.5	-26.0

Source: Company, ICICI Direct Research

Exhibit 5: Home finance business depicts strong growth

(₹ Crore)	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ(%)
Loan Outstanding	14650.0	9980.0	46.8	12880.0	13.7
Disbursements	2,407.5	2,957.3	-18.6	1,630.0	47.7
Net Interest Income	141.8	42.0	237.6	120.8	17.4
Total Income	450.0	343.2	31.1	420.6	7.0
Total Expenses	70.2	106.5	-34.1	67.8	3.5
Interest expenses	262.8	232.3	13.1	267.8	-1.9
Provisions	27.6	-37.0	-174.6	14.9	85.2
PBT	90.0	41.4	117.4	70.1	28.4

Source: Company, ICICI Direct Research

LAP continues to be there in both portfolios separately with 21% share in the home finance company. LAP AUM is expected to continuously decline in CF and incrementally be built in home loans.

Life insurance business

For FY16, life insurance profitability (PBT) dipped into the red at a loss of ₹ 255 crore vs. profit of ₹ 135 crore in FY15, led by slower traction in new business premium. It provided ~₹ 100 crore for decline in discounting rate and expense ratio as per regulatory requirement, which led to Q4FY16 profitability into red reporting huge loss of ₹ 255 crore. GWP grew 5.1% YoY to ₹ 4592 crore in FY16.

In FY17, the life insurance business remained weak as it weeded out unprofitable business whereby new business premium declined to ₹ 1050 crore from ₹ 1558 crore led by 12% YoY decline in first year premium. Life business reported loss of ₹ 61 crore both in Q4 and FY17 compared to ₹ 0.1 crore profit in Q3FY17 and ₹ 197 crore loss, respectively, in FY16.

For FY17, it reported EV of ₹ 3040 crore, rising 12% YoY and NBAP margin of 26.8% as a shift to the traditional business is high. As on Q2FY18, EV is at ₹ 3174 crore and marginally rose to ₹ 3220 crore by FY18 end. Margins rose further to 37.7% led by higher element of guaranteed products under non par segment.

We expect non-single first year premium (FYP) to grow at ~14-15% CAGR in FY17-19E with profit improving from current levels.

Q4FY18 reported PAT of ₹ 34 crore. However, the life insurance business continued its moderate performance on business growth.

Focus remains on traditional business and forms 77% of NBP individual and persistency is improving to 69% now.

Traditional business contributed 75% vs 77% of Individual NBP QoQ

Persistency improved from 60% in FY16 to 72% in FY18

Exhibit 6: Life premiums moderation due to shift to changing product mix, expect growth coming in FY18E

	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
First year premium	462.3	271.1	562.9	269.0	343.7	160.3	306.7	185.3	305.0	164.1	187.9	191.4	295.0
Single premium	35	29.7	37.8	15.8	28.3	22.7	22	29.4	20.3	18.9	18.7	24.2	15.2
Total New business premium	497.3	300.8	600.7	284.9	372.0	183.0	328.7	214.6	325.3	183.0	206.6	215.6	310.0
Renewal Premium	884.9	451.1	672.9	705.8	1009.6	471.6	741.6	775.7	986.4	521	762.4	790	1076
Total premium (net reins)	1402.7	746.5	1262.9	986.2	1375.0	649.6	1063.6	980.8	1305.3	700.0	963.0	998.0	1381.0
Profit before tax	8.7	35.2	15.1	7.7	-255.3	0.2	0.1	0.10	-61.50	-13.80	-5.00	-14.70	34.00
Total funds under mgmt	16924.0	15906.1	15523.9	16038.1	15969.6	15817.8	16270.6	16246.6	17253.0	17400.0	17982.7	18830.0	19096.0
EV									3050.0				3220.0
New Business margin									26.7				37.7

Source: Company, ICICI Direct Research

The life insurance business was started with the acquisition of AMP Sanmar Life Insurance in 2005. In the last few years, profits generated in this business have been consolidated. Also, the performance has been relatively improving post the slump after 2007-08 as total premium grew 5% YoY and new business premium grew 40% YoY to ₹ 1930 crore vs. 23% dip in FY13. FY13 PBT was ₹ 380 crore mainly due to rising proportion of traditional policies business in the overall mix. FY14 continued the same further with PBT growing to ₹ 359 crore. However, ~₹ 160 crore of the same was contributed by surrender profits. Current reported FY18 NBAP margin was at 37.7% vs. 28%.

General insurance improves profitability, cyclically combined ratio high

General insurance reported growth of 36% YoY in gross written premium at ₹ 1081 crore. PAT grew 9% YoY to ₹ 46 crore. Combined ratio in Q4 was at 113%, increasing from 114% QoQ and was 104% in Q1. The upcoming IPO is expected to prompt for business efficiency.

