

Reliance Capital (RELCAP)

₹ 420

Ind-As impacts earnings, network...

- Reliance Capital reported slightly disappointing results as even with operational businesses being good, the pressure of related group accounts seems to have led to significantly higher ECL provisions (₹ 442 crore) and MTM on fair value of investments (₹ 216) crore in last Q1. Networth adjustment also appears to be on the higher side at ~₹ 5000-6000 crore at least from FY18 base of ₹16600 crore. Though network erosion is there led by expected credit loss provisions on group exposures, the market was anyways discounting those exposures from the overall valuation of the company
- It reported Q1FY19 PAT of ₹ 271 crore vs. loss of ₹ 378 crore in Q1FY18 (adjusted for Ind-As in both quarters). Total revenue came in line with estimate at ₹ 4641 crore, up 4% YoY
- Funds received from IPO of the gaming company internationally (₹ 1100 crore) & sale of Yatra stake (₹ 150 crore) led to debt reduction
- Led by Ind-As adjustment, higher MTM in other income and ESOP provisions impacted PAT for Reliance AMC (listed). Topline and PAT grew 12% and 2% YoY to ₹ 424 crore and ₹ 110 crore, respectively. With markets moderating, Q1FY19 MF AUM grew 7% YoY to ₹ 240400 crore vs. surge of 22% YoY in Q4. Its SIP book has also been growing with retail AUM now at ₹ 78000 crore
- Life insurance business performance remained upbeat on individual new business premium growing 23% YoY to ₹ 170 crore and growth of 6% seen in renewal premium to ₹ 550 crore. Traditional forms 69% of individual new business mix. FY18 EV was at ₹ 3220 crore
- Growth in home finance business (listed) slowed to 21% YoY in AUM to ₹ 15641.6 crore and declined from ₹ 16379 crore in Q4. NII and PBT came in at ₹ 112.8 crore, up 4% YoY and ₹ 72 crore, up 56% YoY, respectively. GNPA ratio was stable at 0.8% Margins declined to 3.2% from 3.8% YoY. Commercial finance profitability was stable QoQ at ₹ 73 crore PBT in spite of Ind-As and NIM was at 5.8%. There was 16% YoY rise in loan book to ₹ 16550 crore
- General insurance reported growth of 23% YoY in gross written premium at ₹ 1570 crore. PBT grew 30% YoY to ₹ 57 crore. Combined ratio in Q1 was at 104%, same as in Q1FY18. NW and RoE came in at ₹ 1460 crore and 16%, respectively. IPO seems to have been delayed

Standalone company core investment company

Reliance Capital has demerged its home finance. The standalone company is a pure core investment company (CIC) with three businesses HFC, AMC already listed and general insurance expected soon.

Individual businesses trading well, investments, debt overhang stays

Individual subsidiaries reported stable earnings and an improvement trajectory. We revised PAT estimates lower to grow at 8% CAGR in FY18-20E to ₹ 1525 crore. We expect RoE to improve to 12.5% in FY19E with improving RoE of individual businesses and lower network. Accordingly, we revise downwards the stock valuation to ₹ 525 per share on an SoTP basis (₹ 660 earlier). We factor ₹ 200 per share cut towards group exposures. We maintain our **BUY** rating on the stock.

The investment in various media companies of the past and group corporate exposure (~₹ 10,000 crore) remained an overhang as debt remains elevated on these exposures. A sharp cut in network is there led by Ind-As ECL provisions. The stock is trading at 1.2x FY20E BV and 6.9x FY20 P/E.

Rating matrix

Rating	Buy
Target	₹ 525
Target Period	12 months
Potential Upside	25%

What's Changed?

