

Bloomberg	ABCAP IN
Equity Shares (m)	2,414
M.Cap.(INRb)/(USD\$b)	217.5 / 3
52-Week Range (INR)	99 / 37
1, 6, 12 Rel. Per (%)	-4/20/-29
12M Avg Val (INR M)	241

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
PBT Break-up			
NBFC	10.7	9.7	13.3
Housing	1.4	1.8	2.7
AMC	6.6	6.8	7.9
Life Insurance	1.4	1.5	1.6
Consol PBT	16.9	19.0	25.3
Consol PAT Post MI	9.2	10.8	14.7
Growth (%)	5.8	17.3	36.4
RoE (%)	8.3	8.2	10.2

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	70.4	70.5	73.6
DII	12.3	12.5	8.7
FII	2.6	2.1	2.4
Others	14.6	14.9	15.3

FII Includes depository receipts

CMP: INR90

TP: INR140 (+55%)

Buy

Steady quarter; pro forma GNPLs decline

- PAT grew 15% YoY to INR2.9b in 3QFY21, led by healthy performance in the HFC and AMC segments. However, the same was offset by muted performance in the NBFC segment. In 9MFY21, PAT has been largely flat at INR7.5b.
- The Lending business witnessed healthy business recovery with total disbursements (including HFC) jumping 18% YoY to INR51b. **The company restructured 1.9% of its loan book (including Housing Finance).**

Loan book stable; pro forma GNPL ratio declines

- **Contrary to the declining trend over the past six quarters, the loan book remained stable QoQ at INR457b.** The share of Retail and SME lending increased ~100bp sequentially to 53%. Within Retail lending, the share of unsecured loans declined 400bp YoY to 47%.
- **As the company resolved INR5.5b GNPLs in 3QFY21, pro forma GNPL ratio improved 40bp QoQ to 3.1%. However, PCR declined 600bp QoQ to 39%, while Stage 1/2 provisions were steady at 1%.** Collection efficiency improved to 96.4% in Dec'20 from 92% in Oct'20. ABCAP restructured 1.5% of loans.
- NIM + fees remained largely stable at 5.2% in the NBFC segment. **Excluding some one-off adjustments, NIM would have improved 30bp to 5.6%.** The cost of funds is down to a multi-quarter low of 7.5%.
- In the Housing Finance business, the loan book was down ~2% QoQ to INR119b. **Pro forma GNPL ratio jumped 75bp QoQ to 1.9%, while PCR declined to 34% from 37%.** The company restructured 3.2% of the loan book. It has 0.7% Stage 1/2 provisions on the Balance Sheet.
- **Over the next three years, ABCAP targets to grow its NBFC loan book at 15-17% CAGR, with the share of Retail AUM increasing to 65% from 53% at present. It expects to deliver over 2.5%/16% RoA/RoE by FY24.**

AMC segment – equity share stable; cost rationalization continues

- After an 11% sequential increase in 2QFY21, QAAUM increased 7% to INR2.7t in 3Q. The share of equity AUM is largely stable at 33%. **SIP registrations rose 28% QoQ and were almost at prior year levels. SIPs now comprise 43% of equity AUM v/s 37% YoY.**
- The company continues to cut operating costs – total opex is down 11-12% in 3Q/9MFY21. **PBT margin improved 3bp QoQ to 30bp (fresh high).**
- **Over FY21-24, ABCAP targets 12-15% AUM CAGR, with the share of equity funds increasing to 40% from 34%. This should drive 15% PBT CAGR along with 35-40% RoE (v/s 33% currently).**

Strong performance in the Life Insurance business

- The Life Insurance business continues to outperform peers on growth. **Individual FYP has grown 6% YoY in 9MFY21 to INR13.4b for the company (v/s a decline of 8% YoY for the industry).**

