

TP change



Rating change



Bloomberg	ABCAP IN
Equity Shares (m)	2,414
M.Cap.(INRb)/(USD)	310.4 / 3.8
52-Week Range (INR)	139 / 86
1, 6, 12 Rel. Per (%)	6/9/20
12M Avg Val (INR M)	507

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
PBT Break-up			
NBFC	14.9	21.9	26.8
Housing	2.5	3.1	3.8
AMC	8.9	8.4	9.7
Life Insurance	1.8	2.0	2.2
Consol PBT	22.9	36.4	44.8
Consol PAT Post MI	17.1	22.0	27.3
Growth (%)	51.4	29.0	24.1
RoE (%)	11.7	13.0	13.8

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	71.1	71.1	70.7
DII	12.7	11.9	11.8
FII	2.7	2.6	2.4
Others	13.6	14.4	15.2

FII Includes depository receipts

CMP: INR128

TP: INR155 (+21%)

Buy

Strong performance across most businesses

- Consolidated revenue grew 21% YoY to INR72b in 2QFY23. Consolidated PAT (after minority interest) grew 30% YoY to ~INR4.9b in the quarter.
- The management has been steadfast, exhibiting high agility in its journey toward its FY24 targets, a large majority of which, has either been achieved or will be over the course of FY23.

NBFC: Continued improvement in share of SME, HNI, and Retail

- Loan book grew to ~INR650b, up 36% YoY in 2QFY23. Retail, SME, and HNI loan book grew 50% YoY, with its proportion in the mix growing to 65% (PY: 59%) in the quarter.
- 2QFY23 disbursements were robust at ~INR125b, up 2.3x YoY with Retail, SME, and HNI contributing 70% of disbursements.
- NIM and fees improved to 6.6% (up 35bp YoY), aided by growth in retail. Asset quality was largely stable QoQ with GS3 at 3.1%

Housing Finance: Affordable segment continues to gain momentum

- The company reported a broad-based growth across customer segments with 24% YoY growth in disbursements to INR12.4b in 2QFY23. Loan book grew 10% YoY to INR 124.5b with 94% retail in the mix. The proportion of affordable Housing improved to 41% (PY: 33%) in the quarter.
- NIM improved to ~5.1% (up 90bp YoY) in 2QFY23, with CIR ratio at ~41%.
- GS3 (as per RBI norms) was largely stable, sequentially at 3.6%. Collection efficiency for the quarter stood at 99.3%.

AMC segment: Improvement in domestic equity share

- Quarterly Average AUM (QAAUM) stood at INR2.83t in 2QFY23. Domestic equity QAAUM grew 3% YoY to ~INR1.2t.
- Domestic equity mix expanded to ~42% (PY: ~39%), while the total retail folios remained flat QoQ at 8.1m. Passive AUM stood at INR169b in 2QFY23.

Life Insurance: Improving VNB margin and healthy 13th month persistency

- Individual FYP for 2QFY23 grew 16% YoY to INR 6.4b, while Renewal premium grew 14% YoY to INR29.5b, out of which, 77% was collected digitally. Group business grew 23% YoY to INR12.8b.
- Net VNB margin improved ~470bp YoY to 12.3% in 1HFY23.
- The 13th month persistency exhibited sustained improvement to 86% (PY: 83%)

Health Insurance: Gaining market share among SAHIs

- GWP grew 62% YoY to ~INR6.4b in 2QFY23, with Retail and rural contribution improving to 66% in the total business. The Health Insurance business continues to build scale with focus on expenses, leading to improvement in combined ratio in 1HFY23 to 112% (PY: 114%).
- Market share among Stand-Alone Health Insurers (SAHIs) expanded ~260bp YoY to 11% in 1HFY23. Net loss reduced to INR760m from INR1b the previous year.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Highlights from the management commentary

- **NBFC:** Total branches stand at 221 with 62 new branches opened in 1HFY23. The management targets to open a total of 325 branches by the end of FY23.
- **Life Insurance:** Net VNB margin for 2QFY23 expanded ~470bp YoY to 12.3% in 1HFY23. The company targets to achieve net VNB margin of >18% by FY23.
- **Health Insurance:** Combined ratio declined to 112% in 1HFY23 (PY: 114%) while claims ratio stood at 56-57%.