FY17 PAT was at ₹ 130 crore, up 32% YoY. Excluding one-time provisions, it was at ₹ 312 crore. We factor in a gradual reduction combined ratio leading to improved profits for FY18-19E.

GWP growth remained muted at 4.2% YoY to ₹ 2868 crore in FY16 after growing at 15% plus in FY14-15. Motor formed 58% of gross premium earned. PBT of ₹ 99.1 crore for FY16 vs. ₹ 81.4 crore in FY15 depicts an improving trend. Profit was reported at ₹ 64 crore in FY14 vs. loss of ₹ 90 crore in FY13.

The combined ratio has improved over time from highs of 140% to 124% and 115% in FY17. Also, provision due to third party motor pool claims and exceptional provisioning for 'motor decline risk' pool has been fully taken in FY14. This had impacted FY12 and FY13 profitability leading to losses (FY13 - ₹ 90 crore loss). Led by crop insurance of ~₹ 800 crore, Q2FY17 witnessed strong growth of 116% YoY in gross written premium at ₹ 1451.6 crore. However, in Q3FY17, the same declined to ~₹ 120 crore leading to a decline in GWP to ₹ 855 crore from ₹ 1451 crore QoQ.

In the near term, divestment in general insurance through IPO in FY18 is expected.

Exhibit 7: General insurance may see healthy profit trend

	₹ crore							
	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Gross Written Premium	908.4	1451.6	855.4	791.6	1278.0	1688.0	1075.0	1081.0
Growth(%)	37.6	68.3	27.5	18.8	40.7	16.3	25.7	36.6
PAT	36.3	33.3	18.3	42.1	44.0	47.0	28.0	46.0
Growth(%)	103.9	12.9	-39.0	74.0	21.2	41.1	53.0	9.3
Investment Book	5668.7	6284.0	6483.0	6724.0	6888.0	7280.0	7571.7	7999.0
Combined Ratio (%)	1.14	122	132	122	104	109	119	113
No of Policies issued in mn	1.0	1.0	1.0	1.1	1.1	1.1	1.2	1.0

Source: Company, ICICI Direct Research

Consolidated Entity Borrowings

Exhibit 8: Consolidated debt on books

	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Bank Loans	10486.1	11372.7	10639.3	10732.9	13202.2	13798.2	15265.0
Commercial Pape	2932.2	3673.2	4860.4	3649.9	3322.2	5462.7	10229
NCDs	6116.7	7453.4	10027.8	11627.2	11371.1	19988.0	30060.5
Others	55	10.4	49.1	128.8	139.8	11.5	51.5
Total	19590.0	22509.7	25576.6	26138.8	28035.4	39260.6	46400.3

Source: Company Quarterly Presentation, ICICI Direct Research

Investments book

Reliance Capital has transferred a few investments to an SPV post restructuring and being CIC. It funded the same with capital of ₹ 1500 odd crore and carrying similar investments.

All put together non-core investments are ₹ 10000 crore, as per the management, in the conference call. In the same, media and entertainment investments were to the tune of ~₹ 6000 crore.

With expected closure of radio business deal (RMVL) in the near term, ~₹ 2000 crore can come. From Prime Focus around ₹ 1200 crore is expected. The proceeds will be used to pay off debt on the books. The process of exiting most of these non-core investments is under process.

Outlook and valuation

Enhanced 'management focus', surge in earnings growth expected

Individual subsidiaries have reported strong earnings and continuous improvement trajectory. Housing finance and AMC are already listed while general insurance is expected to come soon. We expect PAT to grow at 17% CAGR in FY18-20E to ₹ 1761 crore. We expect RoE to move to double digit by FY19E with improving RoE of individual businesses. Accordingly, we value the stock at ₹ 660 per share on an SoTP basis. We maintain our **BUY** rating on the stock. The expected IPO of GI is expected in 2018.

Investment in various media companies of the past and group corporate exposures (~₹ 10,000 crore) remain an overhang as debt remains elevated on these exposures. Post the sharp correction in ADAG group stocks including Reliance Capital, the debt settlement plan of Reliance Communications had come as a relief though delays in implementation continue to hamper recovery again. The stock is trading at 0.6x FY20E BV and 6.1x FY20 P/E.