- The product mix in 9MFY21 is as follows: ULIP – 31% (up 200bp YoY), Traditional – 59% (down 100bp), and Protection – 10% (down 100bp).
- The 13th/61st month persistency ratios have improved 200bp to 84%/50% in 9MFY21. Net VNB margin improved 80bp YoY to 5.9% in 9M and is expected to touch 10% in FY21.
- **Over FY21-24, the management is targeting 15-18% CAGR in individual FYP, with an increase in the share of Protection Products to 12-15%. Opex-to-premium ratio is likely to decline 150bp to 12.5% by FY24E. With this, the net VNB margin should improve to 16% in FY24E from 10% in FY21E.**

Highlights from management commentary

- The company lent out INR3.31b under the ECLG scheme in the NBFC segment in 3QFY21 and even lower in HFC.
- The management expects credit costs of ~1.25% going forward.

Valuation and view

The past 1-2 years have been challenging for the company, with a run-down in the loan book and emergence of asset quality stress due to certain large-ticket accounts. **While the moratorium rate of 28% (Phase II) was higher than that of some peers, eventual pro forma GNPL performance is better than most peers (sequential decline for ABCAP v/s an increase for others).** The resolution of some stressed corporate accounts in 3QFY21 is also positive. With the worst on asset quality and growth behind, the coming years would see an uptick in growth and return ratios. **The Asset Management business is likely to have an average year as the industry combats redemption pressure in equities. However, the company has been able to offset revenue pressure by cutting costs, thus managing a healthy profitability.** The Life Insurance segment is on a robust trajectory. **The business continues to witness improved performance in persistency as well on VNB margin. The drag on consolidated PAT from other segments will continue to decline over the next 1-2 years, thus improving overall profitability.** We expect consolidated PAT to grow at 26% CAGR over FY20-23E (off a lower base). As most business segments have gained scale and are highly profitable, there could be value-unlocking opportunities in the medium term. Buy with a TP of INR140 (FY23E SoTP-based).

Exhibit 1: SoTP (FY23E-based)

	Stake (%)	Value (INR b)	Value (USD b)	INR per share	% of total	Rationale
NBFC	100	134	2.1	56	40	1.2x PBV
HFC	100	20	0.3	8	6	1x PBV
AMC	51	136	2.1	56	40	40x Earnings
LI	51	42	0.7	18	13	1x EV
Others		6	0.1	2	2	
Target Value		338	5.2	140	100	
Current market cap.		217	3.3	90		
Upside (%)		55.5	55.5	55.5		

Source: MOFSL, Company

Quarterly Performance

(INR M)