Operational metrics continued to improve; reiterate Buy

- ABCAP has exhibited significant improvement in operational metrics across all other business segments in 2QFY23. With the worst on asset quality behind, the coming years will see an uptick in its growth, lower credit costs, and better return ratios.
- The Asset Management business is likely to churn out better profitability, driven by an improvement in revenue as well as cost rationalization. VNB margin and persistency margin in the Life Insurance business continues to improve. The drag on consolidated PAT from other segments such as Health Insurance will fall, improving the overall profitability.
- We expect consolidated PAT to register a CAGR of 27% over FY22-24. The thrust on cross-selling, investments in digital, and leveraging 'One ABC' will lead to healthy return ratios, even as we build in a consolidated FY24 RoE of ~14%. We reiterate our Buy rating, with a SoTP (Mar'24E) based TP of INR155, implying a potential upside of 21%.

Exhibit 1: SoTP (FY24E based)

	Stake	Value (INR b)	Value (USD b)	INR per share	As a percentage of total	Rationale
NBFC	100	180	2.3	75	49	1.3x PBV
HFC	100	37	0.5	16	10	1.6x PBV
AMC	50	67	0.8	28	18	23x Earnings
LI	51	81	1.0	34	22	1.6x EV
Others		5	0.1	2	1	
Target value		371	4.7	155	100	
Current market cap.		309	4.1	128		
Upside (%)		19.9	13.4	21		

Source: MOFSL, Company

Quarterly Performance

(INR M)

Y/E March	FY22				FY23		FY22
	1Q	2Q	3Q	4Q	1Q	2Q	
ABFSL - NBFC arm							
Net Income	7,218	7,651	7,996	8,057	8,895	9,979	30,921
Change YoY (%)	27.5	21.1	29.9	15.2	23.2	30.4	23.1
Opex	2,130	2,300	2,370	2,530	2,790	3,140	9,330
Cost to Income Ratio (%)	29.5	30.1	29.6	31.4	31.4	31.5	30.2
Operating Profits	5,088	5,351	5,626	5,527	6,105	6,839	21,591
Change YoY (%)	29.5	22.2	34.1	15.6	20.0	27.8	24.9
Provisions	1,940	1,480	1,780	1,520	1,520	1,960	6,720
Profit Before Tax	3,148	3,871	3,846	4,007	4,585	4,879	14,871
Change YoY (%)	66.6	58.8	47.6	18.5	45.7	26.0	44.2
Consolidated Earnings							
Cons PBT Before JV Interest	5,251	6,724	9,068	7,385	7,034	8,451	28,427
Growth YoY %	43.8	46.3	74.3	17.5	34.0	25.7	44.1
Lending	3,642	4,529	4,523	4,710	5,301	5,636	17,404
NBFC	3,148	3,871	3,846	4,007	4,585	4,879	14,871
HFC	495	658	677	703	716	757	2,532
AMC	2,059	2,305	2,490	2,094	1,408	2,494	8,947
Life Insurance	311	504	404	530	335	557	1,749
Others*	-761	-614	1,652	51	-10	-236	328
Networth allocation mix							
NBFC	52.6	52.3	51.9	51.3	51.9	52.1	
Housing Finance	9.2	9.2	9.2	9.1	9.2	9.3	
Life Insurance	17.4	17.2	16.5	16.1	15.1	15.1	
AMC	11.1	11.8	11.5	12.0	12.3	12.1	
General Ins Adv	0.5	0.4	0.4	0.4	0.6	0.6	
Broking	1.4	1.4	1.4	1.4	1.4	1.4	
Health Insurance	2.6	2.9	3.0	2.9	3.8	3.3	
Others*	3.8	3.3	4.4	4.6	3.8	4.2	
Elimination/Unallocated	1.3	1.5	1.7	2.0	1.9	2.0	
Details on lending business							
Loans (INR B)	572	591	614	672	699	774	
Change YoY (%)	-1.5	2.5	6.8	10.9	22.2	31.1	
NBFC	459	477	498	552	578	650	
Change YoY (%)	-0.1	5.0	9.1	13.3	26.1	36.1	
HFC	113	113	116	120	120	125	
Change YoY (%)	-6.9	-6.5	-2.2	1.1	6.6	10.0	
Net Interest Margins							
NBFC	6.14	6.23	6.24	6.37	6.47	6.58	
HFC	4.24	4.15	4.21	4.52	4.77	5.13	
GNPA %							
NBFC	3.64	3.64	3.90	3.10	3.20	3.08	
HFC	2.08	2.13	2.12	2.02	2.16	0.00	
Details on Other business							
AMC Business							
QAAUM (INR B)	2,867	3,120	3,109	3,074	2,926	2,938	
Change YoY (%)	27.0	24.7	16.5	9.4	2.1	-5.8	
Life Ins - 13th Mt persistency	83.0	83.0	84.0	85.0	85.0	86.0	

