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Company update

Financials

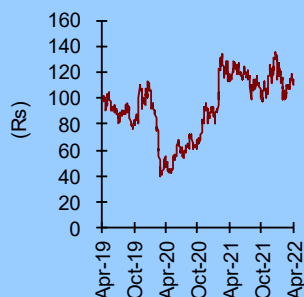
Target price Rs169

Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	70.7	71.0	71.1
Institutional investors	14.1	13.9	14.7
MFs and others	1.0	0.8	1.6
Banks/FIs	0.0	0.1	0.1
Insurance Cos.	2.5	2.4	2.4
FIs	10.6	10.6	10.6
Others	15.2	15.1	14.2

Source: BSE

Price chart



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INDIA



Aditya Birla Capital

BUY
Maintain

Management change: New CEO to take charge come June

Rs112

Aditya Birla Capital's (ABCL) Board, based on the NRC recommendations, has approved appointment of Ms. Vishakha Mulye (ED, ICICI Bank) as CEO. Mr. Ajay Srinivasan (current CEO) shall be taking up another role in Aditya Birla Group. Ms. Mulye will join on 1st Jun'22 and operate as CEO (designate) with an overlap of one month with Mr. Ajay Srinivasan to ensure smooth transition. We believe further push and acceleration in the group's structural strategy of rebalancing its NBFC portfolio (in favour of retail + SME) and its HFC portfolio (towards affordable segment + informal segment) will imbibe confidence. ABCL's earnings trajectory reflects superior and quality operating performance led by its strategy of granularisation, retailisation and diversification within business segments. Further franchise investment, cross-sell/up-sell and leveraging digital and analytics will help the company boost its RoE profile. The stock is currently undervalued and our target price of Rs169 provides significant upside. Maintain BUY.

- ▶ **Countercyclical diversified conglomerate evolution:** ABCL has, over the past decade under Mr. Srinivasan's leadership, seeded, nurtured and evolved as a countercyclical diversified conglomerate. Its blend of businesses are at different stages of lifecycle, viz. established (NBFC, AMC), transformational (HFC, life insurance) and incubating (health insurance).
- ▶ **Ms. Mulye too would focus on accelerating ABCL's unique business proposition flowing from group synergies:** 1) Strong parentage (flow of capital, funding cost benefit, degree of comfort), 2) balanced & lower risk lending portfolio (akin to banks), 3) broad-based offerings (13 business lines) across customers' lifecycle, 4) synergy potential (31mn customers across group) to make the whole more than sum of its parts, and 5) multi-channel distribution ecosystem.
- ▶ **Outlook for NBFC/HFC business:** For ABCL's NBFC business, we believe strong focus in retail and SME (scaling it up to 65%), investment in distribution franchise (adding 150 lean branches in tiers-3&4 cities), group synergies, operating efficiencies and contained cost will help clock >15% AUM CAGR and RoA / RoE of 2.2% / 13% growth by FY23E. In HFC, leveraging opportunities in affordable housing and high-yielding informal segment will drive growth of 18-20%, NIMs upwards of 4% and superior RoA. Visibility on sustenance of the same will drive rerating in NBFC/HFC.
- ▶ **Career banker's experience to come handy for transition under SBR framework:** Ms. Mulye's experience as a career banker comes handy as the NBFC transitions towards Scale-Based Regulatory (SBR) framework where prudential norms, processes, governance standards and disclosures of NBFC-UL are aligned to banks. The experience in wholesale banking will have to be leveraged and reoriented towards retail, SME and housing as well.