Y/E March	FY20				FY21				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
ABFSL - NBFC arm										
Net Income	6,757	6,341	6,175	6,004	5,659	6,318	6,155	6,332	25,277	24,464
Change YoY (%)	24.8	14.9	4.1	-7.9	-16.2	-0.4	-0.3	5.5	8.1	-3.2
Opex	1,790	1,830	1,900	2,010	1,730	1,940	1,960	2,053	7,530	7,683
Cost to Income Ratio (%)	26.5	28.9	30.8	33.5	30.6	30.7	31.8	32.4	29.8	31.4
Operating Profits	4,967	4,511	4,275	3,994	3,929	4,378	4,195	4,279	17,747	16,781
Change YoY (%)	34.5	24.6	9.0	-3.0	-20.9	-2.9	-1.9	7.1	15.6	-5.4
Provisions	960	1,340	1,550	3,210	2,040	1,940	1,590	1,489	7,060	7,059
Profit Before Tax	4,007	3,171	2,725	784	1,889	2,438	2,605	2,791	10,687	9,723
Change YoY (%)	19.5	0.0	-15.7	-77.8	-52.9	-23.1	-4.4	255.9	-19.5	-9.0
Consolidated Earnings										
Cons PBT Before JV Interest	5,523	4,715	4,490	2,144	3,651	4,595	5,203	5,520	16,872	18,969
Growth YoY %	29.4	22.6	-3.2	-58.9	-33.9	-2.5	15.9	157.4	-6.1	12.4
Lending	4,395	3,526	3,075	1,052	2,244	2,892	3,084	3,340	12,048	11,560
NBFC	4,007	3,171	2,725	784	1,889	2,438	2,605	2,791	10,687	9,723
HFC	388	356	351	268	355	455	478	549	1,362	1,838
AMC	1,754	1,754	1,734	1,366	1,301	1,640	1,941	1,922	6,607	6,804
Life Insurance	249	414	335	377	289	424	359	378	1,375	1,450
Others*	-874	-979	-655	-650	-184	-361	-180	-120	-3,158	-845
Networth allocation mix										
NBFC	64.6	64.3	58.5	52.9	52.5	52.4	52.1			
Housing Finance	10.2	10.1	9.2	9.3	9.3	9.2	9.2			
Life Insurance	21.6	21.4	19.5	18.3	18.5	18.1	18.2			
AMC	11.4	10.5	10.4	9.0	9.5	10.0	10.7			
General Ins Adv	0.3	0.1	0.1	0.0	0.2	0.3	0.4			
Broking	1.8	1.8	1.6	1.4	1.4	1.4	1.4			
Health Insurance	1.8	2.4	2.6	2.1	2.3	3.0	3.1			
Others*	-12.1	-12.1	-3.2	4.8	4.6	4.0	3.7			
Elimination/Unallocated	0.5	1.3	1.3	2.2	1.7	1.6	1.3			
Details on lending business										
Loans (INR B)	620	604	601	592	581	576	580			
Change YoY (%)	15.7	4.3	0.0	-6.3	-6.3	-4.7	-3.5			
NBFC	502	484	479	471	459	455	457			
Change YoY (%)	13.0	0.6	-2.8	-9.0	-8.4	-6.0	-4.8			
HFC	118	121	122	121	121	121	124			
Change YoY (%)	28.9	22.2	12.6	6.1	2.6	0.3	1.4			
Net Interest Margins										
NBFC	5.25	5.28	5.24	5.24	4.88	5.32	5.24			
HFC	2.98	2.97	2.97	2.96	3.27	3.33	3.68			
GNPA %										
NBFC	1.69	1.85	2.72	3.62	3.61	3.46	3.07			
HFC	0.67	0.85	1.05	1.21	1.20	1.24	1.89			
Details on Other business										
AMC Business										
QAAUM (INR B)	2,704	2,694	2,655	2,627	2,257	2,503	2,669	2,748		
Change YoY (%)	1.2	-0.8	2.6	-0.1	-16.5	-7.1	0.5	4.6		
Life Ins - 13th Mt persistency	78.3	80.0	80.9	83.0	81.0	83.0	85.0	0.0		

#PBT assuming 100% share of AMC business* Others includes Health Ins, PE, AB Money and inter group adjustment; Numbers may vary from actual reporting due to difference in reporting



Highlights from the management commentary

Lending

- Stage 2 loans have gone up marginally compared to pre-COVID levels. The management expects it to improve in 4QFY21.
- The company has reached a resolution on INR5.5b worth loans in 3QFY21. Not all loans has been written off. Since these accounts were well-provided, it had a write-back on this. Of this, INR5.1b is from Corporate accounts.
- **In NBFC/HFC, 2.3%/2% of the moratorium book slipped into Stage 3.**
- **The company lent out INR3.31b under the ECLG scheme in the NBFC segment in 3QFY21 and even lower in HFC.**
- Few accounts have undergone a DCCO extension, but they are not material.
- Collection efficiency stands at 95% in Retail and SME and 98% in Corporate.
- Its large Corporate portfolio has an average A- credit rating. Around 20% of the loan book is large Corporate.
- **The management expects credit costs of ~1.25% going forward.**
- Incremental yields: Retail: 12-22%; SME: 11.5-18% (depending on whether it is secured or unsecured)
- Most of the restructuring is in the Retail lending segment. The same is less in the SME and Corporate segments.