* 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

NBFC

- Strong momentum across all segments contributed to a 12% QoQ/36% YoY growth in the NBFC business. The company acquired 1.2m customers with the total customer base reaching to 5.3m.
- The company passed on the rising CoF to the customers, driving expansion in NIM in 2QFY23.

- The quarter was strong in terms of profit delivery with RoE expanding ~105bp YoY to 14.7%.
- Improvement in asset quality despite implementation of RBI NPA circular, with GS3 reducing ~10bp QoQ to 3.1%. Restructured book declined to 0.3% of loan book v/s 0.85% in previous quarter
- Considering ~74% of the book is secured in nature, the company considers the current PCR level of ~49% to be adequate
- Disbursements of INR12.4b this quarter have been the highest ever. Retail and SME segments contributed ~70% to the disbursement mix.
- Personal and consumer segments contributed ~28% of the disbursements at INR35b this quarter. Nearly 32% in the digital portfolio was driven by Personal and Consumer loans (PY: 20%)
- The GS3 ratio in the Corporate/Mid-Corporate book increased and the company expects to address it in 3QFY23.
- The total number of branches stands at 221 with 62 new branches opened in 1HFY23. The management targets to open a total of 325 branches by the end of FY23.

Housing Finance

- The retail book contributes 94% to the AUM mix with ATS at INR2.4m. The growth segment contributes 53% to the loan book.
- The increased contribution of value segments (Affordable HL, Affordable LAP, and Construction Finance) and the ability of the company to pass on the rising CoF has led to a margin expansion of ~90bp to 5.1% in 2QFY23. The management guided for margins to remain range bound in the near term.
- 92% of the disbursements have been made to customers with a CIBIL score of more than 700

Life Insurance

- Upsell and cross-sell contributed 39% to FYP.
- Net VNB margin for 2QFY23 expanded ~470bp YoY to 12.3% in 1HFY23. The company targets to achieve a net VNB margin of >18% by FY23.
- The company expects that the margins will remain same or expand, driven by improving proportion of protection
- The company is carrying COVID provisions of INR300m