Target	Changed from ₹ 660 to ₹ 525
EPS FY19E	Changed from ₹ 64.9 to ₹ 52.7
EPS FY20E	Changed from ₹ 69 to ₹ 60.3
Rating	Unchanged

Quarterly Performance (QoQ not comparable)

₹ Crore	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ(%)
Income from oper.	4641	4444	4.5	5007	-7.3
Total expenditure	4331	4824	-10.2	4515	-4.1
PBT	310	-381	-181.5	492	-36.9
Tax + Minority	39	-2	-1854.5	63	-39.2
PAT	272	-379	-171.8	428	-36.6

Key Financials

₹ crore	FY17E	FY18E	FY19E	FY20E
Revenues	17640	20103	20518	23297
PBT	1538	1672	1625	1927
Adjusted PAT	1086	1309	1332	1525

Valuation summary

	FY17E	FY18E	FY19E	FY20E
P/E	9.7	8.0	7.9	6.9
Target P/E	12.2	10.2	10.0	8.7
P/ABV	0.8	0.8	1.3	1.1
Target P/ABV	1.0	1.0	1.6	1.4
RoE	8.7	10.0	12.5	17.2
RoA	1.5	1.5	1.4	1.4

Stock data

Market Capitalisation	₹10787 crore
Net worth (FY18) last reported	₹16605 crore
52 week H/L	797/335
Equity capital	₹ 253 Crore
Face value	₹ 10
DII Holding (%)	11.6
FII Holding (%)	17.7

Price performance (%)

Return %	1M	3M	6M	12M
Reliance capital	2.4	5.2	7.0	-43.2
HDFC LTD	-5.4	1.6	2.7	4.8
LIC housing	-13.8	-5.2	-2.2	-27.9

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Variance analysis

	Q1FY19	Q1FY19E	Q1FY18	YoY (%)	Q4FY18	QoQ (%)	Comments
Interest Income	1,865.7	1,766.2	1,605.6	16.2	1,876.8	-0.6	AUM growth moderated in housing at 21% YoY led by retiring a project loan while the commercial finance loan book saw a pick-up at 16% YoY. NIMs witnessed pressure on rising cost of funds
Capital Gains/Dividend	175.8	310.0	286.3	-38.6	390.4	-55.0	Booked capital gains from Yatra stake sale
Premium Earned	2,323.9	2,166.6	1,969.6	18.0	2,467.2	-5.8	Growth of 23% YoY in general insurance premium and life insurance business also witnessing a pick up
Mgmt & Advisory Fees	33	99	45	-27.7	141	-76.9	
Brokerage and Commissions	55	136	48	14.4	131	-58.0	
Other Income	189	167	489	-61.4	128	47.5	
Total Income	4,641.4	4,644.0	4,443.5	4.5	5,006.9	-7.3	
Interest and Finance Charges	1,080.2	1,022.6	994.9	8.6	1,026.3	5.3	Gaming company listing provided funds over ₹ 1100 crore and along with Yatra stake sale, debt was reduced in Q1FY19
Other Exp	3,250.8	3,599.5	3,829.3	-15.1	3,488.7	-6.8	
Total Expenses	4,331.0	4,622.1	4,824.2	-10.2	4,515.0	-4.1	
PBT	310.4	21.9	-380.7	-181.5	491.9	-36.9	
PAT	271.8	30.3	-378.5	-171.8	428.4	-36.6	Ind-As adjustments in Q1FY18 with high ECL and MTM provisions impact loss of ₹ 378 crore got reported. Q1FY19 looks largely stable. Opening networth impact is huge

Source: Company, ICICI Direct Research, QoQ numbers not comparable as Ind-As adjusted numbers available for only Q1 vs Q1.