Market Cap	Rs270bn/US\$3.5bn	Year to Mar	FY21	FY22E	FY23E	FY24E
Reuters/Bloomberg	ADTB.BO/ABCAP IN	Revenue (Rs mn)	2,04,873	2,19,863	2,55,729	3,01,015
Shares Outstanding (mn)	2,416.1	PBT (Rs mn)	19,732	26,490	33,074	40,140
52-week Range (Rs)	139/96	PAT (Rs mn)	11,270	16,078	20,078	24,142
Free Float (%)	28.9	Net Worth (Rs mn)	1,37,426	1,53,503	1,73,581	1,97,723
FII (%)	10.6	EPS (Rs)	4.7	6.7	8.3	10.0
Daily Volume (US\$'000)	7,965	Book Value (Rs)	56.9	63.6	71.9	81.9
Absolute Return 3m (%)	(8.8)	P/E (x)	24.1	16.9	13.5	11.2
Absolute Return 12m (%)	(4.0)	P/BV (x)	2.0	1.8	1.6	1.4
Sensex Return 3m (%)	(3.0)	RoA (%)	0.9	1.2	1.3	1.4
Sensex Return 12m (%)	20.2	RoE (%)	8.6	11.1	12.3	13.0

Please refer to important disclosures at the end of this report

Table 1: Aditya Birla Capital – Sum of the parts (SoTP) valuation suggests upside of >35%

Business	Parameters	Rs bn	Multiple (x) / CMP (Rs)	Stake (%)	Value to ABCL (Rs bn)	% in total	Value per share (Rs)
Aditya Birla Finance – NBFC	Price to book	113.0	2.0	100.0	226.1	47.1	94
Aditya Birla Housing Finance - HFC	Price to book	19.5	2.5	100.0	48.8	10.2	20
Aditya Birla Sun Life AMC	Core earnings + cash	Note*		50.0	104.9	21.9	43
Aditya Birla Sun Life Insurance	Embedded Value (FY23)	85.0	2.0	51.0	86.7	18.1	36
Aditya Birla Health Insurance	Price to book (Q2FY22)	4.5	5.0	51.0	11.5	2.4	5
Aditya Birla Money	Listed market value	2.4	1.0	73.8	1.8	0.4	1
Total					480	100.0	199
Holdco. Discount on listed entity (%)					15.0		15
Valuation (after holdco discount)					408		169

*Note: Note: We have valued ABSLAMC based on 30x FY23E/FY24E core EPS (excluding other income) of Rs19.6/21.8 and cash of Rs81/93 per share. We ascribe 25:75 weightages to FY23/24E earnings

Source: Company data, I-Sec research

Brief profile of Ms. Vishakha Mulye:

- Ms. Vishakha Mulye, CA, is a career banker and is currently an executive director of ICICI Bank, in charge of domestic and international wholesale banking, proprietary trading, markets and transaction banking.
- In a career spanning 30 years, she has held many significant roles and led several strategic initiatives. She led the team that planned and executed the merger of ICICI Limited and ICICI Bank in CY02. She also led the team which negotiated and concluded the merger of erstwhile Sangli Bank with ICICI Bank and handled various other acquisitions including ITC Classic and Anagram Finance.
- Ms. Mulye was one of the few handpicked executives to set up and run stressed asset management group at ICICI Bank, which gave her excellent exposure on evaluating and running businesses. She led several successful capital raisings for ICICI Bank including the US\$5bn simultaneous public issue of equity shares in India, United States and Japan in CY07.
- She has contributed to building ICICI Lombard where she worked for two years before moving to head ICICI Venture as its MD & CEO. Under her leadership ICICI Venture was established as a multi-strategy alternate asset manager with presence across private equity, real estate, special situation and infrastructure.
- One of her significant initiatives at ICICI Venture was AION, a special situations fund set up in strategic partnership with Apollo Global, a leading US-based alternative asset manager. In Jan'16, she was appointed as an executive director on the Board of ICICI Bank. She strengthened the wholesale banking franchise at ICICI Bank by providing complete solution to corporate ecosystem, building a well-rated diversified loan portfolio and enhancing non-lending revenues through deposit franchise, transaction banking, treasury and other services.
- She led the digital transformation through various industry-specific and customised solutions to its clients and their ecosystems by leveraging latest technologies.
- She is also on the Board of ICICI Lombard General Insurance Company and chairs the Board of ICICI Bank Canada.