Health Insurance

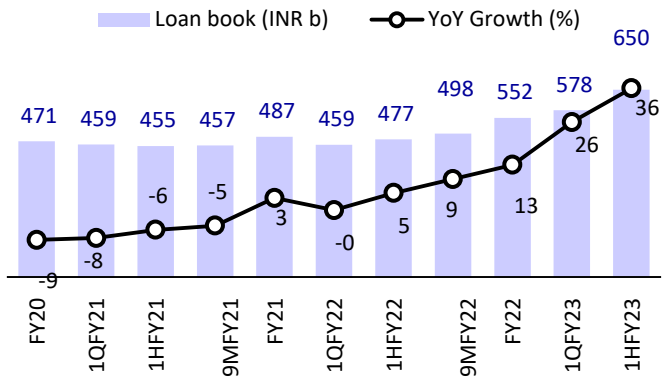
- The company acquired 5m net new customers in 1HFY23, reflecting a YoY growth of 44%
- Overall share among SAHIs stood at ~11% (an improvement of ~250bp YoY).
- Combined ratio declined to 112% in 1HFY23 (PY: 114%), while claims ratio stood at 56-57%.

Digital initiatives

- The company continues to acquire customers through the omni-channel strategy. ~97% of the customers were on-boarded digitally in 2QFY23.
- Branch expansion was primarily driven by increasing foot-print in the lending segment. Expansion is targeted to drive penetration in tier 2 and 3 cities.
- The company is extensively leveraging data and analytics to maximize wallet share through customer life cycle

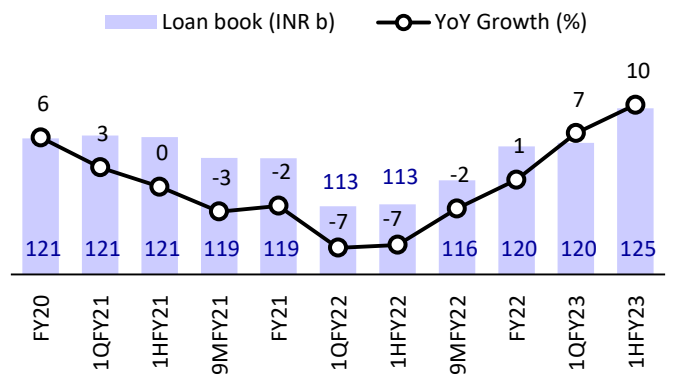
Key exhibits

Exhibit 2: NBFC loan book exhibited healthy QoQ growth



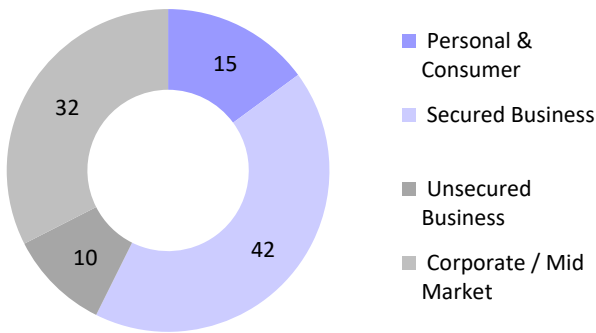
Source: MOFSL, Company

Exhibit 3: HFC loan book has stabilized and is expected to exhibit growth now



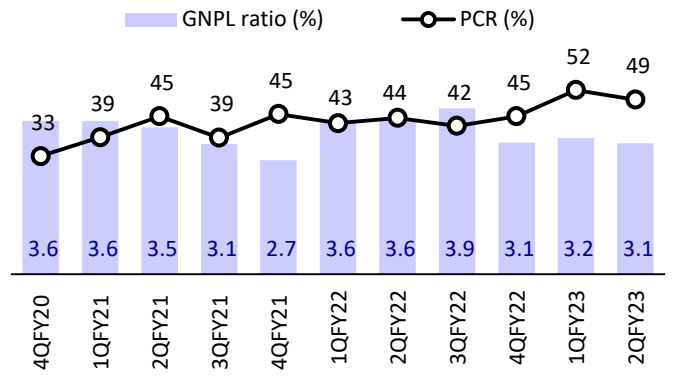
Source: MOFSL, Company

Exhibit 4: NBFC 2QFY23 loan mix (%)