Change in estimates

(₹ Crore)	FY19E			FY20E		
	Old	reworked	% Change	Old	reworked	% Change
Total Income*	21,070.0	20,517.7	-2.6	23,570.0	23,297.1	-1.2
PBT*	2,152.0	1,624.8	-24.5	2,249.0	1,927.0	-14.3
PAT (incl subs and associates)*	1,642.0	1,332.1	-18.9	1,761.0	1,524.7	-13.4
ABV (₹)	609.1	323.7	-46.8	657.0	374.8	-42.9

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 (%)	16.0	16.0	20.0	20.0	16.0	20.0	20.0
Life Ins Premium growth (%)	-32.5	-13.0	17.6	16.7	16.4	14.9	16.7
General Ins GWP growth (%)	40.3	29.7	20.0	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 (42.5%). 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 8% CAGR to ₹ 1525 crore by FY20E. As networth adjustment led by Ind-As reduces expected networth, we can see adjusted RoEs reaching 12% in FY19 also. FY17 consolidated PAT was at ₹ 1085 crore similar to (₹ 1100 crore and ₹ 1002 crore in FY16 and FY15, respectively) but FY18 PAT was at ₹ 1309 crore boosted by IPO gains. Strong capital gains continued to remain a good component of past profits. This is expected to moderate gradually with core profits improving.

Exhibit 1: Consolidated profit summary

Particulars	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Interest Income	1041	1099	1099	1003	1302	1369	1413	1503	1606	1734	1836	1877	1866
Capital Gains/Dividend	107	79	90	652	293	410	201	433	286	580	626	390	176
Premium Earned	862	749	664	667	1559	2523	1833	2105	1970	2656	2075	2467	2324
Mgmt & Advisory Fees	297	306	311	313	296	349	336	380	45	11	13	141	33
Brokerage and Commissions	75	16	53	60	82	134	58	143	48	158	114	131	55
Other Income	76	113	100	133	132	141	123	522	489	115	108	128	189
Total Income	2457	2361	2318	2828	3663	4926	3964	5086	4444	5254	4771	5007	4641
Interest and Finance Charges	685	701	708	727	709	749	781	830	995	988	1021	1026	1080
Other Exp	1492	1299	1241	1379	2629	3780	2841	3783	3829	3822	3356	3489	3251
Total Expenses	2177	2000	1950	2106	3338	4528	3621	4613	4824	4810	4377	4515	4331
PBT	280	361	369	722	325	398	342	473	-381	444	394	492	310
PAT	201	250	235	415	207	253	210	417	-379	352	315	428	272

Source: Company, ICICI Direct Research

Reliance Capital reported slightly disappointing results as even with operational businesses being good, the pressure of related group accounts seems to have led to significantly higher ECL provisions (₹ 442 crore) and MTM on fair value of investments (₹ 216) crore in last Q1. Networth adjustment also appears to be on the higher side at around ₹ 6000-7000 crore. Though networth erosion is there led by expected credit loss provisions on group exposures, the market was anyways discounting those exposures from the overall valuation of the company.

One-time capital gains were there 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.

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 to stay strong with PAT expected to grow to ₹ 546 crore by FY20E with AUM growth of 16% CAGR.

The commercial finance loan book started growing post consolidation in the last two years. However, profits declined 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 ₹ 15641 crore in Q1FY19. We expect 42% growth over the next two years.

Exhibit 2: Reconciliation of PAT
Reconciliation of Consolidated profit with previous GAAP
RELIANCE CAPITAL

(Rs. million)	Q1 FY18
Net profit or loss as per Previous GAAP (Indian GAAP)	2,810
Add/Less: Adjustments	
Expected Credit Loss on Loan and Interest (ECL)	(4,420)
Effect of scheme amalgamation / merger	(98)
Fair valuation of Investments	(2,164)
EIS on Direct Assignment (Recognized Upfront)	523
Deferred tax impact on account of Ind AS adjustment	(154)
Effect of reclassification of subsidiary into associate as per Ind AS	(528)
Others adjustment as per Ind AS	103
Net profit / (loss) as per Ind AS	(3,929)
Other Comprehensive income after tax as per Ind AS	(207)
Total comprehensive income for the period	(4,136)

Source: Reliance capital presentation Q1FY19, ICICI Direct Research

Reliance AMC maintains healthy performance...