Brief profile of Mr. Ajay Srinivasan:

- Ajay Srinivasan is currently CEO at Aditya Birla Capital Limited (ABCL), the holding company of all the financial services businesses of the Aditya Birla Group. He joined the Aditya Birla Group in 2007 and in his role as the leader of the business at Aditya Birla Capital, he has successfully led and transformed the organisation into a universal financial solutions provider focusing on protecting, investing and financing needs of the company's customers. In the last decade that Ajay has led the company's financial services business, the organisation has grown from 5 business entities in CY07 to 13 in CY18.
- Mr. Srinivasan's experience in the financial services industry spans three decades. He has a track record of setting up and successfully scaling up multiple business entities, not just in India but also internationally.
- He holds an honours in economics from St. Stephens College, University of Delhi, and an MBA from the Indian Institute of Management, Ahmedabad.
- He is engaged with several bodies including the CII and is a member of the advisory Board of the City of London.

Financial summary (consolidated)

Table 2: Consolidated revenue and PAT over the past nine quarters

(Rs mn, year ending Mar 31)

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Consolidated Revenue	43,257	48,449	40,346	45,891	50,318	55,868	42,990	55,965	57,055
Consolidated PAT	2,505	1,537	1,984	2,643	2,887	3,752	3,020	3,769	5,767

Source: Company, I-Sec research

Note: Q3FY22 PAT includes Rs1.61bn on sale of 1% stake in AMC business on IPO

Table 3: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
Segment-wise Revenue					
NBFC	60,764	55,115	64,090	72,877	85,172
Housing Finance	12,984	12,806	13,660	15,591	18,527
Asset Management	11,597	10,679	12,958	13,464	14,714
Life Insurance	77,915	1,03,793	na	Na	na
Health Insurance	8,036	12,021	na	Na	na
General insurance	5,146	5,913	na	Na	na
Money Broking	1,707	1,922	2,241	2,578	2,964
Other Financial Services	1,382	1,287	450	450	450
Total	1,80,280	2,04,873	2,19,863	2,55,729	3,01,015
Segment-wise PBT					
NBFC	10,527	10,314	14,772	18,082	21,593
Housing Finance	1,366	1,764	2,506	3,100	3,783
Asset Management	6,607	6,959	8,915	8,939	10,015
Life Insurance	1,130	1,515	na	Na	na
Health insurance	-2,463	-1,991	na	Na	na
General insurance	422	707	na	Na	na
Others	-725	464	700	774	857
Total	16,870	19,732	26,490	33,074	40,140
PAT	9,200	11,270	16,078	20,078	24,142

Source: Company, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	24,138	24,153	24,153	24,153	24,153
Reserves & Surplus	1,01,620	1,13,273	1,29,351	1,49,428	1,73,570
Net Worth	1,25,758	1,37,426	1,53,503	1,73,581	1,97,723
Borrowings	5,55,836	5,26,750	6,21,865	7,13,055	8,33,038
Other liabilities	4,56,096	5,78,788	6,64,563	7,62,201	8,90,704
Total Liabilities	11,37,690	12,42,963	14,39,932	16,48,837	19,21,466
Cash & Bank	31,273	28,112	1,14,401	1,54,268	2,38,448
Loans & Advances	5,84,375	5,97,256	6,53,281	7,62,682	8,86,044
Investments	4,77,331	2,94,290	3,23,719	3,56,091	3,91,700
Other Assets	44,712	3,23,306	3,48,531	3,75,796	4,05,273
Total Assets	11,37,690	12,42,963	14,39,932	16,48,837	19,21,466

Source: Company, I-Sec research

Table 5: Key ratios

(Year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
EPS	3.8	4.7	6.7	8.3	10.0
Book Value	52.1	56.9	63.6	71.9	81.9
P/E (x)	29.5	24.1	16.9	13.5	11.2
P/BV (x)	2.2	2.0	1.8	1.6	1.4
RoA (%)	0.8	0.9	1.2	1.3	1.4
RoE (%)	8.3	8.6	11.1	12.3	13.0