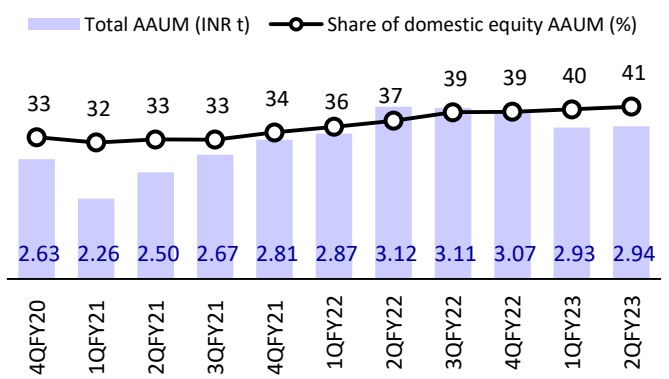
Source: MOFSL, Company; Others include Promoter and others

Exhibit 5: GS3 improved 10bp QoQ to 3.1%



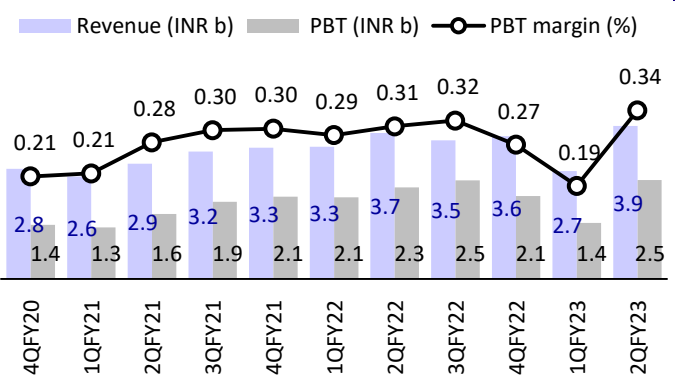
Source: MOFSL, Company; Note: NBFC segment

Exhibit 6: AMC segment – AAUM stable sequentially (%)



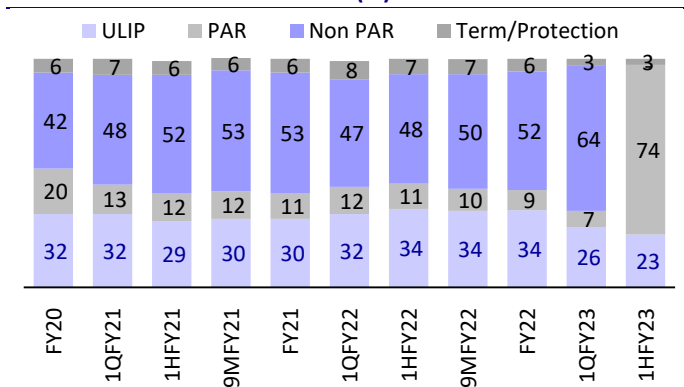
Source: MOFSL, Company

Exhibit 7: AMC: PBT margin improved 15bp QoQ



Source: MOFSL, Company, *% of AAUM Annualized

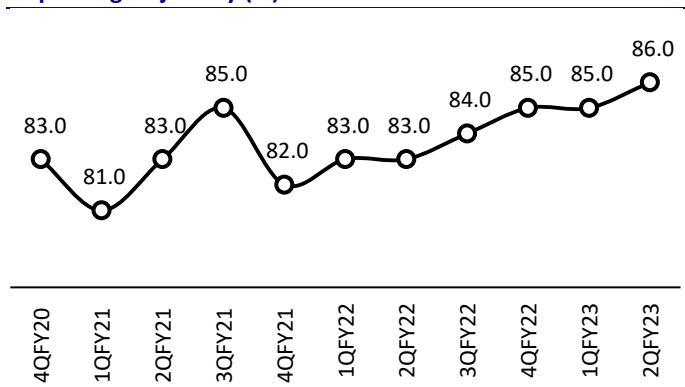
Exhibit 8: Product mix in ABSLI (%)