Actions expected in near term

- Listing of general insurance
- Sale of non-core investments fully by March 2019, ~40% by March 2018

Exhibit 9: Valuation on SOTP basis

Business Segment	FY19E ₹/share
Reliance Life @51%	147
Reliance General Insurance @100%	148
Reliance Broking @100%	20
Reliance AMC @42.8%	251
Reliance Consumer Finance @100%	200
Reliance Home Finance @51%	105
Total per share of Rcap	870
Holding co. disc	174
Value per share of Rcap	696
Rel com exposure	40
Value per share of Rcap	656

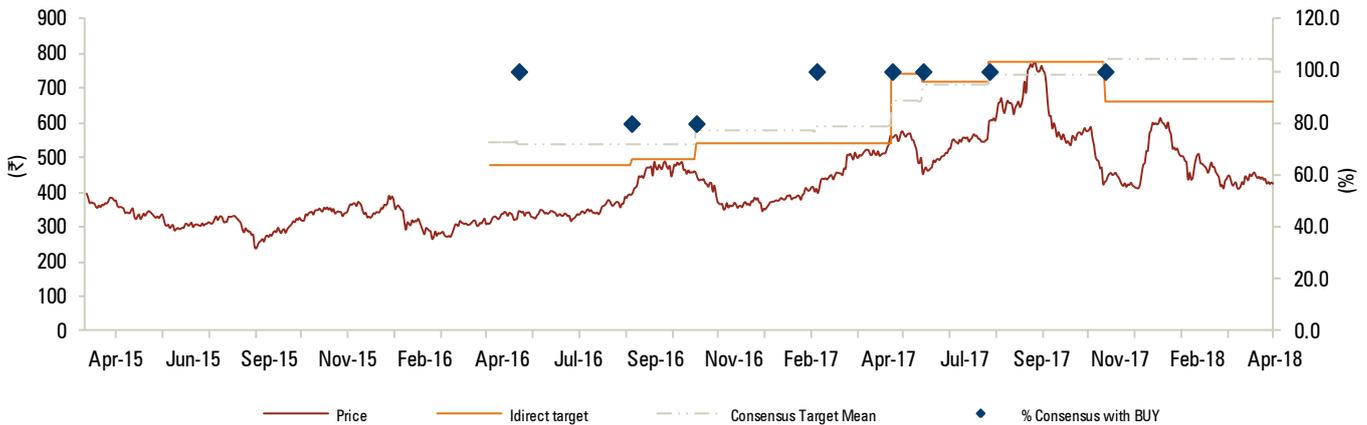
Source: ICICI Direct Research

Exhibit 10: Valuation Summary

	FY16E	FY17E	FY18E	FY19E	FY20E
Net Profit (₹ crore)	1101.0	1086.0	1309.0	1642.6	1761.1
EPS (₹)	43.5	42.9	51.7	64.9	69.6
% Growth	9.9	-1.4	20.4	25.5	7.3
P/E (x)	9.7	9.9	8.2	6.5	6.1
BV	464.2	518.5	518.3	560.7	611.9
Price / Book (x)	0.9	0.8	0.8	0.8	0.7
RoNA (%)	2.0	1.5	1.5	1.7	1.6
RoE (%)	8.9	8.7	10.0	12.0	11.9

Source: Company, ICICI Direct Research

Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
FY05	Reliance Capital forays into life insurance - Does acquisition of AMP Sanmar Life Insurance
FY08	Reliance Money buys 15% stake in the yet-to-be launched Hong Kong Mercantile Exchange for an undisclosed amount.
FY08	Makes life high peak with stock crossing ₹ 2600 levels
FY11	Reliance Commercial Finance launches loan against gold units
FY11	Reliance Capital signs deal with Nippon Life to sell 26% stake in life insurance
Jan-12	Nippon signs final agreements to acquire 26% stake in Reliance Capital Asset Management
FY12	Applies for banking licence with RBI
FY14	Failure to receive banking license wherein the RBI granted it to IDFC Ltd and Bandhan Financial services (a microfinance company)
Apr-14	Evinces interest in acquiring FTIL's stake in Multi Commodity Exchange (MCX)
Oct-15	Announces purchase of Goldman Sach AMC business in India
Oct-15	Announces further 9% stake sale in Reliance Capital AMC
Sep-16	Home Finance demerger announced and to be listed on exchanges, with reliance capital shareholders getting one share of housing finance for each share held

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Reliance ADA Group	31-12-2017	50.24%	126.97M	0
2	Life Insurance Corporation of India	31-12-2017	4.16%	10.51M	0
3	Jupiter Asset Management Ltd.	28-02-2018	3.00%	7.57M	-1.26M
4	Reliance Nippon Life Asset Management Limited	31-12-2017	2.11%	5.33M	+0.50M
5	Aditya Birla Sun Life AMC Limited	31-03-2018	2.03%	5.13M	+0.16M
6	The Vanguard Group, Inc.	31-03-2018	1.62%	4.09M	-0.16M
7	Dimensional Fund Advisors, L.P.	28-02-2018	1.61%	4.06M	+0.22M
8	Crest Logistics & Engineers Pvt. Ltd.	31-12-2017	1.29%	3.25M	0
9	Causeway Capital Management LLC	31-12-2017	0.99%	2.49M	+1.20M
10	California Public Employees' Retirement System [Activi	30-06-2017	0.77%	1.95M	+1.37M

