Your success is our success

Aditya Birla Capital

Refer to important disclosures at the end of this report

Emergence of a behemoth

CMP	Target Price
Rs 155 as of (March 3, 2023)	Rs 200 12 months
Rating	Upside
BUY	29.4 %

We initiate coverage on Aditya Birla Capital (ABCAP) with a BUY recommendation and Mar-24E TP of Rs200/share (+29% upside), based on SOTP-based valuation methodology. Our positive view on the stock is underpinned by three factors: 1) The lending business (NBFC and HFC) has hit upon the right business model (categories, acquisition channel and unit economics), with a right to win. This will manifest into an impressive 26% loan-book CAGR, supporting a similarly sturdy 31% profit CAGR through to FY25E. 2) The Life Insurance business has withstood regulatory shocks and now owns a diversified distribution channel, which will focus on driving growth beyond urban centers. We estimate 20% VNB margin, with industry-leading growth. Likewise, the company's AMC business maintains dominance (is in the top-tier) and is favored by the notably cyclical movement in market share. Health Insurance remains in a growth phase. 3) The most vital trigger, in our view, remains the dynamism of the new management, which indeed intends to capitalize on its "low cost liability" edge and its right to win, together with shedding its ultra-conservatism on growth (not risk). Despite the higher growth in insurance businesses putting some strain on reported profit, we see consolidated PAT clocking ~30% CAGR over FY22-25E to reach Rs33bn.

- **Intent to complement the ingredients:** With one of the most competitive costs of funding and being among the few household brand names in the country, the Aditya Birla Group always had the right ingredients for attaining success in the financial services business. Now, with the new Management's focus on forging partnerships (in the digital and the physical worlds) and exploiting the Aditya Birla Group synergies, ABCAP is on the right track to deliver profitable growth. Its 'One ABC' approach, towards addressing the complete financial needs of the customer while driving synergy across ABC entities, will not only expand the target customer base for ABCAP, but also increase its customer wallet share.
- **Lending businesses seem to have cracked the code of profit with growth:** Despite the cost-of-fund advantage (average FY19-22 CoF: 7.5%), the lending businesses of ABCAP have, for years, seen a slower growth pace (FY19-22 loan-book CAGR: 2%), largely owing to realignment of customer & product segment focus and due to gaps at senior leadership positions in the lending businesses. Now, having ascertained the various distribution modes (including own branches, One ABC branches and Digital & Physical ecosystem partnerships), in-place management and homing-in on the focus product-segments (Unsecured Retail and SME), the lending business has accelerated its growth and is well poised to maintain the growth momentum. The big shift from the past is that the company is open to most customer segments and channels, as long as yields take care of Opex and credit cost, to deliver a healthy RoA.
- **Despite the difficult external environment, the Insurance & AMC businesses are much stronger and promising:** Today, fitted with its diversified distribution (banca, direct, digital and agency) network, the company is well on track to capitalize on its strong brand, by penetrating beyond urban centers and delivering ~20% VNB margin while growing faster than the industry. Health Insurance business has seen impressive progress since inception, and maintains focus on gaining scale (2.7% health premium market share in 9MFY23) by keeping a close watch on distribution and product needs. ABSLAMC is among the top domestic mutual funds, in Assets Under Management (AUM) terms. With the regulatory changes, macro volatility and launches of fresh fund-houses becoming the new order of the day, ABCAP is adapting well to this novel operating environment and suitably meeting the emerging challenges; this should allow it to stabilize growth & market share in coming years.
- **Diversified offering available at attractive valuation; initiate with BUY:** With material presence across lending (NBFC and HFC), Investing (AMC and Broking) and Protecting (Life Insurance, Health Insurance and Insurance Broking), ABCAP is currently trading on FY24E P/B of ~1.6x for ~13% RoE. We value ABCAP using SOTP-based valuation (NBFC: FY24E P/B of 2.2x; HFC: FY24E P/B of 2x; AMC: MCap of Rs109bn; Life Insurance: FY24E P/EV of 1.5x; Health Insurance: Rs86bn based on the ADIA Deal valuation and others at Rs15bn). We apply 20% holding-company discount on listed and not fully-owned entities. Based on the SoTP valuation method, we peg our Mar-24E TP at Rs200/share, implying ~29% upside. For its diversified offering and competitive positioning of companies in their respective domain, we see ABCAP as a core holding in the India portfolio.

Change in Estimates	
EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	NR

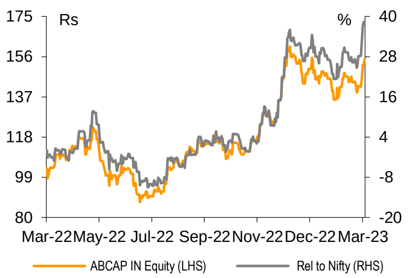
Emkay vs Consensus		
EPS Estimates		
	FY23E	**FY24E**
Emkay	8.3	11.2
Consensus	8.7	10.4
Mean Consensus TP (12M)		Rs 159

Stock Details	
Bloomberg Code	ABCAP IN
Face Value (Rs)	10
Shares outstanding (mn)	2,417
52 Week H/L	163 / 86
M Cap (Rs bn/USD bn)	374 / 4.56
Daily Avg Volume (nos.)	3,674,415
Daily Avg Turnover (USD mn)	6.7

Shareholding Pattern Dec '22	
Promoters	71.1%
FIIs	7.2%
DIIs	8.9%
Public and Others	12.8%

Price Performance				
(%)	**1M**	**3M**	**6M**	**12M**
Absolute	9	2	35	50
Rel. to Nifty	10	8	35	38

Relative price trend



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Avinash Singh
avinash.singh@emkayglobal.com
+91 22 6612 1327

Mahek Shah
mahek.shah@emkayglobal.com
+91 22 6612 1218

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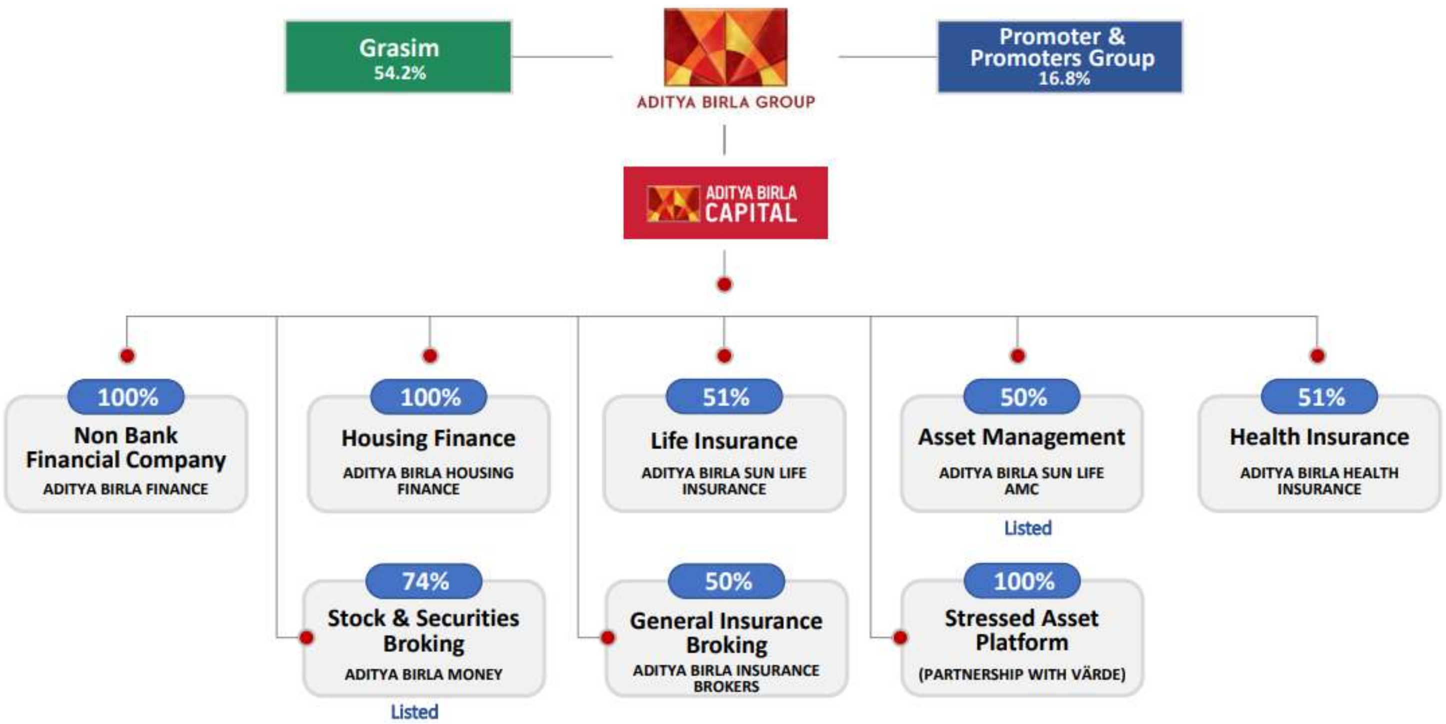
Exhibit 1: Financial Snapshot (Consolidated)

FY ending 31-Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Reported Profit after tax	11,265	17,060	47,656	26,943	33,402
Adjusted Profit after tax	11,265	15,100	19,976	26,943	33,402
Net worth	1,37,426	1,54,921	2,02,577	2,29,520	2,62,922
Return on Equity (%)	8.6%	10.3%	11.2%	12.5%	13.6%
Adjusted EPS (Rs)	4.7	6.2	8.3	11.2	13.8
BVPS (Rs)	56.9	64.1	83.8	95.0	108.8
P/E (x)	33.1	24.7	18.7	13.9	11.2
P/B (x)	2.7	2.4	1.8	1.6	1.4

Source: Company, Emkay Research

Exhibit 2: Aditya Birla Capital – Corporate structure



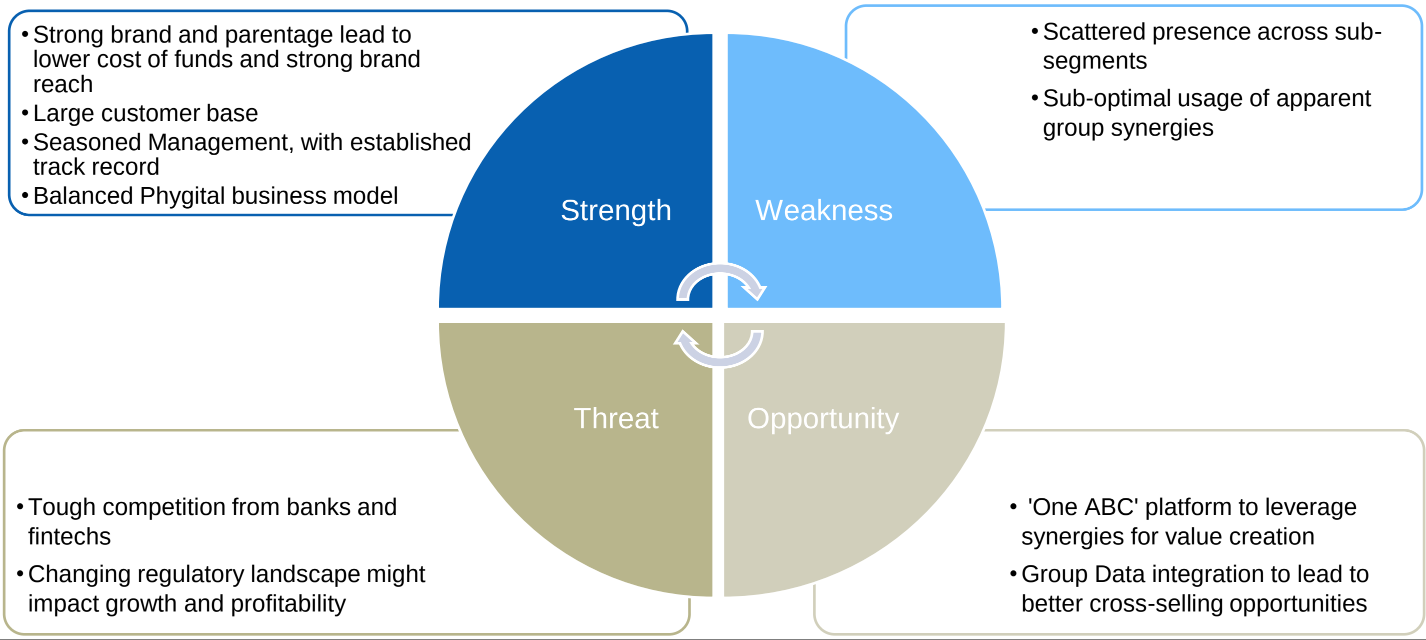
Source: Company; Note: ABCAP holds 46% stake in Aditya Birla Health Insurance post the deal with ADIA.

Exhibit 3: ABCAP – Sum-of-the parts valuation

Entity	Metrics	Mar-24	Multiple	Valuation (Rs mn)	Ownership	Value	Rs per share
NBFC	Net worth (Rs mn)	135,128	2.2	297,282	100%	297,282	123
HFC	Net worth (Rs mn)	22,705	2.0	45,410	100%	45,410	19
AMC	MCAP (Rs mn)	108,890	1.0	108,890	50%	54,456	23
Life Insurance	EV (Rs mn)	96,416	1.5	144,624	51%	73,758	31
Health Insurance	Deal value (Rs mn)	85,667	1.0	85,667	46%	39,321	16
AB Money	MCAP (Rs mn)	3,070	1.0	3,070	74%	2,272	1
Others	(Rs mn)	15000	1.0	15,000	50%	7,500	3
Total						**519,999**	**215**
Holding company discount			**20%**			**35,461**	**15**
Fair value						**484,538**	**201**
No. of shares (mn)						2,416	
Fair value per share	**(Rs)**						**201**

Source: Company, Emkay Research

Exhibit 4: Aditya Birla Capital – SWOT analysis



Source: Emkay Research

Exhibit 5: FY24 Targets and current achievements

	Metrics for FY24 Guidance	FY20	FY22	Q3FY23	FY24 Target
NBFC	Retail + SME mix	50%	62%	66%	65%
	Net Interest margin	5.29%	6.25%	7%	6.25%
	Return on Assets	1.61%	2.30%	2.40%	2.5-2.7%
Housing	Affordable mix	19%	38%	42%	~65%
	Net Interest margin	3.04%	4.24%	5.35%	4.25%
	Return on Assets	1.00%	1.70%	1.90%	1.5-1.6%
AMC	Domestic Equity AAUM mix	34%	41%	43%	~40%
	PBT CAGR (Rs mn)	6,610	8,950	2,230	~15% p.a.
	Return on Equity	38.90%	34.00%	27.20%	35-40%
Life Insurance	Protection mix	6%	6%	2.20%	12-15%
	Opex ratio	15.9%	12.7%	14.10%	~12%
	Net VNB margin	6.90%	15.00%	20.00%	16-17%
Health Insurance	GWP CAGR (Reach: Rs.35bn)	8,720	17,270	5,880	~40%
	Combined ratio; Break-even	134%	126%	118%	108%

Source: Company

Exhibit 6: Aditya Birla Capital's Financial Summary (Consolidated) – Lending businesses will be the key drivers of profit growth

(Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax						
NBFC	10,529	10,314	14,871	20,857	27,841	34,423
Housing Finance	1,362	1,764	2,533	3,140	4,187	5,338
Asset Management	6,607	6,959	8,947	8,690	9,058	10,081
Life Insurance	1,044	1,179	1,409	1,503	1,724	1,820
Health Insurance	-2,412	-1,977	-3,114	-2,253	-1,554	236
General Insurance Broking	421	707	860	750		
AB Money	165	224	357	350	350	350
Others and Elimination	-4,920	-3,714	-2,995	23,144	-4,720	-5,231
Total PBT	12,797	15,457	22,867	56,181	36,886	47,018
Tax expense	4,136	4,400	6,267	8,989	9,959	12,695
Profit after tax	8,661	11,057	16,601	47,192	26,927	34,323
Minority interest	-537	-209	-459	-464	-17	921
Group Net income	9,198	11,265	17,060	47,656	26,943	33,402
Preference dividend	0	0	0	0	0	0
One-off adjustments			-1,960	-27,680		
Adjusted Group Net Income	9,198	11,265	15,100	19,976	26,943	33,402
Total Assets						
NBFC	5,19,995	5,07,552	5,69,692	8,14,873	9,89,265	11,63,436
Housing Finance	1,31,593	1,23,758	1,25,907	1,44,754	1,83,698	2,24,576
Life Insurance	4,20,861	5,32,595	6,16,673	6,86,676	7,92,106	9,19,287
Asset Management	15,720	19,846	24,347	28,730	34,476	41,371
Health Insurance	10,612	13,813	18,181	27,666	32,666	32,902
Other Businesses & Elimination	38,909	50,379	56,595	33,709	41,039	53,304
Total	11,37,690	12,47,942	14,11,395	17,36,408	20,73,251	24,34,875
(Rs)						
Adjusted EPS (Basic)	**4.07**	**4.67**	**6.25**	**8.27**	**11.15**	**13.82**
Reported EPS (Basic)	**4.07**	**4.67**	**7.06**	**19.72**	**11.15**	**13.82**
BVPS	**52.10**	**56.90**	**64.11**	**83.84**	**94.99**	**108.81**

Source: Company, Emkay Research

Exhibit 7: Aditya Birla Capital – BCG matrix

Source: Emkay Research

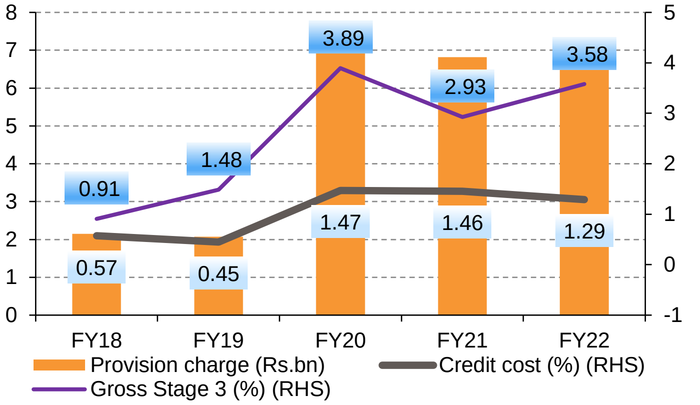
Realizing its true potential

Given its brand strength from Parent, which powers ABCAP with one of the most competitive funding costs (FY19-22 average cost of funding: 7.5%) and top-of-the-league brand-reach across the length & breadth of the country, it is a bit puzzling as to why the company continued to punch below its weight in financial-services verticals. One likely explanation could be the relative lack of focus on these verticals, being part of a large diversified conglomerate. It has been more than five years since ABCAP was demerged from parent Grasim. Its journey as an independent listed company has been a mixed bag, where one notable upshot has been that it has come out largely unscathed from a series of outlier external events – from the NBFC credit crisis of CY18-19, to one-in-a-multi-decade event like Covid-19 during CY20-21. On the other hand, a somewhat disappointing outcome is that the company has seen slower growth in lending businesses over this period. Finally, with the changes at the top management according a rejuvenated & focused upper management layer, the company seems to have got its act together and has started delivering superior growth. The new measured aggressive approach across verticals appears to be in the right direction, for realizing the brand's and platform's true potential.

What was working for the company all these years?