Led by Ind-As adjustment, higher MTM in other income and ESOP provisions impacted PAT for Reliance AMC (listed). Topline and PAT grew 12% and 2% YoY to ₹ 424 crore and ₹ 110 crore, respectively. With markets moderating, Q1FY19 MF AUM grew 7% YoY to ₹ 240400 crore vs surge of 22% YoY in Q4. Its SIP book has also been growing with retail AUM now at ₹ 78000 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	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Income	313	316	340	341	346	347	361	358	406	419	436	470	489	424
Expenses	205	194	199	200	214	215	214	206	246	265	259	282	288	262
PBT	108	122	141	141	132	132	147	152	160	154	177	189	153	162
PAT								104	123	102	122	128	153	109
AAUM (crore)														
Debt	96440	100270	104130	96820	108970	107030	127490	135720	128100	124260	136000	148596	144550	132140
Equity	46800	51310	51520	47530	48070	51020	54240	53700	60980	69710	74880	82824	88200	87150
Gold	1,450	1,340	1,300	1,380	1,370	1,440	1,400	2,240	2,720	2,610	2,590	2,600	2,400	2,310
MF AUM	144690	152920	156950	158410	158410	158411	183130	195850	210890	222960	231430	243600	245000	240400
Managed Accounts	1,490	1,500	1,470	1,460	1,460	1,480	1,520	1,414	1,280	1,180	1,250	3,000	3,200	3,300
Pension Funds	90580	94410	98070	122290	122290	126790	131810	136100	142510	147880	152390	157200	164300	169600
Offshore Funds	5,700	5,060	4,110	4,331	4,330	3,950	4,010	1,420	1,910	2,210	2,430	3,000	2,800	2,700
Total AAUM	243100	254610	261420	275170	287430	293120	321610	335990	350600	362500	381510	387800	396400	407400

Source: Company, ICICI Direct Research

Finance book expected to grow 15% ahead

Financing was the second highest profit making segment after AMC 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.

Growth in home finance business (listed) slowed to 21% YoY in AUM to ₹ 15641.6 crore and declined from ₹ 16379 crore in Q4. NII and PBT came in at ₹ 112.8 crore, up 4% YoY and ₹ 72 crore, up 56% YoY, respectively. GNPA ratio was stable at 0.8% Margins declined to 3.2% from 3.8% YoY. Commercial finance profitability was stable QoQ at ₹ 73 crore PBT, in spite of Ind-As and NIM at 5.8%. There was 16% YoY rise in loan book to ₹ 16550 crore.

In home finance, 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 Q1FY19, the loan book consists of home loan at 30% of AUM, affordable housing is 20%, loan against property (LAP) is 20% with construction finance of 29%.

Exhibit 4: CF business composition improving

(₹ Crore)	Q1FY19	Q1FY18	YoY (%)	Q3FY18	QoQ(%)
Loan Outstanding	13670.0	13839.0	-1.2	13970.0	-2.1
Disbursements	NA	3,579.0	NA	NA	NA
Net Interest Income	208.9	189.2	10.4	205.4	1.7
Total Income	524.6	522.6	0.4	579.5	-9.5
Total Expenses	73.4	73.8	-0.5	108.8	-32.5
Interest expenses	295.0	288.5	2.3	279.2	5.7
Provisions	83.8	111.2	-24.6	105.0	-20.2
PBT	72.3	49.1	47.3	86.5	-16.4

Source: Company, ICICI Direct Research

Exhibit 5: Home finance business depicts strong growth

(₹ Crore)	Q1FY19	Q1FY18	YoY (%)
Loan Outstanding	14090.0	11680.0	20.6
Disbursements	0.0	2,655.0	-100.0
Net Interest Income	112.8	76.0	48.4
Total Income	410.9	374.0	9.9
Total Expenses	50.0	56.3	-11.2
Interest expenses	285.5	247.2	15.5
Provisions	2.9	42.1	-93.1
PBT	72.4	45.0	60.9

Source: Company, ICICI Direct Research

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.

