

# Reliance Capital (RELCAP)

₹ 240

## Earnings improvement on track, NW to be watched

Reliance Capital reported an operationally stable performance with businesses being good; the pressure of related group accounts led to significantly higher provisions impacting consolidated network (NW) significantly. Opening NW adjustment has been quite significant as NW as on Q2FY19 from March 2018 has gone down by ~₹ 8000 crore. In group exposure, provision seems to have been done on ₹ 2500 crore of funded exposure and ₹ 500 crore unfunded exposure, knocking off its old goodwill and revaluation reserves of ~₹ 3000 crore while other investments MTM valuation may have led to network decline. In standalone the decline is not sharp led by simultaneous upward fair valuation of good subsidiaries.

- Q2FY19 PAT was at ₹ 280 crore (adjusted for Ind-As in both quarters). Total revenue was in line with estimate at ₹ 5330 crore, up 10% YoY
- Led by Ind-As adjustment, MTM provisions have dented erstwhile profit growth at AMC. Reliance AMC (listed) topline and PAT were stable at ₹ 420 crore and ₹ 114 crore, respectively. Q2FY19 MF AUM was flat at ₹ 244840 crore vs. ₹ 243800 crore. Its SIP book has also been growing with retail AUM now at ₹ 83700 crore, growing at 31% CAGR
- The life insurance business performance remained upbeat on individual new business premium growing 35% YoY to ₹ 222 crore while growth of 4% was seen in renewal premium to ₹ 792 crore. Traditional forms 69% of individual new business mix. Life business reported marginal PAT in Q2FY19 vs. losses in previous quarters. FY18 EV was at ₹ 3220 crore. AUM was at ₹ 19,612 crore
- Growth in home finance business (listed) picked up to 29% YoY in AUM to ₹ 16464 crore. NII was at ₹ 139 crore, up 37% YoY with PAT at ₹ 75 crore, up 29% YoY. GNPA ratio was stable at 0.8%
- Commercial finance profitability grew strongly QoQ to ₹ 95 crore PBT. In spite of Ind-As, NIM was at 4.9%. There was a 20% YoY rise in loan book to ₹ 15970 crore
- General insurance reported growth of 20% YoY in gross written premium at ₹ 2025 crore. PBT grew 19% YoY to ₹ 56 crore. Combined ratio in Q2 was at 106% declining from Q2FY18. The IPO seems to have been delayed

### Standalone company core investment company

The standalone company is a pure core investment company (CIC) with HFC and AMC already listed and general insurance expected soon.

### Individual businesses treading well; investments, debt overhang stay

Individual subsidiaries reported stable earnings and an improving trajectory. We factor in PAT estimates to grow at 5% CAGR in FY18-20E to ₹ 1432 crore. We expect RoE to improve to 14.6% in FY19E largely boosted by lower network post Ind-As. Improving RoE of individual businesses also holds key. Factoring in a sharp decline in consolidated NW, we revise downwards the stock valuation to ₹ 233 per share on an SoTP basis. We factor in ₹ 280 per share cut towards group exposures and also reduce our AMC, HFC and CF finance business valuation considering the weak environment for NBFCs in the near term. We revise our recommendation on the stock to **HOLD** from **BUY** earlier.

The market had been already discounting this media and group exposure of ~₹ 10,000 crore. The large network cut has taken care of that. The stock is trading at 1.1x FY20E BV and 4.3x FY20 P/E.

Rating matrix	
Rating	Hold
Target	₹ 233
Target Period	12 months
Potential Upside	-3%

What's Changed?	
Target	Changed from ₹ 525 to ₹ 233
EPS FY19E	Changed from ₹ 52.7 to ₹ 51.5
EPS FY20E	Changed from ₹ 60.3 to ₹ 56.6
Rating	Changed from Buy to Hold

Quarterly Performance (QoQ not comparable)					
₹ Crore	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ(%)
Income from oper.	5330	5254	1.5	4641	14.8
Total expenditure	4987	4810	3.7	4331	15.1
PBT	371	444	-16.3	310	19.6
Tax + Minority	91	92	-0.7	39	135.8
PAT	280	352	-20.4	272	3.1

Key Financials				
₹ crore	FY17E	FY18E	FY19E	FY20E
Revenues	17640	20103	20477	22468
PBT	1538	1672	1585	1808
Adjusted PAT	1086	1309	1305	1432

Valuation summary				
	FY17E	FY18E	FY19E	FY20E
P/E	5.7	4.7	4.7	4.3
Target P/E	5.4	4.5	4.5	4.1
P/ABV	0.5	0.5	1.3	1.0
Target P/ABV	0.4	0.4	1.3	1.0
RoE	8.7	10.0	14.6	26.8
RoA	1.5	1.5	1.4	1.4