Shareholding Pattern

(in %)	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Promoter	52.0	52.3	52.3	52.2	52.2
FII	18.3	18.7	17.8	19.3	16.2
DII	11.7	12.1	12.6	10.5	12.2
Others	18.0	16.9	19.1	17.9	19.4

Source: Reuters, ICICI Direct Research

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Causeway Capital Management LLC	+10.91M	+1.20M	Jupiter Asset Management Ltd.	-9.13M	-1.26M
JM Financial Asset Management Pvt. Ltd.	+4.82M	+0.53M	IDFC Asset Management Company Private Limited	-2.92M	-0.45M
Reliance Nippon Life Asset Management Limited	+4.54M	+0.50M	UTI Asset Management Co. Ltd.	-1.71M	-0.26M
Dimensional Fund Advisors, L.P.	+1.59M	+0.22M	Mirae Asset Global Investments (India) Pvt. Ltd.	-1.30M	-0.20M
SBI Funds Management Pvt. Ltd.	+1.28M	+0.20M	Baroda Pioneer Asset Management Company Limited	-1.34M	-0.20M

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17E	FY18E	FY19E	FY20E	
Commercial Finance	1953.0	2134.0	2574.0	3069.8	
Housing fin	1114.0	1671.0	2300.9	3195.1	
Life Insurance	5792.0	6097.0	6300.0	6500.0	
General Insurance	4906.0	6043.0	7218.2	8357.4	
Asset Management	1308.0	365.0	51.0	59.1	
Total income	17,639.6	20,103.0	21,077.7	23,510.1	
Operating expense	13033.0	15324.4	16213.3	18051.8	
PBT	1538.0	1672.0	2151.8	2248.6	
Adjusted Net Profit	1,086.0	1,309.0	1,642.0	1,761.0	
% growth	-1.4	20.5	25.4	7.2	
EPS (₹)	42.9	51.7	64.9	69.6	

Source: Company, ICICI Direct Research, Reliance AMC currently consolidated –will change estimates

Balance sheet		₹ Crore			
(Year-end March)	FY17E	FY18E	FY19E	FY20E	
Sources of Funds					
Capital	253.0	253.2	253.2	253.2	
Reserves and Surplus	16712.4	16707.8	17781.1	19077.4	
Networth	16965.4	16961.0	18034.3	19330.6	
Long and short term borrowing	39260.6	46400.8	45468.4	50242.2	
Current liabilities and others	25983.2	30489.3	35737.0	47065.3	
Total	82209.2	93851.1	99239.7	116638.0	
Application of Funds					
Fixed Assets	5747.5	5712.9	5827.2	5943.7	
Investments	34478.9	38817.8	38446.3	38476.0	
Advances	33341.0	39938.2	44063.4	56433.1	
Other current assets	8641.8	9382.2	10902.8	15785.1	
Total	82209.2	93851.1	99239.7	116638.0	

Source: Company, ICICI Direct Research

Key Ratios				
(Year-end March)	FY17E	FY18E	FY19E	FY20E
Net Profit (₹ crore)	1086.0	1309.0	1642.0	1761.0
EPS (₹)	42.9	51.7	64.8	69.6
% Growth	-1.4	20.4	25.4	7.3
P/E (x)	9.9	8.2	6.5	6.1
BV	518.5	518.3	560.7	611.9
Price / Book (x)	0.8	0.8	0.8	0.7
RoNA (%)	1.5	1.5	1.7	1.6
RoE (%)	8.7	10.0	12.0	11.9

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (NBFC)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
LIC Housing Finance (LICHF)	546	600	Hold	27,484	39.4	46.0	55.7	13.9	11.9	9.8	2.3	2.0	1.7	1.2	1.3	1.3	16.7	16.9	17.4
Reliance Capital (RELCAP)	431	660	Buy	10,761	48.7	58.9	69.0	8.9	7.3	6.2	0.8	0.7	0.7	9.0	10.0	1.9	0.0	0.0	9.7
HDFC (HDFC)	1,851	2,250	Buy	309,696	46.8	70.9	60.8	39.5	26.1	30.4	8.0	5.4	5.0	2.4	3.1	2.3	21.0	24.9	17.0
CARE (CARE)	1,274	1,750	Buy	3,707	51.8	55.7	64.0	24.6	22.9	19.9	9.2	7.5	6.6	40.9	36.4	36.0	28.8	30.5	28.7
Bajaj Finserv (BAFINS)	5,459	6,000	Buy	84,827	142.2	178.6	229.3	38.4	30.6	23.8	5.5	4.7	3.9	1.9	1.9	2.0	15.5	16.5	17.8
Bajaj Finance (BAJFI)	1,899	2,050	Buy	109,178	33.9	45.1	58.4	56.0	42.1	32.5	10.8	6.4	5.7	3.3	3.3	3.3	21.6	19.5	18.7

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

We /I, Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA, Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.