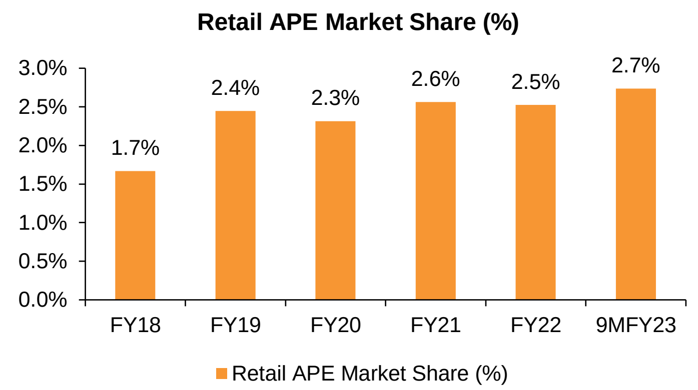
Powered by its parentage, a prudent risk management approach and being well-capitalized, ABCAP's lending entities have always enjoyed a fairly competitive cost of funding (average cost of funds: 7.5% FY19-22) from diversified sources, including banks and bond markets. In the lending business, access to a cheaper fund is the biggest advantage for a lender, in terms of raw material. A low cost of fund allows the lender to be competitive on its offerings to customers as well as to distribution partners. On the insurance and asset management fronts, the company has enjoyed a strong brand connect that has allowed it to fare reasonably well in Tier 2/3 towns or below. Additionally, by partnering with a large retail player like HDFC Bank, the company's life insurance entity has been successful in resolving distribution challenges, thus enabling it to gain market share.

Exhibit 8: ABFL delivered reasonable credit cost during the volatile times of FY18-22



Source: Company, Emkay Research

Exhibit 9: Post securing the Banca agreement with HDFC Bank in 2018, Retail APE market share has been growing consistently for ABSLI

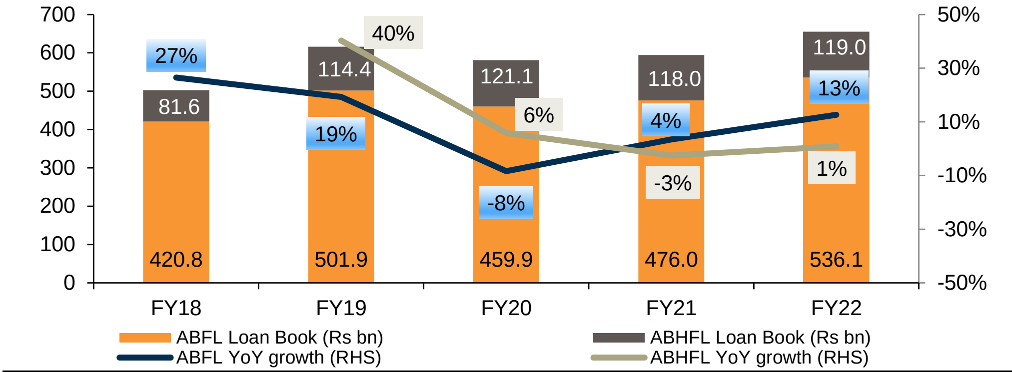


Source: Company, Emkay Research

What was lacking?

Despite the advantages of cost-of-fund and brand-reach, ABCAP's operating entities except ABSLAMC lacked the scale and dominance in the business segments they operated in. The likely reasons for this weakness are a relative lack of focus, absence of an apt distribution model and lack of the right product value-proposition for customers. Its prudent stance on growth amid the challenges posed by the Covid-19 crisis paid off well in terms of containing credit cost over the years and, notably, clearly reflects in the near-zero growth over FY19-22 in the lending book, in its NBFC and HFC businesses.

Exhibit 10: From FY19 to FY22, the lending book remained stagnant

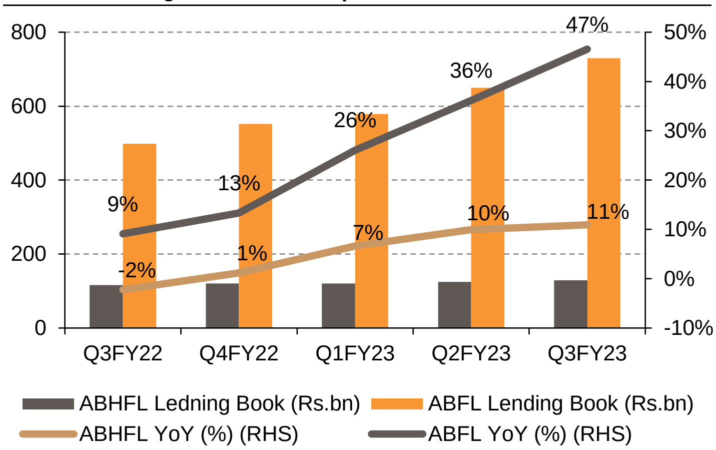


Source: Company, Emkay Research;

What has changed now?

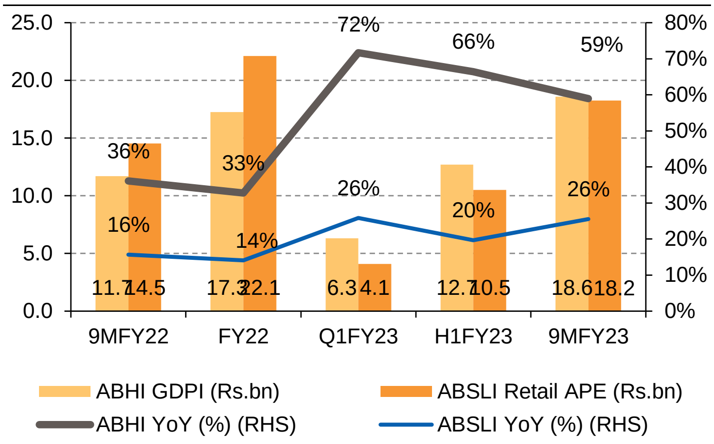
So the moot point is: what has changed for ABCAP? The answer is a culmination of multiple factors: i) The rejuvenated management team under the new group MD now has a fairly clear goal – to make a place among the top players in the segments the company has presence in. ii) Evidently, much of the experimentation, in terms of distribution and product offerings, has started delivering results now. iii) Focus on leveraging technology and analytics to cater to the divergent needs of the large customer base, using the Digital First approach complemented by its omni-channel (Phygital) distribution approach.

Exhibit 11: Driven by a wider product bouquet and diverse partnerships, ABCAP's NBFC and Housing-Finance arms witness acceleration in growth in recent quarters



Source: Company, Emkay Research

Exhibit 12: Health Insurance continues to deliver supernormal growth, with Life Insurance still clocking better than market growth



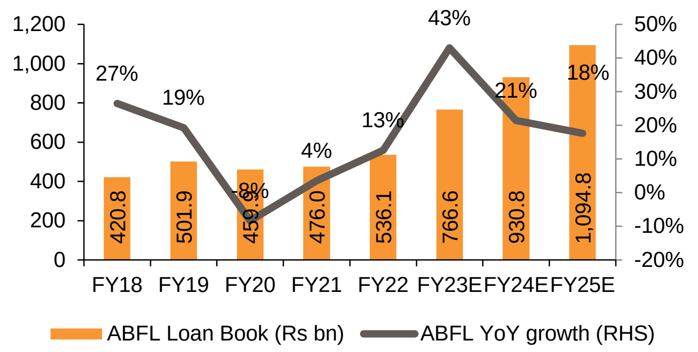
Source: Company, Emkay Research

What lies ahead?

- As the ABCAP entities continue their resilient march on this newly-charted path of profitable growth, we see the operating entities largely beating their FY24 targets.
- We expect ABFL to achieve loan-book of Rs1.1trn by FY25E (FY22-25E CAGR: 27%) and RoA of ~2.5%. Driven by the product-mix shift towards retail and SME, NIM should register at ~7% with cost-to-income ratio of ~29%, coupled with 1.7% credit cost; this would lead to 2.5% RoA.

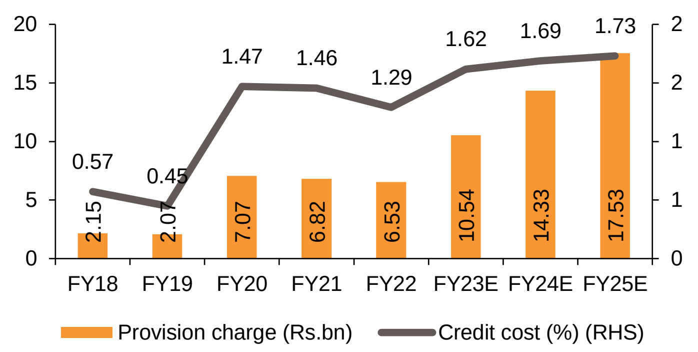
- For ABHFL, we expect the loan book to scale up to Rs212bn by FY25E (FY22-25E CAGR: 21%) and log an RoA of ~2%, on the back of ~5% NIM with focus on the value segment as well as credit cost of only ~0.7%.
- Aditya Birla Sun Life Insurance should log VNB margin of ~19% and Operating RoEV of ~17% by FY25E. ABSLI's Embedded Value will reach Rs112bn by FY25E.
- Aditya Birla Sun Life AMC should see AUM compounding at 8% over FY22-25E and PAT clocking at Rs7.6bn by FY25E.
- Aditya Birla Health should attain gross premium of Rs54bn by FY25E and combined ratio of 104% – which is an improvement from the 127% in FY22 – mainly driven by operating leverage-led improvement in the opex ratio.

Exhibit 13: With focus on the Retail segment post FY22, the loan book is expected to deliver strong growth



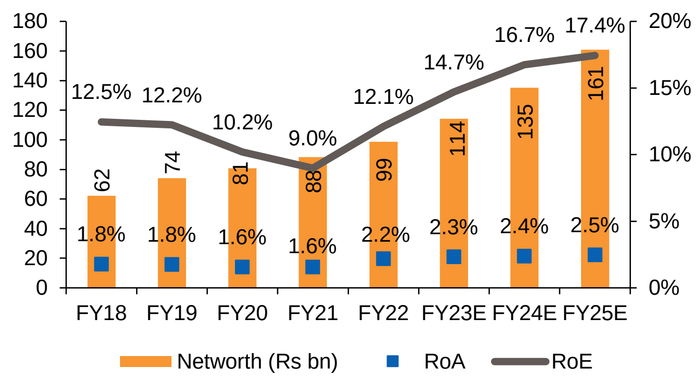
Source: Company, Emkay Research

Exhibit 14: ABFL's credit costs are expected to inch up, driven by higher expected losses for the retail portfolio



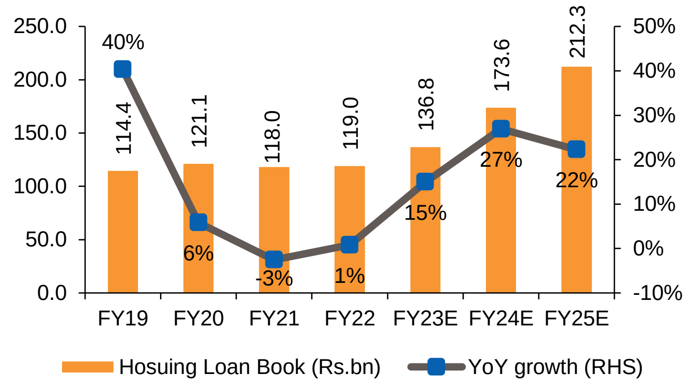
Source: Company, Emkay Research

Exhibit 15: ABFL's lower cost advantage, coupled with better yield realizations, to result in better RoA generation



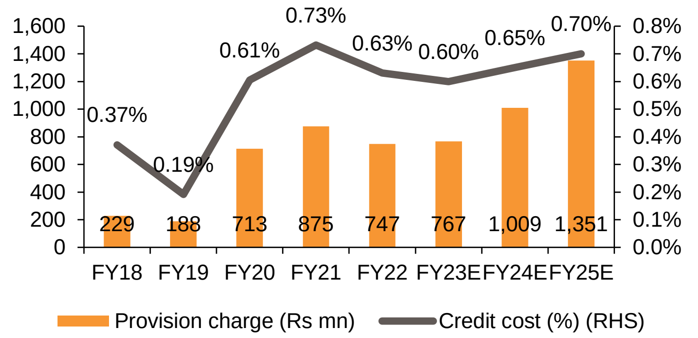
Source: Company, Emkay Research

Exhibit 16: ABHFL to witness robust growth in the lending book, with focus on the Affordable segment



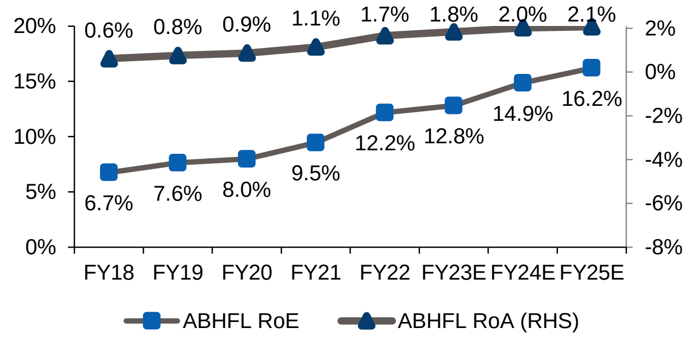
Source: Company, Emkay Research

Exhibit 17: Emphasis on the Affordable segment to lead to an increase in credit costs



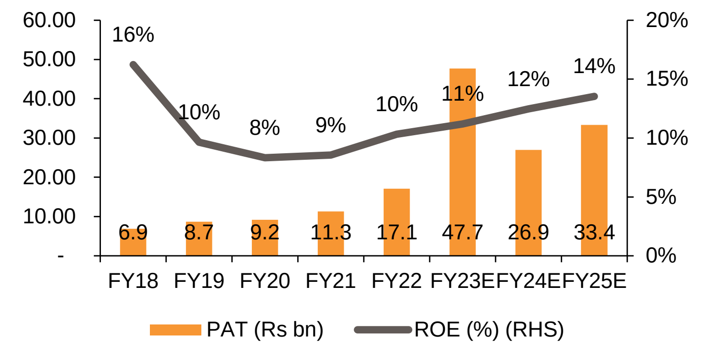
Source: Company, Emkay Research

Exhibit 18: Controlled costs with better yields to lead to a healthy RoA profile



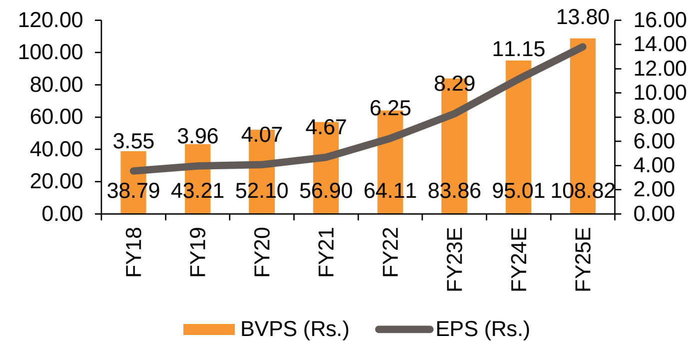
Source: Company, Emkay Research

Exhibit 19: ABC's PAT to grow to ~Rs33bn, resulting in ~15% RoE



Source: Company, Emkay Research

Exhibit 20: Profitable growth to drive a better EPS and BVPS



Source: Company, Emkay Research

Diversified offering available at attractive valuation; initiate with BUY

With a measurable presence across lending (NBFC and HFC), investing (AMC and Broking) and protection (Life Insurance, Health Insurance and Insurance Broking), ABCAP is currently trading on FY24E P/B of ~1.6x, at ~13% RoE. We value ABCAP using SOTP-based valuation (FY24E NBFC: P/B of 2.2x; HFC: P/B of 2x; AMC: MCap of Rs109bn; Life Insurance: P/EV of 1.5x; Health Insurance: Rs86bn based on the ADIA deal valuation, and others at Rs15bn). We apply 20% holding-company discount on listed and not fully-owned entities. Based on SoTP valuation, we peg our Mar-24E TP at Rs200/share, implying ~29% upside. For its diversified offering and competitive positioning of companies in their respective domain, we see ABCAP as a core holding in the India portfolio.

Exhibit 21: SOTP based Valuation for ABCAP

Entity	Metrics/units	Mar-24E	Multiple (x)	Valuation (Rs mn)	Ownership	Value (Rs mn)	Rs per share
NBFC	Net worth (Rs mn)	135,128	2.2	297,282	100%	297,282	123
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Total						**5,19,999**	**215**
Holding company discount			**20%**			**35,461**	**15**
Fair value						**484,538**	**201**
No. of shares (mn)						2,416	
Fair value per share							**201**

Source: Emkay Research

With a networth of Rs135bn by FY24E, we arrive at a 2.2x P/B for ABFL, considering ~16-17% medium-term RoE. The 2x P/B for ABHFL is underpinned by FY24E networth of Rs22.7bn, factoring-in a 15-16% RoE on a medium-term basis. Being a listed entity, we value ABSL AMC at its Market-Cap as on date, at ~Rs109bn. The Life Insurance business is valued at a discount to the trading multiple of listed peers. We value ABSLI at 1.5x EV, considering FY24E EV (Embedded Value) at Rs96.4bn. Given the ~10% stake purchase deal of ABHI by Abu Dhabi Investment Authority being valued at Rs66.5bn and applying a 30% premium for Mar-24E valuation considering a 13.5% cost-of-equity, we value the Health Insurance business at Rs86bn. Broking business firm AB Money, being a listed company, is valued at its Market cap of Rs3bn. Other businesses like Insurance Broking, Asset Reconstruction, etc are collectively valued at Rs15bn. After applying a 20% holding-company discount to listed and other than wholly-owned entities, we arrive at ~Rs485bn value for the consolidated ABCAP entity, implying a target price of ~Rs200/share.

What are the risks?

Being a well-diversified, financial-services conglomerate, ABCAP is reasonably insulated from shocks & volatility in any particular business segment. However, macroeconomic developments largely have the potential to affect the overall business, in addition to the impact of regulatory restrictions and business development that affect the individual operating entities.