Stock data	
Market Capitalisation	₹ 6089 crore
Net worth (Q2FY19)	₹ 8500 crore
52 week H/L	626/221
Equity capital	₹ 253 Crore
Face value	₹ 10
DII Holding (%)	8.4
FII Holding (%)	19.7

Price performance (%)				
Return %	1M	3M	6M	12M
Reliance capital	4.7	-47.0	-40.7	-48.6
HDFC LTD	11.7	-1.2	4.5	11.1
LIC housing	13.7	-12.9	-4.5	-22.7

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## Variance analysis

	Q2FY19	Q2FY19E	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	Comments
Interest Income	1,936.5	1,855.6	1,958.4	-1.1	1,865.7	3.8	
Capital Gains/Dividend	23.0	160.0	25.5	-9.8	175.8	-86.9	No one time gains vs. booked in Q1FY19 from Yatra stake sale
Premium Earned	3,057.8	2,656.0	2,648.0	15.5	2,323.9	31.6	Growth of 20% YoY in general insurance premium and life insurance business also witnessing a pick up
Mgmt & Advisory Fees	19	23	36	-49.0	33	-43.3	
Brokerage and Commissions	167	60	219	-23.7	55	205.5	
Other Income	127	130	-47	-369.8	189	-32.8	
Total Income	5,330.0	4,884.2	4,840.5	10.1	4,641.4	14.8	
Interest and Finance Charges	1,074.0	1,104.3	991.0	8.4	1,080.2	-0.6	
Other Exp	3,912.6	3,440.1	3,865.5	1.2	3,250.8	20.4	
Total Expenses	4,986.6	4,544.4	4,857.0	2.7	4,331.0	15.1	
PBT	371.2	339.8	13.9	2,570.5	310.4	19.6	
PAT	280.2	252.9	-162.6	-272.3	271.8	3.1	Ind-As adjustments in opening reserves with high ECL and MTM provisions turn Q2FY19 to loss while Q1FY18 was also loss of ₹ 378 crore Opening network impact is huge

Source: Company, ICICI Direct Research,

## Change in estimates

(₹ Crore)	FY19E		% Change	FY20E		% Change
	Old	new reworked		Old	new reworked	
Total Income*	20,517.7	20,476.5	-0.2	23,297.1	22,467.9	-3.6
PBT*	1,624.8	1,584.9	-2.5	1,927.0	1,807.7	-6.2
PAT (incl subs and associates)*	1,332.1	1,305.0	-2.0	1,524.7	1,432.1	-6.1
ABV (₹)	323.7	185.5	-42.7	374.8	236.6	-36.9
EPS	52.6	51.5	-2.0	60.3	56.6	-6.1

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 up the B/S. We believe most of the pain has been accounted for while the current equity book is in profit.

Profit expansion is seen at 5% CAGR to ₹ 1432 crore by FY20E. As networth adjustment led by Ind-As reduces expected networth, we can see adjusted RoEs reaching 14.6% in FY19. FY17 consolidated PAT was at ₹ 1085 crore similar to ₹ 1100 crore and ₹ 1002 crore in FY16 and FY15, respectively. However, 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	Q2FY19
Interest Income	1041	1099	1099	1003	1302	1369	1413	1503	1606	1958	1836	1877	1866	1937
Capital Gains/Dividend	107	79	90	652	293	410	201	433	286	26	626	390	176	23
Premium Earned	862	749	664	667	1559	2523	1833	2105	1970	2648	2075	2467	2324	3058
Mgmt & Advisory Fees	297	306	311	313	296	349	336	380	45	36	13	141	33	19
Brokerage and Commissions	75	16	53	60	82	134	58	143	48	219	114	131	55	167
Other Income	76	113	100	133	132	141	123	522	489	-47	108	128	189	127
Total Income	2457	2361	2318	2828	3663	4926	3964	5086	4444	4841	4771	5007	4641	5330
Interest and Finance Charges	685	701	708	727	709	749	781	830	995	991	1021	1026	1080	1074
Other Exp	1492	1299	1241	1379	2629	3780	2841	3783	3829	3866	3356	3489	3251	3913
Total Expenses	2177	2000	1950	2106	3338	4528	3621	4613	4824	4857	4377	4515	4331	4987
PBT	280	361	369	722	325	398	342	473	-381	14	394	492	310	371
PAT	201	250	235	415	207	253	210	417	-379	-163	315	428	272	280

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 ₹ 15060 crore in Q2FY19. We expect 40% growth over the next two years.