Source: MOFSL, Company

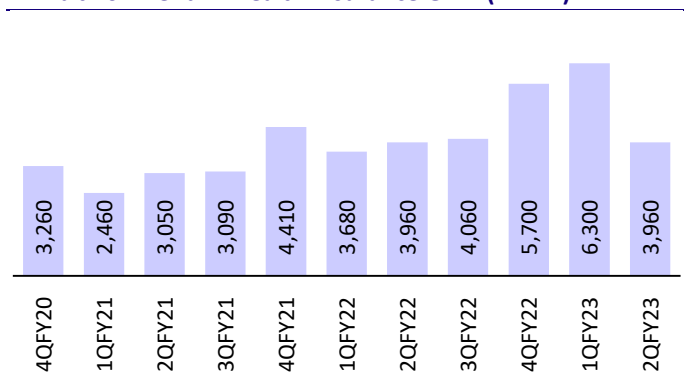
Note: Split of PAR and Non PAR not disclosed in 2QFY23

Exhibit 9: The 13-month persistency on a stable-to-improving trajectory (%)



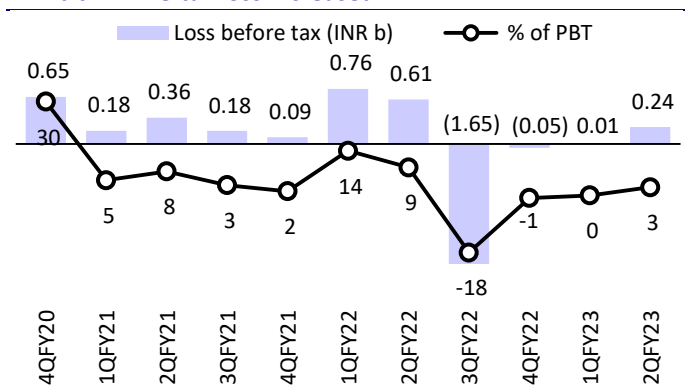
Source: MOFSL, Company

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



Source: MOFSL, Company

Exhibit 11: Pre-tax loss increased



Source: MOFSL, Company

Operational metrics continued to improve; reiterate Buy

- ABCAP has exhibited a significant improvement in operational metrics across all other business segments in 2QFY23. With the worst on asset quality behind, the coming years is expected to witness growth, lower credit costs, and better return ratios.
- The Asset Management business is likely to churn out better profitability, driven by an improvement in revenue as well as cost rationalization. VNB margin and persistency in the Life Insurance business continues to improve. The drag on consolidated PAT from other segments such as Health Insurance will fall, improving the overall profitability.
- We expect consolidated PAT to register a CAGR of 27% over FY22-24. The thrust on cross-selling, investments in digital, and leveraging 'One ABC' will lead to healthy return ratios, even as we build in a consolidated FY24 RoE of ~14%. We reiterate our Buy rating, with a SoTP (Mar'24E) based TP of INR155, implying a potential upside of 21%.