Key risks currently are:

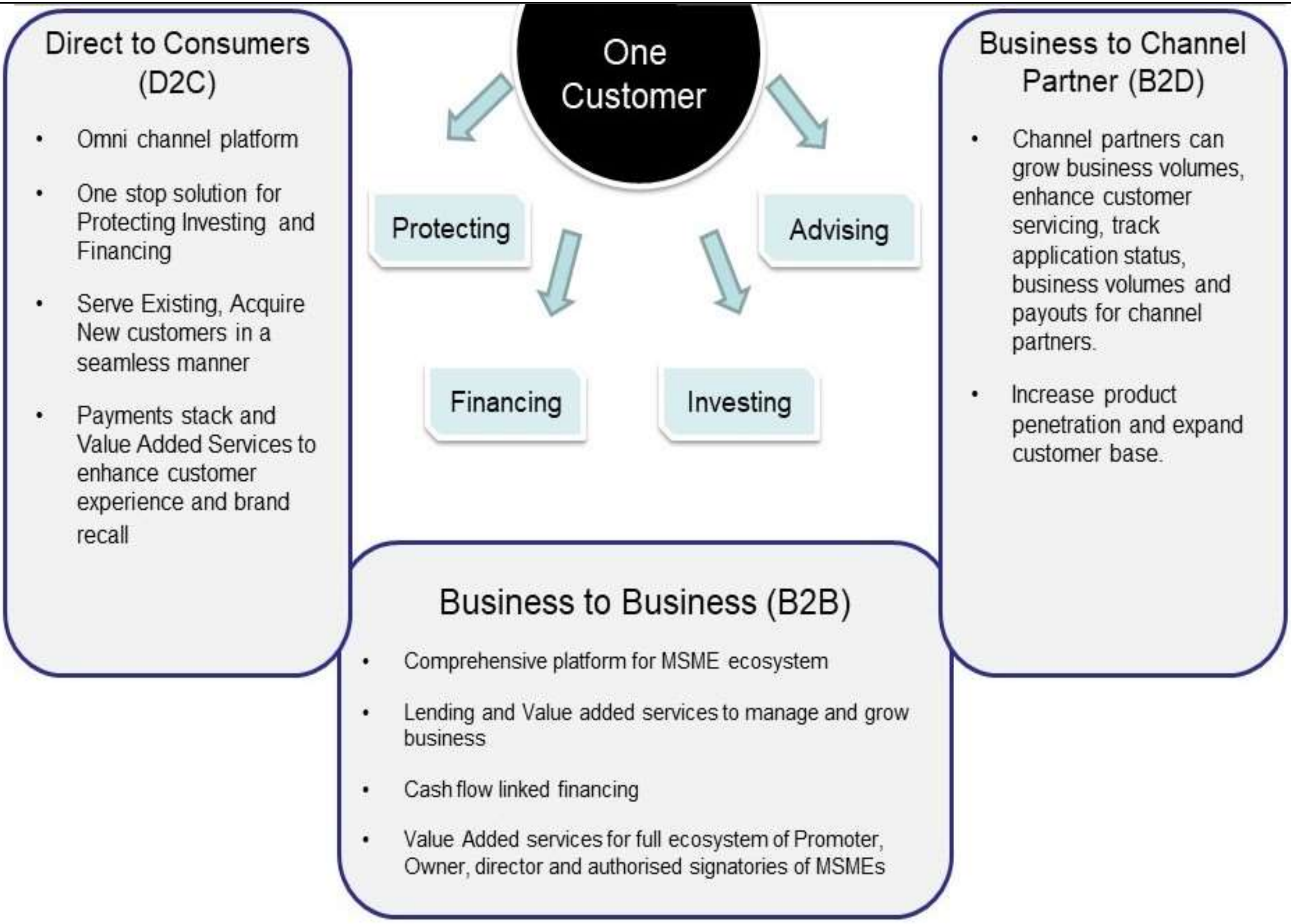
- Though the company has the ability to pass on the increase in interest rates, timing mismatch can put some pressure on lending margins.
- High inflation and moderating economic growth can bode ill for asset quality as well as for the growth outlook of the lending business.
- Though the company has been building a highly diversified distribution model in lending, any termination of agreements with key partners could impact near-term growth.
- Changing regulatory landscape remains the needling point in the Life Insurance and Asset Management businesses.

One ABC One P&L: Leveraging technology & analytics to benefit from group synergy

Under the new leadership, Aditya Birla Capital has embarked on its 'One ABC One P&L' journey. The crux of this drive is to enhance the customer base through synergistic efforts across the Aditya Birla Group customers as well as the employee base, and to increase customers' wallet share in financial products by offering them a bouquet of such products across the spectrums of Protecting, Financing and Investing. The Digital First approach, powered by efficient usage of Technology and Analytics, remains at the core of the company's 'One ABC One P&L' ideology. The role of technology and analytics is spread across customer acquisition and onboarding as well as customer servicing. Through its omni-channel distribution system, ABC caters to the diverse needs of customers via a variety of Protecting, Investing, Financing and Advisory (PIFA) solutions offered to its dynamic, active customer-base of 43mn. Group-level synergies provide access to more than 140k Aditya Birla Group employees and a >300mn customer base, leaving multiple opportunities for ABCAP to fuel its growth, build scale and drive market share in each business. With its strong market presence, ABCAP focuses on expanding its reach in Tier 3-4 cities, by further increasing its branch footprint.

- **Digital-First to enhance customer/partner experience:** On the heels of the rapidly-evolving digital landscape, ABCAP has unfolded a 'Digital-First' strategy, entailing primary focus on product innovation, direct customer acquisition and seamless onboarding leading to better customer experience. The company leverages technology and analytics to maximize growth across its different businesses through upselling and cross-selling, and to service the divergent needs of customers, resulting in superior customer experience. ABCL has harnessed its technological and digital capabilities for seamlessly integrating the distribution partners with its platform, to scale up customer acquisition.
- **'One experience' across channels:** With a divergent customer-base of 43mn sheathing different geographies and age groups, ABCAP provides its customers the flexibility to opt for the channel of their choice. With the expansion of branches, empowerment of digital platforms and strengthening of partnerships, the company endeavors to provide 'One Experience' across channels, to enhance flawless delivery of products.
- **Unified view of customer, team and experience:** ABCAP's *One ABC One P&L* approach is powered by three strong fundamental principles – One Customer, One Experience and One Team – which facilitate the company with providing holistic solutions to customers and their ecosystems, to suit their life-stage and business needs. The 'One Customer' approach enables the company to provide comprehensive financial solutions under one roof, thus catering to the manifold financial needs of customers. The 'One Experience' strategy aims at providing customers complete flexibility through omni-channel distribution, diversified platform and the 'digital first' approach. The 'One Team' part aligns the leadership teams across different businesses to a centralized objective of 'One ABC and One P&L'.
- **One ABC platform to address retail customer, business customers and partner needs:** ABCAP has initiated the comprehensive *One ABC* platform that caters to customers, businesses, and channel partners, in response to the swiftly-evolving digital landscape and shifting consumer needs. This platform strives to make managing money for its customers as simple as 'A' 'B' 'C'. With 'one' ID and 'one' Password, the platform aims at integrating all financial services – of Protecting, Investing, Financing and Advisory, providing flexibility to its customers and distributors. This comprehensive platform extends the benefits not only to customers, but also to the businesses and channel partners.

Exhibit 22: A series of initiatives to leverage upon the group synergy, aimed at accelerating customer acquisition



Source: Company, Emkay Research

Delivering Value and Experience to Customers (D2C platform)

With its active customer base growing rapidly to 43mn, with 1.4mn customers acquired within a quarter and with the aim of further penetrating Tier 3-4 cities, ABCAP has set up a wholly-owned subsidiary to develop a Direct-to-Customer (D2C) omni-channel platform, to serve its existing customers and to accelerate new customer acquisition using data and technology in a unified manner. With consumer preferences shifting towards flexibility, reliability, convenience and simplicity, the *One ABC* platform acts as a one-stop-solution for the diverging financial needs of customers. The widespread platform provides PIFA solutions to customers across various touch-points, including the App, Website, Virtual Engagement and Branch. Integration of the payments stack and value-added services would enhance the customer experience as well as increase flexibility & brand recognition, allowing ABCAP to become a 'full stack financial service provider'.

Fueling the MSME culture (B2B platform)

ABCL has launched its comprehensive Business-to-Business (B2B) platform for its MSME ecosystem. The platform leverages the Mobile, Web and API technologies to integrate existing business customers of ABFL, ABCAP and the Aditya Birla Group (ABG), and to acquire new customers including those new to ABG and Promoters, Owners, Directors and Authorized signatories of the MSME customers, building onto a well interconnected customer ecosystem. The primary focus of the platform is to facilitate the MSME ecosystem with convenient lending solutions and other value-added services, thus accelerating and supporting the growth of their businesses. The platform will enhance customer experience and reduce processing times by utilizing non-traditional data sources and alternate data sources such as GST returns and transaction data, to facilitate financing linked to cash-flow. Among various partners, value-added partners, banking partners, Digital partners and Open Networks provide a range of additional services to businesses, including banking solutions, business solutions and accelerating business growth.

Partner level growth to increase customer scalability (B2D platform)

ABCAP has over 0.2mn channel partners, distributing a variety of products Pan-India. To accelerate channel productivity and customer acquisition as well as to improve customer servicing, the company plans to launch a dedicated Business-to-Distributor (B2D), digitally-integrated platform. This platform will provide the partners various business opportunities to grow their business volumes, by integrating data across various sources for facilitating customer acquisition. Through this platform, partners can enhance customer service by tracking the application status, processing various transactions, filing claims, and facilitating payouts, thus helping the company serve the life-cycle needs of customers. Moreover, partners can track their business volumes, commission payouts and customer information, thus enabling them to increase their productivity. Overall, the B2D platform allows deeper penetration of products and improves customer scalability.

Aditya Birla Finance: In high gear

Powered by the AAA credit rating and strong parentage, Aditya Birla Finance (ABFL) has always enjoyed competitive advantage in cost of funds (average cost of funds at 7.5% during FY19-22), which is the key raw material in the lending business. After attaining a perfect mix of product, customer & distribution, ABFL has a firm foot on driving a superior >40% YoY loan-book growth in FY23 which was broadly flat over FY19-22. Although the company's core growth and focus are Retail and SME, its philosophy is clear – that as long as yields in customer & product segments cover operating expenses and credit cost to deliver the targeted return on assets (RoA), the company will continue offering such products. Right focus towards leveraging on brand & parentage, using the opportunities offered by the vast Aditya Birla Group customer-base to good advantage, forging the right partnerships across the lending ecosystem and a dedicated leadership would propel a sustainable ~20% loan-book CAGR over FY23-25E, along with ~2.4% RoA.

- **Product & Distribution mix to complement the cost-of-funding advantage:** ABFL appears to be on the right track, given that it has cracked the product & distribution mix issue, to capitalize on its biggest strength, in terms of cost of funding. Its competitive cost of funding allows it to offer an attractive value proposition to customers & distribution partners and maintain superior profitability. This creates a virtuous cycle, further to which it can grow faster; the operating leverage will enable profitability improvement. We expect ABFL to register 27% AUM CAGR over FY22-25E, and reach Rs1.1trn.
- **The omni-channel Phygital approach has RoA as its guiding principle:** ABFL caters to three broad customer segments – Retail, SME and Corporate. In terms of distribution, it maintains its ubiquitous Phygital approach as well as its key distribution channels – Branch-led direct, DSA and Digital Ecosystem partnership. Pricing of products across the customer segment is impelled by an RoA-focused approach, implying that the product yield should account for acquisition cost, collection cost, other operating expenses and credit cost to help deliver the targeted RoA. Such an RoA-focused approach has led to ABFL forging new distribution partnerships as well as widening its product offering to address the diverse financing needs of customers.
- **Agility is key in partner-onboarding and growing partnerships:** Expeditiousness is key to the retail & consumer loan business – whether it is onboarding of a distribution partner including the system integration of a fintech partner or the turnaround time of a credit decision on a loan application via DSA. With its investments in the technology platform and analytics, ABFL has gained considerable agility which plays to its advantage; as such, ability to quickly integrate a fintech partner or a corporate partner (for offerings to the employees of that corporate) is enabling ABFL to win new partners sustainably at an impressive pace. Currently, it is working with 27 Digital Ecosystem partners and has been adding ~5 partners every quarter.
- **Innovation in product-offering and continuous portfolio monitoring ensure profitable growth:** ABFL has a substantially focused approach towards offering innovative products, based on understanding the needs and behavior of customers of a particular distribution channel. Daily Installment products, Overdraft loan, BNPL, etc are some such innovative solutions offered by ABFL. As aforementioned, pricing of a product is driven by acquisition cost, collection cost and credit cost assessment to deliver the targeted RoA. Further, the portfolio is monitored on continuous basis and the pricing is tweaked or growth is recalibrated on monthly basis, if there is any deviation in collection efficiencies or delinquencies.
- **Cost of funds and ability to scale up give ABFL an edge in ecosystem partnerships:** A fintech firm's key focus is higher rewards for the customer and the business it brings to a lender. Additionally, a fintech seeks the lending partner's ability to scale up. ABFL's competitive cost of funding enables it to offer better rewards to fintech partners, and its strong brand & parentage give comfort regarding scaling up the loan book and disbursement via partnership. These factors ensure that ABFL will be the preferred partner for fintechs that are in partnership with multiple lenders. Further, the continuous addition of partners to the already large number of existing partnerships ensures that ABFL's dependence on individual partners remains low.

- **How do all the above-mentioned factors add up?:** Incorporating all underlying developments in the product, distribution and management strategy, we expect ABFL to deliver a strong 27% loan book CAGR over FY22-25E, to achieve a loan book of Rs1.1trn (more than double) from Rs536bn in FY22. The diversified product mix will drive 6.75-7% NIM over the near-to-medium term. Cost-to-income ratio should be ~30%; expanding NIMs on account of rising unsecured personal loans in the mix should keep this ratio stable, despite strong growth in operating expenses owing to branch expansion, etc. Credit cost should be 1.6- 1.7% over the medium term. These factors should together drive a 3.2-3.3% pre-tax RoA or 2.4-2.5% post-tax RoA. Our RoA estimates do not assume equity capital infusion and we expect Debt-to-Equity ratio of 6:1 by FY25E. If the company raises equity capital, then that should drive NIM and RoA upward. However, RoE should broadly remain in the 16-17% range.

Exhibit 23: Partnerships with Digital Ecosystems to be a game changer

Source: Company, Emkay Research

Exhibit 24: Snapshot of ABFL's Products and distribution partners

<table>
<tr><th>Segment</th><th>Product</th><th>Loan book (Rs bn)</th><th>Duration</th><th>ATS (Lakh)</th><th>Presence</th><th>Sourcing</th><th>Target Consumer</th><th>Key Partners</th><th>Comment</th><th>Key Peers</th></tr>
<tr><td rowspan="5">Secured Business</td><td>Secured Business</td><td>291.9</td><td rowspan="5"></td><td rowspan="5">180</td><td rowspan="5">Semi Urban / SME Clusters</td><td rowspan="5">DSA + Direct</td><td rowspan="5">Business Owners / Self Employed Professionals (small-to-mid size)</td><td rowspan="5">Andromeda</td><td rowspan="5">Tech integration with partners and digital ecosystems should reduce the turnaround time which should, in turn, result in better loan sourcing through DSAs</td><td rowspan="5">Bajaj Finance / Tata Capital / Cholamandalam Finance/ Shriram Finance / L&T Finance</td></tr>
<tr><td>TL / WCL</td><td>81.7</td></tr>
<tr><td>LAP</td><td>143.0</td></tr>
<tr><td>LRD</td><td>23.3</td></tr>
<tr><td>LAS</td><td>43.8</td></tr>
<tr><td rowspan="5">Personal And Consumer</td><td>Retail Business</td><td>101.2</td><td></td><td rowspan="5">0.22</td><td rowspan="5">Semi Urban</td><td rowspan="5">Direct + Ecosystem + DSA</td><td rowspan="5">Salaried Professionals</td><td rowspan="3">Paytm | GROWW | OLA | Byju's |Zest Money</td><td rowspan="2">Leading Digital Partners and the ABC ecosystem to fuel loan growth. Personal Loans are the backbone of the overall Retail category</td><td rowspan="5">Bajaj Finance / Tata Capital / Poonawalla Fincorp / Fullerton / Hero Fincorp</td></tr>
<tr><td>Personal Loans</td><td rowspan="3">101.2</td><td>18-36 months</td></tr>
<tr><td>Check Out Financing (BNPL)</td><td>7 days - 60 days</td><td>BNPL offered as a customer-acquisition strategy. The BNPL customer-base used to cross sell Personal Loans</td></tr>
<tr><td>Credit Card</td><td>-</td><td>SBI Cards</td><td>ABFL has partnered with SBI Cards to provide co-branded cards. ABFL has also applied for a Credit Card Licence</td></tr>
<tr><td>Consumer Loans</td><td>26.9</td><td>12-60 months</td><td>Croma | Vijay Sales</td><td>QR-based consumer lending (provided by ABFL) is preferred by partners and consumers over paper-based consumer lending (provided by peers like Bajaj)</td></tr>
<tr><td rowspan="5">Unsecured Business</td><td>Unsecured</td><td>72.5</td><td rowspan="4">12-48 months</td><td rowspan="5">10.3</td><td rowspan="5">Semi Urban</td><td rowspan="5">DSA + Ecosystem</td><td rowspan="5">Business Owners / Self Employed Professionals (small -mid size)</td><td rowspan="4">Bharat Pe | LendingKart</td><td rowspan="5">Innovative products such as the Daily Instalment Loan provided to Merchants using QR for accepting payments, to gain strong traction and offer a competitive edge. B2B platform to further increase lending opportunity to the MSME segment</td><td rowspan="5">Bajaj Finance / Shriram Finance / Cholamandalam Finance</td></tr>
<tr><td>Business Loans</td><td rowspan="3">57.3</td></tr>
<tr><td>B2B Digital Platform</td></tr>
<tr><td>Business Overdraft</td></tr>
<tr><td>Supply Chain</td><td>15.2</td><td></td><td>Aditya Birla Group</td></tr>
<tr><td rowspan="5">Corporate / Mid-Market</td><td>Wholesale</td><td>226.4</td><td rowspan="5"></td><td rowspan="5">5100</td><td rowspan="5">Top 6-7 Cities</td><td rowspan="5">Direct Relationship</td><td rowspan="5">Pedigreed Group Corporates / Mid-Market Companies / Category A & A+ Developers</td><td rowspan="5"></td><td rowspan="5">With the lower cost of funds lending to mid-size corporates further to project loans and developer loans. Structured Loans are typically structured with recourse to cash flows of the obligor and sponsor entities with adequate security coverage. More than 90% of developer borrowers have a track record of delivering >5mn sqft</td><td rowspan="5">Bajaj Finance / Piramal Capital / LIC Housing Finance / HDFC Limited</td></tr>
<tr><td>TL/ WCL</td><td>108.7</td></tr>
<tr><td>Structured Finance</td><td>11.3</td></tr>
<tr><td>Construction Finance</td><td>40.8</td></tr>
<tr><td>Project Loan</td><td>65.7</td></tr>
</table>

Source: Company, Emkay Research; Note: 1lakh = 0.1million

Exhibit 25: Aditya Birla Finance – SWOT analysis

Source: Emkay Research

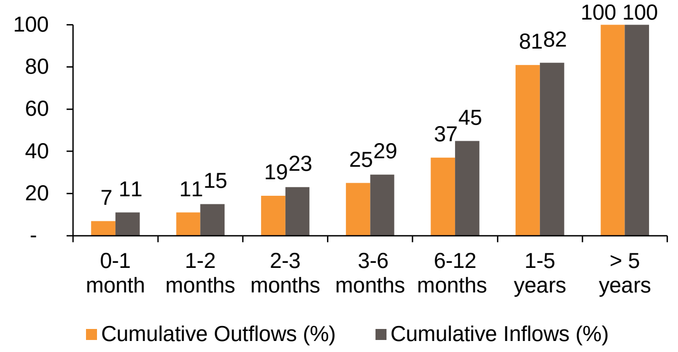
Exhibit 26: NBFC – Peer valuation

Ticker	Share Price (Rs)	MCap (Rs bn)	MCap (USD bn)	P/E (x)		P/B (x)		RoE (%)	
				FY23	FY24	FY23	FY24	FY23	FY24
ABCAP IN Equity*	154.6	373.6	4.6	18.6	13.9	1.8	1.6	11.2	12.5
CIFC IN Equity	750.2	616.6	7.5	26.4	21.9	4.4	3.7	18.5	19.0
BAF IN Equity	6,100.1	3,693.1	45.1	32.9	26.9	6.9	5.6	22.8	23.0
PIEL IN Equity	782.9	186.8	2.3	56.9	10.2	0.7	0.6	13.4	6.9
POONAWAL IN Equity	291.6	223.9	2.7	27.7	20.1	2.9	2.8	10.9	12.7
MMFS IN Equity	254.0	313.8	3.8	14.2	12.0	1.6	1.5	12.0	12.7
SHFL IN Equity	1,216.9	455.6	5.6	7.2	6.5	1.1	0.9	14.7	14.5
MUTH IN Equity	950.2	381.5	4.7	9.4	8.7	1.6	1.4	17.4	17.6
MGFL IN Equity	106.1	89.8	1.1	5.2	4.5	0.8	0.7	17.0	17.5
BJFIN IN Equity	1,355.4	2,158.8	26.4	24.5	22.0	2.6	2.1	18.4	18.4
CHOLAHLD IN Equity	581.6	109.2	1.3	6.9	5.6	7.1	6.1	18.7	19.1