### Reliance AMC maintains healthy performance...

Led by Ind-As adjustment, MTM provisions have dented erstwhile profit growth at AMC. Reliance AMC (listed) topline and PAT were stable at ₹ 420 crore and ₹ 114 crore, respectively. Q2FY19 MF AUM was flat at ₹ 244840 crore vs. ₹ 243800 crore. Its SIP book has also been growing with retail AUM now at ₹ 83700 crore, growing at 31% CAGR. Its SIP book has also been growing with retail AUM now at ₹ 83700 crore. Total AUM also witnessed growth at 6% YoY at ₹ 404870 crore led by a continued surge in debt, equity and pension funds. RoE of AMC is strong at >20% moderating from highs. 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 2: AUM movement and profits over quarters**

	(₹ crore)													
Particulars	Q2FY16	Q3FY16	Q4FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Income	316	340	341	346	347	361	358	406	419	419	470	489	424	424
Expenses	194	199	200	214	215	214	206	246	265	259	282	288	262	262
PBT	122	141	141	132	132	147	152	160	154	177	189		163	162
<b>PAT</b>							<b>104</b>	<b>123</b>	<b>122</b>	<b>102</b>	<b>128</b>	<b>153</b>	<b>109</b>	<b>114</b>
<b>AAUM (  crore)</b>														
Debt	100270	104130	96820	108970	107030	127490	135720	128100	124260	136000	148596	144550	132140	121240
Equity	51310	51520	47530	48070	51020	54240	53700	60980	69710	74880	82824	88200	87150	89390
Gold	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	2,250
<b>MF AUM</b>	<b>152920</b>	<b>156950</b>	<b>158410</b>	<b>158410</b>	<b>158411</b>	<b>183130</b>	<b>195850</b>	<b>210890</b>	<b>222960</b>	<b>231430</b>	<b>243600</b>	<b>245000</b>	<b>240400</b>	<b>244840</b>
Managed Accounts	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	3,350
Pension Funds	94410	98070	122290	122290	126790	131810	136100	142510	147880	152390	157200	164300	169600	175030
Offshore Funds	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	2,710
<b>Total AAUM</b>	<b>254610</b>	<b>261420</b>	<b>275170</b>	<b>287430</b>	<b>293120</b>	<b>321610</b>	<b>335990</b>	<b>350600</b>	<b>362500</b>	<b>381510</b>	<b>387800</b>	<b>396400</b>	<b>407400</b>	<b>404870</b>

Source: Company, ICICI Direct Research

### Finance business to remain moderate given weak environment

We maintain 15% growth estimate in the commercial finance loan book for FY18-19E. Growth in home finance business (listed) picked up to 29% YoY in AUM to ₹ 16464 crore. NII came in at ₹ 139 crore, up 37% YoY and PAT at ₹ 75 crore, up 29% YoY, respectively. GNPA ratio was stable at 0.8%.

In home finance, the management has guided for loan growth to remain strong and with a target of ₹ 50000 crore by the end of 2020. Largely, 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 3: CF business composition improving**

(₹ Crore)	Q2FY19	Q2FY18	YoY (%)
Loan Outstanding	15750.0	13160.0	19.7
Disbursements	NA	1,606.0	NA
Net Interest Incon	179.6	168.0	6.9
<b>Total Income</b>	<b>513.9</b>	<b>501.6</b>	<b>2.5</b>
Total Expenses	88.0	89.0	-1.1
Interest expenses	300.8	264.4	13.8
Provisions	30.3	55.8	-45.7
<b>PBT</b>	<b>94.8</b>	<b>92.4</b>	<b>2.6</b>

Source: Company, ICICI Direct Research

Commercial finance profitability grew strongly QoQ to ₹ 95 crore PBT. In spite of Ind-As, NIM was at 4.9%. There was 20% YoY rise in loan book to ₹ 15970 crore.

**Exhibit 4: Home finance business depicts strong growth**

(₹ Crore)	Q2FY19	Q2FY18	YoY (%)
Loan Outstanding	15060.0	12610.0	19.4
Disbursements	2,582.0	2,002.5	28.9
Net Interest Income	140.0	134.9	3.8
Total Income	464.0	427.0	8.7
Total Expenses	48.9	66.1	-26.0
Interest expenses	294.0	266.3	10.4
Provisions	19.0	15.6	21.8
PBT	102.0	78.0	30.8

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.

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 marginal PBT from ₹ 0.3 crore for Q1FY19.