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

Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	2024E
NBFC	35,108	49,813	63,112	74,165	80,782	88,379	98,604	1,23,913	1,35,275
Housing	2,048	3,675	7,501	11,903	13,829	15,192	17,210	19,647	22,657
AMC	7,794	9,416	11,610	12,154	13,041	17,109	21,896	22,425	24,614
Life Insurance	0	18,047	23,294	24,488	26,574	26,574	29,368	31,328	33,484
Other Businesses	683	782	2,540	2,322	2,112	2,799	3,178	5,120	6,462
Consolidation Adjustments	6,472	3,739	-12,118	-18,335	2,618	2,223	8,015	944	11,792
Consolidated Network	52,105	85,472	95,939	1,06,698	1,38,954	1,52,274	1,78,270	2,03,376	2,34,284
Of which Non-controlling Int	7,557	19,518	10,560	11,574	13,196	14,848	15,986	19,077	22,676
Consolidated NW Post NCI	44,548	65,954	85,378	95,124	1,25,758	1,37,426	1,62,284	1,84,299	2,11,609
% of Total Network	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	2024E
NBFC	67.4	58.3	65.8	69.5	58.1	58.0	55.3	60.9	57.7
Housing	3.9	4.3	7.8	11.2	10.0	10.0	9.7	9.7	9.7
AMC	15.0	11.0	12.1	11.4	9.4	11.2	12.3	11.0	10.5
Life Insurance		21.1	24.3	23.0	19.1	17.5	16.5	15.4	14.3
Other Businesses	1.3	0.9	2.6	2.2	1.5	1.8	1.8	2.5	2.8
Consolidation Adjustments	12.4	4.4	-12.6	-17.2	1.9	1.5	4.5	0.5	5.0
Consolidated Network	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Change YoY %	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	2024E
NBFC	76.9	41.9	26.7	17.5	8.9	9.4	11.6	25.7	9.2
Housing		79.5	104.1	58.7	16.2	9.9	13.3	14.2	15.3
AMC	35.3	20.8	23.3	4.7	7.3	31.2	28.0	2.4	9.8
Life Insurance				5.1	8.5	0.0	10.5	6.7	6.9
Other Businesses	2.7	14.4	224.8	-8.6	-9.1	32.5	13.5	61.1	26.2
Consolidation Adjustments	7.1	-42.2	-424.1	51.3	-114.3	-15.1	260.6	-88.2	1,149.8
Consolidated Network	59.0	64.0	12.2	11.2	30.2	9.6	17.1	14.1	15.2

Source: MOFSL, Company

Financials and valuations

Income Statement

Y/E MARCH	2016	2017	FY18	FY19	FY20	FY21	FY22	FY23E	2024E
NBFC	6,264	8,319	11,393	13,280	10,529	10,314	14,883	21,896	26,753
Housing	-302	-155	237	1,073	1,362	1,764	2,533	3,104	3,835
AMC	3,136	3,371	5,233	6,468	6,609	6,958	8,948	8,377	9,729
Life Insurance	0	0	1,304	1,315	1,370	1,510	1,750	1,960	2,156
Other Businesses	-331	-534	-1,478	-2,155	-1,870	-1,068	-1,450	1,118	2,342
Consolidation Adjustments	-78	-343	-2,312	-2,011	-1,128	255	-120	-70	-20
Consolidated PBT	8,688	10,658	14,377	17,969	16,872	19,733	22,870	36,385	44,795
Taxes	3,446	3,746	5,769	7,681	5,804	6,096	8,320	11,279	13,886
<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>30.9</i>	<i>36.4</i>	<i>31.0</i>	<i>31.0</i>
Consolidated PAT	5,242	6,912	8,608	10,288	11,068	13,637	14,550	25,106	30,908
Minority Interest	1,436	1,612	1,745	1,620	1,899	2,368	4,490	3,091	3,598
Consolidated PAT Post MI	3,806	5,300	6,863	8,669	9,169	11,269	17,060	22,015	27,310

% of Total PBT	2016	2017	FY18	FY19	FY20	FY21	FY22	FY23E	2024E
NBFC	72.1	78.1	79.2	73.9	62.4	52.3	65.1	60.2	59.7
Housing	-3.5	-1.5	1.6	6.0	8.1	8.9	11.1	8.5	8.6
AMC	36.1	31.6	36.4	36.0	39.2	35.3	39.1	23.0	21.7
Life Insurance	0.0	0.0	9.1	7.3	8.1	7.7	7.7	5.4	4.8
Other Businesses	-3.8	-5.0	-10.3	-12.0	-11.1	-5.4	-6.3	3.1	5.2
Consolidation Adjustments	-0.9	-3.2	-16.1	-11.2	-6.7	1.3	-0.5	-0.2	0.0
Consolidated PBT	100.0	100.0	100.0	100.0	100.0	100.0	116.1	100.0	100.0