Source: Company, I-Sec research

Aditya Birla Finance (ABFL)

Table 6: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
Interest income	56,494	56,821	61,463	70,059	82,134
Interest expense	36,046	32,862	32,271	37,157	43,511
Net Interest Income	20,448	23,958	29,192	32,901	38,622
Brokerage and commission income	471	512	774	873	996
Other non-interest income	3,799	-2,217	1,853	1,945	2,042
Total non-interest income	4,270	-1,705	2,627	2,818	3,038
Total Income	24,718	22,253	31,819	35,720	41,660
Employee cost	4,227	4,227	4,735	5,303	5,939
Depreciation & Amortization	498	523	601	691	795
Other operating expenses	4,376	4,003	4,508	5,096	5,741
Total operating expenses	9,101	8,753	9,844	11,090	12,475
Pre-provision operating profit	15,617	13,500	21,975	24,629	29,186
Total provisions	5,090	3,186	7,203	6,547	7,593
Profit before tax	10,527	10,314	14,772	18,082	21,593
Provision for tax	2,480	2,632	3,723	4,557	5,441
Profit after tax	8,047	7,682	11,050	13,526	16,152

Source: Company, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	6,621	6,621	6,621	6,621	6,621
Reserves & Surplus	74,160	81,849	92,899	1,06,425	1,22,576
Net worth	80,782	88,470	99,520	1,13,046	1,29,197
Borrowings	4,34,091	4,32,992	4,89,038	5,57,647	6,42,663
Other liabilities	4,873	4,630	5,555	7,222	9,389
Total Liabilities	5,19,746	5,26,092	5,94,113	6,77,914	7,81,248
Cash & Bank	18,306	8,889	33,509	32,299	35,665
Loans & advances	4,59,878	4,72,283	5,11,747	5,92,716	6,88,129
Investments	33,424	35,095	36,850	38,692	40,627
Fixed assets	1,740	1,827	2,010	2,211	2,432
Other assets	6,398	7,997	9,997	11,996	14,395
Total Assets	5,19,746	5,26,092	5,94,113	6,77,914	7,81,248

Source: Company, I-Sec research

Table 8: Key ratios

(Year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
Growth (%)					
Loans	-8	3	8	16	16
Borrowings	-2	0	13	14	15
Assets	0	1	13	14	15
AUM	-9	3	8	16	16
Net Interest Income	7	17	22	13	17
Total Income	7	-10	43	12	17
Pre provisioning operating profits	5	-14	63	12	18
PAT	-8	-5	44	22	19
Profitability (%)					
Yield on advances	11.4	11.9	12.1	12.3	12.4
Cost of funds	8.2	7.6	7.0	7.1	7.3
NIM - on book	4.0	4.7	5.3	5.3	5.4
Cost to income ratio	35	33	31	31	30
Op.costs/avg. AUM	1.8	1.7	1.8	1.8	1.7
Revenue / Employee	28	24	23	23	24
Assets / Employee	233	209	209	212	216
Employees / Branch (no)	33	31	29	27	26
Tax Rate	24	26	25	25	25
Leverage & capital (%)					
Total leverage [AUM/Net-worth] (x)	5.8	5.5	5.3	5.4	5.5

CAR	19.1	21.4	21.0	20.7	20.2
Tier 1 CAR	15.2	17.3	17.4	17.5	17.5
Tier 2 CAR	3.9	4.1	3.6	3.2	2.8
Asset quality data (%)					
GNPA	3.9	2.7	3.8	3.4	3.1
NNPA	2.7	1.5	2.2	1.8	1.4
Provision coverage	31	45	42	48	53
Credit costs as % of AUM	1.3	1.6	1.4	1.2	1.2
Return ratios (%)					
Return on average assets	1.5	1.5	2.0	2.1	2.2
Return on average net worth	10.5	9.1	11.8	12.7	13.3

Source: Company, I-Sec research

Aditya Birla Housing (ABHL)