*Source: Bloomberg, Emkay Research; *Note: Estimates for ABCAP are Emkay estimates; Other estimates are Bloomberg/Consensus estimates*

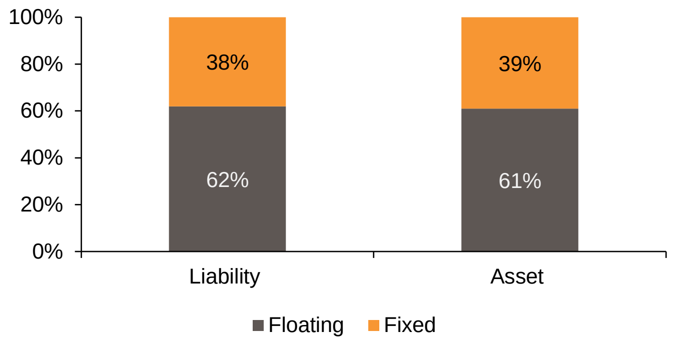
- **Retail and SME become the twin engine of loan-book growth:** For many years now, the lending business at ABCAP has seen muted growth, at 2% 3Y CAGR over FY19-22, largely owing to the upheaval in the customer segment and product mix, with focus shifting to the Retail and SME segments and given the gaps at senior leadership positions in the lending business. With a firm footing now, for growth in the Retail, SME and HNI segment book, ABFL has achieved its FY24 target, of 65% Retail + SME mix, much earlier than estimated. ABFL's lending book has grown significantly over FY21-YTDFY23, with the Retail+SME mix expanding from 56% in FY21 to 66% in 9MFY23. Over FY19-22, ABFL has managed to cut its exposure in the mid-to-large corporate segment, while consistently empowering its Retail franchise with various partnerships together with introducing several new products in the Retail & SME segments. With increasing granularization in the portfolio through focus on the Retail & SME segments, ABSL has upped its game in the Personal & Consumer loan segments, contributing to 27% of the overall Retail & SME book. The strong 5.3mn addition in the customer-base (up 63% over FY22) has enhanced cross-selling of Personal Loan top-ups, Insurance and other wealth products. Given the robust growth in the lending book in YTDFY23 and the consistent expansion in the customer base with focus on product addition in the portfolio through partnerships, we expect the lending book to clock 43% YoY growth to Rs767bn by FY23E. Further, we expect lending book CAGR at 27% over FY22-25E.
- **Investments in the direct channel to start playing out; partnership across the ecosystem enabling innovative retail & SME product offerings:** ABFL has strong presence in India across the rural and urban areas, allowing access to a large number of customers who may not have access to traditional banking services. With majority of the loans being sourced through the direct selling agents channel, ABFL has geared up its investments to expand the Direct Channel as well as its own *One ABC* ecosystem. With 272 branches and 113 branch-additions in 9MFY23, the focus now remains on penetrating Tier 3-4 cities – it targets >325 branches by year-end, with over 80% of these in Tier 3-4 cities. To augment its sourcing capacity, ABFL continues to enhance its digital ecosystem for seamless integration with a diverse set of partners and to drive the digital sourcing at scale. With over 56% of personal loans sourced digitally through its proprietary digital platform and ~36% of personal loans sourced via cross-selling, ABSL's digital platform and *One ABC*'s digital ecosystem are expected to be the next growth engine, especially for sourcing loans in the retail segment. With its imperative technology infrastructure in place, ABFL's lending book is poised for benign growth. The recently-launched comprehensive unified platform is expected to fuel the MSME lending business by enabling cash-flow financing, through alternate data sources.
- **Changing product mix safeguards margins, amid a rising interest-rate environment:** AAA rating and strong parentage have armed ABFL with a competitive cost of funding. In a rising interest-rate scenario, NBFCs generally face challenges in terms of margin pressure. However, ABFL is reasonably protected, as its fixed and floating rates on assets and liabilities are broadly similar. In addition, a rising share of unsecured personal and SME loans helps it improve on margins, despite some rise in the cost of borrowing. With focus of the lending portfolio shifting towards the Retail and SME segments contributing to ~66% of the overall lending book, a sizeable uptick in yields can be witnessed, with Q3FY23 blended yield at 13.01%. Overall, efficient management of cost of funds and the ability to extract better yields have resulted in a sharp upward NIM trajectory. Calculated NIMs have grown, from 4.88% in FY18 to 6.2% in 9MFY23. With its epicenter being the margin-accretive Retail and SME segments, we expect NIMs to further expand to ~7% for FY23E. We build-in 27% NII CAGR over FY23-25E, yielding 7.2% NIM for FY25E.

Exhibit 27: ALM optimized for liquidity and costs, as of 31-Dec-2022



Source: Company, Emkay Research

Exhibit 28: Well-matched ALM, as of 31-Dec-2022

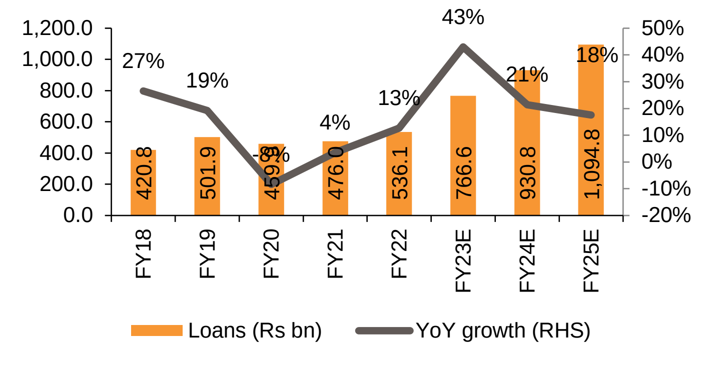


Source: Company, Emkay Research

- **Underwriting focus to manage credit cost, as per interest spread of the segments:** Prior to FY2020, ABFL maintained the reduction in its credit cost, at less than 1%, driven by a host of factors, including prudent underwriting norms, efficient risk management practices, better asset quality and the mix of the overall lending portfolio. In the wake of Covid-19 and with the shift towards a granular Retail and SME portfolio, ABFL's credit costs have inched up to 1.3-1.4%. With over 68% of the overall loan book being secured, the prudent underwriting norms and the assessment of Asset Quality can be well observed, with only 3.14% of the book as Gross Stage 3 loans, Provision Coverage Ratio of 49.3%, and a credit cost of 1.45% as of Q3FY23. Moreover, with its focus on the Retail (largely unsecured) and SME portfolio and an >80% targeted consumer-base from Tier3-4 cities, we expect credit costs to further inch up to 1.6% for FY23E, considering the nature of the Retail portfolio and the geographical distribution of the customer segment.
- **Continued growth momentum in the lending book to drive profitability:** ABFL has seen strong profitability CAGR of 14% over FY17-22, driven by various factors, including increasing margins, controlled operating costs and reduced credit costs. As a consequence of the investments in the digitalization and technological infrastructure, operating costs have crawled up; however, cost-to-income ratio remains in the 30-31% range. The consistent compounding in profitability has resulted in the RoA expanding by ~40bps over FY18-22. Considering the robust growth momentum in the loan book, coupled with controlled costs and a sweet spot in yields, we expect ABFL to deliver RoA of 2.3% for FY23E. With operating costs likely to peak out in FY23, we expect the RoA to inch up to 2.5% for FY25E, driven by continued growth momentum in the loan book, prudent underwriting norms, with major customers being the salaried and self-employed classes, and optimized costs with investments in tech infrastructure & digitalization expected to play out.

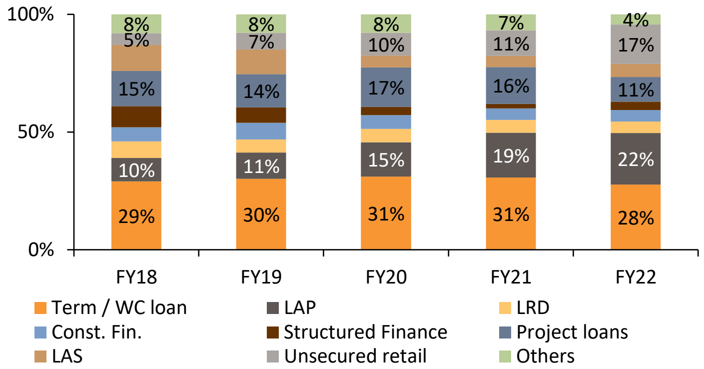
Aditya Birla Finance: Story in Charts

Exhibit 29: Strong growth in the Loan Book, in the medium term



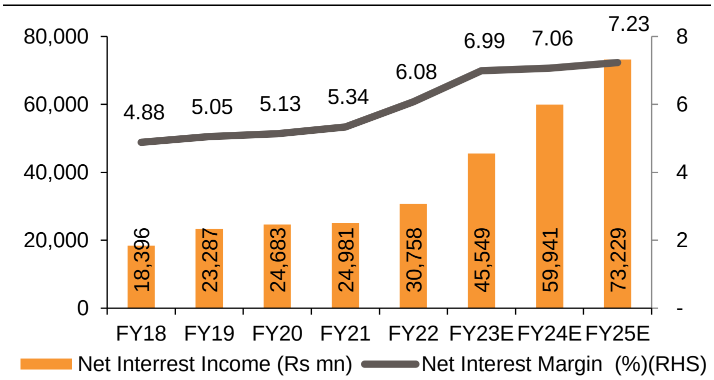
Source: Company, Emkay Research

Exhibit 30: Loan Book composition – Focus remains on Retail + SME



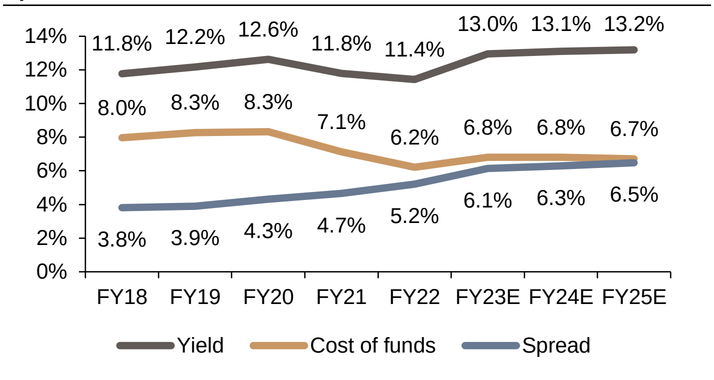
Source: Company, Emkay Research

Exhibit 31: NIMs to expand, going ahead



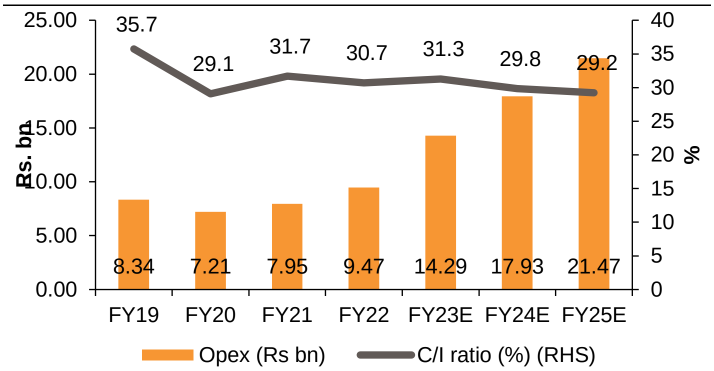
Source: Company, Emkay Research

Exhibit 32: Controlled costs with better yields lead to a greater spread



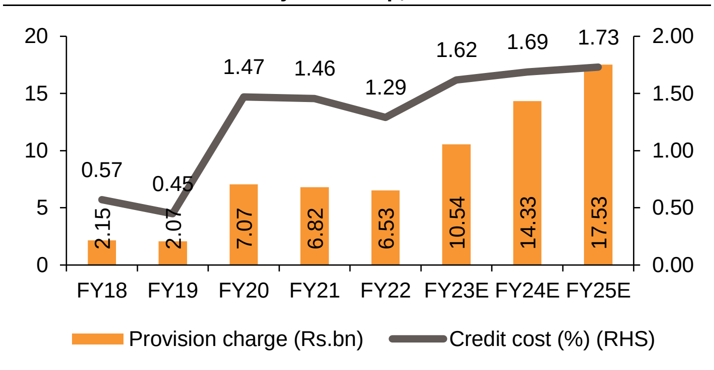
Source: Company, Emkay Research

Exhibit 33: CIR stabilizes at 30% levels



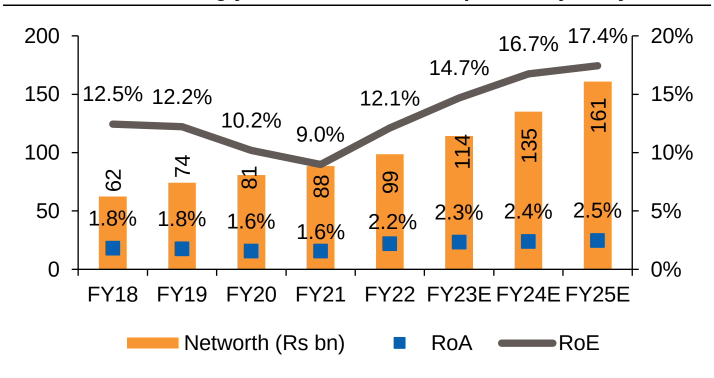
Source: Company, Emkay Research

Exhibit 34: Credit cost likely to inch up, with focus on Retail & SME



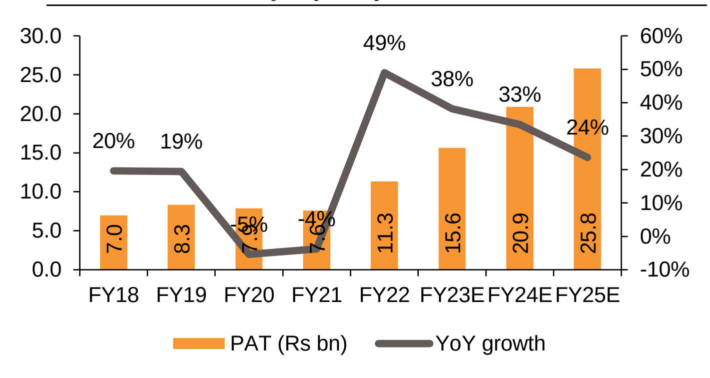
Source: Company, Emkay Research

Exhibit 35: Increasing yields to aid the RoA upward trajectory



Source: Company, Emkay Research

Exhibit 36: Profitability trajectory



Source: Company, Emkay Research

Exhibit 37: Aditya Birla Finance – Financial Summary

(Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Income Statement							
Interest income	51,930	57,271	52,899	55,313	80,194	105,744	126,946
Interest expense	32,875	36,081	30,199	27,091	38,866	51,368	60,399
Net interest income	**23,287**	**24,683**	**24,981**	**30,758**	**45,549**	**59,941**	**73,229**
Other income	60	130	100	120	142	164	189
Total income	**23,347**	**24,813**	**25,081**	**30,878**	**45,691**	**60,106**	**73,418**
Employee expense	4,551	4,048	4,489	5,207	7,811	9,764	11,716
Depreciation	291	498	585	684	1,108	1,453	1,694
Other expense	3,500	2,667	2,874	3,581	5,372	6,715	8,058
Opex	**8,343**	**7,213**	**7,949**	**9,472**	**14,291**	**17,931**	**21,468**
Profit before provisions	**15,004**	**17,600**	**17,132**	**21,406**	**31,400**	**42,174**	**51,950**
Provisions	2,070	7,071	6,818	6,535	10,543	14,333	17,527
Profit before tax	**12,934**	**10,529**	**10,314**	**14,871**	**20,857**	**27,841**	**34,423**
Tax expense	4,593	2,480	2,626	3,788	5,214	6,960	8,606
Reported profit attributable to shareholders	**8,342**	**7,893**	**7,597**	**11,318**	**15,643**	**20,881**	**25,817**
Balance Sheet							
Shareholders' Equity	74,165	80,782	88,379	98,604	114,247	135,128	160,945
Borrowings	432,121	434,553	412,152	459,857	681,012	826,834	972,499
Other liabilities	15,494	4,661	7,021	11,230	19,614	27,303	29,992
Total equity & liabilities	**521,781**	**519,995**	**507,552**	**569,692**	**814,873**	**989,265**	**1,163,436**
Assets							
Cash & cash equivalents	591	18,204	15,301	6,925	9,904	12,025	14,143
Investments	15,765	33,424	7,929	16,940	24,226	29,414	34,596
Loans & advances	501,876	459,854	475,974	536,075	766,643	930,801	1,094,782
Fixed assets	641	1,740	1,922	2,217	3,323	3,942	4,527
Other assets	2,908	6,773	6,425	7,535	10,776	13,084	15,389
Total Assets	**521,781**	**519,995**	**507,552**	**569,692**	**814,873**	**989,265**	**1,163,436**
Gross loans	**506,986**	**469,104**	**486,182**	**546,821**	**780,501**	**948,710**	**1,116,268**
Key ratios (%)							
Asset yield	12.2	12.6	11.8	11.4	13.0	13.1	13.2
Cost of funds	8.3	8.3	7.1	6.2	6.8	6.8	6.7
Spread	3.9	4.3	4.7	5.2	6.1	6.3	6.5
Net interest margin	5.0	5.1	5.3	6.1	7.0	7.1	7.2
Opex % of AAUM)	1.8	1.5	1.7	1.9	2.2	2.1	2.1
C/I ratio	35.7	29.1	31.7	30.7	31.3	29.8	29.2
Credit cost	0.4	1.5	1.5	1.3	1.6	1.7	1.7
RoA	1.75	1.56	1.55	2.18	2.33	2.38	2.47
RoE	12.2	10.2	9.0	12.1	14.7	16.7	17.4
Tier I	14.3	14.7	18.4	18.1	16.1	15.4	15.4
CRAR	17.5	18.1	22.7	21.8	18.9	17.8	17.4
D/E (x)	5.8	5.4	4.7	4.7	6.0	6.1	6.0
Leverage (x)	7.0	6.4	5.7	5.8	7.1	7.3	7.2
(Rs)							
Reported EPS - Basic	13.37	12.16	11.61	16.74	23.14	30.88	38.19
Reported EPS - Diluted	13.37	12.16	11.61	16.74	23.14	30.88	38.19
BVPS	113.0	122.0	133.5	148.9	172.6	204.1	243.1
RoA Tree (%)							
Interest income	10.8	11.0	10.3	10.3	11.6	11.7	11.8
Interest expense	6.9	6.9	5.9	5.0	5.6	5.7	5.6
Net interest income	**4.9**	**4.7**	**4.9**	**5.7**	**6.6**	**6.6**	**6.8**
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total income	**4.9**	**4.8**	**4.9**	**5.7**	**6.6**	**6.7**	**6.8**
Employee expense	0.9	0.8	0.9	1.0	1.1	1.1	1.1
Depreciation	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Other expense	0.7	0.5	0.6	0.7	0.8	0.7	0.7
Opex	**1.7**	**1.4**	**1.5**	**1.8**	**2.1**	**2.0**	**2.0**
Profit before provisions	**3.1**	**3.4**	**3.3**	**4.0**	**4.5**	**4.7**	**4.8**
Provisions	0.4	1.4	1.3	1.2	1.5	1.6	1.6
Profit before tax	**2.7**	**2.0**	**2.0**	**2.8**	**3.0**	**3.1**	**3.2**
Tax expense	1.0	0.5	0.5	0.7	0.8	0.8	0.8
Recurring profit after tax	**1.74**	**1.55**	**1.50**	**2.06**	**2.26**	**2.31**	**2.40**

Source: Company, Emkay Research

Aditya Birla Housing Finance: Hits upon the right business model

Enjoying a low cost of fund advantage, Aditya Birla Housing Finance (ABHFL) is leveraging on its technology and digital ecosystems, coupled with branch expansion in Tier 3-4 cities, to drive loan-book growth in both, the growth and value segments. With increasing granularity and a shift towards the affordable segment, ABHFL focuses on quality customer acquisition, particularly in the salaried and self-employed professional segments; this has resulted in prudent underwriting norms and low credit costs. Driven by its strong brand reputation, targeted customer acquisition strategy and investments in the distribution channel, coupled with efficient margin expansion and cost optimization, ABHFL should see a healthy RoA of 2.1% by FY25E.