Change YoY %	2016	2017	FY18	FY19	FY20	FY21	FY22	FY23E	2024E
NBFC	52.5	32.8	36.9	16.6	-20.7	-2.0	44.3	47.1	22.2
Housing		-48.7	-253.1	352.3	26.9	29.5	43.6	22.6	23.6
AMC	72.7	7.5	55.2	23.6	2.2	5.3	28.6	-6.4	16.1
Life Insurance				0.8	4.2	10.2	15.9	12.0	10.0
Other Businesses	13.9	61.3	176.8	45.8	-13.2	-42.9	35.8	-177.1	109.4
Consolidation Adjustments	-79.9	338.8	574.1	-13.0	-43.9				
Consolidated PBT	67.4	22.7	34.9	25.0	-6.1	17.0	15.9	59.1	23.1
Taxes	64.0	8.7	54.0	33.2	-24.4	5.0	36.5	35.6	23.1
Consolidated PAT	69.7	31.9	24.5	19.5	7.6	23.2	6.7	72.5	23.1
Minority Interest	106.3	12.3	8.2	-7.2	17.3	24.7	89.6	-31.1	16.4
Consolidated PAT Post MI	59.1	39.3	29.5	26.3	5.8	22.9	51.4	29.0	24.1

BALANCE SHEET

Y/E MARCH	2016	2017	FY18	FY19	FY20	FY21	FY22	FY23E	2024E
Networth	35,108	49,813	63,112	74,165	80,782	88,379	98,604	1,23,913	1,35,275
Borrowings	2,14,090	2,89,132	3,62,462	4,30,023	4,13,539	3,90,334	4,34,984	5,78,938	6,48,881
<i>Change (%)</i>	<i>46.7</i>	<i>35.1</i>	<i>25.4</i>	<i>18.6</i>	<i>-3.8</i>	<i>-5.6</i>	<i>11.4</i>	<i>33.1</i>	<i>12.1</i>
Other liabilities	13,042	15,254	16,375	17,592	25,675	28,839	36,104	43,325	51,989
<i>Change (%)</i>	<i>-5.4</i>	<i>17.0</i>	<i>7.4</i>	<i>7.4</i>	<i>45.9</i>	<i>12.3</i>	<i>25.2</i>	<i>20.0</i>	<i>20.0</i>
Total Liabilities	2,62,239	3,54,199	4,41,950	5,21,781	5,19,995	5,07,552	5,69,692	7,46,175	8,36,146
Customer assets	2,57,552	3,47,032	4,32,420	5,17,140	4,70,570	4,86,980	5,51,800	7,06,304	7,98,124
<i>Change (%)</i>	<i>46.4</i>	<i>34.7</i>	<i>24.6</i>	<i>19.6</i>	<i>-9.0</i>	<i>3.5</i>	<i>13.3</i>	<i>28.0</i>	<i>13.0</i>
Other assets	4,687	7,166	9,530	4,641	49,425	20,572	17,892	39,871	38,022
<i>Change (%)</i>	<i>27.1</i>	<i>52.9</i>	<i>33.0</i>	<i>-51.3</i>	<i>965.0</i>	<i>-58.4</i>	<i>-13.0</i>	<i>122.8</i>	<i>-4.6</i>
Total Assets	2,62,239	3,54,199	4,41,950	5,21,781	5,19,995	5,07,552	5,69,692	7,46,175	8,36,146

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Financials and valuations

Valuations	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Consolidated BV	38.8	43.2	52.1	56.9	64.1	76.3	87.6
<i>Change YoY</i>		11.4	20.6	9.2	12.7	19.0	14.8
Consolidated P/BV	3.3	3.0	2.5	2.3	2.0	1.7	1.5
Consolidated EPS	3.1	3.9	3.8	4.7	7.1	9.1	11.3
<i>Change YoY</i>		26.3	-3.5	22.8	51.3	29.1	24.1
Consolidated P/E	41.2	32.6	33.8	27.5	18.2	14.1	11.4
Consolidated RoE	9.1	9.6	8.3	8.6	11.7	13.0	13.8

NOTES

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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