Insurance

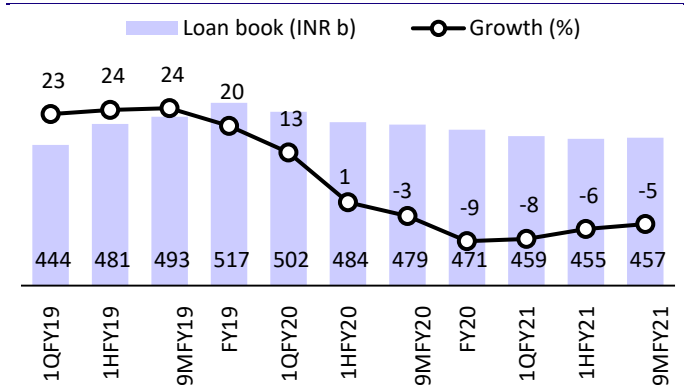
- The loss ratio in the Insurance segment from the banking channel is 800-1,000bp lower than the agency channel.

Others

- The actuarial life of Personal loans/LAP is two/3.5 years.

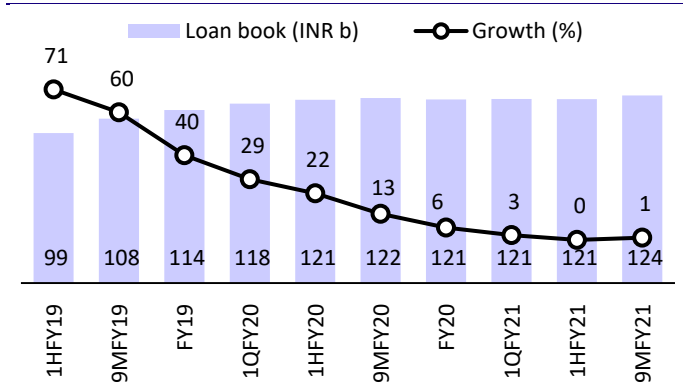
Key exhibits

Exhibit 2: NBFC loan book stabilizes



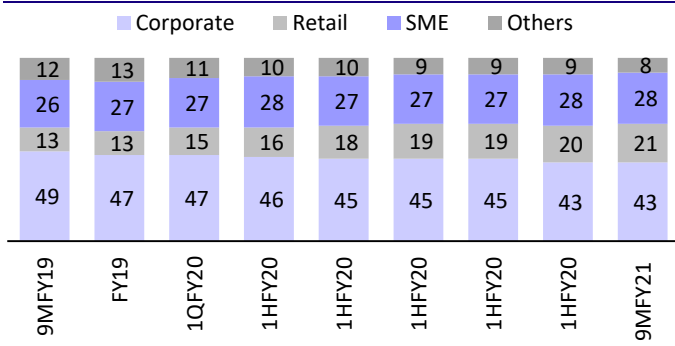
Source: MOFSL, Company

Exhibit 3: HFC loan book trend



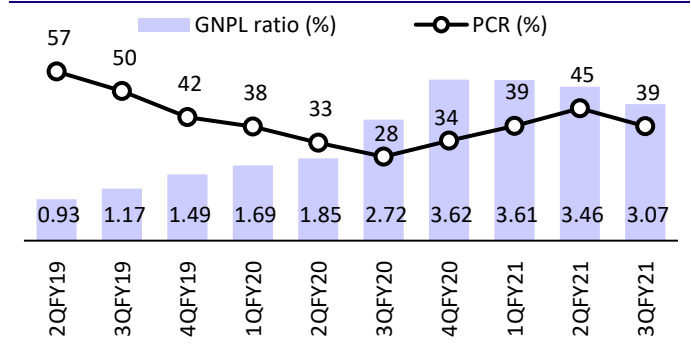
Source: MOFSL, Company

Exhibit 4: NBFC loan mix (%)