- **Unlocking of the 'Value Segment' to fuel lending-book growth:** Since its inception in 2014, ABHFL has delivered loan-book CAGR of ~88% over FY15-22. We expect the lending book to deliver a healthy 21% CAGR over FY22-25E, underpinned by solid performance of the loan book in the 'growth' as well as 'value' segments and healthy demand outlook, driven by significant under-penetration in the home finance industry, rising disposable income, favorable government policies for affordable housing and increasing urbanization. ABHFL's focus remains on increasing granularization and the retail mix in the overall lending portfolio. Over the years, the company has consistently worked on decomposition of its portfolio, as evidenced in the average ticket size reducing to Rs2.3mn for 9MFY23 from Rs4.5mn in FY17, indicating its prime focus on the retail mix, especially in the affordable housing segment. With the affordable book contributing to ~42% of the overall lending book, ABHFL is on the right track to deliver its FY24 target of increasing the affordable mix to ~65%. ABHFL's strong brand reputation, targeted customer-acquisition strategy, investments in the distribution channel and the low funding cost advantage will fuel the lending-book growth, leading to a strong profitability trajectory for the company.
- **Disbursals to inch up in the age of Technology and Digitalization:** ABHFL has consistently worked towards leveraging lending opportunities through its cluster of branches, partnerships, digital ecosystems and the *One ABC* platform. With aim to scale the affordable loan segment, ABHFL targets further expanding its branches, to deepen penetration into Tier 3-4 cities. In the age of digitalization, ABHFL continues to accelerate digitalization, constantly upgrading its tech infrastructure and streamlining processes across the customer lifecycle. With its digital ecosystems in place, ABHFL follows a market mapping & penetration strategy to identify opportunities at pin-code level. Moreover, given that its systems are integrated with the group, ABHFL continues to optimize the group synergies through retailers and distributors of group companies, ensuring that no opportunity is left unexplored. The company has launched a digital index to measure the extent of penetration required for providing a seamless onboarding journey for customers; the results of this initiative are fairly impressive. Overall, the company focuses on exploring untapped areas, acquiring customers through increasing its branch footprint, accelerating the use of its technology platform & digital ecosystem, and leveraging the data available with group companies.
- **Efficient yield and borrowing cost management to drive margin expansion:** Over the years, the housing finance company has maintained its NIM trajectory, clocking 5-year net interest income (NII) CAGR of 38% during FY17-22. With its focus on granularization of the lending portfolio as well as on the Retail segment, ABHFL has consistently managed to expand yields. Leveraging on Aditya Birla Group's strong brand and reputation, the company has efficiently succeeded in securing a low cost of funding. Even in an increasing interest-rate scenario, ABHFL has controlled its cost of borrowing at 6.03% for 9MFY23. ABHFL's ability to expand yields and proficiently manage its borrowing cost has resulted in the NIM expanding to 4.23% for 9MFY23. We expect the year to end with ABHFL delivering 4.8% NIM, leading to an NII of Rs6bn. Factoring-in the healthy growth in the loan book, coupled with robust cost (funding)-optimizing measures, we expect ABHFL to deliver 3Y NII CAGR of 23% over FY22-25E, leading to ~68bps expansion in NIM over the same period.
- **Quality customer segment – Key to quality underwriting:** With focus on quality customer acquisition, ABHFL has confined its target customer to the salaried and self-employed classes. The company's prudent underwriting norms can be evidenced in the continued focus on quality of origination, with 94% of its disbursements at CBIL of >700 +

New to credit. The Salaried and Self Employed Professional segment, contributing to 55% of the overall customer mix, remains the prime segment for the company. The efficiency of risk management systems can be measured by the 98.4% collection efficiency and the restructured pool being 100% collectable at present. Further, stage 2 & 3 loans, as a % of total loans, have seen significant improvement. Despite focus on the affordable segment, ABHFL has managed its credit costs at 0.73% for 9MFY23 which is likely to hover at 0.6% for FY23E.

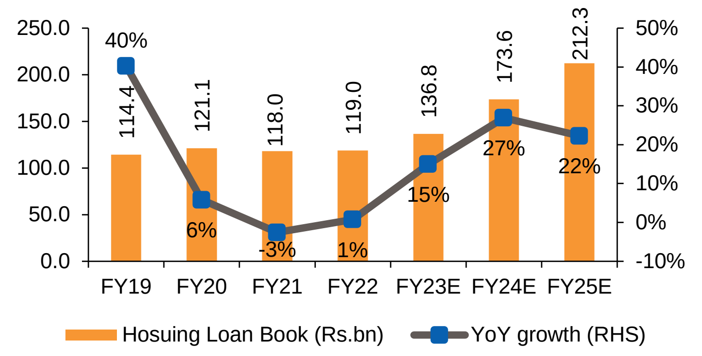
- **Focus on Retail, fueled with efficient margin expansion and cost optimization, to likely lead to better RoA:** Well-entrenched to accelerate its Retail portfolio, ABHFL has consistently improved its margins, especially in an increasing interest-rate scenario. In spite of powering up the digital engines and fueling the branch footprint, ABHFL has maintained the cost-to-income ratio, showcasing its cost-control mechanisms. Improved margins with optimum credit & operating costs have resulted in a strong profit margin uptick. ABHFL's sturdy financial performance over the quarters converges into a healthy RoA trajectory, leading to ~100bps expansion in RoA over FY18-22. Given the robust profitability, we expect ABHFL to deliver 1.8% RoA for FY23E, inching up to ~2.1% by FY25E.

Exhibit 38: Aditya Birla Housing Finance – SWOT Analysis

Source: Emkay Research

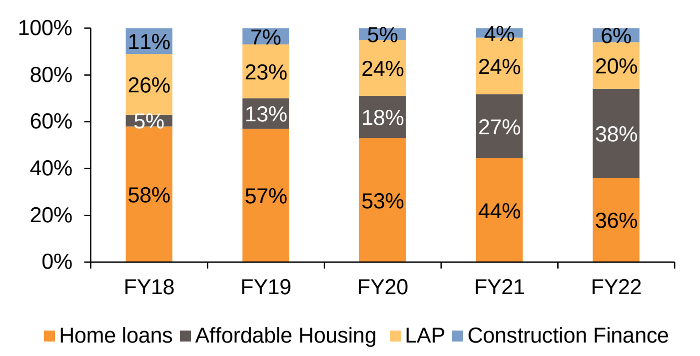
Aditya Birla Housing Finance: Story in Charts

Exhibit 39: Loan-book CAGR of 21% over FY22-25E



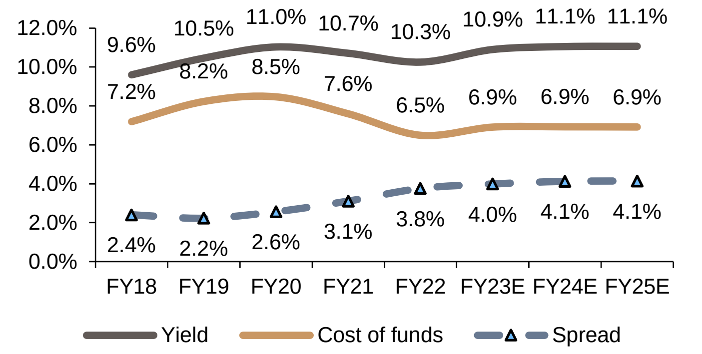
Source: Company, Emkay Research

Exhibit 40: Increasing focus on the Affordable (Value) segment



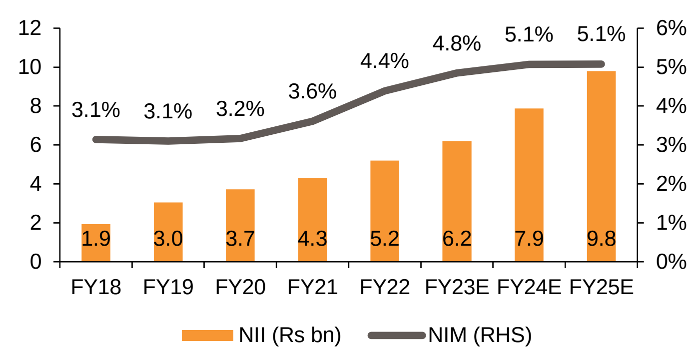
Source: Company, Emkay Research

Exhibit 41: Value segment drives interest spread expansion



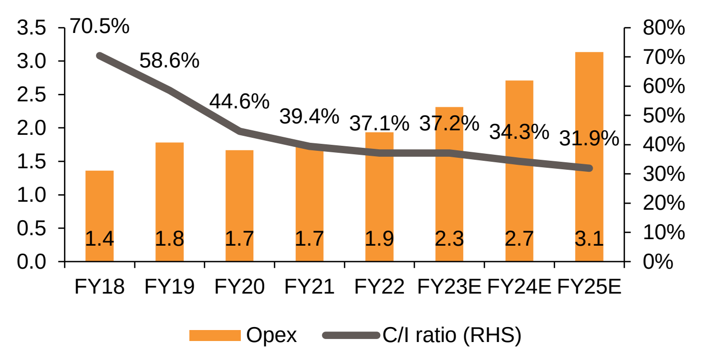
Source: Company, Emkay Research

Exhibit 42: NIMs to stabilize at ~5% for FY23E-25E



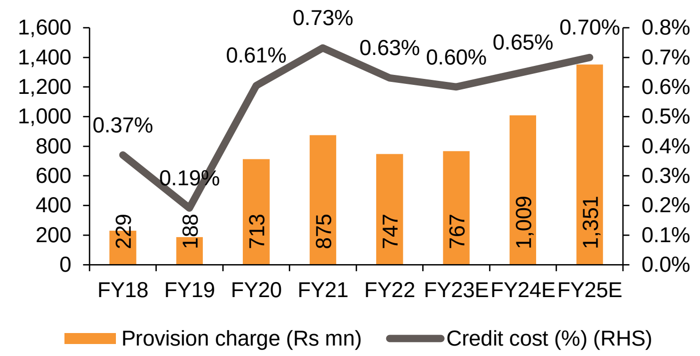
Source: Company, Emkay Research

Exhibit 43: With scalability in operations, CIR witnesses a decline



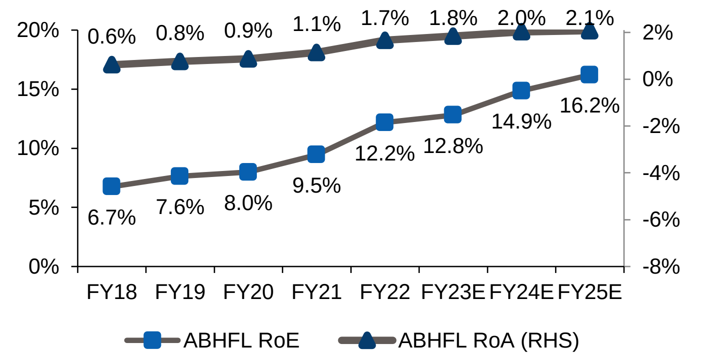
Source: Company, Emkay Research

Exhibit 44: With growth in the Affordable segment, credit cost to remain in the 60-70bps range



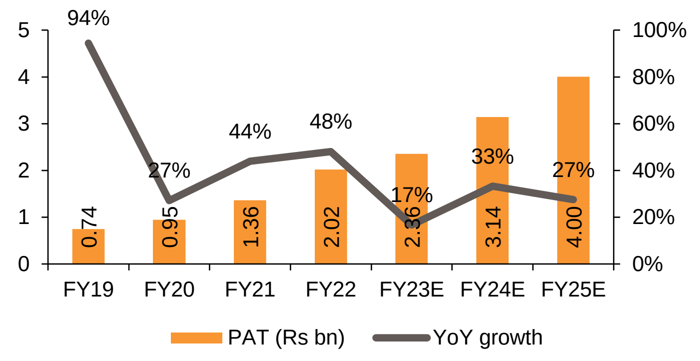
Source: Company, Emkay Research

Exhibit 45: RoA to further improve to 2.1% by FY25E



Source: Company, Emkay Research

Exhibit 46: PAT to grow to Rs.4bn by FY25E



Source: Company, Emkay Research

Exhibit 47: Aditya Birla Housing Finance – Financial Summary

(Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Income Statement							
Interest income	9,989	12,434	12,345	11,857	13,492	16,614	20,710
Interest expense	7,214	9,270	8,492	6,949	7,748	9,281	11,557
Net interest income	**3,039**	**3,726**	**4,313**	**5,202**	**6,195**	**7,874**	**9,797**
Other income	3	16	44	11	25	30	30
Total income	**3,042**	**3,742**	**4,357**	**5,213**	**6,220**	**7,904**	**9,827**
Employee expense	1,224	1,133	1,124	1,317	1,620	1,944	2,294
Other expense	499	418	482	516	567	624	687
Opex	**1,781**	**1,667**	**1,718**	**1,934**	**2,312**	**2,708**	**3,138**
Profit before provisions	**1,260**	**2,075**	**2,639**	**3,280**	**3,907**	**5,196**	**6,688**
Provisions	188	713	875	747	767	1,009	1,351
Profit before tax	**1,073**	**1,362**	**1,764**	**2,533**	**3,140**	**4,187**	**5,338**
Tax expense	327	335	391	560	785	1,047	1,334
Recurring profit after tax	**746**	**1,027**	**1,372**	**1,973**	**2,355**	**3,140**	**4,003**
Reported profit attributable to shareholders	**744**	**946**	**1,363**	**2,018**	**2,355**	**3,140**	**4,003**
Balance Sheet							
Shareholders' Equity	11,903	13,829	15,192	17,210	19,565	22,705	26,708
Borrowings	102,221	116,669	106,876	107,152	116,955	150,978	183,058
Other liabilities	868	1,095	1,690	1,545	8,234	10,015	14,809
Total equity & liabilities	**114,992**	**131,593**	**123,758**	**125,907**	**144,754**	**183,698**	**224,576**
Assets							
Cash & cash equivalents	1	4,002	3,774	5,570	6,404	8,129	9,940
Loans & advances	114,449	121,121	118,026	118,955	136,774	173,620	212,295
Fixed assets	140	373	276	337	374	423	475
Other assets	402	6,097	1,682	1,045	1,202	1,526	1,866
Total Assets	**114,992**	**131,593**	**123,758**	**125,907**	**144,754**	**183,698**	**224,576**
Key ratios (%)							
Loan yield	10.5	11.0	10.7	10.3	10.9	11.1	11.1
Cost of funds	8.2	8.5	7.6	6.5	6.9	6.9	6.9
Spread	2.2	2.6	3.1	3.8	4.0	4.1	4.1
Net interest margin	3.1	3.2	3.6	4.4	4.84	5.07	5.08
C/I ratio	58.6	44.6	39.4	37.1	37.2	34.3	31.9
Credit cost	0.19	0.61	0.73	0.63	0.60	0.65	0.70
RoA (normalized)	0.76	0.87	1.15	1.67	1.84	2.02	2.07
RoE (normalized)	7.61	7.36	9.39	12.46	12.81	14.86	16.20
Asset Quality							
GNPA	0.7	1.3	3.0	3.6	3.4	3.4	3.3
NNPA	0.4	0.9	2.2	2.7	2.7	2.7	2.7
Capital adequacy							
Tier 1 Ratio	13.6	14.7	17.1	19.4	19.6	17.7	16.3
CRAR	16.6	18.1	21.7	23.9	23.5	20.7	18.6
D/E (x)	8.6	8.4	7.0	6.2	6.0	6.6	6.9
Leverage (x)	9.7	9.5	8.1	7.3	7.4	8.1	8.4
RoA Tree (%)							
Interest income	10.1	10.1	9.7	9.5	10.0	10.1	10.1
Interest expense	7.3	7.5	6.7	5.6	5.7	5.7	5.7
Net interest income	**3.1**	**3.0**	**3.4**	**4.2**	**4.6**	**4.8**	**4.8**
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total income	**3.1**	**3.0**	**3.4**	**4.2**	**4.6**	**4.8**	**4.8**
Employee expense	1.2	0.9	0.9	1.1	1.2	1.2	1.1
Depreciation	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other expense	0.5	0.3	0.4	0.4	0.4	0.4	0.3
Opex	**1.8**	**1.4**	**1.3**	**1.5**	**1.7**	**1.6**	**1.5**
Profit before provisions	**1.3**	**1.7**	**2.1**	**2.6**	**2.9**	**3.2**	**3.3**
Provisions	0.2	0.6	0.7	0.6	0.6	0.6	0.7
Profit before tax	**1.1**	**1.1**	**1.4**	**2.0**	**2.3**	**2.5**	**2.6**
Tax expense	0.3	0.3	0.3	0.4	0.6	0.6	0.7
RoA	**0.8**	**0.8**	**1.1**	**1.6**	**1.7**	**1.9**	**2.0**

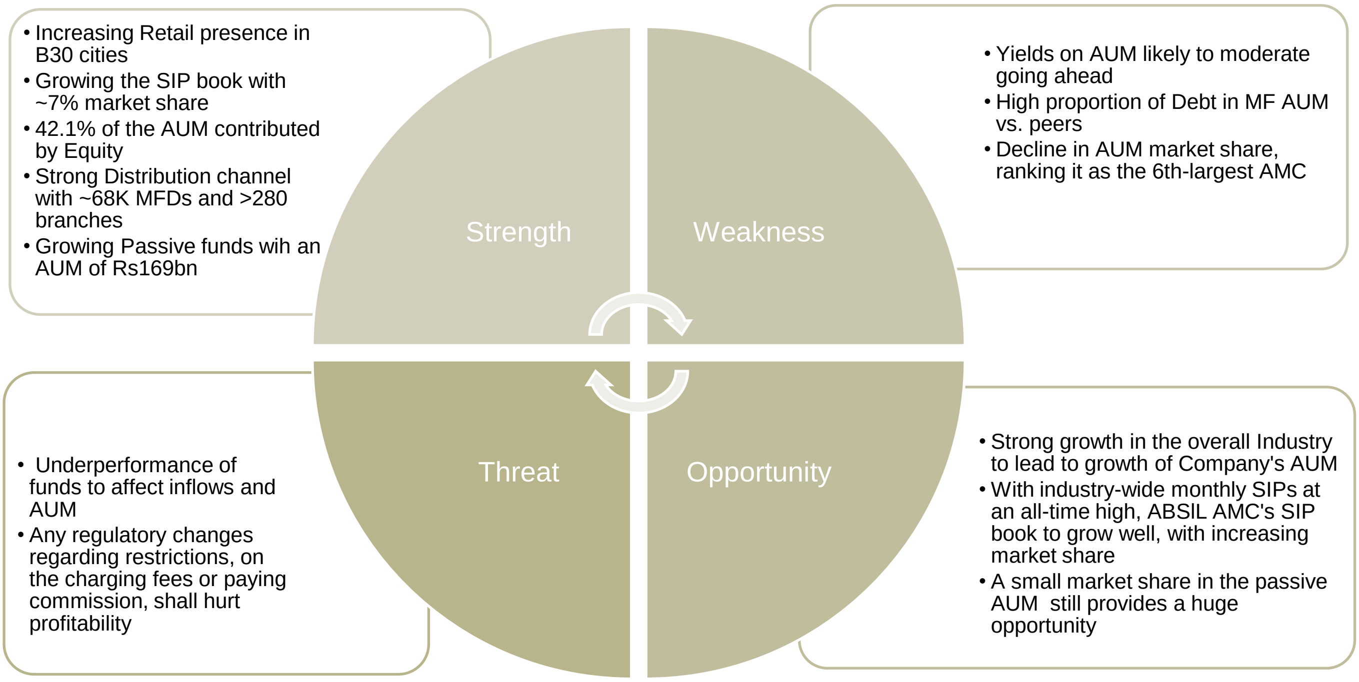
Source: Company, Emkay Research

Aditya Birla Sun Life AMC: Becoming 'Future Ready'

ABSLAMC is one of the nation's oldest and among the top-tier asset-management companies, based on total Mutual Fund Assets Under Management. The changing regulatory landscape and the macroeconomic environment have been key factors in shaping the Mutual Fund and Asset Management Industry of recent. With the regulatory environment now turning restrictive on profitability of the Mutual Fund industry and given the rise of peripheral industries such as PMS (Portfolio Management Services) and AIF (Alternate Investment Funds) in the past few years, ABSLAMC is now on the path to becoming future ready, by embracing the rising shift to passive funds and strengthening the service offerings peripheral to Mutual Funds – PMS and AIF. Overall, we believe such moves by the company are apt for becoming 'future ready' and will deliver results over the medium-to-long term; however, in the near term, the operating environment will remain volatile, leading to muted growth on the profitability front.