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

Traditional business contributed 69% of Individual NBP

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

**Exhibit 5: Life premiums moderation due to shift in product mix, expect growth to continue in FY19-20E**

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
First year premium	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	227.7
Single premium	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	28.0
Total New business premium	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	255.7
Renewal Premium	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	791.7
Total premium (net reins)	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	1041.7
Profit before tax	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	1.1
Total funds under mgmt	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	19611.6
EV								3050.0				3220.0		
New Business margin								26.7				37.7		

Source: Company, ICICI Direct Research

The life insurance business 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 20% YoY in gross written premium at ₹ 2025 crore. PBT grew 19% YoY to ₹ 56 crore. Combined ratio in Q2 stood at 106% declining from Q2FY18. 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 6: General insurance may see healthy profit trend**

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Gross Written Premium	908.4	1451.6	855.4	791.6	1278.0	1688.0	1075.0	1081.0	1570.9	2025.0
Growth(%)	37.6	68.3	27.5	18.8	40.7	16.3	25.7	36.6	22.9	20.0
PAT	36.3	33.3	18.3	42.1	44.0	47.0	28.0	46.0	57.4	56.0
Growth(%)	103.9	12.9	-39.0	74.0	21.2	41.1	53.0	9.3	30.5	19.1
Investment Book	5668.7	6284.0	6483.0	6724.0	6888.0	7280.0	7571.7	7999.0	8261.0	8650.0
Combined Ratio (%)	1.14	122	132	122	104	109	119	113	104	106
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 7: 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	13798.2
Commercial Papers	2932.2	3673.2	4860.4	3649.9	3322.2	5462.7	5462.7
NCDs	6116.7	7453.4	10027.8	11627.2	11371.1	19988.0	19988.0
Others	55	10.4	49.1	128.8	139.8	11.5	11.5
Total	19590.0	22509.7	25576.6	26138.8	28035.4	39260.6	39260.6

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.

The management has made provisions towards group exposures and expects the same to reverse over the next few quarters and years.

## Outlook and valuation

### Earnings stabilising, outlook remains key

Individual subsidiaries reported stable earnings and an improvement trajectory. We factor in PAT estimates to grow at 8% CAGR in FY18-20E to ₹ 1430 crore. We expect RoE to improve to 14.6% in FY19E largely boosted by lower networth post Ind-As. Improving RoE of individual businesses also holds the key. Factoring in a sharp decline in consolidated NW, we revise downwards the stock valuation to ₹ 233 per share on an SoTP basis. We factor in ₹ 280 per share cut towards group exposures and also reduce our AMC, HFC and CF finance business valuation considering weak environment for NBFCs in the near term. We revise our recommendation on the stock to **HOLD** from BUY earlier.

The market had been already discounting these media and group exposures of ~₹ 10,000 crore while a large networth cut has taken care of that. The stock is trading at 1.1x FY20E BV and 4.3x 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 8: Valuation on SOTP basis

Business Segment	FY20E ₹/share
Reliance Life @51%	113
Reliance General Insurance @100%	140
Reliance Broking @100%	20
Reliance AMC @42.8%	194
Reliance Consumer Finance @100%	150
Reliance Home Finance @51%	67
<b>Total per share of Rcap</b>	<b>684</b>
Holding co. disc at 25%	171
<b>Value per share of Rcap</b>	<b>513</b>
<b>Adjustments to NW done for group exposure</b>	<b>280</b>
<b>Value per share of Rcap</b>	<b>233</b>

Source: ICICI Direct Research

#### Exhibit 9: Valuation Summary

	FY16E	FY17E	FY18E	FY19E	FY20E
Net Profit (₹ crore)	1101.0	1086.0	1309.0	1305.0	1432.1
EPS (₹)	43.5	42.9	51.7	51.5	56.6
% Growth	9.9	-1.4	20.4	-0.3	9.8
P/E (x)	5.6	5.7	4.7	4.7	4.3
BV	464.2	518.5	518.3	185.5	236.6
Price / Book (x)	0.5	0.5	0.5	1.3	1.0
RoNA (%)	2.0	1.5	1.5	1.4	1.4
RoE (%)	8.9	8.7	10.0	14.6	26.8

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	30-09-2018	50.24%	126.97M	0
2	Jupiter Asset Management Ltd.	30-09-2018	4.82%	12.17M	-0.03M
3	Life Insurance Corporation of India	30-09-2018	4.16%	10.51M	0
4	Reliance Nippon Life Asset Management Limited	30-09-2018	2.47%	6.25M	+0.98M
5	Dimensional Fund Advisors, L.P.	31-10-2018	1.80%	4.54M	0
6	The Vanguard Group, Inc.	31-10-2018	1.64%	4.13M	0
7	Crest Logistics & Engineers Pvt. Ltd.	30-09-2018	1.29%	3.25M	0
8	Causeway Capital Management LLC	30-09-2018	0.98%	2.49M	+0.01M
9	California Public Employees' Retirement System [Acti	30-06-2017	0.77%	1.95M	+1.37M
10	Kotak Mahindra Asset Management Company Ltd.	31-10-2018	0.72%	1.83M	+0.96M