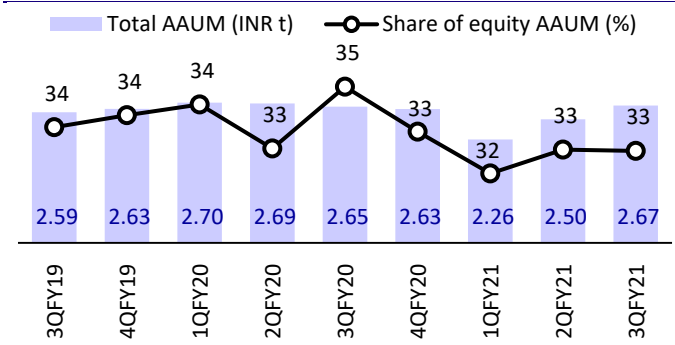
Source: MOFSL, Company; Others include Promoter and others

Exhibit 5: Pro forma GNPL ratio down 40bp QoQ



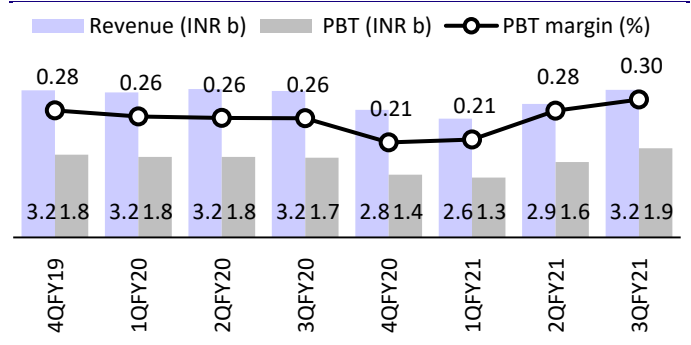
Source: MOFSL, Company; Note: NBFC segment

Exhibit 6: AMC segment - AAUM picks up sequentially (%)



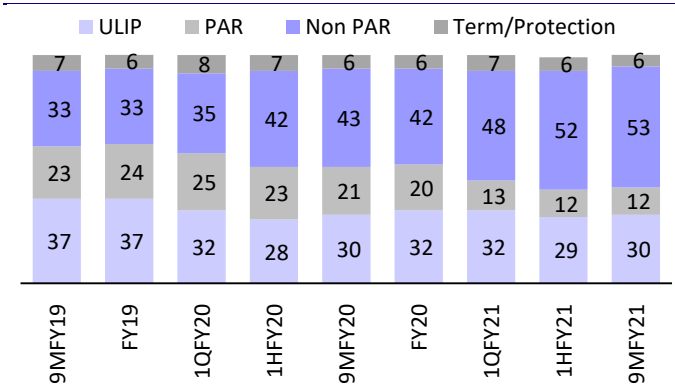
Source: MOFSL, Company

Exhibit 7: AMC - PBT margin at a multi-quarter high



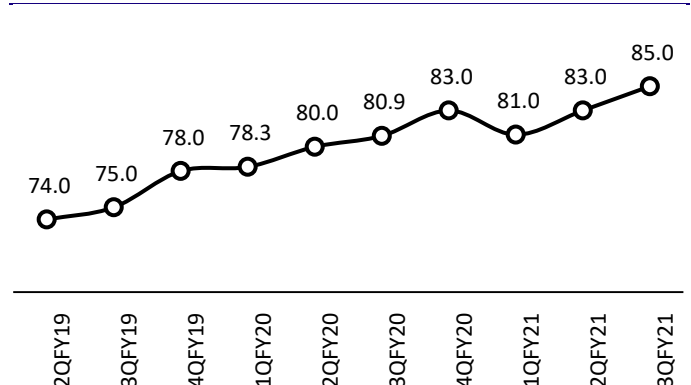
Source: MOFSL, Company, *% of AAUM Annualized