Traditional business contributed 69% of Individual NBP

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

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.

Life business reported a PBT of ₹ 0.3 crore for Q1FY19 and ₹ 34 crore for Q4FY18 vs. losses in previous quarters.

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

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	Q1FY19
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	191.1
Single premium	35.0	29.7	37.8	15.8	28.3	22.7	22.0	29.4	20.3	18.9	18.7	24.2	15.2	16.2
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	207.3
Renewal Premium	884.9	451.1	672.9	705.8	1009.6	471.6	741.6	775.7	986.4	521.0	762.4	790.0	1076.0	552.0
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	754.7
Profit before tax	8.7	35.2	15.1	7.7	-255.3	0.2	0.1	0.1	-61.5	-13.8	-5.0	-14.7	34.0	0.3
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	19330.0
EV									3050.0				3220.0	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 23% YoY in gross written premium at ₹ 1570 crore. PBT grew 30% YoY to ₹ 57 crore. Combined ratio in Q1 was at 104% same as in Q1FY18. NW and RoE came in at ₹ 1460 crore and 16%, respectively. IPO seems to have been delayed.

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 is expected.**

Exhibit 7: General insurance may see healthy profit trend										₹ crore
	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	
Gross Written Premium	908.4	1451.6	855.4	791.6	1278.0	1688.0	1075.0	1081.0	1570.9	
Growth(%)	37.6	68.3	27.5	18.8	40.7	16.3	25.7	36.6	22.9	
PAT	36.3	33.3	18.3	42.1	44.0	47.0	28.0	46.0	57.4	
Growth(%)	103.9	12.9	-39.0	74.0	21.2	41.1	53.0	9.3	30.5	
Investment Book	5668.7	6284.0	6483.0	6724.0	6888.0	7280.0	7571.7	7999.0	8261.0	
Combined Ratio (%)	1.14	122	132	122	104	109	119	113	104	
No of Policies issued in mn	1.0	1.0	1.0	1.1	1.1	1.1	1.2	1.0	1.4	

Source: Company, ICICI Direct Research

Exhibit 8: Consolidated debt on books								₹ crore
	FY12	FY13	FY14	FY15	FY16	FY17	FY18	
Bank Loans	10486.1	11372.7	10639.3	10732.9	13202.2	13798.2	15265.0	
Commercial Paper	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, 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.

Exit of Yatra stake in Q1FY19, Sula Vineyards in Q4FY18 and proceeds from gaming company IPO are being used towards reduction of debt.

Outlook and valuation

Enhanced 'management focus', surge in earnings growth expected

Individual subsidiaries have reported stable earnings and an improvement trajectory. We expect PAT to grow at 8% CAGR in FY18-20E to ₹ 1525 crore. We expect RoE to improve to 12.5% in FY19E with improving RoE of individual businesses and lower networth. Accordingly, we revise downwards the stock valuation to ₹ 525 per share on an SoTP basis (₹660 earlier). We factor ₹ 200 per share cut towards group exposures. We maintain our **BUY** rating on the stock.

The investment in various media companies of the past and group corporate exposure (~₹ 10,000 crore) remained an overhang, as debt remains elevated on these exposures. A sharp cut in networth is there led by Ind-As ECL provisions. The stock is trading at 1.2x FY20E BV and 6.9x 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	FY20E ₹/share
Reliance Life @51%	113
Reliance General Insurance @100%	191
Reliance Broking @100%	20
Reliance AMC @42.8%	304
Reliance Consumer Finance @100%	186
Reliance Home Finance @51%	91
Total per share of Rcap	905
Holding co. disc	181
Value per share of Rcap	724
Adjustments to NW done for group exposure	200
Value per share of Rcap	524