- **Passives and SIP, the core of future strategy:** ABSLAMC has identified Passive Funds management and SIP as the two key areas for future growth. From Dec-21 to Dec-22, its passive AUM has grown ~4x to Rs216bn, contributing ~8% of its mutual fund AUM. On the SIP front, it has ~Rs9.4bn monthly SIP gross inflows, translating into ~7% of the overall industry SIP inflows. Given the sticky and granular nature of SIP flows, the increasing SIP contribution provides stability as well as visibility on growth and earnings. Passive Funds have a meaningfully lower yield than their active counterparts; but once critical mass is achieved, the operating leverage kicks in and drives superior profit growth for passive asset managers.
- **Regulatory uncertainty to continue weighing on the business:** Sector regulator SEBI has been highly active over the last few years, to protect investors' interest by introducing stringent cost norms, increased transparency and fair conduct of the industry. Such steps, including the reducing TER (Total Expense Ratio) as per AUM slabs, have led to moderation in the revenue yield for Mutual Funds, including ABSLAMC. With the new discussion paper by the sector regulator discussing the possibility of inclusion of peripheral charges inside the TER and applying TER caps as per the AMC level AUM for certain asset classes vs the present scheme level caps, headwinds on revenue yield for AMCs are here to stay.
- **PMS, Offshore and AIF to grow:** In the last 5-7 years, PMS and AIF have become increasingly popular investment vehicles for high net-worth individuals (HNIs). Part of this popularity was driven by their higher flexibility in investment decisions owing to some extent of regulatory arbitrage versus Mutual Funds. Mutual Fund-focused AMCs have set up their PMS and AIF businesses; however, they did not see similar success in gaining traction in non-institutional clients, when it comes to PMS/AIF. It is imperative for an active asset manager to have a bouquet of MF, PMS and AIF offerings targeting a large set of customers. ABSLAMC continues to put its efforts in this direction, for gaining critical mass.
- **Balanced product and distribution mix; brand-reach gives strength in B-30:** ABSLAMC has been reasonably successful in maintaining a balanced mix of funds across different categories and different classes. This has enabled it to grow the AUM even in the fluctuating macroeconomic environment and maintain profitability. Additionally, the parent brand has a great recall across the length & breadth of the country; this would help in capturing market share in B-30 centers.

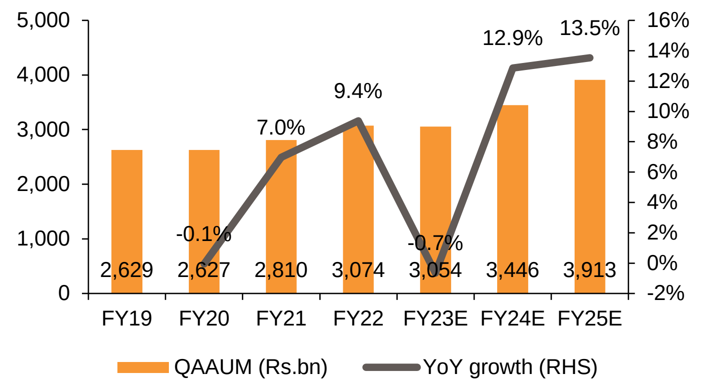
Exhibit 48: Aditya Birla Sun Life AMC – SWOT analysis



Source: Emkay Research

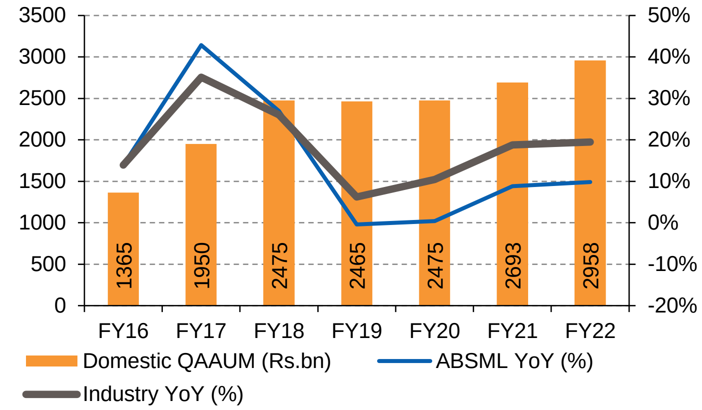
Aditya Birla Sun Life AMC: Story in Charts

Exhibit 49: QAAUM to reach Rs.3.8trn by FY25E



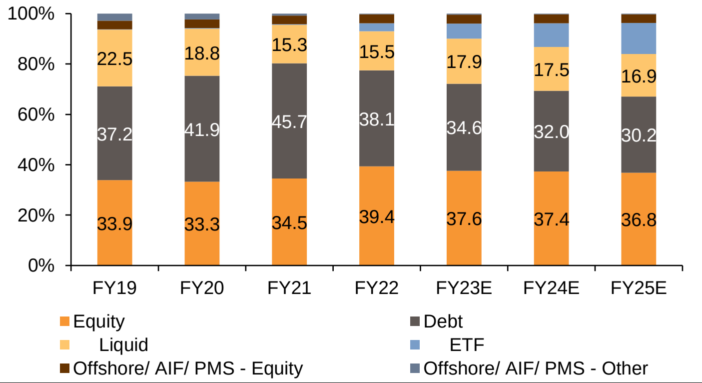
Source: Company, Emkay Research

Exhibit 50: ABSML delivers slower than industry domestic QAAUM growth



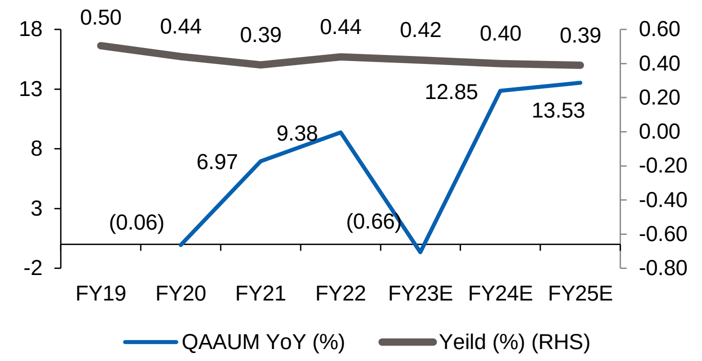
Source: Company, Emkay Research

Exhibit 51: QAAUM, segment wise



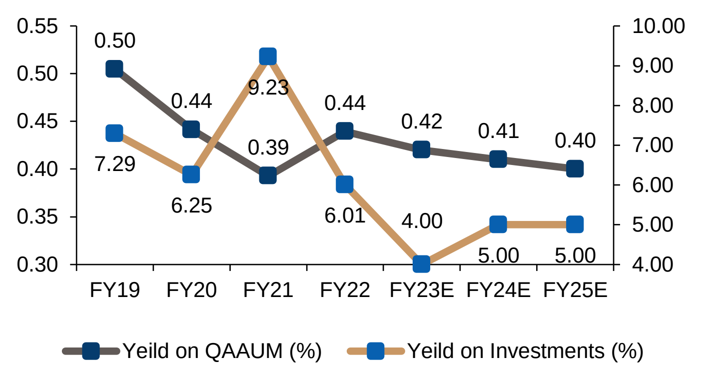
Source: Company, Emkay Research

Exhibit 52: Yields vs. QAAUM growth



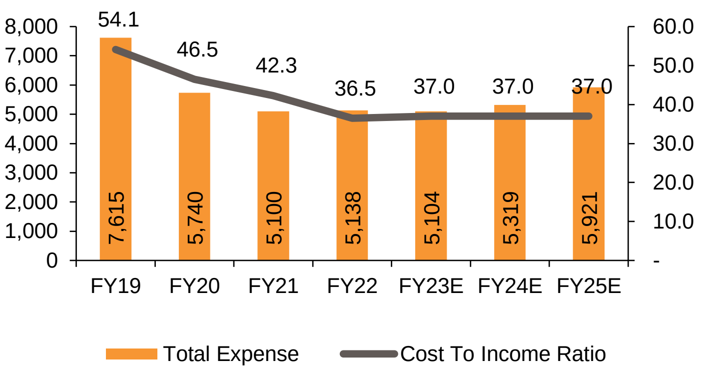
Source: Company, Emkay Research

Exhibit 53: Yields on investments likely to drop to 4% in FY23E



Source: Company, Emkay Research

Exhibit 54: Consistent improvement in CIR



Source: Company, Emkay Research

Exhibit 55: Aditya Birla Sun Life AMC – Financial Summary

(Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Income Statement							
Fund management & advisory fee	**13,268**	**11,597**	**10,679**	**12,930**	**12,869**	**13,000**	**14,350**
Investment & other income	805	751	1,379	1,156	925	1,377	1,652
Total income	**14,073**	**12,348**	**12,058**	**14,085**	**13,793**	**14,377**	**16,002**
Total expense	**7,615**	**5,740**	**5,100**	**5,138**	**5,104**	**5,319**	**5,921**
Profit before tax	**6,458**	**6,607**	**6,959**	**8,947**	**8,690**	**9,058**	**10,081**
Tax expense	1,990	1,663	1,696	2,219	2,155	2,247	2,501
Profit after tax	**4,468**	**4,944**	**5,263**	**6,728**	**6,534**	**6,811**	**7,581**
Balance Sheet							
Shareholders' Equity	12,206	13,169	17,046	21,965	26,247	30,711	35,679
Total Assets	**14,985**	**15,720**	**19,846**	**24,347**	**28,730**	**34,476**	**41,371**
MF QAAUM	2,464,800	2,475,220	2,692,780	2,958,050	2,931,382	3,314,984	3,768,250
- o/w Equity AAUM	890,620	875,590	969,340	1,209,930	1,149,434	1,287,366	1,441,849
Total QAAUM	2,628,750	2,627,230	2,810,350	3,074,090	3,053,875	3,446,364	3,912,768
Key ratios (%)							
Profitability							
Fee yield	0.52	0.44	0.39	0.44	0.42	0.40	0.39
C/I ratio	54.1	46.5	42.3	36.5	37.0	37.0	37.0
PAT/QAAUM	0.17	0.19	0.19	0.23	0.21	0.21	0.21
RoE (normalized)	39.0	39.0	34.8	34.5	27.1	23.9	22.8

Source: Company, Emkay Research

Aditya Birla Sun Life Insurance: From surviving to thriving; Budget changes present new set of challenges

Shaken by the product regulation changes of 2010, early-years leader ABSLI struggled for a long time span, while making various attempts at survival in the industry. Eventually, by forging some key bancassurance alliances and exploiting opportunities offered by the digital revolution in the country, ABSLI has stepped onto the path of sustained profitable growth, which is endorsed by its retail APE market share, likely to clock at ~2.7% (4% of the private sector) in FY23E, up from 1.5% (3% of the private sector) in FY18, with FY23E VNB margin of >17%. With a stable distribution mix (~40% proprietary and ~60% banca) and a reasonably-balanced product mix (ULIP, non-ULIP savings and protection), ABSLI possesses the right ingredients that have positioned it well enough to thrive in the mid-size private life insurance industry over the last five years. The recent Budget googly (taxing non-ULIP policies' maturity, if the aggregate annual premium per customer is >Rs0.5mn) fetches another set of challenges for ABSLI. Given its past experience of successfully navigating through regulatory shocks, we remain hopeful that this time around too, the company will emerge strong from this turbulence.

- **Solid progress over the last 5 years:** Over the last five years, ABSLI has made significant progress and gained faster than the overall life industry and private life, registering Retail APE CAGR at ~20% over FY18-23E and increasing its industry market share to 2.7% from 1.5% in FY18. Over FY18-23E, ABSLI's private life insurer market share is seen increasing, from 3% to 4%, underscoring its faster growth vs the private sector. Such growth comes with improving profitability, with net VNB margin likely to be above 17% in FY23E from 4% in FY18. Its exciting past five-year journey was powered by bagging HDFC Bank as its banca partner in 2018, attaining Forward Rate Agreement (FRA) allowance and availability, allowing large-scale guaranteed return product offering, and digital growth in India enabling better customer experience and cost savings. The ~17% VNB margin, ~15% Operating RoEV, ~2.7% retail APE market share coupled with a balanced product mix (slightly tilted in favor of non-par savings) and balanced distribution including some marquee banca partners, ABSLI has established itself as a mid-size private life-insurance company. The recent budget changes, with regard to taxation of non-linked policy maturity, present ABSLI with a challenge; however, given the strong brand and parentage and its ability to navigate through challenging times in the past, we believe that the company will be able to negotiate this emerging challenge.
- **Distribution mix is reasonably balanced:** With commencement of the bancassurance agreement with HDFC Bank in 2018, ABSLI started its journey towards balancing its agency-heavy distribution mix that was facing challenges in the post-2010, new-product regulations. At present, more than 60% (64% in 9MFY23) of the business comes from bancassurance and other corporate agent/brokers/partners. Company's existing banca tie-ups with the likes of behemoths HDFC Bank, Deutsche Bank, DBS Bank and Indian Bank grant it reasonable strength. Given that the branch-led, agency-driven growth model delivers good operating leverage once it achieves a certain scale, ABSLI has been working to scale up agency growth. Now with regulations permitting banks to tie up with up to 9 life insurance companies (up from the current 3), ABSLI is likely to seize the occasion to enter into agreement with some banks that do not have a life insurance subsidiary. Direct (offline and online) sales and online brokers (such as policy bazaar) can play a supportive role for the powerful distribution engines of bancassurance and agency.
- **Product mix skewed towards the traditional:** New product regulations of 2010 made it difficult for life insurers to sell ULIPs via the expensive branch & agency-led distribution model. This started a sharp shift towards traditional non-ULIP product selling by private life insurers, especially those who did not have strong bancassurance. Against this backdrop, ABSLI has broadly been a 2/3rds non-ULIP (par, non-par and protection) and 1/3rd ULIP player. Over the last 5 years, with supply-demand dynamics of non-par products improving, non-par has materially displaced par in the product mix. Almost 1/2 of ABSLI's retail APE is currently from Non-par products. On the protection front, ABSLI has been making reasonable progress pre-Covid; but post Covid, protection seems to have lost momentum and is clocking much below the FY24 aspiration of ~12-15% in the business mix.
- **Operating parameters improving continuously; margin improvement driven by operating leverage and product-mix changes:** Once ABSLI achieved an appropriate product and distribution balance, operating parameters such as persistency, cost, and

surrenders began improving. These ratios have reached levels in line with that of top private peers that are not sponsored by banks. ABSLI has seen tremendous improvement in its VNB margin, from -5% in FY17 to 4% in FY18 and a likely >17% in FY23E, largely driven by increasing non-par in the product mix and improving cost ratios with higher new-business volumes. The strong growth in absolute VNB, led by VNB-margin expansion and APE growth, has also enabled the company to deliver ~15% operating RoEV.

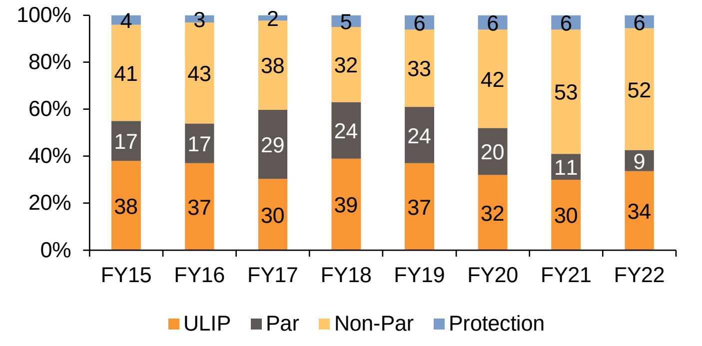
- **Budget changes present new set of challenges; some focus to return on protection and ULIP**: At ~15% of retail APE, Birla Sun Life had relatively higher exposure to policies with annual premium per customer greater than Rs5lakh (i.e. Rs0.5million). With the Section-10(10D) exemption being withdrawn on non-ULIP policies with annual premium per customer above Rs5lakh (Rs0.5million), there is likely to be slowdown in this high-ticket guaranteed product segment in FY24E. With such changes in the backdrop, ABSLI focuses on increasing the growth in Protection which will in turn significantly increase margins. Overall, the focus on Protection and ULIP should drive profitability and growth in the near-to-medium term.