Table 9: Balance sheet

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	5,012	5,012	5,012	5,012	5,012
Reserves & Surplus	8,817	10,186	12,140	14,527	17,383
Net worth	13,829	15,198	17,152	19,539	22,395
Borrowings	1,16,669	1,15,502	1,32,828	1,55,408	1,90,375
Other liabilities	861	1,229	1,776	2,566	3,708
Total Liabilities	1,31,359	1,31,929	1,51,756	1,77,514	2,16,479
Cash & Bank	4,002	6,786	19,456	19,126	32,909
Loans & advances	1,21,020	1,18,690	1,25,707	1,51,635	1,76,633
Investments	5,469	5,469	5,469	5,469	5,469
Fixed assets	144	151	166	183	201
Other assets	723	832	957	1,100	1,265
Total Assets	1,31,359	1,31,929	1,51,756	1,77,514	2,16,479

Source: Company, I-Sec research

Table 10: Key ratios

(Year ending Mar 31)

	FY20	FY21	FY22E	FY23E	FY24E
Growth (%)					
Loans	6	-2	6	21	16
Borrowings	14	-1	15	17	23
Assets	15	0	15	17	22
Net Interest Income	14	19	19	13	12
Total Income	22	10	27	14	13
Pre provisioning operating profits	63	14	42	15	13
PAT	35	34	42	22	20
Profitability (%)					
Yield on advances	10.6	10.4	10.6	10.7	10.7
Borrowing cost	8.5	7.5	6.8	6.7	6.9
NIM	2.6	2.9	3.2	3.1	2.9
Cost to income ratio	44.6	40.2	36.7	36.1	36.0
Op.costs/avg. AUM	1.4	1.4	1.4	1.3	1.2
Tax Rate	24.5	21.9	22.0	23.0	24.5
Leverage & capital (%)					
Total leverage [Assets/Net-worth] (x)	9.5	8.7	8.8	9.1	9.7
CAR	18.1	18.9	17.5	16.8	15.2
Tier 1 CAR	14.7	15.7	14.8	14.5	13.3
Tier 2 CAR	3.3	3.2	2.7	2.3	1.8
Asset quality data (%)					
GNPA	1.3	1.8	2.3	1.9	1.7
NNPA	0.9	1.2	1.5	1.0	0.9
Provision coverage	31.9	34.6	36.5	45.3	45.6
Credit costs as % of AUM	0.6	0.7	0.7	0.5	0.3
Return ratios (%)					
Return on average net worth	8.0	9.4	12.1	13.0	13.6
Return on average assets	0.8	1.0	1.4	1.5	1.4

Source: Company, I-Sec research

Aditya Birla Sun Life Asset Management Ltd

Table 11: Profit and loss statement

(Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
AAUM (incl managed funds)	2,634	2,521	2,594	3,062	3,359	3,879
of which MF	2,463	2,364	2,480	2,936	3,219	3,722
				18%	10%	16%
Revenue from operations	13,268	11,597	10,679	12,958	13,464	14,714
Investment management fees	12,292	10,902	10,182	12,407	12,847	14,086
Portfolio management fees	976	694	497	551	617	628
Other income	805	751	1,379	1,320	1,400	1,610
Total income	14,073	12,348	12,058	14,278	14,864	16,324
Operating expenses						
Employee expense	2,775	2,420	2,407	2,760	3,064	3,309
Other expenses	4,458	2,901	2,263	2,209	2,460	2,593
Total Opex	7,233	5,321	4,670	4,969	5,524	5,902
EBITDA	6,035	6,276	6,009	7,989	7,940	8,812
Depreciation and amortization expenses	381	420	430	393	400	407
PBT	6,458	6,607	6,959	8,915	8,939	10,015
Core PBT (ex other income)	5,653	5,857	5,579	7,595	7,539	8,405
Tax	1,990	1,663	1,696	2,247	2,253	2,524
PAT	4,468	4,944	5,262	6,427	6,687	7,491
Core PAT	3,912	4,382	4,219	5,439	5,639	6,287