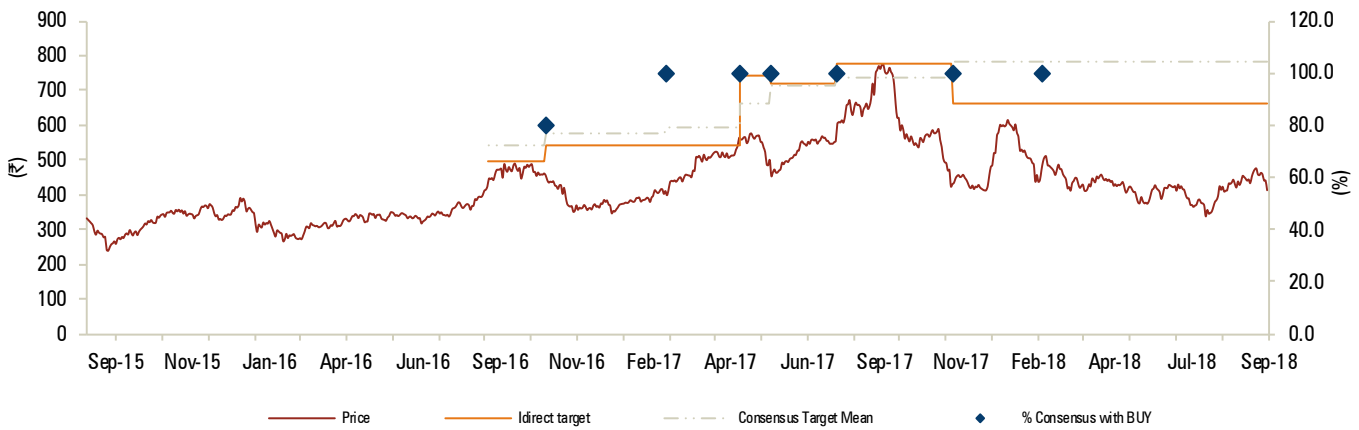
Source: ICICI Direct Research

Exhibit 10: Valuation Summary

	FY16E	FY17E	FY18E	FY19E	FY20E
Net Profit (₹ crore)	1101.0	1086.0	1309.0	1332.1	1524.7
EPS (₹)	43.5	42.9	51.7	52.6	60.3
% Growth	9.9	-1.4	20.4	1.8	14.6
P/E (x)	9.5	9.7	8.0	7.9	6.9
BV	464.2	518.5	518.3	323.7	374.8
Price / Book (x)	0.9	0.8	0.8	1.3	1.1
RoNA (%)	2.0	1.5	1.5	1.4	1.4
RoE (%)	8.9	8.7	10.0	12.5	17.2

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	30-06-2018	50.24%	126.97M	0
2	Jupiter Asset Management Ltd.	31-07-2018	4.50%	11.38M	+0.74M
3	Life Insurance Corporation of India	30-06-2018	4.16%	10.51M	0
4	Reliance Nippon Life Asset Management Limited	30-06-2018	2.09%	5.27M	+0.14M
5	Aditya Birla Sun Life AMC Limited	31-08-2018	1.86%	4.69M	-0.04M
6	The Vanguard Group, Inc.	31-07-2018	1.64%	4.13M	0
7	Dimensional Fund Advisors, L.P.	31-07-2018	1.54%	3.88M	+0.00M
8	Crest Logistics & Engineers Pvt. Ltd.	30-06-2018	1.29%	3.25M	0
9	Causeway Capital Management LLC	30-06-2018	0.98%	2.48M	-0.02M
10	California Public Employees' Retirement System [Activi	30-06-2017	0.77%	1.95M	+1.37M

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Promoter	52.3	52.2	52.2	52.2	52.2
FII	17.8	19.3	16.2	16.0	17.7
DII	12.6	10.5	12.2	12.6	11.6
Others	19.1	17.9	19.4	19.2	18.5