Exhibit 56: Aditya Birla Sun Life Insurance – SWOT Analysis

Source: Emkay Research

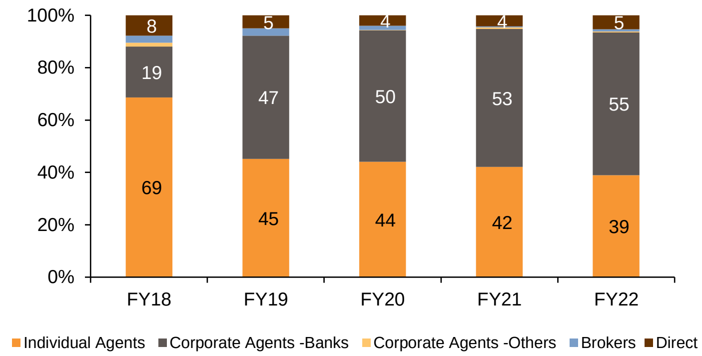
Aditya Birla Sun Life Insurance: Story in Charts

Exhibit 57: Non Par products dominate the product mix



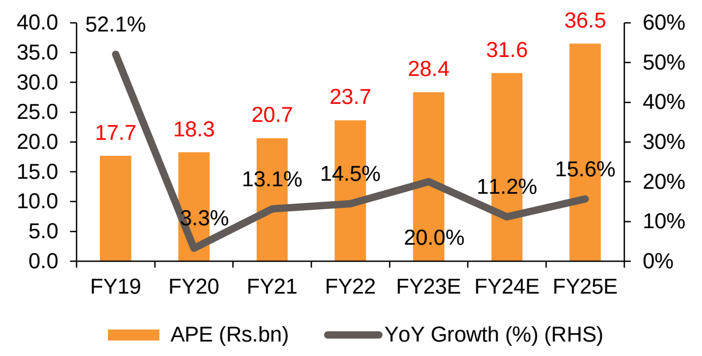
Source: Company, Emkay Research

Exhibit 58: Individual Channel Mix – Banca contributes 55%



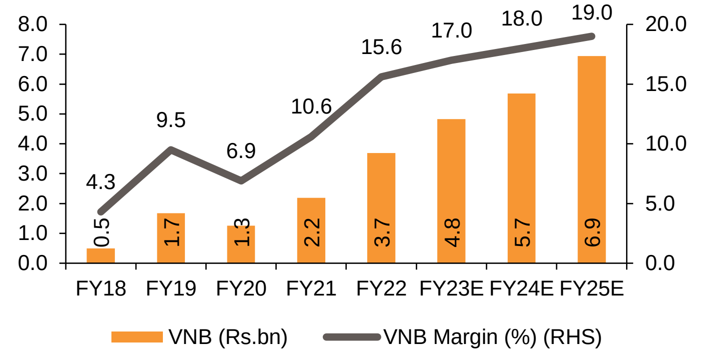
Source: Company, Emkay Research

Exhibit 59: APE likely to register ~16% CAGR over FY22-25E



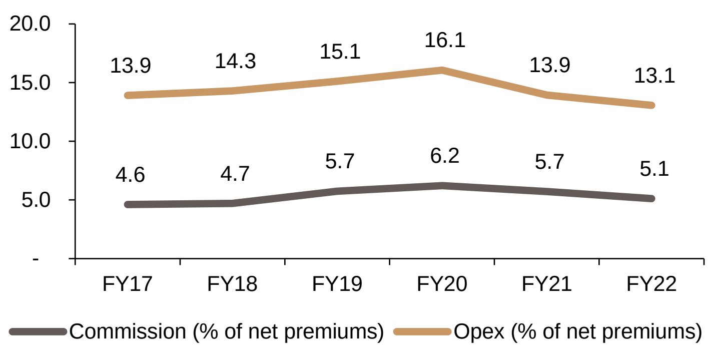
Source: Company, Emkay Research

Exhibit 60: VNB margin expected to expand to 19% by FY25E



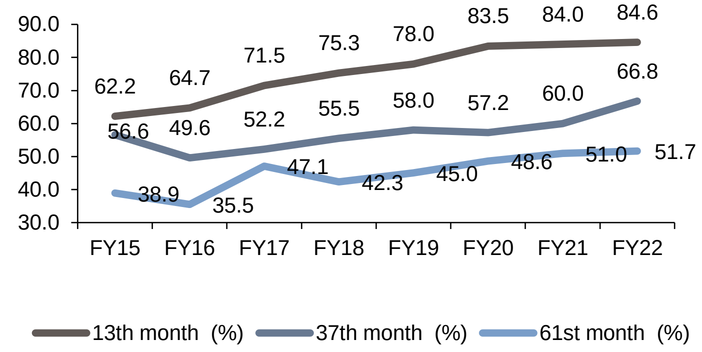
Source: Company, Emkay Research

Exhibit 61: Commission and Opex see a marginal decline in FY22



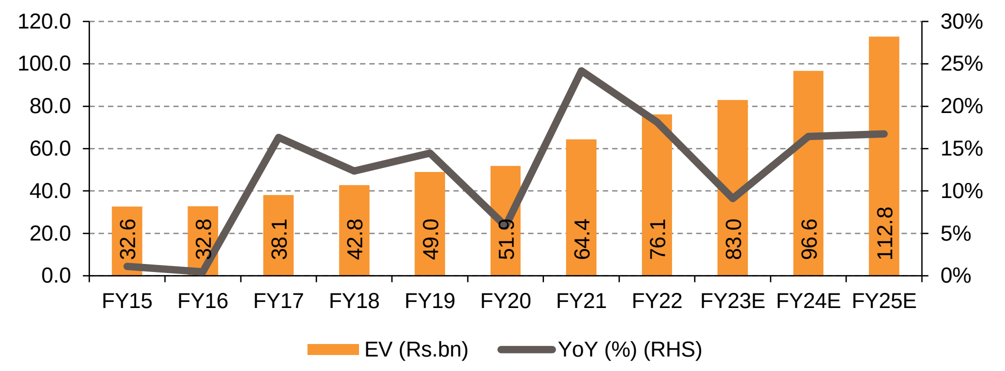
Source: Company, Emkay Research

Exhibit 62: Improvement in persistency across cohorts



Source: Company, Emkay Research

Exhibit 63: Consistent growth in EV post FY23E



Source: Company, Emkay Research

Exhibit 64: Aditya Birla Sun Life Insurance – Financial Summary

Y/E March (Rs mn)	2020	2021	2022	2023E	2024E	2025E
Policyholders' account						
Gross written premium	80,100	97,752	1,21,402	1,46,978	1,75,082	2,10,446
Net earned premium	77,578	94,823	1,16,415	1,42,568	1,69,829	2,04,133
Investment income	3,983	77,502	53,020	36,741	59,227	68,773
Other income	2,708	2,023	1,291	1,580	1,883	2,263
Total revenue	84,268	1,74,348	1,70,725	1,80,890	2,30,939	2,75,168
Commission expense	4,824	5,428	5,962	7,302	8,698	10,455
Operating expenses	12,461	13,212	15,209	19,960	23,776	28,579
Benefits cost	63,262	1,52,955	1,47,115	1,51,417	1,96,255	2,33,989
Total expense	82,250	1,73,169	1,69,969	1,80,740	2,31,186	2,75,975
Surplus/Deficit	2,018	1,179	756	150	-246	-806
Shareholders' account						
Transfer from policyholders' account	1,983	1,294	756	150	-246	-806
Investment income	1,834	1,861	2,122	2,444	2,781	3,230
Expenses	2,773	1,975	1,468	1,091	811	603
Profit before tax	1,228	1,228	1,228	1,228	1,228	1,228
Tax expense	0	115	141	150	172	182
Profit after tax	**1,044**	**1,065**	**1,268**	**1,353**	**1,552**	**1,639**
Balance Sheet						
Sources of Funds						
Shareholders’ Funds	21,998	23,982	25,486	26,839	28,391	30,030
Policyholders’ Funds: Insurance reserves and provisions	3,98,748	5,08,613	5,91,187	6,59,837	7,63,715	8,89,257
Total	4,20,861	5,32,595	6,16,673	6,86,676	7,92,106	9,19,287
Application of Funds						
Shareholders’ Investments	23,054	24,446	29,215	32,607	37,741	43,945
Policyholders’ Investments	1,59,957	2,22,032	2,77,141	3,09,323	3,58,020	4,16,872
Assets Held to Cover Linked Liabilities	2,28,249	2,79,673	3,01,602	3,36,625	3,89,620	4,53,666
Other Asset	9,600	6,444	8,716	8,121	6,726	4,804
Total	4,20,861	5,32,595	6,16,673	6,86,676	7,92,106	9,19,287
Embedded Value Account						
Embedded Value	51,870	64,410	76,090	83,013	96,416	112,280
Annualised Premium Equivalent (APE)	18,261	20,660	23,654	28,385	31,565	36,504
New Business value	1,260	2,190	3,690	4,825	5,682	6,936
New Business Margin (%)	6.9	10.6	15.6	17.0	18.0	19.0
EV Operating Profit	6,460	7,120	9,950	11,923	13,403	15,863
Operating RoEV (%)	13.2	13.7	15.4	15.7	16.1	16.5
Key Ratio						
Return on Equity (%)	4.8	4.6	5.1	5.2	5.6	5.6
Commission expense/TWRP (%)	7.6	7.2	6.5	6.5	6.6	6.6
Operating expenses/TWRP (%)	19.7	17.6	16.5	17.9	17.9	17.9
Total expense (% of TWRP)	27.3	24.8	23.0	24.4	24.5	24.5
Total expense (% of Avg AUM)	4.24	3.98	3.73	4.24	4.44	4.59
Conservation ratio (%)	80.6	84.8	89.1	89.1	89.5	91.9

Source: Company, Emkay Research

Aditya Birla Health Insurance: Gaining critical mass in a structurally growing sector

Aditya Birla Health Insurance (ABHI) is the youngest operating company of ABCAP, and the newest Standalone Health Insurance (SAHI) company in the industry. Led by its innovative product offering and an omni-channel distribution focus, ABHI has been on a robust growth path over the last 5 years, having already achieved double-digit market share in SAHI as well as an overall 2.6% market share in the health insurance segment. With its brand, omni-channel distribution and innovative product offering, ABHI is well positioned to see sturdy progress in the sector of health insurance in India. The recent investment of Rs6.5bn by Abu Dhabi Investment Authority (ADIA) for a 10% stake in ABHI is an affirmation of ABHI's prudent strategy and good execution.

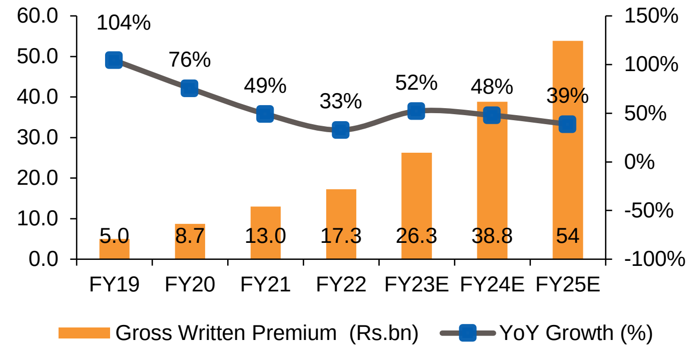
- **An exciting journey for ABHI, so far:** Being a late entrant in the health insurance sector, ABHI has got its act together now compared with its inception period six years ago. Over FY18-23, ABHI's premium is likely to grow more than 10x to ~Rs26.3bn, albeit on a smaller base, and result in its overall market share registering at ~2.5-3% in the health insurance segment. Not surprisingly, the early-years growth phase has come with an impressive claims ratio, except FY22 when the Covid-19 delta wave had its impact. On the Opex front, with the increasing scale of operations, the Opex ratio has been sharply declining and should log below 45% in FY23E.
- **Distribution mix is well diversified:** In the past, SAHI has shown more resilience to grow its retail business. ABHI has followed a slightly different strategy, given its brand, synergy opportunity under the *One ABC* strategy of the parent, and the powerful banca distribution (via HDFC Bank and Axis Bank) it has been able to secure early on. This has resulted in ABHI's distribution being more balanced, in terms of agency, direct, banca and brokers. This is ABHI's strong suit in distribution, as it reduces excessive dependency on any one channel along with also reducing vulnerability to any regulatory changes that might impact one distribution channel more adversely.
- **Innovative product offering and a sensible customer-segment focus:** ABHI has put its foot to the pedal when it comes to leveraging data analytics and the digital ecosystem, for offering innovative products targeted at the customer segment and increasing customer engagement. This high customer engagement via focus on wellness vs just illness leads to better persistency and lower claims. As far as the customer and business sub-segment focus is concerned, ABHI has adopted a more balanced approach by keeping a good mix of retail, rural and group products. Within retail, it has a variety of offerings, including plain vanilla individual and family floater, critical care, Byte sized, Top up, etc. This innovative bouquet of products allows ABHI to target a large set of customers and increase wallet share in existing customers.
- **Building right partnership to reach depth & breadth across India:** Building a formidable health insurance franchise requires extending its wings across the vast geographic span of the country, along with reaching out to the majority of socio-economic strata, not only from the product distribution perspective but also from the claims servicing viewpoint. Against this backdrop, forging the right kind of partnership is critical. ABHI, by partnering with a number of universal banks, SFBs and NBFCs, and with >10K hospitals along with its over 200 branch network and 80K agents, has chosen the correct model. This partnership model allows it to reach out to >4,800 cities & towns across the country and offer its products with quality claims servicing.
- **Operating leverage to drive profitability going forward:** The key to profitability in health insurance is Opex in the retail business and pricing on the group front. ABHI's Management is committed to target the group business without compromising on profitability. On the retail front, an increasing back-book will expectedly lead to a slight claims ratio inflation and, hence, the improving opex ratios on account of faster rising business volumes will eventually drive profitability improvement over the medium term.

Exhibit 65: Aditya Birla Health Insurance – SWOT Analysis

Source: Emkay Research

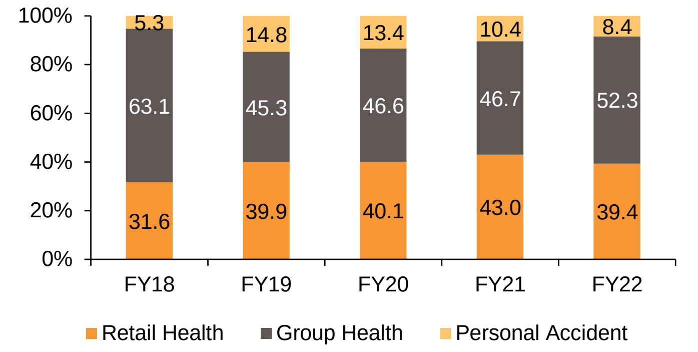
Aditya Birla Health Insurance: Story in Charts

Exhibit 66: Strong growth in GWP over FY23-25E



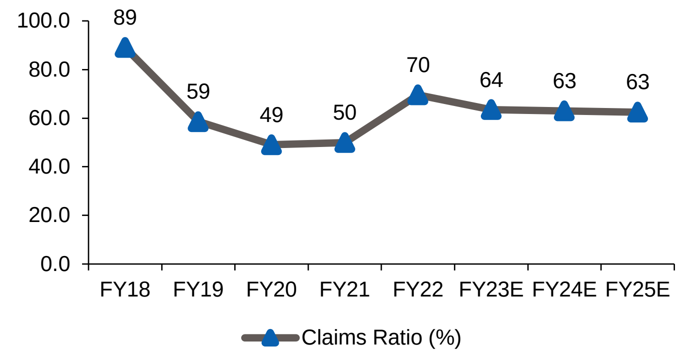
Source: Company, Emkay Research

Exhibit 67: Product Mix – Share of Group Health to increase in the overall product mix



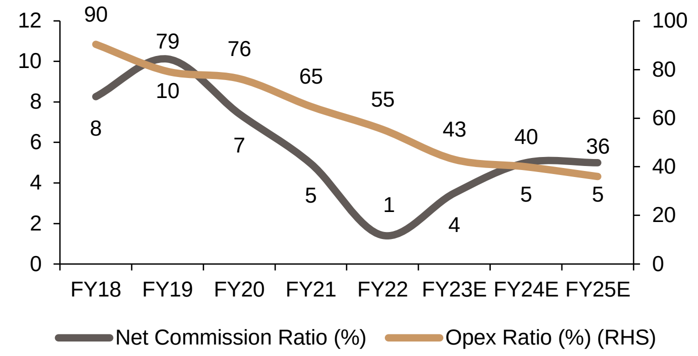
Source: Company, Emkay Research

Exhibit 68: Claims cost to improve to 62-63% levels



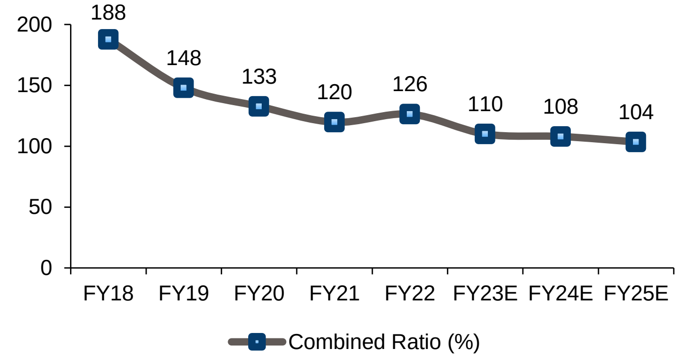
Source: Company, Emkay Research

Exhibit 69: Opex ratio remains at elevated levels



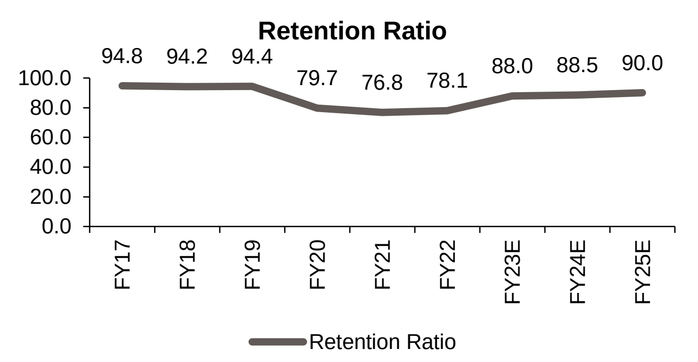
Source: Company, Emkay Research

Exhibit 70: Combined ratio to remain above 100%



Source: Company, Emkay Research

Exhibit 71: Retention ratio expected to further improve



Source: Company, Emkay Research

Exhibit 72: Aditya Birla Health Insurance – Financial Summary

Policyholder Account (Y/E Mar, Rs mn)	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Gross Direct Premium (GDPI)	8,720	13,006	17,267	26,331	38,992	54,148
Gross Written Premium (GWP)	8,720	13,006	17,267	26,331	38,992	54,148
Net Written Premium (NWP)	6,946	9,993	13,481	23,171	34,508	48,734
Net Earned Premium (NEP)	5,854	8,472	11,893	18,326	28,839	41,621
Net incurred claims	2,873	4,236	8,273	11,637	18,169	26,013
Net commission expense	515	495	191	811	1,725	2,437
Operating expense	5,296	6,475	7,461	9,964	13,803	17,544
Total Expense	1,072	1,072	1,072	1,072	1,072	1,072
Underwriting result	(937)	(937)	(937)	(937)	(937)	(937)
Investment income	348	621	707	1,340	2,430	3,620
Insurance result	-589	-316	-230	403	1,494	2,683
Operating profit	-2,482	-2,113	-3,325	-2,746	-2,427	-753
Shareholder Account (Y/E Mar, Rs mn)	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Operating profit	-2,482	-2,113	-3,325	-2,746	-2,427	-753
Investment income	173	220	235	523	903	1,019
Other income						
Expenses and provisions	102	83	25	30	30	30
Profit before tax	-2,412	-1,977	-3,114	-2,253	-1,554	236
Tax expense	0	0	0	0	0	0
Profit after Tax	-2,412	-1,977	-3,114	-2,253	-1,554	236
Balance Sheet (Y/E Mar, Rs mn)	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Source of Funds						
Shareholders fund	10,610	13,810	18,180	27,666	32,666	32,902
Fair value gains	2	3	0	0	0	0
Net worth including fair value gains	10,612	13,813	18,180	27,666	32,666	32,902
Borrowings						
Total	10,612	13,813	18,180	27,666	32,666	32,902
Application of Funds						
Investments						
Shareholders	2,311	2,941	3,446	11,209	14,310	14,523
Policyholders	6,049	9,439	11,794	20,453	32,445	46,892
Other Assets	746	945	1,170	1,228	1,265	1,290
Cash & Bank Balances	352	515	534	588	646	711
Other current assets	946	1,120	1,354	1,558	1,791	2,060
Net Current Assets	-6,362	-9,356	-11,188	-20,436	-32,120	-46,568
Accumulated losses	7,868	9,844	12,959	15,211	16,766	16,766
Total	10,612	13,813	18,181	27,666	32,666	32,902
Key ratios (Y/E Mar, %)	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Retention ratio	79.7	76.8	78.1	88.0	88.5	90.0
Incurred claims ratio	49.1	50.0	69.6	63.5	63.0	62.5
Net commission ratio	7.4	5.0	1.4	3.5	5.0	5.0
Expense ratio	76.2	64.8	55.3	43.0	40.0	36.0
Combined ratio	132.7	119.7	126.3	110.0	108.0	103.5
GWP/Net worth	0.8	0.9	0.9	1.0	1.2	1.6
NWP/Net worth	0.7	0.7	0.7	0.8	1.1	1.5
Return on Equity (%)	-27.3	-16.2	-19.5	-9.8	-5.2	0.7