Source: Reuters, ICICI Direct Research

## Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	52.2	52.2	52.2	52.2	52.2
FII	19.3	16.2	16.0	17.7	19.7
DII	10.5	12.2	12.6	11.6	8.4
Others	17.9	19.4	19.2	18.5	19.7

## Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Reliance Nippon Life Asset Management Limited	+3.81M	+0.98M	BlackRock Institutional Trust Company, N.A.	-3.37M	-1.03M
Kotak Mahindra Asset Management Company Ltd.	+3.14M	+0.96M	Aditya Birla Sun Life AMC Limited	-2.04M	-0.63M
Nuveen LLC	+1.82M	+0.47M	Mirae Asset Global Investments (India) Pvt. Ltd.	-2.66M	-0.40M
Edelweiss Asset Management Ltd.	+1.40M	+0.43M	Copper Rock Capital Partners LLC	-1.90M	-0.34M
BNP Paribas Asset Management India Pvt. Ltd.	+0.95M	+0.29M	HSBC Global Asset Management (India) Private Limited	-1.92M	-0.31M

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	2160.5	2958.6
Life Insurance	5792.0	6097.0	6400.0	6500.0
General Insurance	4906.0	6043.0	6820.7	7978.3
Asset Management	1308.0	365.0	49.7	57.6
<b>Total income</b>	<b>17,639.6</b>	<b>20,103.0</b>	<b>20,476.5</b>	<b>22,467.9</b>
Operating expense	13033.0	15331.9	16243.0	17458.1
PBT	1538.0	1672.0	1584.9	1807.7
Adjusted Net Profit	1,086.0	1,309.0	1,305.0	1,432.1
% growth	-1.4	20.5	-0.3	9.7
EPS (₹)	42.9	51.7	51.6	56.6

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

Key Ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Net Profit (₹ crore)	1086.0	1309.0	1305.0	1432.1
EPS (₹)	42.9	51.7	51.5	56.6
% Growth	-1.4	20.4	-0.3	9.8
P/E (x)	5.7	4.7	4.7	4.3
BV	518.5	518.3	185.5	236.6
Price / Book (x)	0.5	0.5	1.3	1.0
RoA (%)	1.5	1.5	1.4	1.4
RoE (%)	8.7	10.0	14.6	26.8

Source: Company, ICICI Direct Research

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	8281.1	9574.9
Networth	16965.4	16961.0	8534.3	9828.1
Long and short term borrowing	39260.6	46400.8	47325.5	50689.4
Current liabilities and others	25983.2	30489.3	37368.8	47074.8
<b>Total</b>	<b>82209.2</b>	<b>93851.1</b>	<b>93228.6</b>	<b>107592.3</b>
Application of Funds				
Fixed Assets	5747.5	5712.9	5827.2	5943.7
Investments	34478.9	38817.8	34446.3	34476.0
Advances	33341.0	39938.2	41414.0	52898.8
Other current assets	8641.8	9382.2	11541.1	14273.8
<b>Total</b>	<b>82209.2</b>	<b>93851.1</b>	<b>93228.6</b>	<b>107592.3</b>

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		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
LIC Housing Finance (LICHF)	465	450	Hold	23,459	39.4	44.0	53.1	11.8	10.6	8.8	2.0	1.6	1.4	1.2	1.2	1.3	16.7	15.6	15.8
Reliance Capital (RELCAP)	240	233	Hold	6,385	51.7	64.9	69.6	4.6	3.7	3.4	0.5	0.4	0.4	1.5	1.7	1.6	10.0	12.0	11.9
HDFC (HDFC)	1,916	2,050	Buy	329,044	72.6	60.5	69.5	26.4	31.6	27.6	5.6	5.1	4.7	3.3	2.4	2.4	25.8	16.9	17.7
Bajaj Finserv (BAFINS)	5,830	6,280	Buy	92,779	172.3	226.8	294.9	33.8	25.7	19.8	4.5	3.8	3.2	1.9	2.0	2.1	15.0	16.0	17.6
Bajaj Finance (BAJFI)	2,426	2,600	Buy	140,177	44.5	59.2	80.0	54.5	41.0	30.3	8.9	7.3	6.1	3.3	3.4	3.5	19.6	19.0	20.9

Source: Company, ICICI Direct Research

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