Exhibit 8: Share of non-PAR rising (%)



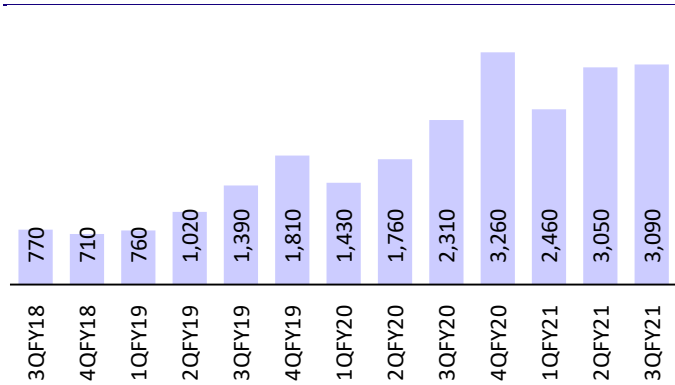
Source: MOFSL, Company

Exhibit 9: 13th month persistency improving (%)



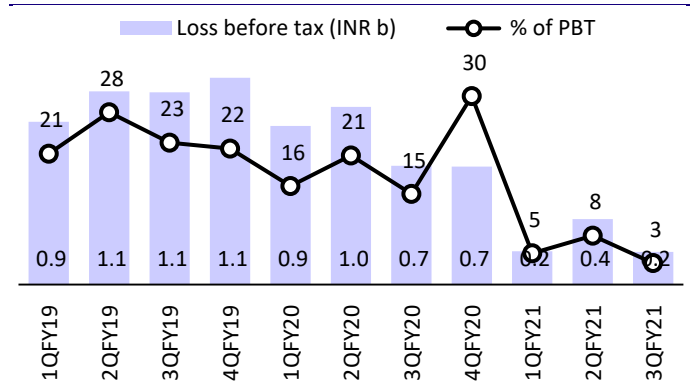
Source: MOFSL, Company

Exhibit 10: Trend in Health Insurance GWP (INR m)



Source: MOFSL, Company

Exhibit 11: Pre-tax loss declines in other segments



Source: MOFSL, Company

Valuation and view

- The past 1-2 years have been challenging for the company with a run-down in the loan book and emergence of asset quality stress due to certain large-ticket accounts. The management has responded by running down the Wholesale lending book (especially Structured Finance, which is high-risk lending).
- Collection efficiency of over 96% in Dec'20 is impressive. With a resolution of some stressed Corporate accounts, GNPL ratio has moderated. In the medium term, we expect credit cost of 1-1.5% on a steady-state basis for this segment.
- The Asset Management business is likely to have an average year as the industry combats redemption pressure in equities. However, it has been able to offset revenue pressure by cutting costs. **PBT margin of 30bp is at a fresh high.**
- The Life Insurance segment is on a robust trajectory. **The business continues to witness improved performance in persistency as well on VNB margin.**
- **The drag on consolidated PAT from other segments will continue to decline over the next 1-2 years, thus improving overall profitability.**
- As most business segments have gained scale and are highly profitable, there could be value-unlocking opportunities in the medium term. Buy with a TP of INR140/share (FY23E SoTP-based).

Exhibit 12: Segment-wise net worth contribution (INR m)

Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
NBFC	35,108	49,813	61,724	74,140	80,780	88,787	98,392	1,11,963
Housing	2,048	3,675	7,475	11,900	13,830	15,256	17,439	19,964
AMC	7,794	9,416	11,610	12,154	13,041	14,042	15,210	16,539
Life Insurance	0	18,047	23,294	24,488	26,574	28,024	29,619	31,373
Other businesses	683	782	2,540	2,322	2,112	2,967	3,914	4,960
Consolidation adjustments	6,472	3,739	-10,704	-18,307	2,618	2,967	4,906	6,129
Consolidated net worth	52,105	85,472	95,939	1,06,698	1,38,954	1,52,042	1,69,479	1,90,930
Of which non-controlling interest	7,557	19,518	10,560	11,574	13,196	15,525	18,285	21,442
Consolidated NW post NCI	44,548	65,954	85,378	95,124	1,25,758	1,36,518	1,51,194	1,69,487
% of total net worth	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
NBFC	67.4	58.3	64.3	69.5	58.1	58.4	58.1	58.6
Housing	3.9	4.3	7.8	11.2	10.0	10.0	10.3	10.5
AMC	15.0	11.0	12.1	11.4	9.4	9.2	9.0	8.7
Life Insurance		21.1	24.3	23.0	19.1	18.4	17.5	16.4
Other businesses	1.3	0.9	2.6	2.2	1.5	2.0	2.3	2.6
Consolidation adjustments	12.4	4.4	-11.2	-17.2	1.9	2.0	2.9	3.2
Consolidated net worth	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Change YoY (%)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
NBFC	76.9	41.9	23.9	20.1	9.0	9.9	10.8	13.8
Housing		79.5	103.4	59.2	16.2	10.3	14.3	14.5
AMC	35.3	20.8	23.3	4.7	7.3	7.7	8.3	8.7
Life Insurance				5.1	8.5	5.5	5.7	5.9
Other businesses	2.7	14.4	224.8	-8.6	-9.1	40.5	31.9	26.7
Consolidation adjustments	7.1	-42.2	-386.2	71.0	-114.3	13.4	65.3	24.9
Consolidated net worth	59.0	64.0	12.2	11.2	30.2	9.4	11.5	12.7

Source: MOFSL, Company

Financials and valuations

Balance Sheet								INR m
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
ESC	7,960	12,322	22,010	22,014	24,138	24,138	24,138	24,138
Reserves and Surplus	19,212	53,632	63,368	73,110	1,01,620	1,12,380	1,27,057	1,45,350
Net worth	27,172	65,954	85,378	95,124	1,25,758	1,36,518	1,51,194	1,69,487
Non-Controlling Interest	7,557	19,518	10,560	11,574	13,196	15,525	18,285	21,442
Other Capital Instruments	17,523	147	0	0	0	0	0	0
Borrowings	2,30,125	3,29,378	4,45,157	5,63,242	5,55,836	5,28,335	6,03,966	7,28,758
Change (%)	55.3	43.1	35.2	26.5	-1.3	-4.9	14.3	20.7
Insurance Business Related	0	3,33,888	3,64,716	4,01,500	4,12,645	4,53,910	4,99,301	5,49,231
Change (%)			9.2	10.1	2.8	10.0	10.0	10.0
Other liabilities	18,037	32,421	31,331	25,480	30,255	37,894	47,282	58,577
Change (%)	60.7	79.7	-3.4	-18.7	18.7	25.2	24.8	23.9
Total Liabilities	3,00,414	7,81,306	9,37,142	10,96,920	11,37,690	11,72,181	13,20,028	15,27,496
Customer assets	2,91,163	4,10,633	5,20,198	6,37,935	6,33,439	6,40,754	7,33,285	8,74,164
Change (%)	54.5	41.0	26.7	22.6	-0.7	1.2	14.4	19.2
Fixed Assets	3,249	8,120	8,701	9,262	12,550	13,015	13,572	14,227
Change (%)	11.1	149.9	7.2	6.4	35.5	3.7	4.3	4.8
Insurance Business Related	0	3,45,959	3,74,305	4,14,145	4,28,267	4,73,794	5,24,413	5,80,743
Change (%)			8.2	10.6	3.4	10.6	10.7	10.7
Other assets	6,002	16,594	33,937	35,578	63,435	44,619	48,758	58,362
Change (%)		176.5	104.5	4.8	78.3	-29.7	9.3	19.7
Total Assets	3,00,414	7,81,306	9,37,142	10,96,920	11,37,690	11,72,181	13,20,028	15,27,496