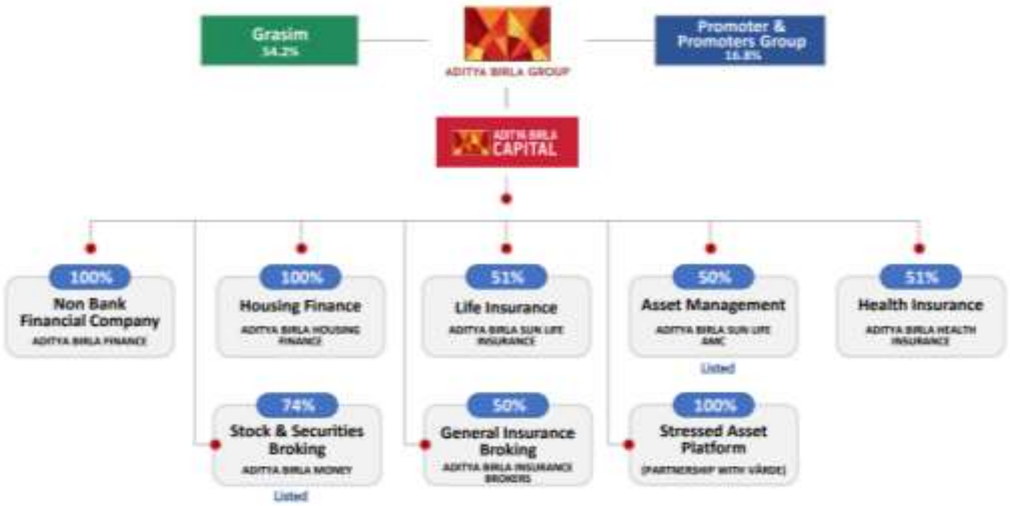
Source: Company, Emkay Research

Company Background

Aditya Birla Capital (ABCAP) is the holding company for the Financial Services arm of the Aditya Birla Group, a Fortune 500 company. ABCAP is a universal financial solutions group catering to the diverse needs of its customers across their life stages, with a strong presence across Protecting, Investing and Financing solutions. ABCAP has a wide-reaching distribution channel consisting of 1,048 branches with a nationwide reach, powered by more than 30,500 employees and over 0.2million agents/channel partners and several bank partners. The company aims at providing its customers a simple, secure and seamless experience through One Brand and One Service platform. The 'One ABC' platform offers comprehensive product solutions for Investing, Protecting and Financing through a unified brand support and a Pan India Network of co-located branches. The application of technology across all business verticals aids in growing revenue at reduced costs, along with building a scalable process and creating a, impressive customer experience. ABCAP's well-diversified portfolio and product offerings, managed under individual brands, are strengthened by the synergies of the *One ABC* platform. Shared resources in terms of infrastructure, technology, the Aditya Birla brand, and access to capital help create value for stakeholders. As of March 31, 2022, ABCAP manages aggregate assets under management of over Rs3,706billion, has a consolidated lending book of approximately Rs672billion, and an active customer base of over 35million, through its subsidiaries and joint ventures.

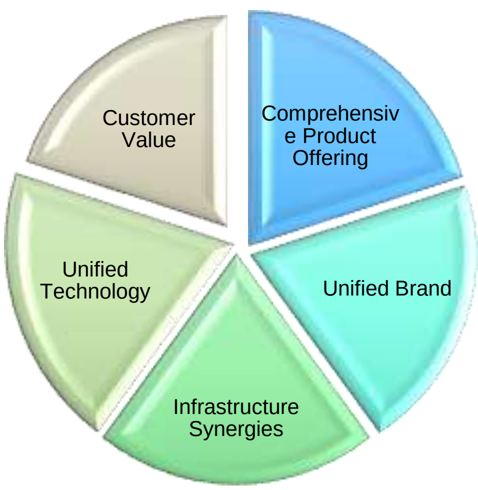
As of September, 2022, ABCAP is owned by primary sponsor Grasim Industries (Aditya Birla Group's flagship company), to the extent of 54.2%. ABCAP is a well-diversified financial services business group, with presence across various segments of business which include Lending, Life Insurance, Health Insurance, Insurance broking, Securities Broking and Advisory services.

Exhibit 73: Diversified presence across Protecting, Investing and Financing



Source: Company; Note: ABCAP holds 46% stake in Aditya Birla Health Insurance post the deal with ADIA.

Exhibit 74: Advantages of the *One ABC* platform



Source: Company, Emkay Research

Drivers of Revenue / Profitability

ABCAP has a sound history in terms of profitability, led by transformational and exponential growth across business verticals while maximizing synergies and strengths. The common factors driving revenue, profitability and value across the Protecting, Investing and Financing businesses include :

- **Customer Acquisitions both, organic and inorganic:** The first pillar of the company's strategic priorities is building bridges to acquire the right customers at scale, both directly and through partners. The traditional approach used so far is the branch-led model, which has been providing the company incremental growth, albeit not exponential growth. However, with a Unified Brand and a Unified Tech Infrastructure, ABCAP has enabled digital customer onboarding journeys by leveraging new technologies. Through tech integrations, ABCAP has made significant progress for integration with partners. Of its over 35million active customers, 95% of customers were sourced using digital customer onboarding journeys during FY2021-22.
- **Improvement in Customer Service:** The second pillar of ABCAP's strategic priorities is transforming service in such a manner that the customer actually does not even feel the need for service. The company has made great strides in improving its customer service through tech integration, keeping the customer relationship alive and intact. With customer service shifting from reactive service to proactive and true services, the company aims to provide the best in class customer experience to its customers. For this, over the past 2-3 years, ABCAP has built its digital self-service channels including chat bot, WhatsApp, portals, apps, etc. Improvement in customer service has resulted in over 50% of ABCAP's service journeys being end-to-end automated.
- **Growth in Customer Value:** The third pillar of the company's strategic priorities is enhancing customer value. With around 35mn active customers at scale, ABCAP aims to maximize the revenue per customer, resulting in profitable growth. In FY22, ABCAP enhanced its customer value over previous years' across all lines of business. Upselling and cross-selling contributed to 37% of Individual Life Insurance Premiums, 18% of fresh Retail Health Insurance Premiums, 10% of gross sales for AMC and 10% of personal loans disbursal.
- **Use of Customer Analytics:** The fourth pillar of ABCAP's strategic priorities is data. The quantum of data available for analysis today is unparalleled. ABCAP has embarked on a journey of understanding and leveraging data & analytics to the maximum. Taking advantage of AI & ML, ABCAP is now able to use data for predicting the right product for customers, or building an ideal profile for a successful advisor. With data analytics in practice, the Life Insurance arm of ABCAP is now able to envisage the probability of a policy lapsing or being surrendered, allowing the company to take corrective action and improve the persistency ratio. Besides the huge base of 35mn active customers, ABCAP is sitting on a treasure of data from the Aditya Birla Group, waiting to be monetized. The Central Analytics Unit (CAU) at ABCAP continues to support the key underlying businesses, for taking informed and intelligent business decisions.
- **Championing of Entrepreneurship:** The fifth pillar at ABCAP is building an organization that champions the entrepreneurial spirit. The focus of the company is on creating an environment where people are able to bring their best to work and continuously become better at what they do. The philosophy of encouraging entrepreneurship has also led to exploring talent from different walks of life. ABCAP is able to source both, general and specialized skill-sets on demand, thereby enabling to increase the reach to a larger customer base, while also tapping into the diverse talent pool available across India.

Key Risks

- **Aditya Birla Capital:** Operating in a Financial Service Industry, any change on the regulatory front or tweaks in government policies could impact business operations. With integration of business with the *One ABC* platform, Data security remains an important concern for the company. Any comprise on customer data could impact the company's reputation and customer relationships. Any fraud detected at the Parent or the subsidiary levels could impact the liquidity and solvency position of the businesses.
- **Aditya Birla Finance:** In a rising interest-rate environment, an increase in cost of funds and inability to pass these on to customers would result in margin compression. With primary focus on the Retail and SME segments, any economic or financial crisis could lead to significant rise in credit costs. Competitive intensity across the industry, especially in the Personal Loan segment, would increase customer-acquisition costs, leading to a dip in margins. Any unfavorable regulatory changes or any directions by the RBI could impact business operations.
- **Aditya Birla Housing Finance:** With focus remaining on the Affordable housing segment, a compromise on underwriting the business could lead to lower asset quality, eventually leading to higher credit costs. Any headwinds in the real estate/construction segment resulting in lower housing demand could lead to lower disbursals which would in turn result in slower growth in the Housing lending book. A hike in interest rates could significantly affect growth in the affordable customer segment and also result in lower NIMs, driven by higher cost of funding.
- **Aditya Birla Sun Life AMC:** With the industry AUM witnessing slower growth and entry of various participants in the market, ABSLAMC has witnessed market-share loss. Moreover, the subdued performance of funds could impact the gross inflows to Mutual Fund Schemes. The regulatory tinkering of the Total Expense Ratios (TER) could further reduce the overall revenue as a % of AAUM, leading to significant impact on revenue. In a rising interest-rate scenario and with markets turning volatile, AUM could witness some moderation in gross inflows or even, to some extent, an increase in the outflows.
- **Aditya Birla Sun Life Insurance:** With retail APE growing faster than the market, any disruption on the distribution front could impact the new business premium growth. With new players entering the market and given the increasing competitive intensity, price wars could have a material impact on margins. Further, withdrawal of tax exemption on Policies with Annual Premium aggregating to more than Rs5lakh (Rs0.5mn), and the nudge to a New Tax Regime indicating Section 80C-related deductions would not be available, would impact the growth of the overall industry. Any catastrophic event like the Covid-19 pandemic could severely impact claims costs and company profitability.
- **Aditya Birla Health Insurance:** With the Health Insurance industry turning more competitive and given the entry of new-age players, a likely price aggression could impact the growth of the company. A failure to innovate new products could lead to slower growth in premiums. A once-in-a-decade pandemic could severely impact claims costs of the company, resulting in higher combined ratio. A surge in medical inflation is likely to increase claims cost of the company.

Exhibit 75: Key shareholders

Key Shareholders	% Shareholding
Promoter:	**71.28**
Grasim Industries	55.42
Birla Group Holding Private	7.81
IGH Holdings Private	2.27
Hindalco Industries	1.67
DIIs:	**8.24**
PI Opportunities Fund	3.94
Life insurance Corporation of India	2.18
Foreign investment:	**7.4**
Jomei Investments	4.23
Others	**13.09**

Source: Company, Emkay Research

Exhibit 76: Key Management

Name	Designation	Company	Brief Profile
Vishakha Mulye	**CEO**	**Aditya Birla Capital**	Ms Mulye is a Chartered Accountant and took the lead of the holding company, effective 1-Jul-2022. She is also a director on the board of Aditya Birla Management Corporation Private Limited – the apex decision-making body of the Aditya Birla Group. Before joining the Group, Ms Mulye, a career banker, was an Executive Director on the Board of ICICI Bank. In a career spanning thirty years, she has held many significant roles and led several strategic initiatives as a part of the ICICI Group, most recently as the head of domestic and international Wholesale Banking Group, Proprietary Trading Group, Markets Group and Transaction Banking Group at the Bank.
Pinky Mehta	**CFO**	**Aditya Birla Capital**	A qualified chartered accountant with 27 years of diversified experience, Ms Mehta has been part of the Aditya Birla Group since 1991 and was its first woman officer. In her role as the Chief Financial Officer, Aditya Birla Capital Limited, Ms Mehta is responsible for Finance, Accounts, Banking, Secretarial, Taxation and MIS, including the ongoing development & monitoring of control systems and reporting of financial performance. She has played a significant role in the area of demergers, mergers and acquisition for the Aditya Birla Group and was actively involved in the demerger of the cement business, the joint venture with the Sun Life Group for the life insurance business.
Vijay Deshwal	**Chief Strategy Office & Head IR**	**Aditya Birla Capital**	Vijay Deshwal is a Post-Graduate in Management from the Indian Institute of Management - Ahmedabad. Mr Deshwal is responsible for formulation, facilitating execution and communication of Aditya Birla Capital's Strategic Initiatives and its positioning with analysts, investors and all internal and external stakeholders. He is also responsible for driving potential M&A opportunities and partnerships synergistic with Aditya Capital's vision for growth. Mr Deshwal is a seasoned banker with over two decades of diversified experience. Before joining Aditya Birla Capital, he was CEO for Financial Services Business of Cyrus Poonawalla Group. He also spearheaded a few large strategic initiatives for the group.
Rakesh Singh	**MD & CEO**	**Aditya Birla Finance**	Rakesh Singh has attended advanced management programs at Harvard Business School and the Indian Institute of Management - Kolkata, and holds a post-graduation degree in International Relations. Mr Singh has been part of the Aditya Birla Group since 2011 and has played a crucial role in driving the growth trajectory of both, the NBFC and Housing Finance businesses. He has more than 27 years of experience in the financial services industry, cutting across Banking and Non-Banking financial institutions. Before joining ABFL, Rakesh Singh spent 16 years with Standard Chartered Bank. He was the Head of Mortgages Business, India, and his last assignment with Standard Chartered Bank was as General Manager & Head SME Banking, India and South Asia. Mr Singh is a part of several industry forums, including the Confederation of Indian Industry and the Federation of Indian Chambers of Commerce and Industry.
Tushar Shah	**CEO, Infra and Structured Finance**	**Aditya Birla Finance**	Tushar Shah holds a Bachelor of Law from the University of Mumbai and has been a member of the Institute of Chartered Accountants of India since 1988. He is the CEO of the Project and Structured Finance business, along with wholesale lending at Aditya Birla Finance Ltd (ABFL). Mr Shah also shares additional responsibilities as a Director of Aditya Birla ARC Ltd and Aditya Birla Money Ltd. He has over 25 years of relevant experience in financial services and joined ABFL in 2011. At ABFL, he spearheads Large & Mid-corporate lending, providing customised project finance, structured finance solutions, and general corporate lending. Before joining Aditya Birla Finance, Mr Shah was the Chief Operating Officer of IL&FS Financial Services Ltd.
Pankaj Gadgil	**MD & CEO**	**Aditya Birla Housing Finance**	Pankaj Gadgil is an MBA from Savitribai Phule Pune University and holds a diploma in foreign trade from the Department of Economics. Mr Gadgil has diverse experience spanning over 25 years, having handled multiple roles in areas of banking and finance. Before joining Aditya Birla Capital, he worked for 19 years at ICICI Bank, in the areas of Retail Assets & Liabilities, Business Banking, SMEs, Payments, and large ecosystems. He is credited with several 'industry first' digital propositions, like InstaBIZ, Connected & API Banking, Trade Online, Eazypay & InstaOD, etc. In his earlier stint, his thought leadership, focus on customer insights, distribution efficiency, enabling service architecture, and digital transformation have created a footprint of more than 2 million customers.
A. Balasubramanian	**MD & CEO**	**Aditya Birla Sun Life AMC**	A. Balasubramanian has completed his BSc in Mathematics; he is an MBA graduate, apart from being an Alumnus of IIM Bangalore and Harvard University through the Advanced Management Programme. He brings with him over 26 years of experience in the Mutual Fund industry as Portfolio Manager in both, Fixed Income and Equity. Prior to assuming the role of CEO in 2009, Mr Balasubramanian served as Chief Investment Officer during 2006-2009. As MD & CEO, Mr Balasubramanian currently oversees nearly USD34billion AUM at Aditya Birla Sun Life AMC. He also oversees global mandates through its subsidiary company in Singapore and Dubai, apart from overseeing Alternate Investment Funds, Real Estate and PMS. He plays an active role in AMFI as a Board of Director.
Kamlesh Rao	**MD & CEO**	**Aditya Birla Sun Life Insurance**	Kamlesh Rao is the MD & CEO at Aditya Birla Sun Life Insurance (ABSLI). He is responsible for providing ABSLI with strategic direction and leading the team towards achieving rapid growth and profitability. His expertise focuses on growing the business, developing new business models, building distribution efficiency, value creation through efficient cost and process management, competitive product strategies, scaling up the digital business and strengthening the customer lifetime value proposition. In his previous role, he was the MD & CEO - Retail, at Kotak Securities Limited. Mr Rao's experience spans across the asset and liability portfolios, including retail lending, SME lending, HNI banking and broking.
Mayank Bathwal	**CEO**	**Aditya Birla Health Insurance**	Mayank Bathwal is Fellow member of the Institute of Chartered Accountants of India (ICAI), the Institute of Cost & Works Accountants of India (ICWA) and the Institute of Company Secretaries of India (ICSI). Mr Bathwal has been responsible for setting up the latest venture of Aditya Birla Capital Limited in the health insurance space. With his expertise and experience, the health insurance business has entered the Indian health market with a differentiated business model, developed an efficient multi-channel distribution system leveraging the increasing digital opportunity. He has a rich experience of nearly 24 years in the industry. He joined ABSLI, as part of the project team to set up the Life Insurance venture and oversaw the Business Strategy and Planning function prior to taking charge of other finance operations of the company.
Dr Sandeep Dadia	**CEO**	**Aditya Birla Insurance Brokers**	Dr Sandeep Dadia is a Doctor by profession and holds an MBBS degree. He has total work experience of almost 20 years in the insurance industry. He joined the company in 2011 and, under his leadership, the company has grown significantly on all key business parameters. He has strategically steered the company towards becoming one of the top-5 insurance brokers in the country. Today, ABIBL has the fastest-growing customer base and manages a consolidated Risk Under Placement (RUP) of over Rs15,000billion.

Source: Company, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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