Source: I-Sec research

Table 12: Balance sheet

(Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	180	180	180	180	180	180
Reserves and Surplus	12,026	12,989	16,866	20,152	23,240	26,556
Networth	12,206	13,169	17,046	20,332	23,420	26,736
Trade payables	755	474	374	393	412	433
Provisions	503	705	945	964	984	1,003
Other Liabilities	1,520	1,371	1,480	1,329	1,232	1,174
Total Liabilities	14,985	15,720	19,846	23,018	26,048	29,346
Assets						
Net block (incl CWIP)	969	872	782	627	468	353
Investments	11,381	12,634	17,263	20,408	23,449	26,711
of which cash and cash equivalents	385	469	568	653	703	753
Other assets	2,250	1,745	1,233	1,329	1,428	1,528
Total Assets	14,985	15,720	19,846	23,018	26,048	29,346

Source: I-Sec research

Table 13: Cashflow statement

(Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Operating Cashflow ex WC	6,299	6,019	7,989	7,940	8,812	10,511
Working Capital Changes	374	614	-32	-32	-32	-31
Cashflow from operations	4,970	5,123	5,710	5,655	6,257	7,412
Capital Commitments ex asset sale	-150	-21	1,120	1,200	1,360	1,502
Free Cashflow	5,775	5,384	9,141	9,171	10,204	12,044
Cash flow from Investing Activities	-661	-3,398	-2,026	-1,841	-1,902	-3,513
Dividend paid including taxes	-3,978	-1,400	-3,383	-3,599	-4,175	-3,743
Cashflow from Financing Activities	-4,225	-1,625	-3,600	-3,764	-4,305	-3,849
Chg. in Cash & Bank balance	84	99	85	50	50	50

Source: I-Sec research

Table 14: Key ratios

	FY19	FY20	FY21	FY22E	FY23E	FY24E
Per share data (in Rs)						
EPS(Basic Recurring)	15.5	17.2	18.3	23.2	23.2	26.0
Core EPS	13.6	15.2	14.7	18.9	19.6	21.8
Dividend per share (DPS)	12.5	13.8	10.5	11.8	12.5	14.5
Book Value per share	45.7	59.2	70.6	81.3	92.9	111.5
Growth ratios (%)						
AUM	9.0	-4.3	2.9	18.0	9.7	15.5
Total Revenue	6.2	-12.6	-7.9	21.3	3.9	9.3
EBITDA	26.3	4.0	-4.3	32.9	-0.6	11.0
Recurring Net Income	28.2	10.6	6.4	22.1	4.0	12.0
Core PAT	30.9	12.0	-3.7	28.9	3.7	11.5
Valuation ratios (x)						
P/E	35.2	31.8	29.9	24.3	23.5	21.0
P/BV	11.9	9.2	7.8	6.8	5.9	4.9
Core P/E	37.3	33.0	33.2	25.3	23.8	20.8
MCap to AUM	6.0	6.2	6.1	5.2	4.7	4.1
Operating ratios						
Investment management fees/total income	87.3	88.3	84.4	86.9	86.4	86.3
Operating expenses/total income	51.4	43.1	38.7	34.8	37.2	36.2
Employee expenses/operating expenses	38.4	45.5	51.5	55.5	55.5	56.1
Core PBT margin (of total income)	40.2	47.4	46.3	53.2	50.7	51.5
PAT margin (of total income)	31.8	40.0	43.6	45.0	45.0	45.9
Tax rate	30.8	25.2	24.4	25.2	25.2	25.2
Payout ratio	81%	80%	57%	51%	54%	56%
Return ratios - MF AUM (bps)						
Revenue	49.9	46.1	41.1	42.3	39.9	37.8
Operating expenses	29.4	22.5	18.8	16.9	17.2	15.9
Operating margins	20.5	23.6	22.2	25.3	22.7	22.0
PAT	17.0	19.6	20.3	21.0	19.9	19.3
Core PAT	14.9	17.4	16.3	17.8	16.8	16.2
RoE						
	36.6	39.0	34.8	34.4	30.6	29.9

Source: I-Sec research

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