Financials and valuations

	INR m							
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
NBFC	6,264	8,319	10,509	13,280	10,690	9,723	13,299	17,187
Housing	-302	-155	341	1,070	1,360	1,838	2,691	3,216
AMC	3,136	3,371	5,231	6,468	6,607	6,804	7,888	8,984
Life Insurance	0	0	1,304	1,315	1,370	1,450	1,595	1,755
Other businesses	-331	-534	-1,478	-2,155	-1,870	-1,145	-553	-454
Consolidation adjustments	-78	-343	-1,531	-2,008	-1,285	300	350	400
Consolidated PBT	8,688	10,658	14,377	17,969	16,872	18,969	25,270	31,088
Taxes	3,446	3,746	5,769	7,681	5,804	5,880	7,834	9,637
<i>Tax Rate (%)</i>	<i>39.7</i>	<i>35.1</i>	<i>40.1</i>	<i>42.7</i>	<i>34.4</i>	<i>31.0</i>	<i>31.0</i>	<i>31.0</i>
Consolidated PAT	5,242	6,912	8,608	10,288	11,068	13,089	17,437	21,451
Minority Interest	1,436	1,612	1,743	1,619	1,897	2,329	2,760	3,158
Consolidated PAT Post MI	3,806	5,300	6,865	8,669	9,171	10,760	14,677	18,293
% of Total PBT	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
NBFC	72.1	78.1	73.1	73.9	63.4	51.3	52.6	55.3
Housing	-3.5	-1.5	2.4	6.0	8.1	9.7	10.6	10.3
AMC	36.1	31.6	36.4	36.0	39.2	35.9	31.2	28.9
Life Insurance	0.0	0.0	9.1	7.3	8.1	7.6	6.3	5.6
Other businesses	-3.8	-5.0	-10.3	-12.0	-11.1	-6.0	-2.2	-1.5
Consolidation adjustments	-0.9	-3.2	-10.6	-11.2	-7.6	1.6	1.4	1.3
Consolidated PBT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Change YoY %	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
NBFC	52.5	32.8	26.3	26.4	-19.5	-9.0	36.8	29.2
Housing		-48.7	-320.1	213.7	27.1	35.1	46.4	19.5
AMC	72.7	7.5	55.2	23.6	2.2	3.0	15.9	13.9
Life Insurance				0.8	4.2	5.8	10.0	10.0
Other businesses	13.9	61.3	176.8	45.8	-13.2	-38.8	-51.7	-17.9
Consolidation adjustments	-79.9	338.8	346.2	31.2	-36.0			
Consolidated PBT	67.4	22.7	34.9	25.0	-6.1	12.4	33.2	23.0
Taxes	64.0	8.7	54.0	33.2	-24.4	1.3	33.2	23.0
Consolidated PAT	69.7	31.9	24.5	19.5	7.6	18.3	33.2	23.0
Minority Interest	106.3	12.3	8.1	-7.1	17.2	22.7	18.5	14.4
Consolidated PAT Post MI	59.1	39.3	29.5	26.3	5.8	17.3	36.4	24.6
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Valuations								
Consolidated BV			38.8	43.2	52.1	56.6	62.6	70.2
<i>Change YoY</i>				<i>11.4</i>	<i>20.6</i>	<i>8.6</i>	<i>10.8</i>	<i>12.1</i>
Consolidated P/BV			1.5	1.4	1.1	1.0	0.9	0.8
Consolidated EPS			3.1	3.9	3.8	4.5	6.1	7.6
<i>Change YoY</i>				<i>26.3</i>	<i>-3.5</i>	<i>17.3</i>	<i>36.4</i>	<i>24.6</i>
Consolidated P/E			18.9	15.0	15.5	13.2	9.7	7.8
Consolidated RoE			9.1	9.6	8.3	8.2	10.2	11.4

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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