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Mirae Asset Global Investments (Hong Kong) Limited	+6.83M	+1.05M	HDFC Asset Management Co., Ltd.	-9.16M	-1.49M
Jupiter Asset Management Ltd.	+4.58M	+0.74M	Mirae Asset Global Investments (India) Pvt. Ltd.	-7.96M	-1.29M
Grantham Mayo Van Otterloo & Co LLC	+4.21M	+0.68M	ICICI Prudential Asset Management Co. Ltd.	-4.84M	-0.78M
Mirae Asset Global Investments Co., Ltd.	+1.78M	+0.27M	APG Asset Management	-2.92M	-0.45M
T. Rowe Price Associates, Inc.	+1.54M	+0.25M	DHFL Pramerica Asset Managers Private Limited	-2.10M	-0.32M

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Commercial Finance	1953.0	2134.0	2412.0	2876.4	
Housing fin	1114.0	1671.0	2201.7	3056.2	
Life Insurance	5792.0	6097.0	6400.0	6500.0	
General Insurance	4906.0	6043.0	6820.7	8478.3	
Asset Management	1308.0	365.0	49.7	57.6	
Total income	17,639.6	20,103.0	20,517.7	23,297.1	
Operating expense	13033.0	15331.9	16244.3	18168.0	
PBT	1538.0	1672.0	1624.8	1927.0	
Adjusted Net Profit	1,086.0	1,309.0	1,332.1	1,524.7	
% growth	-1.4	20.5	1.8	14.5	
EPS (₹)	42.9	51.7	52.7	60.3	

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

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Sources of Funds					
Capital	253.0	253.2	253.2	253.2	
Reserves and Surplus	16712.4	16707.8	11781.1	13074.9	
Networth	16965.4	16961.0	12034.3	13328.1	
Long and short term borrowing	39260.6	46400.8	47325.5	52526.4	
Current liabilities and others	25983.2	30489.3	37368.8	48973.5	
Total	82209.2	93851.1	96728.6	114828.0	
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	42146.5	53924.3	
Other current assets	8641.8	9382.2	10308.6	16484.0	
Total	82209.2	93851.1	96728.6	114828.0	

Source: Company, ICICI Direct Research

Key Ratios		FY17	FY18	FY19E	FY20E
(Year-end March)					
Net Profit (₹ crore)		1086.0	1309.0	1332.1	1524.7
EPS (₹)		42.9	51.7	52.6	60.3
% Growth		-1.4	20.4	1.8	14.6
P/E (x)		9.7	8.0	7.9	6.9
BV		518.5	518.3	323.7	374.8
Price / Book (x)		0.8	0.8	1.3	1.1
RoA (%)		1.5	1.5	1.4	1.4
RoE (%)		8.7	10.0	12.5	17.2

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (NBFC)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
LIC Housing Finance (LICHF)	473	560	Hold	23,873	39.4	44.0	53.1	12.0	10.8	8.9	2.0	1.6	1.4	1.2	1.2	1.3	16.7	15.6	15.8
Reliance Capital (RELCAP)	415	525	Buy	10,614	51.7	64.9	69.6	8.0	6.4	6.0	0.8	0.7	0.7	1.5	1.7	1.6	10.0	12.0	11.9
CARE (CARE)	1,285	1,200	Hold	3,786	54.7	53.0	59.3	23.5	24.2	21.7	6.3	6.3	6.0	34.4	33.8	35.7	27.0	26.1	27.5
Bajaj Finserv (BAFINS)	6,374	7,750	Buy	101,432	172.3	226.8	294.9	37.0	28.1	21.6	4.9	4.2	3.5	1.9	2.0	2.1	15.0	16.0	17.6
Bajaj Finance (BAJFI)	2,553	3,050	Buy	147,531	44.5	59.2	80.0	57.4	43.1	31.9	9.4	7.6	6.4	3.3	3.4	3.5	19.6	19.0	20.9

Source: Company, ICICI Direct Research

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